



SAN FRANCISCO PLANNING DEPARTMENT

Executive Summary Conditional Use

HEARING DATE: DECEMBER 8, 2016

1650 Mission St.
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San Francisco,
CA 94103-2479

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Date: December 1, 2016
Case No –
Project Address: **2012.1531C_3 – 54 4th Street, (3705/004)**
Zoning *C-3-R Zoning District (Downtown – Retail)*
Height and Bulk *160-S Height and Bulk District*
2014.0910C – 432 Geary Street (0306/006)
C-3-G Zoning District (Downtown – General)
80-130-F Height and Bulk District
2015-010755CUA - 447 Bush Street (0287/020)
C-3-R Zoning District (Downtown – Retail)
80-130-F Height and Bulk District
2015-010747CUA - 972 Sutter Street (0280/012)
RC-4 Zoning District (Residential-Commercial, High Density)
80-A Height and Bulk District
Project Sponsor: Chad Pradmore
3919 25th Street
San Francisco, CA 94114
Staff Contact: Carly Grob – (415) 575-9138
carly.grob@sfgov.org
Recommendation: **Disapproval**

PROJECT DESCRIPTION

The current Permit to Convert application proposes the conversion of a total of 214 Residential Hotel rooms to Tourist Hotel rooms and one-to-one replacement of the converted rooms to the approved Group Housing rooms at 361 Turk and 145 Leavenworth Streets. The following table summarizes the six properties which are included in the Permit to Convert application. There are no permanent residents in any of the Units proposed for conversion. Four of the six hotels, which are indicated in bold in the table below, also require Conditional Use Authorization for the intensification of a tourist hotel use.

(continued on next page)

Hotel	Address	Current Tourist Hotel Units	Current Residential Hotel Units	Number of Units proposed for conversion from Residential to Tourist use	Total Net New Tourist Hotel Units	Permanent Residents - Residential Hotel Units to Remain at subject property
Mosser Hotel	54 4th Street	120	81	77	197	4
Hotel Fusion	140 Ellis Street	112	12	12	124	None
Union Square Plaza Hotel	432 Geary Street	8	61	55	63	6
New Central Hotel	1412 Market Street	105	15	15	120	None
Hotel Des Arts	447 Bush Street	13	38	37*	51	1
Mithila Hotel	972 Sutter Street	11	19	18	29	1
<i>Total</i>		369	226	214	584	12

*The project also proposes the addition of one new tourist hotel room within the existing envelope of the building located at 447 Bush (Hotel Des Arts). The additional room is proposed to occupy space on the second floor which is currently used as the hotel lobby. No exterior alterations or expansion of the building envelope is proposed. The additional room is not reflected in the table above.

The new construction at 361 Turk and 145 Leavenworth is subject to the provisions of Planning Code Section 415, and the project is required to provide 12% of the units, or 28 total units, onsite as affordable dwelling units. Since 361 Turk and 145 Leavenworth were approved, the project sponsor has entered into private agreements with the San Francisco Firefighters Local 798, San Francisco Police Officers Association, and the Boys and Girls Club of San Francisco to provide 40 workforce housing units at reduced rates for a period of 10 years. Those units designated for firefighters and police officers would be rented at \$1,800 monthly, while those rented to Boys and Girls Club employees would be rented at \$1,100 monthly.

361 Turk and 145 Leavenworth - Project Description and History

On April 30, 2014, Richard Hannum filed an application (Case No. 2012.1531CEX) with the Planning Department seeking authorization for new construction of two residential buildings containing a total of 238 group housing rooms. The first building is located at 361 Turk Street, on the south side of the street

between Hyde and Leavenworth Streets within the RC-4 (Residential – Commercial, High Density Zoning District, the North of Market Residential Special Use District, and the 80-T Height and Bulk District. The proposed building at 361 Turk is nine stories, and includes 137 group housing rooms and 4,216 gross square feet of ground floor retail space. Conditional Use Authorization was required to allow the construction of a building exceeding 40 feet in height within the RC-4 Zoning District.

The second building is located at 145 Leavenworth, located on the northwest intersection of Leavenworth and Golden Gate Avenue, within the C-3-G (Downtown Commercial, General) District and 80-X Height and Bulk District. The building at 145 Turk is eight stories, contains 94 group housing rooms and approximately 3,776 gross square feet of ground floor retail space. A Downtown Project Authorization pursuant to Section 309 was required for an exception to the requirements of the reduction of ground level wind currents in the C-3 District.

On July 9, 2015, the Planning Commission approved the project at 361 Turk and 145 Leavenworth Streets pursuant to Motion Nos. 19411 and 19412.

HOTELS SEEKING CONDITIONAL USE AUTHORIZATION FOR INTENSIFICATION OF HOTEL USE

54 4th Street: The Mosser Hotel

Site Description and Present Use. The project is located on the north side of Jessie Street at the intersection of Jessie and 4th Streets, Block 3705, Lot 004. The subject property is directly northeast of the Westfield Shopping Center and one block west of Yerba Buena Gardens and the Moscone Center. The subject lot is a square, corner lot with approximately 75 feet of frontage along both Jessie Street and 4th Street. The property is located within the C-3-R (Downtown – Retail) District with 160-S height and bulk district. The site is occupied by an eight-story hotel, doing business as the Mosser Hotel, as well as a ground floor restaurant doing business as The Keystone. Amenities include a meeting room and guest laundry facilities. There are 201 total rooms in the Mosser Hotel; 81 are classified as residential hotel rooms and 120 are classified as tourist hotel rooms. There are four permanent residents in the Mosser Hotel as of May 27, 2016. The Mosser Hotel is classified as a Category I (Significant building, no alterations) building pursuant to Article 11 of the Planning Code.

Surrounding Properties and Neighborhood. The project site is located at the intersection of Jessie and 4th Streets, approximately 2.5 blocks south of Union Square and one block east of Hallidie Plaza. The Project site is located in the C-3-R District, recognized as a regional center for shopping and direct consumer services. The District is well-served by City and regional transit, and the emphasis on pedestrian interest makes the district easily traversable on foot. The surrounding retail is primarily comprised of larger, national retailers and hotels. The surrounding properties are primarily located within the C-3 (Downtown) Zoning Districts.

972 Sutter Street: Mithila Hotel

Site Description and Present Use. The project is located on the north side of Sutter Street between Hyde and Leavenworth Streets, Block 0280, Lot 012. The subject lot is approximately 138 feet deep with 25 feet of frontage along Sutter Street. The property is located within the RC-4 (Residential – Commercial, High-Density) District with 80-A height and bulk district. The site is occupied by a four-story hotel, doing business as the Mithila Hotel, as well as a ground floor laundromat doing business as Rainbow Bubble Laundry. There are 29 total rooms in the Mithila Hotel; 11 are classified as residential hotel rooms and 19

are classified as tourist hotel rooms. There is one permanent resident in the Mithila Hotel as of May 27, 2016. The Mithila Hotel is classified as an historic resource (Category “A”) in the Lower Nob Hill Apartment Hotel Historic District.

Surrounding Properties and Neighborhood. The project site is located on Sutter Street between Hyde and Leavenworth Streets, at the northern edge of the Tenderloin and directly south of the Nob Hill neighborhood. Van Ness Avenue is approximately three blocks west of the subject property. The Project site is located in the RC-4 District, which is characterized by dense Residential uses with supportive Commercial uses. The District is well-served by City transit on Polk Street, Geary Street, Van Ness Avenue, and other surrounding streets. The property immediately adjacent to the west is a one-story grocery store, d.b.a. Sutter Fine Foods, and to the east is a seven-story residential hotel d.b.a. the Steinhart Hotel. The 900 block of Sutter is primarily comprised of four- to six-story residential buildings with residential lobbies or neighborhood-serving commercial uses at the ground floor.

432 Geary Street: Union Square Plaza Hotel

Site Description and Present Use. The project is located on the north side of Geary Street between Mason and Taylor Streets, Block 0306, Lot 006. The subject property is one block directly west of Union Square and approximately four blocks north of Hallidie Plaza. The subject lot is a through lot, approximately 60 feet deep with approximately 69 feet of frontage along both Geary Street and Derby Street. The property is located within the C-3-G (Downtown – General) District with 80-130-F height and bulk district. The site is occupied by a seven-story-over basement hotel, doing business as Union Square Plaza Hotel, as well as three ground floor restaurants doing business as Katana-Ya, Chabaa Thai Cuisine, and Bella Lucca Pizza. Amenities include guest laundry facilities. There are 69 total rooms in the Union Square Plaza Hotel; 61 are classified as residential hotel rooms and eight are classified as tourist hotel rooms. There are six permanent residents in the Union Square Plaza Hotel as of May 27, 2016. The subject property is classified as a Category IV building, (“Contributory Building, Within Conservation District) pursuant to Article 11, and is located within the Kearny-Market-Mason-Sutter Conservation District.

Surrounding Properties and Neighborhood. The project site is located on the north side of Geary Street between Mason and Taylor Streets, approximately one block west of Union Square and three blocks northeast of Hallidie Plaza. The Project site is located in the C-3-G District, which covers the western portion of downtown and is comprised of a variety of uses. The District is well-served by City and regional transit, and is easily traversable on foot. The project is immediately adjacent to a two-story commercial building to the east, and seven-story hotel with ground floor restaurants to the west. The American Conservatory Theater and Curran Theater are both across the street from the subject property. The surrounding retail is primarily comprised of a mixture of formula retail eating and drinking uses and local restaurants, bars, and diners. The surrounding properties are primarily located within the C-3 (Downtown) Zoning Districts, with the RC-4 (Residential, Commercial – High Density) District beginning one block west of the subject property.

447 Bush Street: Hotel Des Arts

Site Description and Present Use. The project is located on the south side of Bush Street between Grant Avenue and Mark Lane, Block 0287, Lot 020. The subject property is one block south of St. Mary’s Square, and a half block east of the Chinatown gate. The subject lot is an irregularly shaped through lot, with 40 feet of frontage on Harlan Place and 20 feet of frontage on Bush Street. The property is located within the C-3-R (Downtown – Retail) District and 80-130-F height and bulk district. The site is occupied by a five-

story hotel, doing business as the Hotel Des Arts, as well as a ground floor restaurant doing business as Bar Fluxus. Amenities include a ground floor lounge. There are 51 total rooms in the Mosser Hotel; 38 are classified as residential hotel rooms and 13 are classified as tourist hotel rooms. There is one permanent resident in the Mosser Hotel as of May 27, 2016. The project also includes the construction of one additional hotel room at the second floor in a space formerly occupied by the lobby.

Surrounding Properties and Neighborhood. The project site is located between Grant Avenue and Kearny Street in the Financial District, adjacent to the southeastern corner of Chinatown. The Project site is located in the C-3-R District, recognized as a regional center for shopping and direct consumer services. The District is well-served by City and regional transit, and the emphasis on pedestrian interest makes the district easily traversable on foot. The surrounding retail is comprised of retail clothing stores, eating and drinking uses, and hotels, which are a mix of local businesses and formula retail. The surrounding properties are primarily located within the C-3 (Downtown) Zoning Districts, and the subject property is adjacent to the C-3-O (Downtown – Office) District to the east.

ENVIRONMENTAL REVIEW

Under CEQA Guidelines Section 15270, CEQA does not apply to projects which a public agency rejects or disapproves. This section is intended to allow an initial screening of projects on the merits for quick disapprovals prior to the initiation of the CEQA process where the agency can determine that the project cannot be approved.

HEARING NOTIFICATION

TYPE	REQUIRED PERIOD	REQUIRED NOTICE DATE	ACTUAL NOTICE DATE	ACTUAL PERIOD
Classified News Ad	20 days	November 18, 2016	November 16, 2016	22 days
Posted Notice	20 days	November 18, 2016	November 18, 2016	20 days
Mailed Notice	10 days	November 28, 2016	November 28, 2016	20 days

PUBLIC COMMENT/COMMUNITY OUTREACH

To date, the Department has received one phone call, five letters and 32 signatures in opposition to the proposed conversion and intensification of hotel use. Opposition letters from organizations such as the Coalition on Homelessness, Hospitality House, and Market Street for the Masses Coalition discuss concerns surrounding the loss of rent-controlled housing and the potential impacts this loss could have on displacement of vulnerable populations. The Department has received seven letters in support of the proposed conversions from local hotel operators, SF Fire Fighters Local 798, and the Boys and Girls Club of San Francisco. Letters in support of the proposed conversion and hotel intensification highlight the importance of providing 40 workforce housing units to the City's housing stock. All of the public comment received as of November 30, 2016 is provided as an attachment.

ISSUES AND OTHER CONSIDERATIONS

In addition to the 28 Below-Market Rate units required under Planning Code Section 415, the sponsor has proposed to provide 40 group housing rooms as workforce housing for San Francisco Police, San

Francisco Firefighters, and for employees of the San Francisco Boys and Girls Club. For Police and Fire, rents would be capped at \$1,800 for a period of ten years. Rents would be capped at \$1,100 for Boys and Girls Club employees for a period of ten years.

REQUIRED COMMISSION ACTION

In order for the project to proceed, the Commission must grant Conditional Use Authorization to allow the intensification of the existing hotel uses at four of the six existing hotel sites (The Mosser Hotel, Hotel Des Arts, Union Square Plaza Hotel, and the Mithila Hotel). In addition, the Commission must adopt a resolution finding that the replacement rooms at 361 Turk and 145 Leavenworth are considered comparable to the residential hotel rooms proposed for conversion.

BASIS FOR RECOMMENDATION

- The project proposes to replace residential hotel rooms with tourist hotel rooms without comparable replacement rooms elsewhere in the City. Although the project includes a one-for-one replacement, the existing residential hotel rooms are eligible for rent control when they are occupied by permanent residents, while the replacement rooms are not.
- The project would have a detrimental impact on the City's affordable housing stock.
- The project is neither desirable for, nor compatible with the surrounding neighborhood.
- The project is inconsistent with the policies of the General Plan and Downtown Area Plan.

RECOMMENDATION:	Disapproval
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Attachments:

Draft Motion – 54 4th Street, Case No. 2012.1531C_3

Draft Motion – 432 Geary Street, Case No. 2014.0910C

Draft Motion – 447 Bush Street, Case No. 2015-010755CUA

Draft Motion – 972 Sutter Street, Case No. 2015-010747CUA

For each of the four hotels requesting Conditional Use Authorization:

Block Book Maps

Sanborn Maps

Zoning Maps

Aerial Photographs

Site Photographs

Public Correspondence (see also Project Sponsor Submittal)

Market Demand Analysis

Project Sponsor Submittal, including:

- Correspondence in Support
- Reduced Plans

Attachment Checklist

- | | |
|---|--|
| <input checked="" type="checkbox"/> Executive Summary | <input checked="" type="checkbox"/> Project sponsor submittal |
| <input checked="" type="checkbox"/> Draft Motion | Drawings: <u>Existing Conditions</u> |
| <input type="checkbox"/> Environmental Determination | <input checked="" type="checkbox"/> Check for legibility |
| <input checked="" type="checkbox"/> Zoning District Map | Drawings: <u>Proposed Project</u> |
| <input type="checkbox"/> Height & Bulk Map | <input type="checkbox"/> Check for legibility |
| <input checked="" type="checkbox"/> Parcel Map | 3-D Renderings (new construction or significant addition) |
| <input checked="" type="checkbox"/> Sanborn Map | <input type="checkbox"/> Check for legibility |
| <input checked="" type="checkbox"/> Aerial Photo | <input type="checkbox"/> Wireless Telecommunications Materials |
| <input type="checkbox"/> Context Photos | <input type="checkbox"/> Health Dept. review of RF levels |
| <input checked="" type="checkbox"/> Site Photos | <input type="checkbox"/> RF Report |
| | <input type="checkbox"/> Community Meeting Notice |
| | <input type="checkbox"/> Housing Documents |
| | <input type="checkbox"/> Inclusionary Affordable Housing Program: Affidavit for Compliance |

Exhibits above marked with an "X" are included in this packet

CG
Planner's Initials



SAN FRANCISCO PLANNING DEPARTMENT

Planning Commission Draft Motion

HEARING DATE: DECEMBER 8, 2016

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Date: December 1, 2016
Case No.: **2015-010755CUA**
Project Address: **447 BUSH STREET**
Zoning: C-3-R (Downtown Retail)
80-130-F Height and Bulk District
Block/Lot: 0287/020
Project Sponsor: Chad Pradmore
DKR Partners, LP
3919 25th Street
San Francisco, CA 94114
Staff Contact: Carly Grob – (415) 575-9138
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ADOPTING FINDINGS RELATING TO THE DISAPPROVAL OF CONDITIONAL USE AUTHORIZATION PURSUANT TO SECTIONS 210.2 AND 303 OF THE PLANNING CODE TO ALLOW THE INTENSIFICATION OF AN EXISTING HOTEL USE (D.B.A. HOTEL DES ARTS), WITHIN THE C-3-R (DOWNTOWN RETAIL) DISTRICT AND A 80-130-F HEIGHT AND BULK DISTRICT.

PREAMBLE

On April 30, 2014, Richard Hannum filed an application (Case No. 2012.1531CEX) with the Planning Department (hereinafter "Department") seeking authorization for new construction of a residential building, eight stories and approximately 80 feet in height, containing 140 group housing rooms and 3,854 gross square feet of ground floor retail space at 361 Turk Street, south side between Leavenworth and Hyde Streets, within the RC-4 (Residential-Commercial, High Density) Zoning District, the North of Market Special Use District 1, Fringe Financial Services Restricted Use District, and the 80-T Height and Bulk District.

On April 30, 2014, Richard Hannum filed an application (Case No. 2012.1531CEX) with the Planning Department (hereinafter "Department") seeking authorization for new construction of a residential building, eight stories and approximately 80 feet in height, containing 98 group housing rooms and 2,725 gross square feet of ground floor retail space at 145 Leavenworth Street, northwest of the intersection with Golden Gate Avenue, within the C-3-G (Downtown-General) District and an 80-X Height and Bulk District.

On July 9, 2015 the Planning Commission reviewed Case No. 2012.1531CEX and approved a Conditional Use at 361 Turk Street for height exceeding 40 feet in the RC-4 District per Motion No. 19411. The Commission concurrently approved a Downtown Project Authorization at 145 Leavenworth Street for an

exception to the requirements for reduction of ground level wind currents in C-3 Districts, per Motion No. 19412.

On June 11, 2014, David Cincotta on behalf of Boopie, LLC filed an application (Case No. 2015-010755CUA) with the Planning Department (hereinafter "Department") for Conditional Use Authorization under Planning Code Sections 210.2 and 303 to allow the intensification of an existing tourist hotel use (d.b.a. The Hotel Des Arts) within the C-3-R (Downtown Retail) Zoning District and 80-130-F Height and Bulk District.

On November 28, 2016, Chad Pradmore (hereinafter "Project Sponsor") on behalf of Forge LLC submitted a revision to the application with updated information on the Project Sponsor.

On December 8, 2016, the San Francisco Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting on Conditional Use Application No. 2015-010755CUA.

Under CEQA Guidelines Section 15270, CEQA does not apply to projects which a public agency rejects or disapproves. This section is intended to allow an initial screening of projects on the merits for quick disapprovals prior to the initiation of the CEQA process where the agency can determine that the project cannot be approved.

The Commission has heard and considered the testimony presented to it at the public hearing and has further considered written materials and oral testimony presented on behalf of the applicant, Department staff, and other interested parties.

MOVED, that the Commission hereby does not authorize the Conditional Use requested in Application No. 2015-010755CUA, based on the following findings:

FINDINGS

Having reviewed the materials identified in the preamble above, and having heard all testimony and arguments, this Commission finds, concludes, and determines as follows:

1. The above recitals are accurate and constitute findings of this Commission.
2. **Site Description and Present Use.** The project is located on the south side of Bush Street between Grant Avenue and Mark Lane, Block 0287, Lot 020. The subject property is one block south of St. Mary's Square, and a half block east of the Chinatown gate. The subject lot is an irregularly shaped through lot, with 40 feet of frontage on Harlan Place and 20 feet of frontage on Bush Street. The property is located within the C-3-R (Downtown – Retail) District and 80-130-F height and bulk district. The site is occupied by a five-story hotel, doing business as the Hotel Des Arts, as well as a ground floor restaurant doing business as Bar Fluxus. Amenities include a ground floor lounge. There are 51 total rooms in the Mosser Hotel; 38 are classified as residential hotel rooms and 13 are classified as tourist hotel rooms. There is one permanent resident in the Mosser

Hotel as of May 27, 2016. The project also includes the construction of one additional hotel room at the second floor in a space formerly occupied by the lobby.

3. **Surrounding Properties and Neighborhood.** The project site is located between Grant Avenue and Kearny Street in the Financial District, adjacent to the southeastern corner of Chinatown. The Project site is located in the C-3-R District, recognized as a regional center for shopping and direct consumer services. The District is well-served by City and regional transit, and the emphasis on pedestrian interest makes the district easily traversable on foot. The surrounding retail is comprised of retail clothing stores, eating and drinking uses, and hotels, which are a mix of local businesses and formula retail. The surrounding properties are primarily located within the C-3 (Downtown) Zoning Districts, and the subject property is adjacent to the C-3-O (Downtown – Office) District to the east.
4. **Project Description.** The project proposes to convert 37 residential hotel rooms to tourist hotel rooms at the Hotel Des Arts. Under the Chapter 41 of the Administrative Code, the sponsor proposes the one-for-one replacement the residential hotel rooms at 361 Turk and 145 Leavenworth. The Planning Commission approved the project at 361 Turk and 145 Leavenworth on June 4, 2015 (Motion Nos. 19411 and 19412, Case No. 2012.1531CX), which proposed two, eight-story residential buildings with 238 total group housing rooms over ground floor retail. The approved group housing project has not been built and no permits have been filed to begin construction at the site. The proposed conversion does not include any exterior alterations to the existing building. The project also proposes the addition of one tourist hotel room within the existing building envelope on the second floor in an area formerly used as the lobby.

In addition to the proposed conversions at Hotel Des Arts, the overall project includes the conversion of 177 additional residential hotel rooms at five other hotels with one-to-one replacement at 361 Turk and 145 Leavenworth. The complete list of the properties included in the Permit to Convert Application is listed below.

Hotel	Address	Current Tourist Rooms	Current Residential Rooms	Rooms proposed for conversion from Residential to Tourist use	Total Net New Tourist Rooms	Permanent Residents - Residential Rooms to Remain
Mosser Hotel	54 4 th Street	120	81	77	197	4
Hotel Fusion	140 Ellis Street	112	12	12	124	None
Union Square Plaza	432 Geary Street	8	61	55	63	6

Hotel						
New Central Hotel	1412 Market Street	105	15	15	120	None
Hotel Des Arts	447 Bush Street	13	38	37*	51	1
Mithila Hotel	972 Sutter Street	11	19	18	29	1
TOTAL:		369	226	214	584	12

*The project also includes the construction of one tourist hotel room within the building envelope at the Hotel Des Arts. The additional room is not reflected in the table above.

5. **Public Comment/Community Outreach.** To date, the Department has received one phone call, five letters and 32 signatures in opposition to the proposed conversion and intensification of hotel use. Opposition letters from organizations such as the Coalition on Homelessness, Hospitality House, and Market Street for the Masses Coalition discuss concerns surrounding the loss of rent-controlled housing and the potential impacts this loss could have on displacement of vulnerable populations. The Department has received seven letters in support of the proposed conversions from local hotel operators, SF Fire Fighters Local 798, and the Boys and Girls Club of San Francisco. Letters in support of the proposed conversion and hotel intensification highlight the importance of providing 40 workforce housing units to the City's housing stock. All of the public comment received as of November 30, 2016 is provided as an attachment.
6. **Planning Code Compliance.** The Commission finds that the Project is consistent with the relevant provisions of the Planning Code in the following manner:
 - A. **Hotel Use.** Hotel Uses within the C-3-R District require Conditional Use Authorization pursuant to Planning Code Section 210.2. Section 303(g) states that with respect to applications for development of tourist hotels and motels, the Planning Commission shall consider:
 1. The impact of employees of the hotel or motel on the demand in the City for housing, public transit, child-care, and other social service. To the extent relevant, the Commission shall also consider the seasonal and part-time nature of employment in the hotel or motel;
 2. The measures that will be taken by the project sponsor to employ residents of San Francisco in order to minimize increased demand for regional transportation; and
 3. The market demand for a hotel or motel of the type proposed.

Hotel Des Arts currently operates as a tourist hotel. There is no impact on resident employment, public transit, child-care and other services anticipated as a result of the proposed conversion of residential to tourist use. The Project Sponsor has submitted a Market Demand Analysis prepared by PKF Consulting dated August 25, 2015. Given San Francisco's strong tourism industry, "world-renowned reputation, ongoing improvements, and easy accessibility, the study finds that there is demand for additional hotel units at Hotel Des Arts. However, the proposed hotel use would result in the

conversion of 37 residential hotel rooms to tourist hotel rooms without comparable replacements elsewhere in the City. Although there may be market demand for a hotel at the subject property, the replacement of residential hotel rooms with tourist hotel rooms does not meet the basic findings for a Conditional Use Authorization, as it is neither necessary nor desirable for the community. Furthermore, the proposed conversion would have a detrimental impact to the City's stock of affordable housing.

- B. **Intensification of Hotel Use.** Planning Code Section 178(c) states that a conditional use may not be significantly altered, enlarged, or intensified except upon approval of a new conditional use authorization. An Interpretation of Planning Code Section 178(c) from March, 2002 states that a significant expansion is classified as an expansion of more than 25% of floor area or more than 500 square feet, whichever is less. The interpretation was written in regards to the expansion of parking lots; since the intensity of a parking facility is based on the number of parking spaces, an increase of more than 25% of the total number of existing parking spaces would be considered an intensification of the existing conditional use. Similarly, the intensity of a hotel use is based on the number of rooms available. An increase of more than 25% of the total number of hotel rooms would be considered an intensification of the existing conditional use.

The project proposes the conversion of 37 residential hotel rooms to tourist hotel rooms, as well as the construction of an additional tourist room, which would increase the number of tourist hotel rooms by approximately 73%. The project sponsor is seeking a Conditional Use Authorization for the intensification of the existing conditional use. As discussed above, the proposed conversions would not meet the basic finding for a Conditional Use Authorization, as the conversion of residential uses without comparable replacement is neither necessary nor desirable for the community. Additionally, the conversion would have a detrimental impact on the City's stock of affordable housing.

7. **Administrative Code Chapter 41.** The change of use or elimination of a residential hotel room that is subject to the Hotel Conversion Ordinance is defined as a conversion. Any property owner may apply for a Permit to Convert one or more residential hotel rooms by submitting an application to the Housing Inspection Division of the Department of Building Inspection. Upon receipt of a completed Permit to Convert application, the application is routed to the Planning Department for review. Any interested party may submit a written request for a Planning Commission hearing to solicit public opinion on whether DBI should approve or deny the Permit to Convert and to determine whether the proposed replacement units are 'comparable units' as defined in Chapter 41.

Prior to the issuance of a Permit to Convert, the owner shall provide one-for-one replacement of the units to be converted by one of the following methods:

1. Construct or cause to be constructed a comparable unit to be made available at a comparable rent to replace each of the units to be converted; or
2. Cause to be brought back into the housing market a comparable unit from any building which was not subject to the provisions of the Hotel Conversion Ordinance; or

3. Construct or cause to be constructed or rehabilitated apartment units for the elderly, disabled or low-income persons or households which may be provided at a ratio of less than one-to-one; or construct or cause to be constructed transitional housing which may include emergency housing. The construction of any replacement housing under this subsection shall be evaluated by the City Planning Commission pursuant to Planning Code Section 303; or
4. Pay to the City and County of San Francisco an amount equal to 80 percent of the cost of construction of an equal number of comparable units plus site acquisition cost. All such payments shall go into a San Francisco Residential Hotel Preservation Fund Account; or
5. Contribute to a public entity or nonprofit organization who will use the funds to construct comparable units, an amount at least equal to 80 percent of the cost of construction of an equal number of comparable units plus site acquisition cost.

The Director of the Department of Building Inspection may issue a Permit to Convert when the applicant submits a complete application for a Permit to Convert, demonstrates compliance with the one-for-one replacement provisions, and that the proposed use that the unit would be converted to is permitted by the City Planning Code.

The Project Sponsor has submitted an application for permits to convert a total of 214 residential hotel rooms in six separate hotels, and to provide one-for-one replacement rooms at 361 Turk and 145 Leavenworth. Providing replacement units in a newly constructed residential development could satisfy the first method, by "causing" the construction of the new group housing units. However, the applicant has not demonstrated to the Housing Inspection Division that the applicant hotel owners are construction or causing to construct the one-for-one replacement units at 361 Turk and 145 Leavenworth. Correspondence from the Housing Inspection Division is attached to this Motion.

The Permit to Convert Application for the proposed project was transmitted to the Planning Department on August 3, 2016. A Planning Commission hearing was requested on August 10, 2016, and the Commission will consider the comparability of the replacement rooms prior to the consideration of the required Conditional Use Authorizations for the intensification of tourist hotel uses.

8. **Planning Code Section 303** establishes criteria for the Planning Commission to consider when reviewing applications for Conditional Use approval. On balance, the project does not comply with said criteria in that:
 - A. The proposed new uses and building, at the size and intensity contemplated and at the proposed location, will provide a development that is necessary or desirable, and compatible with, the neighborhood or the community.

The proposed intensification of the existing hotel use at the subject property is compatible with the surrounding neighborhood, which is a destination for regional shoppers and tourists. However, the proposed tourist hotel use would replace existing residential hotel rooms, which are naturally

affordable by their sizes and ages. The replacement of residential use with tourist hotel use is neither necessary nor desirable for the neighborhood or City.

- B. The proposed project will not be detrimental to the health, safety, convenience or general welfare of persons residing or working in the vicinity. There are no features of the project that could be detrimental to the health, safety or convenience of those residing or working the area, in that:

- i. Nature of proposed site, including its size and shape, and the proposed size, shape and arrangement of structures;

The height and bulk of the Hotel Des Arts will remain the same and will not alter the existing appearance or character of the project vicinity. The new construction at 361 Turk and 145 Leavenworth has been reviewed by the Planning Commission and by Planning Staff and would not have a detrimental impact on residents or workers in the vicinity.

- ii. The accessibility and traffic patterns for persons and vehicles, the type and volume of such traffic, and the adequacy of proposed off-street parking and loading;

The site is well-served by local and regional transit, and there is no on-site parking at the subject property. Additional traffic is not anticipated as a result of the conversion of residential to tourist hotel uses.

- iii. The safeguards afforded to prevent noxious or offensive emissions such as noise, glare, dust and odor;

The proposed one-for-one conversion will not result in any noxious or offensive emissions. The proposed replacement units at 361 Turk and 145 Leavenworth have been reviewed and approved by the Planning Commission, and the proposed replacement group housing rooms would also not result in noxious or offensive emissions.

- iv. Treatment given, as appropriate, to such aspects as landscaping, screening, open spaces, parking and loading areas, service areas, lighting and signs;

The proposed one-for-one conversion does not require any additional landscaping, screening, open spaces, parking, landscaping, service areas, lighting or signs. The proposed replacement units at 361 Turk and 145 Leavenworth have been reviewed and approved by the Planning Commission.

