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MEMORANDUM

To: John Yates, CRE
Special Projects Director
University of California, Davis

From: Keyser Marston Associates, Inc.

Date: December 12, 2001

Subject: UC Davis Conference Center and Hotel/Impact on
Lodging Facilities in the City of Davis

Pursuant to your request, Keyser Marston Associates, Inc. (KMA) has evaluated the potential impact of development of the proposed conference center and 75- room hotel that would be built adjacent to the new Robert and Margrit Mondavi Center for the Performing Arts (Mondavi Center) on the UC Davis campus on other lodging facilities in the City of Davis.

This evaluation builds upon a previous economic evaluation of the impact of a proposed 150-room facility by PKF Consulting (report dated March 7, 2001, provided as Attachment A) and an evaluation of adaptive use possibilities for existing Davis hotels prepared by this office (report dated March 12, 2001, provided as Attachment B). In providing these findings for a facility with fewer hotel rooms, we have updated aspects of the earlier work in respect to the following:

- (1) project description; and
- (2) overall conditions in the hotel market in the City of Davis, based on interviews with local hotel operators, transient occupancy tax data from the City of Davis, and secondary data from other sources.

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This memorandum is narrowly focused on responding to the specific question posed by the University for this assignment; namely, the impact of the project on local hotels. Therefore, this memorandum is not a feasibility report for either the hotel or conference center components. Nor does it attempt to replicate the data and analysis contained in the previous studies.

Events of September 11

At the date of this writing, the hotel industry and most/all industries associated with travel are in a state of upheaval in response to the tragic events of September 11. In general, facilities that have been most impacted are full service hotels that heavily rely on fly-in trade, such as full service facilities in downtown San Francisco and Orlando, Florida. Limited service facilities that serve a predominantly regional clientele that is not dependent on air travel, such as those in downtown Davis, have been much less affected. Our discussions with Davis hotel operators have verified this observation.

Limited service facilities fared better than the overall lodging industry in the aftermath of the Gulf War in 1990, which also significantly affected the lodging industry, based on data from Bear, Stearns & Co., Inc. and Smith Travel Research.

PriceWaterhouse Coopers (report October 25, 2001) has identified two scenarios for the lodging industry in the wake of the events of September 11:

- The first scenario poses the possibility of prolonged weakness in the industry based on adverse macroeconomic conditions. With this scenario, REVPAR (Revenue Per Available Room) for all hotels will decline 4.7% in 2002, with upscale and upper upscale hotels most significantly affected (losses of 7.6% and 7.4%, respectively). With this scenario, losses for limited service hotels would range from 1.5% to 3.3%, with *gains* of 1.0% for midscale facilities without food and beverage, which generally characterizes lodging facilities in the City of Davis.
- The second scenario posits a recession in the second half of 2001 and a moderate rebound beginning in the first quarter of 2002. With this scenario, REVPAR for all hotels increases by 0.5% in 2002, with increases of 0.4% for economy hotels and 3.4% for midscale hotels without food and beverage.

There is strong likelihood that by 2004, when the University hotel is scheduled to open, the impact of the events of September 11 will have been entirely dissipated unless there are additional terrorist acts against U.S. interests, expanded hostilities with other countries, or other unrelated factors that cannot now be predicted.

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At this writing, transient occupancy tax data for Davis hotels are not available for September or October 2001; therefore, there are no definitive data that document the impact of events of September 11.

Project Description

According to University staff, the conference center facilities and hotel would include these elements:

- Hotel of 40,000 gross square feet (28,000 assignable square feet) consisting of 75 guest rooms, distributed as follows: (1) 69 single keys at 365 square feet per key; (2) 2 dedicated suites at 750 square feet per suite; (3) 4 flexible suites at 750 square feet per suite, in a three story configuration, with lobby, elevator, and outdoor pool.
- 5,000 square foot ballroom with meeting capacity for 500 people and dining capacity for approximately 300 people.
- Three large meeting rooms (each with capacity for approximately 75 people) totaling approximately 8,000 assignable square feet.
- Food service facility including a food service area of approximately 4,000 assignable square feet, with a restaurant with a capacity for approximately 75 persons, and an approximately 75 person capacity pub.
- Lobby, gift shop, and pre-function space totaling approximately 8,000 assignable square feet serving both the conference center and the hotel.

According to University staff, a total of four meeting spaces in the adjacent Alumni & Visitors Center and in the Mondavi Center would also be available for conference space. Two of these facilities would each be capable of hosting 20- person meetings; one would have a capacity of 80 persons; the fourth would have a 250- person capacity.

In this analysis, it is assumed that the project would be completed in 2004 and that the first year occupancy would be 62.0%, increasing to 66.0% in 2005, with stabilization at 70.0% occurring in 2006, per projections by PKF. It is typical for hotel properties to require several years to achieve stabilized occupancy.

Market Conditions

There are nine standard lodging facilities in the City of Davis that are potentially competitive with the hotel that would be built at UC Davis. With the exception of a couple bed and breakfast inns and a very low priced budget motel, these facilities, shown on the table below, constitute the inventory of lodging facilities in the City of Davis.

