



## Market Demand Analysis

## Proposed Hotel Hollister, California



**Prepared For:**

Mr. William B. Avera  
City of Hollister  
Development Services Department  
375 Fifth Street  
Hollister, California 95023

**Prepared By:**

PKF Consulting USA  
San Francisco, California

**Date of the Report:**

February 7, 2014

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February 7, 2014

Mr. William B. Avera  
City of Hollister  
Development Services Department  
375 Fifth Street  
Hollister, California 95023

**Re: Phase I – Potential Market Demand Analysis  
Proposed Hotel – Hollister, California**

Dear Mr. Avera:

In accordance with your request, we have completed Phase I of our engagement contract, which is a study of the potential market demand for a proposed hotel (the “Subject” or “Hotel”) to be located in Hollister, California. Pursuant to our engagement, we have prepared a letter 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 December of 2013. Due to the abbreviated nature of this report, it is intended for your internal management use in determining the potential market demand for the proposed Hotel.

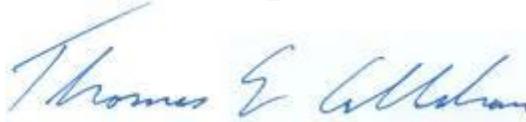
As in all studies of this type, the estimated results are based on competent and efficient management and presume no significant change in the status of the competitive lodging market from that as set forth in this report. The terms of our engagement are such that we have no obligation to revise our 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 Hotel’s 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. Upon your authorization, we will commence Phase II of our study which would include an analysis of the economic viability for the proposed Subject. We look forward to continue working with you on this interesting engagement.

Yours sincerely,

**PKF Consulting USA**



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## **I. INTRODUCTION**

### **A. Overview of the Market Study**

PKF Consulting USA (“PKF Consulting”) was formally retained on October 29, 2013, by representatives of the City of Hollister to conduct a study of the potential market demand for a hotel to be located in Hollister, California. As a component of this analysis, we first determined the market potential for the Hotel and determined the type of property that would be best suited for the market. We then provided our projections of the occupancy and average daily room rates (“ADR”) the recommended Hotel could reasonably expect to achieve over its first five years of operation. As will be discussed later in this report, we have assumed that the proposed Subject will contain 80 rooms and will be open for operation by January 1, 2017.

### **B. Methodology**

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

- Visited the selected sites and assessed the impact of their accessibility, visibility, and proximity to demand generators on the marketability and likely market mix of the proposed Hotel;
- Researched and analyzed current economic and demographic trends to determine their impact on future lodging demand in the market;
- Performed a preliminary analysis of the current and future supply and demand for hotel facilities in the Hollister area;
- Identified the competitive sample of lodging facilities located in the Hollister area and reviewed this sample’s historical performance levels;
- Determined the type of hotel best suited for the local marketplace; and,
- Developed a forecast of the likely occupancy levels and average daily room rates the proposed Hotel could reasonably achieve over its first five years of operation.

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.

## II. SUMMARY OF FINDINGS

Based on the preceding work program, we have made a determination of the market viability for a proposed Hotel on one of the sites identified by the City of Hollister. The results of our research and analysis are summarized in the following paragraphs.

### A. Site Description

Pursuant to your request, we have evaluated five sites for the development of the proposed Hotel. The five sites are described in the following paragraphs, followed by our recommendation of the most optimal site for the development of the proposed Subject.

**Site 1 (Ford):** The site is located north of downtown Hollister on Gateway Drive. It is bound by a Ford dealership, San Felipe Road (Route 25), vacant land, Gateway Drive, and a power grid. While this site will have good visibility from motorists on Route 25 to the north due to the vacant land surrounding it, most of the development in Hollister is occurring further south, closer to downtown Hollister.

**Site 2 (West Gateway):** The site is located on 4<sup>th</sup> Street between Rajkovich Way and Westside Boulevard. The site is bound primarily by single-family residential units, vacant land, low-rise retail developments, and the San Benito Health Foundation. It is located along Route 156, which connects the counties of Monterey, Santa Clara, and San Benito.

