Conley Consulting Group

MEMORANDUM

October 3, 2012
Revised January 18, 2013

To: Sand Hill Property Company
Attn: Reed Moulds

From: Conley Consulting Group
Lauren Pitts
Denise Conley

Subject: Limited Economic Benefit Review – Menlo Park

Conley Consulting Group ("CCG") is pleased to present this limited economic benefit review of a proposed development of a select-service, business-class hotel in Menlo Park. Sand Hill Property Company ("SHPC") seeks a preliminary estimate of the Project's potential fiscal benefits and economic impact. This report was prepared for SHPC's internal review.

The property is located at 555 Glenwood Avenue (the "Site") and is presently operated as an age-restricted, independent living facility for seniors. Currently the property is only 21% occupied. SHPC has proposed to renovate the property as a 138-room Marriott Residence Inn ("MRI") hotel (the "Project"), a nationally recognized extended stay lodging facility with over 650 locations.

For this review, CCG has prepared the following:

1. A summary comparison of the fiscal revenues associated with the proposed MRI and the existing senior facility (See Table 1).

2. An estimate of the additional impact of the proposed MRI on the local economy using input-output analysis (See Table 2).

3. An estimate of the potential reduced transient occupancy tax ("TOT") revenues from MRI guests who stay over 30 days and thus may not be subject to TOT. (See Table 3).

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I. Summary of Conclusions

CCG's estimate of the likely new fiscal revenues to the Menlo Park General Fund and jobs generated by the proposed hotel is summarized in Table 1 and described in the memorandum below. For this analysis, CCG based its revenue assumptions on the operating characteristics of the 156 room MRI hotel located at 4460 El Camino Real in Los Altos, CA (the "Los Altos MRI") also owned and operated by SHPC. Based on the performance of the Los Altos MRI, the gross revenue of the proposed MRI is projected at $7.2 Million ("M").[1]

A. Fiscal Revenues

The existing Glenwood senior housing facility generates property taxes and business license fees totaling $24,831 in 2011. Adaptive reuse of the Site as a hotel will generate transient occupancy, sales, property and business tax revenue.

In November 2012 a TOT ballot measure was passed and the City's TOT rate increased to 12%. At the new rate, the Project will generate $693,414 in fiscal revenues, a net increase of $668,582 from the revenues currently generated at Glenwood. See Table 1 below.

TABLE 1: NET INCREASE IN FISCAL REVENUES TO THE CITY OF MENLO PARK FROM PROJECT

	Glenwood Facility	Proposed MRI	Net Change
Estimated Gross Revenue[2]	$3,800,000	$7,233,363	
Estimated Room Revenue[3]		7,099,839	
Estimated Room Revenue Subject to TOT[4]		5,466,876	
Tax Revenue Sources:			
TOT		656,025	
Sales		1,013	
Property	23,831	33,876	
Business Tax	1,000	2,500	
Total	$24,831	$693,414	+$668,582

Source: Conley Consulting Group, Marriott, October 2012.

Thus, the Project generates substantially more revenue to the Menlo Park General Fund than does the existing use, primarily due to TOT revenues and increased property taxes.

[1] No market study was preformed for this effort. Thus, an independent projection of the operating results of a MRI is not available.
[2] Existing Glenwood Inn gross revenue provided by current site management and assumed to be stabilized over 12 months. New Project revenue estimated from the 2011 operating performance of the Los Altos MRI and then adjusted for the smaller size of the Project.
[3] Based on 2011 Los Altos MRI operating performance.
[4] Based on percentage of room revenue subject to taxes per Los Altos MRI in 2011 (77% of estimated room revenue), ie excluding revenue from guests in occupancy for longer than 30 days.

