APPENDIX B:
URBAN DECAY ANALYSIS

PLACEWORKS

MEMORANDUM

Date: August 19, 2014

To: Sally Barros, Senior Planner
City of San Leandro

From: Steve Gunnells, Chief Economist

Subject: **Analysis of Urban Decay Potential,**
San Leandro Shoreline Development Project

PlaceWorks has analyzed the potential of a new hotel proposed as part of this project to create long-term structural vacancies that could lead to urban decay. The memorandum presents the analysis in 11 Comments, followed by a Findings and Conclusions section.

COMMENTS

1. **What is Urban Decay Analysis?** In 2004 the California Court of Appeals ruled that an environmental impact report should determine whether two proposed retail developments could cause long-term vacancies in other competitive retail centers, leading to urban decay. The basic line of reasoning is that when a new development project saturates a market, it has the potential to create long-term structural vacancies that the market cannot absorb and that cannot be repurposed for other uses. In turn, these vacancies could, over time, create urban decay. When the Court issued its ruling, California still had the Community Redevelopment Law, which established a technical and legal definition of urban blight. The term urban decay was intended to qualitatively refer to pretty much the same thing as urban blight, without necessarily referring to the technical definition. This memorandum retains the use of the unwieldy term urban decay.

2. **Urban Decay Potential by Type of Land Use.** The original Court holding applied to a specific retail shopping center. The language, however, did not necessarily imply or suggest that urban decay analysis is only warranted for retail development. The following sub-paragraphs explain the rationale for what is and is not analyzed in this memorandum.

   2A. Retail Uses. Proximity to households drives retail location decisions. Consumers make the majority of their expenditures at retail centers near where they live rather than near where they work or elsewhere. After retailers establish a location, if another shopping center opens up nearby and dilutes the level of sales, the initial retailers face an often insurmountable challenge of attracting new customers from further away. Because the supply of consumer spending becomes relatively fixed once an area reaches buildout, retail developments that exceed the market potential can directly or indirectly lead to long-term vacancies and urban decay.

   The proposed project includes a minimal amount of retail, in the form of about 13,000 square feet for restaurants and an 8,000-square-foot building for a café and boat rental.

In our professional opinion, 21,000 square feet of new retail building space is too little to warrant an urban decay analysis. Even if the proposed project resulted in 21,000 square feet of retail vacancies elsewhere, growth in the retail market would absorb such vacancies before they became problematic.

2B. Office Uses. In contrast, a variety of factors drives the value of an office location. Some office users rely on the local market, similar to retailers. Proximity to employees determines the location decision of other office users. Proximity to business customers drives still other offices users. For even more office users, however, location is secondary to other factors, including costs, the right amount or configuration of space, and other lease terms. Exceeding the existing market demand for office space typically would have minimal if any long-term consequences because the market for new office users extends to a large area and because changes in rental rates and lease terms can attract new office users.

The proposed project includes about 150,000 square feet of new office space. Because offices have practically no potential to create long-term vacancies that can lead to urban blight, this memorandum does not analyze the office component.

2C. Hotel Rooms. Hotels, like offices, are less susceptible to location-based factors than are retail businesses. Not all, but most hotels are pulling potential guests from a large trade area. Importantly, hotels can also change their profile and move to a different market segment to respond to new competition. Unlike offices, however, hotels have the potential to be problematic because it is more difficult to retrofit a hotel building for an alternative use.

The proposed project includes a 200-room hotel. This hotel is the focus of the analysis presented in this memorandum.

2D. Other uses. The proposed project includes other public uses. Those wanting a detailed description of the proposed development should read the project description in the initial study and in other parts of the draft EIR. This analysis does not cover any of these other uses.

3. **Project Location.** The shoreline development project site involves 50 acres of the city's 950 acres of publicly owned shoreline. The proposed hotel would be located on Mulford Point Drive, off of Monarch Bay Drive; it is on the outside shore of the San Leandro Marina so it borders the marina and the San Francisco Bay.

Figure 1 shows the conceptual master plan. The yellow building on the west or left side of the map is the proposed hotel. A golf course and regional park are across Monarch Bay Drive, and there are restaurants by the marina. The site is located 2.5 miles from Oakland International Airport, which, as discussed subsequently, is an important factor in determining the demand for hotel rooms. The location is about a 20 minute drive from downtown Oakland and about a 40 minute drive from San Francisco.

