



SAN FRANCISCO PLANNING DEPARTMENT

Letter of Determination

February 29, 2016

Sue Hestor
870 Market Street, Suite 1128
San Francisco, CA 94102

Site Address: 1095 Market Street
Assessor's Block/Lot: 3703/059
Zoning District: C-3-G
Staff Contact: Corey A. Teague, (415) 575-9081 or corey.teague@sfgov.org
Record No.: 2015-018012ZAD

Dear Ms. Hestor:

This letter is in response to your request for a Letter of Determination regarding the distinction, if any, in how the Planning Code defines and regulates hotels and hostels. Specifically, you request a determination as to whether the Planning Code distinguishes between guest rooms and guest beds in relation to the project at 1095 Market Street.

The subject property is within the C-3-G Zoning District, which requires a Conditional Use Authorization for any new or significantly expanding hotel use. A hostel is not defined as a distinct use in the Planning Code, rather it is considered to be a hotel use. On October 12, 2010, the Planning Commission granted a Conditional Use Authorization (Case No. 2009.1100C - Motion No. 18199) to convert the subject building to a hotel/hostel with up to 94 guest rooms and associated restaurant, bar, and nightclub uses. As noted in the market demand study submitted with the application, the project proposed up to 484 beds. On November 21, 2013, the Planning Commission granted a three year extension of the performance period for the project (Case No. 2013.1285C - Motion No. 19027). While the number of proposed guest rooms was called out in each motion as part of the project description, the Planning Commission did not place any conditions on the approval related to the overall number of guest rooms.

Your letter references multiple areas of the Planning Code that use the number of hotel rooms as a trigger or limit for hotel uses, and requests a determination as to whether hotel beds may be substituted for hotel rooms in Planning Code requirements. Any Planning Code trigger or limit based on the number of hotel rooms cannot be substituted with beds. However, the C-3-G Zoning District includes no limit on the number of hotel/hostel rooms permitted, nor do a specific number of rooms trigger any additional land use authorizations. Additionally, the specific Planning Commission review criteria for hotels under Planning Code Section 303(g) do not include any criteria or other guidance related to the number of rooms provided.

1650 Mission St.
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Sue Hestor
870 Market Street, Suite 1128
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February 29, 2016
Letter of Determination
1095 Market Street

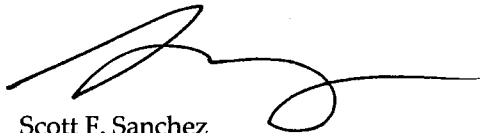
On September 11, 2014, the Project Sponsor submitted Building Permit Application No. 201409116118 for an updated proposal which included 203 guest rooms with 239 beds. The Planning Department initially approved the subject permit on June 22, 2015. The Planning Department approved a subsequent revision of the same permit on November 13, 2015. This permit was issued by the Department of Building Inspection on November 17, 2015.

In reviewing this permit, the Zoning Administrator only had to determine if the scope of work under this permit was in "general conformity" with the Conditional Use Authorization (Motion Nos. 18199 & 19027). The Zoning Administrator determined, and verifies such determination by this letter, that the updated scope of work under Building Permit Application No. 201409116118 was in general conformity with the original Conditional Use Authorization because 1) the Conditional Use Authorization was required for the hotel use itself, and neither the Planning Code nor the Planning Commission approval provided conditions related to the total number of rooms, 2) the updated scope of work continued to fall under the land use definition of a hotel, 3) there was no increase in gross floor area of the subject building or the floor area ratio on the subject property (i.e. no physical expansion of the project), 4) there was no significant increase in guest occupancy (in fact, the number of beds was reduced from 484 to 239), and 5) the updated scope of work met all other conditions of approval and applicable Planning Code requirements.

Please note that a Letter of Determination is a determination regarding the classification of uses and interpretation and applicability of the provisions of the Planning Code. This Letter of Determination is not a permit to commence any work or change occupancy. Permits from appropriate Departments must be secured before work is started or occupancy is changed.

APPEAL: If you believe this determination represents an error in interpretation of the Planning Code or abuse in discretion by the Zoning Administrator, an appeal may be filed with the Board of Appeals within 15 days of the date of this letter. For information regarding the appeals process, please contact the Board of Appeals located at 1650 Mission Street, Room 304, San Francisco, or call (415) 575-6880.

Sincerely,



Scott F. Sanchez
Zoning Administrator

cc: Corey A. Teague, Assistant Zoning Administrator
Carly Grob, Planner
Ian Lewis
Cynthia Gomez
Neighborhood Groups

SUE C. HESTOR

Attorney at Law

870 Market Street, Suite 1128 San Francisco, CA 94102

office (415) 362-2778 cell (415) 846-1021

hestor@earthlink.net

December 4, 2015

Scott Sanchez
Zoning Administrator
1650 Mission Street 5th fl
San Francisco CA 94103

R # 2015-018012 ZAD

Request for Letter of Determination - Number of Rooms allowed - Hotels and Hostels (1095 Market)

Dear Zoning Administrator Sanchez:

My client UNITE HERE Local 2 requests a Letter of Determination on whether the Planning Code regulates the number of hotel **rooms** or the number of **beds**. Local 2 asserts that Hotels and hostels are defined and regulated by the number of guest **rooms** available to be rented. The Conditional Use requirement for hotels becomes irrelevant if Commission approval of a **94 room hostel** can be changed to a **303 room hotel** by Department staff because the number of beds remains the same.

ACTIONS REGARDING 1095 MARKET STREET CONVERSION FROM OFFICE TO HOTEL

Planning Code motions 18199 (10/14/10) and 19027 (11/21/13) approved conversion of 1095 Market Street from office use to a **hotel/hostel with up to 94 rooms**. **Exhibit B** plans for both motions show **94 hotel/hostel rooms**. Both motions require Recordation of conditions with a limit of **94 hotel rooms**.

Building Permit 2014.09.11.118S includes the project description "change of occupancy from office to hotel. **New (202 - stricken and overwritten) 203 hotel rooms.**" Carly Grob signed off on behalf of Planning Department on 6/22/15 for:

change of use from office to hotel w/ground floor retail. Construction of *(202 - stricken and overwritten)* **203 hotel rooms** and roof deck..."

The permit for a **203 room hotel** was issued 11/17/2015. UNITE HERE Local 2 filed an appeal which was rejected by Board of Appeals because 1095 Market had been approved as a conditional use. The most recent Conditional Use approval was **11/21/13**. The application for a **(202)203 HOTEL ROOM** was filed **9/11/14** - SIGNIFICANTLY AFTER the 12/21/13 deadline to appeal the **94 HOTEL ROOM** project.

From Cynthia Goldstein I understand your position to be

the permit (for 1095 Market) was issued pursuant to the Conditional Use Authorization even though the number of rooms has changed. **He said while the number of rooms has increased, the overall number of beds has decreased** and there's been no increase or decrease in the size of the building, just the interior configuration. Scott also said Planning determined that the change in the number of rooms was **in substantial conformity with the CU given that the overall use is consistent**. He explained that there are often minor changes made to projects after the CU hearing and before the site permit is approved.

Article 8 - Mixed Use Districts

This article similarly defines and limits their location tourist hotels by ROOMS -

SEC. 890.46. HOTEL, TOURIST.

A retail use which provides tourist accommodations including **guest rooms or suites**, which are intended or designed to be used, rented, or hired out to guests (transient visitors) intending to **occupy the room** for less than 32 consecutive days. This definition also applies to buildings containing **six or more guest rooms** designated and certified as tourist units, under Chapter 41 of the San Francisco Administrative Code. For purposes of this Code, a "tourist hotel" does not include a tourist motel..... Tourist hotels shall be designed to include all lobbies, offices and internal circulation to guest **rooms** and suites within and integral to the same enclosed building or buildings as the **guest rooms** or suites.

Individual mixed use districts that permit tourist hotels control the size of the hotels by limits on the number of **rooms**. One such District which permits hotels but limits number of rooms -

WSOMA MIXED USE-OFFICE DISTRICT

845.49 Tourist Hotel (§ 890.46) - P up to **75 rooms**

SSO - SERVICE/SECONDARY OFFICE DISTRICT

818.78 Small hotels of **75 rooms or less** are permitted in this District only as a conditional use. Any such conditional use authorizations requires a conditional use finding that disallows project proposals that displace existing Production, Distribution and Repair (PDR) uses.

PLANNING CODE ALSO REGULATES RESIDENTIAL HOTELS BASED ON ROOMS

The Planning Code also regulates **RESIDENTIAL HOTELS** based on the number of guest **rooms**, including in Mixed Use Districts

SEC. 890.47. HOTEL, RESIDENTIAL.

A hotel, as defined in Chapter 41 of the San Francisco Administrative Code, which contains one or more residential hotel units. **A residential hotel unit is a guest room** as defined in Section 203.7 of Chapter XII, Part II of the San Francisco Municipal Code (Housing Code), which had been occupied by a permanent resident on September 23, 1979, or **any guest room** designated as a residential unit pursuant to Sections 41.6 or 71.7 of Chapter 41 of the San Francisco Administrative Code. Residential hotels are further defined and regulated in the Residential Hotel Unit Conversion and Demolition Ordinance, Chapter 41 of the San Francisco Administrative Code.

December 4, 2015 - page 5

The Planning Commission granted a Conditional Use to convert 1095 Market Street from an office building to a hotel/hostel set a limit of **94 rooms**. Many of the rooms included bunk beds, a typical HOSTEL configuration. They did not have bathrooms in each room. A typical HOSTEL configuration. Staffing included a local non-profit. Ten months after the 11/21/13 approval, on 9/11/14 project sponsor filed for a **203 room hotel** with bathrooms in each room. The non-profit?

Planning staff signed off on the building permit change because the number of **beds** had not increased. The number of guest rooms more than doubled to 203 ROOMS. The Conditional Use appeal period had long expired.

Planning staff and the Zoning Administrator interpreted the PLANNING CODE to allow an increase in the number of hotel rooms because the number of hotel beds was approximately the same as the hostel which included bunk beds.

UNITE HERE Local 2 requests

- (1) A Letter of Determination on whether the hotel **beds** may be substituted for hotel **rooms** in tourist hotels - both Commission approval of a Conditional Use and all other requirements of the Code. How is this applied throughout the Planning Code and where other San Francisco appear to link to the Planning Code definitions.
- (2) That permit 2014.09.11.6118S be undone by whatever means possible because it exceeded the 94 room limit on a tourist hotel at 1095 Market imposed by the Planning Commission.

FURTHER NOTE -

FROM TO DOCUMENTS ATTACHED TO THE Building Permit Planning Department classification of this site may have caused confusion to other departments:

Handwritten notes from Carey, the **Fire Dept.** contact, read "this is for a **residential hotel**."

