Economic Feasibility

General Development Considerations

We are responding to the question about the economic need for increased density on our existing Corte Madera hotel site. First a little background. Reneson Hotels is the owner and operator of the property and has been for 40 years. Along with this property Reneson owns and operates 5 other hotels, and thus one of our development objectives was to build a hotel if the combined risk and return was competitive with alternative development options.

Our planning process for the future of the site began with a hotel market analysis to verify the market demand and market segment for a new hotel property. Even though we have strong market knowledge, this work was performed by an independent consulting firm. We needed to verify the market demand and the work helped confirm the overall market opportunity for both the leisure and extended stay markets. Moreover, this work provided insight into the depth of the market by category and brand. As we learned the market is strong but needs two brands because a single hotel over 140 rooms may too large.

In a parallel process we carefully considered a number of other redevelopment options including retail, auto dealership and commercial office. Our consultants confirmed that the site's premier location in Central Marin with good visibility and access from Highway 101 makes it an attractive option for all of these uses.

An "Opinion of Value" (*Exhibit A*) was prepared by Cornish and Carey Commercial to determine the "highest and best use" for the site under the Town's current development standards. It can be summarized as follows:

Use	Indicated Value
Retail Value	$26.5 million
Auto Dealership Value	$21.0 million
Commercial Office Value	$17.5 million
Housing Value	$11.1 million

Cornish and Carey did not evaluate a hotel use because we have the experience necessary to assess this value. We have determined that 111 rooms could be built under the Town's current development standard – the limiting factor is the .34 FAR (see Alternative 3 in the EIR for a preliminary site plan for this 111 room hotel). Based on our market experience and applying the same methodology Cornish and Corey used, the indicated value of the property with a 111 room hotel is approximately $9.7 million (*Exhibit B*), which is significantly below the value of the other uses evaluated.

Under the current zoning standards, which limit the Floor Area Ratio (FAR) to .34, a retail development is the most attractive option from an owner value perspective followed by an auto dealership, commercial office and housing. A hotel is the least attractive option because hotel developments are the least efficient in generating income per square foot. Retail tends to be the most efficient on a per square foot basis.

As we presented, for a hotel development to be competitive with other development options, the building area needs to be reasonably dense, and greater than a .34 FAR. We have designed the hotel at the minimum number of rooms to be competitive with other development options and are requesting a General Plan and Zoning Ordinance Amendment consistent with minimum requirements for a feasible hotel project. Our request is contemplated in the General Plan, which states in Section 5.4: "the Town determined that a higher FAR would be appropriate in some instances, particularly as a means of provided greater design flexibility and as an improved opportunity for economic development and housing."

The proposed 185 room dual branded hotel achieves an indicated value of $16.9 million (*Exhibit C*). This is still below the value for other development options and a "build and flip" developer would likely select one of these other options. But our approach is long-term and we believe that in the long-term a hotel project will prove to be a good investment.

The economic reality is that current hotel development is not feasible at a .34 FAR, and this applies not just to our site but to California hotel developments in general. The necessary density is typically expressed in building height with a 3-story structure being the minimum height required. We are not aware of a single upper/mid-scale hotel built in the Bay Area over the past 20 years with a building height of less than 3 stories.

In Marin County (including the Marin Suites in Corte Madera), all upper/mid-scale highway oriented hotels built over the past 40 years are 3 or more stories and the FAR is significantly greater than the .55 proposed for our project as illustrated in the following table. This underscores our commitment to reducing the building footprint as much as possible.

	Year Opened	Location	Site Area (square ft.)	Floors	Building (square ft.)	FAR
Proposed						
Residence Inn/SpringHill		Corte Madera	238,273	2/3	131,180	.55
Hotel Comparison						
Marin Suites	1970	Corte Madera	87,120	3	75,000*	.86
Embassy Suites	1989	San Rafael	265,716	4	197,166	.74
Sheraton 4 Points	1970	San Rafael	294,030	4	176,250*	.60
Extended Stay America	2009	San Rafael	77,537	4	66,702	.86
Marriott Courtyard	1999	Novato	113,692	4	73,186	.64

**estimate (Marin Suites from Town FAR survey)*

Specific Hotel Market Feasibility

The challenge with constructing a new hotel project is balancing projected seasonal market demand, and operating cash-flows, with the project investment and related financing.

