



## KEYSER MARSTON ASSOCIATES

## MEMORANDUM

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**To:** Edith Ramirez,

Assistant City Manager, Development Services

City of Morgan Hill

**From:** Kathleen Head

**Date:** June 19, 2024

**Subject:** Hotel MoHi by Appellation: Financial Analysis

At your request, Keyser Marston Associates, Inc. (KMA) evaluated the financial characteristics of the Hotel MoHi by Appellation proposed to be developed by the Léal Group with management to be provided by Appellation Hotels (Developer). The development site is located at 17490 Monterey Road (Site), and the proposed development scope (Proposed Project) can be described as follows:

1. An approximately 76 room boutique hotel;
2. Food and beverage service areas totaling approximately 14,000 square feet of gross building area (GBA);
3. Event space totaling approximately 11,000 square feet of GBA;
4. An approximately 2,100 square foot spa; and
5. A swimming pool and pool deck area.

The purpose of the KMA analysis is to assist the City of Morgan Hill (City) in creating a financial assistance package for the Proposed Project. The objective is to limit the assistance to the premium costs associated with developing the Proposed Project versus the cost to construct a typical limited service hotel.

As part of preparing this analysis KMA undertook the following tasks:

1. Reviewed the development plans for the Proposed Project;
2. Prepared a comparative cost analysis for constructing the proposed development scope versus the cost associated with constructing a typical limited service hotel;
3. Compiled market data to assist in projecting the achievable room rates; and
4. Prepared a 15-year projection of the transient occupancy tax (TOT) and sales tax revenues that could potentially be generated by the Proposed Project under current market and financial conditions.

## EXECUTIVE SUMMARY

The City's objective is to set the assistance package at the incremental difference between the financial gaps associated with the Proposed Project and a typical limited service hotel. The result of the comparative analysis can be summarized as follows:

1. The Proposed Project demonstrates an approximately \$9 million gap between the estimated development costs and the projected value upon completion.
2. A limited service hotel is estimated to generate an approximately \$ 3 million gap.

Another City objective is to eliminate the financial risk to the City of providing assistance to the Proposed Project. To that end, the proposed assistance package is limited amounts equal to the TOT and sales tax revenues generated by the Proposed Project above a base that would be received by the City before any funds are provided to the Developer.

Based on those assumptions, KMA is recommending that the following assistance package be provided by the City:

1. The City assistance to the Proposed Project will be measured in terms of the TOT and sales tax revenues generated by the Proposed Project.
2. The City assistance will be provided for a 15 year term, commencing in the first year of the Proposed Project's operation.

3. Prior to any funds being distributed to the Proposed Project, the City will receive the following share of the TOT and sales tax revenues generated by the Proposed Project:
  - a. A \$282,000 base will be applied in the first year of the Proposed Project's operation; and
  - b. The base will be increased by 3% annually.
4. During the 15-year term the City assistance will be structured as follows:
  - a. An amount equal to 100% of the TOT and sales tax revenue generated by the Proposed Project above the base level will be provided to the Proposed Project each year until the Proposed Project has received \$6 million measured in net present value terms.<sup>1</sup>
  - b. After \$6 million in assistance in net present value terms is received by the Developer, the City assistance will be reduced to 50% of the TOT and sales tax revenue generated above the base level until the end of the 15<sup>th</sup> year of the Proposed Project's operation.
5. In the event the Developer defaults on any of the development scope and/or operational standards imposed by the City assistance agreement, and that default is not cured within a defined time period, the City assistance payments to the Proposed Project will terminate.

## FINANCIAL ANALYSIS

The following analysis summarizes the KMA financial analysis based on the current market and financial conditions. Basic assumptions are that the Proposed Project will meet and maintain the quality standards associated with:

1. A lifestyle luxury hotel that receives a rating of four stars or greater;
2. A Charlie Palmer Steak restaurant; and

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<sup>1</sup> The discount rate will be set at 6.5%.

3. Commercial and event spaces that are compatible with a lifestyle luxury hotel.

The KMA analysis is organized as follows:

Appendices	
Appendix A:	Pro Forma Analysis: Hotel Component – Proposed Project
Appendix B:	Pro Forma Analysis: Restaurant Component – Proposed Project
Appendix C:	Pro Forma Analysis: Limited Service Hotel
Appendix D:	Proposed Assistance Package

The following pro forma analysis tables are used in each of the analyses:

Pro Forma Analysis Tables	
Table 1:	Pro Forma Analysis: Hotel Component – Proposed Project
Table 2:	Pro Forma Analysis: Restaurant Component – Proposed Project
Table 3:	Pro Forma Analysis: Limited Service Hotel

## Financial Analysis: Proposed Project

The financial analysis of the Proposed Project is presented in Appendices A and B. The purpose of separating the components is to identify both the impacts associated with a four star lifestyle luxury hotel and a restaurant of the caliber of Charlie Palmer Steak restaurants.