Table 1
City of Davis Competitive Lodging Inventory

	Property	Rooms	Location
1	Hallmark Inn	135	110 F Street
2	Howard Johnson	80	4100 Chiles Road
3	Comfort Suites	71	1640 Research Park Drive
4	Best Western University Lodge	53	123 B Street
5	Holiday Inn Express	50	1771 Research Park Drive
6	University Park Inn	45	1111 Richards Drive
7	Aggie Inn	34	245 1 st Street
8	Best Western Palm Court	27	234 D Street
9	Econo Lodge	25	221 D Street
	Total	520	

Source: PKF Consulting (3/7/01).

According to estimates reported by PKF, the 520 rooms in the nine facilities identified above achieved combined average occupancy of 56.4%, with an Average Daily Rate (ADR) of \$75 (year-end 2000). According to PKF, the results were skewed downward by sub-par performance of four of the properties in the survey, related to locational and functional issues affecting those properties, and the entry of one property (Comfort Inn) into the market in that year. Excluding those properties, PKF indicated an overall occupancy for the balance of the inventory of 72.0%, with an ADR of \$77, which is generally indicative of the overall market in the Sacramento metropolitan area.

Based on discussions with local hoteliers in late September 2001 and review of transient occupancy tax data from the City of Davis, we have estimated Year 2001 occupancy of 58.0% and an ADR of \$77 per night, representing minor upward movement in total room revenue from the previous year estimated by PKF. The Year 2001 results are generally consistent with, though not identical to, trends in the larger Sacramento hotel market, which show a slight increase in room rate and slight decline in occupancy for the first seven months of 2001 compared to the identical period in 2000 based on data published by PKF. Given the increase in transient occupancy tax receipts reported below, the estimates noted above may understate the performance of local hotels.

According to the City of Davis, transient occupancy tax receipts for Fiscal Year (FY) 2000/2001 were \$861,125, compared to \$704,458 for the previous Fiscal Year, a 22.2% increase. Virtually all of the increase is attributable to the Comfort Inn, which had its first full

operating year in FY 2000/2001; the balance appears attributable to minor improvement in market conditions.

The overall increase of 22.2% in transient occupancy tax receipts points to a positive trend in the hotel business in the City of Davis. The following inset table shows the trend in transient occupancy tax receipts since FY 1990/1991. Tax receipts are equal to 10% of room revenue; therefore, room receipts were \$3,167,600 in 1990/91 and increased to \$8,906,900 in 2000/2001. Over the period, room receipts have nearly tripled. The average annual change from year-to-year has been 10.9%, far outpacing inflation over the period.

Table 2
City of Davis
Transient Occupancy Tax Receipts

Fiscal Years	Amount	Change From Prior Year
1990/1991	\$316,757	NA
1991/1992	\$347,019	9.6%
1992/1993	\$324,286	-6.6%
1993/1994	\$385,639	18.9%
1994/1995	\$347,112	-10.0%
1995/1996	\$396,538	14.2%
1996/1997	\$395,578	-0.2%
1997/1998	\$458,079	15.8%
1998/1999	\$594,972	29.9%
1999/2000	\$704,458	18.4%
2000/2001	\$861,125	22.2%

Source: City of Davis Finance Department and PKF.

The nine competitive lodging facilities have total annual occupancy potential of 189,800 room nights and account for about 80% to 85% of room revenue in the City of Davis. The annual occupancy potential for the hotel component of the UC Davis conference center/hotel development would be 27,375 room nights, or 14.4% of the existing competitive inventory.

Summary of Findings

As discussed below, it is our view that the additional rooms that would be placed on the lodging market by the UC Davis hotel could have a range of impact on local hotel operations, as follows:

- The “worst case” would be minimal negative impact on local lodging facilities.
- The “best case” would be moderately positive impact on local lodging facilities.
- The “most likely case” would be a minor positive impact on local lodging facilities.

The key factor that will limit negative impacts on local hotel operations and create possibilities for positive impacts is that the University hotel will primarily serve a market niche (group meetings) that is not now significantly served by facilities in the City of Davis. The reasons why there is strong likelihood for the successful attraction of group business at the UC Davis hotel are the following:

- UC Davis is a highly ranked university nationally and is particularly strong in specific graduate programs focused on the life sciences. Scientists and other professionals are drawn to the campus from national and international locations.
- Existing meeting facilities on-campus experience high demand, with little or no excess capacity.
- The location of the project, adjacent to the new Mondavi Center, the Buehler Alumni & Visitor Center, and Mrak Hall (administrative center of the campus), with freeway identity and proximity to the Arboretum, is excellent. The identity as a university facility can be fully delineated, thereby differentiating this project from other lodging facilities in Davis.
- The conference center operator, Benchmark Hospitality, is a seasoned operator that has succeeded at similar venues.
- Existing hotels in the City of Davis and the immediate vicinity provide few venues for meetings. Existing Davis hotels have minimal meeting space and are oriented primarily to meeting the needs of commercial and leisure travelers.
- There is an established range of room night demand for university-sponsored conference center hotels, generally at 0.8 to 2.0 room nights per capita of University population, according to PKF Consulting (Attachment A). Utilization towards the lower end of this range would generate 20,000 + annual room nights for the project; utilization towards the upper end of the range would generate about 60,000 room nights per year. Twenty thousand room nights (at the lower end of the range) would equate to 55 room occupancy per night, accounting for 73% of the rooms in the proposed hotel facility.
- There is an established record of University conference centers supporting strong group business, with differentiation from other lodging facilities in their market areas, as documented by PKF Consulting in their feasibility study for the hotel (Attachment A). The mix of group and transient business projected for this facility is not unlike the mix at other University-related conference centers, with group business accounting for 60% of total business; commercial transient visitors accounting for 25% and transient leisure visitors 15%.