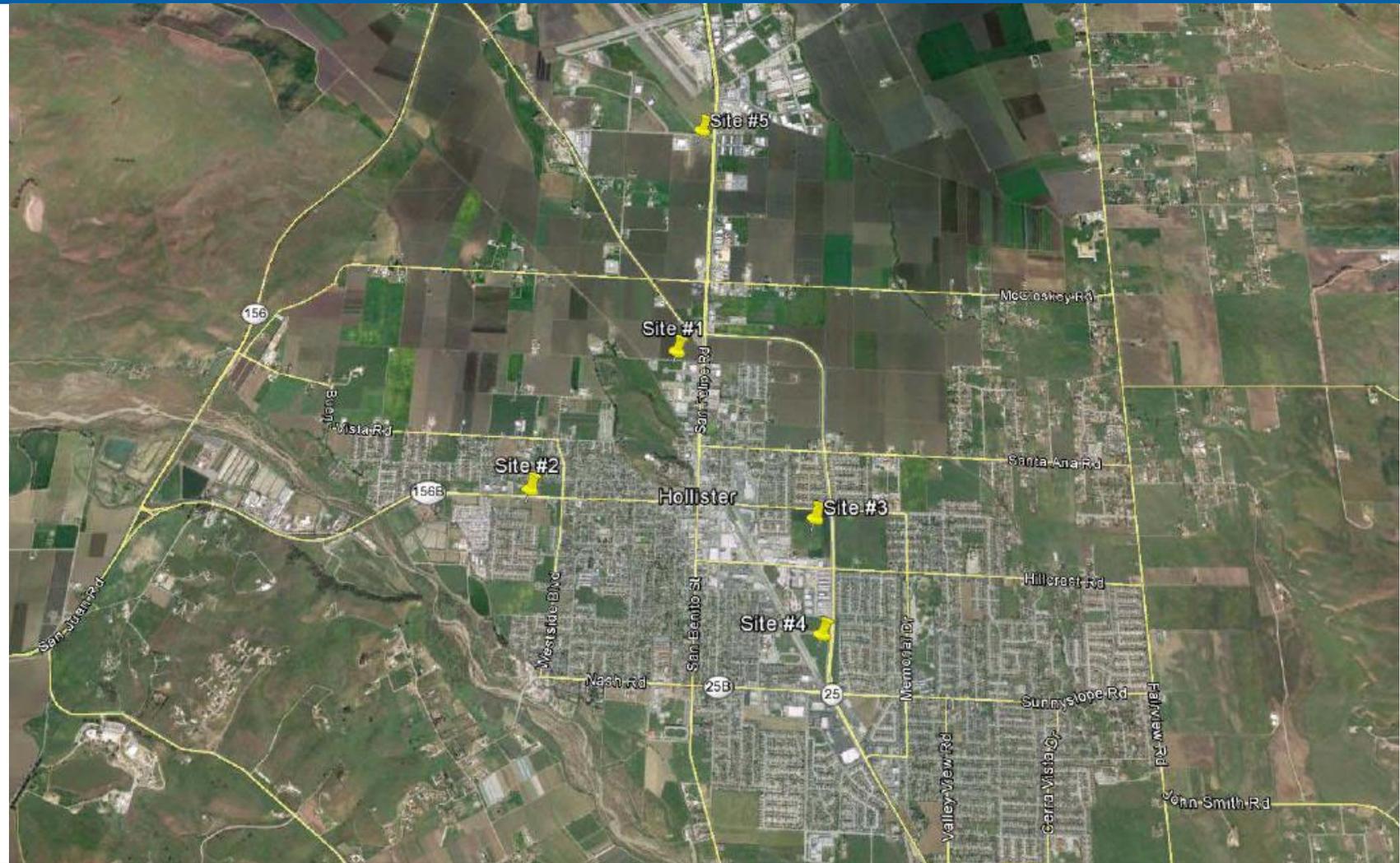
**Site 3 (Guerra Legacy Project):** The site is located between Meridian Street and Hillcrest Road along the Route 25 bypass. Improvements in the immediate area include single-family residential, low-rise industrial developments, and vacant land. The site is proximate to downtown Hollister and retail developments. Its main vantage point, similar to Site 4 which will be discussed below, is that it is located along the new Route 25 bypass and will feature excellent accessibility and visibility from this bypass.

**Site 4 (Gibson and Leatherback Properties):** The site is located on the parcels bound by East Park Street, the Route 25 bypass, McCray Street, and Prospect Avenue. Visibility and accessibility are deemed excellent at this site. Further, the traffic counts on the surrounding streets are some of the highest in Hollister. The site is located proximate to downtown Hollister and is within walking distance of numerous restaurants and retail developments.

**Site 5 (Airport Area):** The site is located adjacent to the Hollister Municipal Airport on the south side along Flynn Road. The site has excellent access from Routes 25 and 156 and is conveniently located proximate to the agricultural businesses and seed companies. A hotel at this site could take advantage of unique agreements with the Hollister Municipal Airport; these agreements would allow pilots to park

planes at a hotel with through-the-fence access to the airport. The site is bound by vacant land, low-rise industrial developments, and the Hollister Municipal Airport.

Location of the Five Sites



All of the aforementioned sites are of sufficient depth and width to support the development of a select-service hotel. However, given the attributes of Site 4, including its location along the Route 25 bypass and the surrounding commercial developments, including retail and food and beverage outlets, all of which are preferred guest amenities, we recommend that the proposed Subject be built on this site. As discussed, Site 4 is bound by the Route 25 bypass, E Park Street, McCray Street, and Prospect Avenue. Further, the site is located proximate to downtown Hollister.

The proposed Subject will have excellent accessibility from surrounding thoroughfares, including the Route 25 bypass. Visibility from all surrounding thoroughfares is anticipated to be excellent given the height of the surrounding developments. Overall, the location of the site is ranked “very good.” These conclusions are summarized in the following table.

Subject Site Analysis					
	Excellent	Very Good	Good	Fair	Poor
Accessibility	X				
Visibility	X				
Proximity to Demand			X		
Long-term Strategic Potential			X		

## **B. Area Review**

**Overview:** The Hotel site is located in San Benito County, California; the county seat is Hollister, which includes nearly two-thirds of the county’s population. San Benito County is located in the Coast Range Mountains, south of San Jose. The county has a total area of 1,391 square miles of which 1,389 square miles is land and approximately two square miles is water. Both the Mount Harlan and San Benito American Viticulture Areas (AVA) are located in San Benito County. Predominately known for its agriculture, some of the major employers in San Benito County include Earthbound Farm and True Leaf Farms. Other major employers include Hazel Hawkins Memorial Hospital, Pacific Scientific, and San Benito High School.