Similarly on 11/16/15 in calculation of fees that the **SFUSD** receives on a change of use: SFUSD payment of fees to convert shows what appears to be fee to convert - with credit for prior use - calling out conversion to RESIDENTIAL hotel.

Respectfully submitted,

Sue C. Hestor
for UNITE HERE Local 2

cc: Ian Lewis
Cynthia Gomez

SUE C. HESTOR

Attorney at Law

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RECEIVED

December 9, 2015

Scott Sanchez
Zoning Administrator
1650 Mission Street 5th fl
San Francisco CA 94103

R # 2015 - 018012 ZAD
CK # 44181 \$645 -
M. LUELLEN (NE)

DEC 09 2015

CITY & COUNTY OF S.F.
PLANNING DEPARTMENT
RECEPTION DESK

**Supplement 12/4/15 Request for Letter of Determination - Number of Rooms allowed -
Hotels and Hostels (1095 Market) (3703/059)**

Dear Mr. Sanchez:

I am transmitting the following:

- Unite Here Local 2's check for \$645 the above Letter of Determination.

Documents referenced in that letter:

- PKF Consulting, Trends in the Hotel Industry. Northern California, August 2015
- Wells Fargo Securities, Equity Research, July 26, 2012

Both of these samples of industry publications describe hotels by ROOMS

- SF City Controller, Amendment to Tourist Hotel Conversion Ordinance: Economic Impact Report, File 071528 - February 13, 2008
- 2011 Annual Inventory of Large Tourist Hotel Rooms, 2011.0021U - 3/3/11

I am not providing San Francisco Code sections, including to the Planning Code, describing hotel rooms.

Further questions please contact me. Additional industry documents, Ian Lewis at 415 608 3875.

Since appeal of the issuance of Building Permit 2014.09.11.118S was rejected, despite permit increase from 94 hostel rooms to 201 hotel rooms allowed by Planning Department , the developer can immediately start construction using this permit despite inconsistency with Planning Commission motions 18199 (10/14/10) and 19027 (11/21/13). Appellant urges that this determination be issued - or other action taken to suspend work constructing the guest rooms - relatively soon.

Sincerely,


Sue C. Hestor

cc: Ian Lewis

TRENDS®

IN THE HOTEL INDUSTRY Northern California

August 2015

Budget Accuracy Benefits All

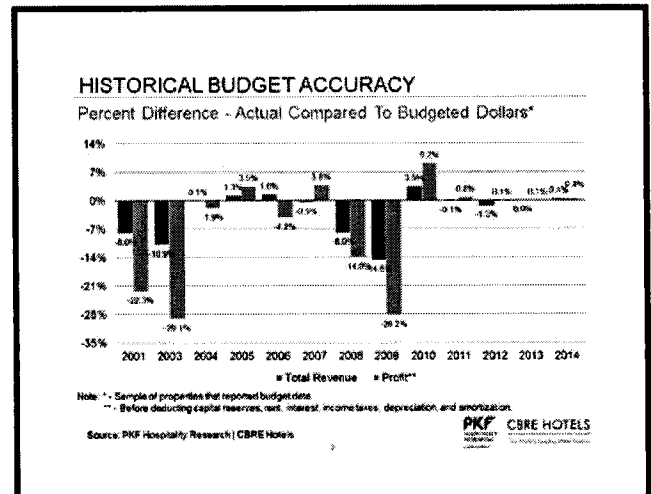
by: Robert Mandelbaum and Viet Vo

Since 2001, PKF Hospitality Research, a CBRE Company (PKF-HR), has assessed the accuracy of hotel budgets. Over the past 14 years, one trend has become very predictable. During times of industry prosperity, hotel budgets are extremely accurate.

During the depths of the 2001 and 2009 industry recessions, hotel managers underestimated their revenue levels by an average of 10.4 percent, while the profit deficits averaged 23.4 percent. Conversely, when the industry has been in periods of growth, the budget variance for revenues has been a positive 0.6 percent on average, while profit goals were exceeded by 1.4 percent. For the purpose of this analysis, profits are defined as net operating income (NOI) before deductions for capital reserve, rent, interest, income taxes, depreciation, and amortization.

This trend of budget accuracy during periods of prosperity was demonstrated once again in 2014, another strong year for U.S. hoteliers. Comparing 2014 budgeted to actual performance, hotel managers

missed their total revenue and profit targets by just 0.4 percent.

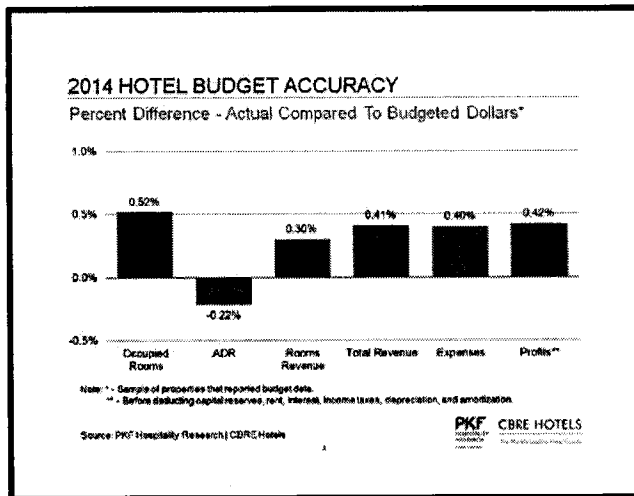


The analysis of hotel budget accuracy is consistent with PKF-HR's self-analysis of the accuracy of our *Hotel Horizons*® forecasts of U.S. lodging industry performance. Our accuracy assessments have consistently shown that forecasts of lodging performance are most accurate during the growth periods of the business cycle. PKF-HR's latest forecasts call for continued real RevPAR gains through 2018. This implies that industry forecasts, as well as property-level

budgets, will continue to be accurate for the foreseeable future.

For participants in the lodging industry, accurate budgets and forecasts provide predictability. For investors and lenders, predictability implies less risk. For owners, predictability leads to better management of cash flows and investments. For operators, predictability (in theory) means fewer headaches.

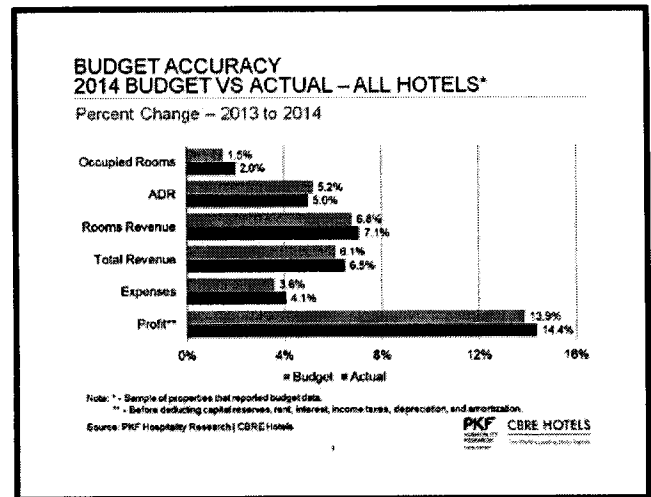
As general managers, controllers, and directors of sales prepare their budgets and marketing plans for 2016, we present the results of our most recent look at the budgeting accuracy of U.S. hotel operators. From PKF-HR's *Trends® in the Hotel Industry* database, we identified 495 operating statements that contained both actual and budgeted data for 2014. Using these statements, we compared the revenues and expenses projected for 2014 with what was actually earned and spent during the year.



Occupancy Overcomes ADR

In 2013, while hotel managers were preparing their budgets for 2014, the U.S. lodging industry was on its way to achieving

an annual occupancy level of 62.2 percent. This would be the first time the annual occupancy level would exceed the long-run average since the depths of the 2009 recession. After such a lofty accomplishment, hotel managers expected that they would be empowered to raise their room rates more aggressively in 2014. Accordingly, they budgeted for a strong 5.2 percent increase in average daily room rates (ADR) for the year. Unfortunately, ADR at the hotels in the study sample fell a little short of the budgeted mark and grew just 5.0 percent in 2014.



Missing ADR growth was somewhat perplexing given the fact that the subject hotels were able to accommodate more guests than anticipated. In 2014, occupied rooms for the sample grew by 2.0 percent. This is greater than the budgeted increase of 1.5 percent. Underestimating occupancy gains, but overestimating ADR growth, has been a consistent pattern since 2010.

The net result was a rooms revenue (RevPAR) excess of 0.3 percent compared to budget. Concurrently, total hotel revenue exceed budget by 0.4 percent. This implies that the combined growth in revenue from food and

beverage, other operated departments, and rentals and other income exceeded the budget as well.

Revenue Overcomes Expenses

By accommodating more rooms than budgeted, the hotels in our sample incurred greater expense growth than planned. During 2014, expenses at the properties in the study sample increased by 4.1 percent. This is 0.5 percentage points more than the budgeted expense growth rate of 3.6 percent.

Fortunately for hotel operators, and their owners, the greater than expected revenue growth was more than sufficient to cover the expense overage and allowed these properties to surpass their budgeted profit levels. On average, the hotels in our sample actually exceeded their 2013 budgeted NOI goals by 0.5 percent.

What To Budget for 2016

According to the June 2015 edition of *Hotel Horizons*[®], PKF-HR is projecting that a 6.8 percent increase in RevPAR will lead to a 6.6 percent gain in total hotel revenues for 2016. Concurrently, operating expenses are forecast to rise by 3.8 percent. This should result in a 12.9 percent improvement in profits.

Given this positive market forecast, historical trends indicate that the odds are favorable for U.S. hotels to achieve their budgeted targets once again in 2016.

* * *

Robert Mandelbaum and Viet Vo work in the Atlanta office of PKF Hospitality Research, a

CBRE Company (PKF-HR). PKF-HR offers hotel managers several tools and reports to assist them in the preparation of their 2016 budgets. For more information, please visit store.pkfc.com, or call (855) 223-1200. This article was published in the September 2015 edition of *Lodging*.



CBRE HOTELS

The World's Leading Hotel Experts.