### HOTEL COMPONENT (APPENDIX A)

#### *Estimated Development Costs*

Approximately 80% of the property acquisition costs are allocated to the hotel component of the Proposed Project. The costs are estimated at \$23.60 per square foot of the allocated land area, which equates to approximately \$11,700 per room.

Based on the proposed premium quality level of the hotel component the unique direct costs are estimated as follows:

1. The building costs are estimated at \$400,000 per room.
2. The furniture, fixtures and equipment (FF&E) allowances are set as follows:
  - a. The hotel FF&E allowance is set at \$48,000 per room; and
  - b. The meeting and event space FF&E allowance is set at \$135 per square foot of net leasable area (NLA).

The total development costs are estimated as follows:

Estimated Development Costs		
Hotel Component: Proposed Project		
	Total	Per Room
Property Acquisition Costs	\$893,000	\$11,700
Direct Costs	41,170,000	541,700
Indirect Costs	8,349,000	109,900
Financing Costs	4,856,000	63,900
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Total Development Costs	\$55,268,000	\$727,200

#### *Estimated Stabilized Net Operating Income <sup>2</sup>*

The revenues estimated to be achieved by the hotel upon reaching stabilized occupancy are estimated as follows:

1. The room sales revenues are based on an average daily rate of \$296 and a 75% average occupancy rate.
2. The food and beverage; meeting and event space; and spa revenues are estimated at approximately \$97,000 per room per year.
3. Other revenues are estimated at approximately \$19,000 per room per year.

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<sup>2</sup> The stabilized revenues and expenses are presented in 2024 dollars.

Based on the preceding estimates, total sales revenues are estimated at approximately \$15 million per year. The estimated stabilized net operating income is presented in the following table:

Estimated Stabilized Net Operating Income Hotel Component: Proposed Project		
Total Sales Revenue		\$15,021,000
<u>Expenses</u>		
Department Expenses	43% of Total Sales	\$6,439,000
Undistributed Expenses	20% of Total Sales	2,972,000
Management Fees	4% of Total Sales	601,000
Fixed Expenses	8.5% of Total Sales	1,280,000
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Total Expenses		\$11,292,000
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Estimated Stabilized Net Operating Income		\$3,729,000
Estimated Gross Profit		25%

### ***Estimated Financial Gap***

The fundamental premise of this analysis is that under current market and financial conditions developers, lenders and investors will require a threshold stabilized return in the range of 8%. This is measured as a percentage of the estimated total development costs. Based on this assumption, the financial gap for the hotel component of the Proposed Project is estimated in the following table:

Estimated Financial Gap Hotel Component: Proposed Project	
Estimated Supportable Investment	\$46,613,000
Estimated Development Costs	55,268,000
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Estimated Financial Gap	\$8,655,000

## RESTAURANT COMPONENT (APPENDIX B)

### *Estimated Development Costs*

Approximately 20% of the property acquisition costs are allocated to the restaurant component of the Proposed Project. The costs are estimated at \$23.60 per square foot of the allocated land area.

Based on the proposed premium quality level of the restaurant component the unique direct costs are estimated as follows:

1. The building costs are estimated at \$530 per square foot of GBA.
2. The FF&E allowance is set at \$520 per square foot of the restaurant NLA.

The total development costs are estimated as follows:

Estimated Development Costs		
Restaurant Component: Proposed Project		
	Total	Per Square Foot of GBA
Property Acquisition Costs	\$230,000	\$16
Direct Costs	15,822,000	1,068
Indirect Costs	2,635,000	178
Financing Costs	1,795,000	121
<hr/>	<hr/>	<hr/>
Total Development Costs	\$20,482,000	\$1,383

### *Estimated Stabilized Net Operating Income*

The assumptions applied to estimate the stabilized net operating income for the restaurant component are presented in the following table:

Estimated Stabilized Net Operating Income Restaurant Component: Proposed Project		
Total Sales Revenue		\$11,923,000
<u>Expenses</u>		
Department Expenses	66% of Total Sales	\$7,876,000
Undistributed Expenses	11% of Total Sales	1,311,000
Management Fees	4% of Total Sales	477,000
Fixed Expenses	6% of Total Sales	667,000
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Total Expenses		\$10,331,000
 Estimated Stabilized Net Operating Income		\$1,592,000
Estimated Gross Profit		13%

### *Estimated Financial Gap*

As discussed previously, the threshold stabilized return on total development costs is set at 8%. Based on this assumption, the financial gap for the restaurant component of the Proposed Project is estimated in the following table:

Estimated Financial Gap Restaurant Component: Proposed Project	
Estimated Supportable Investment	\$19,900,000
Estimated Development Costs	20,482,000
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Estimated Financial Gap	\$582,000

## Financial Analysis: Limited Service Hotel (Appendix C)

### ESTIMATED DEVELOPMENT COSTS

The total development costs for the limited service hotel are estimated as follows:

Estimated Development Costs		
Limited Service Hotel		
	Total	Per Room
Property Acquisition Costs	\$1,124,000	\$14,800
Direct Costs	17,309,000	227,800
Indirect Costs	2,456,000	32,300
Financing Costs	1,604,000	21,100
<hr/>	<hr/>	<hr/>
Total Development Costs	\$22,493,000	\$296,000

### Estimated Stabilized Net Operating Income

The revenues estimated to be achieved by the hotel upon reaching stabilized occupancy are estimated as follows:

1. The room sales revenues are based on an average daily rate of \$170 and a 70% average occupancy rate.
2. Other revenues are estimated at approximately \$8,200 per room per year.

Based on the preceding estimates, total sales revenues are estimated at approximately \$3.9 million per year. The estimated stabilized net operating income is presented in the following table:

Estimated Stabilized Net Operating Income Limited Service Hotel		
Total Sales Revenue		\$3,927,000
<u>Expenses</u>		
Department Expenses	27% of Total Sales	\$1,051,000
Undistributed Expenses	21% of Total Sales	824,000
Management Fees	3% of Total Sales	118,000
Fixed Expenses	10% of Total Sales	395,000
Total Expenses		\$2,388,000
Estimated Stabilized Net Operating Income		\$1,539,000
Estimated Gross Profit		39%

### *Estimated Financial Gap*

As discussed previously, the threshold stabilized return on total development costs is set at 8%. Based on this assumption, the financial gap associated with the limited service hotel is estimated in the following table:

Estimated Financial Gap Limited Service Hotel	
Estimated Supportable Investment	\$19,238,000
Estimated Development Costs	22,493,000
Estimated Financial Gap	\$3,255,000

### **Pro Forma Analysis Summary**

The results of the KMA pro forma analyses are summarized in the following table:

	Hotel Component	Restaurant Component	<b>TOTAL</b>
<b>I. Proposed Project</b>			
<b>A. Estimated Development Costs</b>			
Property Acquisition	\$893,000	\$230,000	\$1,123,000
Direct Costs	41,170,000	15,822,000	56,992,000
Indirect Costs	8,349,000	2,635,000	10,984,000
Financing Costs	4,856,000	1,795,000	6,651,000
<b>Estimated Development Costs</b>	<b>\$55,268,000</b>	<b>\$20,482,000</b>	<b>\$75,750,000</b>
<b>B. Estimated Supportable Investment</b>			
Estimated Stabilized Net Operating Income	\$3,729,000	\$1,592,000	\$5,321,000
Threshold Stabilized Return	8.0%	8.0%	8.0%
<b>Estimated Supportable Investment</b>	<b>\$46,612,500</b>	<b>\$19,900,000</b>	<b>\$66,512,500</b>
<b>C. Estimated Financial Gap - Proposed Project</b>	<b>\$8,655,500</b>	<b>\$582,000</b>	<b>\$9,237,500</b>
<b>II. Estimated Financial Gap - Limited Service Hotel</b>			<b>\$3,255,000</b>
<b>III. Proposed Assistance in Present Value Terms</b>			<b>\$5,982,500</b>

## PROPOSED ASSISTANCE PACKAGE (APPENDIX D)

### TOT and Sales Tax Projections

To assist in creating the proposed assistance package, KMA projected TOT and sales tax revenues for the Proposed Project based on a conservative set of assumptions. These assumptions can be described as follows:

#### HOTEL TOT REVENUES

1. The average daily room rate, in 2024 dollars, is projected at \$296 per night.
2. The hotel is projected to reach stabilized occupancy in the fourth year of operation. The ramp up is projected as follows:
  - a. Year 1: 35% occupancy
  - b. Year 2: 70% occupancy
  - c. Year 3: 75% occupancy

3. Room rates are projected to increase at an average rate of 3% annually following stabilization.

## SALES TAX REVENUES

1. In 2024 dollars the stabilized taxable sales revenues are estimated to range from approximately \$600 to \$950 per square foot of leasable area for the various commercial uses in the Proposed Project.
2. The food and beverage; meeting and event space; and spa space are projected to reach full stabilization in the third year of operation. The ramp up is projected as follows:
  - a. Year 1: 33% of stabilized performance
  - b. Year 2: 67% of stabilized performance
  - c. Year 3: 100% of stabilized performance
3. Sales revenues are projected to increase at an average rate of 3% annually following stabilization.