Hollister is located in the northern portion of San Benito County, proximate to the border of Santa Clara County, and has a total land area of approximately 7.3 square miles of which none is water. Hollister is known as one of the best examples in the world of aseismic creep. The Calaveras Fault bisects Hollister in the north-south direction, and the streets that run east-west across the fault have significant visible offsets due to seismic damage. Due to its location on a fault and historical and present seismic activity, Hollister is known as the “Earthquake Capital of the World.”

Primarily an agricultural town, Hollister is known for its motorcycle rallies. The city was the site of an annual motorcycle rally around the 4<sup>th</sup> of July since 1997, known

as the Hollister Independence Rally. Due to a lack of funding for security, as well as financial liability issues, these rallies were cancelled between 2009 and 2012. In 2013, the rally was reinstated and turned out 150,000 participants.

**Population:** Based on information provided by the U.S. Census Bureau, an estimated 56,900 people resided in San Benito County as of July 2012. The population has grown at a compound annual growth rate (“CAGR”) of 2.0 percent since 1990, above statewide averages. The City of Hollister has a population of approximately 36,100 as of July 2012. Its population has increased at a CAGR of 2.6 percent since 1990.

**Employment:** According to the California Employment Development Department, total employment in San Benito County was approximately 24,000 as of December 2013, with an unemployment rate of 10.4 percent. Hollister had an unemployment rate of 9.6 percent as of August 2013 (the most recent data available).

Major employment sectors within San Benito County include trade, transportation and utilities, manufacturing, government, and leisure and hospitality. Major employers in the county include Earthbound Farms, Hazel Hawkins Memorial Hospital, Milgard, Pacific Scientific, San Benito High School, True Leaf Farms, and Nob Hill Foods (*information extracted from the America’s Labor Market Information System (ALMIS) Employer Database, 2014 1<sup>st</sup> Edition*).

**Tourism:** San Benito County features many tourist attractions and offers a variety of recreational activities. Mission San Juan Bautista, located approximately eight miles west of Hollister, is a Spanish mission founded on June 24, 1797. The mission was the fifteenth largest of the Spanish missions established in present-day California. The mission was featured in the 1958 Alfred Hitchcock film *Vertigo*, and is a highlight for tourists visiting San Benito County.

Pinnacles National Park is a U.S. National Park located east of the Salinas Valley. The Park is divided by rock formations, which are eroded leftovers of the western half of an extinct volcano that has moved 150 miles, into East and West Divisions connected by foot trails. It features unusual talus caves that house a variety of bat species, and its rock formations attract rock climbers. The Park lands are a prime habitat for prairie falcons and are a release site for California Condors that have been hatched in captivity. The East entrance to the Park, located approximately 30 miles south of Hollister, is the primary entrance accommodating more than 70 percent of visitation to the Park.

Hollister Hills features a State Vehicular Recreation Area for motorcyclists, 4-wheelers, picnickers, and campers. The recreation area is split between an upper and lower ranch. The Upper Ranch is 800 acres and features 24 miles of trails. The Lower Ranch is 3,300 acres and features 128 miles of trails and several hill climbs. The recreation area has seven campgrounds; each campground accommodates up to 60 people. In addition to the aforementioned attractions, San

Benito County features a variety of wine tasting rooms, golf courses, activities such as skydiving and gliding, and events such as the San Benito County Saddle Horse Show and Rodeo, the San Benito County Fair, and the well-known Hollister motorcycle rallies, which attract approximately 150,000 enthusiasts.

The 100-year old Hollister Municipal Airport is a national center for historic aircraft restoration, houses private collections of vintage aircraft, and is home to an annual air show, skydiving, and hang gliding operations. An industrial park near the airport provides opportunity for business development with the need for airport support services.

**Transportation:** Automobile transportation in San Benito County is primarily facilitated by U.S. Route 101 and State Routes 25, 129, 146, and 156. Route 101 is a major north-south route that links the Greater Los Angeles area, the Central Coast, the San Francisco Bay Area, and the North Coast (Redwood Empire). Route 25 runs between Gilroy and State Route 198; it provides access to the Pinnacles National Park east entrance. A bypass for Route 25 was created, allowing for traffic to flow more easily through Hollister. It is along this bypass where the recommended site for the proposed Hotel is located. Route 129 connects Route 1 in Watsonville to Route 101. Route 146 serves as an entryway to the Pinnacles National Monument from both the Salinas Valley and State Route 25 on the east. Route 156 runs from Castroville to Route 152 near Hollister. The route passes through Monterey, San Benito, and Santa Clara counties and is the quickest route from the San Francisco Bay Area to the Monterey Peninsula, along with Route 101. Additionally, the San Benito County Express provides fixed route service in the City of Hollister; service operates as far north as Gilroy.

Most visitors arriving in San Benito County by air generally fly into the Norman Y. Mineta San Jose International Airport (“SJC”), located approximately 50 miles northwest of Hollister. The airport is served by 12 major commercial airlines, including Southwest Airlines, Alaska Airlines, Horizon Air, and JetBlue Airways. The Hollister Municipal Airport is used as a staging area for guided hunting in San Benito County, agribusiness, the nearby industrial park, and recreation aviation.