Figure 1: Conceptual Master Plan

Note: Readers wanting a larger version of the conceptual master plan should read the project description in the initial study and other parts of the draft EIR.
Source: Cal Coast Companies, LLC

4. **Hotel Market Basics.** Hotel customers choose hotels based on price, quality, and proximity to destination. Hotels seek to provide the combination of these features that will capture customers from the hotel's target market segment. Each hotel operator may define market segments in their own way, but typically, segmentation is based on socioeconomics (price point) and purpose of travel, such as business and leisure. There can, of course, be overlaps among market segments, and some hotels try to grow their business by attracting customers from more than one market segment.

If room supply in a trade area increases, existing hotels have two basic ways to respond. First, they can seek to attract customers from the same market segments but from a larger trade area. Conversely, they can change their service to attract a different market segment, or at least customers from additional market segments. In the cases of national chains, they might rebrand the hotel to appeal to their customer base in a different market segment. Small chains and independent operators typically have less flexibility to simply rebrand and may need to sell a hotel building to a different operator or chain.

The do nothing response to an increase in room supply and a corresponding decrease in occupancy is de facto acceptance of dwindling revenues. This may be a reasonable response in a trade area with growing occupancy: it would simply be a matter of time for an existing hotel to see a return to past occupancy rates. In a market area with little growth potential, however, the do nothing alternative could lead to eventual bankruptcy and vacancy. This, of course, assumes that an existing hotel would not be able to successfully compete with a new hotel, which is not necessarily the case.

The urban decay analysis is not concerned with the direct impact to any individual existing business. Indeed, the point of the analysis is not to determine whether or not every existing business will remain. The point is to determine whether or not there is or will be sufficient market demand to ensure that, if an individual business fails to compete, any hotel building vacancy would not be a long-term problem.

5. **Methodology.** Quantifying market demand for hotel is more difficult and less precise than calculating retail market demand because hotel customers tend not to be local. A combination of numerical and logical assessment must be made to determine whether there is or will be sufficient market demand to support existing hotels and a proposed new hotel. The analysis uses the lodging-activity build-up approach to determine demand.

   5A. **Identify Current Demand.** There are many indicators used to determine current demand including occupancy rates, average daily rates (ADRS), and revenue per available room (revPAR). The analysis uses occupancy rates to allow for mobility of hotels across market classes and the assumption that, to increase occupancy rates, hotels may need to accept lower ADRS.

   5B. **Estimate Latent Demand.** There are two kinds of latent demand: unaccommodated and induced demand. Unaccommodated is demand the current market is unable to meet. It is particularly problematic with cyclical demand (demand which is higher and lower through different times of the month, week, or year). Induced demand is that which a hotel itself may create.

   5C. **Project Future Occupancy Rates.** Future occupancy rates are projected based on the change in supply and changes in drivers or indicators of demand. Latent demand is only analyzed if the projected occupancy rates suggest insufficient market demand, because it is difficult to quantify future latent demand.

6. **Trade Area and Market Segment for Proposed Project.** The trade area was defined by the hotels' proximity to the airport. Most of these hotels are within five miles of the Oakland International Airport (OAK), and the airport is close enough to downtown Oakland that using it as a benchmark will allow customers with the city or the airport as their main destination to be accounted for. Of the millions of visitors to California for business or leisure, 20.9 percent of domestic travelers and virtually 100 percent of overseas travelers take an airplane, so airports capture a fairly large portion of possible hotel customers[1]. The trade area consists of hotels within several miles of OAK, including portions of Alameda, Oakland, San Leandro, Hayward, and unincorporated Alameda County (Figure 2).

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[1] http://industry.visitcalifornia.com/media/uploads/files/editor/CA%20Intl%20Report%202011_1%283%29.pdf, http://industry.visitcalifornia.com/media/uploads/files/editor/2012%20Domestic%20Profile%20updated%205_30_13%281%29.pdf

Figure 2: Proposed Project's Trade Area and Competitive Facilities

Source: PlaceWorks, 2014.

The proposed hotel would be a limited-service hotel. This class of hotel is defined as a midscale hotel without restaurant or banquet facilities. The services and amenities offered to guests of limited-service hotels are typically simple. A limited-service hotel's range of amenities might include a business center, a fitness room, a guest laundry facility, a market pantry, an indoor and/or outdoor pool and whirlpool, and small meeting rooms.[2].