B. Economic Impacts

Based on the projected $7.2 M gross revenue from operation of the Project, CCG projects that the Project will generate a net increase of 25 additional jobs employed at the Site, plus a net of 12 indirect jobs and 10 induced jobs for a total of 47 net new jobs in the local economy, over and above the existing senior facility in 2011.[5] Similarly, the Project is projected to impact the local economy with a net addition of $3.4 M in direct impacts from higher gross income generated by reuse of the site, plus a net increase of $1.6 M in indirect economic impacts and $1.7 M in induced economic impacts, for a total net economic impact of $6.6 M, compared to the site's current use. (See below Table 2 for a summary and Table 7 for detail.)

TABLE 2: JOB AND ECONOMIC IMPACTS

	Direct	Indirect	Induced	Total
Net Jobs Impact	25	12	10	47
Net Economic Impact	$3,433,363	$1,586,170	$1,563,462	$6,582,996

Source: Conley Consulting Group, IMPLAN, October 2012.

II. The Project

The Site is approximately 2.3 acres in size. The current and proposed reuse of the site is described below.

A. Current Use – Independent Living Facility

The existing site is operated as the Glenwood Inn, a market rate, age-restricted independent living facility made up of four rectilinear buildings. The Site includes one building that serves as community space and three residential buildings with studio, one- and two-bedroom units. The community space includes a library, auditorium, two dining rooms, social room, meeting room, card room and management offices. Unit interiors include at least one bathroom (two bathrooms for two bedroom units) and a partial "efficiency"kitchen (two plate burners, no oven or ventilation, and a shallow bar sink).

B. Proposed Use – Marriott Residence Inn (MRI)

SHPC has proposed to convert the existing buildings into a Marriott Residence Inn hotel. The property can be converted into an MRI without an increase in the overall size of the buildings. The interiors will be reconfigured and the common areas upgraded to meet MRI design standards and amenity requirements. Services and guest accommodations at the Project will include free hot breakfasts, a 24 hour market, complimentary social events, private meeting rooms, business center, sitting room, breakfast buffet and dining room, and fitness center. In-unit amenities will include private work space and full kitchens. Other guest services will include dry cleaning services, On-Demand movies and grocery delivery services.

[5] This estimated, which is based on IMPLAN input output model is for countywide indirect and induced jobs and economic impacts. Input output analysis is not generally available at the city level.

II. Methodology

This fiscal and economic benefit review analysis is intended to determine, on a preliminary basis, the economic effects of new development by considering the new taxes generated and jobs created by the adaptive reuse of the existing senior facility into a Marriot Residence Inn. It is intended as an owner's document for internal use. This analysis estimates the Project's sales performance and tax revenue based on the performance of the nearby, similar MRI hotel in Los Altos. It is important to note that this assignment did not include a hotel market study or a projection of the likely operating results of the Project. CCG used 2011 room revenue generated at the Los Altos property to estimate potential TOT revenues, sales tax and business license fees at the Project. Property tax estimates were based on current property tax rolls for the Site. CCG's assignment does not include estimating the fiscal cost of the development.

To understand the economic impact of the hotel use at the Site, CCG used the IMPLAN economic model for San Mateo County to conduct input-output analysis, based on the various sources of revenue projected to be generated at the Site.

III. Projected Revenues

A. Transient Occupancy Tax

The rehabilitation and adaptive reuse of the senior facility as an extended stay hotel will generate transient occupancy tax (TOT) for Menlo Park. TOT is a tax imposed on room revenue, generally limited to short term guests, e.g. hotel guests who stay for 30 days or less.

In fiscal year 2011-12, the City of Menlo Park's TOT revenue collection was approximately $2.9 M. Based on the operating results of the nearby Los Altos MRI, CCG projects that the Project will generate approximately $600,000 in annual TOT revenues from short term guests. The Project's projected TOT revenues would increase current citywide TOT revenues by 21%.[6] TOT tax is projected to be the largest source of tax revenue generated by the Project. The Site's current use as a senior facility does not generate any TOT tax.