The following inset table shows the segmentation of hotel room night demand for the City of Davis and for the hotel that would be developed on the UC Davis campus. As is evident, the segment in which the University hotel is anticipated to be strong (group segment) is a segment in which local hotels are weak. Segments in which local hotels are strong (commercial and leisure travelers) are segments that will provide much less support to the UC Davis hotel. Therefore, to a high degree, the market segmentation of the UC Davis hotel is quite distinct, indicating good likelihood that the hotel will have relatively minor negative impact on room rates and occupancy of local facilities.

Table 3
Segmentation of Hotel Demand

Segment	Percent/City of Davis Hotels	Percent/UC Davis Hotel
Commercial/Transient	62.0%	25.0%
Leisure	32.0%	15.0%
Group	6.0%	60.0%

Source: PKF Consulting (3/7/01).

The group segment that would be served by the University hotel is directly related to internally-generated demand from the University. Surveys of UC Davis meeting personnel conducted by University staff in coordination with KMA in 1998 indicated a pent-up demand for more than 28,000 room nights of demand for conference and group meeting facilities. Thus, the pent-up demand slightly exceeds the annual occupancy potential (27,375 room nights) for the hotel component of the UC Davis Conference Center/hotel development.

No Project

Table 4 provides an estimate of projected performance for competitive lodging facilities in the City of Davis that would occur without the project. This projection serves as a baseline in the evaluation of potential impacts of the project on local lodging facilities. As indicated, occupied room nights are projected to increase from 110,100 in 2001 to 117,700 by 2008. At 2.0% annual inflation, room rates could increase from \$77 to \$88. As noted, the dominant source of room demand is the commercial transient and leisure transient sectors, with minimal support from the group segment. Increase in room night demand and rate would yield an increase in annual room revenue for the nine competitive facilities from \$8.5 million to \$10.4 million.

An important aspect of the No Project projection is that the occupancy percent of the competitive facilities is projected never to increase beyond 62.0% regardless of overall market growth due to factors of obsolescence that could restrict future occupancy. Therefore, an assumption of relative competitive disadvantage for older facilities is incorporated into the No Project scenario.

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The projection of room revenue with No Project appears cautious when viewed against actual results for hotels in the City of Davis. The projected increase of \$276,000 annually in room revenue compares to actual annual increase of \$574,000 over the past decade for all transient lodging facilities in Davis. The projected average annual percentage increase of 3.0% in revenue growth (resulting from the increase in room rate and occupancy) is also much lower than the historic increase of 10.5%.

With major expansion of the University envisaged under the next Long Range Development Plan (LRDP), there would be significant increases in students, faculty, and staff that would boost hotel demand in the community, since the University is the major stimulus to the local hotel market. Expansion of University activities could therefore result in much more robust performance by local hotels than shown in Table 4.

Alternative Scenarios

To estimate the potential impact of the University hotel on local lodging facilities, it was necessary to identify alternative scenarios that model future conditions. In establishing estimates of the potential impact of the project on competitive facilities, we have identified 2004 as the base year, since that is the likely first year of full operation for the project.

The following scenarios indicate the potential range of possible impacts on local hotel operations:

- Scenario 1, shown on Table 5, frames a realistic “worst case.” With this scenario, it is assumed that two-thirds of the leisure and commercial business in the University hotel would otherwise have gone to other facilities in the City of Davis. In addition, it is assumed that there would be no spillover of group demand to other hotels in Davis resulting from operation of the conference center.

If this scenario were to occur, at stabilization (70% occupancy) of the UC Davis hotel there would be 19,200 occupied room nights in the project, distributed as follows by market segment:

- (1) group, 11,500 (60%);
- (2) leisure, 2,900 (15%);
- (3) commercial, 4,800 (25%).

If two-thirds of the leisure and commercial business would have been accommodated at competitive facilities in Davis, the effect on those facilities would be the loss of 5,200 room nights annually out of a total of 117,700 occupied room nights in the competitive facilities. As shown in Table 5, the loss in room revenue would be approximately \$375,000 to

\$460,000 annually compared to “no project.” These amounts are equivalent to about 4% of total room revenue. However, even with the reduction in room revenue compared to “no project,” there would still be good prospects for increase over the 2001 base; as shown on the table, room revenues would increase from \$8.5 million to \$9.9 million over the 2001-2008 period in the local facilities.

In one year only (2004) would there be an absolute decline in room revenue, totaling about \$187,000, or less than 2.0% of total room revenue in that year.

This scenario is deemed “worst case” due to several negative assumptions regarding impact of the facility:

- (1) Assumption that no conference center business would spill over from the project to other facilities in Davis (see below);
- (2) Assumption that the vast bulk of commercial transient and leisure transient business in the project would otherwise have gone to other Davis hotels, even though there is only one existing full-service facility in Davis and the pricing at the project at about \$130 per room is intended to be significantly higher than the prevailing ADR in the competitive facilities, at about \$77 per night.

