

STAFF REPORT

DATE: March 15, 2015

TO: City Council

FROM: Mike Webb, Assistant City Manager
Diane Parro, Chief Innovation Officer
Katherine Hess, Community Development Administrator

SUBJECT: Hotel Market Analysis

Recommendation

Staff recommends the City Council :

1. Receive the attached HVS Hotel Market Analysis; and
2. Direct staff to return in April with recommended criteria for evaluation of hotel proposals to determine which application(s) should be processed through Planning Commission and City Council hearing.

Fiscal Impact

Hotels generate revenue to the City of Davis through Transient Occupancy Taxes and Property Taxes generated on-site, as well as sales tax generated through purchases made by hotel guests. The 2015-16 budget assumes the City will collect \$1,270,000 in TOT from our eleven hotels.

As a hypothetical example, fifty percent occupancy of the 89 net new rooms at the Richards Boulevard hotel conference facility, at \$130 per night would generate approximately \$200,000 per year in TOT, plus an additional \$40,000 for the Yolo County Visitors Bureau. These calculations are based upon the current TOT rate, and do not reflect the proposed increase on the June 2016 ballot.

Hotel construction would also generate construction tax and development impact fees that could be used for capital improvements or other City priorities.

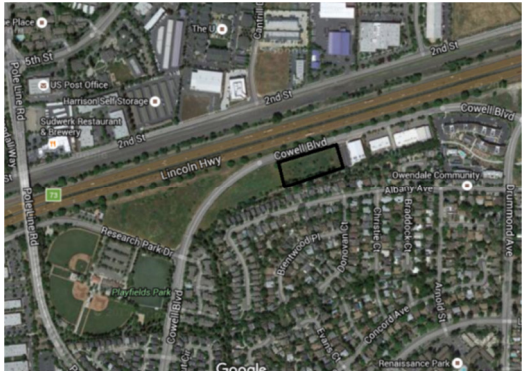

Council Goal(s)

This effort supports the following Goals/Objectives/Tasks:

- ◆ Drive Innovation and Economic Vitality / Develop Davis as a visitor destination.
 - Task: Facilitate Development of a Hotel Conference Center.

Background and Analysis

The Department of Community Development and Sustainability has received entitlement applications for construction of two extended stay hotels. One proposed hotel, Residence Inn, is on Second Street at Mace Boulevard and the other, Hyatt House, is on Cowell Boulevard next to the Davis Diamonds facility. Each requires General Plan Amendment, which is a legislative approval. The applications are summarized below. More details are contained in Attachment 1.

Comparative Table of the Two Proposed Extended Stay Hotels		
Project Data	Davis Hyatt House 2750 Cowell Blvd	Residence Inn – Mace Ranch 4647 Fermi Place
Location	2750 Cowell Blvd. 	4647 Fermi Place 
General Plan	Business Park	Office
Current Zoning	P-D #2-12 (Industrial Research, I-R). Hotel requires zoning amendment.	P-D #4-88 (Light Industrial, L-I or I-R)
Acreage	2.031 acres	2.69 acres
Number of Rooms	120	120
Building Height	4-story	4-story
Parking Spaces	114	121

Market Capacity Analysis

In summer 2015, the City Council approved entitlements for a hotel conference facility at 1111 Richards Boulevard. The project involves replacement of the existing University Park Inn and Suites and Caffé Italia restaurant with a six-story 132-room Embassy Suites hotel and 13,772 square feet of conference space. During its review of the hotel conference facility application, the City Council noted the potential applications for additional hotels and expressed concern about the capacity of the Davis market to absorb all the proposed rooms. Concerns have been heightened because of expansion in the hotel capacity in Woodland, Winters, and cities to the east.

In November, the City contracted with HVS to prepare an analysis of the Davis hotel market to provide an analytical and objective context to assist the City with the review of the applications for the Hyatt House and Residence Inn. HVS is a worldwide consulting firm specializing in the hospitality market. HVS conducts market analyses and project evaluation for a range of public and private clients. Cost of the analysis were covered by hotel applicant fees.

HVS representatives visited Davis and each of the proposed hotel sites. The consultants met with the hotel applicants and also spoke to representatives from the Yolo County Visitors Bureau, UC Davis, and other local hotels.

HVS analyzed scenarios for hotel development in Davis, with the existing room supply and the addition of Embassy Suites as the baseline. Impacts of adding additional hotels were projected. HVS concluded that the near-term development of a conference hotel facility with the addition of an extended stay hotel to be built shortly thereafter would be most beneficial to visitors, the City of Davis, other hotels in the market, and the overall community. However, HVS concluded that the addition of another hotel, specifically another extended-stay facility, would not benefit the market for another four to five years after the initial extended-stay hotel has opened.

HVS identified strengths and weaknesses of each of the two proposals, Hyatt House and Residence Inn, relating to location, brand, and development team.



Extended Stay Proposals - Comparison of Strengths and Weaknesses		
	Strengths	Weaknesses
RESIDENCE INN BY MARRIOTT (2nd Street/Fermi Place)	<p>One of the strongest extended-stay brands backed by one of the largest hotel companies in the world</p> <p>The location will allow the hotel to benefit from multiple demand sources, including UC Davis, local companies, and highway travelers</p> <p>Within walking distance of retail shops and restaurants, and there is available space for future complementary development</p>	<p>Product is 100% extended-stay focus</p> <p>Hotel development has not traditionally been the focus of this development team</p>
HYATT HOUSE (Cowell Boulevard)	<p>Proximity to Downtown Davis</p> <p>Unique product offering of both Den Rooms and Guest Suites, allowing the flexibility accommodate both business transient and extended-stay demand</p> <p>Development team has proof and record of successful hotel development experience in Davis</p> <p>Brand complement to the existing Hyatt Place</p>	<p>Extended-stay hotels are traditionally located within walking distance of retail shops and restaurants, and the site for this project is not</p> <p>The site does not have direct access to the highway</p>

HVS also conducted a peer review of the market analyses submitted by the two extended-stay hotel applicants as an Appendix to the Market Analysis report. Conclusion and Recommendation Staff accepts the analysis that shows that construction of one extended stay hotel in Davis would benefit the City and the market by capturing room nights from visitors who are going elsewhere because they are seeking either amenities or a hotel brand that is not available here. Additional rooms in an extended stay hotel could also complement the hotel conference center by accommodating overflow guests, provided there are mechanisms to address inefficiencies of shuttling meeting-goers. However, staff concurs with the HVS conclusion that there is not current capacity to absorb the rooms proposed for both the Hyatt House and the Residence Inn if they were to open within the same period of time.

Staff is recommending the City Council review the HVS analysis, identify questions for follow-up with the consultant, and direct staff to return in April with criteria for Evaluation of hotel proposals to determine which application(s) should be processed through Planning Commission and City Council hearings. Example criteria could include sustainability components, support for downtown Davis and UC Davis, anticipated revenue to the City, bicycle and pedestrian access and accommodations, site location characteristics, developer experience, demonstrated project financing capability, site control, transportation/shuttle service, and integration of project amenities such as public art. Staff intends to consult with Yolo County Visitors Bureau as part of the criteria development process.

Attachments

1. Summary of Hotel Applications
2. HVS New Hotel Impact & Analysis report

Comparative Table of the Two Proposed Extended Stay Hotels	
Project Data	Residence Inn – Mace Ranch 4647 Fermi Place
Date Submitted	October 8, 2015
Nature of Applications	Full applications – GPA, P-D#4-88 Amendment, FPD, CUP, Design Review & Mitigated Negative Declaration
Location	4647 Fermi Place: 
	
Current General Plan	Office – hotels not listed as allowable use
Proposed General Plan	Office – text amendment to increase FAR and allow hotels
Current Zoning	P-D#4-88 (Light Industrial, L-I or I-R)
Acreage	2.69 acres
Application Status	Incomplete
	Development Standards and Amenities
Number of Rooms	120
Building Height	4-story; 49' 4" to top of roof
Lot Coverage	19%
Floor Area Ratio	67.26%
Parking Spaces	121
Amenities	<ul style="list-style-type: none"> ■ Swimming pool ■ Meeting / conference room ■ Fitness room ■ Hearth/lobby room ■ Bar space ■ Computer station space ■ Kitchen and laundry spaces
	<ul style="list-style-type: none"> ■ Swimming pool ■ Meeting / conference room ■ Fitness room ■ Hearth/lobby room ■ Bar space ■ Computer station space ■ Kitchen and laundry spaces



MARKET STUDY

New Hotel Impact & Analysis

DAVIS, CALIFORNIA

SUBMITTED TO:

Ms. Katherine Hess
City of Davis California
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Davis, California 95616

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PREPARED BY:

HVS Consulting & Valuation
Division of TS Worldwide, LLC
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March 10, 2016

Ms. Katherine Hess
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Re: New Hotel Impact & Analysis
Davis, California
HVS Reference: 2015021927

Dear Ms. Hess:

Pursuant to your request, we herewith submit our market study pertaining to the impact of potential new supply in Davis, California. We have inspected the real estate and analyzed the hotel market conditions in the Davis, California area and surrounding communities. We have studied the proposed projects, and the results of our fieldwork and analysis are presented in this report. We have also reviewed the proposed improvements for these sites.

We hereby certify that we have no undisclosed interest in the proposed projects reviewed, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,
TS Worldwide, LLC

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Addenda

Appraisal Review
Qualifications



1. Executive Summary

In this study, we have conducted research and interviews in regards to the Davis hotel market and four different proposed hotel projects, including the Embassy Suites, the Hyatt House, the Residence Inn by Marriott, and the Nishi Hotel. Based on the development stages of the proposed projects, we have developed forecast for the subject market under three different scenarios: without new supply, with proposed Embassy Suites, and with both proposed Embassy Suites and a 120-room extended-stay hotel. Based on the findings of this study, the near-term development of a conference hotel facility with the addition of an extended stay hotel to be developed shortly thereafter poses the option that would be most beneficial to visitors, the City of Davis, other hotels in the market, and the overall community. However, our opinions concluded that the addition of another hotel, specifically another extended-stay facility, would not benefit the market for another four to five years after the initial extended-stay hotel has opened.

The following table presents a summary of salient data:



FIGURE 1-1 SUMMARY OF SALIENT DATA

	2016	2017	2018	2019	2020	2021
Scenario 1 - without Proposed Hotel						
Occupancy	74.8%	75.9%	76.7%	77.3%	77.4%	77.6%
Average Rate	\$129.28	\$135.75	\$141.18	\$145.41	\$149.78	\$154.27
RevPAR	\$96.75	\$103.01	\$108.30	\$112.35	\$115.96	\$119.70
Total Available Rooms Nights	184,690	184,690	184,690	184,690	184,690	184,690
Total Revenue	\$17,869,372	\$19,024,538	\$20,002,071	\$20,749,202	\$21,417,513	\$22,107,484
Scenario 2 - with Embassy Suite						
Occupancy	74.8%	73.8%	71.3%	71.8%	71.9%	72.0%
Average Rate	\$129.29	\$135.76	\$141.19	\$145.42	\$149.79	\$154.28
RevPAR	\$96.76	\$100.25	\$100.70	\$104.37	\$107.71	\$111.14
Total Available Rooms Nights	184,690	200,794	232,870	232,870	232,870	232,870
Total Revenue	\$17,870,423	\$20,129,012	\$23,450,174	\$24,305,418	\$25,081,323	\$25,882,147
Scenario 3 - with both Embassy Suite and 120-room Extended Hotel						
Occupancy	74.8%	74.1%	69.6%	63.2%	63.3%	63.4%
Average Rate	129.29	135.76	137.11	139.86	143.35	147.65
RevPAR	\$96.76	\$100.59	\$95.42	\$88.39	\$90.77	\$93.67
Total Available Rooms Nights	184,690	200,794	265,870	276,670	276,670	276,670
Total Revenue	\$17,870,423	\$20,197,698	\$25,369,162	\$24,455,140	\$25,114,118	\$25,916,814
Forecast Difference - Scenario 1 vs 2						
Occupancy	0.0%	-2.0%	-5.4%	-5.5%	-5.5%	-5.6%
Average Rate	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
RevPAR	\$0.00	(\$2.76)	(\$7.60)	(\$7.97)	(\$8.26)	(\$8.56)
Available Rooms Nights	0	16,104	48,180	48,180	48,180	48,180
Percentage of Total Available Rooms Nights	0	8.7%	26.1%	26.1%	26.1%	26.1%
Total Revenue	\$0	\$1,104,474	\$3,448,104	\$3,556,216	\$3,663,810	\$3,774,663
Forecast Difference - Scenario 2 vs 3						
Occupancy	0.0%	0.3%	-1.7%	-8.6%	-8.6%	-8.6%
Average Rate	\$0.00	\$0.00	(\$4.07)	(\$5.57)	(\$6.43)	(\$6.63)
RevPAR	\$0.00	\$0.00	(\$5.28)	(\$15.98)	(\$16.93)	(\$17.47)
Available Rooms Nights	0	0	33,000	43,800	43,800	43,800
Percentage of Total Available Rooms Nights	0	0	14.2%	18.8%	18.8%	18.8%
Total Revenue	\$0	\$0	\$1,918,987	\$149,722	\$32,795	\$34,667
Forecast Difference - Scenario 1 vs 3						
Occupancy	0.0%	-1.8%	-7.1%	-14.1%	-14.1%	-14.1%
Average Rate	\$0.00	\$0.01	(\$4.06)	(\$5.56)	(\$6.42)	(\$6.62)
RevPAR	\$0.00	(\$2.42)	(\$12.88)	(\$23.96)	(\$25.19)	(\$26.03)
Available Rooms Nights	0	16,104	81,180	91,980	91,980	91,980
Percentage of Total Available Rooms Nights	0	8.7%	44.0%	49.8%	49.8%	49.8%
Total Revenue	\$0	\$1,173,160	\$5,367,091	\$3,705,938	\$3,696,605	\$3,809,330



2. Scope of Work

Scope of Work

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels*,¹ *Hotels, Motels and Restaurants: Valuations and Market Studies*,² *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,³ *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,⁴ and *Hotels and Motels – Valuations and Market Studies*.⁵

1. The proposed projects studied in this report include the proposed Embassy Suites by Hilton, proposed Hyatt House, proposed Residence Inn by Marriott, and a hotel proposed for development on the Nishi property.
2. All information was collected and analyzed by the staff of TS Worldwide, LLC. Information was supplied by the client, City of Davis, or the properties' respective development teams.
3. On December 15, 2015, Kasia M. Russell, MAI and Kirsten Smiley inspected the sites for the aforementioned proposed projects. All the sites have been evaluated from the viewpoint of their physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
4. Kasia M. Russell, MAI and Kirsten Smiley interviewed the development team for each proposed project to gain an understanding of the proposed improvements and project background.
5. Kasia M. Russell, MAI and Kirsten Smiley have interviewed the following personnel to gain an understanding of the market dynamics and demand patterns in Davis: Reed Youmas, owner at the Hallmark Inn; Liz Read,

¹ Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

² Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

³ Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

⁴ Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

⁵ Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies*. (Chicago: Appraisal Institute, 2001).



Director of Sales at the Hyatt Place; Alan Humason, President of the Yolo County Convention & Visitors Bureau; Marjorie M. Dickinson, Assistant Chancellor at University of California, Davis; Annie Owen, General Affairs Team Leader at Mori Seiki; Margie Starr, representative at the Sheraton Sacramento; and Lina Layiktez, Director of Campus Events and Visitor Services at the University of California, Davis.

6. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
7. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
8. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Each proposed project will be added on to the existing supply based on the current stage of the projects. However, the feasibility of each project will not be examined in this study.
9. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
10. The impact on occupancy and average rate for the overall market will be examined as each proposed project enters the marketplace.



3. Description of the Sites and Neighborhoods

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate marketability. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

Embassy Suites by Hilton (1111 Richards Boulevard)

The developer of the proposed Embassy Suites by Hilton is Royal Guest Hotels, which is based in Davis. Royal Ganesh currently owns and operates five hotels in the Davis-Sacramento area, including the Best Western Plus Palm Court Davis, Aggie Inn Davis, and University Park Inn. The proposed project calls for the development of a 132-room, full-service hotel with a 14,000-square-foot conference center. The property will reportedly feature a restaurant and two lounges, a rooftop pool with a sundeck, a spa, a fitness center, a business center, and a gift shop. Interviews with project representatives revealed that the project is fully funded by the EB-5 program, which is an immigration program that allows foreign investors to obtain permanent residency through investing money in the United States. The proposed project was approved by city council in September 2015.

The subject site is located immediately south of Downtown Davis, in the southwest quadrant of the interchange formed by Richards Boulevard and Interstate 80. The civil address is 1111 Richards Boulevard, Davis, California, 95616. The subject site, which is currently improved with a hotel that will be torn down, measures 2.82 acres, or 122,919 square feet. The parcel is situated adjacent to Interstate 80, with direct access to highway exits. Primary vehicular access to the proposed subject hotel will be provided by Richards Boulevard. Access will also be available from Olive Drive. The topography of the parcel is generally flat, and the site's shape is trapezoidal.

The subject neighborhood is conveniently located adjacent to a highway interchange and just south of Downtown Davis. This neighborhood comprises gas service stations, auto shops, fast-service restaurants, and a hotel, which serve the needs of motorists traveling along Interstate 80. Furthermore, the neighborhood is within walking distance of numerous restaurants and retail shops located Downtown.