- C. That the use as proposed will comply with the applicable provisions of the Planning Code and will not adversely affect the General Plan.

The Project complies with all relevant requirements and standards of the Planning Code; however, the project is not consistent with objectives and policies of the General Plan as detailed below.

- D. That the use as proposed would provide development that is in conformity with the purpose of the applicable Zoning District.

The intensification of the hotel use is in conformity with the C-3-R (Downtown, Retail) District, which is a regional center for shopping with an emphasis on retail and consumer services; however, the proposed hotel use would replace residential uses without a comparable replacement, which is not consistent with the General Plan or Section 303 of the Planning Code.

9. **General Plan Compliance.** The Project is, on balance, inconsistent with the following Objectives and Policies of the General Plan:

HOUSING ELEMENT

Objectives and Policies

OBJECTIVE 3:

PROTECT THE AFFORDABILITY OF THE EXISTING HOUSING STOCK, ESPECIALLY RENTAL UNITS.

Policy 3.1:

Preserve rental units, especially rent controlled units, to meet the City's affordable housing needs.

Policy 3.5:

Retain permanently affordable residential hotels and single room occupancy (SRO) units.

The project is inconsistent with Policies 3.1 and 3.5 of the Housing Element. The proposed conversion of residential hotel rooms at the Hotel des Arts would result in the loss of 77 residential hotel rooms that are eligible for rent control when occupied by permanent residents. Although the proposal includes one-for-one replacement at 361 Turk and 145 Leavenworth, the replacement rooms would not be eligible for rent control. Therefore, the project would remove permanently affordable residential hotel rooms from the City's housing stock.

DOWNTOWN AREA PLAN

Objectives and Policies

OBJECTIVE 4:

ENHANCE SAN FRANCISCO'S ROLE AS A TOURIST AND VISITOR CENTER.

Policy 4.1:

Guide the location of new hotels to minimize their adverse impacts on circulation, existing uses, and scale of development.

The location and massing of the existing building would not change, so there would not be any adverse impacts on the scale of development. However, the replacement of residential hotel rooms with tourist hotel

rooms would create an adverse impact on the existing residential uses on the subject property, as these residential uses would be removed without a comparable replacement.

OBJECTIVE 8:

PROTECT RESIDENTIAL USES IN AND ADJACENT TO DOWNTOWN FROM ENCROACHMENT BY COMMERCIAL USES.

Policy 8.1:

Restrict the demolition and conversion of housing in commercial areas.

The project is not consistent with this policy, as it would result in the conversion of residential hotel rooms in the retail heart of downtown.

Policy 8.2:

Preserve existing residential hotels.

The proposal is to remove the existing residential hotel rooms at the subject property and provide a one-to-one replacement at 361 Turk and 145 Leavenworth, pursuant to the Hotel Conversion Ordinance. Although the applicant has proposed to replace the rooms at a different location, the project is inconsistent with Policy 8.2, as it does not retain existing residential hotel rooms, which are generally more affordable than newly-constructed, market-rate group housing.

10. **Planning Code Section 101.1(b)** establishes eight priority-planning policies and requires review of permits for consistency with said policies. On balance, the project does comply with said policies in that:

- A. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses be enhanced.

The proposed conversion of residential hotels to tourist hotels and one-for-one replacement of these units at 361 Turk and 145 Leavenworth would not have an impact on neighborhood-serving retail uses.

- B. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods.

There are no proposed alterations to Hotel Des Arts, and the proposed development at 361 Turk and 145 Leavenworth have been found to be compatible with the surrounding neighborhood character. However, the existing mix of residential hotels, tourist hotels, single-room occupancy buildings, and other housing types contribute to the cultural and economic diversity of Downtown and the Tenderloin. Replacing the existing residential hotel rooms with tourist hotel rooms would reduce the existing diversity in these neighborhoods. Although the applicant has proposed to replace these units at 361 Turk and 145 Leavenworth, the replacement units would be provided primarily as market-rate housing, which does not contribute to an economically diverse population.

- C. That the City's supply of affordable housing be preserved and enhanced,

The proposed conversions at the Hotel des Arts would detrimentally impact the City's supply of affordable housing, as it would result in the replacement of 37 rent control-eligible residential hotel rooms with group housing rooms that are not eligible for rent control.

- D. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood parking.

The site is well-served by local and regional transit, and there is no on-site parking at the subject property. Additional traffic is not anticipated as a result of the conversion of residential to tourist hotel uses.

- E. That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced.

The proposed conversion of residential hotels to tourist hotels and one-for-one replacement of these units at 361 Turk and 145 Leavenworth would not have an impact on industrial and service sectors.

- F. That the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake.

The proposed conversions would result in a change of use only, and would not impact the ability to protect against injury or loss of life in an earthquake.

- G. That landmarks and historic buildings be preserved.

The subject property is classified as a Category I Building (Significant Building, No alterations) under Article 11 of the Planning Code. The proposed conversions represent a change of use only, and would not result in any alterations to the existing building. The existing historic building would be preserved. No Permit to Alter is required for the proposed change of use.

- H. That our parks and open space and their access to sunlight and vistas be protected from development.

The proposed residential conversion will have no negative impact on existing parks and open spaces.

11. The Project is inconsistent with and would not promote the general and specific purposes of the Code provided under Section 101.1(b) in that, as designed, the Project would not contribute to the character and stability of the neighborhood and would not constitute a beneficial development.

12. The Commission hereby finds that approval of the Conditional Use authorization would not promote the health, safety and welfare of the City.

DECISION

That based upon the Record, the submissions by the Applicant, the staff of the Department and other interested parties, the oral testimony presented to this Commission at the public hearings, and all other written materials submitted by all parties, the Commission hereby **DISAPPROVES Conditional Use Application No. 2015-010755CUA**.

APPEAL AND EFFECTIVE DATE OF MOTION: Any aggrieved person may appeal this Conditional Use Authorization to the Board of Supervisors within thirty (30) days after the date of this Motion No. XXXXX. The effective date of this Motion shall be the date of this Motion if not appealed (After the 30-day period has expired) OR the date of the decision of the Board of Supervisors if appealed to the Board of Supervisors. For further information, please contact the Board of Supervisors at (415) 554-5184, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Protest of Fee or Exaction: You may protest any fee or exaction subject to Government Code Section 66000 that is imposed as a condition of approval by following the procedures set forth in Government Code Section 66020. The protest must satisfy the requirements of Government Code Section 66020(a) and must be filed within 90 days of the date of the first approval or conditional approval of the development referencing the challenged fee or exaction. For purposes of Government Code Section 66020, the date of imposition of the fee shall be the date of the earliest discretionary approval by the City of the subject development.

If the City has not previously given Notice of an earlier discretionary approval of the project, the Planning Commission's adoption of this Motion, Resolution, Discretionary Review Action or the Zoning Administrator's Variance Decision Letter constitutes the approval or conditional approval of the development and the City hereby gives **NOTICE** that the 90-day protest period under Government Code Section 66020 has begun. If the City has already given Notice that the 90-day approval period has begun for the subject development, then this document does not re-commence the 90-day approval period.

I hereby certify that the Planning Commission ADOPTED the foregoing Motion on December 8, 2016.

Jonas P. Ionin
Commission Secretary

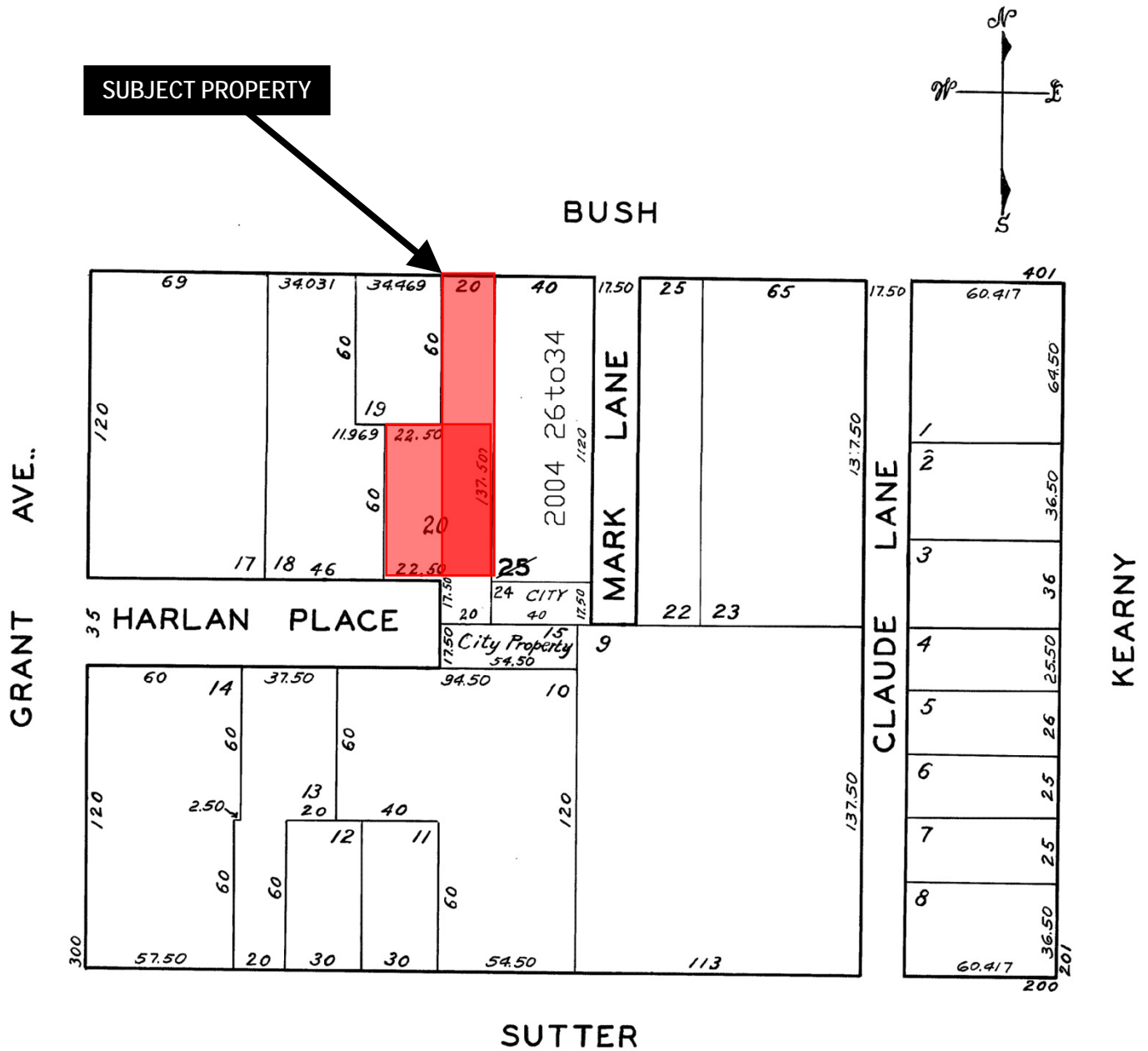
AYES:

NAYS:

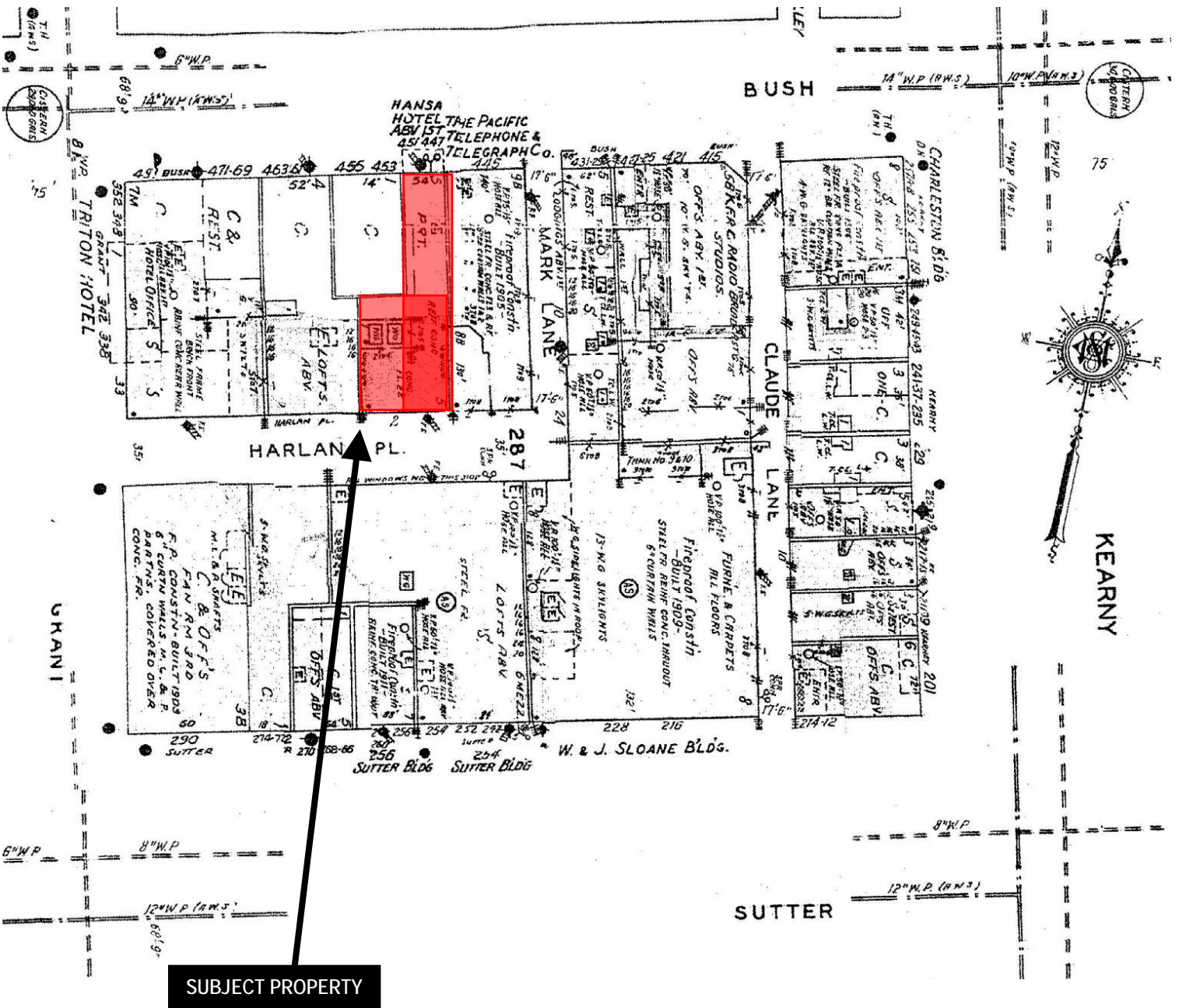
ABSENT:

ADOPTED: December 8, 2016

Parcel Map



Conditional Use Authorization Hearing
 Case Number 2015-010755CUA
 Hotel Des Arts- Intensification
 447 Bush Street



**The Sanborn Maps in San Francisco have not been updated since 1998, and this map may not accurately reflect existing conditions.*



Conditional Use Authorization Hearing
Case Number 2015-010755CUA
 Hotel Des Arts– Intensification
 447 Bush Street

Aerial Photo



SUBJECT PROPERTY



Conditional Use Authorization Hearing
Case Number 2015-010755CUA
Hotel Des Arts– Intensification
447 Bush Street

Zoning Map



SUBJECT PROPERTY



Site Photo



Conditional Use Authorization Hearing
Case Number 2015-010755CUA
Hotel Des Arts– Intensification
447 Bush Street



Market Demand Analysis

Proposed Transient Hotels San Francisco, California



Prepared For:

Mr. Christopher Rosas
DKR Partners, LP
1000 Universal Studios Boulevard, Suite 208
Universal City, California 91608

Prepared By:

PKF Consulting USA
San Francisco, California

Date of the Report

May 13, 2015

91788



www.pkfc.com

May 13, 2015

Mr. Christopher Rosas
DKR Partners, LP
1000 Universal Studios Boulevard, Suite 208
Universal City, California 91608

**Re: Market Demand Analysis
Proposed Transient Hotels – San Francisco, California**

Dear Mr. Rosas:

In accordance with your request, we have completed our engagement contract, which is a study of the potential market demand for the conversion of three tourist/residential hotels and one residential-only hotel in San Francisco into traditional transient hotels. Pursuant to our engagement, we have prepared this report summarizing our findings.

The conclusions set forth are based on an analysis of the existing and potential future supply and demand for the competitive lodging market as of the completion of our fieldwork in March and April of 2015. This report is intended for your internal management use and well as well as for presentation to representatives of the City and County of San Francisco for understanding the potential market demand for the proposed transient-only hotels, which will result in the addition of 223 new transient hotel rooms into the market.

As in all studies of this type, the estimated results are based on competent and efficient management and presume no significant change in the status of the competitive lodging market from that as set forth in this report. The terms of our engagement are such that we have no obligation to revise our conclusions to reflect events or conditions that occur subsequent to the date of completion of our fieldwork. However, we are available to discuss the necessity for revisions in view of changes in the economy or market factors impacting the competitive lodging market.

Since the proposed hotels' future performance is based on estimates and assumptions that are subject to uncertainty and variation, we do not present them as results that will actually be achieved. However, our analysis has been conscientiously prepared on the basis of information obtained during the course of this assignment and on our experience in the industry. This interim report is subject

to the Certification and Statement of Assumptions and Limiting Conditions presented in the Addenda. After you have had an opportunity to review this letter, please feel free to contact us with any questions or comments. We look forward to continue working with you on this interesting engagement.

Yours sincerely,

PKF Consulting USA
A Subsidiary of CBRE, Inc.



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A. INTRODUCTION

1. Overview of the Market Study

PKF Consulting USA (“PKF Consulting”) was formally retained on March 19, 2015 by representatives of DKR Partners, LP (“DKR”) to conduct a study of the potential market demand for the conversion of three tourist/residential hotels and one residential-only hotel into traditional transient hotels, hereby known as the “Hotels.” We have thereby assumed that the Hotels’ residential rooms, of which there are 223 total between the four properties, will be converted to tourist rooms.

As a component of this analysis, we first determined the market potential for hotel rooms in San Francisco by evaluating supply and demand trends within the local competitive lodging market. Based on the recent performance of comparable hotels in San Francisco, we estimated the historical performance of the Hotels’ transient-only rooms, as this information was not provided to us by management. We then projected the occupancy and average daily room rates (“ADR”) the Hotels could achieve for their first five years of operation as traditional transient properties. For the purpose of this analysis, we have assumed that the three transient/residential hotels (Union Square Plaza Hotel, Hotel Fusion, and Mosser Hotel) would be available for occupancy as transient-only hotels by January 1, 2017, and that the fourth residential-only hotel (known as 120 Ellis Street) would open by January 1, 2020.

2. Methodology

Specifically, in conducting the study of the potential market demand, we:

- Toured the four properties and assessed the impact of their accessibility, visibility, and location relative to demand generators on their marketability;
- Researched and analyzed current economic and demographic trends to determine their impact on future lodging demand in the market;
- Researched the competitive lodging supply in San Francisco, with a particular focus on the properties that would compete most directly with the Hotels as transient-only lodging facilities;
- Reviewed the historical performance of the competitive lodging market;
- Estimated the anticipated growth in supply and demand for lodging accommodations in the local market area;
- Prepared a forecast of future performance for the competitive lodging market;

- Estimated the historical performance levels of the three tourist/residential Hotels' transient rooms, as based on our conversations with management and the occupancy and ADR levels achieved by comparable hotels in the market;
- Evaluated the project's overall development plan for appropriateness within the market based on projected demand growth in San Francisco and the city's lodging needs; and,
- Prepared a forecast of the projected market penetration and the resulting occupancy levels and average daily rates ("ADR") for the Hotels' first five years of operation as traditional transient properties.

Several sources were used in compiling the background information and preparing the analyses contained in this report. These sources include PKF Consulting's *Trends® in the Hotel Industry*, data gathered through direct interviews with representatives of local businesses, data provided by sources in the lodging chains with which the competitive properties are affiliated, and data from various local government agencies.

B. SUMMARY OF FINDINGS

Based on the preceding work program, we have made a determination of the market viability for four proposed transient-only hotels in San Francisco, California, and have summarized our findings in the following paragraphs. We first present the historical and projected future performance of the greater San Francisco lodging market, followed by the historical and projected performance of a sample of comparable boutique hotels in the city. Finally, we present the estimated performance of the Hotels' transient rooms in 2014, along with our projections of the properties' performance upon expansion, at which point they will operate as transient-only properties.

1. San Francisco Lodging Market

A summary of historical and projected future performance for the San Francisco lodging market for years 2000 to 2017 is presented on the following page. It should be noted that this table includes hotels in San Francisco, San Mateo, and Marin Counties.

San Francisco Lodging Market Historical and Projected Performance					
Year	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2000	64.6%	\$99.48	-	\$64.27	-
2001	61.5%	\$91.02	-8.5%	\$55.98	-12.9%
2002	62.9%	\$79.88	-12.2%	\$50.25	-10.2%
2003	68.3%	\$81.96	2.6%	\$55.98	11.4%
2004	71.8%	\$87.60	6.9%	\$62.89	12.4%
2005	73.0%	\$94.17	7.5%	\$68.74	9.3%
2006	75.1%	\$106.64	13.2%	\$80.09	16.5%
2007	75.2%	\$114.30	7.2%	\$85.96	7.3%
2008	75.1%	\$120.16	5.1%	\$90.24	5.0%
2009	71.2%	\$94.95	-21.0%	\$67.61	-25.1%
2010	75.1%	\$102.14	7.6%	\$76.71	13.5%
2011	79.0%	\$122.28	19.7%	\$96.60	25.9%
2012	80.3%	\$137.81	12.7%	\$110.66	14.6%
2013	82.8%	\$155.08	12.5%	\$128.41	16.0%
2014	84.1%	\$174.67	12.6%	\$146.90	14.4%
CAGR	-	4.1%	-	6.1%	-
2015	84.5%	\$192.67	10.3%	\$162.80	10.8%
2016	84.8%	\$209.83	8.9%	\$177.94	9.3%
2017	84.4%	\$219.46	4.6%	\$185.22	4.1%

Source: PKF Consulting USA

The San Francisco Bay Area is the strongest lodging market in the United States. ADR has increased by double-digits in each of the past four years, with occupancy in the high-70 to low-80 percent range. In 2014, San Francisco-area hotels achieved an occupancy of 84.1 percent with an ADR of \$174.67, compared to the average occupancy of 64.4 percent and ADR of \$115.30 achieved that year by hotels nationwide. Occupancy for the greater San Francisco lodging market is expected to stabilize near 84 percent over the next three years, with ADR surpassing \$200 in 2016. With an occupancy of 84 percent, hotels in San Francisco are running at full capacity during most periods throughout the year and generate a considerable amount of unsatisfied demand (or, demand that cannot be accommodated within the market) and which is thereby displaced on a nightly basis to neighboring markets throughout the South Bay and East Bay submarkets.

2. Competitive Lodging Market

We have identified 21 boutique hotels that we believe will be the most comparable to the proposed Hotels upon opening as transient-only properties. We have presented a summary of their aggregate performance from 2009 to 2014 in the following table, along with our projections of their future performance between 2015 and 2024. Our projections factor in the addition of 223 new transient rooms within the three Hotels in 2017 and 2020, along with the addition of three new comparable hotels in San Francisco.

Proposed Transient Hotels - San Francisco, CA Historical Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2009	973,455	-	702,566	-	72.2%	\$105.60	-	\$76.21	-
2010	973,455	0.0%	742,137	5.6%	76.2%	\$108.54	2.8%	\$82.75	8.6%
2011	973,455	0.0%	767,825	3.5%	78.9%	\$129.31	19.1%	\$102.00	23.3%
2012	973,455	0.0%	780,928	1.7%	80.2%	\$146.58	13.4%	\$117.59	15.3%
2013	973,455	0.0%	781,971	0.1%	80.3%	\$162.75	11.0%	\$130.74	11.2%
2014	973,820	0.0%	783,026	0.1%	80.4%	\$185.50	14.0%	\$149.15	14.1%
CAGR	0.0%	-	2.2%	-	-	11.9%	-	14.4%	-
2015	973,820	0.0%	779,100	-0.5%	80%	\$208.00	12.1%	\$166.41	11.6%
2016	1,042,805	7.1%	834,200	7.1%	80%	\$225.00	8.2%	\$179.99	8.2%
2017	1,099,015	5.4%	876,000	5.0%	80%	\$239.00	6.2%	\$190.50	5.8%
2018	1,139,165	3.7%	911,300	4.0%	80%	\$249.00	4.2%	\$199.19	4.6%
2019	1,179,315	3.5%	943,500	3.5%	80%	\$256.00	2.8%	\$204.81	2.8%
2020	1,204,500	2.1%	963,600	2.1%	80%	\$264.00	3.1%	\$211.20	3.1%
2021	1,204,500	0.0%	963,600	0.0%	80%	\$272.00	3.0%	\$217.60	3.0%
2022	1,204,500	0.0%	963,600	0.0%	80%	\$280.00	2.9%	\$224.00	2.9%
2023	1,204,500	0.0%	963,600	0.0%	80%	\$288.00	2.9%	\$230.40	2.9%
2024	1,204,500	0.0%	963,600	0.0%	80%	\$297.00	3.1%	\$237.60	3.1%
CAGR	2.4%	-	2.4%	-	-	4.0%		4.0%	

Source: PKF Consulting USA, a CBRE Company

As shown, occupancy for the competitive market has increased each year since 2009, and has remained near 80 percent since 2012 as the market reached stabilization. We project occupancy to remain at approximately 80 percent for the duration of our projection period due to continued expectations of high demand for hotel rooms from the leisure and commercial segments associated with the strong economic growth of the City.

ADR has grown by double-digits over the past four years, for overall compounded growth of 11.9 percent between 2009 and 2014. However, in order to maintain occupancy, we project ADR growth to gradually lower over the next few years and to stabilize at 3.0 percent annually by 2019.

The performance of the properties comprising the Hotels' primary competitive market is amongst the strongest in the nation, surpassing both national and regional trends by a significant margin. We are of the opinion that the addition of 632 new transient hotel rooms (between the four Subject Hotels and the three new competitive hotels) will not have any material impact on the overall market's performance. In fact, the City of San Francisco is vastly under-served with regard to hotel supply and generates a significant amount of unsatisfied demand that is displaced to other markets throughout the Bay Area.

3. Proposed Transient Hotels

Finally, we have presented our performance estimations for each Hotel's transient-only rooms in 2014, along with our projections of the occupancy and ADR the Hotels could achieve upon opening as transient-only properties. We have assumed that, in 2017, the Union Square Plaza Hotel will open as a 69-room hotel (after 61 rooms are converted from residential to transient rooms); the Mosser Hotel will open as a 201-room hotel (after 81 residential rooms are converted); and the Hotel Fusion will open as a 124-room hotel (after 12 residential rooms are converted). Finally, we have assumed that 120 Ellis Street will open as a fully-renovated, 69-room hotel in 2020.

First, our projections of historical and future performance for the Union Square Plaza Hotel are presented below.

Union Square Plaza Hotel Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	8	2,920	2,348	80%	\$75.00*	-	\$60.30	-
2015	8	2,920	2,348	80%	\$84.00	12.0%	\$67.54	12.0%
2016	8	2,920	2,348	80%	\$91.00	8.0%	\$73.16	8.3%
2017	69	25,185	20,249	80%	\$96.00	6.0%	\$77.18	5.5%
2018	69	25,185	20,249	80%	\$100.00	4.0%	\$80.40	4.2%
2019	69	25,185	20,249	80%	\$103.00	3.0%	\$82.81	3.0%
2020	69	25,185	20,249	80%	\$106.00	3.0%	\$85.22	2.9%
2021	69	25,185	20,249	80%	\$109.00	3.0%	\$87.64	2.8%
2022	69	25,185	20,249	80%	\$112.00	3.0%	\$90.05	2.8%
2023	69	25,185	20,249	80%	\$115.00	3.0%	\$92.46	2.7%
2024	69	25,185	20,249	80%	\$118.00	3.0%	\$94.87	2.6%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

As shown, we project that the Union Square Hotel's eight transient rooms achieved an ADR of \$75 in 2014, along with an occupancy of 80 percent (in line with competitive market averages). Applying the same growth rates as those outlined for the market, we believe that the property will achieve an ADR of \$96 upon opening as a 69-room transient property in 2017, after its 61 residential rooms are converted into transient rooms. Occupancy is expected to remain at 80 percent, in line with market-wide projections.

Below are our projections for the Mosser Hotel.

Mosser Hotel								
Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	120	43,800	35,215	80%	\$150.00*	-	\$120.60	-
2015	120	43,800	35,215	80%	\$168.00	12.0%	\$135.07	12.0%
2016	120	43,800	35,215	80%	\$181.00	8.0%	\$145.52	7.7%
2017	201	73,365	58,985	80%	\$192.00	6.0%	\$154.37	6.1%
2018	201	73,365	58,985	80%	\$200.00	4.0%	\$160.80	4.2%
2019	201	73,365	58,985	80%	\$206.00	3.0%	\$165.62	3.0%
2020	201	73,365	58,985	80%	\$212.00	3.0%	\$170.45	2.9%
2021	201	73,365	58,985	80%	\$218.00	3.0%	\$175.27	2.8%
2022	201	73,365	58,985	80%	\$225.00	3.0%	\$180.90	3.2%
2023	201	73,365	58,985	80%	\$232.00	3.0%	\$186.53	3.1%
2024	201	73,365	58,985	80%	\$239.00	3.0%	\$192.16	3.0%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

We project that the Mosser Hotel's 120 transient rooms achieved an ADR of \$150 in 2014, and that the property will achieve an ADR of \$192 in 2017 when its 81 residential rooms are converted into transient rooms. We also project occupancy levels to be in line with those of the market.

Next, our projections for the Hotel Fusion are presented below.

Hotel Fusion								
Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	112	40,880	32,704	80%	\$100.00*	-	\$80.40	-
2015	112	40,880	32,704	80%	\$112.00	12.0%	\$90.05	12.0%
2016	112	40,880	32,704	80%	\$121.00	8.0%	\$97.28	8.0%
2017	124	45,260	36,208	80%	\$128.00	6.0%	\$102.91	5.8%
2018	124	45,260	36,208	80%	\$133.00	4.0%	\$106.93	3.9%
2019	124	45,260	36,208	80%	\$137.00	3.0%	\$110.15	3.0%
2020	124	45,260	36,208	80%	\$141.00	3.0%	\$113.36	2.9%
2021	124	45,260	36,208	80%	\$145.00	3.0%	\$116.58	2.8%
2022	124	45,260	36,208	80%	\$149.00	3.0%	\$119.80	2.8%
2023	124	45,260	36,208	80%	\$153.00	3.0%	\$123.01	2.7%
2024	124	45,260	36,208	80%	\$158.00	3.0%	\$127.03	3.3%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

We estimate that, in 2014, the Hotel Fusion's 112 transient rooms achieved an ADR of \$100 with an occupancy of 80 percent. Applying market growth rates, we project that it will achieve an ADR of \$128 in 2017, by which time it will have converted 12 residential rooms to transient rooms. Occupancy is projected to remain at 80 percent.

Finally, our projections for 120 Ellis Street are presented below.

