

To: Members of the Zoning Adjustments Board and Greg Powell, Secretary
From: Matthew Taecker AIA AICP, on behalf of Center Street Partners, LLC
Cc: Carol Johnson, Chris Pfohl, Jay Pesci, Glenn Elkes, and Kristina Lawson
Date: April 22, 2016

**Re: Community Benefits Proposal –
Woodworth Testimony on Hotel Development Economics
(2129 Shattuck, ZP2015-0071)**

Mr. R. Mark Woodworth has reviewed our "Significant Community Benefits Proposal" memorandum with pro forma, dated March 28, 2016. Mr. Woodworth is President of PKF Hospitality Research (PKF-HR), a CBRE company, who has testified as an expert in hospitality property matters nationally, as noted in his resume (Attachment 1).

Mr. Woodworth has provided a letter (Attachment 2) that summarizes key factors for hotel development. His discussion is rooted in national research and 30 years of hospitality industry experience.

Specifically, Mr. Woodworth has considered the question of whether the 6.7% annual rate of return cited in our Proposal is considered by hotel industry professionals to be a tolerable level of risk for a hotel project in the Bay Area. Based on "CBRE North America Cap Rate Survey Second Half 2015" (summarized in Attachment 2 Table 1 and provided in its entirety in Attachment 3), an acceptable cap rate for hotel projects is: 8.0-10.0% in the Oakland and San Jose markets, and 7.5-8.5% in San Francisco's market.

To avoid confusion, note that the terms "cap rate" (short for capitalization rate) and "ROI" (acronym for return on investment) are both measures of real estate value, and are both measure annual income divided by the total value (or cost) of a real estate asset. As a simple assessment of value, they are interchangeable.

In summary, Mr. Woodworth finishes with this expert conclusion:

"Because of the difficulty of development present in the current situation, I would expect that an appropriate investment return requirement for the subject Project would fall at the low end of the ranges for hotels as illustrated in Table 1 above" [i.e. not less than 8.0% in the Oakland market].

We hope that this expert assessment helps ZAB make determinations regarding Community Benefits. If you would like more information, please let us know.

Attachments

1. Woodworth Resume
(<http://www.cbre.us/services/valuationadvisory/People/mark-woodworth/Pages/overview.aspx>)
2. Woodworth Letter (dated April 22, 2016)
3. CBRE North America Cap Rate Survey: Second Half 2015
(<http://www.cbre.com/research-and-reports>)