

January 28, 2019

To: Honorable President and Members of the Planning Board

From: Lois R.P. Butler, Economic Development Manager

Re: Economic Analysis of the Proposed Holiday Inn Express Hotel,
1825 Park Street

City Policy

The proposed Holiday Inn Express Hotel is the type of development encouraged by the City of Alameda's Economic Development Strategic Plan (EDSP), which was unanimously endorsed by the Planning Board on May 29, 2018, and subsequently approved by the City Council on July 24, 2018. The EDSP identifies tourism and hospitality as one of the ten priority areas to support the City's economic resiliency. Specifically, EDSP Strategy #5 focuses on facilitating additional hotels in Alameda. Strategy 5.1 directs the City to:

promote available sites for the development of a hotel with meeting facilities . . .
Work closely with hotel operators and hotel unions to ensure that new hotels in Alameda provide high quality jobs.

The EDSP Background Report identified the transient occupancy tax (TOT) produced by hotels as a significant revenue source for the City's General Fund. In Fiscal Year 2017/2018, the City's seven hotels (564 rooms) generated \$2.1 million in TOT. The TOT from a hotel building generally exceeds the property taxes and other taxes that might be generated by a private office building of a similar size. From a General Fund perspective, allowing a hotel use on the proposed site would have a positive financial impact.

Market Demand

The EDSP Background Report found that Alameda's existing hotels are performing well, with direct access to freeways and Oakland International Airport. The passenger traffic at Oakland Airport has increased in every year since 2011, with a 40 percent growth between 2011 and 2017. The continued growth in Oakland Airport passengers—with terminal improvements and expanded Southwest flights—will bring more travelers to Alameda hotels because of the close proximity to the airport. Local hotels have also been experiencing rising occupancy rates and revenues. One hotel property owner, interviewed for the EDSP, reported 80 percent occupancy rates, while hotel markets are generally considered very strong when occupancy rates exceed 70 percent.

These findings were substantiated by a May 2018 Hotel Market Overview for Alameda, conducted by BAE Urban Economics. It noted:

Population and employment growth in both Alameda and the market area provide the foundation for additional demand for hotel development. Decreasing vacancy rates and escalating rental rates for office, flex, and industrial space indicate robust economic activity that supports hotel demand.

Recently, CBRE Hotels projected that demand for hotel rooms in the Bay Area is expected to more than double during the next year.¹ With the completion of the \$551 million expansion to the Moscone Center, more large-scale conventions are expected to come to the Bay Area. Alameda's hotels routinely benefit from conventions in San Francisco with the spillover demand for accommodations.

Economic Benefits

The economic value of hotels to the City's budget was illustrated by an internal analysis done in 2015 of the top revenue-generating businesses for the City: five of the top ten businesses were hotels.²

The proposed 96-room Holiday Inn will provide a significant economic asset for Alameda. It is conservatively estimated to generate approximately \$400,000 in TOT revenue annually. The TOT is expected to gradually increase once the hotel becomes established in the marketplace. This will make the Holiday Inn one of the largest revenue-generating businesses in the City.

When hotels enter into a new market or neighborhood, other businesses will follow. The proposed Holiday Inn will bring more people—an estimated 36,700 guests annually—to the North of Lincoln district of Park Street, and may act as a catalyst for the former auto row. Visitors to the hotel will spend money at local stores, restaurants and bars, which contribute sales tax dollars to the City.

Summary

The proposed hotel development is supported by City policy and market demand. It will bring people to north Park Street district and support local businesses. Finally, it will help generate needed revenue for the City's General Fund, which pays for municipal services such as police and fire.

¹ See *San Francisco Business Times*, "Trends to Watch," January 4, 2019, page 20.

² This excludes companies at Alameda Point that generate lease revenue, which is a transitory funding source for the development of Alameda Point and does not contribute to the City's General Fund.