



SAN FRANCISCO PLANNING DEPARTMENT

Executive Summary Conditional Use

HEARING DATE: OCTOBER 14, 2010

Hearing Date: October 14, 2010
Filing Date: September 22, 2010
Case No.: **2009.1100H**
Project Address: **1095 Market Street**
Category: Category I – Joseph D. Grant Building
Zoning: C-3-G (Downtown General)
90-X Height and Bulk District
Block/Lot: 3703/ 059
Applicant: Jim Abrams
Gibson, Dunn & Crutcher
555 Mission Street Suite 3000
San Francisco, CA 94103
Staff Contact Tim Frye - (415) 558-6625
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Recommendation: **Approval with Conditions**

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PROJECT DESCRIPTION

The proposed project at 1095 Market Street is a seismic strengthening and architectural rehabilitation of an existing historic 9-story (including basement), 61,000sf commercial office building built in 1904. The project would rehabilitate the historic building (which is rated Category I under Article 11 of the San Francisco Planning Code) in a manner consistent with the Secretary of Interior's Standards for Historic Rehabilitation. The proposed project would also convert the building use from office to a 42,000sf, 94-room, R-1 occupancy hostel/hotel. The hotel/hostel will include a 2,500sf commercial (restaurant), a 3,500sf nighttime entertainment and two rooftop terraces that total 8,500 sf. The project intends to preserve, repair and rehabilitate, or, if possible, to reconstruct several of the major architectural elements of the building.

The ground floor storefront on Market and 7th Street and Stevenson, which has been heavily modified and bears no resemblance to the original storefront, would be replaced with a new storefront and building entrance that is compatible with the historic character of the building. The building's double-hung wood windows on its main facades (Market, 7th St and Stevenson) will be retained and rehabilitated. The project would likely replace the window glazing with more energy efficient and acoustically insulated double pane glazing. The exterior brick façade would be cleaned, re-pointed and repaired where needed. Studies demonstrate that the building is currently seismically unsound and its building systems are failing.

The project proposes an innovative program to hire formerly homeless and emancipated foster youth from Larkin Street Youth Services ("Larkin Street"). Larkin Street is a highly respected organization located in the Tenderloin District of San Francisco and has a successful record of finding employment opportunities for formerly homeless and emancipated foster youth.

SITE DESCRIPTION AND PRESENT USE

1095 Market Street (Assessor's Block 0703, Lot 059) is an existing 9-story (including basement), 61,000sf commercial office building built in 1904. The subject building is a Category I (Significant) building identified under Article 11 of the Planning Code. The building located between 6th and 7th Streets on Market sits on an 8,250sf site zoned C-3-G. The current use of the building is Office.

SURROUNDING PROPERTIES AND NEIGHBORHOOD

The project site is located in the Mid-Market area and is well-served by public transit. The surrounding neighborhood presents an eclectic mix of uses and building stock is primarily from the early part of the 20th- Century, ranging in height from 2-to-10-stories. The site is adjacent to the east to the Uptown Tenderloin National Register District (Primarily Zoned RC-4 (Residential Commercial, High Density)) and the Article 10 Civic Center 10 Historic District (Zoned P (Public)).

ENVIRONMENTAL REVIEW

The Planning Department has determined that the proposed project is exempt/excluded from environmental review; pursuant to CEQA Guideline Section 15301 (Class One-Maintenance and Repair of Existing facility) because the project is an alteration of an existing structure and meets the *Secretary of the Interior's Standards*.

HEARING NOTIFICATION

TYPE	REQUIRED PERIOD	REQUIRED NOTICE DATE	ACTUAL NOTICE DATE	ACTUAL PERIOD
Classified News Ad	20 days	September 25, 2010	September 22, 2006	23 days
Posted Notice	20 days	September 25, 2010	September 25, 2010	20 days
Mailed Notice	10 days	October 4, 2010	September 25, 2010	22 days

PUBLIC COMMENT

- The Department is not aware of any opposition to this project.

ISSUES AND OTHER CONSIDERATIONS

1. On October 6, 2010, the HPC conducted a duly noticed public hearing on the current project, Case No. 2009.1100H for the Permit to Alter and GRANTED the Permit to Alter WITH CONDITIONS, Motion No. XXXXXX.
2. The project proposes an innovative program to hire formerly homeless and emancipated foster youth from Larkin Street Youth Services ("Larkin Street"). Larkin Street is a highly respected

organization located in the Tenderloin District of San Francisco and has a successful record of finding employment opportunities for formerly homeless and emancipated foster youth.

3. Section 161 of the Planning Code exempts off-street parking, freight, loading and service vehicle requirements within the C-3. The Project does not propose any off-street parking or loading and is exempted under this provision of the Planning Code in support of the City's Transit First policy.
4. The attached report prepared by PKF concludes that no comparable hostel/hotel exists in San Francisco, and therefore that the project would have significant market demand because of the lack of a comparable hostel/hotel. San Francisco is one of the world's most popular tourist destinations and represents a significant component of San Francisco's economy.

REQUIRED COMMISSION ACTION

In order for the project to proceed, the Commission must grant Conditional Use Authorization to allow the conversion of the existing Office use to a Hotel/Hostel use with up to 94 guest rooms.

BASIS FOR RECOMMENDATION

The Department believes this project is necessary and/or desirable under Section 303 of the Planning Code for the following reasons:

- The Project is located within an existing high-density downtown neighborhood. The project will have a positive effect on the prevailing character in this neighborhood; at its hostel/hotel use will generate less traffic and transit impacts than the previous office use. The addition of hostel/hotel units near the downtown core will allow visitors to easily walk or take public transit. As noted above, 1095 Market Street is one of the most transit- and employment accessible locations in the City.
- The Project proposes to provide employment opportunities for formerly homeless and emancipated foster youth.
- The subject building would be preserved and further restored and rehabilitated as part of the Project. The proposed modifications would be in compliance with the Secretary of Interior's Standards and have been reviewed by the Historic Preservation Commission and Planning Department Preservation staff. The Project would not adversely affect the special character or special historical, architectural or aesthetic interest or value of the landmark and its site. The Project would serve to strengthen and extend the continued economic viability of an existing historically significant structure identified under Article 11 of the Code and serve to cause further restoration of this historic building.
- The Project meets all applicable requirements of the Planning Code.