VIEW OF EMBASSY SUITES SITE



AERIAL PHOTOGRAPH



VIEW FROM SITE TO THE NORTH



VIEW FROM SITE TO THE SOUTH



VIEW FROM SITE TO THE EAST



VIEW FROM SITE TO THE WEST



MAP OF NEIGHBORHOOD

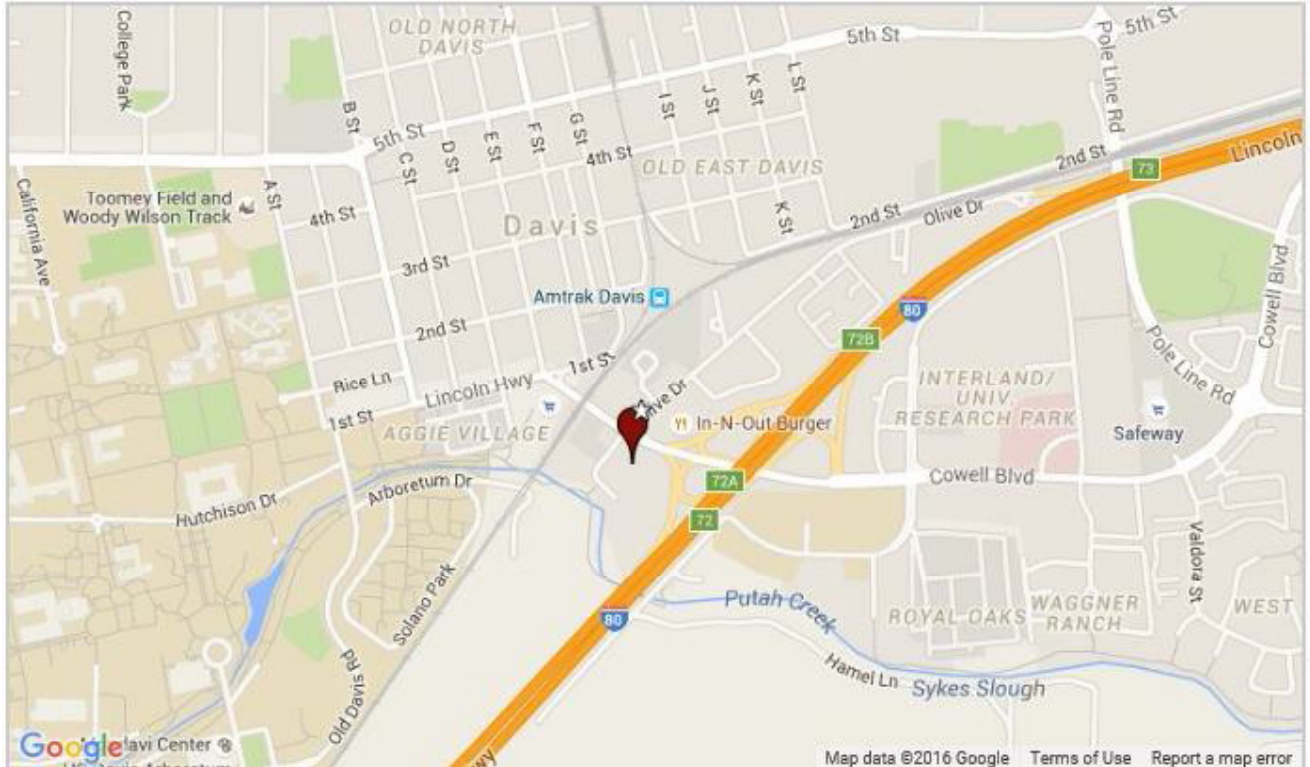


FIGURE 2-1 EMBASSY SUITES SITE PROS AND CONS

Pros	Cons
Proximity to Downtown Davis and UC Davis	Potential traffic congestion issue
Direct access to I-80	
High walkability	
Good highway visibility	



**Hyatt House (2750
Cowell Boulevard)**

The developer of the proposed Hyatt House is Presidio Companies, which is based in Sacramento. Presidio Companies currently owns and operates hotels across the United States. The company and its affiliates previously developed the Hyatt Place in Davis, which was later sold to another entity. The proposed project calls for a 122-room, extended-stay hotel with suites and den guestrooms. The property will reportedly feature two lounges, an outdoor pool with a sundeck, a fitness room, and a market pantry. The suites would feature a full-service kitchen with appliances, cookware, flatware, and utensils, while the den guestrooms would feature a relatively modest living space with a refrigerator and microwave. The proposed project is currently in the planning stage.

The subject site is located in the Rose Creek neighborhood, in the northeast quadrant of the intersection formed by Cowell Boulevard and Research Park Drive. The civil address is 2750 Cowell Boulevard, Davis, California, 95616. The subject site measures 2.31 acres, or 100,623 square feet. The parcel is located just south of Interstate 80. Vehicular access to the proposed subject hotel will be provided by Cowell Boulevard.

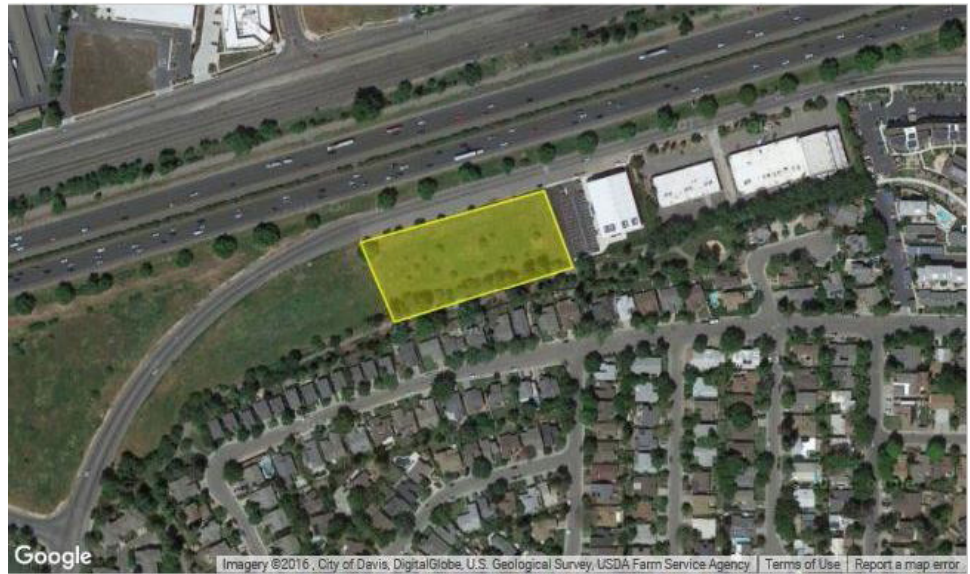
The subject neighborhood features highway frontage and includes a mixture of single-family residences and light-industrial parks. Nearby business and entities include Davis Diamonds Gymnastics, Playfields Park, Arcadia Biosciences, and Schilling Robotics.



VIEW OF HYATT HOUSE SITE



AERIAL PHOTOGRAPH



VIEW FROM SITE TO THE NORTH



VIEW FROM SITE TO THE SOUTH





VIEW FROM SITE TO THE EAST



VIEW FROM SITE TO THE WEST



MAP OF NEIGHBORHOOD

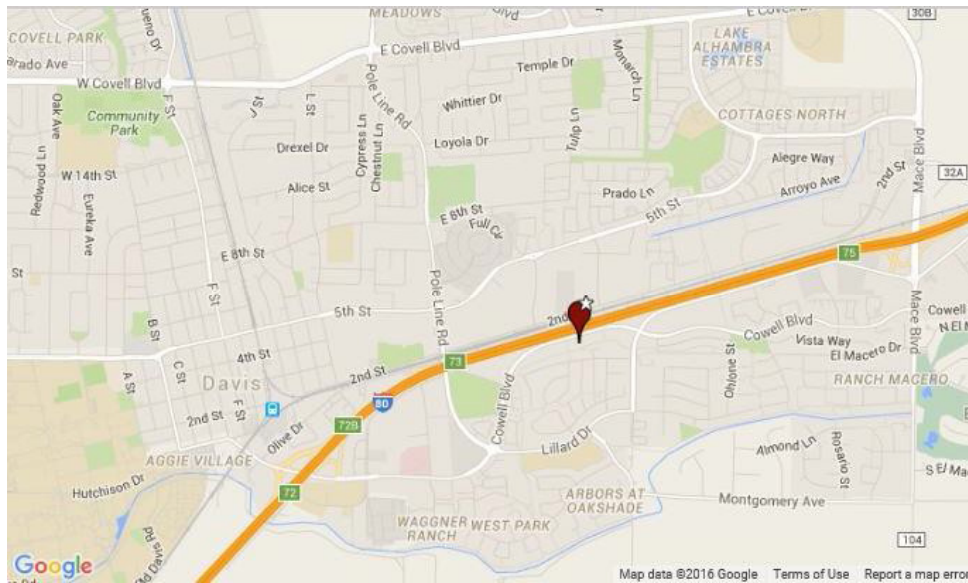




FIGURE 2-2 HYATT HOUSE SITE PROS AND CONS

Pros	Cons
Good highway visibility	No direct access to I-80
Bike path to Downtown Davis	Noise
Proximity to local corporations and UC Davis	Farther from Downtown Davis

Residence Inn by Marriott (Mace Boulevard and 2nd Street)

The proposed Residence Inn by Marriott will be developed by Capitol Avenue Development & Investments, which is based in West Sacramento. This real estate development company specializes in commercial developments, including hospitality, office, and retail. The company developed the Hilton Garden Inn in South Natomas in Sacramento. The proposed project calls for a 117-room, extended-hotel affiliated with Marriott International. While details regarding the project were not provided at the time of the study, a typical Residence Inn by Marriott features all suites, each with a fully equipped kitchen; a complimentary services area; a market pantry; a business center; a guest laundry room; and a pool/whirlpool. The project is currently in the planning stage.

The subject site is located in the Mace Ranch neighborhood, in the southwest quadrant of the intersection formed by Mace Boulevard and 2nd Street. The civil address is 4647 Fermi Place, Davis, California, 95618. The subject site measures 2.58 acres, or 112,385 square feet. The parcel is located just north of Interstate 80. Vehicular access to the proposed subject hotel will be provided by 2nd Street.

The subject neighborhood is located off a highway exit, on the eastern border of Davis. The neighborhood is characterized by restaurants, office buildings, and retail shopping centers along the primary thoroughfares, with residential areas located along the secondary roadways. Nearby businesses include Target, DMG Mori, and a Honda dealership.



VIEW OF RESIDENCE INN BY MARRIOTT SITE



AERIAL PHOTOGRAPH



VIEW FROM SITE TO THE NORTHEAST



VIEW FROM SITE TO THE NORTHWEST





VIEW FROM SITE TO THE SOUTHEAST



VIEW FROM SITE TO THE SOUTHWEST



MAP OF NEIGHBORHOOD

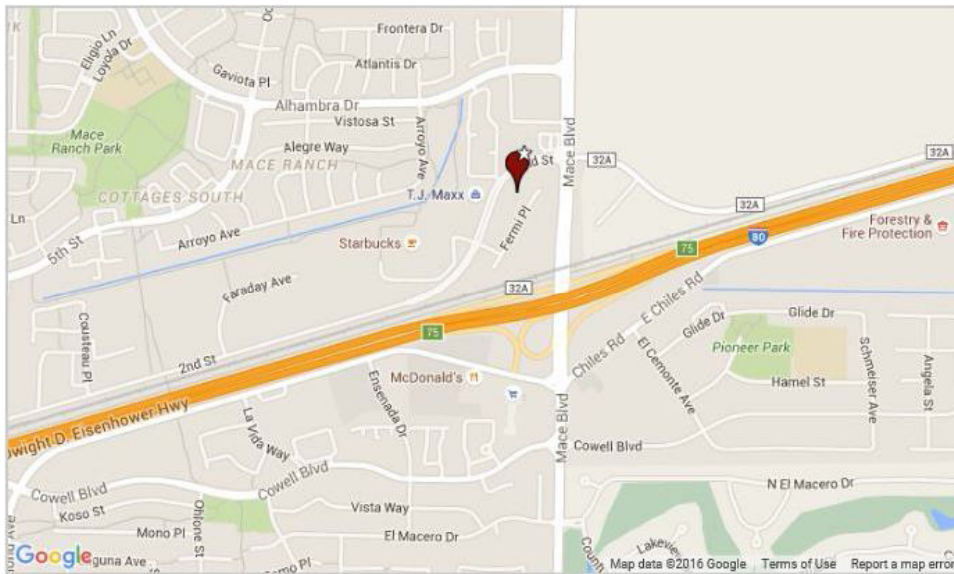




FIGURE 2-3 RESIDENCE INN BY MARRIOTT SITE PROS AND CONS

Pros	Cons
Good accessibility	Farther from Downtown Davis and campus
Proximate to local corporations	
Proximate to big-box retailers	
Access to highway exit	

Proposed Hotel at the Nishi Property

A hotel has been proposed for development as part of Nishi Gateway, a 47-acre mixed-use development that will include research facilities, retail space, and multi-family residences. Details regarding the project had yet been determined at the time of this study; however, the hotel would likely offer an extended-stay product. The Nishi Gateway project is currently seeking entitlement. As of February 2016, it was reported by City representatives that a hotel project would not be part of the current development package. Should a hotel component be reintroduced, it would require voter approval, not likely to happen before 2020.

The subject site is located within the Nishi property just east of the University of California, Davis. Nishi is a master-planned development project that is anticipated to include approximately 200,000 square feet of university-related research facilities and 650 units of urban housing. As shown in the aerial map, the subject site lies between Interstate 80 and the residential space. The parcel is located just north of Interstate 80. Vehicular access to the proposed subject hotel would likely be provided by an at-grade Union Pacific Railroad crossing or Olive Drive, although this could be subject to change.

Similar to the site for the proposed Embassy Suites by Hilton, the subject neighborhood benefits from easy access to the UC Davis campus and Downtown Davis.

VIEW OF NISHI HOTEL SITE



AERIAL PHOTOGRAPH





VIEW FROM SITE TO THE NORTH



VIEW FROM SITE TO THE WEST



VIEW FROM SITE TO THE EAST



MAP OF NEIGHBORHOOD

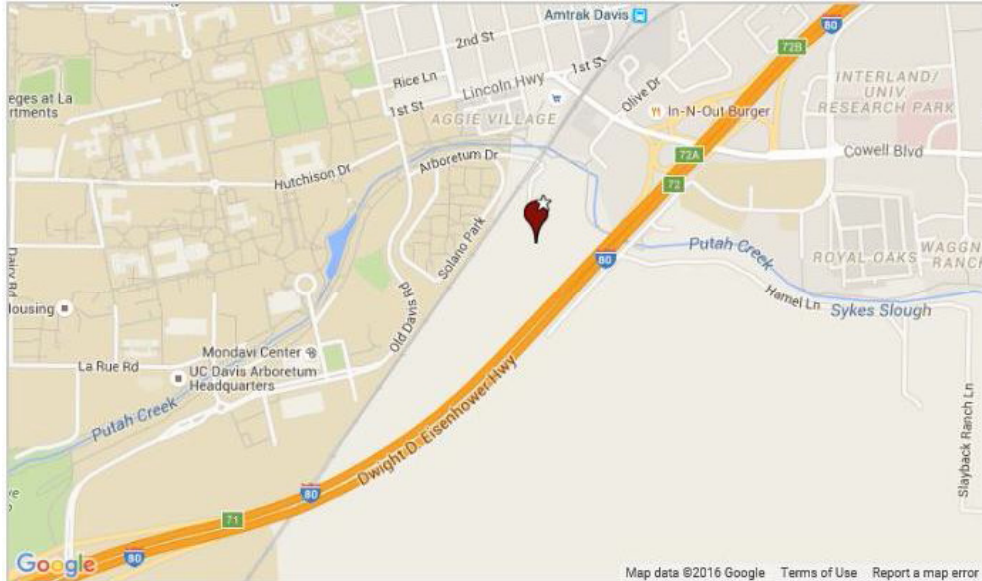


FIGURE 2-4 NISHI SITE PROS AND CONS

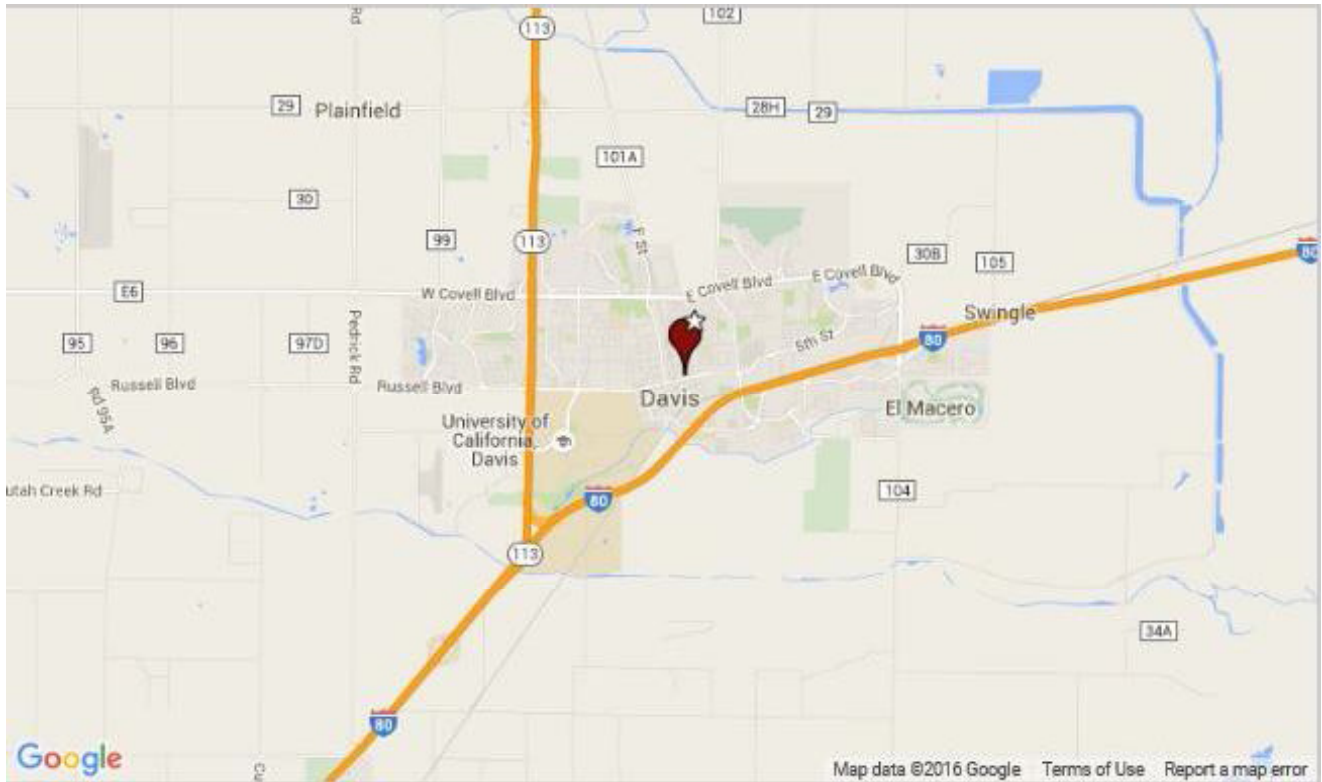
Pros	Cons
Proximity to Downtown Davis and UC Davis	Potential traffic congestion issue
Direct access to I-80 through Olive/Richards Boulevard or Old Davis Road	Development not anticipated until 2020 at earliest
High walkability	
Good highway visibility	

Access and Visibility

Primary regional access through the area is provided by east/west Interstate 80, which extends to San Francisco, California, to the west and Sacramento to the east. North/south Interstate 5 is another major highway, which provides access to Portland, Oregon, to the north and Los Angeles, California, to the south.