7. Economic Conditions. In 2012, tourism to California accounted for 2.5 percent of the state's GDP and accounted for almost 4 percent of the employment in Alameda County[3]. Catering to tourists allows destinations to capitalize on their natural surroundings, built environment, and people. This section reviews aspects of the economy and tourism in broad economic terms.

7A. National Economic Picture. As of the preparation of this analysis, the economy continues to recover from two economic challenges: the national (and global) economic recession and the collapse of the housing market. The National Bureau of Economic Research (www.nber.org) has determined that the most recent recession lasted 18 months, from December 2007 to June 2009. This was a particularly long recession, the effects of which can still be seen in many areas of the economy. The economy is now in an expansion and has grown to reach and surpass pre-recession levels of production. Unemployment rates are decreasing, down to only 60 percent of their recession highs, though still higher than their pre-recession lows. The total number of jobs nationally has exceeded the pre-recession high.

Of course, no one knows with any certainty when this economic expansion will end and the next recession will begin. For now, the Federal Reserve's short-term projections represent two more years of increasing economic growth.

7B. The East Bay Economy. The East Bay economy is growing as well. The total number of non-farm jobs increased by 1.7 percent from April 2013 to April 2014. Some of the highest growth sectors have been wholesale trade, real estate, and transportation and warehousing. Imports to the Port of Oakland grew by 5.5 percent and exports grew by 6.1 percent in this time period. Oakland could expect some growth out of San Francisco: companies may relocate to the East Bay because they could save 39 percent on class-A office space[4]. Oakland's total employment is projected to grow an average of 0.8 percent annually, as shown in Figure 3[5].

The East Bay's population is also growing. From 2009 to 2014 the population increased 4.9 percent, mostly from domestic migration. In contrast, statewide population only grew 3.7 percent during the same time. The population and economic growth suggests a positive outlook for the area's production and job growth.

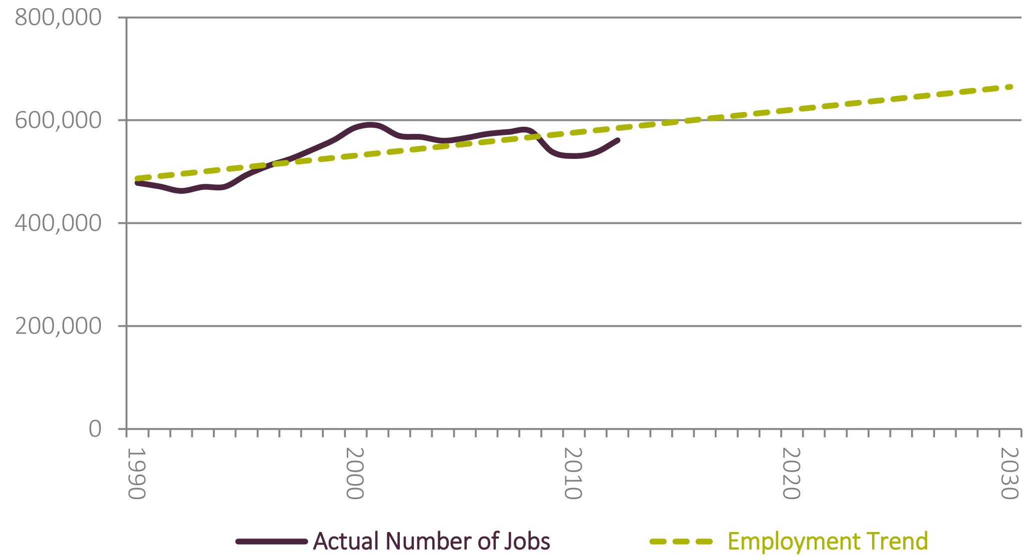
[2] The analysis presented in subsequent section uses data from Smith Travel Research, Inc. This data includes a count of all hotel rooms in the trade area. The occupancy rate data, however, reflect a survey of existing hotels and not a count of occupied rooms in each existing hotel. This level of data collection (i.e., occupancy survey rather than an occupancy census) is an industry standard.