RECOMMENDATION: Approval with Conditions
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Attachments:

Block Book Map
Sanborn Map
Aerial Photographs
Environmental Determination
Photographs
Project Sponsor Submittals
Reduced Plans

Attachment Checklist

- | | |
|---|---|
| <input checked="" type="checkbox"/> Executive Summary | <input checked="" type="checkbox"/> Project sponsor submittal |
| <input checked="" type="checkbox"/> Draft Motion | Drawings: <u>Existing Conditions</u> |
| <input type="checkbox"/> Environmental Determination | <input checked="" type="checkbox"/> Check for legibility |
| <input checked="" type="checkbox"/> Zoning District Map | Drawings: <u>Proposed Project</u> |
| <input checked="" type="checkbox"/> Height & Bulk Map | <input checked="" type="checkbox"/> Check for legibility |
| <input type="checkbox"/> Parcel Map | <input type="checkbox"/> Health Dept. review of RF levels |
| <input checked="" type="checkbox"/> Sanborn Map | <input type="checkbox"/> RF Report |
| <input checked="" type="checkbox"/> Aerial Photo | <input type="checkbox"/> Community Meeting Notice |
| <input checked="" type="checkbox"/> Context Photos | <input checked="" type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Site Photos | |

Exhibits above marked with an "X" are included in this packet

Planner's Initials

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SAN FRANCISCO PLANNING DEPARTMENT

Subject to: (Select only if applicable)

- Inclusionary Housing (Sec. 415)
- Jobs Housing Linkage Program (Sec. 413)
- Downtown Park Fee (Sec. 139)
- First Source Hiring (Admin. Code)
- Child Care Requirement (Sec. 414)
- Other

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Planning Commission Motion No. XXXX

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ADOPTING FINDINGS RELATED TO THE APPROVAL OF A CONDITIONAL USE AUTHORIZATION PURSUANT TO SECTION 216(B) OF THE PLANNING CODE TO CONVERT THE SUBJECT BUILDING FROM OFFICE TO A HOTEL/HOSTEL WITH UP TO 94 ROOMS WITH ASSOCIATED RESTAURANT, BAR, AND NIGHTCLUB USES FOR THE PROPERTY LOCATED ON LOT 059 IN ASSESSOR’S BLOCK 3703. THE SUBJECT BUILDING IS WITHIN A C-3-G (DOWNTOWN GENERAL) ZONING DISTRICT AND AN 90-X HEIGHT AND BULK DISTRICT AND A CATEGORY I (SIGNIFICANT) BUILDING UNDER ARTICLE 11 OF THE PLANNING CODE.

RECITALS

1. On May 27, 2010, JIM ABRAMS (Project Sponsor) filed an application with the San Francisco Planning Department (hereinafter “Department”) for a Conditional Use Authorization pursuant to Section 216(b) of the Planning Code to convert the exiting office building to a hotel/hostel with up to 94 rooms at the subject building located on lot 059 in Assessor’s Block 3703, a Category I Building, historically known as the Joseph D. Grant Building.

2. On September 22, 2010, JIM ABRAMS (Project Sponsor) filed an application with the San Francisco Planning Department (hereinafter "Department") for a Permit to Alter for exterior rehabilitation, including reconstruction of the historic cornice based on pictorial evidence and the installation of canopies, signage, and awnings at the subject building located on lot 059 in Assessor's Block 3703, a Category I Building, historically known as the Joseph D. Grant Building.
3. The Project was determined by the Department to be categorically exempt from environmental review. The Historic Preservation Commission (hereinafter "HPC") has reviewed and concurs with said determination.
4. On October 6, 2010, the HPC conducted a duly noticed public hearing on the current Project, Case No. 2009.1100H for the Permit to Alter and GRANTED the Permit to Alter WITH CONDITIONS, Motion No. XXXXXX.
5. In reviewing the Application, the Planning Commission ("Commission") has had available for its review and consideration case reports, plans, and other materials pertaining to the Project contained in the Department's case files, has reviewed and heard testimony and received materials from interested parties during the public hearing on the Project.
6. The Commission has reviewed and considered reports, studies, plans and other documents pertaining to the Project.
7. The Commission has heard and considered the testimony presented at the public hearing and has further considered the written materials and oral testimony presented on behalf of the Project Sponsor, Department staff, and other interested parties.

MOVED, that the Commission hereby grants the approval requested in Application No. 2009.1100C, as modified herein, subject to the conditions contained in Exhibit A, attached hereto and incorporated herein by reference, based on the following findings:

FINDINGS

Having reviewed the materials identified in the recitals above, and having heard all testimony and arguments, this Commission finds, concludes, and determines as follows:

1. The above recitals are accurate and constitute findings of this Commission.
2. **Project Description.** The proposed Project at 1095 Market Street is a seismic strengthening and architectural rehabilitation of an existing historic 9-story (including basement), 61,000sf commercial office building built in 1904. The Project would rehabilitate the historic building (which is rated Category I under Article 11 of the San

Francisco Planning Code) in a manner consistent with the Secretary of Interior's Standards for Historic Rehabilitation. The proposed Project would also convert the building use from office to a 42,000sf, 94-room, R-1 occupancy hostel/hotel. The hotel/hostel will include a 2,500sf commercial (restaurant), a 3,500sf nighttime entertainment and two rooftop terraces that total 8,500 sf. The Project intends to preserve, repair and rehabilitate, or, if possible, to reconstruct several of the major architectural elements of the building.

The ground floor storefront on Market and 7th Street and Stevenson, which has been heavily modified and bears no resemblance to the original storefront, would be replaced with a new storefront and building entrance that is compatible with the historic character of the building. The building's double-hung wood windows on its main facades (Market, 7th St and Stevenson) will be retained and rehabilitated. The Project would likely replace the window glazing with more energy efficient and acoustically insulated double pane glazing. The exterior brick façade would be cleaned, re-pointed and repaired where needed. Studies demonstrate that the building is currently seismically unsound and its building systems are failing.

The Project proposes an innovative program to hire formerly homeless and emancipated foster youth from Larkin Street Youth Services ("Larkin Street"). Larkin Street is a highly respected organization located in the Tenderloin District of San Francisco and has a successful record of finding employment opportunities for formerly homeless and emancipated foster youth.

3. **Site Description and Present Use.** 1095 Market Street (Assessor's Block 0703, Lot 059) is an existing 9-story (including basement), 61,000sf commercial office building built in 1904. The subject building is a Category I (Significant) building identified under Article 11 of the Planning Code. The building located between 6th and 7th Streets on Market sits on an 8,250sf site zoned C-3-G. The current use of the building is Office.
4. **Surrounding Properties and Neighborhood.** The Project Site is located in the Mid-Market area and is well-served by public transit. The surrounding neighborhood presents an eclectic mix of uses and building stock is primarily from the early part of the 20th- Century, ranging in height from 2-to-10-stories. The site is adjacent to the east to the Uptown Tenderloin National Register District (Primarily Zoned RC-4 (Residential Commercial, High Density)) and the Article 10 Civic Center 10 Historic District (Zoned P (Public)).
5. **Public Comment.** Staff has not received any input regarding the Project as of the date of this report.
6. **Planning Code Compliance:** The Commission finds that the Project is consistent with the relevant provisions of the Planning Code in the following manner:
 - A. **Use and Density.** Section 216(b) of the Planning Code requires Conditional Use Authorization a hotel or hostel.