MAP OF REGIONAL ACCESS ROUTES



Airport Access

The proposed subject hotels will be served by the Sacramento International Airport, which is located approximately ten miles to the northeast of Davis.

Utilities, Zoning, Easements, and Encroachments

Analyzing utilities, soil and subsoil conditions, nuisances and hazards, easements and encroachments, and zoning was outside of our scope of work. However, we assume none of the above would adversely affect development.

Conclusion

In general, all the sites should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

4. Market Area Analysis

The economic vitality of the market area and neighborhood surrounding a hotel site is an important consideration in forecasting lodging demand and future income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project lodging demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand, with the objective of forecasting the amount of growth or decline in visitation by individual market segment, e.g. commercial, meeting and group, and leisure.

Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located.

DAVIS

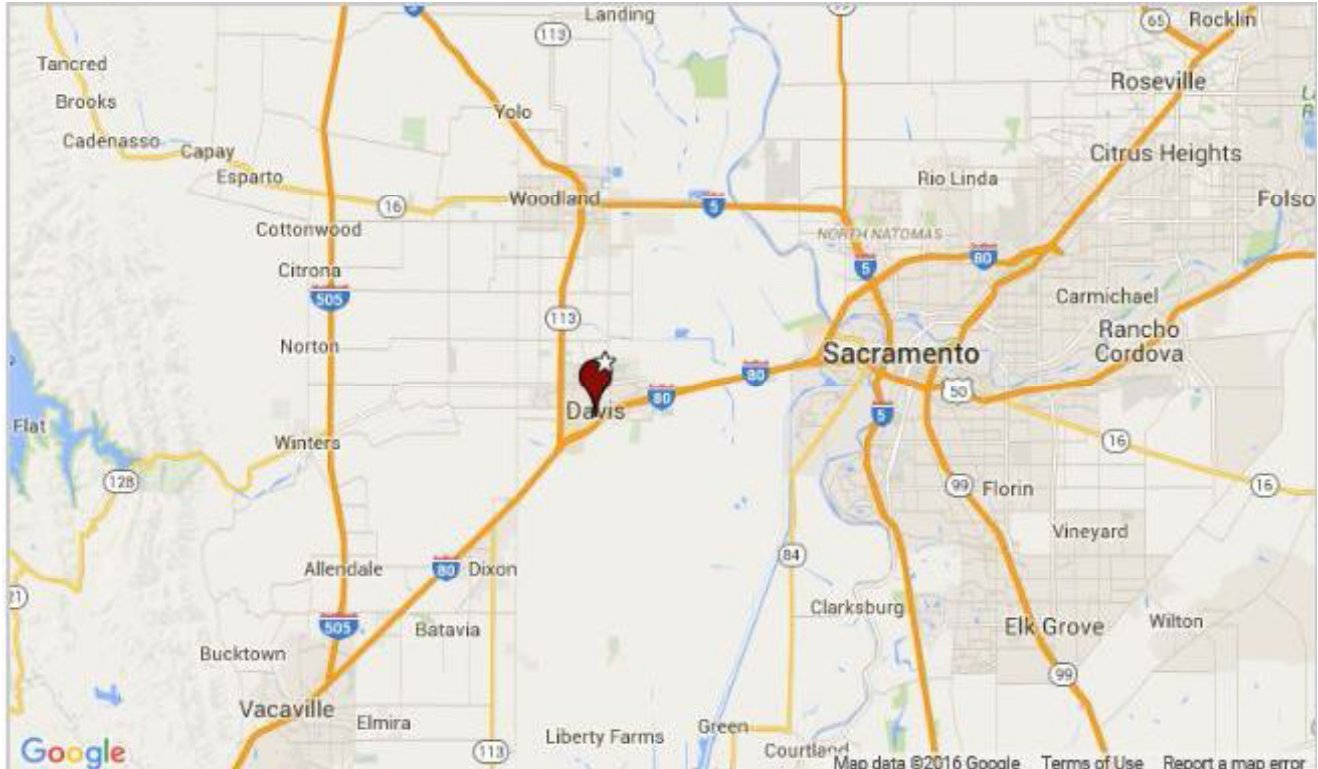




The city of Davis is situated near the Interstate 80 and California Highway 113 interchange, approximately 15 miles southwest of Downtown Sacramento and approximately 75 miles northeast of San Francisco. Incorporated in 1917, Davis developed as a farming community and was known for its contribution to agriculture policy along with veterinary care and animal husbandry. Following the passing of the University Farm Bill in 1905 by the California State Legislature, Davis was selected as the future home of the University of California's University Farm, officially opening to students in 1908. The farm was later renamed and the campus was upgraded into the seventh UC general campus, the University of California, Davis, in 1959. The city of Davis is considered a college town, with the ratio of students to long-term residents estimated at one to four. Also contributing to the college-town environment is the proximity of Downtown Davis to the campus's main quad. The year-round local population of Davis is greatly affected by the presence of activity of the UC Davis campus. Sacramento's location provides Davis with both the isolation critical to fostering a college-town environment while also providing a lively and large metropolitan area nearby. Though the campus itself is vast, the entire community of Davis is relatively small and is easily traversable via bicycle utilizing the city's extensive bike trails.



MAP OF MARKET AREA



Economic and Demographic Review

A primary source of economic and demographic statistics used in this analysis is the *Complete Economic and Demographic Data Source* published by Woods & Poole Economics, Inc.—a well-regarded forecasting service based in Washington, D.C. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, thus reflecting real change.

These data are summarized in the following table.

FIGURE 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2015	2020	Average Annual Compounded Change		
					2000-10	2010-15	2015-20
Resident Population (Thousands)							
Yolo County	169.8	201.1	213.1	227.5	1.7 %	1.2 %	1.3 %
Sacramento--Roseville--Arden-Arcade, CA MSA	1,807.9	2,154.6	2,299.2	2,460.6	1.8	1.3	1.4
Sacramento-Roseville, CA CSA	2,040.0	2,420.6	2,577.4	2,754.5	1.7	1.3	1.3
State of California	33,988.0	37,338.2	39,298.5	41,373.3	0.9	1.0	1.0
United States	282,162.4	309,330.2	324,186.9	340,554.3	0.9	0.9	1.0
Per-Capita Personal Income*							
Yolo County	\$32,592	\$35,271	\$36,334	\$37,998	0.8	0.6	0.9
Sacramento--Roseville--Arden-Arcade, CA MSA	37,390	38,849	40,417	42,832	0.4	0.8	1.2
Sacramento-Roseville, CA CSA	36,786	38,397	40,026	42,391	0.4	0.8	1.2
State of California	40,184	41,211	43,587	46,554	0.3	1.1	1.3
United States	36,473	39,144	41,554	44,387	0.7	1.2	1.3
W&P Wealth Index							
Yolo County	93.6	94.2	92.2	90.7	0.1	(0.4)	(0.3)
Sacramento--Roseville--Arden-Arcade, CA MSA	101.7	99.0	97.5	96.9	(0.3)	(0.3)	(0.1)
Sacramento-Roseville, CA CSA	100.3	98.0	96.8	96.1	(0.2)	(0.3)	(0.1)
State of California	109.9	106.1	106.0	106.0	(0.3)	(0.0)	(0.0)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Yolo County	\$179	\$272	\$309	\$347	4.3	2.6	2.3
Sacramento--Roseville--Arden-Arcade, CA MSA	2,286	3,132	3,604	4,065	3.2	2.8	2.4
Sacramento-Roseville, CA CSA	2,485	3,392	3,897	4,392	3.2	2.8	2.4
State of California	46,672	59,584	66,965	73,618	2.5	2.4	1.9
United States	368,842	447,396	499,600	548,160	1.9	2.2	1.9
Total Retail Sales (Millions)*							
Yolo County	\$1,742	\$1,945	\$2,230	\$2,497	1.1	2.8	2.3
Sacramento--Roseville--Arden-Arcade, CA MSA	24,625	27,106	31,413	35,364	1.0	3.0	2.4
Sacramento-Roseville, CA CSA	27,054	29,769	34,435	38,723	1.0	3.0	2.4
State of California	446,496	490,207	558,274	616,143	0.9	2.6	2.0
United States	3,902,969	4,149,070	4,707,800	5,187,469	0.6	2.6	2.0

* Inflation Adjusted
Source: Woods & Poole Economics, Inc.



MAP OF SACRAMENTO AREA INCLUDING YOLO COUNTY



The U.S. population has grown at an average annual compounded rate of 0.9% from 2010 through 2015. The county’s population has grown at a quicker pace than the nation’s population; the average annual growth rate of 1.2% between 2010 and 2015 reflects a gradually expanding area. Following this population trend, per-capita personal income increased slowly, at 0.6% on average annually for the county between 2010 and 2015. Local wealth indexes have remained stable in recent years, registering a relatively modest 92.2 level for the county in 2015.

Food and beverage sales totaled \$309 million in the county in 2015, versus \$272 million in 2010. This reflects a 2.6% average annual change, which is weaker than the 4.3% pace recorded in the prior decade. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 2.3%, which is forecast through 2020. The retail sales sector demonstrated an annual increase of 1.1% registered in the decade 2000 to 2010, followed by an increase of 2.8% in the period 2010 to 2015. An increase of 2.3% average annual change is expected in county retail sales through 2020.



**Workforce
Characteristics**

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate-sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the county workforce distribution by business sector in 2000, 2010, and 2015, as well as a forecast for 2020.

FIGURE 3-2 HISTORICAL AND PROJECTED EMPLOYMENT (000S)

Industry	Percent of Total		Percent of Total		Percent of Total		Percent of Total		Percent of Total		Average Annual Compounded Change			
	2000	2010	2010	2015	2015	2020	2020	2010-2015	2015-2020	2010	2015	2010	2015	2020
			%	%	%	%	%	%	%	%	%	%	%	%
Farm	4.2	3.0	3.9	2.5	2.7	2.2	2.7	2.1	2.7	(3.4)	(1.6)	(3.4)	(1.6)	(0.2)
Forestry, Fishing, Related Activities And Other	1.8	3.0	1.7	2.6	3.2	2.6	3.2	2.6	3.3	5.0	1.4	5.0	1.4	0.9
Mining	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.7	1.7	0.7	1.7	0.4
Utilities	0.5	0.6	0.5	0.5	0.6	0.5	0.6	0.5	0.6	1.5	(1.7)	1.5	(1.7)	0.3
Construction	5.6	4.6	5.2	4.0	4.6	3.8	4.6	3.8	4.8	(1.9)	(0.1)	(1.9)	(0.1)	1.0
Manufacturing	6.5	5.4	6.1	4.7	5.2	4.3	5.2	4.1	5.3	(1.8)	(1.0)	(1.8)	(1.0)	0.4
Total Trade	14.8	13.9	13.9	12.0	15.0	12.4	15.0	12.4	16.2	(0.7)	1.6	(0.7)	1.6	1.5
Wholesale Trade	4.6	4.8	4.3	4.2	5.2	4.3	5.2	4.1	5.3	0.4	1.5	0.4	1.5	0.5
Retail Trade	10.2	9.1	9.6	7.8	9.8	8.1	9.8	8.4	10.9	(1.2)	1.7	(1.2)	1.7	2.0
Transportation And Warehousing	7.1	6.5	6.7	5.6	6.5	5.3	6.5	5.0	6.4	(0.9)	(0.0)	(0.9)	(0.0)	(0.2)
Information	1.1	1.3	1.0	1.1	1.3	1.1	1.3	1.1	1.4	1.2	1.2	1.2	1.2	1.3
Finance And Insurance	2.5	2.6	2.4	2.3	2.8	2.3	2.8	2.3	2.9	0.4	1.0	0.4	1.0	1.2
Real Estate And Rental And Lease	2.7	3.7	2.5	3.2	4.1	3.3	4.1	3.4	4.4	3.3	1.8	3.3	1.8	1.7
Total Services	32.1	34.4	30.0	29.7	37.6	30.9	37.6	30.9	41.0	0.7	1.8	0.7	1.8	1.7
Professional And Technical Services	5.9	7.2	5.6	6.2	8.0	6.6	8.0	6.6	8.6	1.9	2.2	1.9	2.2	1.4
Management Of Companies And Enterprises	3.3	3.1	3.1	1.3	1.5	1.2	1.5	1.2	1.5	(7.6)	(0.3)	(7.6)	(0.3)	0.2
Administrative And Waste Services	4.3	3.7	4.1	3.2	4.3	3.5	4.3	3.7	4.8	(1.6)	3.1	(1.6)	3.1	2.6
Educational Services	0.9	1.4	0.9	1.2	1.8	1.5	1.8	1.5	2.1	4.3	4.3	4.3	4.3	3.0
Health Care And Social Assistance	6.2	7.9	5.8	6.8	8.3	6.9	8.3	6.9	9.0	2.5	1.1	2.5	1.1	1.5
Arts, Entertainment, And Recreation	1.8	1.9	1.7	1.6	2.1	1.7	2.1	1.7	2.2	0.6	1.7	0.6	1.7	1.1
Accommodation And Food Services	5.1	5.9	4.8	5.1	6.3	5.2	6.3	5.2	7.0	1.4	1.4	1.4	1.4	1.9
Other Services, Except Public Administration	4.5	4.9	4.2	4.2	5.4	4.4	5.4	4.5	5.9	0.9	2.0	0.9	2.0	1.8
Total Government	27.4	36.5	25.6	31.5	37.7	31.0	37.7	31.0	39.8	2.9	0.7	2.9	0.7	1.1
Federal Civilian Government	2.5	3.7	2.4	3.2	3.6	3.0	3.6	3.0	3.8	3.8	(0.3)	3.8	(0.3)	0.7
Federal Military	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	(0.1)	0.3	(0.1)	0.1
State And Local Government	24.5	32.4	23.0	28.0	33.7	27.7	33.7	27.7	35.7	2.8	0.8	2.8	0.8	1.1
TOTAL	106.8	115.8	100.0	100.0	121.7	100.0	121.7	100.0	129.3	0.8	1.0	0.8	1.0	1.2
MSA	1,053.5	1,141.2	—	—	1,217.5	—	1,217.5	—	1,318.5	0.8	1.3	0.8	1.3	1.6
U.S.	165,371.0	173,626.7	—	—	185,504.6	—	185,504.6	—	198,343.5	0.8	1.3	0.8	1.3	1.3

Source: Woods & Poole Economics, Inc.



Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county grew at an average annual rate of 0.8%. This trend was on par with the growth rate recorded by the MSA and also outpaced the national average. More recently, the pace of total employment growth in the county accelerated to 1.0% on an annual average from 2010 to 2015, reflecting the initial years of the recovery.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2015, increasing by 3,274 people, or 9.5%, and rising from 29.7% to 30.9% of total employment. Of the various service sub-sectors, Health Care And Social Assistance and Professional And Technical Services were the largest employers. Strong growth was also recorded in the Total Government sector, as well as the Total Trade sector, which expanded by 9.5% and 8.3%, respectively, in the period 2010 to 2015. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.2% on average annually through 2020. The trend is below the forecast rate of change for the U.S. as a whole during the same period.

**Radial Demographic
Snapshot**

The following table reflects radial demographic trends for our market area measured by three points of distance from Downtown Davis.



FIGURE 3-3 DEMOGRAPHICS BY RADIUS

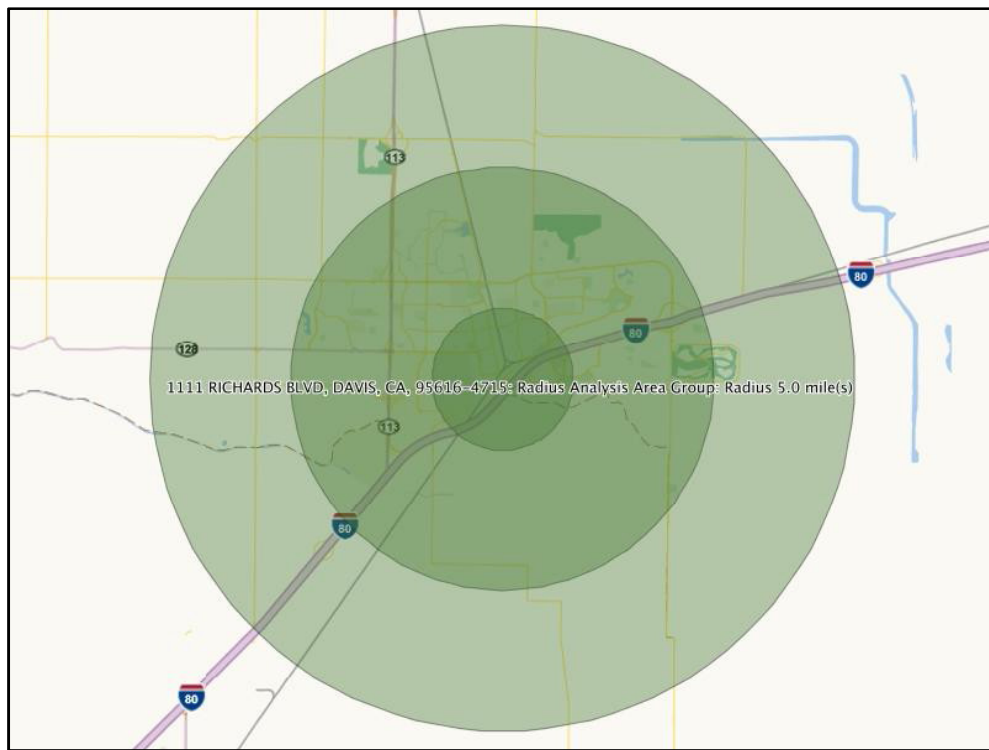
	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2020 Projection	12,771	73,782	77,589
2015 Estimate	12,554	71,833	75,562
2010 Census	12,438	70,442	74,133
2000 Census	10,553	62,774	67,589
Growth 2000 - 2010	17.9%	12.2%	9.7%
Growth 2010 - 2015	0.9%	2.0%	1.9%
Growth 2015 - 2020	1.7%	2.7%	2.7%
Households			
2020 Projection	4,708	27,158	28,702
2015 Estimate	4,556	26,214	27,713
2010 Census	4,436	25,566	27,029
2000 Census	4,039	22,837	24,736
Growth 2000 - 2010	9.8%	11.9%	9.3%
Growth 2010 - 2015	2.7%	2.5%	2.5%
Growth 2015 - 2020	3.3%	3.6%	3.6%
Income			
2015 Est. Average Household Income	\$61,286	\$86,911	\$88,478
2015 Est. Median Household Income	38,594	54,606	56,118
2015 Est. Civ. Employed Pop 16+ by Occupation			
Architect/Engineer	164	1,176	1,244
Arts/Entertainment/Sports	174	1,117	1,163
Building Grounds Maintenance	86	577	616
Business/Financial Operations	147	1,279	1,397
Community/Social Services	63	538	579
Computer/Mathematical	210	1,352	1,405
Construction/Extraction	91	395	417
Education/Training/Library	1,194	6,660	6,971
Farming/Fishing/Forestry	35	164	206
Food Prep/Serving	452	1,789	1,867
Health Practitioner/Technician	200	2,117	2,310
Healthcare Support	89	558	589
Maintenance Repair	89	444	487
Legal	94	904	961
Life/Physical/Social Science	496	2,834	2,925
Management	459	3,202	3,516
Office/Admin. Support	471	2,747	2,893
Production	157	667	686
Protective Services	114	469	484
Sales/Related	337	2,730	2,879
Personal Care/Service	269	1,131	1,183
Transportation/Moving	277	1,072	1,147

Source: The Nielsen Company



This source reports a population of 75,562 within a five-mile radius of Downtown Davis, and 27,713 households within this same radius. Average household income within a five-mile radius of Downtown Davis is currently reported at \$88,478, while the median is \$56,118.