[3] http://industry.visitcalifornia.com/media/uploads/files/editor/Research/CATravelImpacts2012.pdf

[4] http://eastbayeda.org/ebeda-assets/reports/2014/EDA-Outlook-2014-2015.pdf

[5] http://www.labormarketinfo.edd.ca.gov/California_Regional_Economies_Employment.html

Figure 3: Total Non-Farm Employment, Actual and Trend, Alameda County, 1990 to 2030



Source: PlaceWorks, 2014, using employment data from the California Employment Development Department.

7C. **Tourism and Hospitality Sector.** Travel roughly falls into two categories, leisure and business. Leisure travel, as a luxury item, is one of the first expenditures to go if households need to cut back spending. Visiting family and friends is typically considered part of leisure travel, but it can be cheaper with reduced or eliminated lodging costs. Business travel is not as easily expendable although it does vary with the general level of economic activity.

Both types of travel are responsive to economic conditions. The tourism sector cycle tends to have larger positive and negative swings than the national economic cycle has. As shown in Figure 4, when the economy is strong people travel more, and when the economic activity slows and declines, travel spending decreases more precipitously. For this reason, the tourism and lodging sector, which declined much more than did GDP during the recession, has rebounded rapidly and is already experiencing higher growth than the rest of the economy.

Figure 4: Annual Change in GDP and in Tourism Spending, United States, 2000 to 2012

Source: PlaceWorks, 2014, using data from the US Bureau of Economic Analysis.

Even though the 2007/09 recession negatively influenced the hospitality industry's overall health, current and near-term conditions support growth and expansion in hospitality. Supply of hotels has stagnated over the last several years as there was little investment in a retracting hospitality sector. Growth in the tourism sector can be expected to catch up with the economy. The GDP per capita is expected to continue growing with the continued economic expansion. RevPAR has a 6 percent projected annual growth for the next two years, and valuations of hotel assets are expected to improve by about 25 percent through at least the end of 2015[6]. The lodging industry is looking up.

Considering that the hospitality industry took an extremely hard hit following the 2007/09 recession and that many hotels saw low occupancy rates and ADRs, it would be reasonable for hotel owners to be nervous about how their hotels could fare in the face of new competition. However, most hotels that were started for the right reasons and that have good business practices can avoid going under if there is a demand for rooms and the hotel satisfies that demand. Hotels, as with all businesses, are best positioned to face competition and weather economic downturns when they maintain adequate cash reserves and when they are not over leveraged.

8. **Market Demand.** The market demand for hotels in the proposed project's trade area is high and growing. As shown in Figure 5, the occupancy rate has recovered from the recession and the trend is increasing. Occupancy rates below 60 percent are generally unprofitable, representative of an unhealthy market. In contrast, occupancy rates around 70 percent are considered healthy,

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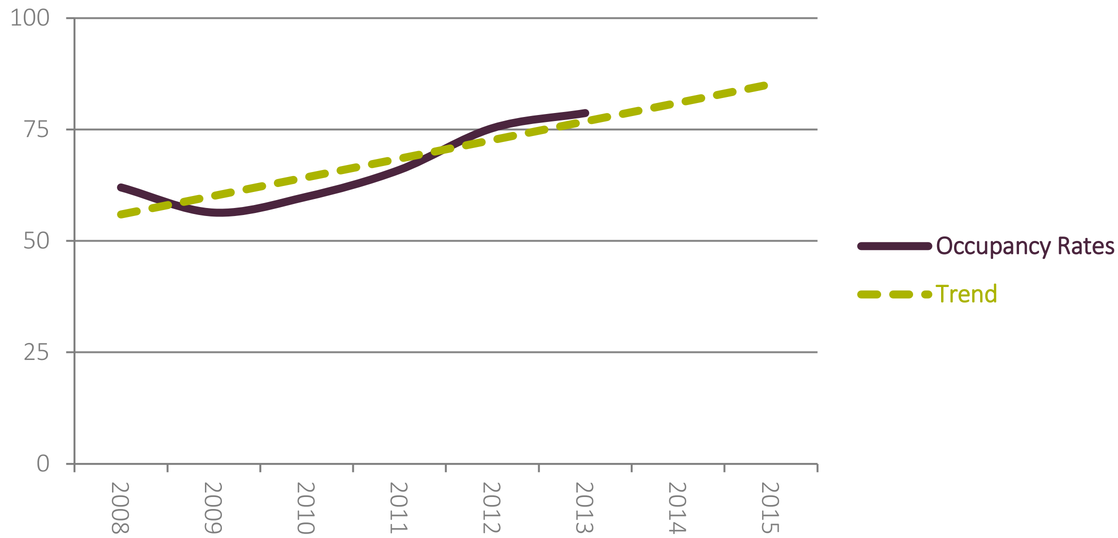
[6] http://www.hospitalitynet.org/news/4063349.html