The Project proposes up to 94 new hotel/hostel guest rooms, and therefore requires Conditional Use Authorization by the Planning Commission. The attached report prepared by PKF concludes that no comparable hostel/hotel exists in San Francisco, and therefore that the Project would have significant market demand because of the lack of a comparable hostel/hotel. San Francisco is one of the world's most popular tourist destinations and represents a significant component of San Francisco's economy.

All proposed accessory commercial and nighttime entertainment uses are principally permitted within the C-3 District

- B. **Height and Bulk.** The subject property is located within a 90-X Height and Bulk District. Pursuant to Section 270, projects within "-X" Bulk Districts are not subject to specific bulk controls. Pursuant to Section 1111.6 of the Planning Code, any additions to height of the a Category I – Significant building (including addition of mechanical equipment) shall be limited to one story above the height of the existing roof, shall be compatible with the scale and character of the building, and shall in no event cover more than 75 percent of the roof area.

The HPC reviewed the Project at their 10/6/10 hearing and granted with conditions a Permit to Alter for the roof addition. Subject to the HPC's conditions of approval the Project, and in compliance with height exceptions for rooftop equipment rooms, the proposed expansion is in compliance with this Code requirement.

- C. **Usable Open Space.** Section 138 requires open space within the C-3 for new construction or a project that results in an addition of 20% or more of the gross floor area. The proposed Project does not have an open space requirement.

Although it is not a requirement identified within the Planning Code, the Project proposes a roof terrace approximately 8,500sf. The Project is in compliance.

- D. **Off-Street Parking and Off-Street Loading.** Section 161 of the Planning Code exempts off-street parking, freight, loading and service vehicle requirements within the C-3.

The Project does not propose any off-street parking or loading and is exempted under this provision of the Planning Code in support of the City's Transit First policy.

- E. **Jobs-Housing Linkage Program.** Pursuant to Section 413 (Formally Section 313), large-scale development projects that contain entertainment, hotel, office, research and development, or retail uses are required to pay a fee to a designated housing developer or to the City in order to help offset the cost of building additional housing. This requirement applies to hotel projects proposing at least 25,000 square feet of new hotel uses.

The Project proposes approximately 61,000 sf of new hotel use and thus is subject to Section 313 requirements. The Sponsor will meet the requirements of Section 413 by payment of an in-lieu fee.

- F. **Childcare Requirement.** Pursuant to Section 414 (Formally Section 314), large-scale development projects are required to (1) provide on-site childcare, (2) provide off-site childcare, (3) pay an in-lieu fee, or (4) combine the provision of on-site or off-site childcare with the payment of an in-lieu fee. This requirement applies to a Hotel or Office development projects proposing the net addition of 50,000 or more gross square feet of use.

The Project proposes a change of use to hotel use. The gross square footage of the subject building is approximately 61,100sf and therefore Section 414 applies. The Sponsor will either provide the facility itself, make arrangements with an appropriate organization to do so, or pay the in-lieu fee.

7. **Planning Code Section 303** establishes criteria for the Planning Commission to consider when reviewing applications for Conditional Use authorization. Section 303(g) of the Code also establishes specific criteria for Hotel uses. On balance, the Project complies with the criteria of Section 303, in that:

- A. The proposed use or feature, at the size and intensity contemplated and at the proposed location, will provide a development that is necessary or desirable for, and compatible with, the neighborhood or the community.

The proposed hostel/hotel use is necessary and desirable for the neighborhood and the community for several reasons. First, the Project is necessary to make financially feasible the seismic retrofit of a Category I historic building that is currently in very poor seismic condition. Second, the Project is necessary and desirable because it would allow for the rehabilitation of the historic building in a manner consistent with the Secretary of the Interior's Standards of Historic Rehabilitation, and therefore would protect and enhance the physical beauty of the building and the neighborhood. Third, the proposed hostel/hotel use is desirable for the Mid-Market neighborhood and to the Market Street corridor because it proposes no off-street parking, has been designed in a manner to attract travelers who arrive in San Francisco by transit, and would provide affordable travel accommodations for younger travelers who will appreciate and contribute to the arts, theater, and restaurant uses in the Mid-Market neighborhood. The hostel/hotel use is desirable because it would provide pedestrian activity during both the daytime and nighttime, and therefore would help to enliven Market Street.

- B. The use or feature as proposed will not be detrimental to the health, safety, convenience, or general welfare of persons residing or working in the vicinity, or injurious to property, improvements, or potential development in the vicinity, with respect to aspects including, but not limited to the following:

The 1095 Market Street building is seismically unsound and its building systems are failing. The building therefore currently could be detrimental to the health, safety, and general welfare of persons within the building or proximate to the building during an earthquake. By seismically retrofitting the building, the Project would significantly improve the health, safety, and welfare of residents of the Mid Market Neighborhood and residents of the City more generally. These benefits would not be economically feasible without the conversion of the building to hostel/hotel use.

- i. The nature of the proposed site, including its size and shape, and the proposed size, shape, and arrangement of structures.

The 1095 Market Building was originally constructed between 1902 and 1905, and is one of the few buildings in the downtown area to have survived the 1906 earthquake. The size and shape of the building therefore predated almost all of the other buildings on Market Street. The proposed Project would not alter the size or shape of the building and therefore the physical nature of the building could not be detrimental to the health, safety, convenience, or general welfare of persons residing or working in the vicinity

- ii. The accessibility and traffic patterns for persons and vehicles, the type and volume of such traffic, and the adequacy of proposed off-street parking and loading and of proposed alternatives to off-street parking, including provisions of car-share parking spaces, as defined in Section 166.

The proposed Project has been designed in a manner to attract visitors who will arrive at the hostel/hotel by transit, which is appropriate because the Project is located less than one block from the Civic Center BART and Muni rail station, and is located on Market Street. The building was constructed with no off-street parking and the Project does not propose any off-street parking. The Transportation Study prepared for the Project for compliance with the California Environmental Quality Act ("CEQA") indicates that the hostel/hotel use would generate fewer automobile trips than would an office building, which comports with the City's Transit First policy.

- iii. The safeguards afforded to prevent noxious or offensive emissions such as noise, glare, dust, and odor.