## Proposed Assistance Package Terms

1. The base assistance amount is set at \$6 million. This represents the incremental difference between the financial gaps associated with the Proposed Project and a typical limited service hotel.
2. The City expects to receive a fixed amount of the TOT and sales tax revenue before any public funds are provided to the Developer. This base amount is set at \$282,000 per year plus a 3% annual escalation factor.
3. Based on the preceding assumptions, KMA projects that it will take 15 years for sufficient revenues to be generated to provide the Proposed Project with \$6 million in assistance in net present value terms.
4. Recognizing that the Proposed Project demonstrates a total financial gap of approximately \$9 million, the assistance is proposed to be structured as follows:

- a. An amount equal to 100% of the TOT and sales tax revenue generated above the base level will be provided to the Proposed Project each year until the Proposed Project has received \$6 million in net present value terms.
- b. After \$6 million in assistance in net present value terms is generated, the City assistance will be reduced to an amount equal to 50% of the TOT and sales tax revenue above the base until the end of the 15<sup>th</sup> year of the Proposed Project's operation.

5. In the event the Developer defaults on any of the development scope and/or operational standards imposed by the City assistance agreement, and that default is not cured within a defined time period, the City assistance payments to the Proposed Project will terminate.

**APPENDIX A  
PRO FORMA ANALYSIS  
HOTEL COMPONENT - PROPOSED PROJECT  
FINANCIAL ANALYSIS  
HOTEL MOHI BY APPELLATION  
MORGAN HILL, CALIFORNIA**

**APPENDIX A - TABLE 1**

**ESTIMATED DEVELOPMENT COSTS**

**HOTEL COMPONENT**

**FINANCIAL ANALYSIS**

**HOTEL MOHI BY APPELLATION**

**MORGAN HILL, CALIFORNIA**

<b>I. Property Acquisition</b>	1	37,845 Sf of Land	\$23.60 /Sf of Land	\$893,000
<b>II. Direct Costs</b>				
Site Improvements	1	37,845 Sf of Land	\$27.00 /Sf of Land	\$1,022,000
Building Costs	2	76 Hotel Rooms	\$400,000 /Room	30,400,000
Hotel FF&E	2	76 Hotel Rooms	\$48,000 /Room	3,648,000
Event Space FF&E		7,730 Sf of NLA	\$135 Sf of NLA	1,044,000
Contractor Costs			14.0% Other Direct Costs	<u>5,056,000</u>
<b>Total Direct Costs</b>		76 Hotel Rooms	\$541,700 /Room	\$41,170,000
<b>III. Indirect Costs</b>				
Architecture, Engineering & Consulting		5.5% Direct Costs		\$2,264,000
Public Permits & Fees	3	14,811 Sf of GBA	\$12.80 /Sf of GBA	190,000
Taxes, Insurance, Legal & Accounting		2.5% Direct Costs		1,029,000
Marketing		14,811 Sf of GBA	\$10.00 /Sf of GBA	148,000
Hotel Pre-Opening & Working Capital	2	76 Hotel Rooms	\$25,000 /Room	1,900,000
Developer Fee / General & Administrative		5.0% Direct Costs		2,059,000
Soft Cost Contingency Allowance		10% Other Indirect Costs		<u>759,000</u>
<b>Total Indirect Costs</b>		76 Hotel Rooms	\$109,900 /Room	\$8,349,000
<b>IV. Financing Costs</b>				
Interest During Construction				
Land	4	\$893,000 Loan Amount	7.0% Interest	\$125,000
Construction Costs	5	\$54,375,000 Loan Amount	7.0% Interest	3,806,000
Loan Origination Fees				
Construction Loan	6	\$54,375,000 Loan Amount	1.00 Points	544,000
Permanent Loan	7	\$38,063,000 Loan Amount	1.00 Points	<u>381,000</u>
<b>Total Financing Costs</b>		76 Hotel Rooms	\$63,900 /Room	\$4,856,000
<b>V. Total Construction Costs</b>		76 Hotel Rooms	\$715,500 /Room	\$54,375,000
<b>Total Development Costs</b>		76 Hotel Rooms	\$727,200 /Room	\$55,268,000

<sup>1</sup> Based on the Developer's estimates. The land area is allocated on a pro rata basis between the Hotel Component and the Restaurant Component.

<sup>2</sup> Based on the Developer's estimates.

<sup>3</sup> Based on the Developer's estimates. City staff should verify the accuracy of the estimates.

<sup>4</sup> Based on a 24-month development period with a 100% average outstanding balance.

<sup>5</sup> Based on 100% of the estimated construction costs. Assumes a 24-month development period with a 50% average outstanding balance.

<sup>6</sup> Based on 100% of the estimated construction costs.

