



JULY 2015

IN FOCUS:
**SILICON VALLEY HOTEL MARKET
UPDATE**

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Major indicators from the first quarter of 2015 reflect continuation of these trends, which bodes well for the market's lodging industry.

Corporate Expansions

Tech companies continue to expand their presence in the Valley, with a number of key employers expanding and investing in new office space. In March 2015, **Facebook** opened a new 430,000-square-foot campus in Menlo Park. Designed by renowned architect Frank Gehry, the new office boasts the world's largest open floor plan and has the capacity for 2,800 employees. Construction of **Samsung's R&D Institute America** topped out in June 2015. Encompassing 385,000 square feet, Samsung America's new campus is the U.S. headquarters for the company's semiconductor operations, employing more than 600 employees working in R&D and sales. Farther south in Cupertino, **Apple** is steadily making progress on its new \$5 billion, 176-acre Campus 2. With an estimated completion date in the fourth quarter of 2016, the new "spaceship"-designed campus will add 2,800,000 square feet of office space and house nearly 13,000 employees. Additionally, Apple continues to gobble up available office space in Silicon Valley, having leased an estimated 1.8 million square feet of space since 2014, including a warehouse in Fremont and Class A office space subleased from LinkedIn in Sunnyvale. **LinkedIn**, in the meantime, was recently awarded the building rights for 1.4 million square feet of commercial space in Mountain View's North Bayshore district. If and when complete, the new project is estimated to have the capacity for approximately 8,000 workers. **Google**, who had also vied for space in the North Bayshore district, was only granted the rights for 515,000 square feet, and will need to seek alternative options within the Valley for its four-part campus expansion. Google has also pre-leased the entirety of Jay Paul Company's 1.9-million-square-foot office park, Moffett Place in Sunnyvale. The recent battle for space between Google and LinkedIn reflects the booming nature of the commercial market, which is a positive indicator for the corporate demand base within Silicon Valley's lodging market.

Major Developments

A number of major mixed-use developments are underway throughout Silicon Valley, many of which will create new urban-like destination downtown areas that will transform neighborhoods and draw new demand to the market. Currently being developed by Peter Pau's **Sand Hill Property Company**, **Main Street Cupertino** will serve as the gateway to Cupertino and will be composed of a 180-room **Residence Inn by Marriott**, loft-style apartments, public space, retail shops, restaurants, professional services, and Class A office space. Apple has reportedly pre-leased approximately 275,000 square feet of office space within two buildings that are currently under construction on Main Street. Sand Hill Property Company is also pursuing another major project in Cupertino, the **Vallco Shopping Mall** redevelopment. In late 2014, Sand Hill purchased the entire Vallco Shopping Mall; preliminary visions of the revitalized Vallco include several districts with office, retail, residential, mixed-used buildings, and a hotel; the hotel is expected to be developed in a later phase of the development. In San Jose, **Westfield Group** unveiled new plans for a \$600 million expansion to **Westfield Valley Fair** that will add 80 to 100 new stores, a Bloomingdale's, and new entertainment and service options. Construction on the expansion is slated to begin early 2016, with a completion target of November 2017. The expansion is expected to improve the pedestrian connection between the Westfield Valley Fair and Santana Row, allowing easier accessibility between the two shopping centers, and create a more urbanized shopping experience.

HOTEL MARKET OVERVIEW

Silicon Valley's hotel inventory currently comprises roughly 30,000 rooms across nearly 240 properties. According to recent HVS surveys of market participants, the market has achieved double-digit RevPAR growth since 2010, benefiting from a strong and expanding tech industry and limited new supply. Both market-wide occupancy and average rate are currently at record levels. Occupancy in 2014 and YTD 2015 has been in the 77-79% range, with an ADR of approximately \$185 in 2014 and nearly \$210 for YTD 2015. Our data for the YTD 2015 period reflect a nearly 20% RevPAR increase versus the same period the prior year, largely led by strong average rate growth. With occupancy nearing capacity, local operators reveal that they will continue a rate-driven strategy through the foreseeable future.