In our view, it is highly unlikely that the impact described above, if it did occur, would be severe enough to imperil the operation of the competitive facilities in the City of Davis, assuming sound management and marketing practices by the operators.

- Scenario 2, shown on Table 6, frames the realistic “best case.” This scenario is different from Scenario 1 in these ways: First, it is assumed that one-third rather than two-thirds of the leisure and commercial business in the project are transfers from other Davis facilities, due to the difference in service and price point between the UC Davis hotel and other lodging facilities in the City of Davis, as noted above. Second, it is assumed that half of the group business demand generated by conference center operations would be accommodated in local hotels due to the fact that the facility will contain a relatively small inventory of rooms rather than the larger complement originally conceived. As described above, conference center room night demand, based on ratios to campus population observed on other campuses, would yield group demand of at least 20,000 room nights annually at UC Davis. The base projection for the UC Davis hotel at 75 rooms is that there would be 11,500 occupied room nights of demand from the group segment. There is therefore reasonable basis to assume, with “best case,” that an additional approximately 11,500 room nights from the group segment would be accommodated off-site.

As shown on Table 6, with this scenario, local lodging facilities would lose between \$190,000 and \$230,000 per year in commercial and leisure business to the UC Davis hotel and would gain between \$830,000 and \$1,020,000 annually in group business resulting from spill-over business from the conference center.

With this scenario, there is a positive effect on local hotel establishments, on the order of between \$640,000 and \$790,000 in room revenue per year.

A risk factor for this scenario is that the relatively small room complement of 75 rooms will reduce the overall attractiveness of the facility for groups that require larger blocks of rooms, since groups often have a strong preference for being housed in a single hotel. Therefore, it might be unrealistic to anticipate that effective room night demand with a 75-room facility would be identical to the room night demand associated with the previously planned 150 room hotel.

In this regard, we have reviewed data published by Plog Research, Inc., in "Meetings and Conventions," May 2000. The data indicate that average attendance for corporate meetings is approximately 61 persons and that about 50% to 60% of corporate and association meetings are attended by more than 100 persons. Since many meeting planners have a strong preference to book hotel facilities that can house most or all attendees in the same hotel, inability to accommodate the larger meetings would likely result in loss of patronage.

- Scenario 3, shown on Table 7, represents the "most likely case." With this scenario, it is assumed that half of commercial and leisure business in the UC Davis hotel are transfers from other hotels in the City of Davis. It is also assumed that only half of the spillover demand from the conference center projected for the "best case" would occur with "the most likely case" (i.e. 25% of group demand), due to the limiting factor of hotel size noted above. This scenario therefore recognizes that although the project's conference facilities are largely unchanged from those in the original proposal, overall demand from the group market segment could be significantly reduced due to the inability to house larger groups in the University hotel, with subsequent reduction of positive spill-over to local hotels.

With this scenario, there is an overall increase in room revenue to local hotels of about \$130,000 to \$160,000 annually.

Table 8 shows room revenue for the competitive inventory of local hotels for all of the scenarios noted above. As indicated:

- With "No Project," room revenue for the competitive hotels is projected to increase from \$8.5 million in 2001 to \$10.4 million annually through 2008.

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- With the “worst case,” room revenue for the competitive hotels is projected to increase to \$9.9 million by 2008.
- With the “best case,” room revenue for the competitive hotels is projected to increase to \$11.2 million by 2008.
- With the “most likely” case, room revenue is projected to increase to \$10.6 million by 2008.

As noted previously, only with the “worst case” is there an absolute decline from “no project,” in any year.

Conclusion

As noted previously, the City of Davis has been an expanding market for lodging, with large increases in room revenue occurring over the previous decade.

The project will have minimal impact on lodging facilities in the City of Davis due to the fact that the market for those facilities is sharply differentiated from the market that would be served by the UC Davis hotel; namely, local hotels serve primarily commercial and leisure visitors and the UC Davis hotel will primarily serve groups attracted by the conference center.

In addition, this conclusion is bolstered by the following factors identified by the University: First, current arrangements for UC Davis business with local motels whereby local motels accommodate visiting sports teams will be maintained. Second, the University is eliminating the complete meeting package, thereby affording conference attendees more options to use local hotels and restaurants. Third, as a result of the project the University will dedicate 3% of gross room receipts from the hotel, paid in lieu of transient occupancy tax, for membership in the Davis Conference and Visitors Bureau (DCVB) and to support joint marketing efforts such as tram service to downtown Davis (letter from Chancellor Larry N. Vanderhoef to Yolo County Board of Supervisors and Davis City Council, August 15, 2001). The 3.0% in lieu fee could generate about \$200,000 annually, which is much in excess of the current \$10,000 annual contribution to the DCVB by the University.

The financial modeling indicates that even with “worst case,” in which two-thirds of the leisure and commercial business in the UC Davis hotel is assumed to be a transfer from local lodging establishments, there would still occur upward growth in room revenues except for one year, in which a cumulative loss for all facilities totaling less than \$200,000 could occur. This amount is equal to about 2% of room revenues for that year and represents a change in revenue that is less than frequently occur with normal fluctuations in the lodging market. To place this potential revenue loss in context, it is pertinent to note that the average annual revenue *increase* for all Davis lodging facilities in the last decade (of which the competitive inventory evaluated in this report comprises 80% to 85%) has been nearly \$550,000; therefore, the potential loss is a small portion of the increase in revenue.