Meet the market demand

Our first objective is to build a hotel that meets local market demand. Our project scale and brand affiliation is designed around our knowledge of the market, and analysis prepared by independent consulting firms and large hotel companies. This analysis projected a hotel property with 200-250 rooms would meet market demand. Our plan is to build a hotel with 185 rooms that achieves 75% occupancy over a calendar year. This combination of rooms and occupancy represents the minimum necessary to cover operating costs, bank debt and market investment returns. Because hotel demand is seasonal or event driven, we need to achieve this 75% occupancy by selling 95% of rooms during periods of high room demand and 55% in low demand periods.

Brand Affiliation & Dual Branding

Independent hotel consulting firms have advised us that a dual branded hotel is necessary to attract the market necessary to support a 185 room hotel. Dual branded hotels combine two hotel concepts into one building envelop. In our case, a 78 rooms SpringHill Suites by Marriott and a 107 room Residence Inn by Marriott. According to Marriott, the average room count of a stand-alone SpringHill Suites and Residence Inn is 118 rooms and 123 rooms, respectively. Marriott does not have specific minimum room count requirements instead relying on the market demand to determine the appropriate room count, but in general a stand-alone upper-mid scale hotel projects less than 100 rooms is difficult to support. For dual branded projects, it is possible to reduce the room count further due to the shared facilities between the two brands, but Marriott has indicated that they would not approve the 147 room hotel in Alternative 2 as a dual branded hotel because the room count is too low (*Exhibit D*).

Each Marriott brand has minimum standard room sizes and configurations. Traditional hotel products, like Springhill Suites, have room sizes between 350-450 square feet. As an example, the Springhill Suites king room has a minimum square footage of 355, while a double queen room is 420. In contrast, the Residence Inn minimum room size for a studio room of 460 square feet and the two room configuration of 640 because the product is suited for somewhat longer stays. Room size is often correlated with higher room rates because these rooms may accommodate more guests and reflect the significantly large room investment. However, room rates for both brands are subject to overall market conditions and will reflect seasonal adjustments and minimum stay requirements for high demand periods or events. Room profitability is usually higher for larger rooms because of rate, however as measured by investment return they may be similar because of the large capital investment.

Balance the Market with Overall Development Costs

The costs to develop vary depending on a variety of factors including soil conditions, FEMA requirements, structural considerations, storm drainage and sewer requirements. In general, larger projects are more efficient to build because they spread infrastructure costs, like foundation systems and related contractor fees, over more rooms, thus reducing the overall cost of construction per room, and ultimately making the project easier to finance. In our case the building foundation will cost about the same whether the building structure is two versus three stories. This concept also applies to sewer, water, electrical infrastructure, parking lots, offsite improvements, and storm drainage but to a lesser degree. Thus, the project scale helps make the larger projects more efficient to construct and cost less per room, and more competitive with other hotel products in the market today and in the future.

Operating Costs and Investment Returns

While reviewing market demand and the cost of construction, we balanced the project scale with the projected hotel cash-flow taking into account revenues less operating costs, and fixed costs like management expenses, property taxes, bank interest, insurance and property wear and tear. Because of the seasonal nature of the hotel business, the project scale needs to take advantage of the market demand in peak times to offset weak demand in slow times because in low occupancy periods the hotel operates at a loss or break-even.

Additionally, the operating cash-flow needs to be sufficient to satisfy bank mortgage payments, and investor returns throughout the year. The Corte Madera project is more expensive to build than similar facilities elsewhere because of the existing soil conditions and required offsite improvements (e.g. traffic mitigation round-about). Thus, the scale is important to provide the necessary seasonal returns to satisfy the projected financing structure and equity returns for the hotel. Again, this scale is within the range of projected market demand provided from our 30 year experience in the market and by independent analysis undertaken by hotel consultants and national hotel brands.