**STATISTICS AND TRENDS OF HOTEL-MOTEL BUSINESS
NORTHERN CALIFORNIA MONTHLY TRENDS
MONTH OF AUGUST**

REPORT OF ROOMS BUSINESS BY LOCATION

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
SAN FRANCISCO	\$279.87	\$273.16	2.5%	92.8%	95.2%	-2.5%	\$259.61	\$259.99	-0.1%
SAN FRANCISCO AIRPORT	199.95	190.06	5.2%	91.8%	91.9%	-0.1%	183.65	174.68	5.1%
SAN JOSE/PENINSULA	196.47	173.17	13.5%	84.0%	86.4%	-2.8%	165.11	149.68	10.3%
OAKLAND/EAST BAY	147.13	128.84	14.2%	90.2%	90.3%	0.0%	132.76	116.29	14.2%
MONTEREY/CARMEL	377.18	360.63	4.6%	88.3%	90.1%	-2.0%	333.01	324.94	2.5%
CENTRAL VALLEY	86.07	82.42	4.4%	76.4%	76.2%	0.3%	65.74	62.78	4.7%
SACRAMENTO	112.45	105.26	6.8%	76.3%	75.5%	1.1%	85.85	79.51	8.0%
MARIN COUNTY	190.80	174.99	9.0%	91.9%	93.8%	-2.0%	175.26	164.06	6.8%
NAPA COUNTY	302.33	295.67	2.3%	82.9%	77.9%	6.4%	250.70	230.38	8.8%
SONOMA COUNTY	178.70	170.35	4.9%	87.7%	88.9%	-1.3%	156.75	151.45	3.5%
OTHER NORTHERN CALIFORNIA	100.86	94.63	6.6%	79.4%	80.6%	-1.6%	80.06	76.30	4.9%
OVERALL AVERAGE	\$202.44	\$191.79	5.6%	86.3%	87.4%	-1.3%	\$174.68	\$167.69	4.2%

REPORT OF ROOMS BUSINESS BY AVERAGE DAILY RATE

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
OVER \$175.00	\$261.28	\$248.55	5.1%	89.7%	91.4%	-1.9%	\$234.39	\$227.19	3.2%
\$125.00 TO \$175.00	149.33	136.48	9.4%	87.7%	87.4%	0.3%	130.91	119.33	9.7%
\$75.00 TO \$125.00	101.01	92.92	8.7%	82.6%	83.3%	-0.8%	83.43	77.37	7.8%
UNDER \$75.00	59.02	54.25	8.8%	71.3%	71.8%	-0.8%	42.05	38.95	8.0%
OVERALL AVERAGE	\$202.44	\$191.79	5.6%	86.3%	87.4%	-1.3%	\$174.68	\$167.69	4.2%

REPORT OF ROOMS BUSINESS BY SIZE OF PROPERTY

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
OVER 400 ROOMS	\$247.32	\$237.33	4.2%	90.6%	91.8%	-1.3%	\$224.16	\$217.95	2.8%
250 TO 400 ROOMS	240.84	229.65	4.9%	88.5%	90.4%	-2.1%	213.12	207.62	2.7%
150 TO 250 ROOMS	202.97	188.36	7.8%	85.3%	85.8%	-0.6%	173.06	161.54	7.1%
UNDER 150 ROOMS	140.32	131.40	6.8%	82.1%	83.2%	-1.2%	115.26	109.30	5.5%
OVERALL AVERAGE	\$202.44	\$191.79	5.6%	86.3%	87.4%	-1.3%	\$174.68	\$167.69	4.2%

SOURCE: PKF CONSULTING | CBRE HOTELS

**STATISTICS AND TRENDS OF HOTEL-MOTEL BUSINESS
SAN FRANCISCO MONTHLY TRENDS
MONTH OF AUGUST**

REPORT OF ROOMS BUSINESS BY LOCATION

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
UNION/NOB/MOSCONE	\$289.06	\$281.08	2.8%	92.8%	95.1%	-2.4%	\$268.33	\$267.40	0.3%
FINANCIAL DISTRICT	297.39	283.25	5.0%	94.4%	95.8%	-1.4%	280.88	271.43	3.5%
FISHERMAN'S WHARF	267.83	270.21	-0.9%	94.3%	96.8%	-2.5%	252.65	261.51	-3.4%
CIVIC CENTER/VAN NESS	202.16	205.98	-1.9%	88.0%	92.6%	-4.9%	177.86	190.66	-6.7%
OVERALL AVERAGE	\$279.87	\$273.16	2.5%	92.8%	95.2%	-2.5%	\$259.61	\$259.99	-0.1%

REPORT OF ROOMS BUSINESS BY AVERAGE DAILY RATE

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
OVER \$200.00	\$285.83	\$278.76	2.5%	93.0%	95.3%	-2.5%	\$265.68	\$265.66	0.0%
\$150.00 TO \$200.00	177.65	178.64	-0.6%	89.6%	93.2%	-3.8%	159.19	166.43	-4.3%
OVERALL AVERAGE	\$279.87	\$273.16	2.5%	92.8%	95.2%	-2.5%	\$259.61	\$259.99	-0.1%

REPORT OF ROOMS BUSINESS BY SIZE OF PROPERTY

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
OVER 400 ROOMS	\$274.38	\$266.02	3.1%	93.8%	95.8%	-2.1%	\$257.35	\$254.91	1.0%
250 TO 400 ROOMS	304.30	298.47	2.0%	91.9%	94.8%	-3.1%	279.72	283.04	-1.2%
150 TO 250 ROOMS	276.39	276.61	-0.1%	90.0%	92.1%	-2.2%	248.78	254.64	-2.3%
UNDER 150 ROOMS	253.18	253.54	-0.1%	88.1%	93.0%	-5.2%	223.07	235.67	-5.3%
OVERALL AVERAGE	\$279.87	\$273.16	2.5%	92.8%	95.2%	-2.5%	\$259.61	\$259.99	-0.1%

SOURCE: PKF CONSULTING | CBRE HOTELS

**STATISTICS AND TRENDS OF HOTEL-MOTEL BUSINESS
NORTHERN CALIFORNIA MONTHLY TRENDS
EIGHT MONTHS ENDED AUGUST**

REPORT OF ROOMS BUSINESS BY LOCATION

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
SAN FRANCISCO	\$265.12	\$246.95	7.4%	87.0%	86.6%	0.4%	\$230.69	\$213.95	7.8%
SAN FRANCISCO AIRPORT	185.44	169.63	9.3%	85.6%	85.0%	0.7%	158.73	144.12	10.1%
SAN JOSE/PENINSULA	195.49	173.08	12.9%	82.4%	81.8%	0.7%	161.05	141.53	13.8%
OAKLAND/EAST BAY	134.19	119.85	12.0%	83.2%	79.5%	4.6%	111.64	95.29	17.2%
MONTEREY/CARMEL	299.86	290.67	3.2%	76.0%	74.3%	2.3%	227.85	215.85	5.6%
CENTRAL VALLEY	86.06	81.62	5.4%	72.4%	70.9%	2.2%	62.33	57.87	7.7%
SACRAMENTO	111.72	105.16	6.2%	75.6%	73.6%	2.7%	84.44	77.41	9.1%
MARIN COUNTY	163.30	148.61	9.9%	80.9%	81.5%	-0.7%	132.15	121.08	9.1%
NAPA COUNTY	260.66	246.41	5.8%	74.2%	74.5%	-0.4%	193.50	183.67	5.4%
SONOMA COUNTY	152.78	142.90	6.9%	80.5%	79.5%	1.3%	123.01	113.55	8.3%
OTHER NORTHERN CALIFORNIA	90.03	84.98	5.9%	68.7%	66.5%	3.3%	61.84	56.52	9.4%
OVERALL AVERAGE	\$187.96	\$174.98	7.4%	80.8%	79.7%	1.5%	\$151.94	\$139.38	9.0%

REPORT OF ROOMS BUSINESS BY AVERAGE DAILY RATE

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
OVER \$175.00	\$242.67	\$225.30	7.7%	84.4%	83.9%	0.5%	\$204.73	\$189.12	8.3%
\$125.00 TO \$175.00	139.22	127.28	9.4%	79.9%	79.0%	1.2%	111.29	100.54	10.7%
\$75.00 TO \$125.00	97.27	89.29	8.9%	77.6%	75.4%	2.9%	75.49	67.31	12.1%
UNDER \$75.00	55.97	51.98	7.7%	67.9%	64.2%	5.7%	37.99	33.38	13.8%
OVERALL AVERAGE	\$187.96	\$174.98	7.4%	80.8%	79.7%	1.5%	\$151.94	\$139.38	9.0%

REPORT OF ROOMS BUSINESS BY SIZE OF PROPERTY

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
OVER 400 ROOMS	\$238.41	\$220.98	7.9%	86.1%	85.1%	1.2%	\$205.34	\$188.13	9.1%
250 TO 400 ROOMS	221.46	207.89	6.5%	82.3%	81.8%	0.6%	182.20	170.09	7.1%
150 TO 250 ROOMS	182.14	169.08	7.7%	79.5%	78.5%	1.2%	144.72	132.75	9.0%
UNDER 150 ROOMS	126.92	117.90	7.7%	76.6%	74.8%	2.4%	97.18	88.14	10.3%
OVERALL AVERAGE	\$187.96	\$174.98	7.4%	80.8%	79.7%	1.5%	\$151.94	\$139.38	9.0%

SOURCE: PKF CONSULTING | CBRE HOTELS

**STATISTICS AND TRENDS OF HOTEL-MOTEL BUSINESS
SAN FRANCISCO MONTHLY TRENDS
EIGHT MONTHS ENDED AUGUST**

REPORT OF ROOMS BUSINESS BY LOCATION

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
UNION/NOB/MOSCONE	\$278.51	\$260.55	6.9%	87.2%	86.7%	0.6%	\$242.82	\$225.78	7.5%
FINANCIAL DISTRICT	283.98	266.99	6.4%	87.8%	86.8%	1.1%	249.23	231.68	7.6%
FISHERMAN'S WHARF	230.30	212.77	8.2%	88.3%	88.9%	-0.7%	203.29	189.08	7.5%
CIVIC CENTER/VAN NESS	178.60	160.65	11.2%	83.6%	84.0%	-0.5%	149.30	135.01	10.6%
OVERALL AVERAGE	\$265.12	\$246.95	7.4%	87.0%	86.6%	0.4%	\$230.69	\$213.95	7.8%

REPORT OF ROOMS BUSINESS BY AVERAGE DAILY RATE

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
OVER \$200.00	\$271.13	\$252.94	7.2%	87.2%	86.9%	0.3%	\$236.41	\$219.79	7.6%
\$150.00 TO \$200.00	158.44	140.86	12.5%	84.0%	82.3%	2.1%	133.07	115.86	14.9%
OVERALL AVERAGE	\$265.12	\$246.95	7.4%	87.0%	86.6%	0.4%	\$230.69	\$213.95	7.8%

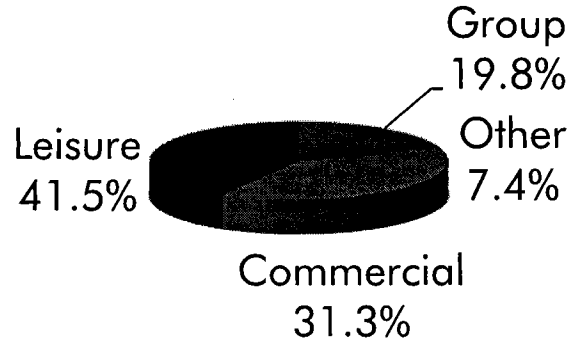
REPORT OF ROOMS BUSINESS BY SIZE OF PROPERTY