RADIUS MAP



Unemployment Statistics

The following table presents historical unemployment rates for the market area.



FIGURE 3-4 UNEMPLOYMENT STATISTICS

Year	County	MSA	State	U.S.
2005	5.5 %	4.9 %	5.4 %	5.1 %
2006	5.2	4.7	4.9	4.6
2007	5.7	5.3	5.4	4.6
2008	7.4	7.1	7.3	5.8
2009	11.0	10.9	11.2	9.3
2010	12.2	12.4	12.2	9.6
2011	11.8	11.8	11.7	8.9
2012	10.7	10.3	10.4	8.1
2013	9.1	8.7	8.9	7.4
2014	7.7	7.2	7.5	6.2
<i>Recent Month - Dec</i>				
2014	7.4 %	6.3 %	6.8 %	5.6 %
2015	6.6	5.5	5.8	5.0

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

After the U.S. unemployment rate declined to an annual average of 4.6% in 2006 and 2007, the Great Recession, which spanned December 2007 through June 2009, resulted in heightened unemployment rates. The unemployment rate peaked at 10.0% in October 2009, after which job growth resumed; the national unemployment rate has steadily declined since 2010. Total nonfarm payroll employment increased by 151,000 jobs in January 2016, under the 200,000+ monthly levels of the fourth quarter of 2015, but similar to the levels of last August and September. The strongest gains in January employment were in the sectors related to retail trade, food services and drinking places, health care, and manufacturing. The unemployment rate fell from 5.0% in December 2015 to 4.9% in January 2016, similar to the levels of the first quarter of 2008, but below the 2006 and 2007 levels that bracketed the 4.5% to 5.0% range. The positive gains in employment reflect the strength and overall stability of the U.S. economy.

Locally, the unemployment rate was 7.7% in 2014; for this same area in 2015, the most recent month's unemployment rate was registered at 6.6%, versus 7.4% for the same month in 2014. After showing year-over-year improvement, unemployment began to rise in 2008 as the region entered an economic slowdown, and this trend continued through 2010 as the height of the national recession took hold. However, unemployment declined in 2011 as the economy



rebounded, a trend that continued through 2014. The most recent comparative period illustrates improvement, indicated by the lower unemployment rate in the latest available data for 2015. Reportedly, local employment has remained strong within the education sector and the research and development (R&D) sector, including healthy employment levels at major employers such as UC Davis.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

Sacramento International Airport is the gateway to Northern California and serves the greater Sacramento region, including Stockton, Chico, and Napa. This two-runway facility services multiple international and national carriers. Completed in 2012, The Big Build was a \$1.08-billion airport modernization project to replace the airport's almost 40-year-old Terminal B in order to meet the rising demand for passenger services and improve the airport's ability to attract new carriers and routes. The new 680,000-square-foot Terminal B facility was completed in the fall of 2011, including offices for airline support services, parking, and an automated people mover to connect the two terminals. Demolition of the old Terminal B and construction of new overnight aircraft parking space were completed in August 2012. The 17,000-square-foot food court in Terminal A was remodeled in 2015, and new local restaurants were added.

The following table illustrates recent operating statistics for the Sacramento International Airport, which is the primary airport facility serving the Davis market.



FIGURE 3-5 AIRPORT STATISTICS - SACRAMENTO INTERNATIONAL AIRPORT

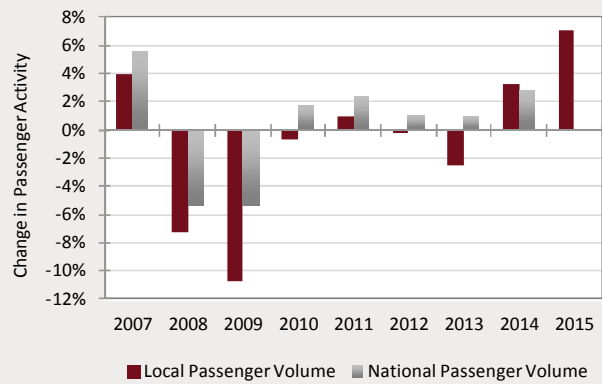
Year	Passenger Traffic	Percent Change*	Percent Change**
2006	10,362,800	—	—
2007	10,767,639	3.9 %	3.9 %
2008	9,982,427	(7.3)	(1.9)
2009	8,914,510	(10.7)	(4.9)
2010	8,850,239	(0.7)	(3.9)
2011	8,929,289	0.9	(2.9)
2012	8,910,570	(0.2)	(2.5)
2013	8,685,368	(2.5)	(2.5)
2014	8,972,756	3.3	(1.8)
2015	9,608,948	7.1	(0.8)
<i>Year-to-date, Jan</i>			
2015	657,900	—	—
2016	714,874	8.7 %	—

*Annual average compounded percentage change from the previous year

**Annual average compounded percentage change from first year of data

Source: Sacramento International Airport

FIGURE 3-6 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND



Source: HVS, Local Airport Authority



This facility recorded 9,608,948 passengers in 2015. The change in passenger traffic between 2014 and 2015 was 7.1%. The average annual change during the period shown was -0.8%. The recent uptick in passenger traffic can be attributed in large part to increased service by major air carriers in response to stronger economic conditions and a rise in demand. The most significant impact came from Southwest Airlines, which began daily service to Dallas Love Field in April 2015. Furthermore, major carriers such as Aeroméxico, Delta, JetBlue, and American Airlines have all contributed to the year-over-year growth, adding a total of nine flights in the first half of 2015.

Major Business and Industry

FIGURE 3-7 YOLO COUNTY MAJOR EMPLOYERS

Rank	Firm	Number of Employees
1	University of California, Davis	12,639
2	State of California	2,480
3	Cache Creek Casino Resort	2,200
4	Pacific Gas & Electric Co	1,731
5	Yolo County	1,267
6	Woodland Joint Unified School District	1,000
7	Woodland Healthcare	949
8	Raley's Inc.	830
9	Davis Joint Unified School District	790
10	City of Davis	700

Source: Sacramento Business Journal, 2015

The following sections highlight an overview of the economy in Davis and major demand generators for this market:

City of Davis

The service sector and real estate industry are major economic drivers in Davis. Downtown Davis is a 32-block Business Improvement District featuring numerous retail shops and restaurants. The weekly farmer's market attracts area chefs and mixologists to Davis. Furthermore, due to the expanding population and the scarcity of undeveloped land, both commercial and residential properties vacancy rates in Davis are relative low and property values continue to increase. Although the demand for commercial and residential developments is high in Davis, Measure R limits the conversion of agriculture land to urban or residential developments.⁶ Meanwhile, given the research strengths of UC Davis, the city of

⁶ Measure R is a City of Davis ordinance requiring voter approval to change land-use designations from agriculture or open space to urban uses.



Davis strives to cultivate an innovation ecosystem to bridge the university and local entrepreneurial activities.

The following bullet points highlight the major proposed development projects in Davis:

- **Mace Ranch Innovation Center (MRIC):** MRIC is a 228-acre mixed-use project located directly east of Davis city limits in unincorporated Yolo County. The project is anticipated to include 1,510,000 square feet of research and development facilities, 884,000 square feet of manufacturing facilities, 40,000 square feet of retail space, and a 160,000-square-foot hotel. If approved by the City Council, the proposal would be scheduled for Measure R election no earlier than November 2016.
- **Nishi Gateway:** Nishi Gateway is a 45-acre mixed-use development proposed to include approximately 200,000 square feet of university-related research facilities and 650 units of urban housing. According to an economic impact study prepared by Economic & Planning Systems, Inc. in December 2015, the potential economic impact of the Nishi project could be up to \$465,000. Voter consideration of the proposal is scheduled for June 2016.

**University of California,
Davis (UC Davis)**

The University of California, Davis (also referred to as UC Davis), is a public research university. The campus covers 5,300 acres, making it the largest within the ten-campus University of California system. UC Davis also has the third-largest enrollment in the UC System (after UCLA and UC Berkeley), with a total enrollment of roughly 36,000 across four colleges and six professional schools. Originally conceived as an agricultural research and teaching component to the UC school system, programs of study offered at UC Davis have evolved to include a broad range of well-recognized academic programs and disciplines spanning research and development pertaining to agriculture, viticulture and enology, biological sciences, law, and veterinary medicine. UC Davis is one of the foremost research universities pertaining to agricultural research and veterinary medicine.

According to a survey completed by *U.S. News & World Report 2016*, UC Davis was ranked first among the nation's veterinary schools. *QS World University Rankings by Subject 2015* ranked UC Davis's Agriculture and Forestry, as well as Veterinary Medicine, first in the world. Additionally, the Centre for Science and Technology Studies at Leiden University, Netherlands, ranked UC Davis first in the world in the category of research impact in life and earth sciences. Moreover, UC Davis was ranked first among national universities by *ScienceWatch* in the fields of ecology and the environment, agriculture, entomology, food science and nutrition, and plant and animal science.



In the 2014/15 academic year, total research funding was reported at approximately \$786 million and total UC Davis endowment was reported at approximately \$1 billion. According to university officials, combining the Davis campus and the UC Davis Health System in Sacramento, the University is a \$4-billion enterprise. Known for its academic research, UC Davis attracts companies that specialize in research and development (R&D) pertaining to agriculture, viticulture, and biotechnology, among other sectors. These companies include FMC Schilling Robotics, DMG Mori Seiki, and HM Clause, among others

FIGURE 3-8 UNIVERSITY OF DAVIS STUDENT POPULATION SUMMARY

Academic Year	Enrollments	Percent Change
2006-07	29,220	—
2007-08	29,572	1.2 %
2008-09	30,403	2.8
2009-10	30,874	1.5
2010-11	30,949	0.2
2011-12	31,237	0.9
2012-13	31,943	2.3
2013-14	32,724	2.4
2014-15	34,001	3.9
2015 Fall	36,104	6.2

Source: UC Davis

As evidenced in the preceding table, UC Davis student enrollment continues to register steady growth, having increased at a compounded annual growth rate (CAGR) of 1.66% for the illustrated period. In the 2014/15 academic year, enrollment in UC Davis increased nearly 4.0% compared to 2013/14. Reportedly, for the Fall 2015 semester, the number of applications grew 3.3% among state residents, 16.3% among out-of-state students, and 19.5% among international students.

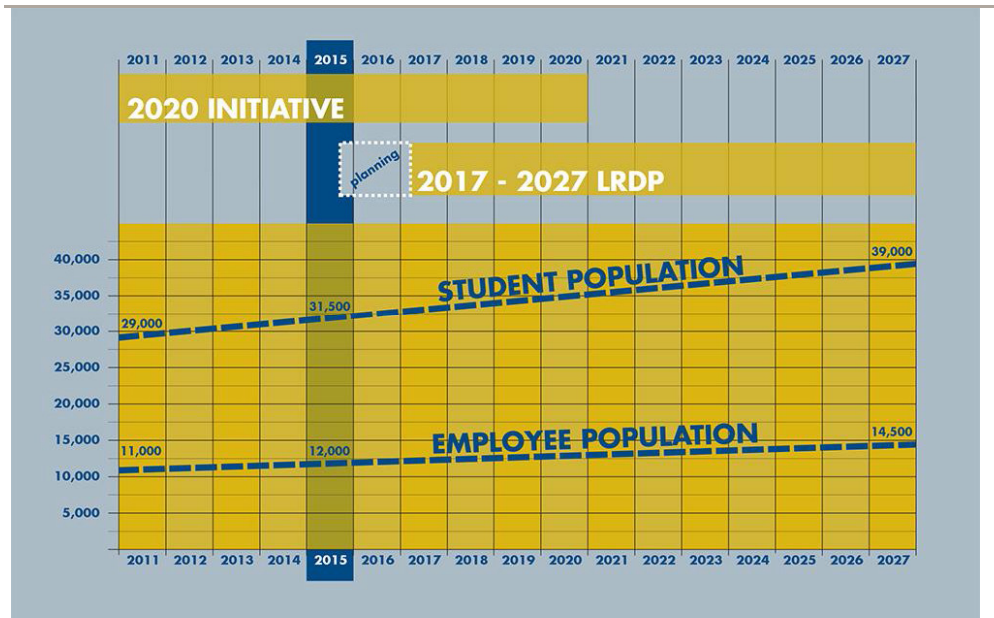
2020 Initiative: UC Davis announced the launch of the Chancellor’s 2020 Initiative during the annual fall convocation address in 2011. The Initiative aims to increase enrollment, particularly out-of-state and international enrollment, by 5,000 by the 2020 academic year. In an effort to accommodate the campus initiative for enrollment growth, UC Davis has developed a ten-year capital plan to continue its commitment to guarantee housing for its students and expand all retail dining facilities accordingly. In order to fulfill the vision as an international



university, the campus is building a \$30-million International Center, which will be the future home of the university’s international units.

2017–2027 Long Range Development Plan (LRDP): The plan is an update of the 2003–2015 LRDP and builds upon the 2020 Initiative. In the 2017–2027 LRDP, the student population is expected to increase to 39,000 by 2027, compared to the 31,500 goal for 2015, which represents a CAGR of 2.16%. The LRDP update will be analyzed through an environmental review process that begins in Spring 2016. Final decisions are anticipated to be made by the UC Regents in 2017.

2017–2027 LRDP



The following bullet points highlight the development projects in UC Davis:

- **Ann E. Pitzer Center:** The Ann E. Pitzer Center, scheduled to open in April 2016, will include a 17,500-square-foot recital hall, classrooms, rehearsal studios, a recording control room, and a production office. The 399-seat recital hall should be able to host about 100 concerts a year and serve as a lecture hall, as well. UC Davis’s music department is nationally ranked and currently has 105 majors and 24 graduate students studying musicology, composition, performance, and ethnomusicology, as well as conducting.
- **Jan Shrem & Maria Manetti Shrem Museum of Art:** The museum began with a \$2-million gift from Margrit Mondavi and a naming gift of \$10 million from Jan Shrem and his wife, Maria Manetti Shrem. The museum



will be dedicated to art education for students of all ages, exhibiting the university's impressive legacy of achievement in the arts, and creating participatory art experiences; the facility will be open to the general public.

- **International Center:** The 60,000-square feet International Center will provide classrooms, administration spaces, and a 3,400-square-foot Commons area for the four international programs, including the Extension Center for International Education, Services for International Students and Scholars, Study Abroad, and the Global Affairs Vice Provost Office. The center is scheduled for completion in the fall of 2016.
- **Large Lecture Hall:** The \$22-million lecture hall will be able to accommodate up to 580 students; it is expected to provide a collaborative classroom space to accommodate classroom interaction. The lecture hall is in the design stage and is scheduled for completion in the fall of 2017.

Local Corporations

Located 75 miles west of Davis, Silicon Valley is the epicenter of information technology and life sciences industries. However, due to the expensive costs and high barrier of entry, some corporations seek alternatives outside of the Bay Area. Owing to the research focus of UC Davis, Davis attracts corporations that are seeking an educated labor force, lower business costs, high-quality-of-life communities, and convenient access to major airports.

- **DMG Mori Seiki** is a Japanese manufacturing and engineering company for machine tools. According to a company representative, lodging demand for the company includes orientations, visiting employees, and customers from around the globe.
- **HM.CLAUSE**, headquartered in Modesto, California, is the fourth-largest seed company in the world. The company purchased the Vegetable Seed Operations of Campbell Soup Company in Davis in 2012 and expanded the facilities in 2013. In 2015, the company opened a start-up incubator with UC Davis. The UC Davis-HM.CLAUSE Life Science Innovation Center is a 3,100-square-foot, off-campus lab/office facility, with another 1,800 square feet of greenhouse space.
- **FMC Schilling Robotics**, a division of FMC Technologies, is a robotic engineering and underwater oil-services firm. The Davis campus is the firm's largest location.

Davis Convention Activity

A convention center serves as a gauge of visitation trends to a particular market. Convention centers also generate significant levels of demand for area hotels and serve as a focal point for community activity. Typically, hotels within the closest



proximity to a convention center (up to three miles away) will benefit the most. Hotels serving as headquarters for an event benefit the most by way of premium rates and hosting related banquet events. During the largest of conventions, peripheral hotels may benefit from compression within the city as a whole.