and higher rates tend to indicate a need for additional supply[7]. Since early 2012, occupancy rates in the proposed project's trade area have been above 70 percent and growing. The base data indicates that market demand is strong and increasing, thereby suggesting that the proposed project has minimal if any potential to create long-term structural vacancies that could lead to urban decay.

Figure 5: Occupancy Rates and Trend, Proposed Project's Trade Area, 2008 to 2013 Actual Data, Trend Extended to 2015



Source: PlaceWorks, 2014, using proprietary data from Smith Travel Research, Inc.

8A. **Tourism Demand Drivers.** The proposed project's trade area benefits from several tourism drivers and hospitality market conditions. San Francisco, a major American tourism destination, is just a short drive or quick BART trip from Oakland International Airport. Part of the demand for hotel rooms in the proposed project's trade area are tourists opting to stay in the East Bay area instead of in San Francisco to save money. Reflecting high land prices, hotel supply in San Francisco is not increasing, so ADRs are increasing rapidly. The project's trade area hotels benefit from the cost differential and can charge higher prices while still being a cheaper alternative.

Oakland's draw to tourists is also significant. Of the 215.1 million visitors to California in 2012, two percent visited Oakland[8]. The city's Board of Tourism was recently revamped, with new staff, branding, and a strategic plan to be implemented in 2013-2014[9]. With sports teams, hiking, art, night life, and a hundred other things to do, Oakland has a lot to offer and the Board has plans to advertise and promote this. The Visit Oakland campaign includes a $195,000 advertising blitz to spread awareness about what makes Oakland a great place to travel to[10]. Oakland already has more to offer than in the past, with over

[7] http://www.vestahospitality.com/files/1268/Top%2010%20Reasons%20Hotels%20Investments%20Fail%20%20Vesta%20 Hospitality.pdf
[8] http://industry.visitcalifornia.com/Find-Research/California-Statistics-Trends/
[9] http://visitoakland.org/wp-content/uploads/2014/02/2014-VO-Strategic-Plan.pdf
[10] http://www.contracostatimes.com/news/ci_25478643/seeking-tourists-oakland-unveils-new-logo-and-billboards

forty retail shops and restaurants recently being added to the downtown area[11]. Oakland's advertising campaign will raise awareness about the positive parts of the city, boost tourism, and increase demands for hospitality services.

San Leandro is also a pleasant place to visit and stay, and it does not have the same negative public safety perceptions commonly associated with Oakland[12]. San Leandro's tourism assets include many views of the marina and Bay, as well as golf courses which also overlook the Bay. It also has a rich and well-preserved history, with remnants from the Native Americans, Spanish settlement, and buildings from before and after its 1872 incorporation[13].

8B. **Business Travel Drivers.** Business travel accounts for 13 percent of domestic visitors and 23 percent of overseas visitors[14]. These travelers provide a good source of revenue, particularly near airports and offices areas. Business travel can be expected to continuing growing in the East Bay as the regional economy continues to grow. The analysis assumes that business travel will generally grow at the same rate as economic growth, as measured by employment. Based on current employment trends, the analysis projects that the regional economy, and thus business travel, will increase at a rate of 0.8 percent per year.

8C. **General Tourism Demand Metrics.** Between 2012 and 2013 there was 7 percent growth in the number of US adults that traveled for leisure.[15] There has been very little growth in the hotel market supply in the last several years, and this will change slowly due to the regulatory environment constraining hotel growth in northern California.[16] Oakland is expected to have some of the highest ADR growth in the nation[17], and the area already has an occupancy rate that is 80 percent higher than the national average[18]. The tourism bureau believes Oakland only has half of the number of hotels it ought to have.[19] The number of domestic visitors to the Oakland area is increasing by a rate of 2.2% per year based on data from the California Travel and Tourism Commission, and 76 percent of domestic visitors to California stay in a hotel. Nationally, the annual growth in tourism is expected to grow at a 4 percent rate through 2019.[20] Oakland has the added benefit of having a higher percentage of foreign visitors than the rest of California, 3.1 percent compared to 2.8 percent.[21] Foreign visitors tend to stay longer and are more likely to stay in hotels.