	AVERAGE DAILY ROOM RATE			OCCUPANCY PERCENT			REVENUE PER AVAILABLE ROOM		
	2015	2014	VAR	2015	2014	VAR	2015	2014	VAR
OVER 400 ROOMS	\$260.67	\$243.81	6.9%	88.6%	87.1%	1.7%	\$230.88	\$212.29	8.8%
250 TO 400 ROOMS	291.51	269.10	8.3%	84.0%	86.2%	-2.5%	244.93	231.89	5.6%
150 TO 250 ROOMS	256.96	234.47	9.6%	87.6%	86.3%	1.4%	224.98	202.42	11.1%
UNDER 150 ROOMS	232.12	216.83	7.0%	80.3%	84.0%	-4.4%	186.45	182.12	2.4%
OVERALL AVERAGE	\$265.12	\$246.95	7.4%	87.0%	86.6%	0.4%	\$230.69	\$213.95	7.8%

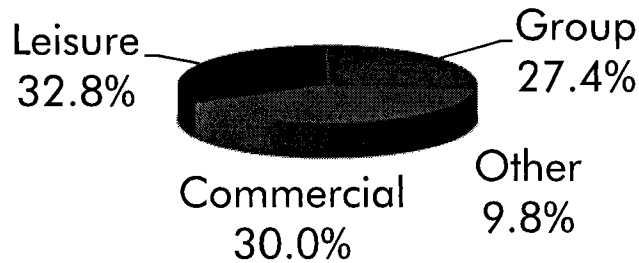
SOURCE: PKF CONSULTING | CBRE HOTELS

MARKET MIX - AUGUST 2015

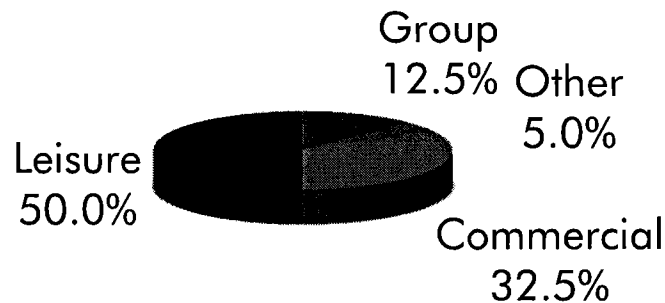
Northern California



Northern California (Not Including San Francisco)



San Francisco



July 26, 2012

Equity Research



Lodging: Holding Onto Labor Efficiencies

Staffing Changes Lags Room Demand Changes
Labor Unions Are Losing Their Grasp On Hotels

Lodging

- **NONSUPERVISORY LABOR EFFICIENCY.** The hotel industry has steadily improved nonsupervisory labor efficiency for 25+ years. There were 72.2 nonsupervisory personnel per 100 occupied rooms in 1986, but by 2011 this figure was just 51.6 and we estimate it will decline to 50.7 by year-end 2012, a 30% improvement over the period (Figure 1). Better product design, revenue management, group sales, and a decline in the unionized hotel labor population (Figure 4) allowing for increased scheduling flexibility and job sharing are the source of the improvement.
- **SUPERVISORY EFFICIENCIES MATERIALIZE.** Supervisory personnel averaged 9.5 people per 100 occupied rooms over 1986-2007 with little variability aside from the period around September 11, 2011 (Figure 2). Since 2008 however, supervisory staff levels have averaged 8.3 people per 100 occupied rooms and we estimate it could finish 2012 at 8.1, a 15% improvement in efficiency. Owners and managers appear to be doing a solid job holding supervisory staffing levels fairly constant in fact the face of growing demand.
- **NECESSITY IS THE MOTHER OF INVENTION.** The majority of the improvement in nonsupervisory labor efficiency appears to follow periods of turmoil in the industry (e.g., 1988-1991 and 2001-2003). The data implies hotels are forced to improvise when faced with tough times. Moreover, the bulk of the efficiencies in staffing levels appear to be retained when market conditions improve. Case in point, during the real estate construction boom in the 1980s, staff per 100 rooms increased 18%. As the cycle turned against hotels and real estate, staff per 100 rooms declined 10% from their mid-1980s peak and held firm at this reduced level through 2000. The events of September 11, 2001, necessitated service levels be addressed again and staffing was promptly reduced and declined through 2005 (Figure 1).
- **STAFFING CHANGES HISTORICALLY LAG DEMAND BY 60 DAYS.** We analyzed 25 years of data and found monthly changes in hotel employment staffing provided no insight on future changes in room demand. We did however find a strong coincident relationship (RSQ=42%) between changes in staffing and room demand and explanatory power improved further when we reversed the analysis to assess whether changes in room demand explained future staffing levels 1-, 2-, 3-months in the future (RSQ=49%, 53%, and 53% respectively). No surprise, we also found a strong inverse relationship (RSQ=49%) between the rolling 6-month year/year changes in mass layoff events (lagged on month) and changes in room demand. We conclude staffing changes historically lag changes in room demand by about 60 days. Brand standards, avoidance of understaffing, inability to forecast contraction in the advance booking window or increases in group meeting attrition/cancellation, and union labor rules are the likely reasons behind the delayed response time.
- **UNIONS LOSING THEIR GRASP.** The portion of hotel employees covered by collective bargaining agreements (Figure 4) has declined from 10% in 1983 to 5-6% by 2011. The absolute level of membership at year-end 2011 was 500,000, on par with its 29-year average but down sharply from its 2008 peak of 623,000. The persistent declines in union penetration implies most new jobs in the industry are non-union.

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Please see page 4 for rating definitions, important disclosures and required analyst certifications

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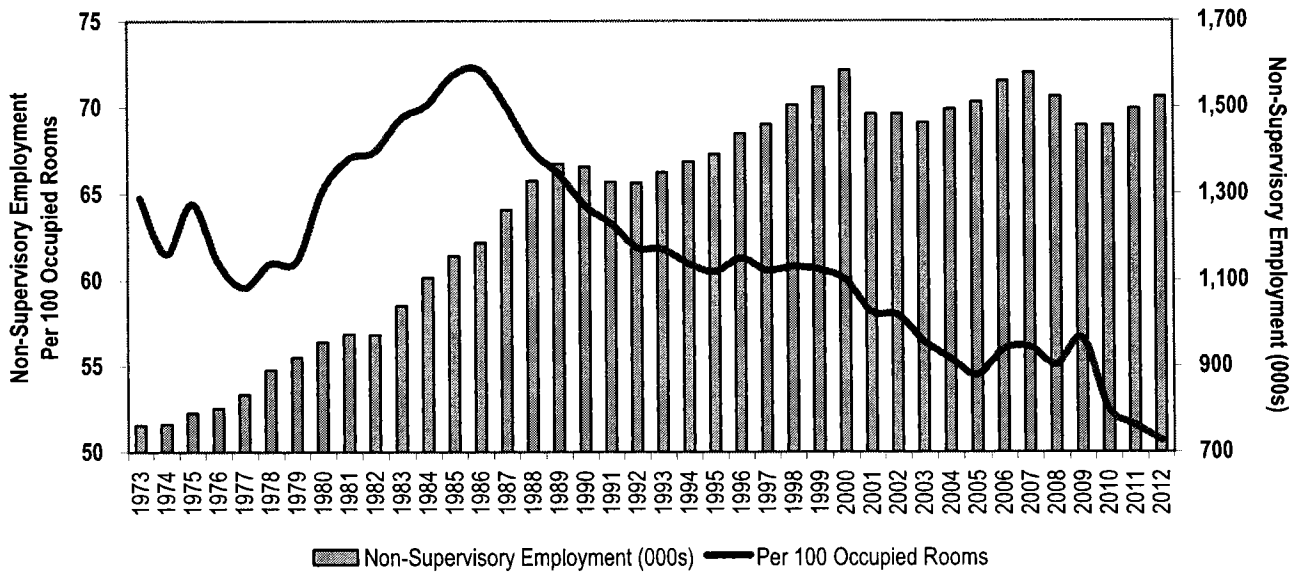
Together we'll go far



Discussion

Figure 1. Non-Supervisory Labor Efficiencies (Accommodation Employment)

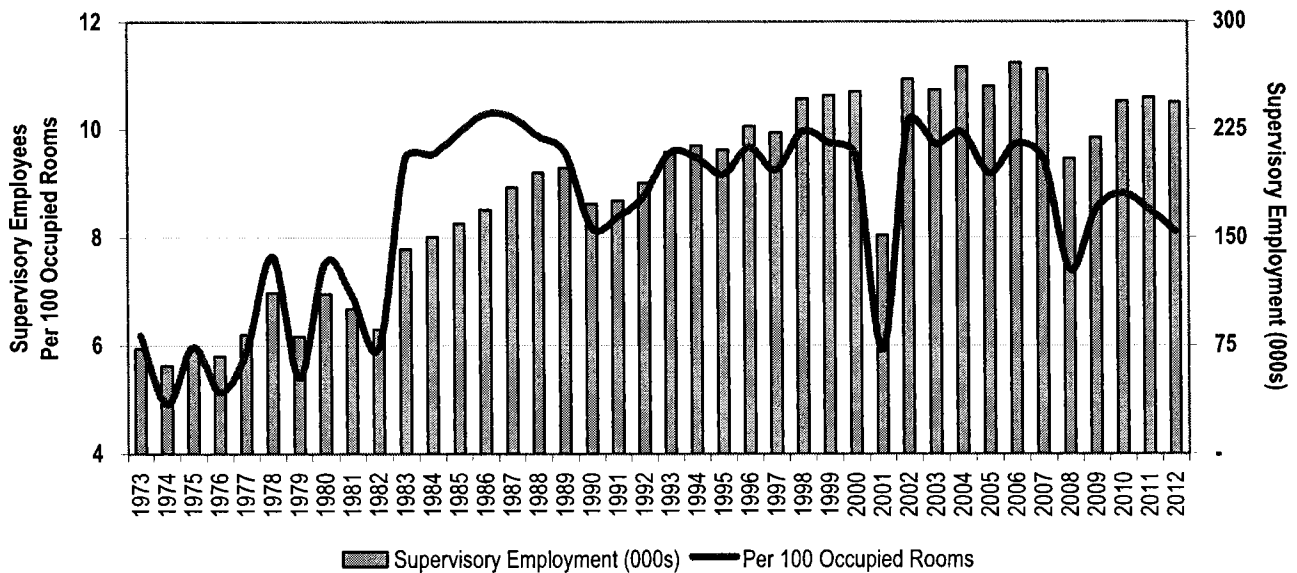
HOTEL NON-SUPERVISORY LABOR EFFICIENCIES (1973A-2012E)



Source: Bureau of Labor Statistics, PriceWaterhouseCoopers Hospitality Division, Smith Travel Research, and Wells Fargo Securities, LLC estimates