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As noted previously, a few lodging facilities in Davis, due to factors of location and physical obsolescence, are performing poorly due to factors of location and obsolescence. The future viability of those facilities may be open to question, whether or not the project is built. KMA has provided an evaluation of alternative uses for Davis hotels (see Attachment B) that indicates that should local hotels fail, two strong candidate reuses for these facilities are student housing and office space, both of which have excellent economic viability.

Assumptions and Limiting Conditions

This report is governed by the following Assumptions and Limiting Conditions:

- (1) It is assumed that information and data furnished by the client and others are substantially correct.
- (2) No guarantee is made as to the correctness of estimates or opinions furnished by others.
- (3) All numerical references should be assumed to be "more or less" and accurate to a degree consistent with their use in the analysis.
- (4) This report does not purport to express any opinion whatsoever as to the feasibility of the project, which is related to matters beyond the scope of this assignment.
- (5) Reviewers are strongly advised that absorption and pricing can vary substantially over time and that financial results for any specific period is particularly difficult to predict.
- (6) The projections in the report represent our professional judgment, but we do not certify that any of the projections will be achieved. Many intervening factors could cause the projections not to be realized.

TABLE 4

**UC DAVIS HOTEL/CONFERENCE CENTER
IMPACT OF 75-ROOM PROJECT ON LOCAL LODGING FACILITIES**

Projection of Room Revenues, Competitive Lodging Facilities in City of Davis, Without Project

Year		Room Rate	Occupied Room Nights	Occupancy Percent	Room Revenue	Distribution of Room Revenue		
						Commercial Transient	Leisure Transient	Group
2001	Baseline	\$77.00	110,084	58.0%	\$8,476,468	\$5,255,410	\$2,712,470	\$508,588
2002	Projection	\$78.54	113,880	60.0%	\$8,944,135	\$5,545,364	\$2,862,123	\$536,648
2003	Projection	\$80.11	117,676	62.0%	\$9,427,119	\$5,844,813	\$3,016,678	\$565,627
2004	Projection	\$81.71	117,676	62.0%	\$9,615,661	\$5,961,710	\$3,077,011	\$576,940
2005	Projection	\$83.35	117,676	62.0%	\$9,807,974	\$6,080,944	\$3,138,552	\$588,478
2006	Projection	\$85.01	117,676	62.0%	\$10,004,134	\$6,202,563	\$3,201,323	\$600,248
2007	Projection	\$86.71	117,676	62.0%	\$10,204,216	\$6,326,614	\$3,265,349	\$612,253
2008	Projection	\$88.45	117,676	62.0%	\$10,408,301	\$6,453,146	\$3,330,656	\$624,498

Projected

Average Annual Numeric Increase	\$275,976
Average Annual Percentage Increase	2.98%

Actual

Average Annual Numeric Increase, City, 1990-2001	\$544,368
Average Annual Percentage Increase, City, 1990-2001	10.52%

TABLE 5

**UC DAVIS HOTEL/CONFERENCE CENTER
 IMPACT OF 75-ROOM PROJECT ON LOCAL LODGING FACILITIES
 Projected Performance, Competitive Local Lodging Facilities**

Scenario 1: Worst Case

<i>Year</i>	<i>Project Rooms</i>	<i>Project Occupancy %</i>	<i>Project Occupied Room Nights</i>	<i>Project Commercial & Leisure Occupied Room Nights (1)</i>	<i>Project Group Occupied Room Nights (2)</i>	<i>Davis Hotels Room Revenue Without Project (Table 4)</i>	<i>Davis Hotels Potential Room Revenue Loss(3)</i>	<i>Davis Hotels Adjusted Room Revenue</i>	<i>Davis Hotels Net Change From No Project</i>
2001	NA	NA	NA	NA	NA	\$8,476,468	NA	\$8,476,468	\$0
2002	NA	NA	NA	NA	NA	\$8,944,135	NA	\$8,944,135	\$0
2003	NA	NA	NA	NA	NA	\$9,427,119	NA	\$9,427,119	\$0
2004	75	62.0%	16,973	6,789	10,184	\$9,615,661	-\$375,566	\$9,240,095	-\$375,566
2005	75	66.0%	18,068	7,227	10,841	\$9,807,974	-\$407,791	\$9,400,183	-\$407,791
2006	75	70.0%	19,163	7,665	11,498	\$10,004,134	-\$441,156	\$9,562,977	-\$441,156
2007	75	70.0%	19,163	7,665	11,498	\$10,204,216	-\$449,979	\$9,754,237	-\$449,979
2008	75	70.0%	19,163	7,665	11,498	\$10,408,301	-\$458,979	\$9,949,322	-\$458,979

Note: See text for discussion.

(1) At 40% of total room nights.

(2) At 60% of total room nights.

(3) At two-thirds of commercial and leisure occupied room nights by project.