8D. **Air Travel Tourism Metrics.** The hotel market correlates with and responds to Oakland International Airport's passenger levels. This relationship is seen in the correlation between

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[11] http://www.travelweekly.com/Travel-News/Hotel-News/Hotel-demand-thriving-in-three-secondary-US-markets/
[12] http://www.bjs.gov/ucrdata/Search/Crime/Local/RunCrimeOneYearofData.cfm
[13] http://ohp.parks.ca.gov/pages/1072/files/SanLeandro.pdf
[14] http://industry.visitcalifornia.com/media/uploads/files/editor/2012%20Domestic%20Profile%20updated%205_30_13%281%29.pdf
[15] http://www.travelweekly.com/travel-news/travel-agent-issues/data-suggest-that-leisure-travel-has-recovered/
[16] http://www.hotelmanagement.net/operations-management/occupancy-growth-a-sign-of-fitter-secondary-markets-27390
[17] http://www.hotelmanagement.net/economic-trends/recovery-momentum-picks-up-outside-major-markets-25304
[18] STR Report, http://www.ahla.com/content.aspx?id=35603
[19] http://www.contracostatimes.com/news/ci_25478643/seeking-tourists-oakland-unveils-new-logo-and-billboards
[20] http://www.commerce.gov/news/press-releases/2014/04/07/us-expects-continued-growth-international-travel-during-next-five-yea
[21] http://industry.visitcalifornia.com/media/uploads/files/editor/CA%20Intl%20Report%202011_1%283%29.pdf

occupancy and passengers and the correlation between the revenue per available room (revPAR) and passengers. RevPAR accounts occupancy rates and revenues. Both the occupancy rate and revPAR are measured as annual averages and the number of airport is measured as an annual total. Statistically, the correlation between the occupancy rate and the number of passengers has an R^2 value of 0.42, thus the total amount of airport passengers accounts for 42 percent of the occupancy rate. Similarly, the correlation between revPAR and airport passengers has an R^2 of 0.36.

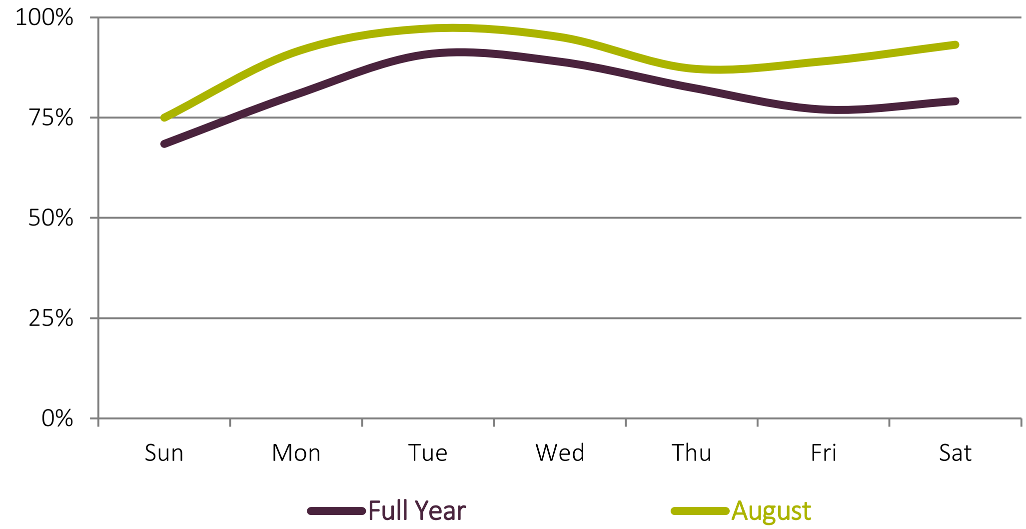
Based on past data, the analysis projects that the total number of airport passengers will increase by 15 percent through 2025 (a fairly conservative projection compared to the airport's projection of a 155 percent increase). The increasing trend in passengers at Oakland International Airport is another positive indicator of growth in occupancy in the proposed project's trade area.