120 Ellis Street Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Hypothetical Occupancy	Hypothetical ADR	Market Growth	Hypothetical RevPAR	Percent Change
2014	-	-	-	80%	\$100.00	-	\$80.00	-
2015	-	-	-	80%	\$112.00	12.0%	\$89.60	12.0%
2016	-	-	-	80%	\$121.00	8.0%	\$96.80	8.0%
2017	-	-	-	80%	\$128.00	6.0%	\$102.40	5.8%
2018	-	-	-	80%	\$133.00	4.0%	\$106.40	3.9%
2019	-	-	-	80%	\$137.00	3.0%	\$109.60	3.0%
2020	69	25,185	20,148	80%	\$141.00	3.0%	\$112.80	2.9%
2021	69	25,185	20,148	80%	\$145.00	3.0%	\$116.00	2.8%
2022	69	25,185	20,148	80%	\$149.00	3.0%	\$119.20	2.8%
2023	69	25,185	20,148	80%	\$153.00	3.0%	\$122.40	2.7%
2024	69	25,185	20,148	80%	\$158.00	3.0%	\$126.40	3.3%

Source: PKF Consulting USA, a CBRE Company

While the property currently operates as a residential hotel, we believe that, if it were open as a fully-renovated transient property in 2014, it could have achieved a hypothetical ADR of \$100 (on par with the performance of the Hotel Fusion that year). Applying market growth rates, we are of the opinion that the hotel could achieve an ADR of \$141 upon opening as a transient hotel in 2020. We have projected occupancy levels in line with market averages.

C. PROJECT DESCRIPTION

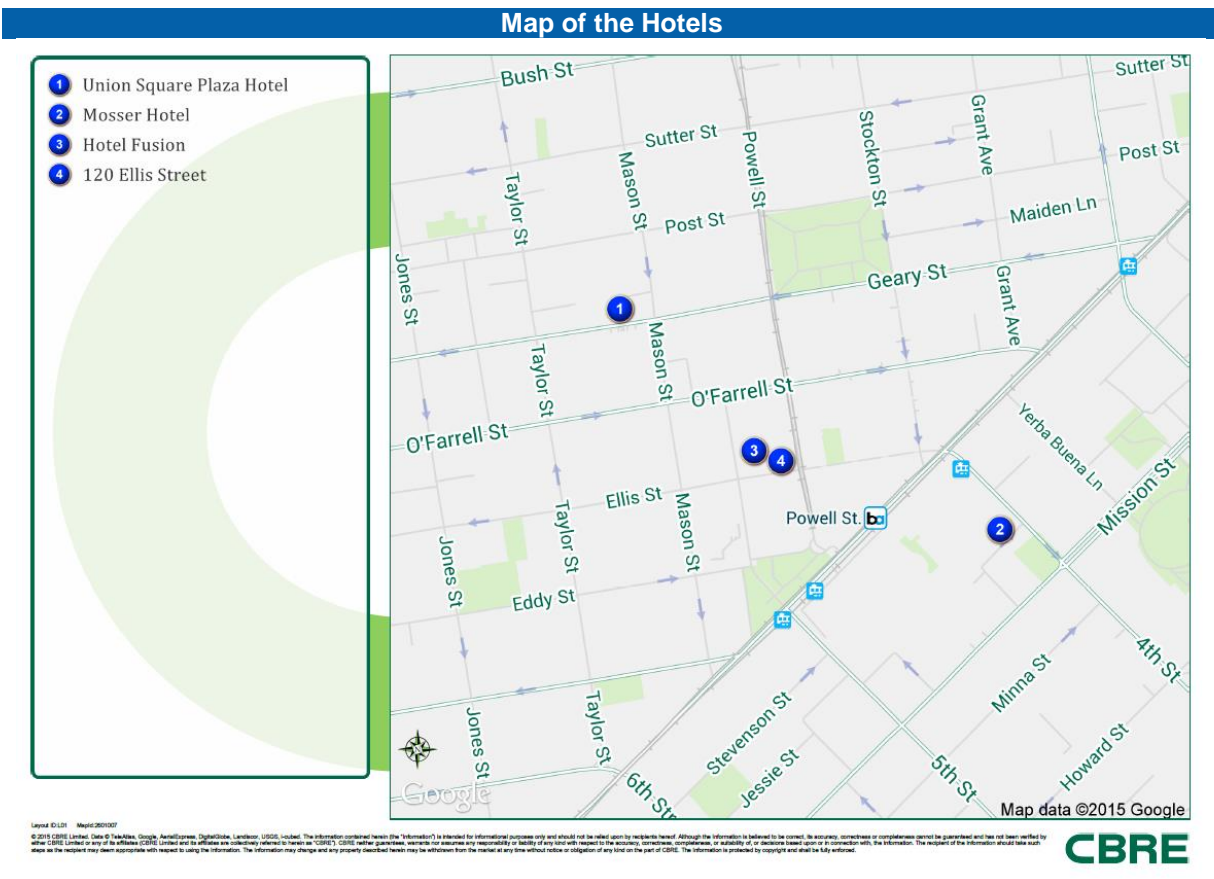
As we understand it, DKR Partners, LP (“DKR”) is planning to construct a mixed-use residential development near the intersection of Leavenworth and Turk Streets in San Francisco. We further understand that, as part of this development, DKR hopes to transfer use restrictions currently in place on three separate tourist/residential hotels (Union Square Plaza Hotel, Hotel Fusion, and Hotel Mosser) and one residential hotel (120 Ellis Street) that currently operate in San Francisco. The transfer of these use restrictions from the four existing facilities will result in the conversion of these existing buildings to traditional transient hotels, absent of use restrictions.

We have provided a summary of each of the three tourist/residential hotels and the residential hotel in the following table.

Summary of the Four Subject Hotels				
Hotel	Address	Current Tourist Rooms	Current Residential Rooms	Total Proposed Tourist Rooms
Union Square Plaza Hotel	432 Geary Street	8	61	69
Mosser Hotel	54 4 th Street	120	81	201
Hotel Fusion	140 Ellis Street	112	12	124
120 Ellis Street	120 Ellis Street	0	69	69
Total		240	223	463

These properties are located in San Francisco's Union Square District, considered to be the city's tourism heart. Therefore, the Hotels are in a prime location to serve the lodging needs of travelers to San Francisco. As will be discussed in further detail later in this report, we are of the opinion that sufficient demand exists to warrant the conversion of these Hotels' residential rooms to tourist rooms, and that the Hotels will be well received in the market upon opening as transient-only properties.

A map indicating the Hotels' locations in San Francisco is presented below, followed by a more in-depth description of each property.



1. Union Square Plaza Hotel

The Union Square Plaza Hotel, which is categorized as a budget boutique hotel, is located at 432 Geary Street, 1.5 blocks west of Union Square. This budget property includes 69 rooms, eight of which are designated tourist rooms and 61 of which are residential. We understand that transient rooms must be booked for fewer than seven days at a time, while the residential rooms are intended for seven or more days though stays are capped at three weeks. The Hotel offers limited guest amenities, including complimentary Internet and a 24/7 front desk, with guestroom amenities typically including one queen bed and a private bathroom (although some

rooms have shared bathrooms). It caters primarily to international guests, and its primary competitive advantages lie in its location near Union Square Plaza and its budget rates.

2. Mosser Hotel

The eight-story Mosser Hotel, which is categorized as an upscale boutique hotel, is located at 54 4th Street, directly north of the Westfield Shopping Centre and one block west of the Yerba Buena Gardens and the Moscone Center. This hotel features 120 transient and 81 residential rooms. Amenities include a meeting room, Annabelle's Restaurant, and guest laundry facilities. We understand that some rooms have shared bathrooms. The hotel was last renovated in 2001 for a cost of \$6 million, and was in very good condition at the time of inspection.

3. Hotel Fusion

The Hotel Fusion, which is also categorized as an upscale boutique hotel, is located at 140 Ellis Street, two blocks south of Union Square and one block north of the Powell Street BART Station, the cable car turn-around, and Westfield Shopping Center. This 124-room Hotel features 112 tourist and 12 residential rooms. Amenities at the property include the Infusion Lounge nightclub in the basement, complimentary breakfast, and a fitness center. The breakfast and fitness rooms, along with the General Manager's office, are currently located in converted guestrooms.

A \$1 million renovation of the Hotel's guestrooms and corridors is underway, and will be complete by the end of 2015. It will include new carpet, ceiling tiles, wallpaper, paint, and vanities. In addition, the property is undergoing a \$5 million renovation of its lobby and lounge area, which is also expected to be complete by the end of the year. Upon completion of the renovation, the Hotel will feature a dining room and an improved lobby area. We understand that a \$750,000 bathroom renovation is planned for the near-term, during which time the shower-tub combinations in 30 guestrooms will be replaced by shower-only stalls.

4. 120 Ellis Street

The 69-room property at 120 Ellis Street, adjacent to the Hotel Fusion, is entirely residential in nature. The property was in fair to poor condition at the time of inspection, though an extensive renovation is planned to convert the property to a transient property. Upon completion, we have assumed that it will be comparable in quality to the Hotel Fusion. While no budget has been prepared, we understand that it is expected to be complete sometime between 2019 and 2021. For the purpose of this appraisal, we have assumed that the property will open as a hotel by 2020.

We understand that the property is currently home to 32 residential tenants. We have been informed that these tenants will be offered rooms in the new residential buildings at their current rental rates after conversion to a transient hotel is complete.

D. AREA REVIEW

The market and financial performance of a hotel are often influenced by factors that can be broadly categorized as economic, governmental, social, and environmental. It is therefore necessary to evaluate the dynamics of these factors within the local and primary feeder markets to understand their effect on the performance of a lodging property. In this section, we have presented a brief overview of the state of the national and local economies.

1. National Overview

In analyzing the Subject, it is necessary to understand the current state of the U.S. economy. The United States fell into the worst recession since the 1930s beginning in December 2007. The downturn was exacerbated by the financial crisis that took hold of markets in September 2008. The U.S. economy was essentially in decline until approximately August 2009, when experts claim that the recession likely ended. Over this period, employers eliminated approximately eight million jobs, the largest drop in any post-World War II economic downturn. Credit was largely unavailable as banks worldwide recorded approximately \$1.6 trillion of losses and write-downs since the start of 2007.

Following the official end of the recession in August 2009, U.S. Gross Domestic Product ("GDP") posted an annually adjusted gain of approximately 3.8 percent in the fourth quarter of that year, though the annual GDP declined by 3.5 percent. GDP increased by an annualized rate of 3.0 percent in 2010, by just 1.8 percent in 2011 with an unexpected slowdown in the economy, and by 2.8 percent in 2012. Growth was only 1.9 percent in 2013, primarily as a result of a slowdown in business investment and federal government spending. The national GDP dropped 2.9 percent in the first quarter of 2014, contracting significantly more than originally expected and marking the worst drop since the first quarter of 2009. However, this contraction proved to be temporary, as GDP grew by 4.6 percent in the second quarter and 5.0 percent in the third quarter. Growth in the third quarter came in stronger than expected, and was due to positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, and government spending.

Owing largely to the effects of a sequestration implemented in 2013, an improving economy, the expiration of stimulus measures, and tax increases on high-income households, the federal deficit decreased to \$680 billion in fiscal year 2013. The deficit fell further to \$483 billion in the 2014 fiscal year, \$930 billion below the deficit

recorded in 2009. 2014 marked the lowest federal deficit since 2008 and represented just 2.8 percent of GDP, the lowest level since 2007. However, the Federal Reserve has expressed concerns that fiscal policy is restraining growth, and that deficits will fall so fast as to undermine recovery.

Another measure of economic health is an analysis of unemployment trends. The national unemployment rate has been gradually declining from a high of 10.0 percent in October 2009 to 5.5 percent in March of 2015. This is the lowest level achieved since May of 2008.

The national GDP grew by 2.2 percent in fourth quarter of 2014, down from 5.0 percent in the third quarter. The deceleration in real GDP growth in the fourth quarter primarily came as a result of an upturn in imports, a downturn in federal spending, a deceleration in nonresidential fixed investment, and a decrease in private industry investment, partly offset by accelerations in person consumer expenditures and in state and local government spending.

The U.S. economy has made broad gains since the Great Recession and companies are thriving. Payroll in 2014 expanded at the fastest pace since 1999, growing by an average of more than 215,000 jobs per month. As noted above, unemployment is at its lowest level since 2008. Companies in the Standard & Poor's 500 Index are the healthiest in decades, with the lowest net debt-to-earnings ratio in at least 24 years, \$3.59 trillion in cash and marketable securities, and record earnings per share. Overall, current economic conditions have also had a positive effect on the recent performance of the national lodging market.

2. State of California

Over the past decade, California has experienced the full spectrum of the economic cycle. It entered into a recession in the early 2000s, followed by a period of economic recovery and growth beginning in mid-year 2003. This recovery period was marked by a decline in the state's unemployment rate, an increase in the employment base, and strong growth in the state's gross domestic product, fueled by a diversifying knowledge-based economy. In conjunction with the strengthening of the national economy and a booming real estate market, California's economy prospered from mid-year 2003 through mid-year 2007. Beginning in the second half of 2007, the Californian economy slowed due to a national recession driven by the national mortgage credit crisis. This most recent recession lasted approximately 20 months and is believed to have ended in August 2009. After multi-billion dollar shortfalls in recent years, including a \$26.6 billion budget gap in 2011, California expects to end the 2014/15 fiscal year with a \$5.6 billion operating surplus, with revenues projected to continue to out-pace expenditures in the near-term.

3. City and County of San Francisco

Overview: San Francisco is the focal point of the Bay Area and a major West Coast financial, retail, and transportation center, with an economy driven primarily by technology and tourism. Although the city was negatively impacted by the economic downturn, it has been quick to rebound. A knowledge-based economy, coupled with numerous developments within the city, will continue to support economic growth in the region.

Population: According to the U.S. Census Bureau, San Francisco had a population of approximately 837,400 as of 2013. The population has grown at a compound annual growth rate (“CAGR”) of 0.8 percent over the past ten years, slightly lower than the statewide growth rate of 1.0 percent over the same period due primarily due to the city’s density and high housing costs. San Francisco’s population is projected to continue to trail that of the state for the next decade as residents relocate to more affordable areas in surrounding Bay Area cities.

Employment: According to the State of California Employment Development Department, San Francisco had an employment base of approximately 520,900 as of March of 2015. Major sectors within the city include professional and business services; trade, transportation, and utilities; government; and leisure and hospitality. However, San Francisco (and the entire Bay Area) is primarily known for its high-tech presence. The city has an estimated 50,000 tech employees overall, with approximately 28,000 employed within 50 major companies. A listing of the city’s top ten tech employers as of 2014 is presented in the following table.

Top Technology Employers – San Francisco		
Company	San Francisco Employees	Company-Wide Employees
Salesforce.com, Inc.	4,000	13,000
Google	2,500	53,861
Twitter	1,500	2,700
Lucasfilm Ltd.	1,500	-
Zynga	1,300	2,206
Adobe Systems, Inc.	1,000	11,700
Yelp Inc.	800	1,900
Autodesk Inc.	781	7,392
Square Inc.	700	-
Dolby Laboratories Inc.	700	1,578

Source: San Francisco Business Times

As with the rest of the nation, San Francisco’s unemployment rate has fluctuated greatly over the past two decades, with peaks in the early 1990s, early 2000s, and late 2000s. During the recent economic recession, the city reported an annual unemployment rate of 9.4 percent in 2009 and 9.5 percent in 2010, with the latter representing San Francisco’s highest unemployment rate of the past 20 years. This rate has dropped considerably in the years since, and was reported to be 3.6 percent as of March of 2015, lower than the national rate of 5.5 percent that month

due to the city's highly-trained workforce and concentration of high-growth technology companies.

Commercial Office Market: The downtown San Francisco commercial office market consists of approximately 89.6 million square feet of net rentable area. The office market can be generally categorized into 13 sectors, which consist of: 1) North Financial District, 2) South Financial District, 3) Union Square, 4) Yerba Buena, 5) SOMA West, 6) SOMA East, 7) Civic Center/Mid-Market, 8) Jackson Square, 9) North Waterfront, 10) Van Ness Corridor, 11) Potrero West, 12) Potrero East, and 13) Mission Bay. The Hotels are located in the Union Square sector.

The San Francisco office market continues to be fueled by the growth of its tech sector. Leasing activity was robust throughout 2014, driven primarily by the expansion and emergence of technology companies. The market experienced a total of 2.8 million square feet of positive net absorption for 2014, with the overall vacancy rate declining to 7.5 percent for the year as companies expanded their footprint and several more than doubled their current space. Decreasing vacancy for creative space in the South Financial and SOMA districts led to a growing trend of technology tenants spilling over into Mid-Market areas. Overall market rents have increased notably as the scarcity of space has driven rental rates skyward.

Convention Center: San Francisco is home to the Moscone Convention Center, which is responsible for an estimated 21 percent of all tourism to San Francisco. The Center features three wings: Moscone North, South, and West. Moscone North offers 181,440 square feet of exhibit space in two halls and up to 53,410 square feet of flexible meeting space in 17 rooms. Moscone South offers 260,560 square feet of exhibit space, divisible into three halls, along with 60,580 square feet of meeting space within 41 flexible meeting rooms. The newest addition to the center, known as Moscone West, opened in June of 2003, and provides an additional 300,000 square feet of flexible exhibit and meeting space. Combined, the Center offers over 740,000 square feet of exhibit space, up to 106 meeting rooms, and as many as four ballrooms.

However, the city believes that this is insufficient to support local convention demand, and the San Francisco Travel Association estimates that the City will have lost nearly \$2.1 billion in meeting revenue between 2010 and 2019 as a result of space limitations. Thus, the Center is undertaking a \$500 million project to construct a 350,000 to 400,000 square foot addition, which includes over 80,000 square feet of contiguous exhibit space. The project will also include the construction of two new pedestrian bridges connecting the upper levels of Moscone North and Moscone South, as well as an upgrade to the existing pedestrian bridge across Howard Street. Phase 0 of three phases began in December 2014 and includes all behind-the-scenes work in preparing for construction of the expansion. The actual ground-breaking of the project is anticipated to occur in April 2015, with a projected completion date of November 2018.

Tourism: San Francisco is a world-class tourist destination and is widely appreciated for its numerous attractions, picturesque scenery, and diverse culture. It is consistently ranked as one of the top ten best cities to visit by the *Condé Nast Traveler's* Readers' Choice Awards, and has received a variety of additional accolades from other national and international publications. San Francisco hosted approximately 18.01 million visitors in 2014, up 6.5 percent from 2013. These visitors spent \$10.67 billion in 2014, up 13.7 percent from the previous year. This massive influx of visitor dollars has benefited hotels, restaurants, retail shops, local attractions, and cultural institutions, and has in fact bolstered practically every segment of the city's economy. It has also remained a positive influence on government finances, with tax and fee revenues totaling approximately \$665 million in 2014 – an increase of 8.0 percent over 2013 levels. Due to a high volume of visitation, the city's hotel rooms achieve one of the highest annual occupancy levels in the nation.

City Developments: San Francisco continues to be involved in various medium to large- scale development projects that will revive some underused areas and improve other already-popular districts of the city, such as the Embarcadero and Mission Bay. These projects are discussed further in the following paragraphs.

The continuous development of **The Embarcadero**, San Francisco's waterfront area between Mission Bay and Fisherman's Wharf, is part of a master plan known as the Waterfront Land Use Plan of 1997. This mixed-use plan emphasizes opening up the bay to residents and tourists and promoting the development of abandoned piers and buildings into more attractive uses. Between 1997 and 2014, 63 new acres of waterfront open space have been constructed, 19 historical resources have been rehabilitated, seven derelict piers and wharves have been removed, and AT&T Park has been constructed. The Ferry Building, a San Francisco landmark, is the most visual of the numerous Embarcadero developments. After a comprehensive renovation and restoration in 2003, the Ferry Building now houses numerous restaurants, shops, and a popular farmers' market. Additional restaurants and retail outlets along Steuart Street (which runs parallel to the waterfront) and on the first and second floors of the Embarcadero Center have made this area a destination on evenings and weekends.

Current projects in the planning stages for the Embarcadero include the following:

- Construction of an affordable housing development and a new welcome center for the National Park Service at Alcatraz Landing;
- The re-purposing of Pier 29 to potentially include new retail facilities;
- Construction of a \$345 million residential and commercial development at 8 Washington Street;
- The repairing of the Pier 38 bulkhead;

- A redevelopment of Pier 48 to include a new brewery for Anchor Steam, a waterfront park, and 3.6 million square feet of retail, light manufacturing, commercial, and residential uses;
- Construction of the nine-acre Crane Cove waterfront park at Pier 70;
- Redevelopment of a 28-acre site at Pier 70, to potentially include the construction of 950 residential units; 2.6 million square feet of office, retail, and commercial uses; rehabilitation of four historic buildings; seven acres of open space; and parking structures;
- The construction of an automobile import/export terminal at Pier 80; and,
- Development of cargo terminal at Pier 90 to facilitate the export of iron ore mining products.

Mission Bay, a 303-acre redevelopment area located just north of AT&T Park, is the city's largest raw land development project and is being promoted as the future headquarters to the world's biotechnology industry. When fully complete, the project could potentially include 6,000 housing units (including 1,700 designated affordable units), 4.4 million square feet of commercial space, a 2.65 million square foot UCSF research campus, a UCSF hospital complex (which opened its first phase in February), 500,000 square feet of retail space, a 500-room hotel, 41 acres of open space, a 500-student public school, a public library, a new fire and police station, and other community facilities. Mission Bay is expected to create more than 30,000 new jobs. Development began in 2000 and will take place over 20 to 30 years, and is expected to cost in excess of \$4 billion.

The ongoing development of Mission Bay has led to the revitalization of the nearby **Rincon Hill** and **Dogpatch** neighborhoods. A 49-story, 298-unit residential development at One Rincon Hill opened in 2014 as a companion to an existing 64-story, 390-unit tower. In addition, over 1,500 housing units are proposed or under construction in the Dogpatch area.

The **Golden State Warriors** basketball team has plans to relocate from Oakland to San Francisco, and hopes to begin construction soon on a privately-funded \$800 million arena. This arena would be built in Mission Bay on a 12-acre site bounded by South Street, Terry Francois Boulevard, 16th Street, and 3rd Street. The 18,000 seat structure would include a view deck and two public plazas, and would also host conventions and entertainment events. Completion is slated for the start of the 2018-19 NBA season, but will likely be completed by the 2017-18 season.

Redevelopment of the **Transbay Terminal** in San Francisco's SOMA neighborhood began in December 2008. This \$4.5 billion transportation and housing project will replace the current Transbay Terminal at First and Mission Streets with a modern regional transit hub connecting eight Bay Area counties through 11 transit systems. The project will consist of three elements: replacing the existing terminal; extending CalTrain and the California High Speed Rail underground; and creating a new neighborhood with homes, offices, parks, and shops surrounding the new Transit

Center. The center could potentially include the construction of over six million square feet of new office space, 4,400 units of new housing (1,200 of which will be affordable), 100,000 square feet of new retail, 1,000 new hotel rooms, a 1,070-foot Salesforce Tower, and 11 acres of public parks. Once completed, the new Transit Center will accommodate over 100,000 passengers each weekday and up to 45 million people per year. Construction is scheduled to be complete by the fall of 2017.

Treasure Island, a former naval base, is currently in the early planning stages of conversion to civilian use and incorporation into the jurisdiction of San Francisco. Current plans for the \$1.5 billion project call for the development of approximately 8,000 residential units, 235,000 square feet of retail space, up to 500 hotel rooms, a marina, and a ferry terminal. Additional developments may include an organic farm, wind farm, parkland, and tidal marshes. While the project has been mired in lawsuits, we understand that the project is proceeding though the private developers still need approval for each sub-phase of the project.

The western and eastern spans of the **Bay Bridge**, which connect on Yerba Buena Island, are also currently undergoing a much-needed retrofit and the construction of a new eastern span. This infrastructure improvement will support the continuous growth of the Bay Area economy for the next 50 years. Furthermore, the Bay Bridge recently installed a 1.8-mile LED lighting system. While this installation was scheduled to be closed in March 2015, a sturdier set of lights will be installed in time for Super Bowl 50 in February 2016, which will be held at Levi's Stadium in Santa Clara.

San Francisco has long been known for its art and culture and is the home to a diverse selection of museums, many of which have undergone expansions or renovations in recent years. Notably is the San Francisco Museum of Modern Art ("SFMOMA"), which closed in June 2013 to undergo a \$295 million expansion to triple the amount of gallery space; it is projected to re-open in 2016. In the meantime, SFMOMA is pursuing off-site, community-based programs in partnership with several local institutions and has also installed public art projects throughout the city.

The **Hunters Point Shipyard**, a former naval base, is a master-planned community of approximately 500 acres. A two-phase development program is planned for the area: Phase I will include the construction of 1,600 homes (27 to 40 of which will be affordable) and 26 acres of open space. Phase II provides for an additional 10,500 new housing units (32 percent of which will be affordable) and over three million square feet of research and development uses centered around green and clean technology uses. Phase I and II will generate hundreds of new construction jobs each year, and ultimately will create over 10,000 permanent jobs. The redevelopment project is projected to take seven years and \$15 billion to complete.

One of the fastest-growing neighborhoods in San Francisco is **Mid-Market**, which generally refers to the area bordered by Market, 5th, Mission, and 9th Streets. Approximately 35 projects are currently in varying stages of development in and around this fast-growing area. These include multi-family residential, retail, office developments, and several boutique hotels, which will be discussed in further detail later in this report.

Transportation: San Francisco has a well-developed transportation system with sophisticated air, highway, rail, trucking, and water infrastructure. Each is discussed in the paragraphs below.

The San Francisco International Airport (“SFO”) is located approximately 15 miles south of San Francisco between the cities of South San Francisco and Millbrae. Passenger volume has increased steadily since 2004, aided by the expansion of services by Southwest Airlines and Virgin America in 2008. Overall, passenger traffic has increased at a CAGR of 1.5 percent since 1995, with 2014 representing the strongest year in terms of passenger counts. That year, SFO served 47,155,100 inbound and outbound passengers. A \$383 million renovation of Terminal 2 was completed in April 2011 that included a new control tower, the use of green materials, and a seismic retrofit. The newly-renovated terminal features permanent art installations from Janet Echelman, Kendall Buster, Norie Sato, Charles Sowers, and Walter Kitundu. Terminal 2 set accolades by being the first U.S. airport to achieve LEED Gold status. It is home to Virgin America and American Airlines, who share the 14-gate common-use facility.

Additional airports that service the San Francisco Bay Area include the Oakland International Airport approximately ten miles east of San Francisco, and the San Jose International Airport approximately 40 miles south.

The major highways in and out of the city include Interstates 80 and 280 and Highways 1 and 101. Interstate 80 connects with the Bay Bridge and Oakland, and Highway 101 connects with the Golden Gate Bridge and Marin County.

Bay Area Rapid Transit (“BART”), a high-speed rail system, is a major commuter transportation system that links 43 stations in the Counties of Alameda, Contra Costa, San Mateo, and San Francisco. BART has had a tremendous impact on the Bay Area, transporting approximately 70 million passengers annually and, thus, facilitating the region’s commercial and residential growth. The CalTrain system provides commuter rail service to Peninsula cities from San Francisco to Gilroy, and the MUNI light rail and bus systems facilitate transportation throughout the city. All four hotels are located within four blocks of the Powell Street BART station, which facilitates direct access to such attractions as San Francisco’s financial district, the San Francisco International Airport, and the Oakland International Airport.

Conclusion: While San Francisco was negatively impacted by the latest recession of 2008 and 2009, the City has rebounded quickly due to its economic diversity and

knowledge-based employment. Furthermore, San Francisco has a booming tourism industry that is projected to remain healthy given its world-renowned reputation, ongoing improvements, and easy accessibility. As such, we are of the opinion that local demographic and economic conditions will facilitate demand for the three transient Hotels.

E. HOTEL MARKET ANALYSIS

1. National Market Overview

In addition to PKF Consulting, our Firm contains a research division, PKF Hospitality Research. Beginning in 2007, PKF unveiled its powerful *Hotel Horizons®*, an economics-based hotel forecasting model that projects five years of supply, demand, occupancy, ADR, and RevPAR for the U.S. lodging industry with a high degree of accuracy. *Hotel Horizons®* reports are published on a quarterly basis for 55 markets and six national chain-scales.

Based on the *March – May 2015 National Edition* of Hotel Horizons® prepared by PKF Hospitality Research, revenue per available room (“RevPAR”) for the national lodging market increased by 5.4, 8.1, 6.6, 5.4, and 8.3 percent, respectively, between 2010 and 2014. As a point of comparison, the U.S. lodging market experienced a decline in RevPAR of 16.7 percent in 2009, the largest percentage drop since PKF began tracking lodging performance in 1935. This significant decline was a direct result of the severe national and global recession which began in the fall of 2007 and lasted well into 2009. RevPAR is projected to grow by 7.3 percent in 2015, 6.5 percent in 2016, and 4.0 percent in 2017, attributable primarily to ADR gains. RevPAR growth is projected to stabilize at inflationary rates thereafter.

2. San Francisco Lodging Market Overview

Of the total 33,642 hotel rooms in San Francisco recorded by the San Francisco Convention and Visitors Bureau, we have categorized hotels totaling 24,851 available rooms as representing the city's primary hotel supply as of year-end 2014. The remaining 8,791 rooms ($33,642 - 24,851 = 8,791$) consist of small, limited-service motels and "residential" hotels. The primary hotel supply can generally be categorized into five lodging products or classifications: luxury, first-class/convention, boutique, middle-market, and limited-service. These hotels are generally located within five primary lodging sectors: Union Square/Moscone, Nob Hill, the Financial District, Fisherman's Wharf, and Civic Center/Van Ness Corridor. While these are distinct areas with their own supply and demand dynamics, there is often some market area overlap.

Luxury Hotels provide extensive and personalized services along with high-quality furnishings, superior food and beverage facilities, and extensive, varied guest

amenities. The emphasis on personalized guest services results in a high employee-to-guest ratio, an intimate atmosphere, and high room rates. These properties provide meeting and banquet space; however, the emphasis is on catering to small meetings of less price-sensitive, top-level professionals and executives.

First-Class/Convention Hotels have guest services, amenities, and product quality designed to appeal to middle and high-income convention and individual travelers. These are medium to large properties which offer high quality but less personalized service than luxury hotels. First-class hotels usually offer a variety of food and beverage facilities at varying price ranges. In San Francisco, they are located near the Moscone Convention Center, Financial District, or various tourist attractions. Meeting facilities are provided to accommodate the group and convention segment needs. Many first-class hotels provide designated floors with special services for the upscale executive traveler. Generally, these hotels are newer or well-maintained older properties. Room rates typically fall between luxury room rates and the citywide ADR.