A November 2012 ballot measure increased the Menlo Park TOT rate to 12%.[7] Members of the community had voiced concerns that the TOT increase will negatively impact the viability of Menlo Park hotels as some travelers may choose to stay in other nearby cities to avoid the tax increase. However, since the TOT rate in other nearby cities, including East Palo Alto, Palo Alto and nine other San Mateo County cities, is already 12%, it is possible that the impact of the proposed TOT increase will not be severe. For this preliminary analysis we have assumed that the TOT rate increase has no impact on hotel patronage patterns.

Prior to the November 2012 election, the City of Menlo Park projected that the proposed 2 percentage point tax rate increase will generate $290,000 in additional TOT revenues by the end of fiscal year 2012-13 and an additional $580,000 annually in future years to follow. The recent tax rate increase is projected to generate an additional $120,000 of TOT revenue from the Project annually.

[6] Based on the Los Altos MRI facility revenues for 2011. See prior note about the absence of a market study for this analysis.
[7] Measure K is effective 1/1/2013.

B. Potential TOT from Longer Term Guest Stays

Room revenues from hotel guests who stay beyond 30 days are not subject to TOT.[8] Based on the proportion of longer term guest stays at the nearby Los Altos MRI, CCG estimates that 23% of room revenue for the Project would be from longer term guests who stayed more than 30 days and thus are not subject to TOT tax. We also note that at the Los Altos MRI 17% of those longer term guests were from the corporate demand segment i.e., guests who were likely working on long term projects at firms in nearby Menlo Park or Silicon Valley locations.

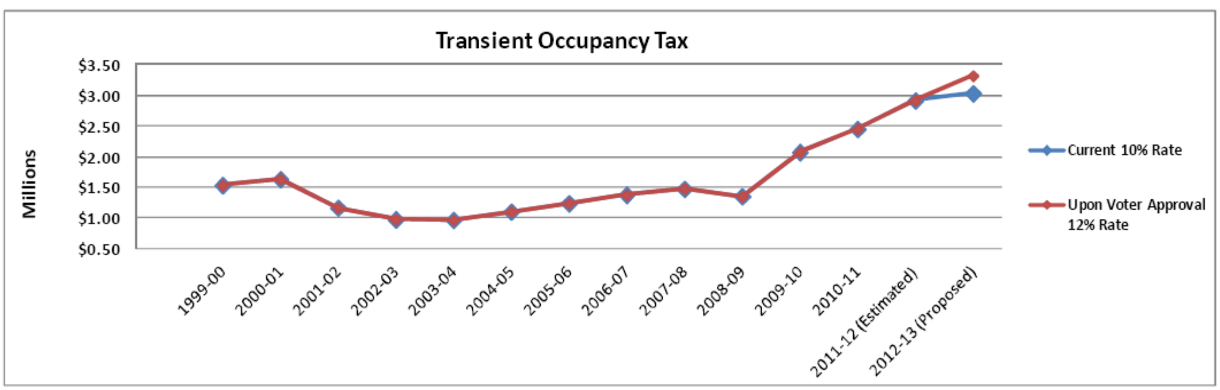
Thus, we project that at the current TOT rate, the impact of longer term guest stays at the Project will be $195,956 (see Table 3 below).

TABLE 3: POTENTIAL TOT IMPACT OF GUESTS STAYS OVER 30+ DAYS			
	2011 Revenue		
	All Guests	Less Guests 30+ days	Difference in TOT Revenue
Total Room Revenue	$7,099,839	5,466,876	$1,632,963
Total Potential TOT Tax @ 12%	$851,981	$656,025	$195,956

Source: Conley Consulting Group, Marriott, Sand Hill Property Company, October 2012.

We also note that TOT is one of the few General Fund revenue sources that have steadily increased over the past 10 years. In fact, there have been significant TOT revenues gains in the four years following the start of the Recession of 2008. See Figure 1 below.

FIGURE 1: CITY OF MENLO PARK TOT REVENUE TRENDS



Source: Conley Consulting Group, City of Menlo Park, October 2012.

[8] However, guests who stay longer than 30 days, but who check out before 30 days and check back in are subject to TOT revenues.