9. **Latent Demand.** Because latent demand is difficult to quantify, the analysis does not use it in making a quantified finding regarding the potential of the proposed project to create long-term vacancies that could lead to urban decay. Nevertheless, the importance of latent demand in the lodging industry does warrant a discussion of these factors.

9A. Unaccommodated Demand. Unaccommodated demand is currently existing demand that is not met in the trade area because there are not enough rooms. Unaccommodated demand can be difficult to calculate because customers who are turned away or change plans due to availability go unrecorded. The best way to calculate unaccommodated demand is to look at existing occupancy rates. Demand for lodging is often cyclical throughout the week, so while demand for a particular market may not even nearly approach 100 percent on average, there may be certain days which do. Business travel, which tends to occur Monday through Thursday, can create a large demand for rooms. As shown in Figure 6, occupancy rates do indeed increase significantly in the middle of the week. In the summer months when leisure tourism also increases, occupancy rates may also approach 100 percent. The overall occupancy rate was 81 percent for the last 12 months. Generally when the average occupancy rate is at or above 78 percent, there is sufficient unaccommodated demand to warrant the development of additional supply.[22]

[22] http://www.hvs.com/emails/rushletter/hotel%20investments%20handbook/hotel%20investments%20handbook%20-%20chapters8-15.pdf

Figure 6: Daily Occupancy Rates, Proposed Project's Trade Area, Year-Round and August, 2013



Source: PlaceWorks, 2014, using proprietary data from Smith Travel Research, Inc.

9B. **Induced Demand.** Induced demand is demand that a hotel creates when built. Induced demand can be created by a hotel offering amenities that were not previously offered, like a golf course or a spa, or by a hotel aggressively marketing its location or ability to host meetings and conventions. Essentially, a hotel itself becoming a destination creates demand that is not stolen from competitors.

The proposed project would have a conference center. The proposed project would serve to improve the quality and attractiveness of the marina and provide additional attractions, especially new restaurants. The improvements should make the marina area a more pleasant place to stay. Thus, the proposed project may induce additional lodging demand as more people come to see this marina and park as a destination.

Induced demand need not necessarily arise directly from a new hotel. Increased competition from a new hotel may provide the catalyst for hotels to renovate and make improvements. Improvements among hotels in a particular area can improve the area's reputation, thus inducing more people to visit.

10. **Impact to Occupancy Rates.** The primary indicator of the potential to create long-term structural vacancies that could lead to urban decay is the degree to which a new hotel could reduce an area's occupancy rates to a level that is insufficient to support the number of hotel rooms and consequently the number of hotels. Table 1 provides the analysis for all of the hotels in the proposed hotel's trade area.

Table 1: Occupancy Rate Analysis for Trade Area Hotels

1	Current Demand (Average Number of Occupied Rooms)	3,793
2	Current Supply	4,677
3	Current Occupancy Rate	81%
4	Pipeline Supply	4,877
5	Pipeline Occupancy Rate	78%
6	Pipeline Supply with Proposed Project	5,102
7	Pipeline Occupancy Rate with Proposed Project	74%

Source: PlaceWorks, 2014.

Notes to and Table 1:

1. The current demand (row 1) is the average number of occupied rooms over the previous twelve calendar months. The data are estimates provided by Smith Travel Research, Inc.
2. The current supply (row 2) is the estimated average number of hotel rooms over the previous twelve calendar months. The data are estimates provided by Smith Travel Research, Inc.
3. The current occupancy rate (row 3) is the estimated average occupancy rate over the previous twelve calendar months. The data are obtained by dividing the current demand (row 1) by the current supply (row 2).
4. The pipeline supply (row 4) is the number of existing hotel rooms (from row 2) plus the number of new hotel rooms that are entitled and/or currently under construction. The data were obtained from Smith Travel Research, Inc. The data do not include the proposed hotel.
5. The pipeline occupancy rate is the projected average annual occupancy rate once all of the pipeline supply of new hotel rooms become operational, assuming that there is no increase in demand. The data are obtained by dividing the current demand (row 1) by the pipeline supply (row 4).
6. The pipeline supply with proposed project (row 6) is the number of existing hotel rooms (from row 2) plus the number of new hotel rooms that are entitled and/or under construction plus the number of new hotel rooms in the proposed hotel. The data are obtained by adding the pipeline supply of hotel rooms (row 4) and the number of hotel rooms in the proposed project. The proposed project is a 200- to 225-room hotel. The analysis assumes 225 rooms to analyze the scenario most unfavorable to the proposed project.
7. The pipeline occupancy rate with the proposed project (row 7) is the projected average annual occupancy rate once all of the pipeline supply of new hotel rooms and the hotel rooms in the proposed project become operational, assuming that there is no increase in demand. The data are obtained by dividing the current demand (row 1) by the pipeline supply with the proposed project (row 6).