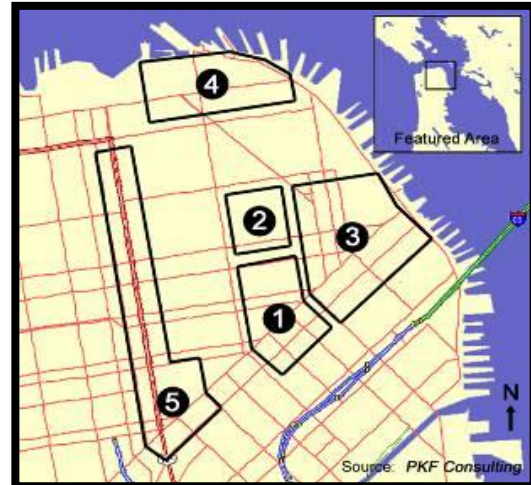
Boutique Hotels are older buildings, typically ranging in size from 80 to 200 rooms. The majority of these hotels have been fully renovated within the last ten to 15 years. Because renovation or conversion of an existing hotel or office building is generally less expensive than building a new facility, these properties are able to offer below-market room rates for a high-quality product. In San Francisco, boutique hotels have developed a significant market presence, competing with the full-service hotels for the commercial and leisure traveler. They typically have limited meeting space and small public areas, and have eliminated expensive overhead such as extensive food and beverage facilities. A number of boutique hotels do, however, have “signature” restaurants on-premises that are marketed independently of the hotel and have achieved a high level of recognition for quality and uniqueness. The four Subject Hotels will fall into this classification upon opening as transient-only facilities.

Middle-Market Hotels appeal to the middle-income individual and family traveler. Tour operators primarily book these hotels because they offer a good compromise among service, product quality, and room rate. Guest service is usually good, but with few frills. Food and beverage facilities are limited and more economical than in first-class hotels. Room rates are typically similar to the citywide average.

Limited-Service Hotels generally range in size from 30 to 150 rooms. These properties offer room rates at the lower end of the scale and commonly do not offer on premise food and beverage facilities or recreational components. This lodging product type is located outside of the more highly trafficked areas such as the Financial District or Union Square, and is instead proximate to the Civic Center, SOMA, and Lombard Street. This product-type generally does not compete, directly or indirectly, with the four other lodging products discussed.

a. Primary Lodging Sectors

The five primary lodging sectors in San Francisco are: 1) Union Square/Moscone; 2) Nob Hill; 3) the Financial District; 4) Fisherman's Wharf; and 5) Civic Center/Van Ness Corridor. While these are distinct areas with their own supply and demand dynamics, there is often some market area overlap. The map to the right indicates the general location of these sectors within San Francisco.



Union Square/Moscone: This sector's location makes it attractive to most lodging demand, as Union Square is proximate to the Financial District and the Moscone Convention Center. Union Square is one of the nation's most prestigious retail districts, continually attracting new retail shops and expanding its existing stores. Westfield San Francisco Centre is the largest shopping center in this district, as well as one of the largest in the country. This general area also includes the growing SOMA district and the Museum of Modern Art, Yerba Buena Gardens, and the Sony Metreon.

Union Square contains the city's largest supply of hotel rooms and attracts a mix of commercial, leisure, and group travelers. This sector has benefited from the completion of Moscone West in 2003 and will benefit further from the Center's upcoming expansion. The four Hotels are located within the Union Square market.

Nob Hill: This lodging sector has the most prestigious location in the city, with luxury properties including the Ritz-Carlton, Renaissance Stanford Court, Fairmont Hotel, and the Mark Hopkins-InterContinental. However, it is also the smallest of the lodging sectors in terms of number of properties and number of guestrooms. The Ritz-Carlton, which opened in 1991, was the first addition to this sector's supply since the mid-1970s. Typical guests are upper-income corporate and leisure travelers, as well as the high-end group market. Historically, this sector has commanded the highest ADR in the city, but with a below-average occupancy. This is due to the higher cost of the hotel rooms and to their somewhat removed, hilltop location.

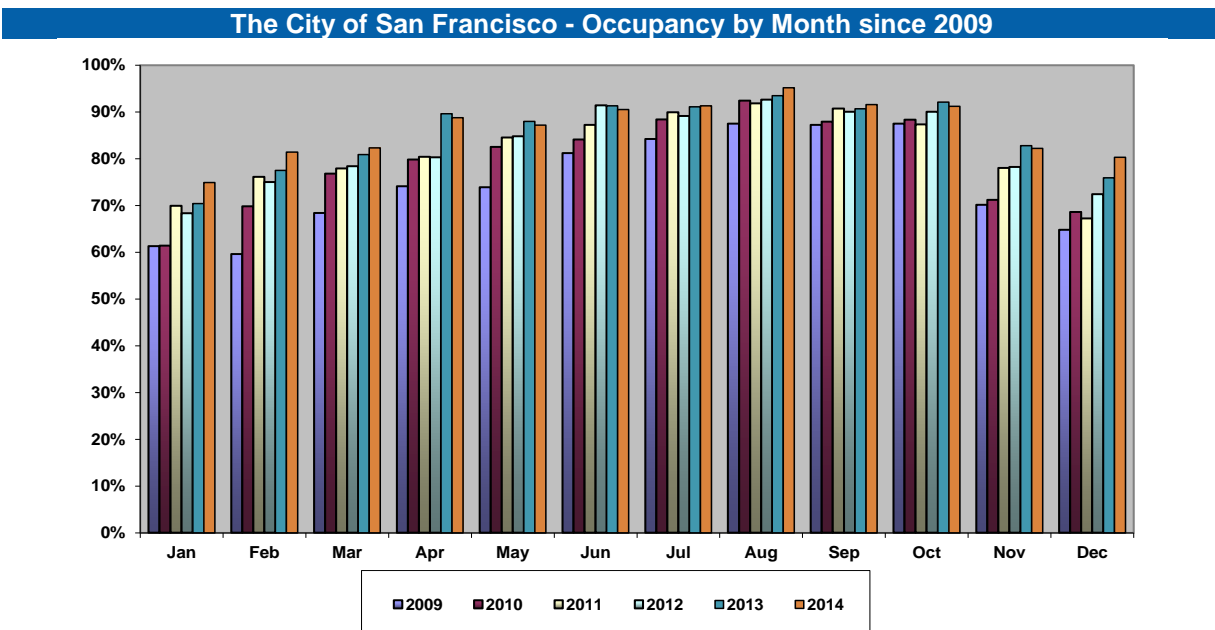
Financial District: The major demand generator for the Financial District lodging sector is the high-density office population located within the area, both north and south of Market Street. Typical guests in this sector are middle to high-income business, professional, and group travelers. Hotels in this neighborhood attract primarily commercial visitors due to their location. They experience their highest demand on weekdays, and obtain above-average occupancy and ADRs.

Fisherman's Wharf: This area is considered to be one of the top tourist attractions in Northern California. Its hotels are designed and oriented primarily to service middle-income families visiting San Francisco. However, given its proximity to the Financial District, the hotels attract a secondary share of business travelers. Most of the major U.S. lodging chains are represented in this sector by their respective mid-level products such as Best Western, Hilton, Holiday Inn, Hyatt, Marriott, Radisson, and Sheraton. Furthermore, this sector is family-friendly due to its convenience, price point, and proximity to venues and attractions. Consequently, families visiting San Francisco perceive a more casual and comfortable ambiance in the Fisherman's Wharf lodging sector as opposed to Nob Hill, Union Square, or the Financial District. Historically, this sector has achieved the highest occupancy of all the city's sectors. ADR, on the other hand, is typically below the overall average.

Civic Center/Van Ness Corridor: This lodging sector stretches along Van Ness Avenue, reaching south from the San Francisco Civic Center into SOMA, north to Fisherman's Wharf, and along Lombard Street into the Cow Hollow area. This lodging sector caters to the more price-sensitive visitors to San Francisco, as well as state and federal government employees. A number of the lodging products in this area have large meeting facilities geared toward the mid-market group segment. Historically, its composite occupancy and ADR tends to be the lowest of the five lodging sectors.

3. Seasonality of Demand

The seasonality of demand in San Francisco is largely tied to leisure travel as well as the convention calendar. Presented in the following table is a graph summarizing the city's occupancy by month for the past six years.

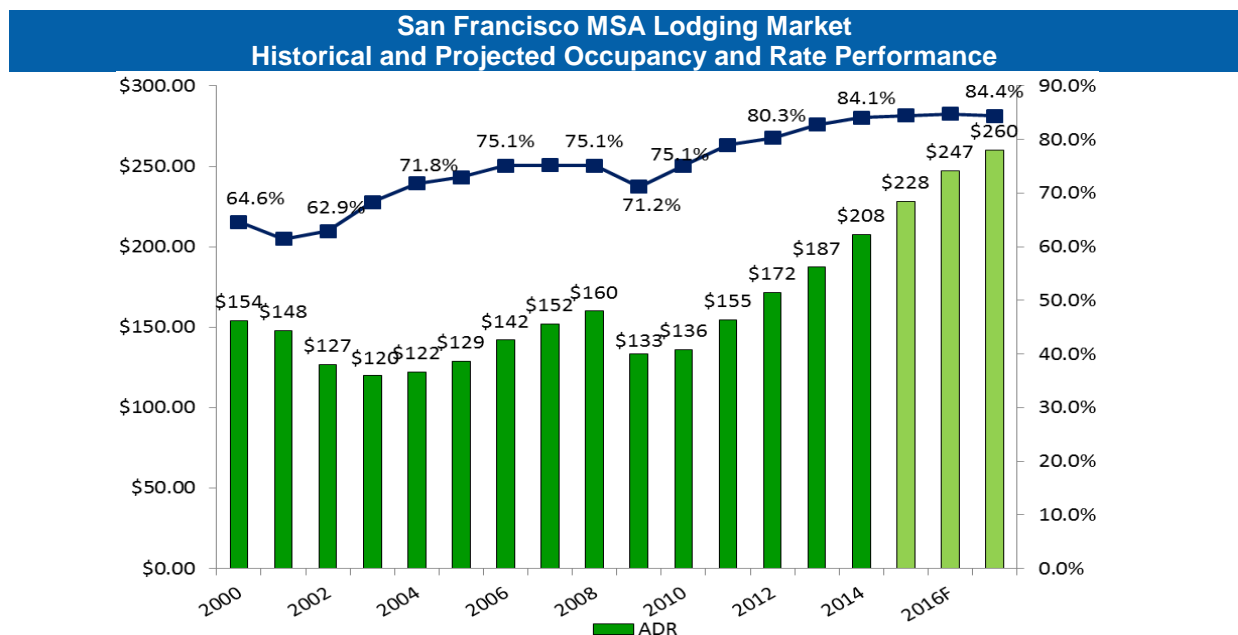


Source: PKF Consulting USA

As noted, San Francisco hotels run a high occupancy year-round. However, the summer and fall months of June, July, August, September, and October are generally the strongest due to the seasonal increase of leisure travelers in the summer and to the high volume of conventioners in the fall. March, April, and May are also strong months due to convention activity. January, February, November, and December are the slowest months, as both commercial and leisure travel declines during the holiday season. However, occupancy during these months still well exceeds national averages.

4. Historical Performance

Presented in the following chart is a summary of the historical performance of the overall San Francisco MSA lodging market from 2000 through 2014, along with performance projections through 2017. This historical and projected future performance is compiled by PKF Hospitality Research. It should be noted that the historical and projected performance of the competitive market includes hotels located in San Francisco, San Mateo, and Marin Counties.



Source: PKF Hospitality Research

Occupancy has historically been strong for the San Francisco MSA lodging market, averaging 73.3 percent and ranging from a low of 61.5 percent in 2001 to a high of 84.1 percent in 2014. With occupancy levels this high, the MSA generated a significant amount of unsatisfied demand, or demand that was turned away to other Bay Area markets due to the limited supply growth during those years. This high demand allowed hotel managers to significantly increase room rates. Between 2011 and 2014, the San Francisco MSA achieved rate growth ranging between approximately 9.0 and 14.0 percent per year, resulting in a year-end 2014 ADR of

\$208. It should be noted that hotels within the City of San Francisco achieve a premium in ADR over the markets comprising the San Francisco MSA, as well as an overall higher occupancy level.

Between 2015 and 2017, occupancy is projected to slightly fluctuate between approximately 84 and 85 percent. ADR growth of approximately 10.0, 9.0, and 5.0 percent is projected in 2015, 2016, and 2017, respectively. This rate growth results in a year-end 2017 ADR of \$260, which is the highest ADR level recorded for the San Francisco MSA. Lastly, it should be noted that the City of San Francisco is generally regarded as the strongest lodging market in the United States, achieving record occupancy levels and extraordinary average rate growth with very few projected additions to supply. In fact, lodging demand is forecast to remain so strong that the City of San Francisco has a significant undersupply of new rooms in the development pipeline, ensuring strong occupancy levels for many more years.

5. Changes to Supply

The strength of the local hotel market in the late 1990s resulted in the planning and development of numerous hotel projects, which have included building conversions, renovations, and new construction on sites throughout the city. However, as a result of the economic downturn in the early 2000s coupled with high construction costs, only five hotels (with a total of 1,117 rooms) have opened since 2005. The most recent addition was the 22-room Inn at the Presidio, which opened in March of 2012 within the Presidio National Park. This new hotel has achieved occupancy levels in excess of 80 percent since opening, indicating the strength of the San Francisco market. Eleven hotels (excluding the three Subject Hotels) are currently proposed, three are under construction, and three have completed or are currently undergoing conversions. We have provided a summary of these projects in the following table.

New and Updated Hotel Supply – San Francisco, CA			
Project No.	Project Name	Address	Room Count
Under Construction			
1	Hampton Inn	942 Mission St.	174
2	Holiday Inn Express	235 O'Farrell St.	57
3	Unnamed Hotel	144 King St.	132
	<i>Subtotal</i>		363
Planning			
4	Unnamed Boutique Hotel	950-974 Market St.	220
5	Hotel SoMa	690 5th St.	75
6	Unnamed Hotel at Block 1	1000 Channel St.	250
7	Unnamed Hotel	701 3rd St.	225
8	Unnamed Hotel	250 4th St.	215
9	Moxy Fisherman's Wharf	1196 Columbus Ave.	65
10	Unnamed Hotel	1095 Market St.	202
11	Building 105 Hotel	The Presidio	38
12	Unnamed Hotel	1053-55 Market St.	155
13	Unnamed Hotel	72 Ellis St.	156
14	Unnamed Hotel	5 3 rd Street	N/A
	<i>Subtotal</i>		1,601
Conversions			
15	Hotel G (Open)	386 Geary St.	153
16	Renoir Hotel	45 McAllister St.	135
17	Vantaggio Suites Cosmo	761 Post St.	150
	<i>Subtotal</i>		438

As shown, 363 hotel rooms are under construction in San Francisco. First is a 174-room Hampton Inn located two blocks south of the Mosser Hotel at 942 Mission Street, which is being developed by G and M Hospitality and is expected to open by June 1, 2015. Second is a 57-room Holiday Inn Express located directly north of the Hotel Fusion at 235 O'Farrell Street, above Johnny Foley's Irish House. We have projected an opening date of January 1, 2016 for this property. Third is a 132-room boutique hotel just across from AT&T Park at 144 King Street. This 12-story hotel, which is being developed by David O'Keeffe and designed by Stanton Architecture, will include a first floor restaurant and bar. It is projected to open in the latter half of 2016.

In addition to these hotels, 1,601 rooms are currently proposed. As mentioned earlier in this report, other hotels have been discussed as part of the master plan for various large-scale development projects throughout the city (i.e. Mission Bay and the Transbay Terminal); however, no developer or programming has yet been selected. As such, we have not included them in our analysis.

Finally, the Hotel Frank was recently converted into the Hotel G, the Renoir Hotel is undergoing a \$41.2 million renovation into a high-end boutique hotel with a rooftop bar, and the Vantaggio Suites is being converted into a Courtyard by Marriott. However, these conversion projects will not result in a net increase in supply within the San Francisco market.

A brief summary of each project is presented in the following paragraphs.

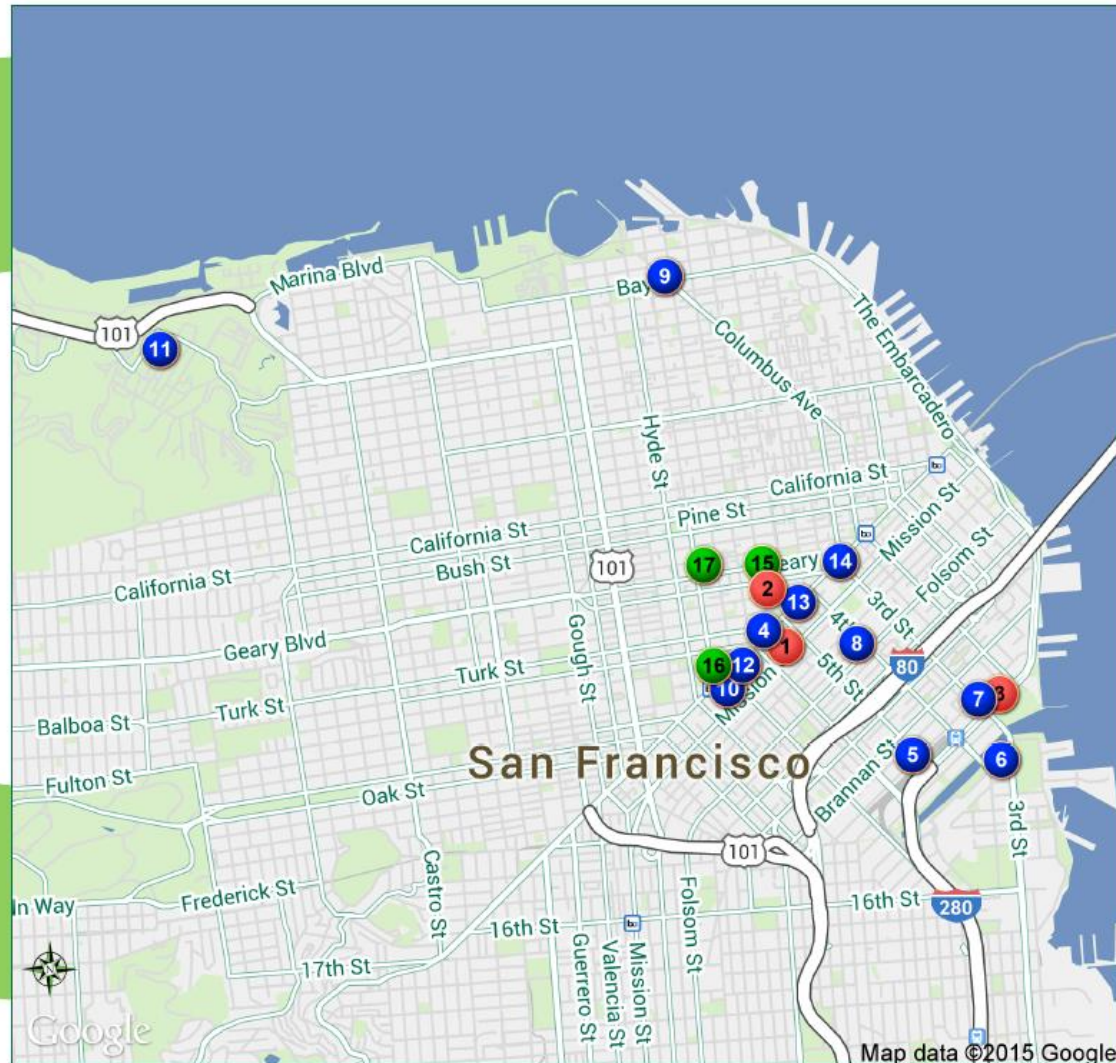
1. **942 Mission:** Construction is nearing completion on a six-story Hampton Inn hotel at 942 Mission Street. It is being developed by G and M Hospitality, and is projected to open by June 1, 2015.
2. **Holiday Inn Express:** A 57-room Holiday Inn Express is under construction at 235 O'Farrell Street, above Johnny Foley's Irish House. We have projected an opening date of January 1, 2016 for this hotel.
3. **144 King St:** A 12-story, 132-room boutique hotel is being developed by David O'Keeffe on a site across from AT&T Park. This 12-story hotel will offer a roof garden, a bar, and views of the downtown skyline.
4. **950-974 Market St:** Group I plans to develop a 220-room lifestyle boutique hotel as part of a mixed-use development in the Mid-Market neighborhood.
5. **690 5th St:** Townshend Associates, LLC has plans to demolish an existing office building and construct the 75-room Hotel SoMa with a 5,000 square foot café.
6. **1000 Channel St:** This three-acre site, known as Block 1, will be developed by Strata Investment Group into a \$220 million hotel and residential complex. The hotel portion will encompass an estimated 250 rooms and 15 floors, with construction expected to begin in the fourth quarter of 2015.
7. **701 3rd St:** Stonebridge Corporation has plans to build a 225-room, ten-story hotel on a 13,750 acre site which is currently improved with a McDonald's restaurant.
8. **250 4th St:** Developer Jay Singh has plans to demolish an existing three-story office building in SoMa and develop an 11-story, 215-room hotel.
9. **1196 Columbus Ave:** J Street Hospitality is planning to develop a Moxy Hotel in the Fisherman's Wharf neighborhood. In December of 2014, J Street acquired the site (which is currently developed by a vacant, single-story retail building) and filed plans with the city for development of a hotel.
10. **1095 Market St:** A historic building in the Mid-Market neighborhood may be converted into a 202-room YOTEL.
11. **The Presidio:** Presidio Trust intends to convert an existing building into a 35 to 40 room hotel to open in spring 2017.

12. **1053-55 Market St:** G and M Hospitality (the developers of the Hampton Inn) have plans to demolish the Kaplan's Surplus store and construct a 10-story hotel with 155 rooms and ground floor retail.
13. **72 Ellis St:** Plans have been extended by the city for demolition of an existing parking lot and the construction of an 11-story, 156-room hotel with ground floor retail.
14. **5 3rd Street:** Hearst Corporation, which currently owns the Hearst Building at 5 3rd Street, is considering leasing this building to a to-be-formed joint venture of JMA Ventures and Mr. Darius Anderson to redevelop the building and operate it as a boutique hotel.
15. **386 Geary St:** Conversion of the Hotel Frank to the Hotel G was completed in 2014 after a complete remodel.
16. **45 McAllister St:** The Renoir Hotel is currently undergoing a \$41.2 million renovation into a high-end boutique hotel with a rooftop bar. The project has encountered delays after the building caught fire in September of 2014, though is still underway.
17. **761 Post St:** The Vantaggio Suites Cosmo hotel will be converted to a Courtyard by Marriott property after undergoing approximately \$13 million in renovations.

A map indicating the location of these 17 hotel projects is presented on the following page. It is interesting to note that most of these projects are located within close proximity to the Union Square district, where the four Hotels are located. This indicates the high-demand for hotel rooms in this neighborhood, which is proximate to a variety of leisure and commercial demand generators and benefits from proximity to the Moscone Convention Center.

Map of New Hotel Supply – San Francisco, CA

- 1 942 Mission St
- 2 235 O'Farrell Street
- 3 144 King Street
- 4 950 Market Street
- 5 690 5th Street
- 6 1000 Channel Street
- 7 701 3rd Street
- 8 250 4th Street
- 9 1196 Columbus Ave
- 10 1095 Market Street
- 11 The Presidio
- 12 1053 Market Street
- 13 72 Ellis Street
- 14 5 3rd Street
- 15 386 Geary Street
- 16 45 McAllister Street
- 17 761 Post Street



Layout ID: L01 MapID: 2451100

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If all these hotels were to open by 2020, and if the four Subject Hotels' 223 residential rooms were to be converted into transient rooms, they would result in a net increase of 2,187 new rooms within the San Francisco market, bringing the city's total "primary" hotel inventory to 27,038. However, with these additions, supply would only increase at a CAGR of 1.7 percent over the course of the next five years. Meanwhile, demand for rooms in the market is projected to increase by double this rate over the same time period. As such, the new supply would not likely have a significant impact on occupancy for the overall San Francisco lodging market.

In addition, due to the high costs of construction and difficulty of obtaining city approval and financing, it is unlikely that most of these projects will come to fruition in the near-term, and supply growth is estimated to actually be less than 1.0 percent per year for the next five years. For the purpose of our analysis, we have only included the addition of the 132-room boutique hotel at **144 King Street**, the 57-room **Holiday Inn Express** at 235 O'Farrell Street, and the 220-room boutique hotel at **950-974 Market Street** in our projections of future supply and demand for the market. The King Street hotel and the Holiday Inn Express are currently under construction, and the Market Street hotel is highly likely to move forward. Furthermore, these properties will presumably be comparable to the Hotels with regard to guestroom product, market orientation, and physical condition. We have estimated an opening date of January 1, 2016 for the King Street property and the Holiday Inn Express, and July 2018 for the Market Street development.







The remaining projects are still highly speculative at this point, and many will differ from the Hotels with regard to location and positioning. As mentioned, even if these properties were to be constructed over the near-term, San Francisco generates enough unsatisfied demand that they will not have a notable impact on our market projections.






6. Competitive Lodging Market Overview

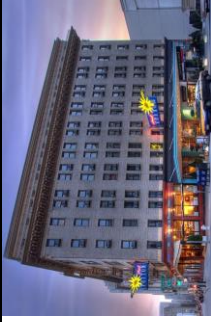


Within the San Francisco lodging market, the Subject Hotels will compete with similarly-positioned boutique properties located in and near the Union Square district. Based on our research and our understanding of the overall project, we have identified 21 properties, totaling 2,428 rooms, as representing the primary competitive market. Competitive properties were identified on the basis of location, room product offered, guest type, rate structure, and overall quality. They represent the highest-quality boutique hotels in San Francisco, and many are operated by renowned management company Joie de Vivre Hospitality.

The tables on the following four pages provide a summary of the competitive hotels.

Summary of Hotels in the Competitive Lodging Market				
Property	Hotel Carlton	Hotel Rex	Laurel Inn	
				
Location	1075 Sutter St.	562 Sutter St.	444 Presidio Ave.	
Year Opened	1927	1907	1965	
Number of Rooms	163	94	49	
Affiliation	Joie de Vivre Hospitality	Joie de Vivre Hospitality	Joie de Vivre Hospitality	
Amenities				
Restaurant	Saha	Library Bar	Swank Cocktail & Coffee Club	
Recreation	N/A	N/A	N/A	
Meeting Space	550 SF	1,385 SF	N/A	
Other	Wine reception	Salon Series weekly art events	Parking (\$22/night)	
Property	Phoenix Hotel	Warwick Hotel	Pickwick Hotel	
				
Location	601 Eddy St.	490 Geary St.	85 5 th St.	
Year Opened	1955	1913	1928	
Number of Rooms	44	74	189	
Affiliation	Joie de Vivre Hospitality	Warwick International Hotels	N/A	
Amenities				
Restaurant	Chambers Eat + Drink	Aveline Restaurant & The European Bar	SOMA Restaurant & Bar, Café Venue,	
Recreation	Outdoor pool	Off-site fitness center	Sushi Club	
Meeting Space	N/A	1,290 SF	N/A	
Other	Complimentary parking	Courtesy Town Car	N/A	

Summary of Hotels in the Competitive Lodging Market			
Property	Opal Hotel	King George Hotel	Hotel Diva
			
Location	1050 Van Ness Ave.	334 Mason St.	440 Geary St.
Year Opened	1908	1914	1912
Number of Rooms	166	153	116
Affiliation	N/A	Greystone Hotels	Personality Hotels
Amenities			
Restaurant	Mel's Drive-In	Winston's Lounge	Colibri Mexican Bistro, Starbucks
Recreation	Fitness room	N/A	Fitness center
Meeting Space	N/A	500 SF	700 SF
Other	Guest laundry, parking available, complimentary breakfast	Valet parking, room service	Sake reception
Property	Hotel Mark Twain	Hotel Metropolis	Executive Hotel Vintage Court
			
Location	345 Taylor St.	25 Mason St.	650 Bush St.
Year Opened	1988	1910	1912
Number of Rooms	115	105	106
Affiliation	N/A	Haiyi Hotels	Executive Hotels & Resorts
Amenities			
Restaurant	N/A	Farmerbrown Restaurant	Game Restaurant
Recreation	Fitness room	Fitness room	N/A
Meeting Space	N/A	N/A	245 SF
Other	Pet-friendly	Valet parking	Evening wine reception

Summary of Hotels in the Competitive Lodging Market			
Property	Kensington Park Hotel	Hotel Stratford	Hotel Bijou
			
Location	450 Post St.	242 Powell St.	111 Mason St.
Year Opened	1923	1907	1911
Number of Rooms	92	90	65
Affiliation	Personality Hotels	N/A	N/A
Amenities			
Restaurant	Farallon Restaurant	N/A	N/A
Recreation	Fitness center (off-site)	N/A	N/A
Meeting Space	700 SF	N/A	1,280 SF
Other	Sherry reception, town car service	Complimentary breakfast, airport shuttle	Nightly movies
Property	Hotel ABRI	Galleria Park Hotel	Villa Florence Hotel
			
Location	127 Ellis St.	191 Sutter St.	225 Powell St.
Year Opened	1906	1911	1915
Number of Rooms	91	177	182
Affiliation	N/A	Joie de Vivre Hospitality	N/A
Amenities			
Restaurant	N/A	Gaspar	Kuleto's, Bar Norcini
Recreation	N/A	N/A	Fitness center
Meeting Space	N/A	2,000 SF	1,600 SF
Other	Complimentary breakfast	Wine reception, concierge	Concierge

Summary of Hotels in the Competitive Lodging Market			
Property	Hotel Triton	Orchard Garden Hotel	Hotel Union Square
			
Location	342 Grant Ave.	466 Bush St.	114 Powell St.
Year Opened	1992	2006	1913
Number of Rooms	140	86	131
Affiliation	Kimpton Hotels & Restaurants	N/A	Personality Hotels
Amenities			
Restaurant	N/A	Roots Restaurant	N/A
Recreation	Fitness center	Fitness room	Fitness center (off-site)
Meeting Space	500 SF	440 SF	N/A
Other	Wine reception	Rooftop garden, valet parking	Wine reception

7. Historical Performance of the Competitive Market

Presented in the following table is the aggregate performance of the 21 competitive hotels since 2009. In addition, we have included in these figures the historical performance of the 240 transient rooms within the Union Square Plaza Hotel, Mosser Hotel, and Hotel Fusion.

Proposed Transient Hotels - San Francisco, CA Historical Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2009	973,455	-	702,566	-	72.2%	\$105.60	-	\$76.21	-
2010	973,455	0.0%	742,137	5.6%	76.2%	\$108.54	2.8%	\$82.75	8.6%
2011	973,455	0.0%	767,825	3.5%	78.9%	\$129.31	19.1%	\$102.00	23.3%
2012	973,455	0.0%	780,928	1.7%	80.2%	\$146.58	13.4%	\$117.59	15.3%
2013	973,455	0.0%	781,971	0.1%	80.3%	\$162.75	11.0%	\$130.74	11.2%
2014	973,820	0.0%	783,026	0.1%	80.4%	\$185.50	14.0%	\$149.15	14.1%
CAGR	0.0%	-	2.2%	-	-	11.9%	-	14.4%	-
YTD Feb '14	162,303	-	116,209	-	71.6%	\$162.87	-	\$116.61	-
YTD Feb '15	162,303	0.0%	114,099	-1.8%	70.3%	\$184.77	13.4%	\$129.89	11.4%

Source: PKF Consulting USA, a CBRE Company

- As shown, supply within the competitive market has remained constant since 2009 as many the hotels comprising the market are historic boutique properties that opened in the early 1900s. The Orchard Garden Hotel, which opened in 2006, is the newest addition to the competitive market.
- However, demand has increased by a CAGR of 2.2 percent, with continually-improving occupancy levels since 2009. Occupancy was 72.2 percent for the market during the height of the recession of 2009, with the market faring considerably better than national averages (which were listed at 54.5 percent that year). Occupancy has remained consistent near 80 percent over the past three years. At this level, hotels are operating at functional capacity with limited availability during weekends throughout the year as well as during the peak summer and fall months. With an occupancy of 80 percent, the market has little opportunity for growth. Occupancy is down just slightly year-to-date, attributable primarily to continuous ADR gains.
- With occupancy levels so high, hotel managers have a significant opportunity to drive rates. ADR has increased by double-digits over each of the past four years, with rates increasing by \$81.06 total between 2009 and 2014. If ADR growth continues in line with year-to-date trends, rates will surpass \$200 for the first time in 2015.
- Due primarily to significant ADR growth, RevPAR for the market has increased by a CAGR of 14.4 percent between 2009 and 2014. This is considerably higher than the growth rate of 6.7 percent experienced by

hotels nationwide, and illustrates the strength of the San Francisco lodging market.