Sales Tax

The Project will generate a small amount of sales tax from activities such as food and beverages purchased at a small convenience market. Additional sales tax revenue will be generated by MRI revenues for catered meetings, dry cleaning, grocery services and movie rentals. Due to the limited service nature of the facility, we project that only 1.4% of the facility's total revenue will generate sales tax.[9] The City receives just under 1% out of the total 8.25% San Mateo sales tax rate. Based on 2011 revenues from the MRI in Los Altos, CCG has estimated potential sales tax at the Project. The current Glenwood facility does not generate any sales tax revenue. See Table 4 below.

TABLE 4: ESTIMATED SALES TAX REVENUE

	Total Revenue	Estimated Sales Tax	City Share
Food & Beverage[10]	$82,749	$6,827	$827
Movie Rentals	15,132	1,248	151
Dry Cleaning	12,884	1,063	129
Total	$110,764	$9,138	$1,108

Source: Conley Consulting Group, Sand Hill Property Company, Marriott, October 2012.

During the construction period, it is possible that sales tax will be generated by local purchases of construction materials. However, this amount is likely to be small, and an estimate of the fiscal impact from construction is beyond the scope of this assignment.

Property Tax

Table 6 shows the increased tax assessment due to the proposed change in the use of the Site from a senior care facility to a hotel. The assumptions used to calculate the tax impact are as follows:

- Per SHPC staff, property improvements and construction costs associated with the Project would increase the assessed value (AV) of the Site (including personal property) by $10,000,000.
- SHPC's purchase price for the Site would be at least equal to the existing AV.
- Special charges are generally assessed on a per parcel basis, and are therefore not impacted by changed AV.

[9] Per data from SHPC, operators of the Los Altos MRI.
[10] Food and beverage includes both sales at the market and for meeting room catering.

TABLE 5: PROPERTY TAX AND SPECIAL CHARGES RATES	
General Tax Revenue	1.0000%
Menlo Park Park + Recreation Bond	0.0156%
Menlo Park Elementary School 2005 Refunding Series	0.0402%
Sequoia High School Refund Series 2003 A	0.0356%
San Mateo Junior College Bond Series 2005 B	0.0194%
General Tax Total	**1.1108%**
Menlo Park/San Mateo County Special Charges	
SMC Mosquito Abatement District	3.74
Menlo Park ESD Measures	790.04
Fed CA & NPDES Storm Fee	58.44
Menlo Park Storm Drainage Fee	392.78
Menlo Park Tree Maintenance	88.96
San Mateo County Community College District 2010-2013	34.00
West Bay Sanitary District	29,697.80

Source: Conley Consulting Group, County of San Mateo Tax Collector/Treasurer, Secured Property Tax Assessment, October 2012.

With the increase improvements to the property, the property tax for the Site would increase by $111,080 for a total annual (based on 2012 tax rates and charges) of $405,692. Of this amount $33,876 will accrue to the City of Menlo Park General Fund.[11]

TABLE 6: SHARE OF PROPERTY TAX TO MENLO PARK GENERAL FUND			
Assessed Value (AV):		Existing Development	Proposed Hotel Development
Improvements+Personal Property		18,357,481	18,357,481[12]
Proposed Improvements to Property			10,000,000[13]
Land		5,368,296	5,368,296
Total Assessed Value		**$ 23,725,777**	**$ 33,725,777**
General Tax Revenue	1.0000%	237,258	337,258
Share to the City	10.045%	23,831	33,876[14]

Source: Conley Consulting Group, County of San Mateo Tax Collector/Treasurer, Secured Property Tax Assessment, October 2012.

[11] Assumes buyer is purchasing the property at the current assessed value. If the purchase price is higher, the property tax revenue would increase proportionally.
[12] As stated previously per SHPC, the current AV is assumed to be equal to the acquisition of the property. CCG has not independently tested this assumption, the combined AV, as a cost basis estimate
[13] SHPC provided an estimate of $10,000,000 for the assessed value of construction to upgrade the existing property to a MRI hotel.
[14] The property tax estimated to the City of Menlo Park General Fund is based on 12.24943964% of the tax rate in tax area 08-004, ERAF equal to 18% is deducted from the City's share, with a remaining tax rate of 10.04454% to Menlo Park.