### **C. Hotel Market Analysis**

In addition to PKF Consulting, our Firm contains a research division, PKF Hospitality Research. PKF Hospitality Research owns the database for *Trends® in the Hotel Industry*, the statistical review of U.S. hotel operations which first appeared in 1935 and has been published every year since. 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 50 markets and six national chain-scales.

Based on the *December 2013 – February 2014 National Edition of Hotel Horizons*®, RevPAR for the U.S. lodging market grew by 5.4 percent in 2010, 8.1 percent in 2011, and 6.7 percent in 2012. 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. For the next four years, the overall U.S. lodging market is projected to achieve RevPAR growth rates of approximately 5.2 percent, 6.6 percent, 7.5 percent, and 4.8 percent respectively, with ADR gains leading these increases. Beginning in 2017, RevPAR growth is anticipated to taper to long-term averages.

The proposed Subject can be most closely identified with the upper midscale segment of hotels. The RevPAR for this segment experienced a decline of (15.0) percent in 2009, slightly below the nation-wide average. RevPAR increased 4.5 percent in 2010, 8.7 percent in 2011, and 6.6 percent in 2012. PKF Hospitality Research is projecting RevPAR growth of 4.0 percent in 2013, 5.4 percent in 2014, 6.2 percent in 2015, and 5.0 percent in 2016, before tapering to long-run averages.

## **1. City of Hollister**

Only four lodging facilities exist in the City of Hollister. These are the 42-room Best Western Benito Inn, the 31-room Hollister Inn, the five-room Cinderella Motel, and the 24-room Wiebe Motel. Due to the limited supply in Hollister, as well as the inferior quality of these lodging facilities, we have extended our market research to include hotels located in the surrounding cities of Gilroy and Salinas.

## **2. Changes to Supply**

Based on discussions with city officials, local developers, and general managers of lodging facilities in the area, we understand that two hotels have been proposed in the City of Hollister in recent years. A Fairfield Inn & Suites was proposed at the location of Site 1, and a second hotel was proposed at a site adjacent to the Hollister Municipal Airport (Site 5). However, both of these projects are inactive and, therefore, have not been included in our projections of supply and demand. Further, these sites have been evaluated as potential development sites for the proposed Subject.

Additionally, a 106-room Hampton Inn & Suites is currently under construction in the City of Salinas. As our hotel market research includes properties located in Salinas, we have accounted for this addition to supply, which is projected to be available for occupancy on March 31, 2014.

### **3. Demand Generators**

Based on our market research, demand in Hollister is primarily generated by individual transient travel. Presented below is a summary of the primary demand drivers in the local market.

- Pinnacles National Park;
- Mission San Juan Bautista;
- Motorcycle rally;
- Races and special events at Hollister Hills State Vehicular Recreation Area;
- Agricultural industry;
- Wine tasting;
- Hollister Municipal Airport;
- Hollister airshow;
- Hunting (game bird, small game, and big game such as deer and wild pigs);
- San Juan Oaks Golf Club;
- Guests of weddings and other social events;
- Private and municipal construction workers;
- Athletic teams traveling to the area for amateur events;
- Motorists traveling along U.S. Route 101 and State Route 25; and,
- Visitors to local residences.