8. Projected Performance of the Competitive Market

Presented in the following table is a summary of our occupancy and ADR projections for the competitive market for the years 2015 through 2024, coinciding with the first five years of operation for the four Hotels as transient-only products.

Proposed Transient Hotels - San Francisco, CA Projected Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2014	973,820	0.0%	783,026	0.1%	80.4%	\$185.50	14.0%	\$149.15	14.1%
2015	973,820	0.0%	779,100	-0.5%	80%	\$208.00	12.1%	\$166.41	11.6%
2016	1,042,805	7.1%	834,200	7.1%	80%	\$225.00	8.2%	\$179.99	8.2%
2017	1,099,015	5.4%	876,000	5.0%	80%	\$239.00	6.2%	\$190.50	5.8%
2018	1,139,165	3.7%	911,300	4.0%	80%	\$249.00	4.2%	\$199.19	4.6%
2019	1,179,315	3.5%	943,500	3.5%	80%	\$256.00	2.8%	\$204.81	2.8%
2020	1,204,500	2.1%	963,600	2.1%	80%	\$264.00	3.1%	\$211.20	3.1%
2021	1,204,500	0.0%	963,600	0.0%	80%	\$272.00	3.0%	\$217.60	3.0%
2022	1,204,500	0.0%	963,600	0.0%	80%	\$280.00	2.9%	\$224.00	2.9%
2023	1,204,500	0.0%	963,600	0.0%	80%	\$288.00	2.9%	\$230.40	2.9%
2024	1,204,500	0.0%	963,600	0.0%	80%	\$297.00	3.1%	\$237.60	3.1%
CAGR	2.4%	-	2.4%	-	-	4.0%	-	4.0%	-

Source: PKF Consulting USA, a CBRE Company

- We project occupancy to remain at 80 percent in 2015, in line with levels achieved over the past three years. Due to continued projections of strong demand for room nights in San Francisco, we expect that the market will be able to maintain this level of occupancy for the foreseeable future. Despite projections of strong tourism trends for San Francisco, we are of the opinion that continued rate growth and the addition of new hotels throughout the Bay Area will keep occupancy from significant growth above this level.
- In addition to the four Subject Hotels, we project three additional properties to open within the competitive market that would be competitive with the Hotels for demand: a 132-room boutique hotel at 144 King Street, a 57-room Holiday Inn Express at 235 O'Farrell Street, and a 220-room boutique hotel at 950-974 Market Street. We project the King Street property and Holiday Inn Express to open in January of 2016; the opening of these 189 new transient rooms will result in supply growth of 7.1 percent within the competitive hotel market that year. We project 154 additional transient rooms to open within the Hotel Union Square, Hotel Fusion, and Mosser Hotel in 2017, which will result in overall growth of 5.4 percent within the competitive market that year. As mentioned, we project the 950-974 Market Street hotel to open in July of 2018. The annualized addition of this hotel will

result in supply growth of 3.7 percent in 2018 and 3.5 percent in 2019. Finally, we project the conversion of the 120 Ellis Street property to be complete by 2020, resulting in the addition of 69 new transient hotel rooms to the market that year. This will result in overall market supply growth of 2.1 percent.

- Overall, we project supply to increase by a CAGR of 2.4 percent between 2015 and 2024. However, due to extremely strong demand for hotel rooms in San Francisco, we predict that these properties will be readily absorbed within the market and that occupancy will be unaffected. We believe that demand within the competitive market will in fact increase as these new hotels will be able to accommodate visitors who had previously been turned away to other hotels in the Bay Area due to insufficient availability. With our expectation of continued strength for the San Francisco market, we believe that the market will stabilize at 80 percent occupancy for the duration of our projection period. While all indicators suggest that lodging demand will remain strong with limited new additions to supply, continued ADR growth coupled with normal economic cycles suggest a more reasonable long-term stabilized occupancy near recent levels. This stabilized occupancy level is above averages of 78.0 percent achieved over the past six years, and reflects continued economic and tourism growth projected for the Bay Area (and San Francisco in particular).
- In keeping with strong ADR growth rates since 2011, we project rates within the competitive market to increase by approximately 12 percent in 2015, with the market's ADR surpassing \$200 for the first time. However, we project ADR growth for the greater Bay Area market to eventually slow in upcoming years as the market seeks to maintain stabilized occupancy levels. As such, we project ADR growth rates to taper to approximately 8.0 percent in 2016, 6.0 percent in 2017, and 4.0 percent in 2018, before stabilizing at 3.0 percent annual growth beginning in 2019. These rates result in overall ADR growth of 2.4 percent between 2015 and 2024.

F. PROJECTED PERFORMANCE OF THE SUBJECT HOTELS

Based upon our analysis contained herein, including a review of the overall competitive market and of each identified hotel, we have provided our estimation of the occupancy and ADR levels likely attained by each Hotel in 2014. Then, we have projected each Hotel's future performance upon opening as a transient-only lodging facility.

It should be noted that, given the previously discussed strong fundamentals of the greater San Francisco lodging market along with the Hotels' excellent location in the Union Square neighborhood, we are of the opinion that the properties will achieve very

strong levels of performance as transient-only properties and with no impact on the greater competitive San Francisco lodging market.

1. Union Square Plaza Hotel

A summary of the Union Square Plaza Hotel's estimated 2014 performance as well as our projections of its future performance as a transient-only lodging facility is presented below.

Union Square Plaza Hotel Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	8	2,920	2,348	80%	\$75.00*	-	\$60.30	-
2015	8	2,920	2,348	80%	\$84.00	12.0%	\$67.54	12.0%
2016	8	2,920	2,348	80%	\$91.00	8.0%	\$73.16	8.3%
2017	69	25,185	20,249	80%	\$96.00	6.0%	\$77.18	5.5%
2018	69	25,185	20,249	80%	\$100.00	4.0%	\$80.40	4.2%
2019	69	25,185	20,249	80%	\$103.00	3.0%	\$82.81	3.0%
2020	69	25,185	20,249	80%	\$106.00	3.0%	\$85.22	2.9%
2021	69	25,185	20,249	80%	\$109.00	3.0%	\$87.64	2.8%
2022	69	25,185	20,249	80%	\$112.00	3.0%	\$90.05	2.8%
2023	69	25,185	20,249	80%	\$115.00	3.0%	\$92.46	2.7%
2024	69	25,185	20,249	80%	\$118.00	3.0%	\$94.87	2.6%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

Based on our conversations with management of the Union Square Plaza Hotel and on the recent performance of comparable hotels, we are of the opinion that the eight transient rooms within the Union Square Plaza Hotel achieved an **ADR of \$75** in 2014. This level positions the Hotel below all competitive properties within the market to reflect its generally inferior product and lack of guest amenities. Applying the same growth rates as projected for the competitive market, this results in an **ADR of \$96** upon expanding into a 69-room transient-only Hotel by 2017.

We project that the Hotel achieved an occupancy of **80 percent** in 2014, in line with competitive market averages; we project that its occupancy will remain at this level for the duration of our projection period.

2. Mosser Hotel

A summary of the Mosser Hotel's estimated 2014 performance as well as our projections of its future performance as a transient-only lodging facility is presented below.

Mosser Hotel Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	120	43,800	35,215	80%	\$150.00*	-	\$120.60	
2015	120	43,800	35,215	80%	\$168.00	12.0%	\$135.07	12.0%
2016	120	43,800	35,215	80%	\$181.00	8.0%	\$145.52	7.7%
2017	201	73,365	58,985	80%	\$192.00	6.0%	\$154.37	6.1%
2018	201	73,365	58,985	80%	\$200.00	4.0%	\$160.80	4.2%
2019	201	73,365	58,985	80%	\$206.00	3.0%	\$165.62	3.0%
2020	201	73,365	58,985	80%	\$212.00	3.0%	\$170.45	2.9%
2021	201	73,365	58,985	80%	\$218.00	3.0%	\$175.27	2.8%
2022	201	73,365	58,985	80%	\$225.00	3.0%	\$180.90	3.2%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

Based on our conversations with management and on the recent performance of comparable hotels, we are of the opinion that the 120 transient rooms within the Mosser Hotel achieved an **ADR of \$150** in 2014. This ADR is well above that of the Union Square Plaza Hotel to reflect the Mosser's generally superior product. However, it still positions the property at the very low end of the ADR range achieved by the competitive hotels, owing to its small guestroom size and limited number of amenities. Applying the same growth rates as projected for the competitive market, this results in an **ADR of \$192** upon expanding into a 201-room transient-only Hotel by 2017.

We project that the Hotel achieved an occupancy of 80 percent in 2014, in line with competitive market averages, and that its occupancy will remain at this level for the duration of our projection period.

3. Hotel Fusion

We have presented a summary of estimated and projected performance for the Hotel Fusion below.

Hotel Fusion Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	112	40,880	32,704	80%	\$100.00*	-	\$80.40	-
2015	112	40,880	32,704	80%	\$112.00	12.0%	\$90.05	12.0%
2016	112	40,880	32,704	80%	\$121.00	8.0%	\$97.28	8.0%
2017	124	45,260	36,208	80%	\$128.00	6.0%	\$102.91	5.8%
2018	124	45,260	36,208	80%	\$133.00	4.0%	\$106.93	3.9%
2019	124	45,260	36,208	80%	\$137.00	3.0%	\$110.15	3.0%
2020	124	45,260	36,208	80%	\$141.00	3.0%	\$113.36	2.9%
2021	124	45,260	36,208	80%	\$145.00	3.0%	\$116.58	2.8%
2022	124	45,260	36,208	80%	\$149.00	3.0%	\$119.80	2.8%
2023	124	45,260	36,208	80%	\$153.00	3.0%	\$123.01	2.7%
2024	124	45,260	36,208	80%	\$158.00	3.0%	\$127.03	3.3%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

Based on our conversations with management and on the recent performance of comparable hotels, we are of the opinion that the 112 transient rooms within the Hotel Fusion achieved an **ADR of \$100** in 2014. This ADR is below that of all properties within the competitive market, as many of the guestrooms have shared bathrooms, limited amenities, and could benefit from a remodel. Applying the same growth rates as projected for the competitive market, this results in an **ADR of \$128** upon opening as a 124-room, transient-only Hotel by 2017.

We project that the Hotel Fusion achieved an occupancy of **80 percent** in 2014, in line with competitive market averages, and we project that its occupancy will remain at this level for the duration of our projection period.

4. 120 Ellis Street

We have presented a summary of estimated and projected performance for the 120 Ellis Street hotel below. It should be noted that our projections assume that the property undergoes a full renovation, and will be comparable to the Hotel Fusion upon completion.

120 Ellis Street Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Hypothetical Occupancy	Hypothetical ADR	Market Growth	Hypothetical RevPAR	Percent Change
2014	-	-	-	80%	\$100.00	-	\$80.00	-
2015	-	-	-	80%	\$112.00	12.0%	\$89.60	12.0%
2016	-	-	-	80%	\$121.00	8.0%	\$96.80	8.0%
2017	-	-	-	80%	\$128.00	6.0%	\$102.40	5.8%
2018	-	-	-	80%	\$133.00	4.0%	\$106.40	3.9%
2019	-	-	-	80%	\$137.00	3.0%	\$109.60	3.0%
2020	69	25,185	20,148	80%	\$141.00	3.0%	\$112.80	2.9%
2021	69	25,185	20,148	80%	\$145.00	3.0%	\$116.00	2.8%
2022	69	25,185	20,148	80%	\$149.00	3.0%	\$119.20	2.8%
2023	69	25,185	20,148	80%	\$153.00	3.0%	\$122.40	2.7%
2024	69	25,185	20,148	80%	\$158.00	3.0%	\$126.40	3.3%

Source: PKF Consulting USA, a CBRE Company

As mentioned, 120 Ellis Street currently operates as a residential-only property. However, if it were open today as a fully-renovated transient hotel that is comparable in quality to the Hotel Fusion, we believe that it could have also achieved an ADR of \$100 in 2014. Applying the same growth rates as projected for the competitive market, this results in an **ADR of \$141** upon opening as a 69-room, transient-only Hotel in 2020.

We project that, if open as a transient hotel, the Hotel Fusion could have achieved an occupancy of **80 percent** in 2014, in line with competitive market averages. We project that its occupancy will remain at this level for the duration of our projection period.

While it is possible that the Union Square Plaza Hotel, Mosser Hotel, Hotel Fusion, and 120 Ellis Street hotel will experience growth in occupancy and ADR above those estimated in the report, it is also possible that sudden economic downturns, unexpected additions to the room supply, or other external factors will force the properties below the selected point of stability. Consequently, the estimated occupancy and ADR levels are representative of the most likely potential operations of the Hotels over the projection period based on our analysis of the market as of the date of the report.

This completes our analysis of the potential market demand for conversion of three transient/residential hotels and one residential hotel in San Francisco's Union Square neighborhood into transient-only hotels. After you have had an opportunity to review this report, please feel free to contact us with any questions or comments. Thank you for this opportunity to work with you on this interesting engagement. Please let us know should you have any questions or should you require any further information.

Yours sincerely,

PKF Consulting USA
A Subsidiary of CBRE, Inc.



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ADDENDA

- A. CERTIFICATION OF THE CONSULTANTS**
- B. STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

ADDENDUM A

CERTIFICATION OF THE CONSULTANTS

CERTIFICATION OF THE CONSULTANTS

We, Chris Kraus, MAI, and Elle K. Patterson, certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- We have previously completed a study to evaluate market demand for the proposed Subject as a boutique hotel. That report was issued to Group I on May 15, 2014.
- We have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- We have made a personal inspection of the properties that are the subjects of this report.
- No one has provided significant professional assistance to the persons signing this report.
- 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.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

- As of the date of this report, Chris Kraus has completed the continuing education program for Designated Members of the Appraisal Institute.
- Chris Kraus is a Certified General Real Estate Appraiser in the State of California.

Yours sincerely,

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A Subsidiary of CBRE, Inc.



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ADDENDUM B

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

Economic and Social Trends - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

Information Furnished by Others - In preparing the report, the consultant was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Hidden Conditions - The consultant assumes no responsibility for hidden or unapparent conditions of the properties, subsoil, ground water or structures. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Hazardous Materials - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. The consultant assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Zoning and Land Use - Unless otherwise stated, the subject property is assumed to be in full compliance with all applicable zoning and land use regulations and restrictions.

Licenses and Permits - Unless otherwise stated, the property is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the performance estimates contained in this report are based.

Engineering Survey - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

Subsurface Rights - No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject to surface entry for the exploration or removal of such materials, except as is expressly stated.

Maps, Plats and Exhibits - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

(Continued)

Legal Matters - No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

Right of Publication - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of the consultant, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

Archeological Significance - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archeological significance.

Compliance with the Americans with Disabilities Act - The Americans with Disabilities Act ("ADA") became effective January 26, 1992. It is assumed that the property will be in direct compliance with the various detailed requirements of the ADA.

Definitions and Assumptions - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

Utilization of the Land and/or Improvements - It is assumed that the utilization of the land and/or improvements is within the boundaries or property described herein and that there is no encroachment or trespass.

Dissemination of Material - Neither all nor any part of the contents of this report shall be disseminated to the general public through advertising or sales media, public relations media, new media or other public means of communication without the prior written consent and approval of the consultant(s).

Distribution and Liability to Third Parties - The party of whom this report was prepared may distribute copies of this report only in its entirety to such third parties as may be selected by the party for whom this report was prepared; however, portions of this report shall not be given to third parties without our written consent. Liability to third parties will not be accepted.

Use in Offering Materials - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation may not be reproduced or references made to the report or to PKF Consulting in any sale offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

Limits to Liability - PKF Consulting cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement.

Legal Expenses - Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.



Market Demand Analysis

Proposed Transient Hotels San Francisco, California



Prepared For:

Mr. Christopher Rosas
DKR Partners, LP
1000 Universal Studios Boulevard, Suite 208
Universal City, California 91608

Prepared By:

PKF Consulting USA
San Francisco, California

Date of the Report

August 25, 2015

91852

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August 25, 2015

Mr. Christopher Rosas
DKR Partners, LP
1000 Universal Studios Boulevard, Suite 208
Universal City, California 91608

**Re: Market Demand Analysis
Proposed Transient Hotels – San Francisco, California**

Dear Mr. Rosas:

In accordance with your request, we have completed our engagement contract, which is a study of the potential market demand for the conversion of three tourist/residential hotels in San Francisco into traditional transient hotels. Pursuant to our engagement, we have prepared this report summarizing our findings.

The conclusions set forth are based on an analysis of the existing and potential future supply and demand for the competitive lodging market as of the completion of our fieldwork in August of 2015. This report is intended for your internal management use and well as well as for presentation to representatives of the City and County of San Francisco for understanding the potential market demand for the proposed transient-only hotels, which will result in the addition of 162 new transient hotel rooms into the market.

As in all studies of this type, the estimated results are based on competent and efficient management and presume no significant change in the status of the competitive lodging market from that as set forth in this report. The terms of our engagement are such that we have no obligation to revise our conclusions to reflect events or conditions that occur subsequent to the date of completion of our fieldwork. However, we are available to discuss the necessity for revisions in view of changes in the economy or market factors impacting the competitive lodging market.

Since the proposed hotels' future performance is based on estimates and assumptions that are subject to uncertainty and variation, we do not present them as results that will actually be achieved. However, our analysis has been conscientiously prepared on the basis of information obtained during the course of this assignment and on our experience in the industry. This interim report is subject

to the Certification and Terms and Conditions presented in the Addenda. After you have had an opportunity to review this letter, please feel free to contact us with any questions or comments. We look forward to continue working with you on this interesting engagement.

Yours sincerely,

PKF Consulting USA
A Subsidiary of CBRE, Inc.



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By: Elle Patterson
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A. INTRODUCTION

1. Overview of the Market Study

PKF Consulting USA (“PKF Consulting”) was formally retained on August 11, 2015 by representatives of DKR Partners, LP (“DKR”) to conduct a study of the potential market demand for the conversion of three tourist/residential hotels (New Central Hotel, Hotel Des Arts, and Mithila Hotel) into traditional transient hotels, hereby known as the “Hotels.” We have therefore assumed that the Hotels’ residential rooms, of which there are 162 total between the three properties, will be converted to traditional transient tourist rooms.

As a component of this analysis, we first determined the market potential for hotel rooms in San Francisco by evaluating supply and demand trends within the local competitive lodging market. Based on the recent performance of comparable hotels in San Francisco, we estimated the historical performance of the Hotels’ transient-only rooms (of which there are 39 between the three properties), as this information was not provided to us by management. We then projected the occupancy and average daily room rates (“ADR”) the Hotels could achieve for their first five years of operation as traditional transient properties. For the purpose of this analysis, we have assumed that the New Central Hotel would be available for occupancy as a transient-only hotel by October 1, 2015, and that the Hotel Des Arts and Mithila Hotel would open as transient properties by January 1, 2017.

2. Methodology

Specifically, in conducting the study of the potential market demand, we:

- Toured the three properties and assessed the impact of their accessibility, visibility, and location relative to demand generators on their marketability;
- Researched and analyzed current economic and demographic trends to determine their impact on future lodging demand in the market;
- Researched the competitive lodging supply in San Francisco, with a particular focus on the properties that would compete most directly with the Hotels as transient-only lodging facilities;
- Reviewed the historical performance of the competitive lodging market;
- Estimated the anticipated growth in supply and demand for lodging accommodations in the local market area;
- Prepared a forecast of future performance for the competitive lodging market;

- Estimated the historical performance levels of the Hotels' transient rooms, as based on our conversations with management and the occupancy and ADR levels achieved by comparable hotels in the market;
- Evaluated the project's overall development plan for appropriateness within the market based on projected demand growth in San Francisco and the city's lodging needs; and,
- Prepared a forecast of the projected market penetration and the resulting occupancy levels and average daily rates ("ADR") for the Hotels' first five years of operation as traditional transient properties.

Several sources were used in compiling the background information and preparing the analyses contained in this report. These sources include PKF Consulting's *Trends® in the Hotel Industry*, data gathered through direct interviews with representatives of local businesses, data provided by sources in the lodging chains with which the competitive properties are affiliated, and data from various local government agencies.

B. SUMMARY OF FINDINGS

Based on the preceding work program, we have made a determination of the market viability for three proposed transient-only hotels in San Francisco, California, and have summarized our findings in the following paragraphs. We first present the historical and projected future performance of the greater San Francisco lodging market, followed by the historical and projected performance of a sample of comparable boutique hotels in the city. Finally, we present the estimated performance of the Hotels' transient rooms in 2014, along with our projections of the properties' performance upon conversion, at which point they will operate as transient-only properties.

1. San Francisco Lodging Market

A summary of historical and projected future performance for the San Francisco lodging market for years 2009 to 2019 is presented on the following page. It should be noted that this table includes hotels in San Francisco, San Mateo, and Marin Counties.

San Francisco Lodging Market Historical and Projected Performance					
Year	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2009	71.2%	\$135.74	-	\$96.65	-
2010	75.1%	\$136.01	2.0%	\$102.15	7.6%
2011	79.0%	\$154.79	13.8%	\$122.24	19.7%
2012	80.3%	\$171.63	10.9%	\$137.77	12.7%
2013	82.8%	\$187.29	9.1%	\$154.99	12.5%
2014	84.1%	\$207.80	11.0%	\$174.68	12.7%
CAGR	-	8.9%		12.6%	-
2015	85.5%	\$226.57	9.0%	\$193.65	10.9%
2016	85.5%	\$243.97	7.7%	\$208.71	7.8%
2017	85.1%	\$258.70	6.0%	\$220.10	5.5%
2018	84.2%	\$269.01	4.0%	\$226.46	2.9%
2019	82.9%	\$278.84	3.7%	\$231.23	2.1%

Source: PKF Consulting USA

The San Francisco Bay Area is the strongest lodging market in the United States. ADR increased by a CAGR of 8.9 percent between 2009 and 2014, compared to just 3.3 percent for hotels nationwide. Occupancy, meanwhile, has been in the 80-percent range over the past three years, approximately 20 percentage points above national averages. In 2014, San Francisco-area hotels achieved an occupancy of 84.1 percent with an ADR of \$207.80, compared to the average occupancy of 64.4 percent and ADR of \$114.99 achieved that year by hotels nationwide. Occupancy for the greater San Francisco lodging market is expected to stabilize near 85 percent over the next three years, with ADR continuing to exhibit strong growth. With occupancy levels this high, hotels in San Francisco are running at full capacity during most periods throughout the year and generate a considerable amount of unsatisfied demand (or, demand that cannot be accommodated within the market) and which is thereby displaced on a nightly basis to neighboring markets throughout the South Bay and East Bay submarkets.

2. Competitive Lodging Market

We have identified 21 boutique hotels that we believe will be the most comparable to the proposed Hotels upon opening as transient-only properties. We have presented a summary of their aggregate performance from 2009 to 2014 in the following table, along with our projections of their future performance over the next ten years. Our projections factor in the addition of 162 new transient rooms within the three Hotels between 2015 and 2017, along with the addition of six additional comparable hotels in San Francisco.

Proposed Transient Hotels - San Francisco, CA Historical Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2009	900,090	-	649,596	-	72.2%	\$108.11	-	\$78.02	-
2010	900,090	0.0%	686,233	5.6%	76.2%	\$111.12	2.8%	\$84.72	8.6%
2011	900,090	0.0%	709,940	3.5%	78.9%	\$132.39	19.1%	\$104.42	23.3%
2012	900,090	0.0%	722,089	1.7%	80.2%	\$150.07	13.4%	\$120.39	15.3%
2013	900,090	0.0%	723,059	0.1%	80.3%	\$166.62	11.0%	\$133.85	11.2%
2014	900,455	0.0%	724,041	0.1%	80.4%	\$189.91	14.0%	\$152.70	14.1%
CAGR	0.0%	-	2.2%	-	-	11.9%	-	14.4%	-
2015	906,386	0.7%	725,200	0.2%	80%	\$209.00	10.1%	\$167.22	9.5%
2016	1,007,765	11.2%	803,100	10.7%	80%	\$226.00	8.1%	\$180.10	7.7%
2017	1,172,380	16.3%	932,300	16.1%	80%	\$240.00	6.2%	\$190.85	6.0%
2018	1,212,530	3.4%	965,200	3.5%	80%	\$250.00	4.2%	\$199.01	4.3%
2019	1,252,680	3.3%	999,200	3.5%	80%	\$258.00	3.2%	\$205.79	3.4%
2020	1,277,865	2.0%	1,022,200	2.3%	80%	\$266.00	3.1%	\$212.78	3.4%
2021	1,277,865	0.0%	1,022,200	0.0%	80%	\$274.00	3.0%	\$219.18	3.0%
2022	1,277,865	0.0%	1,022,200	0.0%	80%	\$282.00	2.9%	\$225.58	2.9%
2023	1,277,865	0.0%	1,022,200	0.0%	80%	\$290.00	2.8%	\$231.98	2.8%
2024	1,277,865	0.0%	1,022,200	0.0%	80%	\$299.00	3.1%	\$239.18	3.1%
CAGR	3.9%	-	3.9%	-	-	4.1%		4.1%	

Source: PKF Consulting USA, a CBRE Company

As shown, occupancy for the competitive market has increased each year since 2009, and has remained near 80 percent since 2012 as the market reached stabilization. We project occupancy to remain at approximately 80 percent for the duration of our projection period due to continued expectations of high demand for hotel rooms from the leisure and commercial segments associated with the strong economic growth of the City.

ADR has grown by double-digits over the past four years, for overall compounded growth of 11.9 percent between 2009 and 2014. In line with year-to-date trends, we project rates to grow by approximately 10.0 percent in 2015. However, as demand growth stabilizes and as new hotels likely enter the market, we project ADR growth to gradually lower over the next few years and to stabilize at 3.0 percent annually by 2019, in line with our long-term outlook for inflation.

The performance of the properties comprising the Hotels' primary competitive market is amongst the strongest in the nation, surpassing both national and regional trends by a significant margin. We are of the opinion that the addition of 1,034 new transient hotel rooms (between the residential rooms of the three Subject Hotels and the six new competitive hotels) will not have any material impact on the overall market's performance. In fact, the City of San Francisco is vastly under-served with regard to hotel supply and generates a significant amount of unsatisfied demand that is displaced to other markets throughout the Bay Area.

3. Proposed Transient Hotels

Finally, we have presented our performance estimations for each Hotel's transient-only rooms in 2014, along with our projections of the occupancy and ADR the Hotels could achieve upon opening as transient-only properties. We have assumed that the New Central Hotel will open as a 120-room hotel in October 2015, and that the Hotel Des Arts and Mithila Hotel will open as 51 and 30-room transient hotels (respectively) in January 2017.

First, our projections of historical and future performance for the New Central Hotel are presented below. It should be noted that this property closed for renovation in May of 2015, and is expected to re-open as a transient-only property by October 1, 2015.

New Central Hotel Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	15	5,475	4,402	80%	\$85.00*	-	\$68.34	
2015	31	11,406	9,171	80%	\$94.00	10.0%	\$75.58	10.6%
2016	120	43,800	35,215	80%	\$102.00	8.0%	\$82.01	8.5%
2017	120	43,800	35,215	80%	\$108.00	6.0%	\$86.83	5.9%
2018	120	43,800	35,215	80%	\$112.00	4.0%	\$90.05	3.7%
2019	120	43,800	35,215	80%	\$115.00	3.0%	\$92.46	2.7%
2020	120	43,800	35,215	80%	\$118.00	3.0%	\$94.87	2.6%
2021	120	43,800	35,215	80%	\$122.00	3.0%	\$98.09	3.4%
2022	120	43,800	35,215	80%	\$126.00	3.0%	\$101.30	3.3%
2023	120	43,800	35,215	80%	\$130.00	3.0%	\$104.52	3.2%
2024	120	43,800	35,215	80%	\$134.00	3.0%	\$107.74	3.1%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

As shown, we believe that the 15 transient rooms within the New Central Hotel achieved an ADR of \$85 in 2014, along with an occupancy of 80 percent (in line with competitive market averages). Applying the same growth rates as those outlined for the market, we believe that the property will achieve an ADR of \$94 in 2015, at which time its renovation will be complete and it will re-open as a 120-room transient property. Occupancy is expected to remain at 80 percent, in line with market-wide projections.

Below are our projections for the Hotel des Arts.

Hotel Des Arts Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	13	4,745	3,815	80%	\$100.00*	-	\$80.40	-
2015	13	4,745	3,815	80%	\$110.00	10.0%	\$88.44	10.0%
2016	13	4,745	3,815	80%	\$119.00	8.0%	\$95.68	8.2%
2017	51	18,615	14,966	80%	\$126.00	6.0%	\$101.30	5.9%
2018	51	18,615	14,966	80%	\$131.00	4.0%	\$105.32	4.0%
2019	51	18,615	14,966	80%	\$135.00	3.0%	\$108.54	3.1%
2020	51	18,615	14,966	80%	\$139.00	3.0%	\$111.76	3.0%
2021	51	18,615	14,966	80%	\$143.00	3.0%	\$114.97	2.9%
2022	51	18,615	14,966	80%	\$147.00	3.0%	\$118.19	2.8%
2023	51	18,615	14,966	80%	\$151.00	3.0%	\$121.40	2.7%
2024	51	18,615	14,966	80%	\$156.00	3.0%	\$125.42	3.3%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

We estimate that the Hotel Des Arts' 13 transient rooms achieved an ADR of \$100 in 2014, and that it will achieve an ADR of \$126 in 2017 when its 38 residential rooms are converted to transient rooms. We also project occupancy levels to be in line with those of the market.

Finally, our projections for the Mithila Hotel are presented below.

Mithila Hotel Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	11	4,015	3,228	80%	\$75.00*	-	\$60.30	-
2015	11	4,015	3,228	80%	\$83.00	10.0%	\$66.73	10.7%
2016	11	4,015	3,228	80%	\$90.00	8.0%	\$72.36	8.4%
2017	30	10,950	8,804	80%	\$95.00	6.0%	\$76.38	5.6%
2018	30	10,950	8,804	80%	\$99.00	4.0%	\$79.60	4.2%
2019	30	10,950	8,804	80%	\$102.00	3.0%	\$82.01	3.0%
2020	30	10,950	8,804	80%	\$105.00	3.0%	\$84.42	2.9%
2021	30	10,950	8,804	80%	\$108.00	3.0%	\$86.83	2.9%
2022	30	10,950	8,804	80%	\$111.00	3.0%	\$89.24	2.8%
2023	30	10,950	8,804	80%	\$114.00	3.0%	\$91.66	2.7%
2024	30	10,950	8,804	80%	\$117.00	3.0%	\$94.07	2.6%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

We estimate that, in 2014, the Mithila Hotel's 11 transient rooms achieved an ADR of \$75 with an occupancy of 80 percent. Applying market growth rates, we project that it will achieve an ADR of \$95 in 2017, by which time it will have converted 19 residential rooms to transient rooms. Occupancy is projected to remain at 80 percent.