<sup>7</sup> Based on 70% of the estimated construction costs.

**APPENDIX A - TABLE 2**

**ESTIMATED STABILIZED NET OPERATING INCOME**  
**HOTEL COMPONENT**  
**FINANCIAL ANALYSIS**  
**HOTEL MOHI BY APPELLATION**  
**MORGAN HILL, CALIFORNIA**

<b>I. Sales Revenues</b>				
Room Sales	1	\$296 /Room	76 Hotel Rooms	\$6,158,000
Food & Beverage				
In-Room Dining & Poolside/Pool Bar		\$44 /Occupied Room		911,000
Meeting & Event Space		7,730 Sf of NLA	\$615 /Sf of NLA	4,755,000
Spa		2,100 Sf of NLA	\$826 /Sf of NLA	1,736,000
Parking	2	83% of Total Estimated Valet Parking Revenues		536,000
Resort Fee		\$25 /Occupied Room		520,000
Miscellaneous Revenue		2.4% Sales Revenues		366,000
Other Revenue		0.3% Sales Revenues		39,000
<b>Total Sales Revenues</b>				\$15,021,000
<b>II. Department Expenses</b>				
Hotel Rooms		25.3% Department Sales		\$1,558,000
In-Room Dining & Poolside/Pool Bar		62.0% Department Sales		565,000
Meeting & Event Space		53.3% Department Sales		2,534,000
Spa		72.5% Department Sales		1,259,000
Parking		55.0% Department Sales		295,000
Miscellaneous Revenue		27.5% Department Sales		143,000
Other Revenue		23.2% Department Sales		85,000
<b>Total Department Expenses</b>				\$6,439,000
<b>III. Undistributed Expenses</b>				
General & Administrative	3	7.0% Sales Revenues		\$1,056,000
Information & Technology		1.3% Sales Revenues		201,000
Sales & Marketing		6.2% Sales Revenues		937,000
Property Operations & Maintenance		3.0% Sales Revenues		448,000
Utilities		2.2% Sales Revenues		330,000
<b>Total Undistributed Expenses</b>				\$2,972,000
<b>IV. Management Fees</b>				
		4.0% Sales Revenues		\$601,000
<b>V. Fixed Expenses</b>				
Property Taxes		1.1% Value	\$5,980 /Room	\$454,000
Insurance		1.5% Sales Revenues		225,000
FF&E Replacement Reserves		4.0% Sales Revenues		601,000
<b>Total Fixed Expenses</b>				\$1,280,000
<b>VI. Estimated Stabilized Net Operating Income</b>				
		25% Total Sales Revenues		\$3,729,000

<sup>1</sup> Assumes a 75% average occupancy rate.

<sup>2</sup> Based on the Developer's allocation of total value parking revenue among the proposed uses.

<sup>3</sup> Based on a weighted average allocation of the hotel and food & beverage cost components of the project.

**APPENDIX A - TABLE 3****ESTIMATED FINANCIAL GAP****HOTEL COMPONENT****FINANCIAL ANALYSIS****HOTEL MOHI BY APPELLATION****MORGAN HILL, CALIFORNIA**

I.	<b>Estimated Stabilized Net Operating Income</b>	See APPENDIX A - TABLE 2	\$3,729,000
II.	<b>Threshold Stabilized Return on Total Development Costs</b>	8.0%	
III.	<b>Estimated Supportable Investment</b>		\$46,613,000
IV.	<b>Estimated Development Costs</b>	See APPENDIX A - TABLE 1	<u>\$55,268,000</u>
V.	<b>Estimated Financial Gap</b>	<sup>1</sup>	\$8,655,000

<sup>1</sup> The estimated return on total development cost if no assistance is provided is 6.7%. This is equal to Estimated Stabilized Net Operating Income divided by Estimated Development Costs.

**APPENDIX B  
PRO FORMA ANALYSIS  
RESTAURANT COMPONENT - PROPOSED PROJECT  
FINANCIAL ANALYSIS  
HOTEL MOHI BY APPELLATION  
MORGAN HILL, CALIFORNIA**