TABLE 6

UC DAVIS HOTEL/CONFERENCE CENTER
 IMPACT OF 75-ROOM PROJECT ON LOCAL LODGING FACILITIES

Projected Performance, Competitive Local Lodging Facilities

Scenario 2: Best Case

Year	Project Rooms	Project Occupancy %	Project Occupied Room Nights	Project Commercial & Leisure Occupied Room Nights	Project Group Occupied Room Nights	Davis Hotels Room Revenue Without Project (Table 4)	Davis Hotels Potential Room Revenue Loss(1)	Davis Hotels Potential Room Revenue Gain(2)	Davis Hotels Adjusted Room Revenue	Davis Hotels Net Change From No Project
2001	NA	NA	NA	NA	NA	\$8,476,468	NA	NA	\$8,476,468	\$0
2002	NA	NA	NA	NA	NA	\$8,944,135	NA	NA	\$8,944,135	\$0
2003	NA	NA	NA	NA	NA	\$9,427,119	NA	NA	\$9,427,119	\$0
2004	75	62.0%	16,973	6,789	10,184	\$9,615,661	-\$187,783	\$832,124	\$10,260,003	\$644,342
2005	75	66.0%	18,068	7,227	10,841	\$9,807,974	-\$203,896	\$903,526	\$10,507,605	\$699,630
2006	75	70.0%	19,163	7,665	11,498	\$10,004,134	-\$220,578	\$977,451	\$10,761,006	\$756,873
2007	75	70.0%	19,163	7,665	11,498	\$10,204,216	-\$224,990	\$997,000	\$10,976,227	\$772,010
2008	75	70.0%	19,163	7,665	11,498	\$10,408,301	-\$229,489	\$1,016,940	\$11,195,751	\$787,451

Note: See text for discussion.

(1) At one-third of commercial and leisure occupied room nights by project.

(2) Assumes that local facilities attract group business generated by conference facilities equal to that in the project.

TABLE 7

**UC DAVIS HOTEL/CONFERENCE CENTER
IMPACT OF 75-ROOM PROJECT ON LOCAL LODGING FACILITIES**

Projected Performance, Competitive Local Lodging Facilities

Scenario 3: Most Likely

<i>Year</i>	<i>Project Rooms</i>	<i>Project Occupancy %</i>	<i>Project Occupied Room Nights</i>	<i>Project Group Occupied Room Nights</i>	<i>Project Commercial & Leisure Occupied Room Nights</i>	<i>Davis Hotels Room Revenue Without Project (Table 4)</i>	<i>Davis Hotels Potential Room Revenue Loss(1)</i>	<i>Davis Hotels Potential Room Revenue Gain(2)</i>	<i>Adjusted Room Revenue</i>	<i>Davis Hotels Net Change From No Project</i>
2001	NA	NA	NA	NA	NA	\$8,476,468	NA	NA	\$8,476,468	\$0
2002	NA	NA	NA	NA	NA	\$8,944,135	NA	NA	\$8,944,135	\$0
2003	NA	NA	NA	NA	NA	\$9,427,119	NA	NA	\$9,427,119	\$0
2004	75	62.0%	16,973	10,184	6,789	\$9,615,661	-\$281,674	\$416,062	\$9,750,049	\$134,388
2005	75	66.0%	18,068	10,841	7,227	\$9,807,974	-\$305,844	\$451,763	\$9,953,894	\$145,919
2006	75	70.0%	19,163	11,498	7,665	\$10,004,134	-\$330,867	\$488,726	\$10,161,992	\$157,858
2007	75	70.0%	19,163	11,498	7,665	\$10,204,216	-\$337,485	\$498,500	\$10,365,232	\$161,016
2008	75	70.0%	19,163	11,498	7,665	\$10,408,301	-\$344,234	\$508,470	\$10,572,536	\$164,236

Note: See text for discussion.

(1) At one-half of commercial and leisure occupied room nights by project.

(2) Assumes that local facilities attract group business generated by conference facilities equal to half of that in the project.

TABLE 8

UC DAVIS HOTEL/CONFERENCE CENTER
 IMPACT OF 75-ROOM PROJECT ON LOCAL LODGING FACILITIES
 Summary of Alternative Scenarios

ROOM REVENUE, DAVIS HOTELS

Year	"No Project"		"Worst Case"			"Best Case"			"Most Likely"		
	Amount	Change From 2001	Amount	Change, NP	Change From 2001	Amount	Change, NP	Change From 2001	Amount	Change, NP	Change From 2001
2001	\$8,476,468	NA	\$8,476,468	\$0	NA	\$8,476,468	\$0	NA	\$8,476,468	\$0	NA
2002	\$8,944,135	\$467,667	\$8,944,135	\$0	\$467,667	\$8,944,135	\$0	\$467,667	\$8,944,135	\$0	\$467,667
2003	\$9,427,119	\$950,651	\$9,427,119	\$0	\$950,651	\$9,427,119	\$0	\$950,651	\$9,427,119	\$0	\$950,651
2004	\$9,615,661	\$1,139,193	\$9,240,095	-\$375,566	\$763,627	\$10,260,003	\$644,342	\$1,783,535	\$9,750,049	\$134,388	\$1,273,581
2005	\$9,807,974	\$1,331,506	\$9,400,183	-\$407,791	\$923,715	\$10,507,605	\$699,630	\$2,031,137	\$9,953,894	\$145,919	\$1,477,426
2006	\$10,004,134	\$1,527,666	\$9,562,977	-\$441,156	\$1,086,509	\$10,761,006	\$756,873	\$2,284,538	\$10,161,992	\$157,858	\$1,685,524
2007	\$10,204,216	\$1,727,748	\$9,754,237	-\$449,979	\$1,277,769	\$10,976,227	\$772,010	\$2,499,759	\$10,365,232	\$161,016	\$1,888,764
2008	\$10,408,301	\$1,931,833	\$9,949,322	-\$458,979	\$1,472,854	\$11,195,751	\$787,451	\$2,719,283	\$10,572,536	\$164,236	\$2,096,068