C. PROJECT DESCRIPTION

As we understand it, DKR Partners, LP (“DKR”) is planning to construct a mixed-use residential development near the intersection of Leavenworth and Turk Streets in San Francisco. We further understand that, as part of this development, DKR hopes to transfer use restrictions currently in place on three separate tourist/residential hotels (New Central Hotel, Hotel Des Arts, and Mithila Hotel) that currently operate in San Francisco. The transfer of these use restrictions from the three existing facilities will result in the conversion of these existing buildings to traditional transient hotels, absent of use restrictions.

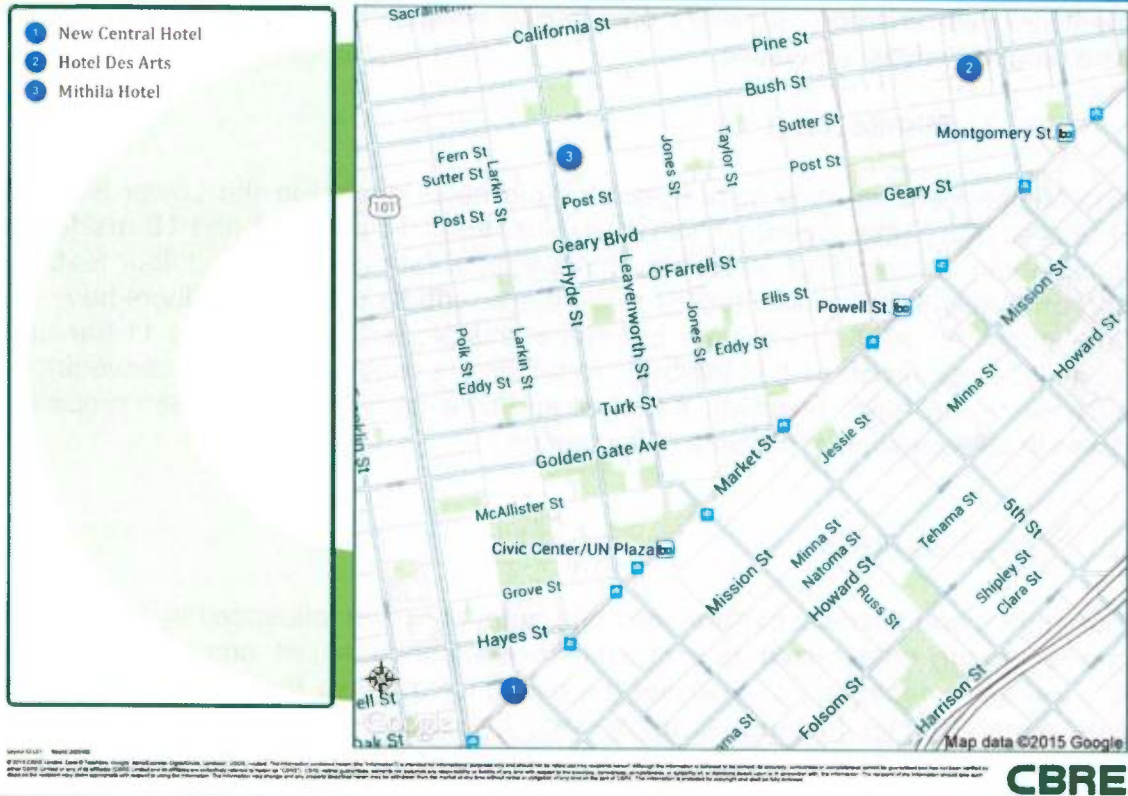
We have provided a summary of each of the three Subject Hotels in the following table.

Summary of Hotels			
Hotel	Current Transient Rooms	Current Residential Rooms	Total Proposed Tourist Rooms
New Central Hotel	15	105	120
Hotel Des Arts	13	38	51
Mithila Hotel	11	19	30
Total	39	162	201

These properties are located in San Francisco’s Mid-Market, Financial District, and Lower Nob Hill neighborhoods (respectively), proximate to a variety of technology companies, the thriving Union Square shopping district, and the BART system. Therefore, the Hotels are in a prime location to serve the lodging needs of travelers to San Francisco. As will be discussed in further detail later in this report, we are of the opinion that sufficient demand exists to warrant the conversion of these Hotels’ residential rooms to tourist rooms, and that the Hotels will be well-received in the market upon opening as transient-only properties.

A map indicating the Hotels’ locations in San Francisco is presented below, followed by a description of each property.

Map of the Hotels



1. New Central Hotel

The New Central Hotel is located at 1412 Market Street in the Mid-Market District. This four-story hotel features 15 tourist and 105 residential guestrooms, for a total of 120 rooms. However, all guestrooms had been used as student housing, renting for approximately \$900 to \$1,000 per month. It was closed to occupants at the time of inspection in order to undergo a renovation prior to re-opening as a budget transient-only hotel. All guestrooms are receiving new paint and carpet, and furniture is being cleaned and repaired. The renovation began in May of 2015, and is anticipated to be complete by October 1. The property features a communal kitchen on the fourth floor and shared bathrooms, although each guestroom includes a sink. Guestrooms are much smaller in size than traditional guestrooms, and feature minimal furnishings.

2. Hotel Des Arts

The Hotel Des Arts is a budget boutique hotel located at 447 Bush Street in the western edge of San Francisco's Financial District. This property consists of 13 tourist and 38 residential rooms, for 51 total guestrooms. The hotel offers complimentary breakfast with minimal guestroom amenities, consisting primarily of a queen bed and nightstand. Most guestrooms do not have in-room bathrooms.

However, each guestroom has a unique paint scheme, and the property is amply furnished with artwork. It caters primarily to budget-conscious European guests who require minimal amenities.

3. Mithila Hotel

The Mithila Hotel is another budget boutique hotel located in the Lower Nob Hill District at 972 Sutter Street. This property features 11 transient and 19 residential guestrooms, for a total of 30 rooms. It consists of four floors: its first floor features approximately 3,000 square feet of retail space, and its upper three floors have the hotel guestrooms. Amenities are minimal at this property, although its 11 transient rooms have bathrooms. It is expected to undergo a renovation before converting to a transient-only hotel; however, a budget and timeline have not yet been prepared. It was in fair condition at the time of inspection.

D. AREA REVIEW

The market and financial performance of a hotel are often influenced by factors that can be broadly categorized as economic, governmental, social, and environmental. It is therefore necessary to evaluate the dynamics of these factors within the local and primary feeder markets to understand their effect on the performance of a lodging property. In this section, we have presented a brief overview of the state of the national and local economies.

1. National Overview

In analyzing the Subject, it is necessary to understand the current state of the U.S. economy. The United States fell into the worst recession since the 1930s beginning in December 2007. The downturn was exacerbated by the financial crisis that took hold of markets in September 2008. The U.S. economy was essentially in decline until approximately August 2009, when experts claim that the recession likely ended. Over this period, employers eliminated approximately eight million jobs, the largest drop in any post-World War II economic downturn. Credit was largely unavailable as banks worldwide recorded approximately \$1.6 trillion of losses and write-downs since the start of 2007.

Following the official end of the recession in August 2009, U.S. Gross Domestic Product ("GDP") posted an annually adjusted gain of approximately 3.8 percent in the fourth quarter of that year, though the annual GDP declined by 3.5 percent. Following this decline, GDP increased by an average annualized rate of nearly 2.4 percent between 2010 and 2014. Despite quarterly fluctuations throughout 2014, GDP increased 2.4 percent over prior year levels on an annual basis due to stronger-than-expected contributions from personal consumption expenditures, exports, nonresidential fixed investment and government spending.

Owing largely to the effects of a sequestration implemented in 2013, an improving economy, the expiration of stimulus measures, and tax increases on high-income households, the federal deficit decreased to \$680 billion in fiscal year 2013. The deficit fell further to \$483 billion in the 2014 fiscal year, \$930 billion below the deficit recorded in 2009. 2014 marked the lowest federal deficit since 2008 and represented just 2.8 percent of GDP, the lowest level since 2007. However, the Federal Reserve has expressed concerns that fiscal policy is restraining growth, and that deficits will fall so fast as to undermine recovery.

Another measure of economic health is an analysis of unemployment trends. The national unemployment rate has been gradually declining from a high of 10.0 percent in October 2009, and fell to 5.3 percent in July of 2015. As of the third quarter of 2014, the U.S. is producing 5.6 percent more output (real GDP) than in the fourth quarter of 2007 prior to the Great Recession. Yet, the U.S. economy has been able to accomplish this with approximately 2.0 million fewer workers, providing one explanation for the surge in corporate profits over the last several years resulting from a more efficient workforce.

The U.S. economy has made broad gains since the Great Recession and companies are thriving. Payroll in 2014 expanded at the fastest pace since 1999, growing by an average of more than 215,000 jobs per month. As noted above, unemployment is at its lowest level since 2009. Companies in the Standard & Poor's 500 Index are the healthiest in decades, with the lowest net debt-to-earnings ratio in at least 24 years, \$3.59 trillion in cash and marketable securities, and record earnings per share. The S&P 500 Index has almost tripled since March 2009. This current economic expansion has been in progress for more than 60 months, making it the seventh longest in record history since 1854.

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2. State of California

Over the past decade, California has experienced the full spectrum of the economic cycle. It entered into a recession in the early 2000s, followed by a period of economic recovery and growth beginning in mid-year 2003. This recovery period was marked by a decline in the state's unemployment rate, an increase in the employment base, and strong growth in the state's gross domestic product, fueled by a diversifying knowledge-based economy. In conjunction with the strengthening of the national economy and a booming real estate market, California's economy

prospered from mid-year 2003 through mid-year 2007. Beginning in the second half of 2007, the Californian economy slowed due to a national recession driven by the national mortgage credit crisis. This most recent recession lasted approximately 20 months and is believed to have ended in August 2009. After multi-billion dollar shortfalls in recent years, including a \$26.6 billion budget gap in 2011, California expects to end the 2014/15 fiscal year with a \$5.6 billion operating surplus, with revenues projected to continue to out-pace expenditures in the near-term.

3. City and County of San Francisco

Overview: San Francisco is the focal point of the Bay Area and a major West Coast financial, retail, and transportation center, with an economy driven primarily by technology and tourism. Although the city was negatively impacted by the economic downturn, it has been quick to rebound. A knowledge-based economy, coupled with numerous developments within the city, will continue to support economic growth in the region.

Population: According to the U.S. Census Bureau, San Francisco had a population of approximately 837,400 as of 2013. The population has grown at a compound annual growth rate (“CAGR”) of 0.8 percent over the past ten years, slightly lower than the statewide growth rate of 1.0 percent over the same period due primarily due to the city’s density and high housing costs. San Francisco’s population is projected to continue to trail that of the state for the next decade as residents relocate to more affordable areas in surrounding Bay Area cities.

Employment: According to the State of California Employment Development Department, San Francisco had an employment base of approximately 532,100 as of July 2015. Major sectors within the city include professional and business services; trade, transportation, and utilities; government; and leisure and hospitality. However, San Francisco (and the entire Bay Area) is primarily known for its high-tech presence. The city has an estimated 50,000 tech employees overall, with approximately 28,000 employed within 50 major companies. A listing of the city’s top ten tech employers as of 2014 is presented in the following table.

Top Technology Employers – San Francisco		
Company	San Francisco Employees	Company-Wide Employees
Salesforce.com, Inc.	4,000	13,000
Google	2,500	53,861
Twitter	1,500	2,700
Lucasfilm Ltd.	1,500	-
Zynga	1,300	2,206
Adobe Systems, Inc.	1,000	11,700
Yelp Inc.	800	1,900
Autodesk Inc.	781	7,392
Square Inc.	700	-
Dolby Laboratories Inc.	700	1,578

Source: San Francisco Business Times

As with the rest of the nation, San Francisco's unemployment rate has fluctuated greatly over the past two decades, with peaks in the early 1990s, early 2000s, and late 2000s. During the recent economic recession, the city reported an annual unemployment rate of 9.4 percent in 2009 and 9.5 percent in 2010, with the latter representing San Francisco's highest unemployment rate of the past 20 years. This rate has dropped considerably in the years since, and was reported to be 3.8 percent as of July 2015, lower than the national rate of 5.3 percent that month due to the city's highly-trained workforce and concentration of high-growth technology companies.

Commercial Office Market: The downtown San Francisco commercial office market consists of approximately 89.6 million square feet of net rentable area. The office market can be generally categorized into 13 sectors, which consist of: 1) North Financial District, 2) South Financial District, 3) Union Square, 4) Yerba Buena, 5) SOMA West, 6) SOMA East, 7) Civic Center/Mid-Market, 8) Jackson Square, 9) North Waterfront, 10) Van Ness Corridor, 11) Potrero West, 12) Potrero East, and 13) Mission Bay. The Hotels can be most closely associated with the South Financial District, Union Square, and Civic Center/Mid-Market districts.

The San Francisco office market continues to be fueled by the growth of its tech sector. Leasing activity was robust throughout 2014, driven primarily by the expansion and emergence of technology companies. The market experienced a total of 2.8 million square feet of positive net absorption that year, with the overall vacancy rate declining to 7.5 percent as companies expanded their footprint and several more than doubled their current space. Decreasing vacancy for creative space in the South Financial and SOMA districts led to a growing trend of technology tenants spilling over into Mid-Market areas. Overall market rents have increased notably as the scarcity of space has driven rental rates skyward.

Convention Center: San Francisco is home to the Moscone Convention Center, which is responsible for an estimated 21 percent of all tourism to San Francisco. The Center features three wings: Moscone North, South, and West. Moscone North offers 181,440 square feet of exhibit space in two halls and up to 53,410 square feet of flexible meeting space in 17 rooms. Moscone South offers 260,560 square feet of exhibit space, divisible into three halls, along with 60,580 square feet of meeting space within 41 flexible meeting rooms. The newest addition to the center, known as Moscone West, opened in June of 2003, and provides an additional 300,000 square feet of flexible exhibit and meeting space. Combined, the Center offers over 740,000 square feet of exhibit space, up to 106 meeting rooms, and as many as four ballrooms.

However, the city believes that this is insufficient to support local convention demand, and the San Francisco Travel Association estimates that the City will have lost nearly \$2.1 billion in meeting revenue between 2010 and 2019 as a result of space limitations. Thus, the Center is undertaking a \$500 million project to construct 515,000 square feet of contiguous exhibition space. The project will also

include the construction of two new pedestrian bridges connecting the upper levels of Moscone North and Moscone South, as well as an upgrade to the existing pedestrian bridge across Howard Street. Phase 0 of three phases began in December 2014 and includes all behind-the-scenes work in preparing for construction of the expansion. The actual ground-breaking of the project began in May 2015, and is expected to be complete by the summer of 2018. There have been recent discussions about closing the convention center between March and August of 2017 as a component of the expansion.

Tourism: San Francisco is a world-class tourist destination and is widely appreciated for its numerous attractions, picturesque scenery, and diverse culture. It is consistently ranked as one of the top ten best cities to visit by the *Condé Nast Traveler's Readers' Choice Awards*, and has received a variety of additional accolades from other national and international publications. San Francisco hosted approximately 18.01 million visitors in 2014, up 6.5 percent from 2013. These visitors spent \$10.67 billion in 2014, an increase of 13.7 percent from the previous year. This massive influx of visitor dollars has benefited hotels, restaurants, retail shops, local attractions, and cultural institutions, and has in fact bolstered practically every segment of the city's economy. It has also remained a positive influence on government finances, with tax and fee revenues totaling approximately \$665 million in 2014 – an increase of 8.0 percent over 2013 levels. Due to a high volume of visitation, the city's hotel rooms achieve one of the highest annual occupancy levels in the nation.

City Developments: San Francisco continues to be involved in various medium to large- scale development projects that will revive some underused areas and improve other already-popular districts of the city, such as the Embarcadero and Mission Bay. These projects are discussed further in the following paragraphs.

The continuous development of **The Embarcadero**, San Francisco's waterfront area between Mission Bay and Fisherman's Wharf, is part of a master plan known as the Waterfront Land Use Plan of 1997. This mixed-use plan emphasizes opening up the bay to residents and tourists and promoting the development of abandoned piers and buildings into more attractive uses. Between 1997 and 2014, 63 new acres of waterfront open space have been constructed, 19 historical resources have been rehabilitated, seven derelict piers and wharves have been removed, and AT&T Park has been constructed. The Ferry Building, a San Francisco landmark, is the most visual of the numerous Embarcadero developments. After a comprehensive renovation and restoration in 2003, the Ferry Building now houses numerous restaurants, shops, and a popular farmers' market. Additional restaurants and retail outlets along Steuart Street (which runs parallel to the waterfront) and on the first and second floors of the Embarcadero Center have made this area a destination on evenings and weekends.

Current projects in the planning stages for the Embarcadero include the following:

- Construction of an affordable housing development and a new welcome center for the National Park Service at Alcatraz Landing;
- The re-purposing of Pier 29 to potentially include new retail facilities;
- Construction of a \$345 million residential and commercial development at 8 Washington Street;
- The repairing of the Pier 38 bulkhead;
- A redevelopment of Pier 48 to include a new brewery for Anchor Steam, a waterfront park, and 3.6 million square feet of retail, light manufacturing, commercial, and residential uses;
- Construction of the nine-acre Crane Cove waterfront park at Pier 70;
- Redevelopment of a 28-acre site at Pier 70, to potentially include the construction of 950 residential units; 2.6 million square feet of office, retail, and commercial uses; rehabilitation of four historic buildings; seven acres of open space; and parking structures;
- The construction of an automobile import/export terminal at Pier 80; and,
- Development of cargo terminal at Pier 90 to facilitate the export of iron ore mining products.

Mission Bay, a 303-acre redevelopment area located just north of AT&T Park, is the city's largest raw land development project and is being promoted as the future headquarters to the world's biotechnology industry. When fully complete, the project could potentially include 6,000 housing units (including 1,700 designated affordable units), 4.4 million square feet of commercial space, a 2.65 million square foot UCSF research campus, a UCSF hospital complex (which opened its first phase in February), 500,000 square feet of retail space, a 500-room hotel, 41 acres of open space, a 500-student public school, a public library, a new fire and police station, and other community facilities. Mission Bay is expected to create more than 30,000 new jobs. Development began in 2000 and will take place over 20 to 30 years, and is expected to cost in excess of \$4 billion.

The ongoing development of Mission Bay has led to the revitalization of the nearby **Rincon Hill** and **Dogpatch** neighborhoods. A 49-story, 298-unit residential development at One Rincon Hill opened in 2014 as a companion to an existing 64-story, 390-unit tower. In addition, over 1,500 housing units are proposed or under construction in the Dogpatch area.

The **Golden State Warriors** basketball team has plans to relocate from Oakland to San Francisco, and hopes to begin construction soon on a privately-funded \$800 million arena. This arena would be built in Mission Bay on a 12-acre site bounded by South Street, Terry Francois Boulevard, 16th Street, an 3rd Street. The 18,000 seat structure would include a view deck and two public plazas, and would also host conventions and entertainment events. Completion is slated for the start of the 2018-19 NBA season, but will likely be completed by the 2017-18 season.

Redevelopment of the **Transbay Terminal** in San Francisco's SOMA neighborhood began in December 2008. This \$4.5 billion transportation and housing project will replace the current Transbay Terminal at First and Mission Streets with a modern regional transit hub connecting eight Bay Area counties through 11 transit systems. The project will consist of three elements: replacing the existing terminal; extending CalTrain and the California High Speed Rail underground; and creating a new neighborhood with homes, offices, parks, and shops surrounding the new Transit Center. The center could potentially include the construction of over six million square feet of new office space, 4,400 units of new housing (1,200 of which will be affordable), 100,000 square feet of new retail, 1,000 new hotel rooms, a 1,070-foot Salesforce Tower, and 11 acres of public parks. Once completed, the new Transit Center will accommodate over 100,000 passengers each weekday and up to 45 million people per year. Construction is scheduled to be complete by the fall of 2017.

Treasure Island, a former naval base, is currently in the early planning stages of conversion to civilian use and incorporation into the jurisdiction of San Francisco. Current plans for the \$1.5 billion project call for the development of approximately 8,000 residential units, 235,000 square feet of retail space, up to 500 hotel rooms, a marina, and a ferry terminal. Additional developments may include an organic farm, wind farm, parkland, and tidal marshes. While the project has been mired in lawsuits, we understand that the project is proceeding though the private developers still need approval for each sub-phase of the project.

The western and eastern spans of the **Bay Bridge**, which connect on Yerba Buena Island, are also currently undergoing a much-needed retrofit and the construction of a new eastern span. This infrastructure improvement will support the continuous growth of the Bay Area economy for the next 50 years. In addition, the Bay Bridge also installed a 1.8-mile LED lighting system as part of the retrofit. While this installation closed in March 2015, a sturdier set of lights will be installed in time for Super Bowl 50 in February 2016, which will be held at Levi's Stadium in Santa Clara.

San Francisco has long been known for its art and culture and is the home to a diverse selection of museums, many of which have undergone expansions or renovations in recent years. Notably is the San Francisco Museum of Modern Art ("SFMOMA"), which closed in June 2013 to undergo a \$295 million expansion to triple the amount of gallery space; it is projected to re-open in 2016. In the meantime, SFMOMA is pursuing off-site, community-based programs in partnership with several local institutions and has also installed public art projects throughout the city.

The **Hunters Point Shipyard**, a former naval base, is a master-planned community of approximately 500 acres. A two-phase development program is planned for the area: Phase I will include the construction of 1,600 homes (27 to 40 of which will be affordable) and 26 acres of open space. Phase II provides for an additional 10,500

new housing units (32 percent of which will be affordable) and over three million square feet of research and development uses centered around green and clean technology uses. Phase I and II will generate hundreds of new construction jobs each year, and ultimately will create over 10,000 permanent jobs. The redevelopment project is projected to take seven years and \$15 billion to complete.

One of the fastest-growing neighborhoods in San Francisco is **Mid-Market**, which generally refers to the area bordered by Market, 5th, Mission, and 9th Streets. Approximately 35 projects are currently in varying stages of development in and around this fast-growing area, including multi-family residential, retail, office developments, and several boutique hotels. The New Central Hotel is located in the Mid-Market neighborhood.

Transportation: San Francisco has a well-developed transportation system with sophisticated air, highway, rail, trucking, and water infrastructure. Each is discussed in the paragraphs below.

The San Francisco International Airport (“SFO”) is located approximately 15 miles south of San Francisco between the cities of South San Francisco and Millbrae. Passenger volume has increased steadily since 2004, aided by the expansion of services by Southwest Airlines and Virgin America in 2008. Overall, passenger traffic has increased at a CAGR of 1.5 percent since 1995, with 2014 representing the strongest year in terms of passenger counts. That year, SFO served 47,155,100 inbound and outbound passengers.

A \$383 million renovation of SFO’s Terminal 2 was completed in April 2011 that included a new control tower, the use of green materials, and a seismic retrofit. The terminal features permanent art installations from Janet Echelman, Kendall Buster, Norie Sato, Charles Sowers, and Walter Kitundu, and set accolades by being the first U.S. airport to achieve LEED Gold status. It is home to Virgin America and American Airlines, who share the 14-gate common-use facility.

Additional airports that service the San Francisco Bay Area include the Oakland International Airport approximately ten miles east of San Francisco, and the San Jose International Airport approximately 40 miles south.

The major highways in and out of the city include Interstates 80 and 280 and Highways 1 and 101. Interstate 80 connects with the Bay Bridge and Oakland, and Highway 101 connects with the Golden Gate Bridge and Marin County.

Bay Area Rapid Transit (“BART”), a high-speed rail system, is a major commuter transportation system that links 43 stations in the Counties of Alameda, Contra Costa, San Mateo, and San Francisco. BART has had a tremendous impact on the Bay Area, transporting approximately 70 million passengers annually and, thus, facilitating the region’s commercial and residential growth. Within San Francisco, it provides direct access to such attractions as the Financial District, Union Square

District, San Francisco International Airport, and Oakland International Airport. The Hotel Des Arts is located three blocks from the Montgomery BART Station, the Mithila Hotel is 0.8 miles from the Powell Street BART Station, and the New Central Hotel is three blocks from the Civic Center/UN Plaza BART Station.

In addition to BART, the CalTrain system provides commuter rail service to Peninsula cities from San Francisco to Gilroy, and the MUNI light rail and bus systems facilitate transportation throughout the city.

Conclusion: While San Francisco was negatively impacted by the latest recession of 2008 and 2009, the City has rebounded quickly due to its economic diversity and knowledge-based employment. Furthermore, San Francisco has a booming tourism industry that is projected to remain healthy given its world-renowned reputation, ongoing improvements, and easy accessibility. As such, we are of the opinion that local demographic and economic conditions will facilitate demand for the three transient Hotels.

E. HOTEL MARKET ANALYSIS

1. National Market Overview

In addition to PKF Consulting, our Firm contains a research division, PKF Hospitality Research. Beginning in 2007, PKF unveiled its powerful *Hotel Horizons®*, an economics-based hotel forecasting model that projects five years of supply, demand, occupancy, ADR, and RevPAR for the U.S. lodging industry with a high degree of accuracy. *Hotel Horizons®* reports are published on a quarterly basis for 55 markets and six national chain-scales.

Based on the *June – August 2015 National Edition of Hotel Horizons®*, RevPAR for the U.S. lodging market grew by 5.4 percent in 2010, 8.1 percent in 2011, 6.6 percent in 2012, 5.2 percent in 2013, and 8.2 percent in 2014. As a point of comparison, RevPAR declined by 16.7 percent in 2009, the largest percentage decline since PKF Research began tracking lodging performance in 1935. This significant drop was a direct result of the severe national and global recession which began in the fall of 2007 and lasted well into 2009. Further, it resulted in a 40.0 percent decrease in hotels' net operating income ("NOI"), subsequently impacting hotel values throughout the nation.

2. San Francisco Lodging Market Overview

Of the total 33,642 hotel rooms in San Francisco recorded by the San Francisco Convention and Visitors Bureau, we have categorized hotels totaling 24,851 available rooms as representing the city's primary hotel supply as of year-end 2014. The remaining 8,791 rooms ($33,642 - 24,851 = 8,791$) consist of small, limited-service motels and "residential" hotels. The primary hotel supply can generally be

categorized into five lodging products or classifications: luxury, first-class/convention, boutique, middle-market, and limited-service. These hotels are generally located within five primary lodging sectors: Union Square/Moscone, Nob Hill, the Financial District, Fisherman's Wharf, and Civic Center/Van Ness Corridor. While these are distinct areas with their own supply and demand dynamics, there is often some market area overlap.

Luxury Hotels provide extensive and personalized services along with high-quality furnishings, superior food and beverage facilities, and extensive, varied guest amenities. The emphasis on personalized guest services results in a high employee-to-guest ratio, an intimate atmosphere, and high room rates. These properties provide meeting and banquet space; however, the emphasis is on catering to small meetings of less price-sensitive, top-level professionals and executives.

First-Class/Convention Hotels have guest services, amenities, and product quality designed to appeal to middle and high-income convention and individual travelers. These are medium to large properties which offer high quality but less personalized service than luxury hotels. First-class hotels usually offer a variety of food and beverage facilities at varying price ranges. In San Francisco, they are located near the Moscone Convention Center, Financial District, or various tourist attractions. Meeting facilities are provided to accommodate the group and convention segment needs. Many first-class hotels provide designated floors with special services for the upscale executive traveler. Generally, these hotels are newer or well-maintained older properties. Room rates typically fall between luxury room rates and the citywide ADR.

Boutique Hotels are older buildings, typically ranging in size from 80 to 200 rooms. The majority of these hotels have been fully renovated within the last ten to 15 years. Because renovation or conversion of an existing hotel or office building is generally less expensive than building a new facility, these properties are able to offer below-market room rates for a high-quality product. In San Francisco, boutique hotels have developed a significant market presence, competing with the full-service hotels for the commercial and leisure traveler. They typically have limited meeting space and small public areas, and have eliminated expensive overhead such as extensive food and beverage facilities. A number of boutique hotels do, however, have "signature" restaurants on-premises that are marketed independently of the hotel and have achieved a high level of recognition for quality and uniqueness.

Middle-Market Hotels appeal to the middle-income individual and family traveler. Tour operators primarily book these hotels because they offer a good compromise among service, product quality, and room rate. Guest service is usually good, but with few frills. Food and beverage facilities are limited and more economical than in first-class hotels. Room rates are typically similar to the citywide average. The

three Subject Hotels will fall into this classification upon opening as transient-only facilities.

Limited-Service Hotels generally range in size from 30 to 150 rooms. These properties offer room rates at the lower end of the scale and commonly do not offer on premise food and beverage facilities or recreational components. They are located outside of the more highly trafficked areas such as the Financial District or Union Square, and is instead proximate to the Civic Center, SOMA, and Lombard Street. This product-type generally does not compete, directly or indirectly, with the four other lodging products discussed.

a. Primary Lodging Sectors

The five primary lodging sectors in San Francisco are: 1) Union Square/Moscone; 2) Nob Hill; 3) the Financial District; 4) Fisherman's Wharf; and 5) Civic Center/Van Ness Corridor. While these are distinct areas with their own supply and demand dynamics, there is often some market area overlap. The map to the right indicates the general location of these sectors within San Francisco.



Union Square/Moscone: This sector's location makes it attractive to most lodging demand, as Union Square is proximate to the Financial District and the Moscone Convention Center. Union Square is one of the nation's most prestigious retail districts, continually attracting new retail shops and expanding its existing stores. Westfield San Francisco Centre is the largest shopping center in this district, as well as one of the largest in the country. This general area also includes the growing SOMA district and the Museum of Modern Art, Yerba Buena Gardens, and the Sony Metreon.

Union Square contains the city's largest supply of hotel rooms and attracts a mix of commercial, leisure, and group travelers. This sector has benefited from the completion of Moscone West in 2003 and will benefit further from the Center's upcoming expansion.

Nob Hill: This lodging sector has the most prestigious location in the city, with luxury properties including the Ritz-Carlton, Renaissance Stanford Court, Fairmont Hotel, and the Mark Hopkins-InterContinental. However, it is also the smallest of the lodging sectors in terms of number of properties and number of guestrooms. The Ritz-Carlton, which opened in 1991, was the first addition to this sector's supply since the mid-1970s. Typical guests are upper-income corporate and leisure travelers, as well as the high-end group market. Historically, this sector has

commanded the highest ADR in the city, but with a below-average occupancy. This is due to the higher cost of the hotel rooms and to their somewhat removed, hilltop location. The Mithila Hotel is located south of this area in the neighborhood known as Lower Nob Hill.

Financial District: The major demand generator for the Financial District lodging sector is the high-density office population located within the area, both north and south of Market Street. Typical guests in this sector are middle to high-income business, professional, and group travelers. Hotels in this neighborhood attract primarily commercial visitors due to their location. They experience their highest demand on weekdays, and obtain above-average occupancy and ADRs. The Hotel Des Arts is located in the western portion of the Financial District.