The Project does not propose any uses that would result in noxious or offensive noise, glare, dust, or odor emissions. The hotel units would generate noise similar to or less than that generated by nearby uses. The proposed nightclub and bar will be located underground and will be properly noise insulated, if necessary. The ground-floor restaurant use will be properly vented and trash disposed of in an appropriate manner. The Project is located adjacent to the Market and 7th Streets to the north and west, to the Federal Court of Appeals to the south, and to the vacant Merrill's retail store to the east, and therefore is not located adjacent to any sensitive uses.

- iv. Treatment given, as appropriate, to such aspects as landscaping, screening, open spaces, parking and loading areas, service areas, lighting, and signs.

The ground floor storefront on Market and 7th Street and Stevenson, which has been heavily modified and bears no resemblance to the original storefront, would be replaced with a new storefront and building entrance that is compatible with the historic character of the building. The building's double-hung wood windows on all elevations (Market, 7th St and Stevenson) will be retained and rehabilitated. The exterior brick and Terra Cotta façade, which is in relatively good condition, would be cleaned, re-pointed and repaired where needed.

- C. Such use or feature as proposed will comply with the applicable provisions of this Code and will not adversely affect the General Plan.

On balance, the Project meets the requirements of the Planning Code and is in conformity with the General Plan. For more information regarding General Plan conformance, see Item No. 13.

Section 303(g) conditional use authorization for hotel uses.

1. The impact of the employees of the hotel or motel on the demand in the City for housing, public transit, childcare, and other social services. To the extent relevant, the Commission shall also consider the seasonal and part-time nature of employment in the hotel or motel;

The Project proposes an innovative program to hire formerly homeless and emancipated foster youth from Larkin Street Youth Services ("Larkin Street"). Larkin Street is a highly respected organization located in the Tenderloin District of San Francisco and has a successful record of finding employment opportunities for formerly homeless and emancipated foster youth. The future employees of the Project may currently be unemployed, or the Project may provide them with increased hours or income compared to their current jobs. These new job opportunities would reduce the demand for social services for those who are currently unemployed or whose current job does not provide sufficient income. The hotel Transit Occupancy Tax would generate revenues for the City's general fund, which could be used to fund housing, public transit, childcare or other social services. The Project would also be subject to the requirements of the City's Job Housing linkage fee, the Transit Impact Demand Fee, and the Child Care fee, the amount of which are updated from time to time to reflect the costs for any increased demand for transit, housing, or child care, respectively, that are generated by the Project.

2. The measures that will be taken by the Project Sponsor to employ residents of San Francisco in order to minimize increased demand for regional transportation.

The Project proposes an innovative program to employ residents of San Francisco. Specifically, the Project proposes to hire formerly homeless and emancipated foster youth from Larkin Street Youth Services ("Larkin Street"). Larkin Street is a highly respected organization located in the Tenderloin District of San Francisco and has a successful record of finding employment opportunities for formerly homeless and emancipated foster youth.

3. The market demand for a hotel or motel of the type proposed.

The attached report prepared by PKF concludes that no comparable hostel/hotel exists in San Francisco, and therefore that the Project would have significant market demand because of the lack of a comparable hostel/hotel. San Francisco is one of the world's most popular tourist destinations and represents a significant component of San Francisco's economy.

13. **General Plan Compliance.** The Project is, on balance, consistent with the following Objectives and Policies of the General Plan:

URBAN DESIGN ELEMENT

OBJECTIVE 1

EMPHASIS OF THE CHARACTERISTIC PATTERN WHICH GIVES TO THE CITY AND ITS NEIGHBORHOODS AN IMAGE, A SENSE OF PURPOSE, AND A MEANS OF ORIENTATION.

POLICY 1.3

Recognize that buildings, when seen together, produce a total effect that characterizes the city and its districts.

OBJECTIVE 2

CONSERVATION OF RESOURCES WHICH PROVIDE A SENSE OF NATURE, CONTINUITY WITH THE PAST, AND FREEDOM FROM OVERCROWDING.

POLICY 2.4

Preserve notable landmarks and areas of historic, architectural or aesthetic value, and promote the preservation of other buildings and features that provide continuity with past development.

POLICY 2.5

Use care in remodeling of older buildings, in order to enhance rather than weaken the original character of such buildings.

POLICY 2.7

Recognize and protect outstanding and unique areas that contribute in an extraordinary degree to San Francisco's visual form and character.

The Project directly supports all above-cited policies. The Project would restore a seismically impaired historic resource. The Project will preserve the character-defining historic features of the existing building and return it to usefulness. By allowing the conversion of the property to hostel/hotel and retail use, the Project is a practical and financially viable means to seismically upgrade, rehabilitate and preserve an important building.

The Project proposes no changes to the character-defining exteriors of the building. The intent of the Project is to render financially feasible the seismic retrofit of the building, to repair and restore the original brick and Terra Cotta cladding that covers the exterior of the building, to repair and restore the building's original windows, and to construct a new storefront that would be compatible with the historic characteristics of the building. The Historic Preservation Commission and Planning Department Preservation staff have concluded that the Project, including the elevator and stair penthouse additions, represent a net preservation benefit and conform to the Secretary's Standards for Rehabilitation.

COMMUNITY SAFETY ELEMENT

POLICY 2.8

Preserve, consistent with life safety considerations, the architectural character of buildings and structures important to the unique visual image of San Francisco, and increase the likelihood that architecturally and historically valuable structures will survive future earthquakes.

The Project will seismically upgrade the existing building in a way that will protect the historically significant building. The Historic Preservation Commission and Department Preservation staff has determined that the Project conforms to the Secretary's Standards for Rehabilitation of Historic Buildings, taking into account the economic feasibility of the Project.

TRANSPORTATION ELEMENT

Objectives and Policies

OBJECTIVE 2

USE THE EXISTING TRANSPORTATION INFRASTRUCTURE AS A MEANS FOR GUIDING DEVELOPMENT AND IMPROVING THE ENVIRONMENT.

POLICY 2.1

Use rapid transit and other transportation improvements in the city and region as the catalyst for desirable development and coordinate new facilities with public and private development.

The Project is located within an existing high-density downtown neighborhood. The Project will have a positive effect on the prevailing character in this neighborhood; at its hostel/hotel use will generate less traffic and transit impacts than the previous office use. The addition of hostel/hotel units near the downtown core will allow visitors to easily walk or take public transit. As noted

above, 1095 Market Street is one of the most transit- and employment accessible locations in the City.

TRANSPORTATION ELEMENT – PEDESTRIAN ENVIRONMENT

Objectives and Policies

OBJECTIVE 24:

IMPROVE THE AMBIENCE OF THE PEDESTRIAN ENVIRONMENT.

The existing conditions at the base of the building contribute to a poor pedestrian experience. The restoration and rehabilitation work will not only help ensure the continued preservation of the historic resource but it will also activate a portion of Market, 7th, and Stevenson Streets that is currently inactive and in disrepair.