- The UC Davis Conference Center opened in 2010 on site adjacent to the new Graduate School of Management and the Hyatt Place hotel. This Platinum LEED-certified facility offers a large 4,000-square-foot ballroom and two additional conference rooms at about 700 square feet each. The facility also offers space for a banquet/catering kitchen and ground-floor retail or restaurant space.
- The Buehler Alumni & Visitors Center offers two art galleries, a tree-lined patio, and a serene garden leading to the UC Davis Arboretum. The Alumni & Visitors Center includes the AGR Room, the Founders Board Room, and the West and Allewelt Conference Rooms. The AGR Room has vaulted ceilings, a fireplace, and a view of the patio; this multi-use space can accommodate up to 200 guests lecture-style.
- The ARC (Activities and Recreation Center) functions as a full-service gym facility and offers meeting and function space. The ARC Ballroom measures 4,880 square feet and opens onto a private courtyard. Two adaptable meeting rooms, 912 square feet and 408 square feet respectively, function as convenient breakout spaces for the ARC Ballroom. The Pavilion provides more than 150,000 square feet of space for gala dinners, concerts, auctions, tradeshow, conferences, commencements, and athletic events.
- The University is the area's largest attraction. Annual visits to the UC Davis campus number in the hundreds of thousands. Annual student-run activities, intercollegiate athletic events, new-student orientation, and commencement bring friends and family of matriculating students and alumni to the area. Picnic Day, the annual open house for the University of California, Davis, draws an estimated 50,000 to 60,000 visitors to the campus annually. It is one of the largest student-run events in the nation, highlighting the myriad aspects of student life and diverse achievements of UC Davis students and faculty through more than 200 events.
- Mondavi Center for the Performing Arts is a world-class, 103,637-square-foot venue featuring a 1,800-seat concert and theatre hall, hosting more than 100 shows, concerts, lectures, and other performances annually. The Mondavi Center has featured performers such as Elvis Costello, Yo-Yo Ma, Sarah Silverman, Oliver Stone, Tony Bennett, and Ricky Skaggs with his bluegrass band, Kentucky Thunder.

Tourist Attractions



- The U.S. Bicycling Hall of Fame is located in the Central Park in Downtown Davis. Occupying an 8,000-square-foot building, the museum displays a large collection of bicycles, photographs, poster, awards, periodicals, and racing apparel from 19th through 21st centuries. It honors all the athletes inducted into the Hall of Fame throughout its history and has one of the most extensive bicycle collections in the world.
- The city of Davis offers a “small town” atmosphere, which includes various small and quaint retail shops, cafes, and restaurants. The weekly Farmer’s Market, open year-round, features a 33-week-long picnic/festival season. *USA Today* ranked Davis’s Farmer’s Market one of the top ten farmer’s markets in the nation.

Woodland

The City of Woodland is located ten miles north of Davis and is considered part of the Sacramento Metropolitan Statistical Area; however, the local economy is largely based on agricultural research and development. Major agriculture corporations in the market area include Monsanto, Syngenta, SF Spices, VoloAgri Group, and Shamrock Seeds. Boundary Bend, an olive oil company based in Australia, developed its North American headquarters and processing plant in Woodland, while the San Francisco Spice Company relocated its headquarters and facilities to Woodland. In addition, Woodland is a hub for seed research, with Monsanto having its largest research facility just outside Downtown Woodland and working closely with UC Davis. Additional agricultural technology companies are working with economic development officials to move to and/or expand in the area.

Winters

Winters is located approximately ten miles west of Davis and is part of the Yolo County economy. Winters has become a popular getaway destination in recent years given its historic charm, local wineries, and proximity to natural scenery. However, the lodging option is limited in Winters and some visitors have opted to stay in nearby cities, such as Davis and Dixon.

Sacramento

Sacramento is the capital of California and the sixth-most populous city within the state. The largest economic sector in the greater Sacramento market is the state and county government. In addition to being the county seat, Sacramento is the capital city of California. The area is also home to a number of military bases and a major correctional facility. The area is the epicenter of California government agencies, as well as companies that provide services for the State. Government agencies with offices in the market area include the California Employment Development Department, California Department of Child Support Services, Sacramento County Office of Education, and California Air National Guard, among



many others. Meanwhile, Davis is influenced by the West Sacramento and the Natomas airport markets given the easy access to Interstate 80.

Conclusion

Reportedly, there are over 500 rooms entering the Woodland, Winters, and West Sacramento markets. However, these submarkets are sustained by the local demand generators, and the new supply is not expected to dilute the demand in Davis. Market interviews and research revealed that economic growth in the Davis area is well supported by the increasing student population in UC Davis, the start-up friendly environment, and the presence of local corporations.



5. Supply and Demand Analysis

In the lodging industry, price varies directly, but not proportionately, with demand and inversely, but not proportionately, with supply. Supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand toward equilibrium results in a prevailing price, or average rate. The purpose of this section is to investigate current supply and demand trends, as indicated by the current competitive market, and to set forth a basis for the projection of future supply and demand growth.

Definition of Subject Hotel Market

The Davis lodging market comprises eleven select-service and limited-service hotels offering a total of 732 guestrooms. We have ordered a trend that excludes the Motel 6 and Days Inn, which are not relevant for the purpose of this study, as described below.

Historical Supply and Demand Data

STR is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. HVS has ordered and analyzed an STR Trend Report of historical supply and demand data for a group of hotels considered applicable to this analysis. This information is presented in the following table, along with the market-wide occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

FIGURE 5-1 HISTORICAL SUPPLY AND DEMAND TRENDS

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2007	381	139,065	—	89,980	—	64.7 %	\$86.39	—	\$55.90	—
2008	381	139,065	0.0 %	86,880	(3.4) %	62.5	94.53	9.4 %	59.06	5.6 %
2009	394	143,810	3.4	85,881	(1.1)	59.7	98.30	4.0	58.70	(0.6)
2010	457	166,760	16.0	94,020	9.5	56.4	103.11	4.9	58.13	(1.0)
2011	469	171,185	2.7	108,413	15.3	63.3	99.82	(3.2)	63.21	8.7
2012	455	166,075	(3.0)	108,346	(0.1)	65.2	106.52	6.7	69.49	9.9
2013	455	166,075	0.0	114,105	5.3	68.7	111.49	4.7	76.60	10.2
2014	499	181,987	9.6	126,984	11.3	69.8	115.87	3.9	80.85	5.5
2015	506	184,810	1.6	136,375	7.4	73.8	121.76	5.1	89.85	11.1
Average Annual Compounded Change:										
2008 - 2011			7.2		7.7			1.8		2.3
2011 - 2015			1.9		5.9			5.1		9.2
Hotels Included in Sample										
			Number		Year		Year			Opened
	Ascend Collection Hotel Aggie Inn		33		Jan 2011		Jan 1980			
	Econo Lodge Davis		26		Jun 1992		Jun 1963			
	Best Western University Lodge		52		Jun 1968		Jun 1968			
	Hallmark Inn		120		Jan 1998		Apr 1990			
	Best Western Plus Palm Court Hotel		27		Apr 2011		Apr 1994			
	La Quinta Inns & Suites Davis		51		Jan 2010		Jan 1997			
	Holiday Inn Express & Suites Davis University Area		70		May 2015		May 2000			
	Hyatt Place UC Davis		127		Mar 2010		Mar 2010			
	Total		506							

Source: STR

* Please note that the 45-room University Park Inn is a non-reporting property and the 78-room Days Inn and the 103-room Motel 6 are excluded.



It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample; furthermore, not every property reports data in a consistent and timely manner. These factors can influence the overall quality of the information by skewing the results, and these inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel in the previous table.

The STR data for the competitive set reflect a market-wide occupancy level of 73.8% in 2015, which compares to 69.8% for 2014. The overall average occupancy level for the calendar years presented equates to 66.4%. The STR data for the competitive set reflect a market-wide average rate level of \$121.76 in 2015, which compares to \$115.87 for 2014. The average across all calendar years presented for average rate equates to \$110.57. These occupancy and average rate trends resulted in a RevPAR level of \$89.85 in 2015.

UC Davis, local corporations, and motorists traveling along Interstate 80 represent the primary sources of demand in this market. During the illustrated period, the supply fluctuations are mainly caused by the opening and expansion of the Hyatt Place UC Davis. Demand and occupancy in 2008 and 2009 contracted modestly given the effects of the Great Recession. In 2010, the market experienced a healthy increase in lodging demand driven by the opening of the Hyatt Place and its adjacent conference center in March, as well as the beginning of a recovery from the economic downturn. However, occupancy continued to decline in 2010 as new supply outpaced demand growth. Occupancy quickly recovered in 2011 as demand experienced double-digit growth, owing to the new convention center and the strengthening economic conditions. Thereafter, occupancy registered year-over-year increases, despite the expansion of the Hyatt Place. The strengthening local economy, the increases in enrollment at UC Davis, and the lack of new supply fueled occupancy growth in this market. Occupancy peaked in the mid-70s by the end of 2015.

Contrary to occupancy trends, average rate increased in 2008 and 2009. Average rate decreased in 2011 given the increase in available rooms following the opening of the Hyatt Place, as hotel operators discounted rates to maintain their occupancy positions. Average rate then increased moderately through 2015, supported by the high demand levels and the renovations at existing hotels in the market.

Seasonality

Monthly occupancy and average rate trends are presented in the following tables.

FIGURE 5-2 MONTHLY OCCUPANCY TRENDS

Month	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	53.4 %	54.8 %	51.6 %	46.2 %	44.9 %	50.3 %	55.2 %	52.9 %	62.2 %
February	59.8	56.6	61.9	60.3	61.6	64.4	69.7	75.3	76.0
March	66.8	63.9	61.4	44.0	64.8	64.2	70.7	66.4	75.8
April	67.4	65.9	63.3	51.6	67.8	71.3	73.1	70.2	78.2
May	68.5	64.6	61.6	59.7	60.1	66.4	65.9	73.6	70.6
June	74.7	70.6	64.9	70.5	73.6	77.6	78.3	78.0	77.4
July	67.2	69.1	61.8	60.6	68.4	66.6	70.9	74.8	80.1
August	75.7	74.1	63.2	62.3	70.5	72.8	74.5	76.2	79.4
September	72.1	69.1	64.5	63.4	72.0	72.7	78.5	77.6	82.9
October	66.9	65.7	58.6	62.7	70.8	68.5	67.5	73.9	77.1
November	60.7	51.7	54.0	53.4	60.0	60.4	71.3	66.2	70.9
December	43.2	43.4	50.1	41.6	46.1	48.4	49.8	51.9	55.6
Annual Occupancy	64.7 %	62.5 %	59.7 %	56.4 %	63.3 %	65.2 %	68.7 %	69.8 %	73.8 %

Source: STR

FIGURE 5-3 MONTHLY AVERAGE RATE TRENDS

Month	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	\$78.82	\$86.50	\$95.27	\$97.66	\$94.72	\$94.19	\$103.22	\$107.44	\$110.67
February	78.45	86.41	100.49	100.00	96.94	101.28	105.14	111.34	116.92
March	81.08	87.82	98.07	101.74	102.14	102.16	109.15	114.05	118.94
April	84.43	92.69	100.61	106.88	106.45	108.08	114.17	120.70	124.04
May	86.97	91.46	101.21	107.28	103.30	108.97	113.95	120.90	127.66
June	94.83	101.06	106.59	111.03	106.06	118.34	123.32	127.71	135.26
July	87.67	94.41	96.22	99.38	97.76	107.62	108.98	110.14	118.84
August	88.66	95.33	93.19	101.42	96.03	103.51	109.34	112.79	118.70
September	91.86	101.48	97.55	104.71	99.84	111.41	114.73	119.43	127.37
October	88.78	99.15	95.28	103.82	99.60	109.59	112.87	117.73	127.25
November	86.45	99.15	93.42	99.63	97.00	105.43	111.07	114.02	119.31
December	83.32	96.88	100.97	98.39	94.03	100.38	107.49	107.83	111.12
Annual Average Rate	\$86.39	\$94.53	\$98.30	\$103.11	\$99.82	\$106.52	\$111.49	\$115.87	\$121.76

Source: STR



The illustrated monthly occupancy and average rates patterns reflect important seasonal characteristics. The Davis market displays strong seasonal characteristics. Occupancy in this market is highly correlated with visitation to the UC Davis. Occupancy peaks between April and October, in the high 60s to mid-70s, and is lowest in the winter months of December and January. Occupancy intensifies in the spring to early fall months because of university events such as Picnic Day, commencement, orientation, and beginning of the academic year. Average rate follows a similar pattern as occupancy, as rate peaks in the spring and summer months. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rates.

Patterns of Demand

A review of the trends in occupancy and average rate by day of the week provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by STR, are illustrated in the following table.



FIGURE 5-4 OCCUPANCY, AVERAGE RATE, AND REVPAR BY DAY OF WEEK (MULTIPLE YEARS)

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
CY 2013	52.1 %	64.7 %	69.7 %	72.4 %	70.5 %	74.6 %	76.8 %	68.7 %
CY 2014	53.3	63.8	71.2	72.6	71.9	76.8	78.8	69.8
CY 2015	57.3	68.6	75.6	77.7	73.8	79.8	83.7	73.8
Change (Occupancy Points)								
FY 13 - FY 14	1.1	-1.0	1.6	0.2	1.4	2.2	2.0	1.1
FY 14 - FY 15	4.0	4.8	4.4	5.1	1.9	3.0	4.9	4.0
ADR (\$)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
CY 2013	\$108.72	\$107.41	\$107.04	\$107.96	\$111.09	\$117.47	\$118.80	\$111.49
CY 2014	112.72	110.58	111.07	112.86	115.39	122.43	123.49	115.87
CY 2015	118.19	117.21	117.13	118.81	120.38	128.10	130.06	121.76
Change (Dollars)								
FY 13 - FY 14	\$4.00	\$3.17	\$4.03	\$4.90	\$4.31	\$4.96	\$4.69	\$4.38
FY 14 - FY 15	5.47	6.63	6.07	5.95	4.98	5.67	6.56	5.89
Change (Percent)								
FY 13 - FY 14	3.7 %	3.0 %	3.8 %	4.5 %	3.9 %	4.2 %	3.9 %	3.9 %
FY 14 - FY 15	4.9	6.0	5.5	5.3	4.3	4.6	5.3	5.1
RevPAR (\$)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
CY 2013	\$56.69	\$69.54	\$74.56	\$78.19	\$78.33	\$87.65	\$91.27	\$76.60
CY 2014	60.05	70.53	79.11	81.99	82.94	93.99	97.36	80.85
CY 2015	67.75	80.43	88.57	92.34	88.84	102.20	108.84	89.85
Change (Dollars)								
FY 13 - FY 14	\$3.36	\$0.99	\$4.55	\$3.80	\$4.60	\$6.34	\$6.09	\$4.25
FY 14 - FY 15	7.70	9.90	9.46	10.36	5.90	8.21	11.48	9.00
Change (Percent)								
FY 13 - FY 14	5.9 %	1.4 %	6.1 %	4.9 %	5.9 %	7.2 %	6.7 %	5.5 %
FY 14 - FY 15	12.8	14.0	12.0	12.6	7.1	8.7	11.8	11.1

Source: STR

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights. In the subject market,



occupancy levels tend to increase from midweek through the weekend, with the highest occupancy levels falling on Fridays and Saturdays and the lowest demand period on Sundays and Mondays. Average rates are significantly stronger on Fridays and Saturdays, reflecting the enhanced pricing power on the weekend when university events generate the greatest amount of hotel demand.

SUPPLY

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are expected to be primarily competitive with the proposed hotels. If applicable, additional lodging facilities may be judged only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primary competitive supply, they are expected to compete with the proposed hotels to some extent.

The following table summarizes the important operating characteristics of the future primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table also sets forth each property's penetration factors; penetration is the ratio between a specific hotel's operating results and the corresponding data for the market. If the penetration factor is greater than 100%, the property is performing better than the market as a whole; conversely, if the penetration is less than 100%, the hotel is performing at a level below the market-wide average.

FIGURE 5-5 COMPETITORS – OPERATING PERFORMANCE

Property	Est. Segmentation			Estimated 2014			Estimated 2015									
	Number of Rooms	Commercial	Leisure	Meeting and Group	Extended-Stay	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Hyatt Place UC Davis	127	50 %	30 %	15 %	5 %	118	70 - 75 %	\$130 - \$140	\$100 - \$105	127	80 - 85 %	\$140 - \$150	\$115 - \$120	12.5 %	110 - 120 %	120 - 130 %
Best Western Plus Palm Court Hotel	27	30	35	30	5	27	70 - 75	130 - 140	95 - 100	27	70 - 75	130 - 140	100 - 105	8.9	100 - 110	110 - 120
Hallmark Inn Davis	120	30	35	30	5	120	65 - 70	110 - 115	70 - 75	120	65 - 70	120 - 125	80 - 85	9.4	90 - 95	85 - 90
Best Western University Lodge	52	30	40	30	0	52	70 - 75	90 - 95	60 - 65	52	70 - 75	95 - 100	65 - 70	8.5	95 - 100	75 - 80
Aggie Inn Ascend Collection	33	40	40	20	0	33	65 - 70	130 - 140	85 - 90	33	70 - 75	130 - 140	95 - 100	10.8	95 - 100	100 - 110
Holiday Inn Express & Suites Davis University Area	70	45	40	15	0	71	70 - 75	140 - 150	100 - 105	70	75 - 80	140 - 150	110 - 115	9.9	100 - 110	120 - 130
La Quinta Inn & Suites Davis	51	40	45	15	0	51	65 - 70	65 - 70	40 - 45	51	70 - 75	70 - 75	50 - 55	15.7	95 - 100	55 - 60
Econo Lodge Davis/sacramento	26	40	40	20	0	26	50 - 55	40 - 45	20 - 25	26	55 - 60	50 - 55	25 - 30	19.9	75 - 80	30 - 35
Totals/Averages	506	40 %	36 %	21 %	3 %	498	68.7 %	\$115.78	\$80.78	506	73.8 %	\$121.97	\$90.03	11.5 %	100.0 %	100.0 %



**MARKET FORECASTS
OF OCCUPANCY AND
AVERAGE RATE**

We have developed a forecast of occupancy and average rate for the selected Davis submarket under three scenarios:

- I. **No Additional New Supply:** This scenario assumes that no proposed hotels will be developed.
- II. **With Proposed Embassy Suites by Hilton:** This scenario assumes that the proposed Embassy Suites by Hilton will be developed. Given that this project is further along in the development process and will potentially induce demand in the subject market, we have assumed that this proposed hotel would be the first representation of new supply in the market.
- III. **With both Proposed Embassy Suites by Hilton and a Proposed 120-room Extended-Stay Hotel:** This scenario assumes that a 120-room extended-stay hotel will open after the opening of the Embassy Suites by Hilton. The assumption is made to examine the potential impact of an extended-stay property on the subject market. The room count of 120 resembles the typical size of either the Hyatt House or the Residence Inn by Marriott. Although the location and affiliation of the two projects are different, the effect of new supply of a similar size and product type will be the same to the general market.

Scenario I

The following set forth our forecasts for each identified scenario.