#### **D. Competitive Lodging Market**

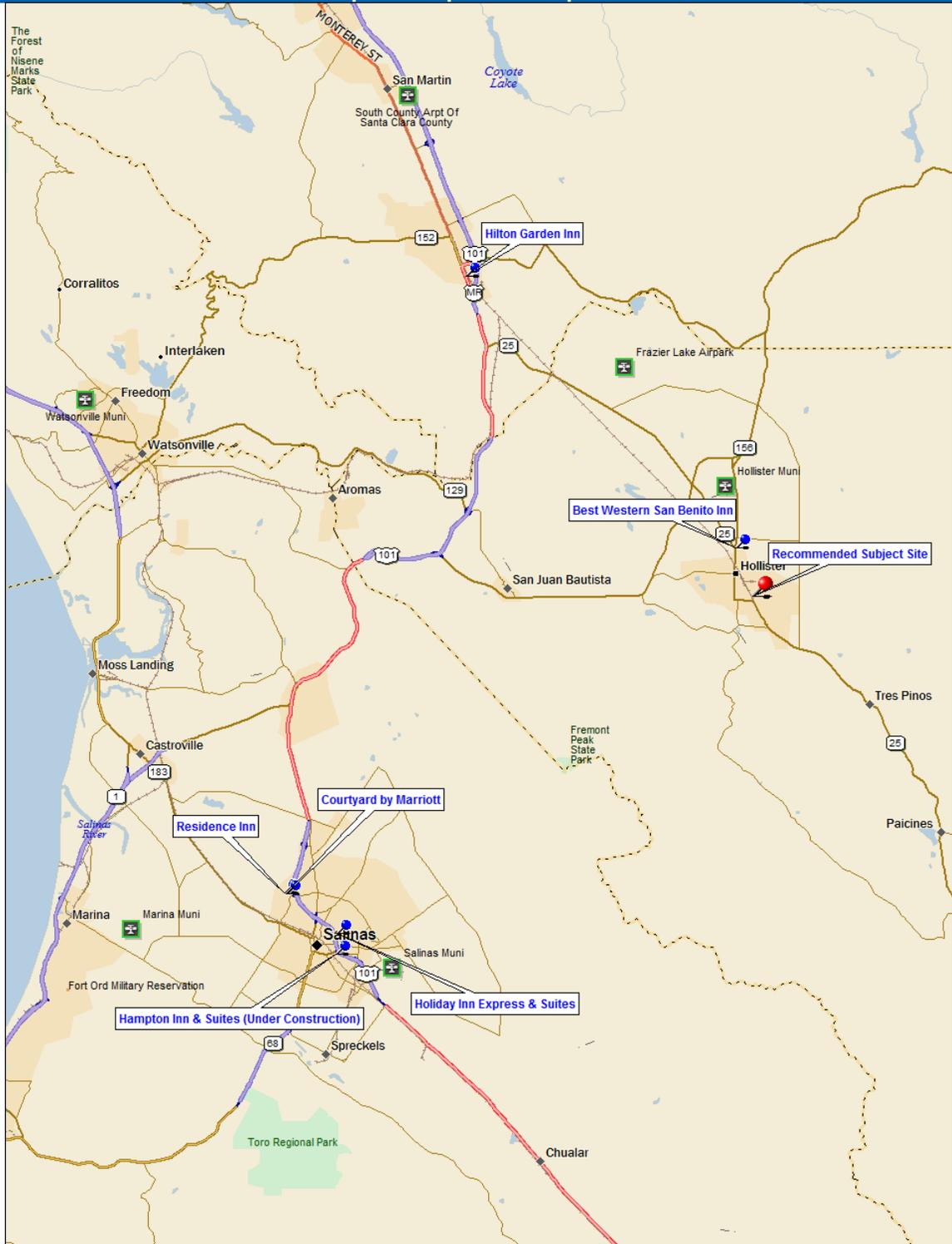
In our analysis of the competitive market for the proposed Hotel, we have focused on those properties located within and proximate to the Hollister lodging market. Due to the limited number of lodging facilities located within the City of Hollister, as well as the inferior quality of these properties, we have only included the Best Western San Benito Inn in the competitive market for the proposed Subject. Although there are several other properties in the surrounding area, including the 14-room Inn at Casa de Fruta Orchard Resort located in Santa Clara County; the Ridgemark Golf and Country Club, which contains 32 rooms and is located in an unincorporated area of San Benito County; the 31-room Posada de San Juan located in San Juan Bautista; and the 42-room San Juan Inn, also located in San Juan Bautista; these properties are deemed to be inferior lodging products and have, therefore, been excluded from our supply and demand analysis for the proposed Hotel.

In addition to the property located in Hollister, we have also included one hotel located in the City of Gilroy, the Hilton Garden Inn, and three hotels located in Salinas, the Holiday Inn Express & Suites, the Courtyard by Marriott, and the Residence Inn. All of these properties are affiliated with national brands and represent upscale (Hilton Garden Inn, Courtyard by Marriott, and Residence Inn), upper midscale (Holiday Inn Express & Suites), and midscale hotels (Best Western

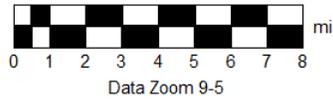
San Benito Inn). A table providing summary information pertaining to these properties is presented on the following page, followed by a map depicting their locations relative to the recommended Subject site.

Competitive Hotels – Hollister, California			
Property	Best Western San Benito Inn Hollister	Hilton Garden Inn Gilroy	Courtyard by Marriott Salinas
			
<b>Location</b>	660 San Felipe Road, Hollister, CA 95023	6070 Monterey Road, Gilroy, CA 95020	17225 El Rancho Way, Salinas, CA 93907
<b>Date Opened</b>	Jun-79	Jun-01	Dec-03
<b>Number of Rooms</b>	127	137	90
<b>Distance from Subject Site</b>	2 miles	15 miles	28 miles
<b>Amenities</b>			
<b>Restaurant</b>	No	Yes	Yes
<b>Pool/Whirlpool</b>	Yes	Yes	Yes
<b>Complimentary Breakfast</b>	Yes	No	No
<b>Event Space</b>	No	Yes	Yes
<b>Fitness Center</b>	No	Yes	Yes
Property	Residence Inn Salinas	Holiday Inn Express & Suites Salinas	
			
<b>Location</b>	17125 El Rancho Way, Salinas, CA 93907	195 Kern Street, Salinas, CA 93901	
<b>Date Opened</b>	Sep-03	Oct-08	
<b>Number of Rooms</b>	107	74	
<b>Distance from Subject Site</b>	28 miles	29 miles	
<b>Amenities</b>			
<b>Restaurant</b>	No	No	
<b>Pool/Whirlpool</b>	Yes	Yes	
<b>Complimentary Breakfast</b>	Yes	Yes	
<b>Event Space</b>	Yes	Yes	
<b>Fitness Center</b>	Yes	Yes	

**Map of Competitive Properties**



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## 1. Historical Performance of the Competitive Market

The following table summarizes the historical performance of these hotels from 2007 to 2012, as well as for the year-to-date (“YTD”) periods ending November 2012 and 2013.