TABLE 7: ESTIMATED PROPERTY TAX

		Property Tax Estimate		
		Existing Development	Proposed Hotel Development	
Assessed Value:				
Improvements & Personal Property		18,357,481	18,357,481[15]	
Proposed Improvements to Property		0	10,000,000[16]	
Land		5,368,296	5,368,296	
Total Assessed Value		$ 23,725,777	$ 33,725,777	
General Tax Revenue	1.0000%	237,257.77	337,257.77	
Menlo Park Park + Recreation Bond	0.0156%	3,701.22	5,261.22	
Menlo Park Elementary School 2005 Refunding Series	0.0402%	9,537.76	13,557.76	
Sequoia High School Refund Series 2003 A	0.0356%	8,446.38	12,006.38	
San Mateo Junior College Bond Series 2005 B	0.0194%	4,602.80	6,542.80	
General Tax Total	**1.1108%**	$ 263,546	$ 374,626	
Menlo Park/San Mateo County Special Charges				
SMC Mosquito Abatement District		3.74	3.74	
Menlo Park ESD Measures		790.04	790.04	
Fed CA & NPDES Storm Fee		58.44	58.44	
Menlo Park Storm Drainage Fee		392.78	392.78	
Menlo Park Tree Maintenance		88.96	88.96	
San Mateo County Community College District 2010-2013		34.00	34.00	
West Bay Sanitary District		29,697.80	29,697.80	
Total Special Charges		$ 31,066	$ 31,066	
SUMMARY				**Difference**
General Tax		263,545.93	374,625.93	
Total Special Charges		31,065.76	31,065.76	
Total Taxes		**$ 294,612**	**$ 405,692**	$ 111,080

Source: Conley Consulting Group, County of San Mateo Tax Collector/Treasurer, Secured Property Tax Assessment, October 2012.

Business License Fee

In Menlo Park I business License Fees are assessed annually on annual gross receipts. The projected gross receipts at the Project will generate $2,500 in business license fees to the City. The business license fee is assessed at $750 for businesses that generate between $1 M and $2 M in gross revenue, plus an additional $250 for each additional million in gross

[15] Assumes buyer is purchasing the property at the current assessed value. If the purchase price is higher the property tax revenue would increase proportionally.
[16] SHPC provided an estimate of $10,000,000 in proposed improvements to the property for the assessed value of construction to upgrade the existing property to a MRI hotel.

revenue. In 2011, the current Glenwood facility paid a business license fee of $1,000 to the City.[17]

IV. Economic Impact

Input-output analysis is a method to measure the likely impact of a new economic activity on the local economy defined on a countywide basis. Input-output analysis uses a macroeconomic model of the economy to measure, on a county level, the interrelationship between activity, including both gross income and jobs, in one sector to other sectors in the economy.

For this analysis, revenues and jobs at the Project are the **direct** economic impacts. In addition to these direct impacts, the businesses who supply goods and services (such as linen and food services) to the Project will experience an **indirect** economic impact from the Project. In turn, the suppliers of those sectors indirectly impacted by the Project will experience **induced** impacts. For example, the additional spending at the Project will result in additional purchases of materials, supplies, and services from other firms that will in turn support subsequent purchases by those businesses from other businesses, and so on.

CCG uses the IMPLAN model of the economy to determine the economic impact of a given business activity on other sectors of the economy. IMPLAN provides multipliers derived from input output analysis. IMPLAN is an economic input-output model originally developed by U. S. Department of Agriculture, Office of Emergency Services and the University of Minnesota, Department of Agricultural and Applied Economics. The current economic impact model is produced solely by MIG, Inc.