ILLUSTRATIVE HOTEL/CONFERENCE CENTER ASSIGNMENTS

Hotel/Conference Center, City of Temecula

Worked with the City of Temecula to determine the market and financial feasibility of developing a 30,000 square foot conference center with a 225-room hotel within the City's central area. Before reaching our conclusions, the City asked us to analyze eight different sites and make recommendations as to which

site would be most suitable for the project. Our initial analysis, completed in January 1999, was recently updated with an evaluation of the impact of a proposed hotel at the Pechanga Casino/ Entertainment Center on the city's project. This task required an investigation into the relationships between casino and hotel room demand.

Roseville Hotel Conference Center, City of Roseville

Assisted the City in drafting a request for proposals to develop a hotel with a 20,000+ square foot conference center. Given the local market strength, developers were asked to bear all upfront costs with possible payback provisions. Assisted in evaluating submittals.

Vineyard Creek Hotel, Santa Rosa Housing and Redevelopment Agency

KMA assessed and updated hotel market conditions, prepared developer solicitation material, and marketed the proposals directly to developers. KMA evaluated and recommended deal structure for level of Agency assistance. We also provided on going assistance to the Agency on negotiation of deal points as relates to lender requirements and other matters in final phases leading to construction.

Hotel/Conference Center, City of Mountain View

Prepared an in-depth evaluation of the potential to develop a hotel/conference center in Mountain View. Market support was determined from interviews and surveys of local firms, particularly the larger and rapidly expanding high tech firms, from which meeting room and hotel needs of all types were identified

by facility profile, pricing concerns, day of the week and other usage patterns, leading to a quantification of local demand and precise product identification. Alternative potential sites were also probed and evaluated as part of the analysis, as well as financial feasibility and subsidy needs.

Santa Cruz Hotel Conference Center, Santa Cruz Redevelopment Agency

The assignment was to identify a conference center concept for the City of Santa Cruz. As a result of the investigation, we determined that a hotel with a conference center component has the greatest level of support from the combination of the resort business, the University of

California there, and a few large software firms. Work entailed extensive interviews with potential conference center user groups in addition to meetings with a task force, site selection, and financial feasibility issues.

Ferry Building, Port of San Francisco

Analyzed the opportunities for locating a conference center within the Ferry Building as part of a major rehabilitation program. Met with leading conference center operator firms for business terms and solicitation of interest. Project is proceeding and an application for federal funds is now under preparation.

ILLUSTRATIVE HOTEL/CONFERENCE CENTER ASSIGNMENTS (continued)

Sacramento Community Convention Center, City of Sacramento Department of Community and Visitor Services

KMA prepared an analysis of the historic and projected usage of the newly expanded convention center. The purpose of the analysis is to prepare fine tuned projections of nearer term revenues to service bonds and to

provide a framework for the preparation of a business plan. A follow-on assignment will explore market opportunities and an analysis of event types and facility usage to identify the most profitable and beneficial uses of the facility around which to structure a marketing plan.

Lutheran Conference Center, Lutheran Synod, Livermore

Keyser Marston provided an analysis of conference center usage profile and financial feasibility of a Church owned and operated conference facility also available to the public. Conference center proposed to be developed within an old Wentz Brothers brick warehouse building with newly constructed guest accommodations adjacent to it.

Gateway Corporate Conference Center, City of Orinda

Keyser Marston evaluated the market and financial feasibility of developing a 230-room, golf oriented hotel/conference center as part of a residential community. Work was undertaken for the City which had major concerns about the project viability and related fiscal impact.

Napa Valley Expo, Napa

Undertook market analysis to determine the opportunities for attracting conference center activity on the old state fairgrounds property located within the City of Napa, near the downtown. The analysis focused on the potential of using existing buildings to meet the modern conferencing needs, in the context of the Napa Valley

market. A development program for 250 to 300 rooms plus other complementary facilities was recommended and enthusiastically endorsed by hotel developers and operators.

Embassy Suites Hotel, BART, Pleasant Hill

Advised the transit agency on structuring the ground lease for a 300-room Embassy Suites next to the Pleasant Hill BART station.

Reuse Analysis, Burbank Hilton and Conference Center Expansion, Burbank Redevelopment Agency

Evaluated opportunities to develop a 4.26 acre site with a 28,000 sq.ft. conference center and 255-room expansion to the existing Hilton Hotel in downtown Burbank.

Hotel Conference Center, City of Merced

KMA evaluated developer proposal for hotel conference center for a downtown site.

ILLUSTRATIVE HOTEL/CONFERENCE CENTER ASSIGNMENTS (continued)

La Quinta Motor Inn, City of Garden Grove

Provided analysis of the development economics of a motel and free standing restaurants entailing extraordinary site development costs and high exterior standards.

Red Lion Hotel, City of Glendale

Assisted the client in drafting the developer solicitation, in developer selection and negotiations for a 350-room hotel. Work included an economic analysis of alternative development programs.