The Silicon Valley lodging market continues to be driven by strong weekday demand from tech giants such as Google, Apple, Facebook, Cisco, and Samsung. Hoteliers report that weekends still remain a challenge in most submarkets within Silicon Valley, when rates need to be discounted significantly in order to sustain occupancy. The opening of the \$1.3 billion Levi's Stadium in Santa Clara (July 2014) has helped somewhat, with major events such as **Wrestlemania 31** in March 2015, and the upcoming **Super Bowl 50** in February 2016, inducing leisure demand to the typically corporate-driven market. Wrestlemania 31 was reportedly the highest-grossing live event in its history, bringing in 76,976 fans from both domestic and international markets, breaking attendance records at Levi's Stadium and selling out nearby hotels. The upcoming Super Bowl 50 in February 2016 is expected to draw over one million visitors to the market.

Newly Opened

With many projects proposed for years, the market is finally starting to see an influx of new supply, mostly within the branded select-service and extended-stay categories. The following table depicts new hotel openings since 2014.

RECENTLY OPENED HOTELS

Hotel	Product Type	Location	Rooms	Open Date
*Residence Inn San Jose Airport	ES	San Jose	175	Jun-15
*Springhill Suites San Jose Airport	ES	San Jose	146	Jun-15
Residence Inn by Marriott Palo Alto Menlo Park	ES	Menlo Park	138	Mar-15
Aloft Sunnyvale	SS	Sunnyvale	85	Mar-15
Homewood Suites Palo Alto	ES	Palo Alto	138	Mar-15
Hilton Garden Inn Palo Alto	SS	Palo Alto	174	Mar-15
Enchante Boutique Hotel	B	Los Altos	19	Feb-15
Courtyard Sunnyvale Mountain View	SS	Sunnyvale	145	Oct-14
Joie De Vivre The Epiphany	B	Palo Alto	86	Mar-14
TownePlace Suites San Jose Santa Clara	LS	Santa Clara	107	Feb-14
Courtyard San Jose North Silicon Valley	SS	San Jose	157	Jan-14
Total			1,370	
*Represents dual-branded properties				
Key: FS=Full Service, SS= Select Service, ES= Extended Stay, B=Boutique, LS=Limited Service				

Source: HVS, Build Central, Local Planning Office, respective developer websites.

Opened in May 2015, the 138-suite **Residence Inn by Marriott Palo Alto Menlo Park** features the brand's newest design. The hotel offers its guests convenient access to Facebook's new campus, Stanford University, and downtown Palo Alto. Converted from the former Pacific Inn, the **Aloft Sunnyvale** represents the brand's first adaptive reuse project. The hotel is located directly across from Sunnyvale Town Center, a 36-acre mixed-use development with shops, restaurants, and entertainment. Coined the "first romantic luxury hotel in the heart of Silicon Valley," the **Enchante Hotel** opened in Los Altos in February 2015. Located four miles from Google headquarters, the 19-room luxury boutique hotel offers specialized amenities such as canine concierge services, pet-friendly rooms, and Parisian décor.

Proposed Hotel Developments

Fueled by strong market performance and expectations for continued growth, developers continue to propose new projects in the market, despite the relatively high cost of development and a challenging entitlement process. Of these, only three properties (408 rooms), within San Jose and Palo Alto, are currently under construction, while nearly 6,000 rooms are proposed and in various stages of development, as reflected in the following tables.

UNDER CONSTRUCTION

Proposed Hotel	Product Type	Address/ Location	Rooms	Est. Open Date	Developer	Status
Aloft Santa Clara	SS	San Jose	175	Jul-15	CalTex Hospitality	Under Construction
The Clement Hotel	FS	Palo Alto	23	Q3 2015	Pacific Hotels	Under Construction
AC by Marriott	SS	San Jose	210	Q4 2016	TPG Hospitality	Under Construction
Total			408			
Key: FS=Full Service, SS= Select Service, ES= Extended Stay, B=Boutique, LS=Limited Service						

Source: HVS, Build Central, Local Planning Office, respective developer websites.