CCG used the gross revenue (direct impact) of the Glenwood senior living facility to estimate indirect and induced impacts. According to Staff at Glenwood in 2011 there were 23 full time direct jobs at the Site. Based on the employment multiplier for that activity the current facility added 2 indirect jobs and 3 induced jobs for a total of 28 jobs. The senior facility on the site generates $3.8 M in direct revenue. The estimated indirect impact of that economic activity is $369,637 with an additional $414,740 in induced impacts, for a total of $4.6 M in economic impacts.

Currently there are 48 direct jobs at the Los Altos MRI. According to staff the number of employees will be similar at the proposed Project as well. Based on 2011 revenue assumptions and employment from the proposed Menlo Park MRI, CCG has estimated the addition of a MRI hotel would likely create approximately 14 indirect jobs and 13 induced jobs for a total of approximately 75 gross new jobs in Menlo Park and San Mateo County. In addition to the direct revenue generated at the Site, a new hotel with more than $8 M in annual revenue at the subject site would generate $1.96 M in indirect impacts and another $1.98 M in induced impacts. Thus, the total new economic impact of the proposed MRI would be $11.2 M including direct sales activity at the Site as well as revenue generated by industries that supply goods and services used by the MRI and the hotel guests.

[17] Conversations with Glenwood staff indicated that they initially submitted a business license fee payment of $1,250, but City of Menlo Park officials returned payment and suggested a lower fee of $1,000. Glenwood staff did not have an explanation for the change.

Thus, the reuse of the Site as a MRI hotel will result in a net increase of 25 direct jobs, 12 indirect jobs and 10 induced jobs for a total of 47 net new jobs in San Mateo County compared to the existing use of the Site as a senior facility. Similarly, the Project is projected to generate net increase of $3.4 M in direct economic activity, $1.6 M in indirect impacts and $1.7 M in induced impacts for a net total of $6.6 M of economic activity added to the local economy. See Table 8 below.

TABLE 8: JOBS AND ECONOMIC IMPACTS IN SAN MATEO COUNTY					
Description	**Total Revenue**	**Direct Impacts**	**Indirect Impacts**	**Induced Impacts**	**Total Impacts**
Glenwood Facility (Current Use)					
Jobs Impacts	$3,800,000	23	2	3	28
Economic Impacts	$3,800,000	$3,800,000	$369,637	$414,740	$4,584,377
Marriott Residence Inn (the Project)					
Jobs Impacts	$7,233,363	48	14	13	75
Economic Impacts	$7,233,363	$7,233,363	$1,955,807	$1,978,202	$11,167,373
Total Net Impacts					
Net Jobs Impact		25	12	10	47
Net Economic Impact		$3,433,363	$1,586,170	$1,563,462	$6,582,996

Source: Conley Consulting Group, IMPLAN, October 2012.

V. Caveats & Limitations

CCG has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Such information was compiled from a variety of sources deemed to be reliable, including the proposed developer, state and local government, planning agencies, hotel operators, MIG, Inc., and other third parties. Although CCG believes the information in this document to be correct, it does not guarantee data accuracy and assumes no responsibility for inaccuracies in the information provided by third parties.

CCG has not conducted a formal market study to verify the performance of the proposed property. We note the nearby operation of a MRI in Los Altos, which is marketed as a Palo Alto hotel. Further, in the absence of a market study we have assumed the operation of the Project will not impact the operation of other lodging facilities in Menlo Park.

The analysis assumes that the national economy will continue to experience a slow, but shallow recovery from the Great Recession conditions which started in 2008. We note that the San Mateo County and nearby Silicon Valley is currently undergoing an economic expansion at a greater rate than the rest of California and the nation. If an unforeseen change occurs in the economy, the conclusions contained herein, particularly regarding hotel occupancy, may no longer be valid.

This limited analysis is designed to inform the project proposers of the likely economic benefit of the proposed project. It is intended as an owners document. Furthermore, the document explicitly does not include analysis of the fiscal costs associated with the development.