ENVIRONMENTAL PROTECTION ELEMENT – TRANSPORTATION

Objectives and Policies

OBJECTIVE 15:

INCREASE THE ENERGY EFFICIENCY OF TRANSPORTATION AND ENCOURAGE LAND USE PATTERNS AND METHODS OF TRANSPORTATION WHICH USE LESS ENERGY.

Policy 15.3 - Encourage an urban design pattern that will minimize travel requirements among working, shopping, recreation, school and childcare areas.

The Project will serve this Objective and Policy because the Project site is extremely well-served by public transit and proposes no off-street parking in order to encourage the use of public transportation.

14. **Planning Code Section 101.1(b)** establishes eight priority-planning policies and requires review of permits for consistency with said policies. On balance, the Project does comply with said policies in that:

- A. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses be enhanced.

The Project furthers this policy by proposing ground floor commercial uses. The development of a hotel/hostel use will bring new employees and visitors to the Project Site and area, which would strengthen existing neighborhood operations and encourage new employment opportunities in the at the Project Site.

- B. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods.

The Project will have no effect on existing housing. The Project is compatible with the character of the area, which is somewhat varied in scale, but is generally defined by urban development.

- C. That the City's supply of affordable housing be preserved and enhanced,

The Project will promote this policy by contributing to the City's affordable housing supply by complying with the Jobs-Housing Linkage Program.

- D. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood parking.

A wide variety of goods and services are available within walking distance of the Project Site without reliance on private automobile use. In addition, the area is well served by public transit, providing connections to all areas of the City and to the larger regional transportation network. The Project proposes no off-street parking to discourage commuting via private automobile.

- E. That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced.

The Project does not propose any office development. A number of office tenants would be displaced by conversion of the building use. However, the Project will provide employment opportunities for area residents.

- F. That the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake.

The Project is designed to conform to the structural and seismic safety requirements of the City Building Code.

- G. That landmarks and historic buildings be preserved.

The subject building would be preserved and further restored and rehabilitated as part of the Project. The proposed modifications would be in compliance with the Secretary of Interior's Standards and have been reviewed by the Historic Preservation Commission and Planning Department Preservation staff. The Project would not adversely affect the special character or special historical, architectural or aesthetic interest or value of the landmark and its site. The Project would serve to strengthen and extend the continued economic viability of an existing Significant structure identified under Article 11 of the Code and serve to cause further restoration of this historic building.

H. That our parks and open space and their access to sunlight and vistas be protected from development.

The Project will not cast shadows or impede views for parks and open spaces in the area, nor have any negative impact on existing public parks and open spaces.

15. The Project is consistent with and would promote the general and specific purposes of the Code provided under Section 101.1(b) in that, as designed, the Project would contribute to the character and stability of the neighborhood and would constitute a beneficial development.
16. The Commission hereby finds that approval of the Conditional Use authorization would promote the health, safety and welfare of the City.

DECISION

That based upon the Record, the submissions by the Project Sponsor, the staff of the Department and other interested parties, the oral testimony presented to this Commission at the public hearings, and all other written materials submitted by all parties, the Commission hereby **APPROVES Conditional Use Application No. 2009.1100C** subject to the following conditions attached hereto as "EXHIBIT A" which is incorporated herein by reference as though fully set forth.

APPEAL AND EFFECTIVE DATE OF MOTION: Any aggrieved person may appeal this Conditional Use Authorization to the Board of Supervisors within thirty (30) days after the date of this Motion No. XXXX. The effective date of this Motion shall be the date of this Motion if not appealed (After the 30-day period has expired) OR the date of the decision of the Board of Supervisors if appealed to the Board of Supervisors. For further information, please contact the Board of Supervisors at (415) 554-5184, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94012.

I hereby certify that the Planning Commission ADOPTED the foregoing Motion on October 14, 2010.

Linda Avery
Commission Secretary

AYES:

NAYS:

ABSENT:

ADOPTED: October 14, 2010

Exhibit A

Conditions of Approval

AUTHORIZATION

This authorization is for a conditional use to allow a Hotel/Hostel Use with up to 94 guest rooms located at 1095 Market Street, Lot 059 in Assessor's Block 3703, pursuant to Planning Code Section 216(b) within the C-3-G District and a 90-X Height and Bulk District; in general conformance with plans, dated **October 6, 2010**, and stamped "EXHIBIT B" included in the docket for Case No. **2009.1100CH** and subject to conditions of approval reviewed and approved by the Commission on **October 14, 2010** under Motion No **XXXXXX**.

RECORDATION OF CONDITIONS OF APPROVAL

Prior to the issuance of the building permit or commencement of use for the Project the Zoning Administrator shall approve and order the recordation of a Notice in the Official Records of the Recorder of the City and County of San Francisco for the subject property. This Notice shall state that the Project is subject to the conditions of approval contained herein and reviewed and approved by the Planning Commission on **October 14, 2010** under Motion No **XXXXXX**.

PRINTING OF CONDITIONS OF APPROVAL ON PLANS

The conditions of approval under the 'Exhibit A' of this Planning Commission Motion No. **XXXXXX** shall be reproduced on the Index Sheet of construction plans submitted with the Site or Building permit application for the Project. The Index Sheet of the construction plans shall reference to the Conditional Use authorization and any subsequent amendments or modifications.

SEVERABILITY

The Project shall comply with all applicable City codes and requirements. If any clause, sentence, section or any part of these conditions of approval is for any reason held to be invalid, such invalidity shall not affect or impair other remaining clauses, sentences, or sections of these conditions. This decision conveys no right to construct, or to receive a building permit. "Project Sponsor" shall include any subsequent responsible party.

CHANGES AND MODIFICATIONS

Changes to the approved plans may be approved administratively by the Zoning Administrator. Significant changes and modifications of conditions shall require Planning Commission approval of a new Conditional Use authorization.