FIGURE 5-6 HISTORICAL AND FORECAST MARKET TRENDS – SCENARIO I: NO ADDITIONAL NEW SUPPLY

Year	Occupied		Room Supply	Available		Occupancy		Market-wide		RevPAR	Change	
	Room Nights	Change		Room Nights	Change	Change	Average Rate	Change				
2013	114,157	—	455	166,075	—	68.7	%	—	\$111.63	—	\$76.74	—
2014	126,903	11.2 %	498	181,892	9.5 %	69.8		1.5 %	115.78	3.7 %	\$80.78	5.3 %
2015	136,335	7.4	506	184,690	1.5	73.8		5.8	121.97	5.3	\$90.03	11.5
Calendar Year Forecast												
2016	138,217	1.4 % *	506	184,690	0.0 % *	74.8	%	1.4 % *	\$129.28	6.0 % *	\$96.75	7.5 % *
2017	140,145	1.4	506	184,690	0.0	75.9		1.4	135.75	5.0	\$103.01	6.5
2018	141,679	1.1	506	184,690	0.0	76.7		1.1	141.18	4.0	\$108.30	5.1
2019	142,690	0.7	506	184,690	0.0	77.3		0.7	145.41	3.0	\$112.35	3.7
2020	142,996	0.2	506	184,690	0.0	77.4		0.2	149.78	3.0	\$115.96	3.2

* Percent change compared to prior calendar year.



**Demand Analysis
Using Market
Segmentation**

In Scenario I, both market-wide demand and occupancy are expected to continue to increase slightly through the forecast period. By 2019, the market is anticipated to stabilize, with the aggregate average occupancy level stabilizing at 77.4%. Average rate is projected to increase modestly through the forecast period given the high demand levels.

For the purpose of the demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2015 distribution of accommodated-room-night demand as follows:

FIGURE 5-7 ACCOMMODATED ROOM-NIGHT DEMAND

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Commercial	54,228	40 %
Leisure	49,544	36
Meeting and Group	28,803	21
Extended-Stay	3,759	3
Total	136,335	100 %

**Base Demand Growth
Rates**

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, three segments of demand were identified for subject lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following average annual compounded market-segment growth rates.



FIGURE 5-8 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

Market Segment	Annual Growth Rate					
	2016	2017	2018	2019	2020	2021
Commercial	1.5 %	1.5 %	1.5 %	1.0 %	0.5 %	0.5 %
Leisure	1.5	1.5	1.0	0.5	0.0	0.0
Meeting and Group	1.0	1.0	0.5	0.5	0.0	0.0
Extended-Stay	1.0	1.5	1.0	1.0	0.5	0.5
Base Demand Growth	1.4 %	1.4 %	1.1 %	0.7 %	0.2 %	0.2 %

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room-night demand.

Commercial Segment

Commercial travel in the Davis market is generated by the scholars and personnel related to UC Davis and the corporate base located in the Research Park area of the city, as well as government-related demand. Visiting scholars, researchers, and staff related to UC Davis generate a substantial amount of commercial demand in the area. Local companies such as Mori Seiki and Schilling Robotics also generate demand in this segment. Government lodging demand is mostly generated by state and federal government agencies.

Leisure Segment

For the subject market, leisure demand is highly correlated with visitation to UC Davis, as well as travelers passing through the area on Interstate 80 en route to other destinations in the region, including the city of Sacramento, other small towns in the proximity, and numerous national parks, forests, and recreational areas. This segment includes visitation during the peak event periods during the spring, summer, and early fall. The purpose of the visit may include attendance at a university-sponsored symposium or event, school visits during major events (e.g., Picnic Day, commencement, orientation, the beginning of the year, etc.), and prospective students and their families. Future campus facilities, such as the Ann E. Pitzer Center and the Jan Shrem & Maria Manetti Shrem Museum of Art, should attract more campus visitation in the future.

Meeting and Group Segment

Because the city of Davis does not currently offer a conference facility, most of this demand is generated by athletic competitions, university-hosted events and programs, and government groups. The Mondavi Center for Performing Arts and the UC Davis Conference Center, located on the UC Davis campus, are two primary venues that host a variety of groups. Future campus facilities, such as the Ann E.



Pitzer Center and the Jan Shrem & Maria Manetti Shrem Museum of Art, should attract additional demand related to concerts, events, and programs.

Extended-Stay Segment

Most of the extended-stay hotels offer similar amenities as limited-service hotels, which include a dining area, a business center, a guest laundry room, a market pantry, and a fitness center. However, extended-stay hotels normally feature all suites with a kitchen, and some hotels also offer a sports court, utensil rental services, grocery shopping services, and a complimentary evening reception besides a breakfast buffet. In the hotel industry, extended-stay demand is generally defined as individuals who require accommodations for more than five nights. Typically, the length of stay ranges from 10 to 14 nights, but can stretch to a month or more. The three principal categories of extended-stay demand are business-related (typically associated with long-term projects), family-oriented, and relocation demand. Extended-stay patrons usually prefer hotels located near shopping centers, restaurants, entertainment venues, and service-retail uses such as grocery stores, dry cleaners, and fueling stations. Extended-stay demand tends to trend in line with an area’s corporate expansion and/or population growth; commercial growth has a direct correlation on longer-term training activities that may be occurring in the area, while changes in population typically support related relocation demand. Large-scale construction projects, prevalent in growing metropolitan areas, also generate significant levels of extended-stay demand.

Extended-stay travel in the Davis market is generated by visiting scholars and researchers at UC Davis and visiting employees or representative of the local companies. Moreover, relocations and students awaiting housing assignments also generate a portion of the demand in this segment. The accommodated demand within this segment is currently minimal within the Davis market because the majority of the hotel inventory in Davis cannot accommodate extended-stay needs. Demand within this segment is forecast to increase modestly through our forecast period.

Accommodated Demand and Market-wide Occupancy

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.



FIGURE 5-9 FORECAST OF MARKET OCCUPANCY

	2016	2017	2018	2019	2020	2021
Commercial						
Base Demand	55,042	55,867	56,705	57,273	57,559	57,847
Total Demand	55,042	55,867	56,705	57,273	57,559	57,847
Growth Rate	1.5 %	1.5 %	1.5 %	1.0 %	0.5 %	0.5 %
Leisure						
Base Demand	50,287	51,042	51,552	51,810	51,810	51,810
Total Demand	50,287	51,042	51,552	51,810	51,810	51,810
Growth Rate	1.5 %	1.5 %	1.0 %	0.5 %	0.0 %	0.0 %
Meeting and Group						
Base Demand	29,091	29,382	29,529	29,676	29,676	29,676
Total Demand	29,091	29,382	29,529	29,676	29,676	29,676
Growth Rate	1.0 %	1.0 %	0.5 %	0.5 %	0.0 %	0.0 %
Extended-Stay						
Base Demand	3,797	3,854	3,892	3,931	3,951	3,971
Total Demand	3,797	3,854	3,892	3,931	3,951	3,971
Growth Rate	1.0 %	1.5 %	1.0 %	1.0 %	0.5 %	0.5 %
Totals						
Base Demand	138,217	140,145	141,679	142,690	142,996	143,304
Total Demand	138,217	140,145	141,679	142,690	142,996	143,304
Overall Demand Growth	1.4 %	1.4 %	1.1 %	0.7 %	0.2 %	0.2 %
Market Mix						
Commercial	39.8 %	39.9 %	40.0 %	40.1 %	40.3 %	40.4 %
Leisure	36.4	36.4	36.4	36.3	36.2	36.2
Meeting and Group	21.0	21.0	20.8	20.8	20.8	20.7
Extended-Stay	2.7	2.7	2.7	2.8	2.8	2.8
Existing Hotel Supply	506	506	506	506	506	506
Available Rooms per Night	184,690	184,690	184,690	184,690	184,690	184,690
Nights per Year	365	365	365	365	365	365
Total Supply	506	506	506	506	506	506
Rooms Supply Growth	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	74.8 %	75.9 %	76.7 %	77.3 %	77.4 %	77.6 %



Scenario II

FIGURE 5-9 HISTORICAL AND FORECAST MARKET TRENDS – SCENARIO II: WITH PROPOSED EMBASSY SUITES

Year	Occupied Room Nights	Change	Room Supply	Available Room Nights	Change	Occupancy	Change	Average Rate	Change	RevPAR	Change
2013	114,157	—	455	166,075	—	68.7 %	—	\$111.63	—	\$76.74	—
2014	126,903	11.2 %	498	181,892	9.5 %	69.8	1.5 %	115.78	3.7 %	\$80.78	5.3 %
2015	136,335	7.4	506	184,690	1.5	73.8	5.8	121.97	5.4	\$90.04	11.5
Calendar Year Forecast											
2016	138,217	1.4 % *	506	184,690	0.0 % *	74.8 %	1.4 % *	\$129.29	6.0 % *	\$96.76	7.5 % *
2017	146,672	6.1	550	200,794	8.7	73.0	-2.4	135.76	5.0	\$99.17	2.5
2018	161,293	10.0	638	232,870	16.0	69.3	-5.2	141.19	4.0	\$97.79	(1.4)
2019	162,336	0.6	638	232,870	0.0	69.7	0.6	145.42	3.0	\$101.38	3.7
2020	162,648	0.2	638	232,870	0.0	69.8	0.2	149.79	3.0	\$104.62	3.2

* Percent change compared to prior calendar year.

In Scenario II, both base demand and average rate are expected to grow at the same rates as Scenario I. However, latent demand will be introduced due to the new supply.

Latent Demand

A table in Scenario I illustrated the accommodated-room-night demand in the subject market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room-night demand that has not been realized by the existing competitive supply, further classified as either unaccommodated demand or induced demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated-room-night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future, and it is therefore necessary to quantify this demand.

Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 70%, the market may sell out certain



nights during the year. To evaluate the incidence of unaccommodated demand in the market, we have reviewed the average occupancy by the night of the week for the past twelve months for the competitive set.

The following table presents our estimate of unaccommodated demand in the subject market.

FIGURE 5-10 UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Commercial	54,228	1.1 %	600
Leisure	49,544	1.9	917
Meeting and Group	28,803	5.3	1,518
Extended-Stay	3,759	0.0	0
Total	136,335	2.2 %	3,036

Our interviews with market participants found that the market generally sells out on Friday and Saturday nights during the peak travel season, as well as sporadically within other periods throughout the year. Special events, such as Picnic Day and graduations, regularly sell out competitive hotels. A portion of this demand, which is currently turned away, should return to the market concurrent with the supply increase.

Accordingly, we have forecast unaccommodated demand equivalent to 2.2% of the base-year demand, resulting from our analysis of monthly and weekly peak demand and sell-out trends.

Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. The following table summarizes our estimate of induced demand, driven by the opening of the proposed Embassy Suites by Hilton.



FIGURE 5-11 INDUCED DEMAND CALCULATION

Market Segment	Induced Room Nights					
	2016	2017	2018	2019	2020	2021
Commercial	0	800	2,400	2,400	2,400	2,400
Leisure	0	800	2,400	2,400	2,400	2,400
Meeting and Group	0	3,200	9,600	9,600	9,600	9,600
Extended-Stay	0	0	0	0	0	0
Total	0	4,800	14,400	14,400	14,400	14,400

The opening of the proposed Embassy Suites by Hilton should induce considerable demand into this market. This hotel’s conference-center component will include approximately 14,000 square feet of meeting space. The proposed hotel should draw new groups to this market, as these groups with planned meetings would have likely chosen an alternate destination if it were not for the availability of the new facility. Accordingly, we have incorporated 14,400 room nights (rounded) into our analysis, phased in over an appropriate ramp-up period.

Accommodated Demand and Market-wide Occupancy

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.



FIGURE 5-12 FORECAST OF MARKET OCCUPANCY

	2016	2017	2018	2019	2020	2021
Commercial						
Base Demand	55,042	55,867	56,705	57,273	57,559	57,847
Total Demand	56,202	58,246	61,501	62,080	62,373	62,666
Growth Rate	3.6 %	3.6 %	5.6 %	0.9 %	0.5 %	0.5 %
Leisure						
Base Demand	50,287	51,042	51,552	51,810	51,810	51,810
Total Demand	51,889	53,868	56,794	57,060	57,060	57,060
Growth Rate	4.7 %	3.8 %	5.4 %	0.5 %	0.0 %	0.0 %
Meeting and Group						
Base Demand	29,091	29,382	29,529	29,676	29,676	29,676
Total Demand	31,432	35,746	43,905	44,064	44,064	44,064
Growth Rate	9.1 %	13.7 %	22.8 %	0.4 %	0.0 %	0.0 %
Extended-Stay						
Base Demand	3,797	3,854	3,892	3,931	3,951	3,971
Total Demand	3,797	3,854	3,892	3,931	3,951	3,971
Growth Rate	1.0 %	1.5 %	1.0 %	1.0 %	0.5 %	0.5 %
Totals						
Base Demand	138,217	140,145	141,679	142,690	142,996	143,304
Total Demand	143,320	151,713	166,093	167,136	167,448	167,762
Overall Demand Growth	1.4 %	7.3 %	12.0 %	0.6 %	0.2 %	0.2 %
Market Mix						
Commercial	39.2 %	38.4 %	37.0 %	37.1 %	37.2 %	37.4 %
Leisure	36.2	35.5	34.2	34.1	34.1	34.0
Meeting and Group	21.9	23.6	26.4	26.4	26.3	26.3
Extended-Stay	2.6	2.5	2.3	2.4	2.4	2.4
Existing Hotel Supply						
Proposed Hotels	506	506	506	506	506	506
Proposed Embassy Suites	¹	44	132	132	132	132
Available Rooms per Night	184,690	200,794	232,870	232,870	232,870	232,870
Nights per Year	365	365	365	365	365	365
Total Supply	506	550	638	638	638	638
Rooms Supply Growth	0.0 %	8.7 %	16.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	74.8 %	73.8 %	71.3 %	71.8 %	71.9 %	72.0 %

¹ Opening in September 2017, 132-room Proposed Embassy Suites



Scenario III

FIGURE 5-13 HISTORICAL AND FORECAST MARKET TRENDS – SCENARIO III: WITH PROPOSED EMBASSY SUITES AND 120-ROOM EXTENDED-STAY HOTEL

Year	Occupied Room Nights	Change	Room Supply	Available Room Nights	Change	Occupancy	Change	Average Rate	Change	RevPAR	Change
2013	114,157	—	455	166,075	—	68.7 %	—	\$111.63	—	\$76.74	—
2014	126,903	11.2 %	498	181,892	9.5 %	69.8	1.5 %	115.78	3.7 %	\$80.78	5.3 %
2015	136,335	7.4	506	184,690	1.5	73.8	5.8	121.97	5.4	\$90.04	11.5
Calendar Year Forecast											
2016	138,217	1.4 % *	506	184,690	0.0 % *	74.8 %	1.4 % *	\$129.29	6.0 % *	\$96.76	7.5 % *
2017	147,178	6.5	550	200,794	8.7	73.3	-2.1	135.76	5.0	\$99.51	2.8
2018	167,445	13.8	678	247,510	23.3	67.7	-7.7	137.11	1.0	\$92.76	(6.8)
2019	170,058	1.6	758	276,670	11.8	61.5	-9.1	139.86	2.0	\$85.96	(7.3)
2020	170,390	0.2	758	276,670	0.0	61.6	0.2	143.35	2.5	\$88.29	2.7

** Percent change compared to prior calendar year.*

Our base demand forecasts for Scenario III are the same as the Scenario II forecasts. However, the opening of an extended-stay product will allow the market to accommodate and absorb extended-stay demand, which has previously stayed outside of the subject market or settled for less desirable accommodations (e.g., lacking extended-stay amenities). Moreover, the pace of average rate growth is expected to slow due to the increased in available rooms; hotel operators are anticipated to slow the pace of rate growth in order to maintain occupancy levels.

Unaccommodated Demand

The following table presents our estimate of unaccommodated demand in Scenario III.



FIGURE 5-14 UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Commercial	54,228	3.7 %	2,008
Leisure	49,544	5.0	2,485
Meeting and Group	28,803	8.6	2,480
Extended-Stay	3,759	66.4	2,495
Total	136,335	6.9 %	9,469

Accordingly, we have forecast unaccommodated demand equivalent to 6.9% of the base-year demand, resulting from our analysis of monthly and weekly peak demand and sell-out trends. The considerable amount of unaccommodated extended-stay demand makes up the largest percentage in this scenario.

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.

Accommodated Demand and Market-wide Occupancy



FIGURE 5-15 FORECAST OF MARKET OCCUPANCY

	2016	2017	2018	2019	2020	2021
Commercial						
Base Demand	55,042	55,867	56,705	57,273	57,559	57,847
Unaccommodated Demand	2,494	2,531	2,569	2,595	2,608	2,621
Induced Demand	0	1,200	3,600	3,600	3,600	3,600
Total Demand	57,536	59,599	62,875	63,467	63,767	64,068
Growth Rate	6.1 %	3.6 %	5.5 %	0.9 %	0.5 %	0.5 %
Leisure						
Base Demand	50,287	51,042	51,552	51,810	51,810	51,810
Unaccommodated Demand	3,928	3,987	4,027	4,047	4,047	4,047
Induced Demand	0	1,200	3,600	3,600	3,600	3,600
Total Demand	54,216	56,229	59,179	59,457	59,457	59,457
Growth Rate	9.4 %	3.7 %	5.2 %	0.5 %	0.0 %	0.0 %
Meeting and Group						
Base Demand	29,091	29,382	29,529	29,676	29,676	29,676
Unaccommodated Demand	3,643	3,680	3,698	3,717	3,717	3,717
Induced Demand	0	4,000	12,000	12,000	12,000	12,000
Total Demand	32,734	37,061	45,227	45,393	45,393	45,393
Growth Rate	13.6 %	13.2 %	22.0 %	0.4 %	0.0 %	0.0 %
Extended-Stay						
Base Demand	3,797	3,854	3,892	3,931	3,951	3,971
Unaccommodated Demand	2,520	2,558	2,584	2,609	2,623	2,636
Total Demand	6,317	6,412	6,476	6,541	6,574	6,606
Growth Rate	68.0 %	1.5 %	1.0 %	1.0 %	0.5 %	0.5 %
Totals						
Base Demand	138,217	140,145	141,679	142,690	142,996	143,304
Unaccommodated Demand	12,586	12,756	12,878	12,968	12,994	13,020
Induced Demand	0	6,400	19,200	19,200	19,200	19,200
Total Demand	150,803	159,301	173,757	174,858	175,190	175,524
less: Residual Demand	12,586	10,523	1,512	0	0	0
Total Accommodated Demand	138,217	148,778	172,245	174,858	175,190	175,524
Overall Demand Growth	1.4 %	7.6 %	15.8 %	1.5 %	0.2 %	0.2 %
Market Mix						
Commercial	38.2 %	37.4 %	36.2 %	36.3 %	36.4 %	36.5 %
Leisure	36.0	35.3	34.1	34.0	33.9	33.9
Meeting and Group	21.7	23.3	26.0	26.0	25.9	25.9
Extended-Stay	4.2	4.0	3.7	3.7	3.8	3.8
Existing Hotel Supply	506	506	506	506	506	506
Proposed Hotels						
Proposed Embassy Suites	¹	44	132	132	132	132
Proposed Extended-Stay	²		40	120	120	120
Available Rooms per Night	184,690	200,794	247,510	276,670	276,670	276,670
Nights per Year	365	365	365	365	365	365
Total Supply	506	550	678	758	758	758
Rooms Supply Growth	0.0 %	8.7 %	23.3 %	11.8 %	0.0 %	0.0 %
Marketwide Occupancy	74.8 %	74.1 %	69.6 %	63.2 %	63.3 %	63.4 %

¹ Opening in September 2017, 132-room Proposed Embassy Suites

² Opening in September 2018, 120-room Proposed Extended-Stay Hotels



6. Impact Analysis

Conclusion of Impact

The following chart summarizes our conclusions of the anticipated base and incremental impact of the proposed Embassy Suites by Hilton and the proposed 120-room Extended-Stay Hotel, including the scenario reflecting no new additional hotel supply.