Proposed Hotel - Hollister, CA Historical Performance of the Competitive Market									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2007	137,240	-	101,558	-	74.0%	\$121.17	-	\$89.67	-
2008	144,175	5.1%	94,579	-6.9%	65.6%	\$122.36	1.0%	\$80.27	-10.5%
2009	164,250	13.9%	102,656	8.5%	62.5%	\$113.52	-7.2%	\$70.95	-11.6%
2010	164,250	0.0%	107,584	4.8%	65.5%	\$115.64	1.9%	\$75.74	6.8%
2011	164,250	0.0%	114,318	6.3%	69.6%	\$115.14	-0.4%	\$80.14	5.8%
2012	164,250	0.0%	117,603	2.9%	71.6%	\$117.86	2.4%	\$84.40	5.3%
<b>CAGR</b>	<b>3.0%</b>	<b>-</b>	<b>2.5%</b>	<b>-</b>	<b>-</b>	<b>-0.5%</b>	<b>-</b>	<b>-1.0%</b>	<b>-</b>
YTD Nov '12	150,563	-	109,911	-	73.0%	\$118.67	-	\$86.63	-
YTD Nov '13	150,563	0.0%	113,976	3.7%	75.7%	\$123.25	3.9%	\$93.30	7.7%

Source: PKF Consulting USA

As noted, supply increased at a compound annual growth rate (“CAGR”) of 3.0 percent over the past six years. In 2007 and 2008, supply increased 5.1 and 13.9 percent, respectively, as a result of the annualized addition of the 74-room Holiday Inn Express & Suites located in Salinas, which opened in October 2008. No other properties that are deemed to be competitive to the proposed Subject have entered the local lodging market in recent years.

The increase in supply in 2008 and 2009 was greater than the demand captured by the identified competitive market. In 2008, demand decreased 6.9 percent over prior year levels. This decrease in accommodated demand is a result of the Great Recession, which began in December 2007 and likely ended in August 2009. During this economic downturn, hotels nationwide were negatively impacted as previously stated. Between 2007 and 2008, market occupancy decreased from 74.0 to 65.6 percent, or 8.4 percentage points. However, while many hotel markets throughout the nation continued to experience year-over-year declines in demand in 2009, the competitive market achieved an increase in demand of 8.5 percent. Although this increase in demand is a positive economic indicator, market occupancy continued to decrease to 62.5 percent in 2009 as the increase in supply was greater than the increase in demand. From 2010 to 2012, demand increased between approximately three and six percent per annum, resulting in a market occupancy of 71.6 percent through year-end 2012. Through YTD November 2013, accommodated demand increased 3.7 percent over prior year levels with occupancy increasing from 73.0 to 75.7 percent.

Average daily room rate (“ADR”) for the competitive market ranged between a low of \$113.52 (2009) and a high of \$122.36 (2008) between 2007 and 2012. In 2009, the height of the Great Recession, ADR decreased 7.2 percent. Comparatively, the U.S. upper midscale segment of hotels experienced a decline in ADR of 5.6 percent during this time, and the overall U.S. lodging market experienced a decline in ADR of 8.6 percent. Since the economic downturn, ADR for the competitive market has increased modestly; through year-end 2012, ADR was approximately \$118, only \$4 above 2009 levels. Through YTD November 2013, the competitive market achieved rate growth of 3.9 percent.

As a result of the aforementioned fluctuations in occupancy and ADR over the past six years, revenue per available room (“RevPAR”) decreased at a CAGR of 1.0 percent. RevPAR declined 10.5 and 11.6 percent in 2008 and 2009, respectively, before increasing between approximately 5.0 and 7.0 percent per annum between 2010 and 2012. Through YTD November 2013, RevPAR increased 7.7 percent over prior year levels to \$93.30.

Presented below is a table summarizing the monthly performance of the competitive market for 2012 and through November 2013. As noted, the performance for the competitive market peaks in the months of July, August, and September at which time the identified hotels achieve occupancy levels in the low to high-80 percent range and ADRs between approximately \$120 and \$150. During the months of January, November and December, the competitive market achieves its lowest level of performance.

<b>Monthly Performance of the Competitive Market</b>							
<b>2012</b>				<b>2013</b>			
<b>Month</b>	<b>OCC</b>	<b>ADR</b>	<b>RevPAR</b>	<b>Month</b>	<b>OCC</b>	<b>ADR</b>	<b>RevPAR</b>
January	55.0%	\$108.27	\$59.51	January	61.6%	\$107.27	\$66.04
February	65.6%	\$111.29	\$72.98	February	67.5%	\$112.94	\$76.19
March	69.3%	\$111.98	\$77.61	March	71.2%	\$111.77	\$79.63
April	67.1%	\$113.60	\$76.27	April	76.0%	\$119.51	\$90.86
May	72.6%	\$116.67	\$84.75	May	72.0%	\$117.67	\$84.75
June	75.6%	\$119.04	\$90.00	June	79.8%	\$119.86	\$95.66
July	82.9%	\$130.64	\$108.26	July	87.0%	\$137.36	\$119.46
August	85.3%	\$134.99	\$115.19	August	87.7%	\$148.71	\$130.35
September	82.1%	\$120.44	\$98.85	September	82.0%	\$129.85	\$106.52
October	80.3%	\$118.20	\$94.93	October	75.6%	\$123.28	\$93.24
November	66.2%	\$109.78	\$72.62	November	71.3%	\$114.32	\$81.53
December	56.9%	\$106.72	\$60.73	December	-	-	-
<b>YTD</b>	<b>71.6%</b>	<b>\$117.86</b>	<b>\$84.40</b>	<b>YTD</b>	<b>75.7%</b>	<b>\$123.25</b>	<b>\$86.60</b>

Source: Smith Travel Research

## 2. Projected Performance of Competitive Market

Based on our analysis of the historical performance of the competitive market, we have projected the occupancy and ADR levels the hotels could reasonably achieve

for the years 2013 through 2021, coinciding with the Subject’s first five years of operation. Our projections are summarized in the following table.