**APPENDIX B - TABLE 1**

**ESTIMATED DEVELOPMENT COSTS**

**RESTAURANT COMPONENT**

**FINANCIAL ANALYSIS**

**HOTEL MOHI BY APPELLATION**

**MORGAN HILL, CALIFORNIA**

<b>I. Property Acquisition</b>	<sup>1</sup>	9,766 Sf of Land	\$23.60 /Sf of Land	\$230,000
<b>II. Direct Costs</b>				
Site Improvements	<sup>1</sup>	9,766 Sf of Land	\$27.00 /Sf of Land	\$264,000
Building Costs	<sup>2</sup>	14,811 Sf of GBA	\$530 /Sf of GBA	7,850,000
Restaurant FF&E	<sup>2</sup>	11,086 Sf of NLA	\$520 /Sf of NLA	5,765,000
Contractor Costs		14.0% Other Direct Costs		1,943,000
<b>Total Direct Costs</b>		14,811 Sf of GBA	\$1,068 /Sf of GBA	\$15,822,000
<b>III. Indirect Costs</b>				
Architecture, Engineering & Consulting		5.5% Direct Costs		\$870,000
Public Permits & Fees	<sup>3</sup>	14,811 Sf of GBA	\$12.80 /Sf of GBA	190,000
Taxes, Insurance, Legal & Accounting		2.5% Direct Costs		396,000
Marketing		14,811 Sf of GBA	\$10.00 /Sf of GBA	148,000
Developer Fee / General & Administrative		5.0% Direct Costs		791,000
Soft Cost Contingency Allowance		10% Other Indirect Costs		240,000
<b>Total Indirect Costs</b>		14,811 Sf of GBA	\$178 /Sf of GBA	\$2,635,000
<b>IV. Financing Costs</b>				
Interest During Construction				
Land	<sup>4</sup>	\$230,000 Loan Amount	7.0% Interest	\$32,000
Construction Costs	<sup>5</sup>	\$20,252,000 Loan Amount	7.0% Interest	1,418,000
Loan Origination Fees				
Construction Loan	<sup>6</sup>	\$20,252,000 Loan Amount	1.00 Points	203,000
Permanent Loan	<sup>7</sup>	\$14,176,000 Loan Amount	1.00 Points	142,000
<b>Total Financing Costs</b>		14,811 Sf of GBA	\$121 /Sf of GBA	\$1,795,000
<b>V. Total Construction Costs</b>		14,811 Sf of GBA	\$1,367 /Sf of GBA	\$20,252,000
<b>Total Development Costs</b>		14,811 Sf of GBA	\$1,383 /Sf of GBA	\$20,482,000

<sup>1</sup> Based on the Developer's estimates. The land area is allocated on a pro rata basis between the Hotel Component and the Restaurant Component.

<sup>2</sup> Based on the Developer's estimates.

<sup>3</sup> Based on the Developer's estimates. City staff should verify the accuracy of the estimates.

<sup>4</sup> Based on a 24-month development period with a 100% average outstanding balance.

<sup>5</sup> Based on 100% of the estimated construction costs. Assumes a 24-month development period with a 50% average outstanding balance.

<sup>6</sup> Based on 100% of the estimated construction costs.

<sup>7</sup> Based on 70% of the estimated construction costs.

APPENDIX B - TABLE 2

**ESTIMATED STABILIZED NET OPERATING INCOME**

**RESTAURANT COMPONENT**

**FINANCIAL ANALYSIS**

**HOTEL MOHI BY APPELLATION**

**MORGAN HILL, CALIFORNIA**

**I. Sales Revenues**

Restaurant Revenue	11,086 Sf of NLA	\$1,066 /Sf of NLA	\$11,813,000
Parking	<sup>1</sup>	17% of Total Estimated Valet Parking Revenues	110,000
<b>Total Sales Revenues</b>	<b>\$11,923,000</b>		

**II. Department Expenses**

Promenade Bar & Café	62.0% Department Sales	\$1,809,000
Flower Shop Lounge / Flex Space Concept	53.3% Department Sales	1,229,000
Signature CP Restaurant	72.5% Department Sales	4,777,000
Parking	55.0% Department Sales	61,000
<b>Total Department Expenses</b>	<b>\$7,876,000</b>	

**III. Undistributed Expenses**

General & Administrative	4.1% Sales Revenues	\$489,000
Information & Technology	1.4% Sales Revenues	167,000
Sales & Marketing	3.5% Sales Revenues	417,000
Property Operations & Maintenance	0.8% Sales Revenues	95,000
Utilities	1.2% Sales Revenues	143,000
<b>Total Undistributed Expenses</b>	<b>\$1,311,000</b>	

**IV. Management Fees**

4.0% Sales Revenues	\$477,000
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**V. Fixed Expenses**

Property Taxes	1.1% Value	\$10 /Sf of GBA	\$11,000
Insurance	1.5% Sales Revenues		179,000
FF&E Replacement Reserves	4.0% Sales Revenues		477,000
<b>Total Fixed Expenses</b>	<b>\$667,000</b>		

**VI. Estimated Stabilized Net Operating Income**

13% Total Sales Revenues	\$1,592,000
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<sup>1</sup> Based on the Developer's allocation of total value parking revenue among the proposed uses.