FIGURE 6-1 CONCLUSION OF BASE AND INCREMENTAL IMPACT

	2016	2017	2018	2019	2020	2021
Scenario 1 - without Proposed Hotel						
Occupancy	74.8%	75.9%	76.7%	77.3%	77.4%	77.6%
Average Rate	\$129.28	\$135.75	\$141.18	\$145.41	\$149.78	\$154.27
RevPAR	\$96.75	\$103.01	\$108.30	\$112.35	\$115.96	\$119.70
Total Available Rooms Nights	184,690	184,690	184,690	184,690	184,690	184,690
Total Revenue	\$17,869,372	\$19,024,538	\$20,002,071	\$20,749,202	\$21,417,513	\$22,107,484
Scenario 2 - with Embassy Suite						
Occupancy	74.8%	73.8%	71.3%	71.8%	71.9%	72.0%
Average Rate	\$129.29	\$135.76	\$141.19	\$145.42	\$149.79	\$154.28
RevPAR	\$96.76	\$100.25	\$100.70	\$104.37	\$107.71	\$111.14
Total Available Rooms Nights	184,690	200,794	232,870	232,870	232,870	232,870
Total Revenue	\$17,870,423	\$20,129,012	\$23,450,174	\$24,305,418	\$25,081,323	\$25,882,147
Scenario 3 - with both Embassy Suite and 120-room Extended Hotel						
Occupancy	74.8%	74.1%	69.6%	63.2%	63.3%	63.4%
Average Rate	129.29	135.76	137.11	139.86	143.35	147.65
RevPAR	\$96.76	\$100.59	\$95.42	\$88.39	\$90.77	\$93.67
Total Available Rooms Nights	184,690	200,794	265,870	276,670	276,670	276,670
Total Revenue	\$17,870,423	\$20,197,698	\$25,369,162	\$24,455,140	\$25,114,118	\$25,916,814
Forecast Difference - Scenario 1 vs 2						
Occupancy	0.0%	-2.0%	-5.4%	-5.5%	-5.5%	-5.6%
Average Rate	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
RevPAR	\$0.00	(\$2.76)	(\$7.60)	(\$7.97)	(\$8.26)	(\$8.56)
Available Rooms Nights	0	16,104	48,180	48,180	48,180	48,180
Percentage of Total Available Rooms Nights	0	8.7%	26.1%	26.1%	26.1%	26.1%
Total Revenue	\$0	\$1,104,474	\$3,448,104	\$3,556,216	\$3,663,810	\$3,774,663
Forecast Difference - Scenario 2 vs 3						
Occupancy	0.0%	0.3%	-1.7%	-8.6%	-8.6%	-8.6%
Average Rate	\$0.00	\$0.00	(\$4.07)	(\$5.57)	(\$6.43)	(\$6.63)
RevPAR	\$0.00	\$0.00	(\$5.28)	(\$15.98)	(\$16.93)	(\$17.47)
Available Rooms Nights	0	0	33,000	43,800	43,800	43,800
Percentage of Total Available Rooms Nights	0	0	14.2%	18.8%	18.8%	18.8%
Total Revenue	\$0	\$0	\$1,918,987	\$149,722	\$32,795	\$34,667
Forecast Difference - Scenario 1 vs 3						
Occupancy	0.0%	-1.8%	-7.1%	-14.1%	-14.1%	-14.1%
Average Rate	\$0.00	\$0.01	(\$4.06)	(\$5.56)	(\$6.42)	(\$6.62)
RevPAR	\$0.00	(\$2.42)	(\$12.88)	(\$23.96)	(\$25.19)	(\$26.03)
Available Rooms Nights	0	16,104	81,180	91,980	91,980	91,980
Percentage of Total Available Rooms Nights	0	8.7%	44.0%	49.8%	49.8%	49.8%
Total Revenue	\$0	\$1,173,160	\$5,367,091	\$3,705,938	\$3,696,605	\$3,809,330



Forecast of Occupancy and Average Rate

The following chart sets forth our forecast of occupancy and average rate under each of the three defined scenarios.

FIGURE 6-2 FORECAST OF OCCUPANCY AND AVERAGE RATE – SCENARIO I: NO ADDITIONAL NEW SUPPLY

	Historical (Estimated)			Projected					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Davis Submarket									
Occupancy	68.7 %	69.8 %	73.8 %	74.8 %	75.9 %	76.7 %	77.3 %	77.4 %	77.6 %
Change	—	1.5 %	5.8 %	1.4 %	1.4 %	1.1 %	0.7 %	0.2 %	0.2 %
Average Rate	\$111.63	\$115.78	\$121.97	\$129.28	\$135.75	\$141.18	\$145.41	\$149.78	\$154.27
Change	—	3.7 %	5.3 %	6.0 %	5.0 %	4.0 %	3.0 %	3.0 %	3.0 %
RevPAR	\$76.74	\$80.78	\$90.03	\$96.75	\$103.01	\$108.30	\$112.35	\$115.96	\$119.70
Change	—	5.3 %	11.5 %	7.5 %	6.5 %	5.1 %	3.7 %	3.2 %	3.2 %

FIGURE 6-3 TOTAL REVENUE – SCENARIO I: NO ADDITIONAL NEW SUPPLY

	2016	2017	2018	2019	2020	2021
Scenario 1 - without Proposed Hotel						
Occupancy	74.8%	75.9%	76.7%	77.3%	77.4%	77.6%
Average Rate	\$129.28	\$135.75	\$141.18	\$145.41	\$149.78	\$154.27
RevPAR	\$96.75	\$103.01	\$108.30	\$112.35	\$115.96	\$119.70
Total Available Rooms Nights	184,690	184,690	184,690	184,690	184,690	184,690
Total Revenue	\$17,869,372	\$19,024,538	\$20,002,071	\$20,749,202	\$21,417,513	\$22,107,484

With no new supply addition, the market is expected to achieve a RevPAR level of nearly \$120 by 2021. Total revenue generated by the subject market is expected to exceed \$22 million annually. Under this scenario, the market would clearly exceed historical occupancy and occupied-room-night levels. The information and data revealed by the Scenario I analysis indicates that the market has capacity for a new hotel.



FIGURE 6-4 FORECAST OF OCCUPANCY AND AVERAGE RATE – SCENARIO II: PROPOSED EMBASSY SUITES

	Historical (Estimated)			Projected					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Davis Submarket									
Occupancy	68.7 %	69.8 %	73.8 %	74.8 %	73.8 %	71.3 %	71.8 %	71.9 %	72.0 %
Change	—	1.5 %	5.8 %	1.4 %	(1.3) %	(3.4) %	0.6 %	0.2 %	0.2 %
Average Rate	\$111.63	\$115.78	\$121.97	\$129.29	\$135.76	\$141.19	\$145.42	\$149.79	\$154.28
Change	—	3.7 %	5.4 %	6.0 %	5.0 %	4.0 %	3.0 %	3.0 %	3.0 %
RevPAR	\$76.74	\$80.78	\$90.04	\$96.76	\$100.25	\$100.70	\$104.37	\$107.71	\$111.14
Change	—	5.3 %	11.5 %	7.5 %	3.6 %	0.5 %	3.6 %	3.2 %	3.2 %

FIGURE 6-5 IMPACT ANALYSIS – SCENARIO II: PROPOSED EMBASSY SUITES

	2016	2017	2018	2019	2020	2021
Scenario 1 - without Proposed Hotel						
Occupancy	74.8%	75.9%	76.7%	77.3%	77.4%	77.6%
Average Rate	\$129.28	\$135.75	\$141.18	\$145.41	\$149.78	\$154.27
RevPAR	\$96.75	\$103.01	\$108.30	\$112.35	\$115.96	\$119.70
Total Available Rooms Nights	184,690	184,690	184,690	184,690	184,690	184,690
Total Revenue	\$17,869,372	\$19,024,538	\$20,002,071	\$20,749,202	\$21,417,513	\$22,107,484
Scenario 2 - with Embassy Suite						
Occupancy	74.8%	73.8%	71.3%	71.8%	71.9%	72.0%
Average Rate	\$129.29	\$135.76	\$141.19	\$145.42	\$149.79	\$154.28
RevPAR	\$96.76	\$100.25	\$100.70	\$104.37	\$107.71	\$111.14
Total Available Rooms Nights	184,690	200,794	232,870	232,870	232,870	232,870
Total Revenue	\$17,870,423	\$20,129,012	\$23,450,174	\$24,305,418	\$25,081,323	\$25,882,147
Forecast Difference - Scenario 1 vs 2						
Occupancy	0.0%	-2.0%	-5.4%	-5.5%	-5.5%	-5.6%
Average Rate	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
RevPAR	\$0.00	(\$2.76)	(\$7.60)	(\$7.97)	(\$8.26)	(\$8.56)
Available Rooms Nights	0	16,104	48,180	48,180	48,180	48,180
Percentage of Total Available Rooms Nights	0	8.7%	26.1%	26.1%	26.1%	26.1%
Total Revenue	\$0	\$1,104,474	\$3,448,104	\$3,556,216	\$3,663,810	\$3,774,663

The entry of the proposed Embassy Suites by Hilton is expected to cause some occupancy dilution in the overall market. Our forecasts for this scenario indicate that market-wide occupancy will decrease to 72% by 2021. With the opening of a new, high-quality, branded hotel, market-wide average rates could potentially increase. However, the subject market will accommodate more group demand after the opening of the Embassy Suites by Hilton. Therefore, the potential increase in rates could be mitigated by the addition of price-sensitive groups. Nevertheless, RevPAR is forecast to reach the low \$110s by 2021. With the 26% increase in supply, total revenue for the subject market is expected to increase by approximately \$3.78 million in 2021 or approximately \$15.5 million in five years.



FIGURE 6-6 FORECAST OF OCCUPANCY AND AVERAGE RATE – SCENARIO III: PROPOSED EMBASSY SUITES AND 120-ROOM EXTENDED-STAY HOTEL

	Historical (Estimated)			Projected					
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Davis Submarket									
Occupancy	68.7 %	69.8 %	73.8 %	74.8 %	74.1 %	69.6 %	63.2 %	63.3 %	63.4 %
Change	—	1.5 %	5.8 %	1.4 %	(1.0) %	(6.1) %	(9.2) %	0.2 %	0.2 %
Average Rate	\$111.63	\$115.78	\$121.97	\$129.29	\$135.76	\$137.11	\$139.86	\$143.35	\$147.65
Change	—	3.7 %	5.4 %	6.0 %	5.0 %	1.0 %	2.0 %	2.5 %	3.0 %
RevPAR	\$76.74	\$80.78	\$90.04	\$96.76	\$100.59	\$95.42	\$88.39	\$90.77	\$93.67
Change	—	5.3 %	11.5 %	7.5 %	4.0 %	(5.1) %	(7.4) %	2.7 %	3.2 %



FIGURE 6-7 IMPACT ANALYSIS – SCENARIO III: PROPOSED EMBASSY SUITES AND 120-ROOM EXTENDED-STAY HOTEL

	2016	2017	2018	2019	2020	2021
Scenario 1 - without Proposed Hotel						
Occupancy	74.8%	75.9%	76.7%	77.3%	77.4%	77.6%
Average Rate	\$129.28	\$135.75	\$141.18	\$145.41	\$149.78	\$154.27
RevPAR	\$96.75	\$103.01	\$108.30	\$112.35	\$115.96	\$119.70
Total Available Rooms Nights	184,690	184,690	184,690	184,690	184,690	184,690
Total Revenue	\$17,869,372	\$19,024,538	\$20,002,071	\$20,749,202	\$21,417,513	\$22,107,484
Scenario 2 - with Embassy Suite						
Occupancy	74.8%	73.8%	71.3%	71.8%	71.9%	72.0%
Average Rate	\$129.29	\$135.76	\$141.19	\$145.42	\$149.79	\$154.28
RevPAR	\$96.76	\$100.25	\$100.70	\$104.37	\$107.71	\$111.14
Total Available Rooms Nights	184,690	200,794	232,870	232,870	232,870	232,870
Total Revenue	\$17,870,423	\$20,129,012	\$23,450,174	\$24,305,418	\$25,081,323	\$25,882,147
Scenario 3 - with both Embassy Suite and 120-room Extended Hotel						
Occupancy	74.8%	74.1%	69.6%	63.2%	63.3%	63.4%
Average Rate	129.29	135.76	137.11	139.86	143.35	147.65
RevPAR	\$96.76	\$100.59	\$95.42	\$88.39	\$90.77	\$93.67
Total Available Rooms Nights	184,690	200,794	265,870	276,670	276,670	276,670
Total Revenue	\$17,870,423	\$20,197,698	\$25,369,162	\$24,455,140	\$25,114,118	\$25,916,814
Forecast Difference - Scenario 2 vs 3						
Occupancy	0.0%	0.3%	-1.7%	-8.6%	-8.6%	-8.6%
Average Rate	\$0.00	\$0.00	(\$4.07)	(\$5.57)	(\$6.43)	(\$6.63)
RevPAR	\$0.00	\$0.00	(\$5.28)	(\$15.98)	(\$16.93)	(\$17.47)
Available Rooms Nights	0	0	33,000	43,800	43,800	43,800
Percentage of Total Available Rooms Nights	0	0	14.2%	18.8%	18.8%	18.8%
Total Revenue	\$0	\$0	\$1,918,987	\$149,722	\$32,795	\$34,667
Forecast Difference - Scenario 1 vs 3						
Occupancy	0.0%	-1.8%	-7.1%	-14.1%	-14.1%	-14.1%
Average Rate	\$0.00	\$0.01	(\$4.06)	(\$5.56)	(\$6.42)	(\$6.62)
RevPAR	\$0.00	(\$2.42)	(\$12.88)	(\$23.96)	(\$25.19)	(\$26.03)
Available Rooms Nights	0	16,104	81,180	91,980	91,980	91,980
Percentage of Total Available Rooms Nights	0	8.7%	44.0%	49.8%	49.8%	49.8%
Total Revenue	\$0	\$1,173,160	\$5,367,091	\$3,705,938	\$3,696,605	\$3,809,330

The opening of an Extended-Stay Hotel is expected to further affect market-wide occupancy levels. Our forecasts for this scenario indicate that market-wide occupancy will be negatively affected in 2018 and 2019, but will likely stabilize in the mid-60s by 2021. Average rate will grow at a slower pace compared to Scenario II because of the entrance of the additional limited-service new supply and the competition that it will create within the market. RevPAR is forecast to stabilize in mid-\$90s by 2021. Comparing Scenarios II & III, total revenue will increase approximately \$2.1 million in five years. Comparing Scenarios I & III, total revenue will increase approximately \$18 million in five years. Based on the stabilized occupancy in Scenario III, we have concluded that it would be four to five years before the market could absorb additional new supply. Therefore, we have introduced only two new hotels in our study.



7. Proposed Extended-Stay Project Analysis

In the following sections, we will discuss the strengths and weaknesses of each proposed extended-stay hotel. This summary is intended to complement the peer review of the market summary submitted by the applicant for each of the two proposals, which is attached as an appendix to this analysis.

Hyatt House (Cowell Boulevard)

HYATT HOUSE STRENGTHS AND WEAKNESSES

Strengths

- Proximity to Downtown Davis
- Unique product offering of both Den Rooms and Guest Suites, allowing the flexibility to accommodate both business transient and extended-stay demand
- Development team has proof and record of successful hotel development experience in Davis
- Brand complement to the existing Hyatt Place

Weaknesses

- Extended-stay hotels are traditionally located within walking distance of retail shops and restaurants, and the site for this project is not.
- The site does not have direct access to the highway

Hyatt House is an upscale, extended-stay brand by Hyatt Hotels Corporation. Hyatt House properties are mostly located in airport and suburban destinations, offering 125 to 200 suites per property. The Hyatt House features contemporary, residentially inspired studios, one- and two-bedroom kitchen suites, and den-style guestrooms. The brand offers a variety of amenities and services including indoor and outdoor social spaces, a lounge that resembles the living space of today's modern home (with an adjacent H BAR and Social Sectional), and other multi-purpose areas. The hotel's happy hour, with extended hours and premium wine, beer, cocktails, and light fare for purchase, provides guests a more extensive food and beverage option than the traditional extended-stay hotel. As of mid-year 2015, there were 62 Hyatt House properties (8,740 hotel rooms) in operation.