Conditions of Approval, Compliance, Monitoring, and Reporting

1. **Validity and Expiration.** The authorization and right vested by virtue of this action is valid for three years from the effective date of the Motion. A building permit from the Department of Building Inspection to construct the Project and commence the approved use must be issued as this Conditional Use authorization is only an approval of the proposed Project and conveys no independent right to construct the Project or to commence the approved use. The Planning Commission may, in a public hearing, consider the revocation of the approvals granted if a site or building permit has not been obtained within three (3) years of the date of the Motion approving the Project. Once a site or building permit has been issued, construction must commence within the timeframe required by the Department of Building Inspection and be continued diligently to completion. The Commission may also consider revoking the approvals if a permit for the Project has been issued but is allowed to expire and more than three (3) years have passed since the Motion was approved. This authorization may be extended at the discretion of the Zoning Administrator only if the failure to issue a permit by the Department of Building Inspection is delayed by a City, state or federal agency or by appeal of the issuance of such permit.
2. **Extension.** This authorization may be extended at the discretion of the Zoning Administrator only where failure to issue a permit by the Department of Building Inspection to perform said tenant improvements is caused by a delay by a City, State or Federal agency or by any appeal of the issuance of such permit(s).
3. **Enforcement.** Violation of any of the Planning Department conditions of approval contained in this Motion or of any other provisions of Planning Code applicable to this Project shall be subject to the enforcement procedures and administrative penalties set forth under Planning Code Section 176 or Section 176.1. The Planning Department may also refer the violation complaints to other city departments and agencies for appropriate enforcement action under their jurisdiction.
4. **Monitoring.** The Project requires monitoring of the conditions of approval in this Motion. The Project Sponsor or the subsequent responsible parties for the Project shall pay fees as established under Planning Code Section 351(e) (1) and work with the Planning Department to ensure compliance.
5. **Revocation due to Violation of Conditions.** Should implementation of this Project result in complaints from interested property owners, residents, or commercial lessees which are not resolved by the Project Sponsor and found to be in violation of the Planning Code and/or the specific Conditions of Approval for the Project as set forth in Exhibit A of this Motion, the Zoning Administrator shall refer such complaints to the Commission, after which it may hold a public hearing on the matter to consider revocation of this authorization.

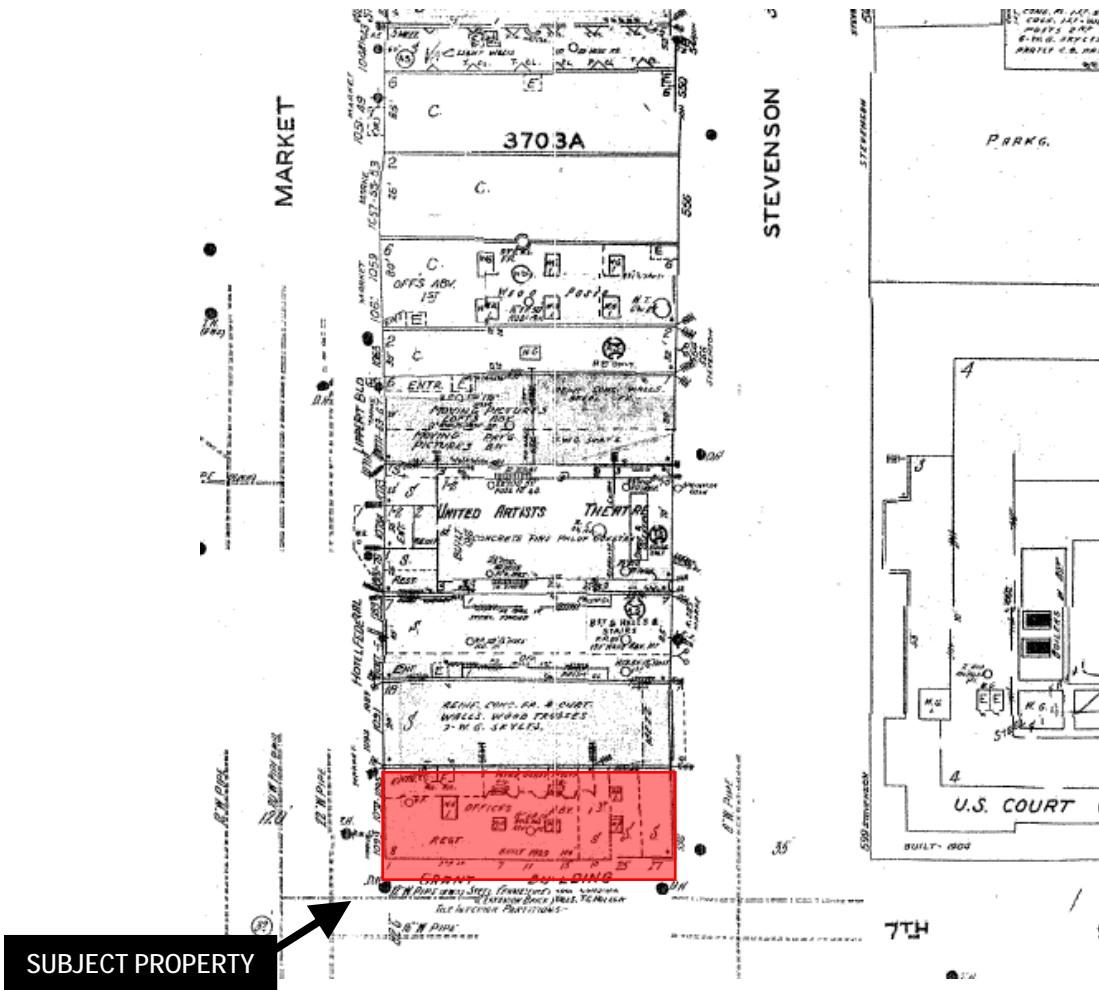
6. **Final Materials.** The Project Sponsor shall continue to work with Planning Department on the building design. Final materials, glazing, color, texture, landscaping, and detailing shall be subject to Department staff review and approval. The architectural addenda shall be reviewed and approved by the Planning Department prior to issuance.
7. **Garbage, composting and recycling storage.** Space for the collection and storage of garbage, composting, and recycling shall be provided within enclosed areas on the property and clearly labeled and illustrated on the architectural addenda. Space for the collection and storage of recyclable and compostable materials that meets the size, location, accessibility and other standards specified by the San Francisco Recycling Program shall be provided at the ground level of the buildings.
8. **Garbage, Recycling, and Composting Receptacles.** Garbage, recycling, and compost containers shall be kept within the premises and hidden from public view, and placed outside only when being serviced by the disposal company. Trash shall be contained and disposed off pursuant to garbage and recycling receptacles guidelines set forth by the Department of Public Works.
9. **Noise, Ambient.** Interior occupiable spaces shall be insulated from ambient noise levels. Specifically, in areas identified by the Environmental Protection Element, Map1, "Background Noise Levels," of the General Plan that exceed the thresholds of Article 29 in the Police Code, new developments shall install and maintain glazing rated to a level that insulate interior occupiable areas from Background Noise and comply with Title 24.
10. **Noise.** The plans submitted with the building permit application for the approved Project shall incorporate acoustical insulation and other sound proofing measures to control noise.
11. **Noise Control:** The noise shall be adequately soundproofed or insulated for noise and operated so that incidental noise shall not be audible beyond the premises or in other sections of the building and fixed-source equipment noise shall not exceed the decibel levels specified in the San Francisco Noise Control Ordinance.
12. **Odor Control Unit.** The plans submitted with the building permit application for the approved Project shall incorporate odor control ducting shall not be applied to the primary façade of the building.
13. **Odor Control:** While it is inevitable that some low level of odor may be detectible to nearby residents and passersby, appropriate odor control equipment shall be installed and maintained to prevent any significant noxious or offensive odors from escaping the premises. The building permit application to implement the Project shall include air cleaning or odor control equipment details and manufacturer specifications on the plans.