Wavecrest, City of Half Moon Bay

Examined potential market support from golf, conference resort and tourist segments to determine if a site should be reserved for hotel development.

Convention and Entertainment Center, City of Long Beach

Assessed the costs and revenues to the City resulting from the development of two new hotels, expansion of an existing hotel and of public facilities associated with the Center.

Assessment of Market Opportunities, Mission Bay Park, San Diego

Examined retail, hotel and conference center market opportunities for a site on Mission Bay that is currently improved with a poorly-performing specialty retail center.

Modesto Red Lion Hotel and Civic Plaza, Modesto Redevelopment Agency

Provided analysis of the current agreement between the developer of the Red Lion Hotel, the Redevelopment Agency, and the City-owned Civic Plaza and recommendations for modifying the agreements.

Presidio of San Francisco, National Park Service and the Golden Gate Recreational Area, San Francisco

Working for the National Park Service and the Golden Gate National Recreation Area, our firm analyzed the lodging and conference center potential for some of the historic structures within this Army property. Work has involved extensive testing of

market and financial feasibility parameters as part of a larger assignment to develop a financing implementation strategy.

Balboa Bay Club Lease Phase I Study, City of Newport Beach

Prepared an overview of the conference facility market and the impact of restructuring an existing facility.

ILLUSTRATIVE HOTEL/CONFERENCE CENTER ASSIGNMENTS (continued)

**Hotel Conference Center,
Scandanavian Center, San
Francisco**

Evaluated the market and financial aspects of a corporate conference center and hotel within a mixed-use project on the San Francisco waterfront. Recommended business terms with Port of San Francisco.

**Radisson Suites, City of
Oceanside**

Provided economic analysis of the leasehold interest and of a leasehold with subsequent purchase for a high-quality hotel.

**Civic Plaza Convention Center,
City of Phoenix, AZ**

Provided market evaluation of potential for expanding the convention center including factors affecting the City's ability to capture a share of the national convention market.

**Pier 40 - Port of San Francisco,
San Francisco Redevelopment
Agency**

For the San Francisco Redevelopment Agency, lead team of architects and other specialists in evaluating the reuse potential of Pier 40 for hotel, retail, and restaurant. Assignment involved assessment of the market potential, project conceptualization, estimates of

development costs, and development of a financial plan. Parking solutions were also considered, including costs and revenues. Recommendations on revisions to current governmental restrictions for the use of the pier were made.

**Hyatt Regency Hotel - Downtown
Sacramento, Sacramento
Redevelopment Agency**

Assisted in the developer solicitation and selection process and negotiation of business terms of complex land lease and garage agreement.

**San Jose Hotel West, San Jose
Redevelopment Agency**

Assisted the Agency in evaluating the agreement between the developer and the Agency, including an analysis of the value of the participating ground lease and the costs to the Agency. Agency provided land and parking at a nominal cost to developer.

Headquarters Hotel, Portland, OR

Assessed opportunities for the development of a headquarters hotel in the vicinity of the new Oregon Convention Center.

**Embassy Suites, City of
Sacramento**

Assisted developer in competitive selection process and proposal of public private joint venture terms for a land lease on the riverfront in downtown Sacramento.

ILLUSTRATIVE HOTEL/CONFERENCE CENTER ASSIGNMENTS (continued)

Sheraton Suites Hotel - Haggin Oaks Golf Course, City of Sacramento

Negotiation of land lease terms for hotel to be developed on City-owned property for the City's Recreation and Park Department.

De Anza Hotel, City of San Jose

Provided economic analysis of the proposed rehabilitation of this hotel into a first class, 100-room project. Analysis determined warranted level of assistance.

Sand & Sea Property, City of Santa Monica

Assisted the City in the selection of a developer and in developer negotiations for this major waterfront hotel site in the City of Santa Monica. Included assessment of the hotel market, financial modeling, and assistance to legal counsel in structuring the land lease.

USC Plaza - Davidson Conference Center, USC Real Estate Development Corp. and Jones Commercial Development Associates, Los Angeles

Evaluated the market and financial aspects of a project consisting of 725,000 sq.ft. of office, 30,000 sq.ft. of retail, and a 250-room hotel for the USC Real Estate Development Corporation and Jones Commercial Development Associates.

Hotel, Venterra Corporation, County of San Joaquin

For Venterra Corporation, provided strategic advice on restructuring a failed commercial/historic rehab project on the Stockton Channel. Assisted with the proposed development of a 250-room suites hotel.

Disneyland, City of Anaheim

As input for establishing a new redevelopment area, projected demand for lodging facilities through the year 2000 based on expected growth of Disneyland and the Anaheim Convention Center.

Livermore Valley Center, Livermore

Market feasibility analysis for hotel and conference center uses as part of a multi-purpose cultural and community center in downtown Livermore. Work scope included an in-depth analysis of the specific needs of nearby national laboratories for conferencing and lodging, as well as an evaluation of tourism, the wine business, and other sources of support.

Griswolds Hotel Conference Center, City of Claremont

Assisted the City of Claremont in an evaluation of future prospects for expansion and upgrading of the Griswolds Hotel Conference Center.

City Center Site, City of Anaheim

Keyser Marston provided an economic analysis for a participating land sale of a 217-acre site to be developed with a mid-rise all suite hotel.