**APPENDIX B - TABLE 3****ESTIMATED FINANCIAL GAP**  
**RESTAURANT COMPONENT**  
**FINANCIAL ANALYSIS**  
**HOTEL MOHI BY APPELLATION**  
**MORGAN HILL, CALIFORNIA**

I.	<b>Estimated Stabilized Net Operating Income</b>	See APPENDIX B - TABLE 2	\$1,592,000
II.	<b>Threshold Stabilized Return on Total Development Costs</b>		<u>8.0%</u>
III.	<b>Estimated Supportable Investment</b>		\$19,900,000
IV.	<b>Estimated Development Costs</b>	See APPENDIX B - TABLE 1	<u>\$20,482,000</u>
V.	<b>Estimated Financial Gap</b>	<sup>1</sup>	\$582,000

<sup>1</sup> The estimated return on total development cost if no assistance is provided is 7.8%. This is equal to Estimated Stabilized Net Operating Income divided by Estimated Development Costs.

**APPENDIX C  
PRO FORMA ANALYSIS  
LIMITED SERVICE HOTEL  
FINANCIAL ANALYSIS  
HOTEL MOHI BY APPELLATION  
MORGAN HILL, CALIFORNIA**

**APPENDIX C - TABLE 1**

**ESTIMATED DEVELOPMENT COSTS**

**LIMITED SERVICE HOTEL**

**FINANCIAL ANALYSIS**

**HOTEL MOHI BY APPELLATION**

**MORGAN HILL, CALIFORNIA**

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<b>I. Property Acquisition</b>	47,611 Sf of Land	\$23.60 /Sf of Land	\$1,124,000
<b>II. Direct Costs</b>			
Site Improvements	47,611 Sf of Land	\$27.00 /Sf of Land	\$1,285,000
Building Costs	76 Hotel Rooms	\$185,000 /Room	14,060,000
Hotel FF&E	76 Hotel Rooms	\$15,000 /Room	1,140,000
Contractor Costs	5.0% Other Direct Costs		<u>824,000</u>
<b>Total Direct Costs</b>	76 Hotel Rooms	\$227,800 /Room	\$17,309,000
<b>III. Indirect Costs</b>			
Architecture, Engineering & Consulting	5.0% Direct Costs		\$865,000
Public Permits & Fees	<sup>1</sup> 14,811 Sf of GBA	\$12.80 /Sf of GBA	190,000
Taxes, Insurance, Legal & Accounting	2.5% Direct Costs		433,000
Marketing	14,811 Sf of GBA	\$5.00 /Sf of GBA	74,000
Hotel Pre-Opening & Working Capital	76 Hotel Rooms	\$2,000 /Room	152,000
Developer Fee / General & Administrative	3.0% Direct Costs		519,000
Soft Cost Contingency Allowance	10% Other Indirect Costs		<u>223,000</u>
<b>Total Indirect Costs</b>	76 Hotel Rooms	\$32,300 /Room	\$2,456,000
<b>IV. Financing Costs</b>			
Interest During Construction			
Land	<sup>2</sup> \$1,124,000 Loan Amount	7.0% Interest	\$118,000
Construction Costs	<sup>3</sup> \$21,369,000 Loan Amount	7.0% Interest	1,122,000
Loan Origination Fees			
Construction Loan	<sup>4</sup> \$21,369,000 Loan Amount	1.00 Points	214,000
Permanent Loan	<sup>5</sup> \$14,958,000 Loan Amount	1.00 Points	<u>150,000</u>
<b>Total Financing Costs</b>	76 Hotel Rooms	\$21,100 /Room	\$1,604,000
<b>V. Total Construction Costs</b>	76 Hotel Rooms	\$281,200 /Room	\$21,369,000
<b>Total Development Costs</b>	76 Hotel Rooms	\$296,000 /Room	\$22,493,000

<sup>1</sup> Based on the Developer's estimates. City staff should verify the accuracy of the estimates.

<sup>2</sup> Based on a 18-month development period with a 100% average outstanding balance.

<sup>3</sup> Based on 100% of the estimated construction costs. Assumes a 18-month development period with a 50% average outstanding balance.

<sup>4</sup> Based on 100% of the estimated construction costs.

<sup>5</sup> Based on 70% of the estimated construction costs.