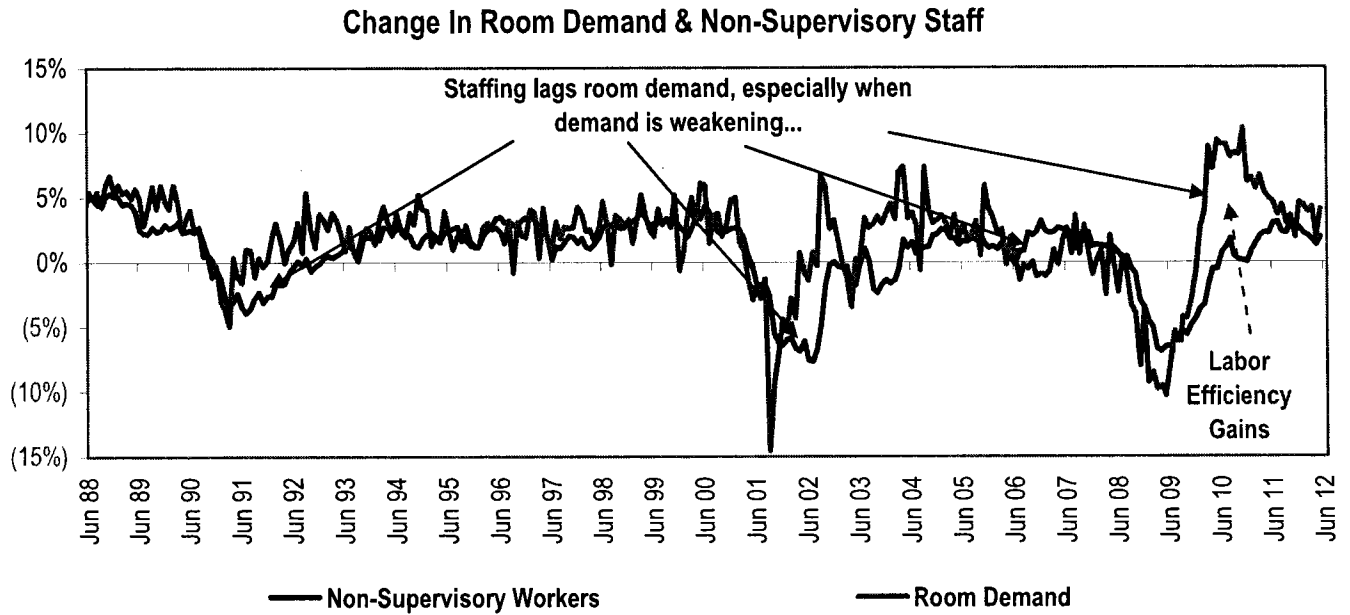
Figure 2. Supervisory Labor Efficiencies (Accommodation Employment)

SUPERVISORY LABOR EFFICIENCIES (1973A-2012E)



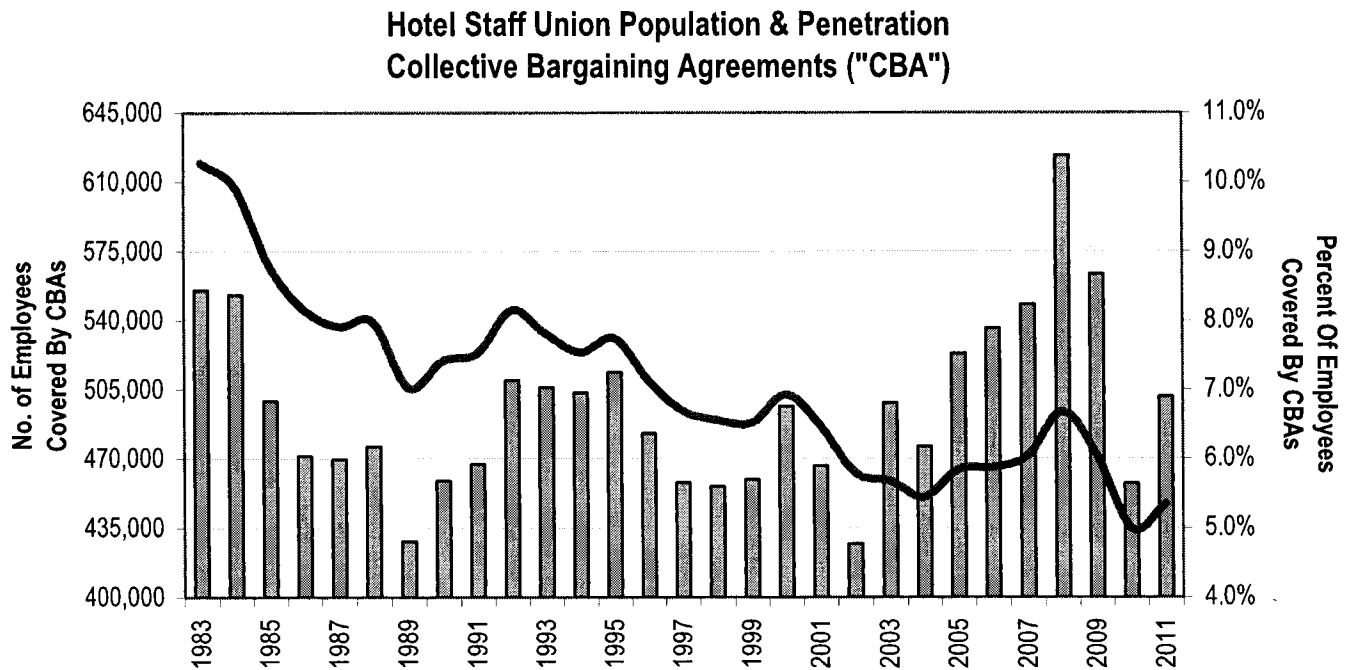
Source: Bureau of Labor Statistics, PriceWaterhouseCoopers Hospitality Division, Smith Travel Research, and Wells Fargo Securities, LLC estimates

Figure 3. Staffing Changes Lag Demand



Source: Bureau of Labor Statistics, Smith Travel Research, Wells Fargo Securities, LLC estimates

Figure 4. Unions Losing Their Grasp On Hotels



Source: Bureau of Labor Statistics, Unionstats.com, Wells Fargo Securities, LLC estimates

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As of: July 26, 2012

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Lodging: Holding Onto Labor Efficiencies

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City and County of San Francisco

Office of the Controller - Office of Economic Analysis

**Amendment to Tourist Hotel
Conversion Ordinance:
Economic Impact Report**

File No. 071528



February 13, 2008



City and County of San Francisco

Office of the Controller - Office of Economic Analysis

**Amendment to Tourist Hotel Conversion Ordinance: Economic Impact
Report**

February 13, 2008

The proposed legislation would prohibit the conversion of tourist hotels containing more than 100 rooms into condominium units, making the August 2005 temporary conversion ban permanent. The legislation is projected to have a neutral to positive impact on San Francisco's economy. The legislation allows the Planning Commission to issue exemptions for conversion of up to 500 hotel rooms for two years after approval of the legislation; after that time, further conversions may be allowed if the applicant can demonstrate that such conversion will not reduce the supply of Large Tourist Hotel rooms available within the City. The legislation also softens the restriction for currently-existing mixed-use hotels, allowing conversion of hotel rooms into fractional residences (meaning units are divided and sold as weekly or monthly shares) at two of the City's 86 large tourist hotel properties.

Even with very high resident spending assumptions, hotel uses generate nearly twice the direct and indirect spending of condominium uses, while hotel use supports more than five times the direct and indirect jobs in the San Francisco economy compared to condominium uses. The difference is largely attributed to the lower density of the converted condominiums, as well as the different spending profiles of visitors compared to residents, with a greater portion of visitor spending captured within the local economy. Hotel uses generate more than twice the annual tax revenue of condominium uses, primarily because hotel occupancy is taxed at a relatively high rate. However, converted condominiums would result in one-time transfer tax revenues to the General Fund from the initial sale of the condominium units.

Highlights

- San Francisco's tourism and hospitality industries are strong and a major segment of its economic base. Visitor spending on a variety of categories including lodging, dining, retail, entertainment, and transportation drives this sector of the economy.
- A condominium unit requires the physical space of multiple hotel rooms. This economic analysis is based on maximum conversion allowed under the ordinance of 500 hotel rooms, equating to 125 converted condominiums.
- The impact of reduced direct spending by visitors at 500 hotel rooms is estimated at about \$77.5 million annually, made up in part by \$35 million spent annually by residents of the 125 units, but still a comparative net loss of \$42.5 million in direct spending annually.
- 500 hotel rooms generate about \$118 million in annual direct and indirect spending in San Francisco, or about \$74 million more than spending by the residents of 125 condominiums.
- Visitors to 500 hotel rooms support nearly 1,700 direct and indirect jobs in the San Francisco economy, or about 22 jobs per \$1 million in direct spending, significantly more than residents of 125 condominiums who would support 255 direct and indirect jobs, or about 7 jobs per \$1 million in direct spending.
- The difference is largely attributed to the lower density of the converted condominiums, as well as the different spending profiles of visitors compared to residents.

Risk Mitigation

Despite the overall positive economic impacts of the legislation, mitigating actions can be undertaken to reduce the risk of any negative outcomes:

- Because real estate markets are cyclical, consider revisiting legislation periodically (at each economic cycle) to determine if it is still needed.
- Better define the supply of Large Tourist Hotels to guide the Planning Department when it evaluates potential future conversions.
- Consider expanding the legislation to prohibit shared ownership at all large tourist hotels, instead of exempting only two mixed-use projects constructed before the adoption of the ordinance.
- The legislation could discourage new hotel development because it restricts a potential exit strategy if the developer/investor grossly miscalculated the market or a negative externality impacts demand (e.g., 9/11). The OEA suggests allowing a two-year window to exempt new hotels from the ordinance to leave an out, and not discourage investment in the City.

ECONOMIC SCORECARD

	Highly Negative Impact	Moderately Negative Impact	Neutral Impact	Moderately Positive Impact	Highly Positive Impact
City Economy				■	
Employment				■	
Owners of Large Tourist Hotels		■			
Owners of St. Regis and Four Seasons Hotels			■■■■		

INTRODUCTION

Hotel Conversion: History and Proposed Ordinance

In August 2005, the Board of Supervisors passed an ordinance amending the San Francisco Administrative Code to prohibit the conversion of hotel rooms to for-sale condominiums for an 18-month period. In January 2007, the Board passed an ordinance extending the ban for an additional six months.

The proposed ordinance makes the 2005 ban permanent, with 500 additional conversions allowed in the next two years.