<b>Proposed Hotel - Hollister, CA Projected Performance of the Competitive Market</b>									
<b>Year</b>	<b>Annual Supply</b>	<b>Percent Change</b>	<b>Occupied Rooms</b>	<b>Percent Change</b>	<b>Market Occupancy</b>	<b>ADR</b>	<b>Percent Change</b>	<b>RevPAR</b>	<b>Percent Change</b>
2012	164,250	0.0%	117,603	2.9%	72%	\$117.86	2.4%	\$84.39	5.3%
2013	164,250	0.0%	121,100	3.0%	74%	\$123.00	4.0%	\$90.69	7.5%
2014 <sup>1</sup>	193,450	17.8%	134,800	11.3%	70%	\$127.00	3.0%	\$88.50	-2.4%
2015	202,940	4.9%	143,800	6.7%	71%	\$131.00	3.0%	\$92.82	4.9%
2016	202,940	0.0%	146,100	1.6%	72%	\$135.00	3.0%	\$97.19	4.7%
2017 <sup>2</sup>	232,140	14.4%	162,600	11.3%	70%	\$139.00	3.0%	\$97.36	0.2%
2018	232,140	0.0%	167,100	2.8%	72%	\$143.00	3.0%	\$102.93	5.7%
2019	232,140	0.0%	167,100	0.0%	72%	\$147.00	3.0%	\$105.81	2.8%
2020	232,140	0.0%	167,100	0.0%	72%	\$151.00	3.0%	\$108.69	2.7%
2021	232,140	0.0%	167,100	0.0%	72%	\$156.00	3.0%	\$112.29	3.3%
<b>CAGR</b>	<b>4.4%</b>	<b>-</b>	<b>4.1%</b>	<b>-</b>	<b>-</b>	<b>3.0%</b>	<b>3.0%</b>	<b>2.7%</b>	<b>2.7%</b>

<sup>1</sup> Annualized addition of the 106-room Hampton Inn & Suites Salinas (opening March 31, 2014)  
<sup>2</sup> Assumed opening of the proposed Subject on January 1, 2017  
Note: Numbers may not foot due to rounding  
Source: PKF Consulting USA

Based on the performance of the competitive market through YTD November 2013, we project the competitive market to achieve an occupancy level of 74.0 percent through year-end 2013. In 2014, coinciding with the annualized addition of the 106-room Hampton Inn & Suites located in Salinas, accommodated demand is projected to increase; however, market occupancy is projected to decrease 4.0 percentage points to 70 percent as supply outweighs demand. Supply is projected to further increase in 2015 as a result of the annualized addition of the Hampton Inn & Suites, and market occupancy is projected to increase to 71 percent and further increase to 72 percent in 2016. The proposed Subject is projected to enter the competitive market on January 1, 2017, at which point occupancy for the overall market is projected to decrease to 70 percent. As the proposed Subject is readily absorbed, market occupancy is projected to increase to 72 percent in 2018. It is at this level of occupancy we project the competitive market to stabilize. It is important to note that while the competitive market may achieve occupancy levels above or below 72 percent, this stabilized level of performance represents a reasonable occupancy over the projection period.

Through YTD November 2013, the competitive market achieved ADR growth of approximately 4.0 percent. Accordingly, we project ADR to increase 4.0 percent through year-end 2013. Thereafter, we project ADR to increase at 3.0 percent per annum, in line with the assumed long-term outlook on inflation. This ADR growth results in an increase of approximately \$40 between 2012 and 2021.

## **E. Recommended Lodging Product**

With our strong occupancy projections for the market, we believe that sufficient demand exists to warrant the development of a hotel at the recommended site. Presented in the table below is our recommendation of the optimal type and positioning of a hotel best suited to cater to local lodging demand. As will be discussed, we recommend the development of an upper midscale, branded property as being the most complementary addition to the local market. We have assumed that, after pre-development and construction periods of around 10 to 20 months each, the hotel would be open and available for occupancy by January 1, 2017.

<b>Proposed Hotel – Hollister, California Summary of Facility Recommendations</b>	
Tier of Hotel:	Select-Service
Market Position:	Upper Midscale
Affiliation:	Fairfield Inn & Suites, TownePlace Suites, Holiday Inn Express & Suites, Hampton Inn & Suites
Number of Rooms:	80
Restaurant:	None
Other Amenities:	Meeting space, business center, fitness center, sundry shop

Considering the hotels within the identified competitive market, we believe that the Subject would require a brand affiliation in order to be successful. Examples of upper midscale, select-service brands include Marriott’s Fairfield Inn & Suites or TownePlace Suites, InterContinental’s Holiday Inn Express & Suites, and Hilton’s Hampton Inn & Suites. We believe that the proposed Hotel should contain approximately 80 rooms. This size is in line with the average size of the hotels comprising the competitive market. At this size, the property would be small enough to maintain occupancy levels year-round, and would also be less affected by the addition of other properties into the competitive market.