As shown in Table 1 for all hotels in the trade area, there is a planned supply increase of 200 new hotel rooms, no counting the proposed project. Once these rooms become operational, the occupancy rate would decrease from 81 percent to 78 percent. When the proposed project is added to the pipeline supply, the occupancy rate would decrease to 74 percent if there is no increase in demand. An occupancy rate of 74 percent is still a healthy rate, and thus the proposed project should not exceed the market demand for all hotels.

11. Localized Impact. The City of San Leandro is also concerned about the potential for localized impacts, because the City leases land at the marina for the Marina Inn on San Francisco Bay. This existing hotel and the proposed hotel would both serve the same market segment, as described in Comment 6. Furthermore, the existing hotel has a competitive advantage over most other hotels in this market segment and in the trade area because it is on the waterfront.

Because the proposed hotel is a different class than the Marina Inn, it is reasonable to assume that the proposed project would not compete directly for the same customer, although there could be some crossover. Furthermore, as discussed in Comment 9, a new hotel can induce market demand. Taking into account the other improvements planned for the marina, the overall project could easily result in an increase in market demand.

It has been suggested that the Marina Inn needs an average occupancy to remain profitable. Whether or not this rate is critical in their business model, it does not represent an industry standard. Although the specific breakeven point for individual hotels depend on a complex mix of factors, many sources cite typical breakeven points in the 60 to 65 percent range[23].

It is important to re-emphasize some of the discussion in Comments 1 and 4. The intent of an urban decay analysis is to determine whether or not a proposed project would cause long-term structural vacancies that could lead to urban decay. The impacts to an individual business are less important than the overall market's ability to absorb potential vacancies. In the present case, however, the City has a vested interest in the impacts to the existing hotel because it is the lessor of the land on which the hotel is located. The analysis suggests that the trade area should have more than enough demand to accommodate both hotels. Nevertheless, the City could explore ways to collaborate with both hotels and other businesses to market the marina as a destination and proactively induce greater market demand.

FINDINGS AND CONCLUSION

The analysis finds that the proposed project would not create an overbuilt hotel market. Based on current demand, after the hotel is constructed there would be 74 percent overall occupancy rate within the Oakland-Hayward trade area and a 73 percent occupancy rate in the midscale and upper-midscale class market segment in the trade area. Because the proposed project would not increase the supply to a level that would lower occupancy rates to 60 percent, the analysis concludes that the proposed project should not create long-term structural vacancies that could lead to urban decay. Indeed, the proposed project should not even lower occupancy rates below a healthy 70 percent mark.

This does not mean that individual hotels will not be affected. Each businesses must, of course, be well run and satisfy customer needs in order to capture a sustainable share of the hospitality market. Some trade area-hotels may need to adjust their operations or make new investments in their properties. Nevertheless, there should be sufficient market demand to support all of the existing and planned hotel rooms in the trade area.

[23] See, for example: 1) Professor Hanson, of the Tisch Center, quoted in "Terrible Timing for a Hotel Boom" in the New York Times, July 31, 2008 ("On average, he said, hotels break even at 54 percent occupancy."); 2) Jan Freitag, senior vice president at Smith Travel Research, Inc., quoted in "Slow and Steady Improvement U.S. Hotel Industry Predicted for 2013" in World Property Channel, Vacation News, December 12, 2012 ("Lots of hotels can run occupancy rates of 50%," and still be OK, whereas with some hotels, if the occupancy rate is below 60%, they will do poorer than before the new hotels opened."); and 3) Vanderbeck, Edward. *Principles of Cost Accounting*. Mason, OH: South-Western 2013. "Typical break-even points include 65% occupancy for the hotel industry in the U.S." p. 514.