The proposed legislation would make this temporary ban permanent, by amending the Administrative Code to add Section 41F, which prohibits conversion of Large Tourist Hotels (defined as having more than 100 hotel rooms) into condominium units. The legislation allows the Planning Commission to issue exemptions for conversion of up to 500 hotel rooms for two years after the legislation is approved. After two years, the Planning Commission may further approve hotel conversions, if the applicant can demonstrate that such conversion will not reduce the supply of Large Tourist Hotel rooms available within the City. Since the legislation's introduction in 2005, 1,112 rooms have been added to the San Francisco hotel market¹, a 3.3% increase in inventory.

An exemption for fractional ownership applies to only two properties in the city: the Four Seasons and the St. Regis.

The legislation softens the restriction for certain currently-existing mixed-use hotels, defined as a tourist hotel that includes residential uses. In these cases only, conversions are allowed provided that "occupancy is restricted to not more than 30 consecutive days per year or 90 days in aggregate per year." This restriction allows the conversion of hotel rooms into residential units, provided the units are fractionalized, meaning they are divided into weekly or monthly shares, sold as deeded ownership fractions, and marketed toward individuals seeking a more affordable alternative to a full vacation home.

¹ Includes the 550-room InterContinental set to open on February 28, 2008.

The OEA has identified only two properties in the City that meet the mixed-use definition of the legislation: The 277-room Four Seasons and the 260-room St. Regis. The legislation would allow conversion of an unlimited number of hotel rooms to shared-ownership at these two properties. However, the shared-ownership conversion exemption would not apply to the City's other large hotel-only properties. Nor would it apply to any new hotel that subsequently wished to convert to fractional ownership.

ECONOMIC IMPACT FACTORS

Introduction

To help inform the policy debate, this section of the report describes aspects of the legislation that the OEA projects will affect the San Francisco economy in material and measurable ways. The following provides a discussion of the assumptions used in the economic and fiscal impact assessment presented in the next section.

San Francisco's hotel inventory currently comprises 33,375 hotel rooms, in 219 hotel properties located throughout the City². Most of the inventory is located in hotels with more than 100 rooms; the legislation applies only to hotels of this size.

These large tourist hotels have approximately 80% of the inventory (27,046 rooms), concentrated in 86 properties (40% of total). However, as noted above, the ordinance allows limited conversions at two mixed-use hotels (comprising 537 rooms), lowering the inventory of affected rooms to 26,509 in 84 properties.

The ordinance will impact the owners of these 84 properties by preventing a change in use from hotel to for-sale residential. The ordinance does not prevent these owners from changing a hotel to some other non-residential use allowed by the relevant zoning controls, such as office, hospital, or commercial. Nor does it prevent new hotel developments from containing a mixed-use for-sale condominium component as part of the initial development. This latter phenomenon is a recent strategy used by hotel developers to raise equity and reduce risk.

The proposed legislation affects the supply of hotel rooms in the City by preventing large hotels from removing rooms from inventory and converting them into residential units. This economic impact analysis quantifies and compares the relative economic impact of hotel uses with condominium uses, assuming demand is constant for either use.

In the short run, reducing the supply of hotel rooms in the City would not have a major effect on the economy, as

² *San Francisco Hotel Segregation Report, September 2007*, Smith Travel Research.

long as the supply of hotel rooms remains sufficient to accommodate visitor demand. That is, visitors who would have otherwise stayed at the converted hotel room instead stay at another comparable property within the City. A 2006 OEA report³ on the six-month extension of the prohibition was based on this perspective, because the time frame of that legislation was limited, and the city was only slowly emerging from a prolonged downturn in its tourism industry. For these reasons, the OEA at that time determined that it was unlikely that allowing condominium conversions would significantly reduce the number of occupied hotel rooms in the city.

The present legislation is different, however, because it is permanent. Over the longer term, reductions in the supply of hotel rooms in San Francisco will put additional upward pressure on hotel prices, reducing the number of visitors to the city and limiting the growth of businesses and non-profits that rely on visitors for their revenues.

In the long run, the financial incentive to convert hotel rooms to condominiums is not solely dependent on the health of the tourism industry, but on the relative profitability of condominiums and hotels. If condominiums are able to consistently generate a higher rate of return than hotels, then there will be a consistent pressure for conversion. Conversely, if hotels generate higher returns, the pressure to convert will diminish. In reality, conditions fluctuate and what is feasible in the market today may not be in the future.⁴ This raises a policy question of the relative economic impact of hotel rooms and converted residential properties.

There are, therefore, four key economic impact factors involved in the proposed legislation:

1. The impact of reduced spending by visitors at hotel rooms that have been converted to condominiums;

³ <http://www.sfgov.org/site/uploadedfiles/controller/oea/061536.pdf>

⁴ For example, San Francisco's hotel market is currently very strong: hotel properties have traded at record per-room prices, and occupancy and room rates have increased in the past few years and will likely continue in the near-term due to a record number of advanced bookings through the Convention and Visitor's Bureau, and continued demand from tourists. The current investment climate generally favors continued use as a hotel, versus converting multiple rooms into individual units. However, a few years ago, when the hotel market was relatively weak compared to the strong housing market, conversion from hotel to condominium was more financially feasible than it is today.

2. The impact of spending by residents at condominiums created by hotel room conversions;
3. The impact of the construction required for the conversion itself;
4. The impact on existing hotel owners by taking away a possible exit strategy (or a way to raise capital through the conversion of rooms). However, this factor is difficult to quantify because there are other ways for an owner to exit the hotel business, such as selling the property.

These factors are detailed in this section, and a complete analysis is presented in the next section.

Scenario Assumptions for Economic and Fiscal Impact

A single condominium requires the physical space of multiple hotel rooms; the number of people occupying the same space decreases with a use change from hotel to residential

The legislation would limit the conversion of tourist hotel rooms to residential units, replacing a number of potential visitors with residents. The spending profile and occupancy patterns of hotel visitors are different from those of condominium residents. In addition, because multiple hotel rooms are required to convert to a single condominium unit, the density, or number of people occupying the same amount of space, decreases with a use change from hotel to condominium.

To estimate the relative economic impact of the proposed legislation, the OEA modeled two alternatives, a Hotel Scenario and a Condominium Scenario. The appropriate economic factor to analyze and compare is the relative spending by visitors versus residents, the occupants of the space, and how this spending is recycled through the City's economy. In addition, tax revenues accruing to the City will vary by use; the fiscal impact at the end of this report quantifies those differences.

The spending profile and occupancy patterns of hotel visitors are different from those of condominium residents

Table 1 summarizes the assumptions used in the two scenarios in terms of the number of units and hotel rooms, occupancy, and resulting annual visitors or household population. The scenarios are based on the assumption that 500 hotel rooms (the maximum allowed under the legislation) are converted to 125 condominium units, or four hotel rooms per condominium unit.

As indicated, applying market occupancy and density factors to the 500 hotel rooms results in about 250,000 annual visitor-days in the Hotel Scenario. The 125 condominiums are estimated to accommodate an average of 88 households over the course of a year, due to the assumption that units will be occupied by a combination of

resident-owners (occupying the space full-time) and second home-owners or guests (occupying the space part-time). On an annual basis, the 88 households result in about 32,000 resident household days⁵.

TABLE 1

Number of Rooms, Units, Visitors, and Resident Population Assumptions
500 Hotel Rooms Converted to 125 Condominiums

Hotel Scenario	
Hotel Rooms	500
x Annual Occupancy Rate *	80%
<hr/>	
x 365 = Annual Occupied Room-nights	146,183
x Hotel guests per room **	1.74
<hr/>	
= Annual Hotel visitors	254,118
Condo Conversion Scenario	
Hotel Rooms converted	500
/ Hotel Rooms per Condo Unit ***	4
<hr/>	
= Total Condo Units	125
x Households per unit	1
x Condominium Occupancy rate ****	70%
<hr/>	
= Average daily resident households	87.5
x 365 = Annual resident households	31,938

Notes and Sources:

* Estimated year-end occupancy rate based on year-to-date hotel occupancy for all hotels city-wide through November 2007, per *Trends in the Hotel Industry, Northern California, November 2007*, PKF Consulting.

** Calculated by OEA based on 2006 hotel visitors and occupied room nights, per San Francisco Visitor Industry Economic Impact Estimates, 2006 and *Trends in the Hotel Industry, Northern California, 2006*, PKF Consulting.

*** Assumes four hotel rooms (averaging 300 square feet) would be required for each condominium unit (averaging 1,200 square feet). Estimated by OEA, based on discussions with hotel industry sources and review of market data.

****Average percent of time throughout the year units are occupied by resident-owners, second-home-owners, or guests. Estimated by OEA based on review of owner-occupancy patterns at the St. Regis and Four Seasons Residences, per property tax data from RealQuest.com.

⁵ In this analysis, condominium resident spending is measured on a *per household* basis, while visitor spending is estimated on a *per capita* basis. Thus, the 32,000 "annual household population" is not directly comparable to the 254,000 annual visitor days in Table 1, because the former is calculated per household and the latter per capita. However, the difference in occupancy and density of the two scenarios is evident by comparing hotel annual "occupied room nights" (146,000) to the condominium "annual household population" (32,000), indicating that hotels can accommodate about 4.5 times as many households. This is due to different occupancy rates of the two uses, as well as the assumption that four hotel rooms are required per condominium unit

Spending by Hotel Visitors

The tourism and hospitality industry is a major segment of San Francisco's economic base. The industry has experienced a very strong recovery since the recession of the early 2000s, with industry employment, visitors, visitor spending, room rates, airport and port traffic, and other economic indicators all trending upward in the last few years. Visitor spending on a variety of categories including lodging, dining, retail, entertainment, and transportation drives this sector of the economy.

The SFCVB publishes a survey of visitor spending by place of stay (hotel, staying with friend/relatives, and day-trippers). Table 2 below summarizes the average daily spending, by category, inflated to 2008\$, for San Francisco visitors staying in hotels. As indicated, visitors staying at San Francisco hotels spend about \$305 per person per day, with about \$81 of this spending accounting for purchases subject to sales taxes.

TABLE 2		Average Daily Spending – San Francisco Visitors Staying in Hotels	
Spending Categories		Spending per Person/ Day	
Lodging		\$	106.27
<i>Food and Beverage *</i>		\$	50.63
<i>Retail *</i>		\$	30.78
Entertainment & Sightseeing		\$	27.05
Transportation		\$	90.10
Daily Per Capita Spending		\$	304.82
<i>Daily Per Capita Spending subject to Sales Tax</i>		\$	81.41

Note: * Estimated portion spent on goods subject to sales tax, for use in fiscal impact assessment.
 Source: *San Francisco Visitor Industry Economic Impact Estimates, 2006*, San Francisco Convention & Visitors Bureau Education & Research Foundation, inflated to 2008\$.

Spending by Condominium Residents

*A typical converted unit
would require a minimum
household income of
\$400,000 per year*

In the Condominium Scenario, resident spending was estimated by first calculating the minimum income required to purchase a hypothetically converted condominium unit, then using the resulting income to estimate spending.