At the heels of the opening of the 86-room Aloft Sunnyvale, the **Aloft Santa Clara** will officially open its doors to the public on July 30, 2015. Located in the recently-developed America Center complex in north San Jose at the border of Santa Clara, the Aloft Santa Clara will feature 175 rooms, complimentary WIFI, the brand's signature wzyx bar and grab'n'go option re:fuel, the re:charge gym, and an outdoor pool. The hotel marks Starwood Hotels & Resorts' third Aloft-branded hotel in Silicon Valley. Located across from Stanford University, the **Clement Palo Alto** will feature 23 one-bedroom suites and offer an all-inclusive experience, including personalized concierge services, custom prepared meals, a rooftop pool, and a fully stocked Guest Pantry, among other amenities. The hotel is slated to open in the fall of 2016. The **AC by Marriott San Jose** represents the company's debut of its newest lifestyle brand in the Silicon Valley market. Developed by TPG Hospitality, the hotel promises to deliver the brand's motto of "stylish hotels for urban spirits," by offering a contemporary hospitality guest experience with efficient, European-inspired guestroom design.

IN THE PIPELINE

Proposed Hotel	Product Type	City	Rooms	Est. Open Date	Owner/Developer	Status
Residence Inn by Marriott Cupertino	ES	Cupertino	180	Dec-16	Sand Hill Property Company	Approved; Construction to begin shortly
Proposed Vallco Redevelopment Hotel	TBD	Cupertino	TBD		Sand Hill Property Company	Early Development
Vallco Hyatt House	ES	Cupertino	148		Cupertino Property Development II, Inc.	Approved; Pending Building Permits
Proposed Boutique Hotel	B	Menlo Park	63		Pollock Financial	Application Pending
Menlo Gateway Project (Marriott Autograph Collection)	FS	Menlo Park	250	Q1 2018	Bohannon Development Company	Approved
Holiday Inn	LS	Milpitas	128	Q1 2016	Alps Hospitality	Approved; Construction to begin shortly
Springhill Suites	LS	Milpitas	124	Q1 2016	Alps Hospitality	Approved; Construction to begin shortly
Pacific Mall Silicon Valley	TBD	Milpitas	240		The Torgan Group	Approved
Aloft Mountain View	SS	Mountain View	200	Jul-17	Shashi Corporaton	Application Pending
The Village Hotel at San Antonio Center (Ph II)	TBD	Mountain View	167		Merlone Geier Partners	Approved
Holiday Inn Express	LS	Mountain View	76		Temple Hospitality	Application Pending
Moffett Gateway Hotel	TBD	Mountain View	255		Broadreach Capital Partners	Application Pending
The Clement Hotel	FS	Palo Alto	23	Sep-15	Pacific Hotels	Under Construction
*Courtyard by Marriott	SS	Palo Alto	148		T2 Development	Application Pending
*AC by Marriott	SS	Palo Alto	153		T2 Development	Application Pending
Staybridge Suites (former Mings Restaurant)	ES	Palo Alto	147	Q1 2016	Ming's Chinese Cuisine	Approved; Construction to begin shortly
Proposed Bay 101 Hotel I	TBD	San Jose	230		Bay 101 Casino	Approved
Proposed Bay 101 Hotel II	TBD	San Jose	240		Bay 101 Casino	Approved
Proposed Hotel 1610 N 4th Street	TBD	San Jose	120		San Jose Airport Inn	Application Pending
AC by Marriott	SS	San Jose	210	Q4 2016	TPG Companies	Under Construction
Aloft Santa Clara	SS	San Jose	175	Jul-15	CalTex Hospitality	Under Construction
*Residence Inn by Marriott	ES	San Jose	135		InfiniPower Hospitality Group	Application Pending
*Fairfield Inn	ES	San Jose	115		InfiniPower Hospitality Group	Application Pending
*Hampton Inn	LS	San Jose	145		Kalthia Group	Application Pending
*Home 2 Suites	ES	San Jose	140		Kalthia Group	Application Pending
*Hyatt Place	SS	San Jose	164		Hyatt	Approved
*Hyatt House	ES	San Jose	167		Hyatt	Approved
Homewood Suites	ES	San Jose	145		OTO Development	Approved
City Place Santa Clara Hotel(s)	TBD	Santa Clara	700		The Related Companies	Early Development
Proposed Hotel	TBD	Sunnyvale	83		Degan Development Group	Application Pending
Hampton Inn	SS	Sunnyvale	166		Myhre Group Architects	Application Pending
Holiday Inn Express	LS	Sunnyvale	51		Stay Cal Hotels	Approved; Building Permits pending
Proposed Paradigm Hotel	TBD	Sunnyvale	180		Peninsular Investments	Application Pending
*AC by Marriott	SS	Sunnyvale	201		T2 Development	Application Pending
*Residence Inn by Marriott	ES	Sunnyvale	123		T2 Development	Application Pending
Proposed T2 Hotel	TBD	Sunnyvale	187		Lifestyle Hotel: Rashik Patel	Application Pending
Total			5,979			