Consistent with the brand requirements of the aforementioned upscale properties, we believe that the Hotel should include such standard amenities as 1,000 to 2,000 square feet of meeting space, a business center, a fitness center, and a sundry shop. While we do not recommend a full-service restaurant, we believe that the Subject would require some food and beverage component for breakfast service and for meeting room support, as is also required by the aforementioned hotel chains. As Hollister is primarily a transient, mid-tier market, we believe that these minimal amenities will be sufficient for the property.

## F. Projected Performance of the Proposed Subject

Considering the site's location relative to local demand generators, we believe that an 80-room upper midscale, select-service hotel in Hollister could achieve an occupancy of 58 percent upon opening in 2017. As the Hotel gains recognition, we project occupancy to increase to 62 percent in 2018 and to reach its stabilized level of 65 percent in 2019. While this stabilized level is seven percentage points below that anticipated for the competitive market, we believe it is appropriate for a hotel in Hollister. The resulting penetration level on a stabilized basis is 90 percent, in line with the penetration level of the Hilton Garden Inn located in Gilroy, approximately 15 miles northwest of Hollister. The hotels that achieve the highest occupancy levels in the competitive market are those located in Salinas; these properties operate in the 70 and 80-percent range. An occupancy level below those properties located in Salinas is deemed reasonable as the Salinas market has more consistent demand generators than Hollister.

In order to project the Subject's ADR, we have estimated a hypothetical ADR assuming the property were open and stabilized today. Based on the analysis contained in this report, we estimate that, if the proposed Hotel were open in 2013, it would achieve a *hypothetical* average daily rate of **\$110** stated in 2013 value dollars. This rate will position the proposed Subject above the Best Western San Benito Inn, an inferior hotel, but below the remainder of the competitive market. We are of the opinion that an ADR below the Salinas hotels is reasonable as these properties benefit from more demand generators and, therefore, are able to impose higher rate premiums. Additionally, an ADR below the Hilton Garden Inn located in Gilroy is warranted as this hotel represents a superior lodging product than what is recommended for Hollister.

With regard to rate growth for the proposed Subject over the first five years of operation, we project ADR to increase at 3.0 percent per annum, in line with the assumed long-term outlook on inflation, which is in line with our projections for the overall competitive market. This will result in an **ADR of \$127** upon opening in 2017.

A summary of our occupancy and ADR projections for the Hotel's first five years of operation are outlined in the following table.

<b>Proposed Hotel - Hollister, CA Projected Performance</b>						
<b>Year</b>	<b>Hypothetical ADR</b>	<b>Market Growth</b>	<b>Subject Occupancy</b>	<b>Subject Penetration</b>	<b>RevPAR</b>	<b>Percent Change</b>
2013	\$110.00	-	-	-	-	-
2014	\$113.00	3.0%	-	-	-	-
2015	\$116.00	3.0%	-	-	-	-
2016	\$119.00	3.0%	-	-	-	-
2017 <sup>1</sup>	\$123.00	3.0%	58%	82%	\$70.77	-
2018	\$127.00	3.0%	62%	86%	\$78.72	11.2%
2019	\$131.00	3.0%	65%	90%	\$84.79	7.7%
2020	\$135.00	3.0%	65%	90%	\$87.38	3.1%
2021	\$139.00	3.0%	65%	90%	\$89.97	3.0%

<sup>1</sup> Assumed opening date of the proposed Subject on January 1, 2017  
 Note: numbers may not foot due to rounding  
 Source: **PKF Consulting USA**

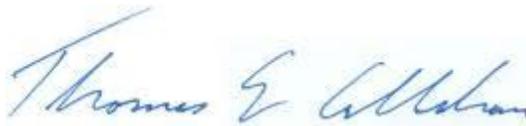
At this level of performance, we estimate that the demand for the proposed Subject will be generated predominately by the leisure market segment.

Although it is possible that the proposed Subject will experience growth in occupancy and ADRs above those estimated above, it is also possible that sudden economic downturns, unexpected additions to room supply, or other external factors will force the property below the selected point of stability. Consequently, the estimated occupancy and ADR levels are representative of the most likely potential operations of the proposed Subject over the projection period based on our analysis of the market as of the date of this report.

This completes Phase I of our analysis of the potential market demand for the proposed Hotel. After you have had an opportunity to review this letter, please feel free to contact us with any questions or comments. Upon your authorization, we will commence Phase II of our study which would include an analysis of the economic viability for the proposed Hotel. We look forward to continue working with you on this interesting engagement.

Yours sincerely,

**PKF Consulting USA**



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**ADDENDA**

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

**ADDENDUM A**  
**CERTIFICATION OF CONSULTANTS**

## **CERTIFICATION OF THE CONSULTANTS**

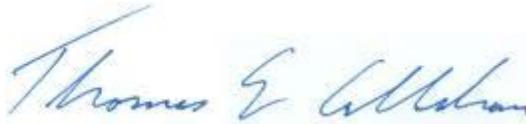
We, Thomas E. Callahan, CPA, CRE, FRICS, MAI, and Catherine E. Bolstad certify that, to the best of our knowledge and belief:

- 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 (or the specified) services, as appraisers or in any other capacity regarding the property that is 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.
- We have made a personal inspection of the property that is the subject 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, Thomas E. Callahan, MAI has completed the continuing education program for Designated Members of the Appraisal Institute.
- Thomas E. Callahan is a Certified General Real Estate Appraiser in the State of California.

Yours sincerely,

**PKF Consulting USA**



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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.