The analysis assumes that the converted condominiums are priced at the upper end of the market, with the newly created condominiums leveraging value from the affiliated hotel's brand, services and amenities. A high sales price would also be required to make a conversion financially feasible – at four hotel rooms per unit, and hotel properties valued in the range of \$300,000 to \$400,000 per room, a hotel owner/developer would require, at a minimum, \$1.2 million ($\$300,000 \times 4$), plus the conversion cost and profit, to make the conversion pencil.

Sales at the St. Regis and Four Seasons residences, properties considered comparable to what could be converted in today's market, were analyzed to derive a value of \$1,400 per square foot, or \$1.68 million per 1,200-square-foot unit. Using traditional underwriting standards (80% loan to value ratio, 30-year term, 10-year average interest rate, etc.), a \$1.68 million unit would require a minimum household income of \$400,000 per year.

This income, along with the number of units and owner-occupancy assumption previously discussed, will be input into the economic model in the following section to calculate the economic and fiscal impact of the Condominium Scenario⁶.

⁶ There are various alternatives for condominium ownership, including traditional single-owner fee-simple and shared-ownership. Shared-ownership represents a hybrid of hotel and single-owner condominiums, with attributes of both uses. In terms of spending, occupancy, and density assumptions, shared-ownership units are similar to single-owner condominiums because both ownership structures would require the conversion of multiple rooms per unit. However, because prices of fractions of shared-owner units are lower than a whole unit, the income (and spending) profiles of its occupants would be different. Shared-ownership projects are similar to hotels in that units are generally made available for transient guests during the sell-out phase (which can take up to 5 years), and even after sell-out, some owners opt to make their units available through the affiliated hotel. Thus, hotel occupancy tax could be collected to the extent these shared-ownership units are made available and occupied by transient guests. Although a separate analysis was not conducted on a shared-ownership alternative, the economic and fiscal impacts are projected to be similar to the Condominium Scenario. This is because the inclusion of some hotel tax revenue generated by an indeterminate number of fractional units would be offset by projected lower spending by fractional owners compared to individual condominium owners, due to different household income and spending profiles.

Construction Impacts

The conversion of hotel units to condominiums will also result in one-time construction-related impacts, as well as fiscal impacts associated with initial unit sales in the form of property transfer tax. Construction costs to convert the units were estimated at about \$210 per square foot, or \$31.5 million for the 125 converted condominiums.

ECONOMIC IMPACT ASSESSMENT

Direct Spending Impacts

Table 3, below, calculates the direct annual spending impacts under the two scenarios, based on the assumptions presented in Tables 1 and 2. As indicated, the Hotel Scenario is estimated to generate about \$77.5 million in direct spending annually, while the Condominium Scenario results in about \$35 million in annual income or spending potential.

TABLE 3

Annual Direct Spending –

500 Hotel Rooms vs. 125 Condominium Units

Hotel Scenario (500 Rooms)

Annual Hotel visitors *	254,118
x Spending per Visitor per Day **	\$ 305
= Annual Direct spending impact	\$ 77,461,132

Condominium Scenario (125 Units)

Average daily household population *	88
x Annual Household Income	\$ 400,000
= Annual Direct spending impact	\$ 35,000,000

Notes and Sources:

* Based on hotel occupancy of 80% and condominium occupancy of 70%. See Table 1.

** See Table 2.

Direct and Indirect Spending and Employment Impacts

Table 4 summarizes the direct, indirect, and employment impacts under the two scenarios. As indicated, the Hotel Scenario is estimated to generate about \$118 million in direct and indirect spending in San Francisco, or about \$74 million more than the Condominium Scenario.

The OEA used the IMPLAN model—a statistical model of the San Francisco economy—to produce quantitative estimates of the full economic impact of the two scenarios.

The IMPLAN model captures variances in spending patterns by residents and visitors, resulting in different spending multipliers for the two land uses. As shown, the spending multiplier by visitors in the Hotel Scenario is 1.53, meaning that for each dollar spent, an additional \$0.53 is captured locally as the spending flows through the City's economy. In contrast, the resident spending multiplier is 1.28, (\$0.28 of indirect spending per dollar of direct spending), or about half of the indirect spending multiplier of visitors. More visitor spending stays in the local economy compared with resident expenditures because of different spending leakage. For example, visitors are more likely to spend money locally on local services with a higher multiplier effect. In contrast, residents spend significantly on items with low local multipliers, such as financial services, real estate, telecom, medical services, as well as savings and investment, money that leaks out of the San Francisco economy.

Spending by visitors in the Hotel Scenario supports nearly 1,700 direct and indirect jobs in the San Francisco economy, or about 22 jobs per \$1 million in direct spending. In contrast, the Condominium Scenario is estimated to support 255 jobs, or about 7 jobs per \$1 million in direct spending.

TABLE 4**Direct, Indirect and Employment Impacts –
500 Hotel Rooms vs. 125 Condominium Units**

	Hotel Scenario (500 Rooms)	Condominium Scenario (125 Units)	Difference - Hotel vs. Condo
Annual Direct Spending Impact *	\$ 77,461,132	\$ 35,000,000	\$42,461,132
Direct and Indirect Spending (2008\$s) **	\$ 118,370,599	\$ 44,703,416	\$73,667,183
Spending Multiplier ***	1.53	1.28	0.25
Gross City Employment Effect **	1,691	255	1,436
Employment per \$1M in Direct Spending ****	21.82	7.27	14.55

Notes and Sources:

* See Table 3.

** Includes multiplier impacts as spending is recycled throughout the San Francisco economy. Source: IMPLAN.

*** Ratio of Direct and Indirect Spending/Direct Spending

**** Gross City Employment Effect/(Direct Spending/ \$1,000,000)

Fiscal Impact Assessment

The Hotel Scenario is estimated to generate nearly \$6.0 million in tax revenue to the City annually, more than twice the \$2.4 million tax revenue projected under the Condominium Scenario

Hotel uses generate comparatively more fiscal revenue to the City than residential uses, primarily because hotel occupancy is subject to transient occupancy tax

Table 5 summarizes the projected annual direct fiscal revenues to the City and its General Fund under both scenarios, as well as the assumptions used in the analysis. The major tax revenues considered include transient occupancy taxes (TOT), sales taxes from visitor or resident spending, property taxes, and property transfer taxes.

As indicated, the Hotel Scenario is estimated to generate nearly \$6.0 million in tax revenue to the City annually, more than twice the \$2.4 million tax revenue projected under the Condominium Scenario. Annual General Fund tax revenues are projected at \$3.4 million for the Hotel Scenario and \$1.4 million for the Condominium Scenario.

TOT was estimated by applying citywide average daily room and occupancy rates to the 500-room hotel to calculate annual room revenue subject to the City's 14% hotel tax. As indicated, the Hotel Scenario would generate \$2.1 million in TOT, while no TOT would be collected in the Condominium Scenario.

The City's share of sales tax from hotel visitors was estimated by applying the City's 2% portion of the sales tax to the portion of visitor spending on taxable dining and retail purchases (\$81.41 per visitor per day) multiplied by annual hotel visitors,⁷ resulting in \$414,000 in sales tax revenue, with half accruing to the General Fund.

Sales taxes from residents in the Condominium Scenario were estimated based on a review of spending output, by category, generated by the IMPLAN model for the income cohort of projected homeowners. Based on these data, the OEA estimates that approximately 11.8% of resident spending is taxable and captured by San Francisco retailers. This equates to about \$47,000 per occupied household per year, or \$4.13 million in annual taxable spending in San Francisco, resulting in \$83,000 in total sales tax revenue, with half going to the General Fund.

Property taxes were estimated based on a valuation of \$350,000 per hotel room (the lower end of recent hotel sales), or \$175 million for the Hotel Scenario. As previously discussed, residential values were estimated at \$1.68 million

⁷ See Tables 1 and 2.

per unit, for a total of \$210 million in the Condominium Scenario.

Although properties do not typically sell every year, property transfer taxes were estimated on an annual basis under the assumption that commercial properties sell every 10 years, and residential properties change hands every 7 years, on average. Thus, 10% (1/10) of the total assessed value of the hotel and 14% (1/7) of the total condominium value is assumed "transferred" annually, for analytical purposes

The Condominium Scenario would also result in one-time transfer tax revenues of about \$1.6 million to the General Fund from the initial sale of the 125 condominium units, while the Hotel Scenario would not generate one-time transfer taxes.

TABLE 5

Direct Annual Fiscal Revenues –

500 Hotel Rooms vs. 125 Condominium Units

Annual Tax Revenue to General Fund	Hotel	Condominium
Transient Occupancy Tax (1)	\$2,100,823	\$0
Sales Tax (2)	\$206,875	\$41,315
Property Tax (3)	\$991,997	\$1,190,396
Property Transfer Tax (4)	\$131,250	\$225,000
TOTAL ANNUAL REVENUE TO GENERAL FUND	\$3,430,945	\$1,456,711
<i>Annual Revenue to Other Funds</i>	<i>\$2,543,255</i>	<i>\$950,918</i>
TOTAL ANNUAL REVENUE to SF FUNDS	\$5,974,201	\$2,407,629

Notes and Assumptions

(1) Transient Occupancy Tax (TOT)

Hotel Rooms	500	
x Average Daily Room Rate (per PKF)	\$180	
x Occupancy Rate (per PKF)	80.0%	
Annual Room Revenue	\$26,280,000	
x TOT Rate	14.00%	
Total Tax Revenue	\$3,679,200	
x TOT Allocation to General Fund (per 2007-08 budget)	57.10%	
Total GF Revenue	\$2,100,823	\$0
Total Other Fund Revenue	\$1,578,377	\$0

(2) Sales Taxes From Visitor and Resident Spending

Annual Hotel Visitors (see Table 1)	254,118	
x Taxable Retail Spending per Visitor per Day (see Table 2)	\$81.41	
Annual Taxable Spending	\$20,687,532	
x Sales Tax Rate to SF Funds (General, transit, schools)	2%	
Total Sales Tax Revenue to SF	\$413,751	
x Sales Tax Allocation to General Fund (1% rate)	50%	
Total GF Revenue	\$206,875	
Total Other Fund Revenue	\$206,875	
Occupied Households (see Table 1)		88
x Taxable Retail Spending per HH per Year (11.8% income spent locally, per IMPLAN)		\$47,217
Annual Taxable Spending		\$4,131,456
x Sales Tax Rate to SF Funds (General, transit, schools)		2%
Total Sales Tax Revenue to SF		\$82,629
x Sales Tax Allocation to General Fund (1% rate)		50%
Total GF Revenue		\$41,315
Total Other Fund Revenue		\$41,315