*Represents dual-branded projects

Key: FS=Full Service, SS=Select Service, ES=Extended Stay, B=Boutique, LS=Limited Service, TBD=To Be Determined

Source: HVS, Build Central, Local Planning Office, respective developer websites.

With lower development costs and favorable operating ratios, branded select-service and extended-stay hotels dominate the supply pipeline. As competition for land increases and costs of development rise, developers are also looking to dual-branded projects for more feasible options, as reflected in the recently opened dual-branded **Residence Inn/Springhill Suites San Jose Airport** and five other projects currently proposed in the market. The dual-branded projects are expected to maximize the value of the land, minimize construction costs, increase operational efficiencies, and target a wider audience than single-hotel projects.

HOTEL TRANSACTIONS

Transaction activity in Silicon Valley has ramped up since the beginning of 2014. Select-service and extended-stay hotels continue to attract REITS, domestic buyers, and overseas capital. **RLJ Trust** purchased the **Hyatt House Santa Clara**, **Hyatt House San Jose**, and **Hyatt Place Fremont** for a combined portfolio price of approximately \$270,000 per room in March 2014. **Chatham Lodging Trust** closed on four **Residence Inns** — one in Mountain View, one in San Mateo, and two in Sunnyvale — for a combined portfolio price of over \$400,000 per room. Additionally, a number of independent or soft-branded hotels were purchased for renovation, repositioning, and rebranding. As the cost of land and development increases, investors who are eager to enter the market are choosing to buy existing assets and reposition them rather than wait through the development process or undertake riskier new construction projects. **Hilton Worldwide's** recent purchase

and conversion of **Kimpton's Cypress Hotel** to the **Juniper Hotel Curio Collection by Hilton** reflects this strategy. Other conversions upon sale are noted in the following chart.