14. **First Source Hiring.** The Project shall adhere to the requirements of the First Source Hiring Construction and Employment Program approved by the First Source Hiring Administrator, pursuant to Section 83.4(m) of the Administrative Code. The Sponsor shall comply with the requirements of this Program regarding construction work and on-going employment required for the Project.
15. **Jobs Housing Linkage.** Pursuant to Planning Code Section 413 (formerly 313), the Project Sponsor shall contribute to the Jobs-Housing Linkage Program (JHLP). The calculation shall be based on the net addition of gross square feet of each type of space to be constructed as set forth in the permit plans. The Project Sponsor shall provide evidence that this requirement has been satisfied to the Planning Department prior to the issuance of the first site or building permit by the Department of Building Inspection.
16. **Transit Impact Development Fee.** The Project Sponsor shall pay the Transit Impact Development Fee (TIDF) as required by Chapter 38 of the Administrative Code and based on drawings submitted with the Building permit application. Prior to the issuance of a temporary certificate of occupancy, the Project Sponsor shall provide the Planning Director with certification that the fee has been paid.
17. **Childcare Requirements for Office and Hotel Development Projects.** Pursuant to Section 414 (formerly 314), the Project Sponsor shall pay the in-lieu fee as required. The net addition of gross floor area subject to the fee shall be determined based on drawings submitted with the Building Permit Application.
18. **Sidewalk Maintenance.** The Project Sponsor shall maintain the main entrance to the building and all sidewalks abutting the subject property in a clean and sanitary condition in compliance with the Department of Public Works Streets and Sidewalk Maintenance Standards.
19. **Notices Posted at Bars and Entertainment Venues** Notices urging patrons to leave the establishment and neighborhood in a quiet, peaceful, and orderly fashion and to not litter or block driveways in the neighborhood, shall be well-lit and prominently displayed at all entrances to and exits from the establishment.
20. **Other Entertainment:** The Other Entertainment shall be performed within the enclosed building only. The building shall be adequately soundproofed or insulated for noise and operated so that incidental noise shall not be audible beyond the premises or in other sections of the building and fixed-source equipment noise shall not exceed the decibel levels specified in the San Francisco Noise Control Ordinance. Bass and vibrations shall also be contained within the enclosed structure. The Project Sponsor shall obtain all necessary approvals from the Entertainment Commission prior to operation. The authorized entertainment use shall also comply with all of the conditions imposed by the Entertainment Commission.

21. **Historic Preservation:** All Conditions of Approval as outlined in Historic Preservation Commission's Motion No. XXXX, regarding the Permit to Alter, Case No. 2009.1100H are also a Condition of Approval of this Planning Commission Conditional Use Authorization, Motion No. XXXX.

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Sanborn Map*



*The Sanborn Maps in San Francisco have not been updated since 1998, and this map may not accurately reflect existing conditions.



Zoning Map



SUBJECT PROPERTY



Conditional Use Authorization
Case Number 2009.1100C
1095 Market Street

Aerial Photo



SUBJECT PROPERTY



Conditional Use Authorization
Case Number 2009.1100C
1095 Market Street



SAN FRANCISCO PLANNING DEPARTMENT

Permit to Alter MAJOR ALTERATION MOTION # 0080

Hearing Date: October 6, 2010
Filing Date: September 22, 2010
Case No.: **2009.1100H**
Project Address: **1095 Market Street**
Category: Category I – Joseph D. Grant Building
Zoning: C-3-G (Downtown General)
90-X Height and Bulk District
Block/Lot: 3703/ 059
Applicant: Jim Abrams
Gibson, Dunn & Crutcher
555 Mission Street Suite 3000
San Francisco, CA 94103
Staff Contact Tim Frye - (415) 558-6625
tim.frye@sfgov.org
Reviewed By Tina Tam – (415) 558-6325
tina.tam@sfgov.org

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
415.558.6378

Fax:
415.558.6409

Planning
Information:
415.558.6377

ADOPTING FINDINGS FOR A PERMIT TO ALTER FOR MAJOR ALTERATIONS TO A CATEGORY I (SIGNIFICANT) BUILDING, INCLUDING EXTERIOR REHABILITATION, INCLUDING RECONSTRUCTION OF THE HISTORIC CORNICE BASED ON PICTORIAL EVIDENCE AND THE INSTALLATION OF CANOPIES, SIGNAGE, AND AWNINGS FOR THE PROPERTY LOCATED ON LOT 059 IN ASSESSOR'S BLOCK 3703. THE SUBJECT BUILDING IS WITHIN A C-3-G (DOWNTOWN GENERAL) ZONING DISTRICT AND AN 90-X HEIGHT AND BULK DISTRICT.

PREAMBLE

WHEREAS, on September 22, 2010, JIM ABRAMS (Project Sponsor) filed an application with the San Francisco Planning Department (hereinafter "Department") for a Permit to Alter for exterior rehabilitation, including reconstruction of the historic cornice based on pictorial evidence and the installation of canopies, signage, and awnings at the subject building located on lot 059 in Assessor's Block 3703, a Category I Building, historically known as the Joseph D. Grant Building.

WHEREAS, the Project was determined by the Department to be categorically exempt from environmental review. The Historic Preservation Commission (hereinafter "Commission") has reviewed and concurs with said determination.

WHEREAS, on October 6, 2010, the Commission conducted a duly noticed public hearing on the current project, Case No. 2009.1100H ("Project") for the Permit to Alter.

WHEREAS, in reviewing the Application, the Commission has had available for its review and consideration case reports, plans, and other materials pertaining to the Project contained in the Department's case files, has reviewed and heard testimony and received materials from interested parties during the public hearing on the Project.