APPENDIX C - TABLE 2

**ESTIMATED STABILIZED NET OPERATING INCOME**

**LIMITED SERVICE HOTEL**

**FINANCIAL ANALYSIS**

**HOTEL MOHI BY APPELLATION**

**MORGAN HILL, CALIFORNIA**

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**I. Sales Revenues**

Room Sales	<sup>1</sup>	\$170 /Room	76 Hotel Rooms	\$3,301,000
Parking	<sup>2</sup>	36% of Total Estimated Valet Parking Revenues		233,000
Miscellaneous Revenue		10.0% Sales Revenues		393,000
<b>Total Sales Revenues</b>				<b>\$3,927,000</b>

**II. Department Expenses**

Hotel Rooms	25.0% Department Sales	\$825,000
Parking	55.0% Department Sales	128,000
Miscellaneous Revenue	25.0% Department Sales	98,000
<b>Total Department Expenses</b>		<b>\$1,051,000</b>

**III. Undistributed Expenses**

General & Administrative	5.0% Sales Revenues	\$196,000
Franchise Fee	5.0% Sales Revenues	196,000
Sales & Marketing	5.0% Sales Revenues	196,000
Property Operations & Maintenance	3.0% Sales Revenues	118,000
Utilities	3.0% Sales Revenues	118,000
<b>Total Undistributed Expenses</b>		<b>\$824,000</b>

**IV. Management Fees**

3.0% Sales Revenues	\$118,000
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**V. Fixed Expenses**

Property Taxes	1.1% Value	\$2,360 /Room	\$179,000
Insurance	1.5% Sales Revenues		59,000
FF&E Replacement Reserves	4.0% Sales Revenues		157,000
<b>Total Fixed Expenses</b>			<b>\$395,000</b>

**VI. Estimated Stabilized Net Operating Income**

39% Total Sales Revenues

**\$1,539,000**

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<sup>1</sup> Assumes a 70% average occupancy rate.

<sup>2</sup> Based on the Developer's allocation of total value parking revenue among the uses being proposed for development.

**APPENDIX C - TABLE 3****ESTIMATED FINANCIAL GAP****LIMITED SERVICE HOTEL****FINANCIAL ANALYSIS****HOTEL MOHI BY APPELLATION****MORGAN HILL, CALIFORNIA**

I.	<b>Estimated Stabilized Net Operating Income</b>	See APPENDIX C - TABLE 2	\$1,539,000
II.	<b>Threshold Stabilized Return on Total Development Costs</b>	8.0%	
III.	<b>Estimated Supportable Investment</b>		\$19,238,000
IV.	<b>Estimated Development Costs</b>	See APPENDIX C - TABLE 1	<u>\$22,493,000</u>
V.	<b>Estimated Financial Gap</b>	<sup>1</sup>	\$3,255,000

<sup>1</sup> The estimated return on total development cost if no assistance is provided is 6.8%. This is equal to Estimated Stabilized Net Operating Income divided by Estimated Development Costs.

**APPENDIX D  
PROPOSED ASSISTANCE PACKAGE  
HOTEL MOHI BY APPELLATION  
FINANCIAL ANALYSIS  
MORGAN HILL, CALIFORNIA**

**APPENDIX D**
**PROPOSED ASSISTANCE PACKAGE**  
**HOTEL MOHI BY APPELLATION**  
**MORGAN HILL, CALIFORNIA**


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Year	TOT	Sales Tax Revenue			Total TOT + Sales Tax Revenue	Annual Rebate		
		Hotel Food, Event & Spa		Restaurant				
		Revenue	Total Sales Tax					
1 <sup>2</sup>	\$316,134	\$26,825	\$38,993	\$65,818	\$381,952	\$99,952		
2	651,237	56,096	81,543	137,639	788,876	498,416		
3	718,687	86,237	125,357	211,594	930,280	631,107		
4	740,247	88,824	129,118	217,942	958,189	650,040		
5	762,455	91,489	132,991	224,480	986,935	669,541		
6	785,328	94,234	136,981	231,214	1,016,543	689,627		
7	808,888	97,061	141,090	238,151	1,047,039	710,316		
8	833,155	99,972	145,323	245,295	1,078,450	731,626		
9	858,149	102,972	149,683	252,654	1,110,804	753,574		
10	883,894	106,061	154,173	260,234	1,144,128	776,182		
11	910,411	109,243	158,798	268,041	1,178,451	799,467		
12	937,723	112,520	163,562	276,082	1,213,805	823,451		
13	965,855	115,895	168,469	284,365	1,250,219	848,155		
14	994,830	119,372	173,523	292,896	1,287,726	873,599		
15	1,024,675	122,953	178,729	301,682	1,326,358	899,807		
Years 1 - 15								
Total	\$12,191,667	\$1,429,753	\$2,078,334	\$3,508,087	\$15,699,754	\$10,454,860		
NPV <sup>3</sup>	\$7,250,000	\$840,000	\$1,221,000	\$2,061,000	\$9,311,000	\$6,135,000		

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<sup>1</sup> Based on 100% of the Total TOT + Sales Tax Revenue generated annually above a base of \$282,000 escalated at 3% annually.

<sup>2</sup> Based on the first year of operation.

<sup>3</sup> Based on a 6.5% Discount Rate.