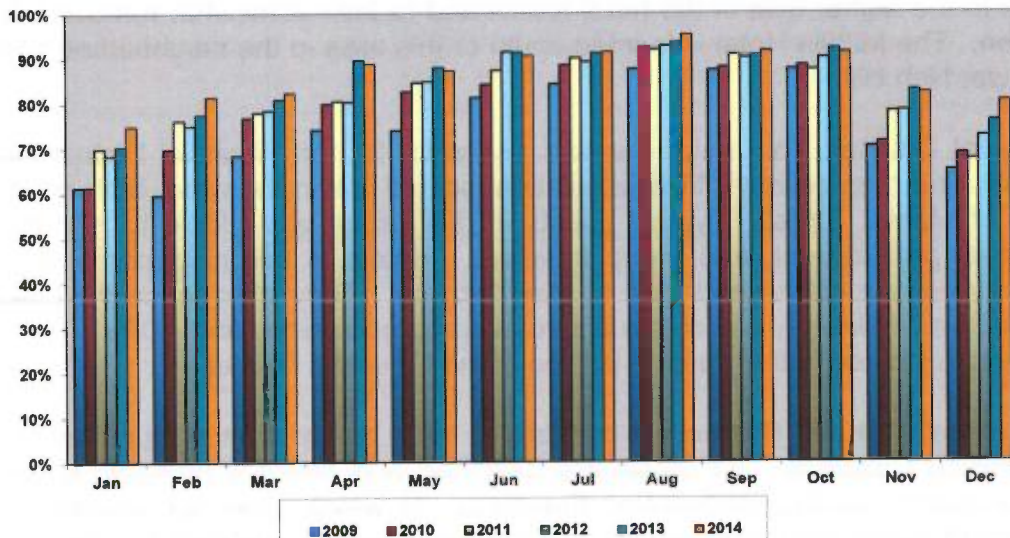
Fisherman's Wharf: This area is considered to be one of the top tourist attractions in Northern California. Its hotels are designed and oriented primarily to service middle-income families visiting San Francisco. However, given its proximity to the Financial District, the hotels attract a secondary share of business travelers. Most of the major U.S. lodging chains are represented in this sector by their respective mid-level products such as Best Western, Hilton, Holiday Inn, Hyatt, Marriott, Radisson, and Sheraton. Furthermore, this sector is family-friendly due to its convenience, price point, and proximity to venues and attractions. Consequently, families visiting San Francisco perceive a more casual and comfortable ambiance in the Fisherman's Wharf lodging sector as opposed to Nob Hill, Union Square, or the Financial District. Historically, this sector has achieved the highest occupancy of all the city's sectors. ADR, on the other hand, is typically below the overall average.

Civic Center/Van Ness Corridor: This lodging sector stretches along Van Ness Avenue, reaching south from the San Francisco Civic Center into SOMA, north to Fisherman's Wharf, and along Lombard Street into the Cow Hollow area. This lodging sector caters to the more price-sensitive visitors to San Francisco, as well as state and federal government employees. A number of the lodging products in this area have large meeting facilities geared toward the mid-market group segment. Historically, its composite occupancy and ADR tends to be the lowest of the five lodging sectors. The New Central Hotel is located in this neighborhood.

3. Seasonality of Demand

The seasonality of demand in San Francisco is largely tied to leisure travel as well as the convention calendar. Presented in the following page is a graph summarizing the city's occupancy by month for the past six years.

The City of San Francisco - Occupancy by Month since 2009



Source: PKF Consulting USA

As noted, San Francisco hotels run a high occupancy year-round. However, the summer and fall months of June, July, August, September, and October are generally the strongest due to the seasonal increase of leisure travelers in the summer and to the high volume of conventioners in the fall. March, April, and May are also strong months due to convention activity. January, February, November, and December are the slowest months, as both commercial and leisure travel declines during the holiday season. However, occupancy during these months still well exceeds national averages.

4. Historical Performance

Presented in the following chart is a summary of the historical performance of the overall San Francisco MSA lodging market from 2000 through 2014, along with performance projections through 2019. This historical and projected future performance is compiled by PKF Hospitality Research. It should be noted that the historical and projected performance of the competitive market includes hotels located in San Francisco, San Mateo, and Marin Counties.



Source: PKF Hospitality Research

Occupancy has historically been strong for the San Francisco MSA lodging market, averaging 73.3 percent since 2000 and ranging from a low of 61.5 percent in 2001 to a high of 84.1 percent in 2014. With occupancy levels this high, the MSA generated a significant amount of unsatisfied demand, or demand that was turned away to other Bay Area markets due to the limited supply growth during those years. High occupancy levels have also allowed hotel managers to significantly increase room rates. Between 2011 and 2014, the San Francisco MSA achieved rate growth ranging from approximately 9.0 to 14.0 percent per year, resulting in a year-end 2014 ADR of \$207.80. It should be noted that hotels within the City of San Francisco achieve a premium in ADR over the markets comprising the San Francisco MSA, as well as an overall higher occupancy level.

Occupancy is projected to average approximately 85 percent over the next three years, with ADR growth of approximately 9.0, 8.0, and 6.0 percent, respectively, each year. This rate growth results in a year-end 2017 ADR of \$259, which is the highest ADR level recorded for the San Francisco MSA. It should be noted that the City of San Francisco is generally regarded as the strongest lodging market in the United States, achieving record occupancy levels and extraordinary average rate growth with very few projected additions to supply. In fact, lodging demand is forecast to remain so strong that the City of San Francisco has a significant undersupply of new rooms in the development pipeline, ensuring strong occupancy levels for the existing properties for many more years.

5. Changes to Supply

The strength of the local hotel market in the late 1990s resulted in the planning and development of numerous hotel projects, which have included building conversions, renovations, and new construction on sites throughout the city. However, as a result of the economic downturn in the early 2000s coupled with high construction costs, only five hotels (with a total of 1,117 rooms) have opened since 2005. The most recent addition was the 22-room Inn at the Presidio, which opened in March of 2012 within the Presidio National Park. This new hotel has achieved occupancy levels in excess of 80 percent since opening, indicating the strength of the San Francisco market. Fourteen hotels (excluding the three Subject Hotels) are currently proposed, three are under construction, and seven have completed or are currently undergoing conversions. We have provided a summary of these projects in the following table.

New and Updated Hotel Supply - San Francisco, CA			
Project #	Project Name	Address	Room Count
Under Construction			
1	Hampton Inn	942 Mission St.	174
2	Holiday Inn Express	235 O'Farrell Street	57
3	Unnamed Hotel	144 King St.	132
	Subtotal		363
Planning			
4	Standard Hotel	950-974 Market St.	212
5	Luxury Hotel	88 First Street	169
6	Hotel SoMa	690 5th St.	75
7	Marriott	1000 Channel St.	250
8	Unnamed Hotel	701 3rd St.	225
9	Unnamed Hotel	250 4th St.	215
10	Moxy Fisherman's Wharf	1196 Columbus Ave.	65
11	YOTEL	1095 Market St.	203
12	Building 105 Hotel	The Presidio	38
13	Unnamed Hotel	1053-55 Market St.	155
14	Unnamed Hotel	72 Ellis St.	156
15	Unnamed Hotel	5 3 rd St.	N/A
16	Unnamed Hotel	1125 Market St.	160
17	Teatro ZinZanni Hotel	Embarcadero & Broadway	170
	Subtotal		2,093
Conversions			
18	Hotel G (Open)	386 Geary St.	153
19	Renoir Hotel (San Francisco Proper)	45 McAllister St.	135
20	Vantaggio Suites Cosmo	761 Post St.	150
21	Union Square Plaza Hotel	432 Geary St.	69
22	Hotel Fusion	54 4 th St.	124
23	Mosser Hotel	140 Ellis St.	201
24	120 Ellis St.	120 Ellis St.	69
	Subtotal		901

As shown, 363 hotel rooms are under construction in San Francisco. First is a 174-room Hampton Inn located at 942 Mission Street, which is being developed by G and M Hospitality and is expected to open in September of 2015. Second is a 57-room Holiday Inn Express located at 235 O'Farrell Street above Johnny Foley's Irish House. Third is a 132-room boutique hotel just across from AT&T Park at 144 King Street; it is projected to open in 2016.

In addition to these hotels, 2,093 rooms (excluding the three Subject Hotels) are currently proposed. As mentioned in Section II of this report, other hotels have been discussed as part of the master plan for various large-scale development projects throughout the city (i.e. Mission Bay, Transbay Terminal, and Treasure Island); however, no developer or programming has yet been selected and/or the project is not deemed to be competitive to the proposed Subject. As such, we have not included them in our analysis.

Finally, the Hotel Frank was recently converted into the Hotel G, the Renoir Hotel is undergoing an approximately \$100 million renovation into the San Francisco Proper hotel, a luxury boutique hotel with a rooftop bar, and the Vantaggio Suites is being converted into a Courtyard by Marriott. However, these conversion projects will not result in a net increase in supply within the San Francisco market. In addition, four properties (Projects 21-24) are, like the Subject, also slated to undergo conversions from transient/residential hotels into transient-only hotels between 2017 and 2020.

A brief summary of each project is presented in the following paragraphs.

1. **942 Mission:** Construction is nearing completion on a six-story Hampton Inn hotel at 942 Mission Street. It is being developed by G and M Hospitality, and is projected to open by the fall of 2015.
2. **235 O'Farrell St:** A 57-room Holiday Inn Express is under construction at 235 O'Farrell Street, above Johnny Foley's Irish House. We project the hotel will be open and available for occupancy by January 1, 2016.
3. **144 King St:** A 12-story, 132-room boutique hotel is being developed by David O'Keeffe on a site across from AT&T Park. This 12-story hotel will offer a roof garden, a bar, and views of the downtown skyline.
4. **950-974 Market St:** This project, tentatively planned to be a Standard Hotel, is being developed by Mid-Market Center, LLC and the architect is Bjarke Ingels Group. The 212-room hotel will be constructed as part of a mixed-use development which will include 250 condominium units and retail. It is projected that the hotel will open by July 1, 2018.
5. **88 First St:** A 169-room luxury hotel has been proposed at this location as part of the mixed-use Oceanwide Center development.

6. **690 5th St:** Townshend Associates, LLC has plans to demolish an existing office building and construct the 75-room Hotel SoMa with a 5,000 square foot café.
7. **1000 Channel St:** This three-acre site, known as Block 1, will be developed by the Strada Investment Group and Stanford Hotels Corporation into a \$220 million hotel and residential complex. The hotel portion will encompass an estimated 250 rooms and 15 floors, with construction expected to begin in the fourth quarter of 2015. It will be branded as a full-service Marriott.
8. **701 3rd St:** Stonebridge Corporation has plans to build a 225-room, ten-story hotel on a 13,750 acre site which is currently improved with a McDonald's restaurant.
9. **250 4th St:** Developer Jay Singh has plans to demolish an existing three-story office building in SoMa and develop an 11-story, 215-room hotel.
10. **1196 Columbus Ave:** J Street Hospitality is planning to develop a Moxy Hotel in the Fisherman's Wharf neighborhood. In December of 2014, J Street acquired the site (which is currently developed by a vacant, single-story retail building) and filed plans with the city for development of a hotel.
11. **1095 Market St:** A historic building in the Mid-Market neighborhood may be converted into a 203-room YOTEL.
12. **The Presidio:** Presidio Trust intends to convert an existing building into a 38-room hotel to open in spring 2017.
13. **1053-55 Market St:** G and M Hospitality (the developers of the Hampton Inn) have plans to demolish the Kaplan's Surplus store and construct a 10-story hotel with 155 rooms and ground floor retail.
14. **72 Ellis St:** Plans have been extended by the city for demolition of an existing parking lot and the construction of an 11-story, 156-room hotel with ground floor retail.
15. **5 3rd Street:** Hearst Corporation, which currently owns the Hearst Building at 5 3rd Street, is considering leasing the building to a to-be-formed joint venture of JMA Ventures and Mr. Darius Anderson to redevelop the building and operate it as a boutique hotel.
16. **1125 Market St:** A proposed 160-room hotel is currently in the early planning stages at this site in the Mid-Market area of San Francisco.

Map of New Hotel Supply – San Francisco, CA



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17. **Embarcadero & Broadway:** A 170-room boutique hotel is proposed as part of a mixed-use development that will also include the Teatro ZinZanni Dinner Theatre and ten artist studios.
18. **386 Geary St:** Conversion of the Hotel Frank to the Hotel G was completed in 2014 after a complete remodel.
19. **45 McAllister St:** The historic Renoir Hotel will be converted to the San Francisco Proper, a 135-room luxury hotel focused on food and beverage.
20. **761 Post St:** The Vantaggio Suites Cosmo hotel will be converted to a Courtyard by Marriott property after undergoing approximately \$13 million in renovations.
21. **432 Geary St:** The Union Square Plaza Hotel is a transient/residential hotel in the Mid-Market district which has eight transient rooms and 61 tourist rooms. It is set to undergo a renovation to be converted into a 69-room transient-only property; we have assumed that this conversion will be complete by 2017.
22. **54 4th St:** The Mosser Hotel is another transient/residential hotel with 120 transient and 81 residential rooms. This property is expected to convert into a 201-room transient hotel by 2017.
23. **140 Ellis St:** The Hotel Fusion is a third transient/residential hotel with 112 transient and 12 residential rooms. It is expected to convert to a 124-room transient hotel by 2017.
24. **120 Ellis St:** This 69-room residential hotel will undergo an extensive renovation in order to convert into a transient-only property. We have assumed that this project will be complete by 2020.

A map indicating the location of these 24 hotel projects is presented on the following page. It is interesting to note that most of these projects are located in the Mid-Market and Union Square Neighborhoods, near the three proposed Subject Hotels. This indicates the high-demand for hotel rooms in this neighborhood, which is proximate to a variety of leisure and commercial demand generators and benefits from proximity to the Moscone Convention Center, public transportation, and such attractions as the Union Square shopping district and the offices of most of the city's technology companies.

If all these hotels were to open by 2020, and if the four Subject Hotels' 162 residential rooms were to be converted into transient rooms, they would result in a net increase of 3,519 new rooms within the San Francisco market, bringing the city's total "primary" hotel inventory to 28,370. However, with these additions, supply would only increase at a CAGR of 2.7 percent over the course of the next five years. Meanwhile, demand for rooms in the market is projected to increase by an even greater amount; as such, the new supply would not likely have a significant impact on occupancy for the overall San Francisco lodging market.

In addition, due to the high costs of construction and difficulty of obtaining city approval and financing, it is unlikely that most of these projects will come to fruition in the near-term, and supply growth is estimated to actually be less than 1.0 percent per year for the next five years. For the purpose of our analysis, we have only included the addition of the 132-room boutique hotel at **144 King Street**, the 57-room **Holiday Inn Express** at 235 O'Farrell Street, the 220-room boutique hotel at **950-974 Market Street**, and the conversion of the **four transient/residential hotels** in our projections of future supply and demand for the market. The King Street hotel and the Holiday Inn Express are currently under construction, and the Market Street hotel and transient/residential conversions are highly likely to move forward. Furthermore, these properties will presumably be comparable to the Hotels with regard to location, guestroom product, market orientation, and physical condition. We have estimated an opening date of January 1, 2016 for the King Street property and the Holiday Inn Express; January 2017 for the conversion of the Union Square Plaza Hotel, Hotel Fusion, and Mosser Hotel; July 2018 for the Market Street development; and January 2020 for the 120 Ellis Street hotel.





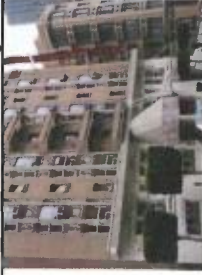
The remaining projects are still highly speculative at this point, and many will differ from the Hotels with regard to location and positioning. As mentioned, even if these properties were to be constructed over the near-term, San Francisco generates enough unsatisfied demand that they will not have a notable impact on our market projections.







6. Competitive Lodging Market Overview

Within the San Francisco lodging market, the Subject Hotels will compete with similarly-positioned boutique properties located in and near the Union Square district. Based on our research and our understanding of the overall project, we have identified 21 properties, totaling 2,428 rooms, as representing the primary competitive market. Competitive properties were identified on the basis of location, room product offered, guest type, rate structure, and overall quality. They represent the highest-quality boutique hotels in San Francisco, and many are operated by renowned management company Joie de Vivre Hospitality.

The tables on the following four pages provide a summary of the competitive hotels.

Summary of Hotels in the Competitive Lodging Market				
Property	Hotel Carlton	Hotel Rex	Laurel Inn	
Location	1075 Sutter St.	562 Sutter St.	444 Presidio Ave.	
Year Opened	1927	1907	1965	
Number of Rooms	163	94	49	
Affiliation	Joie de Vivre Hospitality	Joie de Vivre Hospitality	Joie de Vivre Hospitality	
Amenities				
Restaurant	Saha	Library Bar	Swank Cocktail & Coffee Club	
Recreation	N/A	N/A	N/A	
Meeting Space	550 SF	1,385 SF	N/A	
Other	Wine reception	Salon Series weekly art events	Parking (\$22/night)	
Property	Phoenix Hotel	Warwick Hotel	Pickwick Hotel	
Location	601 Eddy St.	490 Geary St.	85 5 th St.	
Year Opened	1955	1913	1928	
Number of Rooms	44	74	189	
Affiliation	Joie de Vivre Hospitality	Warwick International Hotels	N/A	
Amenities				
Restaurant	Chambers Eat + Drink	Aveline Restaurant & The European Bar	SOMA Restaurant & Bar, Café Venue, Sushi Club	
Recreation	Outdoor pool	Off-site fitness center	N/A	
Meeting Space	N/A	1,290 SF	N/A	
Other	Complimentary parking	Courtesy Town Car	N/A	

Summary of Hotels in the Competitive Lodging Market			
Property	Opal Hotel	King George Hotel	Hotel Diva
			
Location	1050 Van Ness Ave.	334 Mason St.	440 Geary St.
Year Opened	1908	1914	1912
Number of Rooms	166	153	116
Affiliation	N/A	Greystone Hotels	Personality Hotels
Amenities			
Restaurant	Mel's Drive-In	Winston's Lounge	Colibri Mexican Bistro, Starbucks
Recreation	Fitness room	N/A	Fitness center
Meeting Space	N/A	500 SF	700 SF
Other	Guest laundry, parking available, complimentary breakfast	Valet parking, room service	Sake reception
Property	Hotel Mark Twain	Hotel Metropolis	Executive Hotel Vintage Court
			
Location	345 Taylor St.	25 Mason St.	650 Bush St.
Year Opened	1988	1910	1912
Number of Rooms	115	105	106
Affiliation	N/A	Haiyi Hotels	Executive Hotels & Resorts
Amenities			
Restaurant	N/A	Farmerbrown Restaurant	Game Restaurant
Recreation	Fitness room	Fitness room	N/A
Meeting Space	N/A	N/A	245 SF
Other	Pet-friendly	Valet parking	Evening wine reception

Summary of Hotels in the Competitive Lodging Market				
Property	Kensington Park Hotel	Hotel Stratford	Hotel Bijou	
				
Location	450 Post St.	242 Powell St.	111 Mason St.	
Year Opened	1923	1907	1911	
Number of Rooms	92	90	65	
Affiliation	Personality Hotels	N/A	N/A	
Amenities				
Restaurant	Farallon Restaurant	N/A	N/A	
Recreation	Fitness center (off-site)	N/A	N/A	
Meeting Space	700 SF	N/A	1,280 SF	
Other	Sherry reception, town car service	Complimentary breakfast, airport shuttle	Nightly movies	
Property	Hotel ABRI	Galleria Park Hotel	Villa Florence Hotel	
				
Location	127 Ellis St.	191 Sutter St.	225 Powell St.	
Year Opened	1906	1911	1915	
Number of Rooms	91	177	182	
Affiliation	N/A	Joie de Vivre Hospitality	N/A	
Amenities				
Restaurant	N/A	Gaspar	Kuleto's, Bar Norcini	
Recreation	N/A	N/A	Fitness center	
Meeting Space	N/A	2,000 SF	1,600 SF	
Other	Complimentary breakfast	Wine reception, concierge	Concierge	

Summary of Hotels in the Competitive Lodging Market			
Property	Hotel Triton	Orchard Garden Hotel	Hotel Union Square
Location	342 Grant Ave.	466 Bush St.	114 Powell St.
Year Opened	1992	2006	1913
Number of Rooms	140	86	131
Affiliation	Kimpton Hotels & Restaurants	N/A	Personality Hotels
Amenities			
Restaurant	N/A	Roots Restaurant	N/A
Recreation	Fitness center	Fitness room	Fitness center (off-site)
Meeting Space	500 SF	440 SF	N/A
Other	Wine reception	Rooftop garden, valet parking	Wine reception

7. Historical Performance of the Competitive Market

Presented in the following table is the aggregate performance of the 21 competitive hotels since 2009. In addition, we have included in these figures the historical performance of the 39 transient rooms within the Hotel Des Arts, Mithila Hotel, and New Central Hotel.

Proposed Transient Hotels - San Francisco, CA Historical Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2009	900,090	-	649,596	-	72.2%	\$108.16	-	\$78.06	-
2010	900,090	0.0%	686,233	5.6%	76.2%	\$111.18	2.8%	\$84.76	8.6%
2011	900,090	0.0%	709,940	3.5%	78.9%	\$132.45	19.1%	\$104.47	23.3%
2012	900,090	0.0%	722,089	1.7%	80.2%	\$150.14	13.4%	\$120.45	15.3%
2013	900,090	0.0%	723,059	0.1%	80.3%	\$166.70	11.0%	\$133.91	11.2%
2014	900,455	0.0%	724,041	0.1%	80.4%	\$190.00	14.0%	\$152.78	14.1%
CAGR	0.0%	-	2.2%	-	-	11.9%	-	14.4%	-
YTD Jun '14	450,228	-	344,845	-	76.6%	\$179.46	-	\$137.45	-
YTD Jun '15	455,018	1.1%	357,103	3.6%	78.5%	\$199.02	10.9%	\$156.19	13.6%

Source: PKF Consulting USA, a CBRE Company

- As shown, supply within the competitive market has remained constant since 2009 as many the hotels comprising the market are historic boutique properties that opened in the early 1900s. The Orchard Garden Hotel, which opened in 2006, is the newest addition to the competitive market.
- However, demand has increased by a CAGR of 2.2 percent, with continually-improving occupancy levels since 2009. Occupancy was 72.2 percent during the height of the recession in 2009, with the market faring considerably better than national averages, which were listed at 54.5 percent that year. Occupancy increased in the years since, and has consistently remained near 80 percent over the past three years. At this level, hotels are operating at functional capacity with limited availability during weekends throughout the year as well as during the peak summer and fall months. With an occupancy of 80 percent, the market has little opportunity for growth. Occupancy is up approximately two percentage points year-to-date, even with strong ADR gains of 10.9 percent.
- With occupancy levels so high, hotel managers have a significant opportunity to drive rates. ADR has increased by double-digits over each of the past four years, with rates increasing by \$81.84 total between 2009 and 2014. If ADR growth continues in line with year-to-date trends, rates will surpass \$200 for the first time in 2015.
- Due primarily to significant ADR growth, RevPAR for the market has increased by a CAGR of 14.4 percent between 2009 and 2014. This is

considerably higher than the growth rate of 6.7 percent experienced by hotels nationwide, and illustrates the strength of the San Francisco lodging market.

8. Projected Performance of the Competitive Market

Presented in the following table is a summary of our occupancy and ADR projections for the competitive market for the next ten years, assuming that the three Subject Hotels will open as transient-only properties between 2015 and 2017.

Proposed Transient Hotels - San Francisco, CA Projected Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2014	900,455	0.0%	724,041	0.1%	80.4%	\$190.00	14.0%	\$152.78	14.1%
2015	906,386	0.7%	725,200	0.2%	80%	\$209.00	10.0%	\$167.22	9.5%
2016	1,007,765	11.2%	803,100	10.7%	80%	\$226.00	8.1%	\$180.10	7.7%
2017	1,172,380	16.3%	932,300	16.1%	80%	\$240.00	6.2%	\$190.85	6.0%
2018	1,212,530	3.4%	965,200	3.5%	80%	\$250.00	4.2%	\$199.01	4.3%
2019	1,252,680	3.3%	999,200	3.5%	80%	\$258.00	3.2%	\$205.79	3.4%
2020	1,277,865	2.0%	1,022,200	2.3%	80%	\$266.00	3.1%	\$212.78	3.4%
2021	1,277,865	0.0%	1,022,200	0.0%	80%	\$274.00	3.0%	\$219.18	3.0%
2022	1,277,865	0.0%	1,022,200	0.0%	80%	\$282.00	2.9%	\$225.58	2.9%
2023	1,277,865	0.0%	1,022,200	0.0%	80%	\$290.00	2.8%	\$231.98	2.8%
2024	1,277,865	0.0%	1,022,200	0.0%	80%	\$299.00	3.1%	\$239.18	3.1%
CAGR	3.9%	-	3.9%	-	-	4.1%		4.1%	

Source: PKF Consulting USA, a CBRE Company

- We project occupancy to remain at 80 percent in 2015, in line with levels achieved over the past three years. Due to continued projections of strong demand for room nights in San Francisco, we expect that the market will be able to maintain this level of occupancy for the foreseeable future. Despite projections of strong tourism trends for San Francisco, we are of the opinion that continued rate growth and the addition of new hotels throughout the Bay Area will keep occupancy from significant growth above this level.
- As mentioned, we project six new properties to open within the competitive market over the next five years: the three Subject Hotels, as well as a 132-room boutique hotel at 144 King Street, a 57-room Holiday Inn Express at 235 O'Farrell Street, and a 220-room boutique hotel at 950-974 Market Street. In addition, we expect four transient/residential hotels in the Mid-Market neighborhood to be converted to transient-only properties. We project the New Central Hotel to re-open as a 120-room, transient-only property in October of 2015, resulting in a slight supply increase within the competitive market. We project the 144 King Street hotel and the Holiday Inn Express to open in 2016, resulting in 11.2 percent supply growth. Next, we expect the Hotel Des Arts, Mithila Hotel, Union Square Plaza Hotel, Hotel

Fusion, and Mosser Hotel to open as transient-only properties in 2017, resulting in overall supply gains of 16.3 percent. Finally, we project the 950-974 Market Street property to open in the summer of 2018, resulting in slight supply increases in 2018 and 2019, and the 69-room 120 Ellis Street property to open as a transient hotel in 2020.

- Overall, we project supply to increase by a CAGR of 3.9 percent between 2015 and 2024. However, due to extremely strong demand for hotel rooms in San Francisco, we predict that these properties will be readily absorbed within the market and that occupancy will be unaffected. We believe that demand within the competitive market will in fact increase as these new hotels will be able to accommodate visitors who had previously been turned away to other hotels in the Bay Area due to insufficient availability. With our expectation of continued strength for the San Francisco market, we believe that the market will stabilize at 80 percent occupancy for the duration of our projection period. While all indicators suggest that lodging demand will remain strong with limited new additions to supply, continued ADR growth coupled with normal economic cycles suggest a more reasonable long-term stabilized occupancy near recent levels. This stabilized occupancy level is above averages of 78.0 percent achieved over the past six years, and reflects continued economic and tourism growth projected for the Bay Area (and San Francisco in particular).
- In keeping with strong ADR growth rates since 2011, we project rates within the competitive market to increase by approximately 10 percent in 2015, with the market's ADR surpassing \$200 for the first time. However, we project ADR growth for the greater Bay Area market to eventually slow in upcoming years as the market seeks to maintain stabilized occupancy levels. As such, we project ADR growth rates to taper to approximately 8.0 percent in 2016, 6.0 percent in 2017, and 4.0 percent in 2018, before stabilizing at 3.0 percent annual growth beginning in 2019. These rates result in overall ADR growth of 4.1 percent between 2015 and 2024.

F. PROJECTED PERFORMANCE OF THE SUBJECT HOTELS

Based upon our analysis contained herein, including a review of the overall competitive market and of each identified hotel, we have provided our estimation of the occupancy and ADR levels likely attained by each Hotel in 2014. Then, we have projected each property's future performance upon opening as a transient-only lodging facility.

It should be noted that, given the previously discussed strong fundamentals of the greater San Francisco lodging market along with the Hotels' excellent location in the heart of the city, we are of the opinion that the properties will achieve very strong

levels of performance as transient-only properties and with no impact on the greater competitive San Francisco lodging market.

1. New Central Hotel

A summary of the New Central Hotel's estimated 2014 performance as well as our projections of its future performance as a transient-only lodging facility is presented below.

New Central Hotel Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	15	5,475	4,402	80%	\$85.00*	-	\$68.34	
2015	31	11,406	9,171	80%	\$94.00	10.0%	\$75.58	10.6%
2016	120	43,800	35,215	80%	\$102.00	8.0%	\$82.01	8.5%
2017	120	43,800	35,215	80%	\$108.00	6.0%	\$86.83	5.9%
2018	120	43,800	35,215	80%	\$112.00	4.0%	\$90.05	3.7%
2019	120	43,800	35,215	80%	\$115.00	3.0%	\$92.46	2.7%
2020	120	43,800	35,215	80%	\$118.00	3.0%	\$94.87	2.6%
2021	120	43,800	35,215	80%	\$122.00	3.0%	\$98.09	3.4%
2022	120	43,800	35,215	80%	\$126.00	3.0%	\$101.30	3.3%
2023	120	43,800	35,215	80%	\$130.00	3.0%	\$104.52	3.2%
2024	120	43,800	35,215	80%	\$134.00	3.0%	\$107.74	3.1%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

Based on our conversations with management of the New Central Hotel and on the recent performance of comparable hotels, we are of the opinion that the 15 transient rooms within the New Central Hotel achieved an **ADR of \$85** in 2014. This positions the Hotel below all competitive properties within the market to reflect its generally inferior product and lack of guest amenities. Applying the same growth rates as projected for the competitive market, this results in an **ADR of \$94** upon opening as a 120-room transient-only Hotel in 2015.

We project that the Hotel achieved an occupancy of **80 percent** in 2014, in line with competitive market averages; we project that its occupancy will remain at this level for the duration of our projection period.

2. Hotel Des Arts

A summary of the estimated 2014 performance for the Hotel Des Arts as well as our projections of its future performance as a transient-only lodging facility is presented below.

Hotel Des Arts Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	13	4,745	3,815	80%	\$100.00*	-	\$80.40	-
2015	13	4,745	3,815	80%	\$110.00	10.0%	\$88.44	10.0%
2016	13	4,745	3,815	80%	\$119.00	8.0%	\$95.68	8.2%
2017	51	18,615	14,966	80%	\$126.00	6.0%	\$101.30	5.9%
2018	51	18,615	14,966	80%	\$131.00	4.0%	\$105.32	4.0%
2019	51	18,615	14,966	80%	\$135.00	3.0%	\$108.54	3.1%
2020	51	18,615	14,966	80%	\$139.00	3.0%	\$111.76	3.0%
2021	51	18,615	14,966	80%	\$143.00	3.0%	\$114.97	2.9%
2022	51	18,615	14,966	80%	\$147.00	3.0%	\$118.19	2.8%
2023	51	18,615	14,966	80%	\$151.00	3.0%	\$121.40	2.7%
2024	51	18,615	14,966	80%	\$156.00	3.0%	\$125.42	3.3%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

Based on our conversations with management and on the recent performance of comparable hotels, we are of the opinion that the 13 transient rooms within the Hotel Des Arts achieved an **ADR of \$100** in 2014, in line with that of the New Central Hotel. However, this rate still positions the property at the very low end of the ADR range achieved by the competitive hotels, owing to its small guestroom size and limited number of amenities. Applying the same growth rates as projected for the competitive market, this results in an **ADR of \$126** upon expanding into a 51-room transient-only Hotel by 2017.