SILICON VALLEY HOTEL TRANSACTIONS 2014-2015 YTD

Name	Location	Sale Date	Seller	Buyer	Rooms	Price	Price/Room	Est. Cap Rate
Cypress Hotel (Juniper Hotel, Curio Collection by Hilton)	Cupertino	Jun-15	Cornerstone RE Advisors	Hilton Worldwide	224	\$103,700,000	\$462,946	—
Hotel Valley Park	San Jose	Mar-15	Tri-Lin Holdings, LLC	Suraj Hitten	55	9,500,000	172,727	—
Quality Inn & Suites	Santa Clara	Feb-15	Mi Ja Choi	Rajputana Hospitality	70	9,062,500	129,464	—
Wyndham Garden Hotel (Holiday Inn San Jose Airport)	San Jose	Jan-15	Pacifica Company	Aju Hotels and Resorts	354	53,450,000	150,989	—
Domain Hotel Silicon Valley	Sunnyvale	Dec-14	Snyder Nationwide Real Estate	Platinum Equity	137	42,000,000	306,569	—
Hyatt Place San Jose Downtown	San Jose	Nov-14	DiNapoli Capital Partners, JV:	Ultima Hospitality	234	43,000,000	183,761	6.8%
Pruneyard Plaza Hotel (Doubletree Pruneyard)	Campbell	Oct-14	Blackstone	Ellis Partners & Fortress	171	43,713,143	255,632	—
Hotel De Anza	San Jose	Sep-14	Saratoga Capital Inc.	ML San Jose Holding LLC	100	20,400,000	204,000	—
Marriott Fremont	Fremont	Aug-14	American General Life Insurance Company	Ashford Hospitality Trust, Inc.	357	50,000,000	140,056	6.2%
Moorpark Hotel (Four Points by Sheraton)	San Jose	Aug-14	Geolo Capital	Shashi Corporation	79	13,600,000	172,152	—
Quality Inn (to be the Nest Hotel)	Palo Alto	Jun-14	Shah & Patel	Shashi Corporation	54	10,000,000	185,185	—
Residence Inn by Marriott Sunnyvale Silicon Valley I	Sunnyvale	Jun-14	Cerberus	Chatham Lodging Trust	231	94,400,000	408,658	6.4%
Residence Inn by Marriott Silicon Valley II	Sunnyvale	Jun-14	Cerberus	Chatham Lodging Trust	247	103,700,000	419,838	6.6%
Residence Inn by Marriott Palo Alto Mountain View	Mountain View	Jun-14	Cerberus	Chatham Lodging Trust	112	57,400,000	512,500	6.6%
Residence Inn by Marriott San Mateo	San Mateo	Jun-14	Cerberus	Chatham Lodging Trust	159	73,900,000	464,780	5.9%
Residence Inn San Jose Campbell	Campbell	Jun-14	Cerberus	NorthStar Realty Finance	80	24,583,062	307,288	—
Silicon Valley Inn (Best Western Plus Silicon Valley)	Sunnyvale	May-14	Kumar Living Trust	Patel Family/Rhee Trust, JV	100	13,500,000	135,000	—
Hyatt House	Santa Clara	Mar-14	Hyatt Hotels Corporation	RLJ Lodging Trust	150	40,570,000	270,467	—
Hyatt Place Fremont	Fremont	Mar-14	Hyatt Hotels Corporation	RLJ Lodging Trust	151	23,525,000	155,795	—
Hyatt House San Jose Silicon Valley	San Jose	Mar-14	Hyatt Hotels Corporation	RLJ Lodging Trust	164	44,159,000	269,262	—
Pacific Inn (Aloft Sunnyvale)	Sunnyvale	Jan-14	Pacific Hotels Inc/Auburn Motel Investment Group, LLC/Sunnyvale Motel Investments Inc.	Shashi Corporation	108	6,950,000	64,352	—

Source: Real Capital Analytics & HVS

CONCLUSION

Overall, the outlook for the Silicon Valley lodging market remains strong, supported by a booming economy that is showing no signs of slowing down, expansions of several key employers, and major developments that will further enhance the landscape of the market. With demand at record levels, the recently opened new supply has had no problems being absorbed by the market, allowing hoteliers to continue rate-driven strategies. Although there are still a number of proposed projects in the market, the pipeline of hotels under construction with definitive opening dates is still at a modest level compared to the anticipated demand. Branded select-service and extended-stay hotels dominate the new supply pipeline, and recent transactions geared toward renovation and rebranding of existing hotels reflect that brand affiliations still remain important in this market.



About HVS

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About the Author



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