(3) Property Taxes

Condo Sales Price - per Sq.Ft.		\$1,400
Average Size per Unit (sq.ft.)		1,200
Value per Hotel Room/ Condo Unit	\$350,000	\$1,680,000
x Number of Rooms/Units	500	125
Total Assessed Value	\$175,000,000	\$210,000,000
x Base Property Tax Rate (excludes bond overrides)	1.00%	1.00%
Total Tax Revenue	\$1,750,000	\$2,100,000
x Property Tax Allocation to General Fund (07-08 allocation)	56.69%	56.69%
Total GF Revenue	\$991,997	\$1,190,396
Total Other Fund Revenue	\$758,003	\$909,604

(4) Property Transfer Taxes

Total Assessed Value	\$175,000,000	\$210,000,000
x Property Turnover Rate (for annual transfer tax)	10%	14%
Annual Property Value "Transferred"	\$17,500,000	\$30,000,000
x Transfer Tax Allocation to General Fund	0.75%	0.75%
Total GF Revenue	\$131,250	\$225,000

RISK FACTORS AND MITIGATION

Introduction

Despite the overall positive economic impacts of the legislation, mitigating actions can be undertaken to reduce risk:

1. Because real estate markets are cyclical, consider revisiting legislation periodically (at each economic cycle) to determine if it is still needed.
2. Better define the supply of Large Tourist Hotels to guide the Planning Department when it evaluates potential future conversions. The legislation stipulates that the Planning Commission “may further approve hotel rooms to be Converted if the applicant can demonstrate that such Conversion will not reduce the supply of Large Tourist Hotel rooms in the City”...and that the “Planning Department may take into consideration Large Tourist Hotels under construction at the time of the application.” Rather than only considering rooms under construction at the time of application, the OEA suggests setting a baseline quantity of Large Tourist Hotel rooms tied to existing inventory as tracked by a hotel consulting firm, such as PKF or Smith Travel Research. Future additions or subtractions of rooms could be tied to this baseline inventory and used by the Planning Commission when it evaluates future conversions. This process would mitigate against real estate market cycles which may run counter (i.e., planning and construction cycles may not synch up for hotel and condominium uses at a time when a change of use may be warranted).
3. Consider expanding the legislation to prohibit shared ownership at all large tourist hotels, rather than exempting only new mixed-use (residential and hotel) projects.
4. The legislation could discourage new hotel development because it restricts a potential exit strategy if the developer/investor grossly miscalculated the market or a negative externality impacts demand (e.g., 9/11). The OEA suggests allowing a two-year window to exempt new hotels from the ordinance to leave an out, and not discourage investment in the City.

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CITY AND COUNTY OF SAN FRANCISCO - CONTROLLER'S OFFICE

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Annual Inventory of Large Tourist Hotel Rooms

Proposed for the Planning Commission at the March 3, 2011 Hearing

Case Number 2011.0021U

Note: Section 41F.2(i) defines Large Tourist Hotels as a building (or set of buildings on the same lot, adjacent lots, or within the same block and owned by the same entity) which would have qualified as a Large Tourist Hotel in any of the five years preceding the application for Conversion.

Hotel No.	Hotel Name	Address	Zip Code	No. of Large Tourist Hotel Rooms
1	Air Travel Hotel	655 Ellis ST	94109	100
2	Shih Yu-Lang Central YMCA	220 Golden Gate AVE	94102	100
3	The Monarch Hotel	1015 Geary ST	94109	101
4	Orchard Hotel	665 Bush ST	94108	104
5	San Francisco Bayside Travelodge	2011 Bayshore BLVD	94134	104
6	The Herbert Hotel	161 Powell ST	94102	104
7	Hotel Metropolis	25 Mason ST	94102	105
8	Executive Hotel Vintage Court	650 Bush ST	94108	107
9	Hotel Juliana	590 Bush ST	94108	107
10	Hotel Milano	55 Fifth ST	94103	108
11	Campton Place, A Taj Hotel	340 Stockton ST	94108	110
12	Commodore Hotel*	825 Sutter ST	94109	110
13	Hotel Diva	440 Geary ST	94102	111
14	Beresford Hotel	635 Sutter ST	94102	114
15	The Cartwright Hotel on Union Square	524 Sutter ST	94102	114
16	Hotel Mark Twain	345 Taylor ST	94102	118
17	New Central Hotel & Hostel	1412 Market ST	94102	122
18	Best Western Hotel Tomo	1800 Sutter ST	94115	125
19	Courtyard by Marriott, San Francisco-Fisherman's Wharf	580 Beach ST	94133	127
20	Shawmut Hotel	516 O'Farrell ST	94102	128
21	Cow Hollow Motor Inn & Suites	2190 Lombard ST	94123	129
22	Harbor Court Hotel	165 Steuart ST	94105	131
23	Hotel Union Square	114 Powell ST	94102	131
24	Spaulding Hotel	240 O'Farrell ST	94102	132
25	Heritage Marina Hotel	2550 Van Ness AVE	94109	135
26	Renoir Hotel San Francisco	45 McAllister ST	94102	135
27	The Huntington Hotel & Nob Hill Spa	1075 California ST	94108	135
28	The Powell Hotel	28 Cyril Magnin ST	94102	135
29	Chancellor Hotel on Union Square	433 Powell ST	94102	137
30	Comfort Inn By the Bay	2775 Van Ness AVE	94109	138
31	Marines' Memorial Club & Hotel	609 Sutter ST	94102	138

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Hotel No.	Hotel Name	Address	Zip Code	No. of Large Tourist Hotel Rooms
32	Hotel Triton	342 Grant AVE	94108	140
33	Best Western Americana	121 Seventh ST	94103	143
34	Hotel Cosmo	761 Post ST	94109	144
35	St. Paul Hotel	935 Kearny ST	94133	149
36	King George Hotel	334 Mason ST	94102	153
37	The Maxwell Hotel	386 Geary ST	94102	153
38	Mandarin Oriental, San Francisco	222 Sansome ST	94104-2792	158
39	Hotel Carlton	1075 Sutter ST	94109	161
40	Prescott Hotel	545 Post ST	94102	164
41	The Mosser Hotel	54 Fourth ST	94103	166
42	The Opal San Francisco/ Hotel Richelieu	1050 Van Ness AVE	94109	168
43	Hotel Adagio	550 Geary ST	94102	169
44	Aida Hotel	1087 Market ST	94103	174
45	Galleria Park Hotel	191 Sutter ST	94104	177
46	Villa Florence Hotel	225 Powell ST	94102-2205	183
47	The Pickwick Hotel	85 Fifth ST	94103	189
48	Hotel Palomar	12 Fourth ST	94103	195
49	Hotel Vitale	Eight Mission ST	94105	199
50	Hotel Monaco	501 Geary ST	94102	201
51	Hotel Kabuki	1625 Post ST	94115	218
52	Best Western Tuscan Inn at Fisherman's Wharf	425 North Point ST	94133	221
53	Hilton San Francisco Fisherman's Wharf	2620 Jones ST	94133	234
54	Serrano Hotel	405 Taylor ST	94102	236
55	Argonaut Hotel - Maritime National Historical Park	495 Jefferson ST	94109	252
56	Holiday Inn Express Hotel & Suites Fisherman's Wharf	550 North Point ST	94133	252
57	The Best Western Canterbury Hotel Union Square	750 Sutter ST	94109	254
58	St. Regis Hotel, San Francisco	125 Third ST	94103-3107	260

Annual Inventory of Large Tourist Hotel Rooms

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Hotel No.	Hotel Name	Address	Zip Code	No. of Large Tourist Hotel Rooms
59	Four Seasons Hotel San Francisco	757 Market ST	94103	277
60	San Francisco Marriott Fisherman's Wharf	1250 Columbus AVE	94133	285
61	Hyatt at Fisherman's Wharf	555 North Point ST	94133	313
62	The Ritz-Carlton, San Francisco	600 Stockton ST	94108-2305	336
63	JW Marriott Hotel San Francisco	500 Post ST	94102	337
64	Club Quarters Hotel	424 Clay ST	94111	346
65	Radisson Hotel Fisherman's Wharf	250 Beach ST	94133	355
66	Le Meridien San Francisco /Park Hyatt	333 Battery ST	94111	360
67	Omni San Francisco Hotel	500 California ST	94104	362
68	Clift	495 Geary ST	94102	363
69	Handlery Union Square Hotel	351 Geary ST	94102	377
70	InterContinental Mark Hopkins San Francisco	One Nob Hill	94108	380
71	Holiday Inn Civic Center	50 Eighth ST	94103	391
72	The Stanford Court, A Renaissance Hotel	905 California ST	94108	393
73	Marriott Union Square	480 Sutter ST	94108	400
74	Hotel W San Francisco	181 Third ST	94103	404
75	San Francisco Downtown Courtyard by Marriott	299 Second ST	94105	405
76	Sir Francis Drake Hotel	450 Powell ST	94102	417
77	Hotel Whitcomb	1231 Market ST	94103	460
78	Holiday Inn Golden Gateway	1500 Van Ness AVE	94109	499
79	Sheraton Fisherman's Wharf	2500 Mason ST	94133	529
80	Hotel Nikko San Francisco	222 Mason ST	94102	532
81	Hilton San Francisco Financial District	750 Kearny ST	94108	544
82	InterContinental San Francisco	888 Howard ST	94103	550

Annual Inventory of Large Tourist Hotel Rooms

Proposed for the Planning Commission at the March 3, 2011 Hearing
 Case Number 2011.0021U

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Hotel No.	Hotel Name	Address	Zip Code	No. of Large Tourist Hotel Rooms
83	Palace Hotel - Luxury Collection	Two New Montgomery ST	94105	552
84	Holiday Inn Fisherman's Wharf	1300 Columbus AVE	94133	585
85	The Fairmont San Francisco	950 Mason ST	94108	591
86	The Westin San Francisco Market Street	50 Third ST	94103	675
87	Grand Hyatt San Francisco	345 Stockton ST	94108	683
88	Hyatt Regency San Francisco	Five Embarcadero Center	94111	805
89	Parc 55 Hotel San Francisco	55 Cyril Magnin ST	94102-2865	1010
90	The Westin St. Francis	335 Powell ST	94102	1196
91	San Francisco Marriott	55 Fourth ST	94103	1498
92	Hilton San Francisco	333 O'Farrell ST	94102-2116	1908
Total Large Tourist Hotel Rooms				27,926

*NOTE: Hotel number 12 in this list is the Commodore Hotel. This property is currently leased by Academy of Art and is operated as group housing for a post-secondary education institution. A Conditional Use authorization (2008.0586C) has been filed to legalize this change of use. At the February 12, 2009 Hearing, the Planning Commission noted this pending CU and decided to include the Commodore Hotel in the Baseline Inventory with caveat that if the Commission approves the CU request, the Commodore's rooms can be removed from the Baseline Inventory without causing a loss in the number of hotel rooms in the adopted Baseline Inventory. If the Commission disapproves the CU, the Commodore's rooms are to remain in the City's Baseline Inventory.