We project that the Hotel achieved an occupancy of 80 percent in 2014, in line with competitive market averages, and that its occupancy will remain at this level for the duration of our projection period.

3. Mithila Hotel

We have presented a summary of estimated and projected performance for the Mithila Hotel below.

Mithila Hotel Projected Performance								
Year	Daily Supply	Annual Supply	Annual Demand	Occupancy	ADR	Market Growth	RevPAR	Percent Change
2014	11	4,015	3,228	80%	\$75.00*	-	\$60.30	
2015	11	4,015	3,228	80%	\$83.00	10.0%	\$66.73	10.7%
2016	11	4,015	3,228	80%	\$90.00	8.0%	\$72.36	8.4%
2017	30	10,950	8,804	80%	\$95.00	6.0%	\$76.38	5.6%
2018	30	10,950	8,804	80%	\$99.00	4.0%	\$79.60	4.2%
2019	30	10,950	8,804	80%	\$102.00	3.0%	\$82.01	3.0%
2020	30	10,950	8,804	80%	\$105.00	3.0%	\$84.42	2.9%
2021	30	10,950	8,804	80%	\$108.00	3.0%	\$86.83	2.9%
2022	30	10,950	8,804	80%	\$111.00	3.0%	\$89.24	2.8%
2023	30	10,950	8,804	80%	\$114.00	3.0%	\$91.66	2.7%
2024	30	10,950	8,804	80%	\$117.00	3.0%	\$94.07	2.6%

*2014 ADR is estimated

Source: PKF Consulting USA, a CBRE Company

Based on our conversations with management and on the recent performance of comparable hotels, we are of the opinion that the 11 transient rooms within the Mithila Hotel achieved an **ADR of \$75** in 2014. This ADR is below that of all properties within the competitive market, as the property offers shared bathrooms, limited amenities, and could benefit from a remodel. Applying the same growth rates as projected for the competitive market, this results in an **ADR of \$95** upon opening as a 30-room, transient-only Hotel by 2017.

We project that the Mithila Hotel achieved an occupancy of **80 percent** in 2014, in line with competitive market averages, and we project that its occupancy will remain at this level for the duration of our projection period.

While it is possible that the New Central Hotel, Hotel Des Arts, and Mithila Hotel will experience growth in occupancy and ADR above those estimated in the report, it is also possible that sudden economic downturns, unexpected additions to the room supply, or other external factors will force the properties below the selected point of stability. Consequently, the estimated occupancy and ADR levels are representative of the most likely potential operations of the Hotels over the projection period based on our analysis of the market as of the date of the report.

This completes our analysis of the potential market demand for conversion of three transient/residential hotels in San Francisco's Financial District, Lower Nob Hill, and Mid-Market neighborhoods into transient-only hotels. After you have had an opportunity to review this report, please feel free to contact us with any questions or comments. Thank you for this opportunity to work with you on this interesting engagement. Please let us know should you have any questions or should you require any further information.

Yours sincerely,

PKF Consulting USA
A Subsidiary of CBRE, Inc.



By: Chris Kraus, MAI
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By: Elle Patterson
Senior Consultant
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ADDENDA

- A. CERTIFICATION OF THE CONSULTANTS**
- B. STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

ADDENDUM A

CERTIFICATION OF THE CONSULTANTS

CERTIFICATION OF THE CONSULTANTS

We, Chris Kraus, MAI, and Elle Patterson, certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- We have performed no services, as appraisers or in any other capacity, regarding the properties that are the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- We have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- Elle Patterson has made a personal inspection of the properties that are the subjects of this report.
- No one has provided significant professional assistance to the persons signing this report.
- 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.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

- As of the date of this report, Chris Kraus has completed the continuing education program for Designated Members of the Appraisal Institute.
- Chris Kraus is a Certified General Real Estate Appraiser in the State of California.

Yours sincerely,

PKF Consulting USA

A Subsidiary of CBRE, Inc.



By: Chris Kraus, MAI
Managing Director
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By: Elle Patterson
Senior Consultant
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ADDENDUM B
TERMS AND CONDITIONS

TERMS AND CONDITIONS

1. The Terms and Conditions herein are part of an agreement for consulting services (the "Agreement") between CBRE, Inc. (the "Consultant") and the client signing this Agreement, and for whom the consulting services will be performed (the "Client"), and shall be deemed a part of such Agreement as though set forth in full therein. The Agreement shall be governed by the laws of the state where the Consultant's office is located for the Consultant executing this Agreement.
2. Client shall be responsible for the payment of all fees stipulated in the Agreement. Payment of the engagement fee and preparation of a report (the "Report") are not contingent upon any predetermined value or on an action or event resulting from the analyses, opinions, conclusions, or use of the Consulting Report. Final payment is due as provided in the Proposal Specifications Section of this Agreement. If a draft report is requested, the fee is considered earned upon delivery of the draft report. It is understood that the Client may cancel this assignment in writing at any time prior to delivery of the completed report. In such event, the Client is obligated only for the prorated share of the fee based upon the work completed and expenses incurred (including travel expenses to and from the job site), with a minimum charge of \$500. Additional copies of the Reports are available at a cost of \$250 per original color copy and \$100 per photocopy (black and white), plus shipping fees of \$30 per report.
3. If Consultant is subpoenaed to give testimony or otherwise required or requested by Client or a third party to participate in meetings, phone calls, conferences, litigation or other legal proceedings (including preparation for such proceedings) because of, connected with or in any way pertaining to this engagement, the Report, the Consultant's expertise, or the Property, Client shall pay Consultant's additional costs and expenses based on Consultant's then-prevailing hourly rates and related fees. Such charges include and pertain to time spent in preparing for and providing court room testimony, depositions, travel time, mileage and related travel expenses, waiting time, document review and preparation time (excluding preparation of the Report), meeting participation, and Consultant's other related commitment of time and expertise. Hourly charges and other fees for such participation will be provided upon request. In the event Client requests additional consulting services beyond the scope and purpose stated in the Agreement, Client agrees to pay additional fees for such services and to reimburse related expenses, whether or not the completed report has been delivered to Client at the time of such request.
4. Consultant shall have the right to terminate this Agreement at any time for cause effective immediately upon written notice to Client on the occurrence of fraud or the willful misconduct of Client, its employees or agents.
5. In the event Client fails to make payments when due then, from the date due until paid, the amount due and payable shall bear interest at the maximum rate permitted in the state where the office is located for the Consultant executing the Agreement. In the event either party institutes legal action against the other to enforce its rights under this Agreement, the prevailing party shall be entitled to recover its reasonable attorney's fees and expenses. Each party waives the right to a trial by jury in any action arising under this Agreement.
6. Consultant assumes there are no major or significant items or issues affecting the Property that would require the expertise of a professional building contractor, engineer, or environmental consultant for Consultant to prepare a valid report. Client acknowledges that such additional expertise is not covered in the engagement fee and agrees that, if such additional expertise is required, it shall be provided by others at the discretion and direction of the Client, and solely at Client's additional cost and expense.
7. In the event of any dispute between Client and Consultant relating to this Agreement, or Consultant's or Client's performance hereunder, Consultant and Client agree that such dispute shall be resolved by means of binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association, and judgment upon the award rendered by an

arbitrator may be entered in any court of competent jurisdiction. Depositions may be taken and other discovery obtained during such arbitration proceedings to the same extent as authorized in civil judicial proceedings in the state where the office of the Consultant executing this Agreement is located. The arbitrator shall be limited to awarding compensatory damages and shall have no authority to award punitive, exemplary or similar damages. The prevailing party in the arbitration proceeding shall be entitled to recover its expenses from the losing party, including costs of the arbitration proceeding, and reasonable attorney's fees. Client acknowledges that Consultant is being retained hereunder as an independent contractor to perform the services described herein and nothing in this Agreement shall be deemed to create any other relationship between Client and Consultant. This engagement shall be deemed concluded and the services hereunder completed upon delivery to Client of the Report discussed herein.

8. All statements of fact in the report which are used as the basis of the Consultant's analyses, opinions, and conclusions will be true and correct to the best of the Consultant's knowledge and belief. Consultant does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information or the condition of the Property furnished to Consultant by Client or others.
9. Consultant shall have no responsibility for legal matters, including zoning, or questions of survey or title, soil or subsoil conditions, engineering, or other similar technical matters. The report will not constitute a survey of the Property analyzed.
10. Client shall provide Consultant with such materials with respect to the assignment as are requested by Consultant and in the possession or under the control of Client. Client shall provide Consultant with sufficient access to the Property to be analyzed, and hereby grants permission for entry unless discussed in advance to the contrary.
11. The data gathered in the course of the assignment (except data furnished by Client) and the report prepared pursuant to the Agreement are, and will remain, the property of Consultant. With respect to data provided by Client, Consultant shall not violate the confidential nature of the Consultant-Client relationship by improperly disclosing any proprietary information furnished to Consultant. Notwithstanding the foregoing, Consultant is authorized by Client to disclose all or any portion of the report and related data as may be required by statute, government regulation, legal process, or judicial decree, including to appropriate representatives of the Appraisal Institute if such disclosure is required to enable Consultant to comply with the Bylaws and Regulations of such Institute as now or hereafter in effect.
12. Unless specifically noted, in preparing the Report the Consultant will not be considering the possible existence of asbestos, PCB transformers, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (collectively, "Hazardous Material") on or affecting the Property, or the cost of encapsulation or removal thereof. Further, Client represents that there is no major or significant deferred maintenance of the Property that would require the expertise of a professional cost estimator or contractor. If such repairs are needed, the estimates are to be prepared by others, at Client's discretion and direction, and are not covered as part of the engagement fee.
13. In the event Client intends to use the Report in connection with a tax matter, Client acknowledges that Consultant provides no warranty, representation or prediction as to the outcome of such tax matter. Client understands and acknowledges that any relevant taxing authority (whether the Internal Revenue Service or any other federal, state or local taxing authority) may disagree with or reject the Report or otherwise disagree with Client's tax position, and further understands and acknowledges that the taxing authority may seek to collect additional taxes, interest, penalties or fees from Client beyond what may be suggested by the Report. Client agrees that Consultant shall have no responsibility or liability to Client or any other party for any such taxes, interest, penalties or fees and that Client will not seek damages or other compensation from Consultant relating to

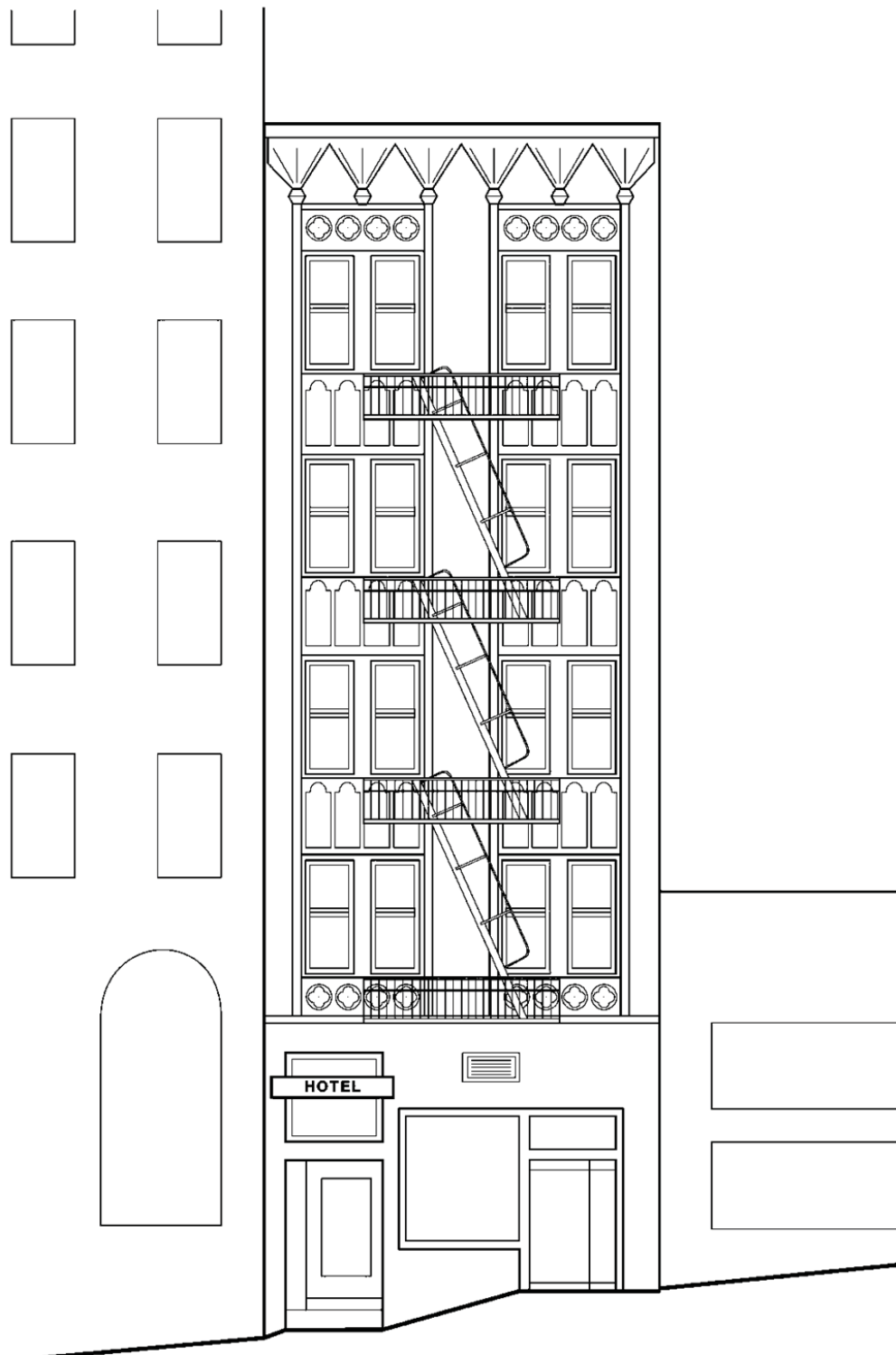
any such taxes, interest, penalties or fees imposed on Client, or for any attorneys' fees, costs or other expenses relating to Client's tax matters.

14. Consultant shall have no liability with respect to any loss, damage, claim or expense incurred by or asserted against Client arising out of, based upon or resulting from Client's failure to provide accurate or complete information or documentation pertaining to an assignment ordered under or in connection with this Agreement, including Client's failure, or the failure of any of Client's agents, to provide a complete copy of the Report to any third party.
15. LIMITATION OF LIABILITY. EXCEPT TO THE EXTENT ARISING FROM SECTION 16 BELOW, OR SECTION 17 IF APPLICABLE, IN NO EVENT SHALL EITHER PARTY OR ANY OF THEIR OFFICERS, DIRECTORS, EMPLOYEES OR CONTRACTORS BE LIABLE TO THE OTHER, WHETHER BASED IN CONTRACT, WARRANTY, INDEMNITY, NEGLIGENCE, STRICT LIABILITY OR OTHER TORT OR OTHERWISE, FOR (I) ANY SPECIAL, CONSEQUENTIAL, PUNITIVE, INCIDENTAL OR INDIRECT DAMAGES AND (II) AGGREGATE DAMAGES IN CONNECTION WITH THIS AGREEMENT (EXCLUDING THE OBLIGATION TO PAY THE FEES REQUIRED HEREUNDER) IN EXCESS OF THE GREATER OF THE AMOUNT OF THE TOTAL FEES PAID TO CONSULTANT UNDER THIS AGREEMENT OR TEN THOUSAND DOLLARS (\$10,000). THIS LIABILITY LIMITATION SHALL NOT APPLY IN THE EVENT OF A FINAL FINDING BY AN ARBITRATOR OR A COURT OF COMPETENT JURISDICTION THAT SUCH LIABILITY IS THE RESULT OF A PARTY'S GROSS NEGLIGENCE, FRAUD OR WILLFUL MISCONDUCT.
16. Client shall not disseminate, distribute, make available or otherwise provide any Report prepared hereunder to any third party (including without limitation, incorporating or referencing the Report, in whole or in part, in any offering or other material intended for review by other parties) except to (i) any third party approved in writing by Consultant and identified herein as an "Intended User" of the Report, (ii) any third party service provider (including rating agencies and Client's auditors) using the Report in the course of providing services for the sole benefit of Client, or (iii) as required by statute, government regulation, legal process, or judicial decree. In the event Consultant consents, in writing, to Client incorporating or referencing the Report in any offering or other materials intended for review by other parties, Client shall not distribute, file, or otherwise make such materials available to any such parties unless and until Client has provided Consultant with complete copies of such materials and Consultant has approved all such materials in writing. Client shall not modify any such materials once approved by Consultant. In the absence of satisfying the conditions of this paragraph with respect to a party who is not designated as an Intended User, in no event shall the receipt of a Report by such party extend any right to the party to use and rely on such report, and Consultant shall have no liability for such unauthorized use and reliance on any Report. In the event Client breaches the provisions of this paragraph, Client shall indemnify, defend and hold Consultant, and its affiliates and their officers, directors, employees, contractors, agents and other representatives (Consultant and each of the foregoing an "Indemnified Party" and collectively the "Indemnified Parties"), fully harmless from and against all losses, liabilities, damages and expenses (collectively, "Damages") claimed, sustained or incurred by any party arising out of or in connection with such breach, regardless of any negligence on the part of any Indemnified Party in preparing the Report.
17. In the event Client incorporates or references the Report, in whole or in part, in any offering or other material intended for review by other parties, Client shall indemnify, defend and hold each of the Indemnified Parties harmless from and against any Damages in connection with (i) any transaction contemplated by this Agreement or in connection with the engagement of or performance of services by any Indemnified Party hereunder, (ii) any actual or alleged untrue statement of a material fact, or the actual or alleged failure to state a material fact necessary to make a statement not misleading in light of the circumstances under which it was made with respect to all information furnished to any Indemnified Party or made available to a prospective party to a transaction, or (iii) an actual or alleged violation of applicable law by Client (including, without limitation, securities laws) or the negligent or intentional acts or omissions of Client

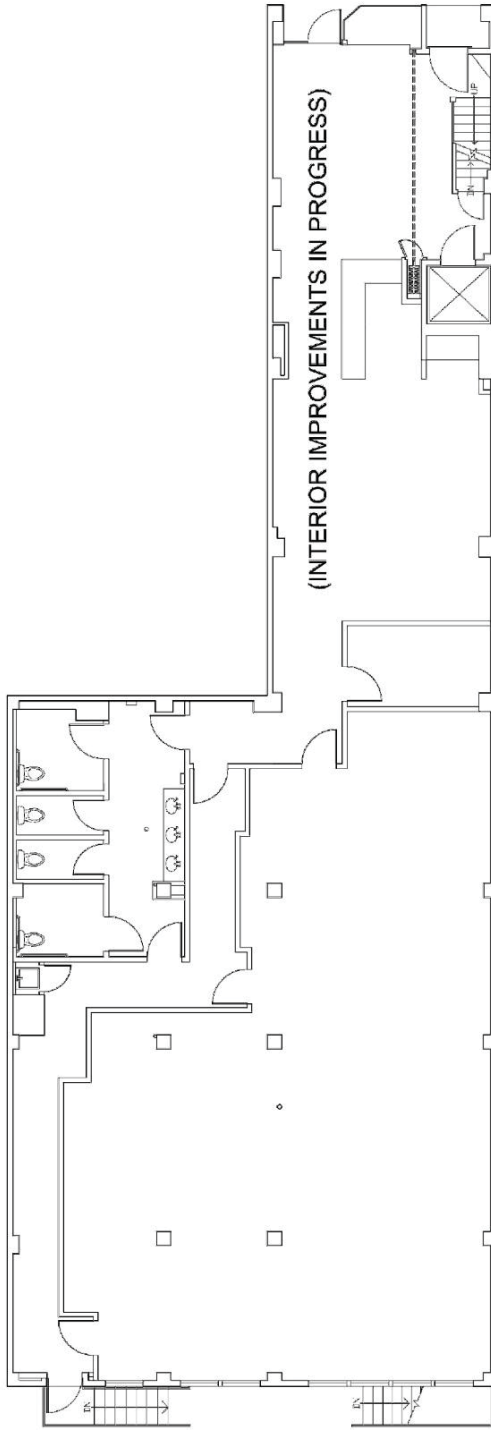
(including the failure to perform any duty imposed by law); and will reimburse each Indemnified Party for all reasonable fees and expenses (including fees and expenses of counsel) (collectively, "Expenses") as incurred in connection with investigating, preparing, pursuing or defending any threatened or pending claim, action, proceeding or investigation (collectively, "Proceedings") arising there from, and regardless of whether such Indemnified Party is a formal party to such Proceeding. Client agrees not to enter into any waiver, release or settlement of any Proceeding (whether or not any Indemnified Party is a formal party to such Proceeding) without the prior written consent of Consultant (which consent will not be unreasonably withheld or delayed) unless such waiver, release or settlement includes an unconditional release of each Indemnified Party from all liability arising out of such Proceeding.

HOTEL DES ARTS

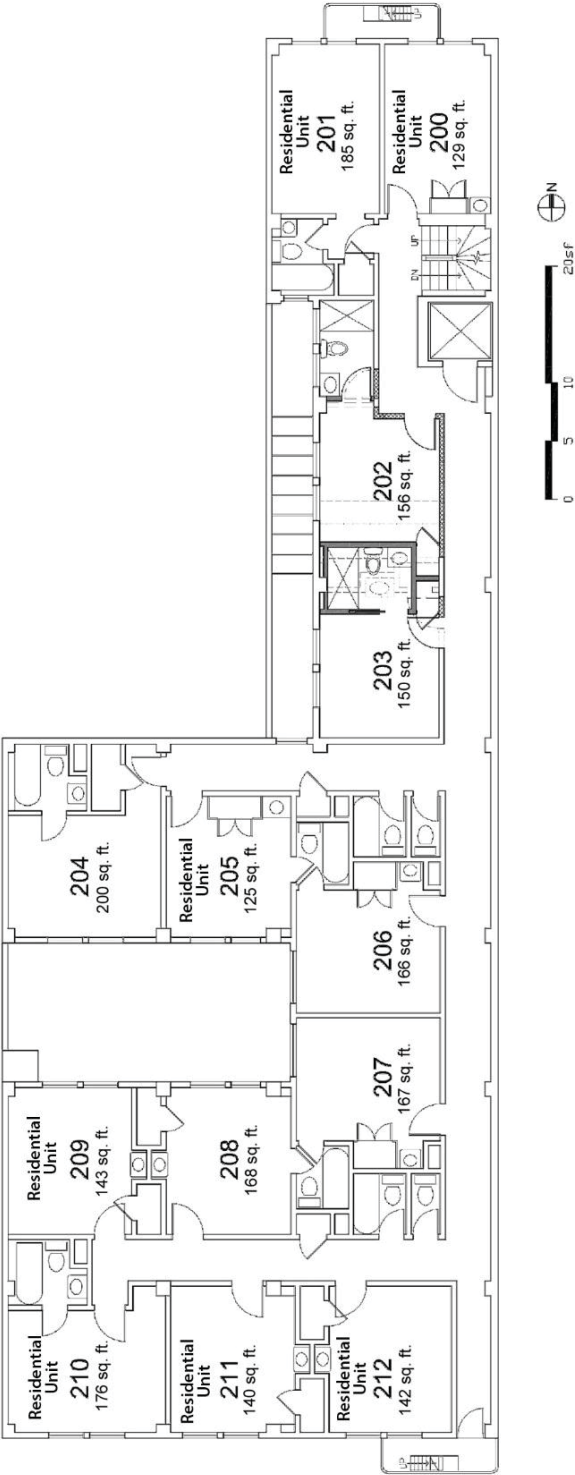
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San Francisco, CA 94108



NORTH ELEVATION - BUSH STREET

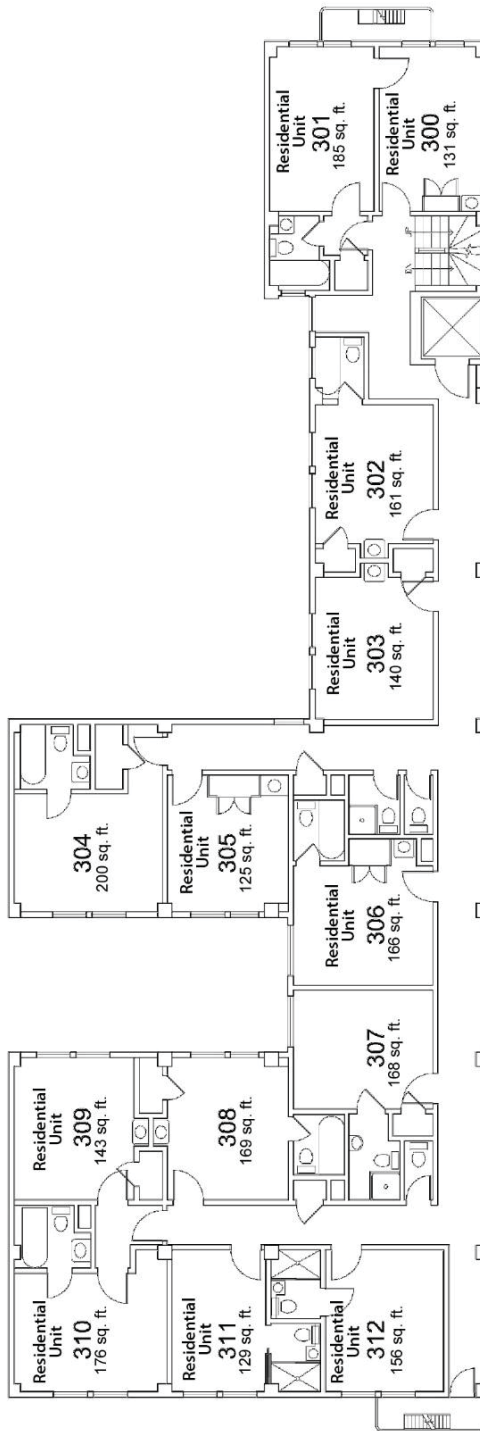


FIRST FLOOR PLAN

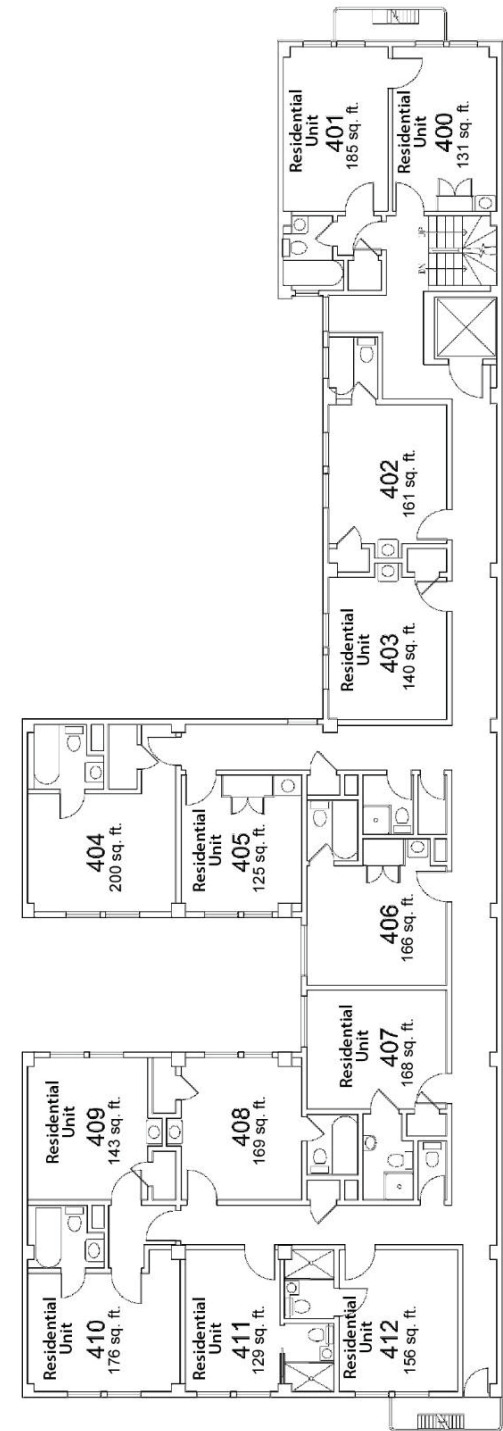


SECOND FLOOR PLAN



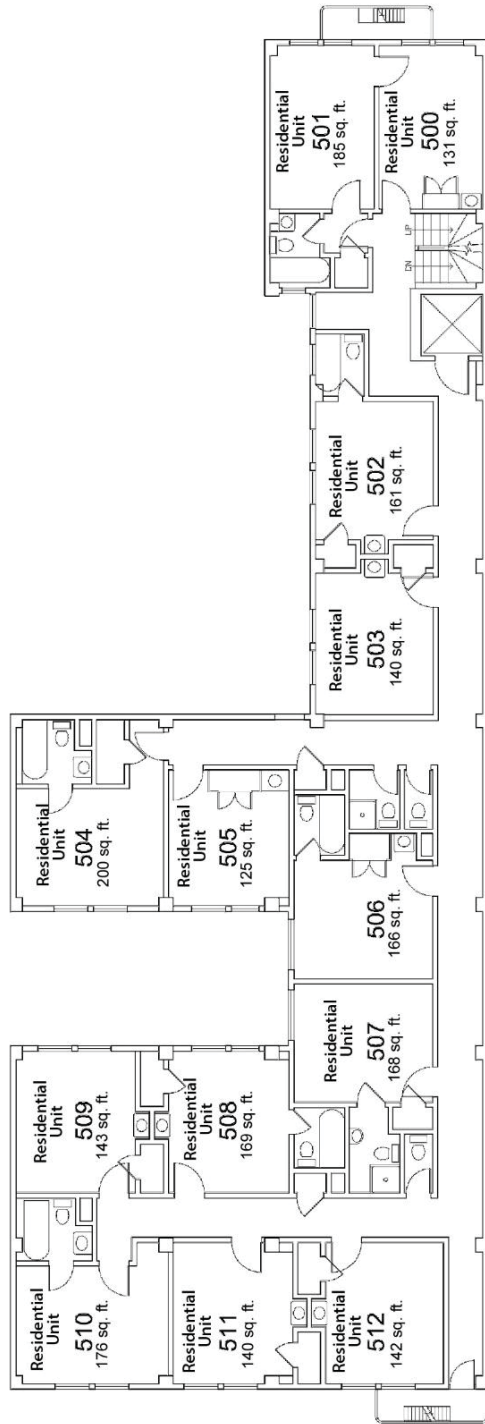


THIRD FLOOR PLAN



FOURTH FLOOR PLAN





FIFTH FLOOR PLAN