FIGURE 7-1 - HYATT HOUSE HISTORICAL PERFORMANCE

	Occupancy	ADR	RevPAR
2012	77.8%	\$119.30	\$92.87
2013	79.5%	\$123.90	\$98.52
2014	79.3%	\$132.92	\$105.41

Sourch: Hyatt Development

Residence Inn by Marriott (Mace Boulevard and 2nd Street

RESIDENCE INN BY MARRIOTT STRENGTHS AND WEAKNESSES

Strengths

One of the strongest extended-stay brands backed by one of the largest hotel companies in the world

The location will allow the hotel to benefit from multiple demand sources, including UC Davis, local companies, and highway travelers

Within walking distance of retail shops and restaurants, and there is available space for future complementary development

Weaknesses

Product is 100% extended-stay focus

Hotel development has not traditionally been the focus of this development team

Residence Inn by Marriott is Marriott’s upscale, extended-stay, all-suite product. Jack DeBoer founded Residence Inn by Marriott in 1973 as the first extended-stay hotel concept aimed at business travelers staying for multiple nights. A typical Residence Inn by Marriott property contains a breakfast dining area (where a complimentary evening social is also held), a business center or lobby workstation, a market pantry, a guest laundry room, a fitness room, a swimming pool, and meeting space. Many hotels also offer an outdoor sports court. As of year-end 2015, there were 697 Residence Inn by Marriott hotels (85,129 rooms) in the U.S. Primary competitors of Residence Inn by Marriott include Homewood Suites by Hilton, Hyatt House, and Staybridge Suites, among others.



FIGURE 7-2– RESIDENCE INN BY MARRIOTT HISTORICAL PERFORMANCE

	Occupancy	ADR	RevPAR
2008	75.4%	\$125.62	\$94.72
2009	70.7%	\$113.86	\$80.50
2010	75.3%	\$112.06	\$84.38
2011	76.8%	\$120.00	\$92.16
2012	77.0%	\$120.81	\$93.02
2013	77.4%	\$125.04	\$96.78
2014	79.3%	\$130.82	\$103.74

Sourch: Marriott Hotel Development

Conclusion

The study concludes that there is some degree of new hotel development opportunity in Davis. Occupancy levels are exceeding historical highs, and average rates have continued to increase year-over-year. The success of the Hyatt Place hotel further exemplifies this market's need for quality branded hotels that can complement the needs of the University and its patrons, including visitors, students, employees, and others. The growth of the UC Davis has been steady, and future plans call for increased student enrollment and facility development, all factors that bode well for hotel performance. The introduction of a conference hotel (i.e., the proposed Embassy Suites by Hilton) will induce new demand to this market, which as of now, continues to be one of the most significant questions surrounding hotel development—what new demand sources are coming to Davis? Other challenges posed include the heavily seasonal nature of Davis and high barriers to entry limiting commercial growth. The cost of living, especially housing, is yet another factor compressing new demand growth. Interviews with market participants also revealed that increases in supply in surrounding markets will also inevitably affect Davis, although most agreed that that demand is related mostly to groups choosing locations outside of the Sacramento area.

Based on the findings of this study, the near-term development of a conference hotel facility with the addition of an extended stay hotel to be developed shortly thereafter poses the option that would be most beneficial to visitors, the City of Davis, other hotels in the market, and the overall community. The viability of a second extended-stay facility within the same development timeframe would potentially compress RevPAR levels enough to question the likeliness of total revenue growth. Our opinion concludes that the addition of another hotel, specifically another extended-stay facility, would not benefit the market for another four to five years after the initial extended-stay hotel has opened.



8. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a market study of the proposed hotels; this is not an appraisal report.
2. This report is to be used in whole and not in part.
3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would affect the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
5. We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. We are not qualified to detect hazardous substances and urge the client to retain an expert in this field if desired.
6. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed the proposed hotel would be designed and constructed to be in full compliance with the ADA.
7. We have made no survey of the site, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate will be within the boundaries of the property described, and that no encroachment will exist.
8. All information, financial operating statements, estimates, and opinions obtained from parties not employed by TS Worldwide, LLC are assumed true and correct. We can assume no liability resulting from misinformation.
9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the proposed projects.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including the appropriate liquor license if applicable), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.



11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court because of this analysis without previous arrangements, and shall do so only when our standard per-diem fees and travel costs have been paid prior to the appearance.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's onsite management has a direct effect on a property's economic viability. Any departure from this assumption may have a significant impact on the projected operating results.
17. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
18. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
19. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
20. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide, LLC as employees, rather than as individuals.



DRAFT DOCUMENT

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REVIEW

Market Demand Analysis and Impact Study Review

DAVIS, CALIFORNIA

SUBMITTED TO:

Ms. Katherine Hess
City of Davis California
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Davis, California 95616

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PREPARED BY:

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March 10, 2016

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Re: Market Demand Analysis and Impact Study Review
Davis, California
HVS Reference: 2015021927

Dear Ms. Hess:

Pursuant to your request, we herewith submit our review of the above-captioned reports. This review is intended for the use of the City of Davis only and may not be relied upon by other parties.

We hereby certify that we have no undisclosed interest in the properties, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,
TS Worldwide, LLC

A handwritten signature in cursive script, appearing to read 'Kasia Russell'.

Kasia M. Russell, MAI, Managing Director, Senior Partner
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1. Nature of the Assignment

Identification of the Properties

This review addresses two properties: the Residence Inn by Marriott, proposed for development on a site located in the southwest quadrant of the intersection formed by Mace Boulevard and 2nd Street, and the proposed Hyatt House hotel, slated for development at 2750 Cowell Boulevard in Davis, California.

Identification of the Client and the Intended User

Ms. Hess of the City of Davis engaged the preparation of this technical appraisal review; the City of Davis is the client. This report has been prepared for the sole use of assisting in interpretation and understanding of the Impact Analysis completed by PKF on April 10, 2015 and the Market Demand Analysis completed by the same firm on June 17, 2015. The City of Davis was not the original client for these two studies; they were provided to the City of Davis by development representatives of each of the respective projects.

Client’s Intended Use

The intended use of this report is to aid in the client’s interpretation and understanding of the findings concluded by the two aforementioned studies.

Pertinent Dates

The effective date of this review is December 15, 2015. The dates of the reports under review are April 10, 2015 for the proposed Residence Inn by Marriott and June 17, 2015 for the proposed Hyatt House.

Purpose of the Review

As this is a technical review, the reviewer will not include opinions related to the feasibility or probability of the proposed hotel developments. This review will highlight strengths and weaknesses of the studies from a high-level perspective. This review is a complement to the market analysis completed by HVS in March of 2016, which provides greater analysis of the Davis hotel market and proposed projects.

Scope of Work

The scope of work encompasses the necessary analysis to prepare a technical review in accordance with the intended use.



2. Executive Summary

The Impact Analysis for the proposed Residence Inn by Marriott was completed by PKF Consulting USA – San Francisco on April 10, 2015. The findings of the proposed Residence Inn by Marriott impact study are generally reasonable but ill supported and explained. The report lacks major components, such as a site analysis or project discussions, which could be owing to the abbreviated format of the report. Furthermore, the study does not properly account for all of the potential new supply entering the market, most notably the proposed Hyatt House hotel. A defined scope of work at the beginning of the report would assist the reader in understanding what the goals of the assignment were.

The Market Demand Analysis for a proposed Hyatt House hotel in Davis has useful and accurate information. However, the concluded projections appear slightly aggressive but not entirely unreasonable. Similar to the Residence Inn by Marriott study, it lacks sufficient support and explanation, which could be attributed to the abbreviated nature of the report.



3. Market Study Reviews

**Impact Analysis –
Proposed Residence
Inn by Marriott (Mace
Boulevard and 2nd
Street)**

The Impact Analysis for the proposed Residence Inn by Marriott was completed by PKF Consulting USA – San Francisco on April 10, 2015. The five-page analysis is presented in an abbreviated fashion with generally little support or detailed explanation for the conclusions. There is no defined scope of work presented in the study, and the numerical conclusions of occupancy, average daily rate, and occupancy impact are not mathematically supported or explained to the reader. Due to the abbreviated fashion of the report, some components such as an assessment of the site were not included, while the Proposed Hyatt House report included such components.

The study’s summary of the Davis lodging market appears accurate and up-to-date. However, it failed to discuss the nearby submarkets, such as Winters and Woodland and related new supply activities, which potentially affect the Davis lodging market. This portion of the report discusses historical occupancy and average rate patterns for 2014, but does not discuss trends prior to 2014. The year-to-date period through February 2015 is also discussed, including the impact of the Hyatt Place guestroom expansion on market-wide available room nights and occupancy. The study acknowledges the significant increases across all lodging metrics; however, no specific explanation or support for why the market is doing so well, aside from overall economic growth, is provided. The potential benefit from two innovation parks is mentioned, however, one of the proposed projects has been placed on hold while the Mace Ranch project will not be scheduled for voter consideration prior to November 2016. It may be difficult to attribute demand growth for the market with projects yet to be approved by voters, also making it difficult to determine a development timeline.

With respect to new supply, the study rightly acknowledges that only one new hotel has been developed in Davis since 2000. The Hyatt place opened in 2010 and was expanded in 2014. The proposed Embassy Suites development is introduced and two other projects related to the innovation and technology centers are mentioned, but the latter two projects are considered highly speculative and thus were not considered in the projection of stabilized occupancy. In other words, the study’s projections of stabilized occupancy and average rate only consider the addition of two new hotels; the Embassy Suites was assumed to open on January 1, 2017, and the proposed Residence Inn by Marriott was expected to open on January 1, 2018. The assumed opening dates for these two hotels would be considered reasonable given the date of the impact study.



The core of the study is the projections of market-wide occupancy with the addition of the proposed Residence Inn by Marriott and without it. Our understanding is that both scenarios reflect the opening of the 132-unit Embassy Suites. The study suggests that the opening of the two new hotels will induce demand¹ to the market and satisfy unaccommodated demand² in the market, which is reasonable, but no further explanation or justification is provided. Under both scenarios, the market stabilizes at an occupancy level of 70%, which necessitates further explanation that is not provided. The total numerical impact on occupancy is presented as well, with little qualitative and quantitative support. Moreover, the study failed to mention the anticipated supply changes in the nearby markets and the potential impacts.

The next portion of the study analyzes the impact that the opening of the proposed Residence Inn by Marriott would have on the other eleven hotels in Davis from an occupancy perspective. The figures again seem reasonable, but the lack of qualitative and quantitative support makes it challenging to understand in full the reasoning behind these figures.

Lastly, a qualitative statement regarding the impact of new supply on market-wide average rates was made noting that adding high quality, nationally branded hotels to Davis will benefit the market as a whole. We consider this a reasonable assumption, especially in a market like Davis, where the supply of existing hotels is somewhat static and of lower quality.

In conclusion, the findings of the proposed Residence Inn by Marriott impact study are generally reasonable but ill supported and explained. The report lacks of major components, such as site analysis or project discussions. The report's abbreviated format may be the reason for lack of detailed information, but without a defined scope of work or methodology presented, it is difficult for the reader to discern

¹ Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

² Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 70%, the market may sell out certain nights during the year.



**Market Demand
Analysis – Proposed
Hyatt House (2750
Cowell Boulevard)**

what information should be included in the study. Furthermore, the study does not properly account for all of the potential new supply entering the market, most notably the proposed Hyatt House hotel.

The Market Demand Analysis for the proposed Hyatt House was completed by PKF Consulting USA – San Francisco on June 17, 2015. The 22-page analysis includes a clear outline regarding the purpose of the study, as well as the methodology used in the report. All findings were reported in a summarized fashion.

Given the delineated sections of this study, our review will comment on the findings of each section.

SITE DESCRIPTION

The proposed Hyatt House site is well described as it pertains to bordering land uses, visibility, and access. Visibility is described as “excellent” and accessibility is deemed “very good”; however, on page 6, the access described in the chart format is noted as “excellent.” Based on the report’s description of access, it appears that the site is not conveniently located near an off-ramp and is somewhat cumbersome to access from the Richards and Mace interchanges. Visibility, however, is excellent, adjacent to Interstate 80. Additionally, the report describes the uses within the local neighborhood; however, the neighborhood boundaries are not defined. Clear pictures and maps help delineate the site and its location.

PROPOSED HOTEL DEVELOPMENT

Based on the information provided to the consultant, the description of the proposed improvements appear well described, appropriate for the Davis market, and consistent with similar type properties developed in the greater northern California region. In this section, an estimated opening date of January 1, 2017 is provided, which seems optimistic given the development stage of the project and that a hearing with the City has yet to be scheduled. Limited-service hotels of this type typically range from 12–18 months for construction.

LOCAL AREA ECONOMIC HIGHLIGHTS

Primary demand generators for the City of Davis are described in this section of the report, including UC Davis, DMG MORI USA, and Schilling Robotics, LLC. The majority of the description falls on UC Davis appropriately, as it supplies the market with the largest portion of room-night demand. Description of enrollment trends and new school initiatives help support assumptions related to demand trends that are made later in the study.



Three potential new demand generators are also discussed in greater detail, including the Nishi Gateway Innovation District, Mace Ranch Innovation Center (MRIC), and Panattoni Project; however, challenges associated with each of these projects are not intimately described. Reportedly, the Nishi project and the MRIC project will require voter approval, while no application has been submitted for the Panattoni Project. Furthermore, it is not clearly stated whether stabilized occupancy and average daily rates for this market take into account that these projects will be developed or not. The study does note that, if approved by voters, the projects could open as early as 2018, which is deemed highly unlikely given the uncertainties related to the projects. For instance, the Nishi project has extensive infrastructure obligations prior to commencement of building construction and an application for building permits will not likely to be reviewed prior to 2020.

HOTEL MARKET ANALYSIS

Generally, the description of existing hotel supply in Davis, demand generators, and additions to supply are well described. Based on the date that this study was completed, the timing for additions of new supply (Embassy Suites, Residence Inn by Marriott, and Hyatt House) appear appropriate. In this section of the report, a comment pertaining to the ratio of guestrooms to meeting space at the proposed Embassy Suites is made. The Embassy Suites is expected to have significantly oversized meeting space relative to its room count, creating “overflow” demand for area hotels, especially for the proposed Hyatt House. Although this is not an unreasonable assumption to make, there are challenges that exist with type of arrangement that are not described to the reader, including the inefficiency of shuttling meeting-goers between hotels and that the Hyatt House is an extended-stay lodging facility, with a high number of extended-stay travelers being the target clientele. Generally speaking, conference goers do not require guestroom suites equipped with kitchenettes and separate living areas.

This section of the analysis concludes that the new hotels will be “absorbed rather quickly” by the local market, but what the study fails to underline in this section is that the addition of 328 new rooms represents nearly a 45% increase in new supply. The impact of the new supply addition is analyzed in the companion market study completed by HVS.

HISTORICAL PERFORMANCE OF THE COMPETITIVE MARKET

The description of historical market performance is accurate based on the STR Global data presented in the analysis. Although the “what” is well described based on evidence, the reader is not supplied with the “why” and the reasoning behind some of the historical trends (with the exception of the Hyatt Place opening in 2010 and its expansion in 2014). Furthermore, monthly trends for occupancy and



average daily rates are presented for this market, which are helpful in understanding the market's peaks and lulls. Probably the most important and meaningful data presented in this section are illustrated on page 16, including the compounded annual growth rates for supply, occupancy, average rate, and RevPAR for 2007 through 2014, as well as the year-to-date figures for the period ending April 2015. This provides the reader with critical data regarding the market's historical performance during the period reviewed.

PROJECTED MARKET AND SUBJECT PERFORMANCE

The following section provides a forecast of annual supply numbers and occupied rooms, as well as market occupancy, average daily rates, and RevPAR levels, between 2015 and 2021, assuming all three hotels (Embassy Suites, Residence Inn by Marriott, and Hyatt House) enter the market. Over a two-year period, this represents almost double the market's existing room supply. More specifically, if only nationally branded, upscale hotels are considered, the addition of these three hotels creates essentially a new competitive set of hotels in Davis.

The study's strongest statement related to stabilized occupancy is included in this section of the report, stating that *"While this stabilized occupancy level is above the annual average occupancy level achieved by the Davis hotel market since 2007, it is in line with the -year-to-date performance and is reflective of the growth occurring in Davis."* Based on the forecast, occupied room nights will have to increase by 40% over a two-year period to sustain a 65–66% occupancy level. Those figures are somewhat extraordinary, especially for a market that has yet to surpass 70%. That being said, it is likely that those occupied room nights will come from induced demand associated with the Embassy Suites and unaccommodated demand from those who would like to stay in Davis, but the types of accommodations desired do not exist or are sold out. Furthermore, the projected (2015–2021) compounded annual growth rates for the previously described metrics are higher in all categories when compared with those achieved between 2007 and 2014. Although the stabilized level of occupancy for the Davis market appears somewhat robust, it is clear that there are significant levels of unaccommodated demand in this market. More quantitative data related to induced and unaccommodated demand sources would help support higher-than-historical stabilized occupancy levels.

With respect to average rates, although projected to be higher than historically achieved in the analysis completed by PKF, it is reasonable to assume that the entry of branded, high-quality hotels would have a positive impact on the rate structure of the market as a whole.

PROJECTED PERFORMANCE OF THE PROPOSED HOTEL



The projected operating metrics for the proposed Hyatt House hotel appear reasonable; however, it would be helpful to define a competitive set that excludes budget-oriented hotels, which would allow for better analysis and support of concluded average rates and occupancy levels.

The study again concludes on the symbiotic relationship that could potentially exist between the Embassy Suites and proposed Hyatt House hotel; however, as previously described, there are a variety of challenges that should also be addressed, including how other hotels in the market might be affected if “overflow” demand is expected to help the market as a whole, and not just the proposed Hyatt House.

In conclusion, the Market Demand Analysis for a proposed Hyatt House hotel in Davis has useful and accurate information. The concluded projections appear slightly aggressive but not entirely unreasonable. The study, however, lacks sufficient support and explanation, particularly as it relates to induced and unaccommodated demand, the delineation of primary versus secondary competitors, and the description of historical lodging trends.



4. Statement of Assumptions and Limiting Conditions

1. This is an appraisal review report that complies with the reporting requirements set forth under Standard Rule 3-2 and 3-3 of the Uniform Standards of Professional Appraisal Practice for an Appraisal Review Report. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature.
3. All information obtained from parties not employed by TS Worldwide LLC is assumed true and correct. We can assume no liability resulting from misinformation.
4. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
5. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and shall do so only when our standard per-diem fees and travel costs have been paid prior to the appearance.
6. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
7. Our report has been prepared in accordance with, and is subject to, the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the Uniform Standards of Professional Practice (USPAP), as provided by the Appraisal Foundation.
8. This report was prepared by TS Worldwide LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide LLC as employees, rather than as individuals.



5. Certification

The undersigned hereby certify that, to the best of our knowledge and belief:

1. the facts and data reported by the reviewer(s) and used in the review process are true and correct;
2. the analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of the work under review or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use;
7. our analyses, opinions, and conclusions were developed, and this review report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Kasia M. Russell, MAI, participated in the analysis and development of the findings and also personally inspected the potential hotel sites;
9. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;



10. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

DRAFT REPORT

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