MOVED, that the Commission hereby grants the Permit to Alter, WITH CONDITIONS, and in conformance with the architectural submittal dated October 6, 2010 and labeled Exhibit A on file in the docket for Case No. 2009.1100H based on the following condition(s):

Conditions:

1. The shop drawings shall be included in the architectural addendum and are subject to review and approval by Department Preservation Staff to ensure that the replacement cornice closely matches all exterior profiles, dimensions, and detailing of the historic cornice.
2. Prior to the production of the replacement cornice and the approval of the architectural addendum. The Department Preservation Staff shall review site mock-ups of the FRP panels, including a mock-up of the finish samples. The results of the site mock-up and all finish samples shall be presented at a future hearing to the Historic Preservation Commission for review and approval.
3. After the removal of any non-historic fabric, and prior to any other work at the exterior of the ground-floor, the Sponsor shall submit documentation to the Department Preservation Staff of the results of any investigate work and the location and condition of any remaining character-defining features that were covered with non-historic materials. These features shall be retained if it is determine that they are in fair or repairable condition.
4. The shop drawings for the cast metal and cast stone columns/pilasters, which may be based on dimensioned drawings and molds of extant historic columns, shall be included in the architectural addendum and are subject to review and approval by Department Preservation Staff to ensure that the replacement features, if applicable, closely match all exterior profiles, dimensions, and detailing of the historic features.
5. Prior to the production of the replacement features and the approval of the architectural addendum, Department Preservation Staff shall review site mock-ups of the replacement materials, including a mock-up of the exterior finish.
6. All storefront systems shall have a painted finish.
7. Sections through the proposed storefront and entry systems that indicate all exterior profiles and dimensions shall be provided and are subject to review and approval prior to the approval of the architectural addendum by the Planning Department.

8. The louver proposed for the arched window opening on the Stevenson Street elevation shall be set behind the frame of the proposed wood storefront system and an architecturally finished grille shall be installed in lieu of glazing within the frame. The grille shall be finished in the same manner as the proposed new storefronts.
9. All windows are intended to be retained and repaired, however 20% or less of the windows may be replaced if upon further inspection it is determined that they are beyond repair. Any deviation from this condition of approval, such as further inspection determines that more than 20% of the windows require replacement or the use of substitute materials, shall require review and approval by the Historic Preservation Commission
10. Each awning shall have a free hanging valance.
11. Any attachment to the building (pin-letters and canopies) shall be done in manner that minimizes damage to historic fabric. Attachment details for the location where the canopies are attached to historic fabric shall be included within the plans and are subject to review and approval by Preservation Planning Staff.
12. Material and finish samples shall be reviewed and approved by Preservation Planning Staff prior to fabrication and prior to the approval of any building permit.
13. The final façade inspection report, including recommendations to address deterioration, repair, and cleaning, shall be submitted to the Preservation Planning Staff for review and approval prior to the approval of the building permit to address said work.
14. The elevator override shall be reduced in height to the greatest extent possible in order to comply with the Code and to minimize its visual appearance, but to still comply with life & safety requirements enforced by other City agencies. A Section, with dimensions, that illustrate this compliance shall be included within the architectural addendum and is subject to review and approval by Preservation Planning Staff.

FINDINGS

Having reviewed all the materials identified in the recitals above and having heard oral testimony and arguments, this Commission finds, concludes, and determines as follows:

1. The above recitals are accurate and also constitute findings of the Commission.
2. Findings pursuant to Article 11:

The Historical Preservation Commission has determined that the proposed work is compatible with the exterior character-defining features of the subject building and meets the requirements of Article 11 of the Planning Code:

- That the proposal respects the character-defining features of the subject building;
- That the architectural character of the subject building will be maintained and those features that affect the building's overall appearance that are removed or repaired shall be done so in-kind;
- All architectural elements and cladding repaired where possible in order to retain as much historic fabric as possible;
- That the integrity of distinctive stylistic features and examples of skilled craftsmanship that characterize the building shall be preserved; and,
- That all new materials shall match the historic material in composition, design, color, texture and other visual qualities and shall be based on accurate duplication of features.

For these reasons, the proposal overall, is appropriate for and consistent with the purposes of Article 11, meets the standards of Article 1111.6 of the Planning Code and complies with the *Secretary of the Interior's Standards*.

3. **General Plan Compliance.** The proposed Permit to Alter is, on balance, consistent with the following Objectives and Policies of the General Plan:

I. URBAN DESIGN ELEMENT

THE URBAN DESIGN ELEMENT CONCERNS THE PHYSICAL CHARACTER AND ORDER OF THE CITY, AND THE RELATIONSHIP BETWEEN PEOPLE AND THEIR ENVIRONMENT.

GOALS

The Urban Design Element is concerned both with development and with preservation. It is a concerted effort to recognize the positive attributes of the city, to enhance and conserve those attributes, and to improve the living environment where it is less than satisfactory. The Plan is a definition of quality, a definition based upon human needs.

OBJECTIVE 1

EMPHASIS OF THE CHARACTERISTIC PATTERN WHICH GIVES TO THE CITY AND ITS NEIGHBORHOODS AN IMAGE, A SENSE OF PURPOSE, AND A MEANS OF ORIENTATION.

POLICY 1.3

Recognize that buildings, when seen together, produce a total effect that characterizes the city and its districts.

OBJECTIVE 2

CONSERVATION OF RESOURCES WHICH PROVIDE A SENSE OF NATURE, CONTINUITY WITH THE PAST, AND FREEDOM FROM OVERCROWDING.

POLICY 2.4

Preserve notable landmarks and areas of historic, architectural or aesthetic value, and promote the preservation of other buildings and features that provide continuity with past development.

POLICY 2.5

Use care in remodeling of older buildings, in order to enhance rather than weaken the original character of such buildings.

POLICY 2.7

Recognize and protect outstanding and unique areas that contribute in an extraordinary degree to San Francisco's visual form and character.

The goal of a Permit to Alter is to provide additional oversight for buildings and districts that are architecturally or culturally significant to the City in order to protect the qualities that are associated with that significance.

The proposed project qualifies for a Permit to Alter and therefore furthers these policies and objectives by maintaining and preserving the character-defining features of the subject building for the future enjoyment and education of San Francisco residents and visitors.

1. The proposed project is generally consistent with the eight General Plan priority policies set forth in Section 101.1 in that:

- A) The existing neighborhood-serving retail uses will be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses will be enhanced:

The proposed project is not neighborhood-serving; however, its continued use maintains and strengthens the surrounding retail uses, many of them are locally-owned, by bringing visitors to the area.

- B) The existing housing and neighborhood character will be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods:

The proposed project will strengthen neighborhood character by respecting the character-defining features of the subject building in conformance with the Secretary of the Interior's Standards.

- C) The City's supply of affordable housing will be preserved and enhanced:

The proposed project will have no adverse effect on the City's supply of affordable housing.

- D) The commuter traffic will not impede MUNI transit service or overburden our streets or neighborhood parking:

The proposed project will not result in commuter traffic impeding MUNI transit service or overburdening the streets or neighborhood parking.

- E) A diverse economic base will be maintained by protecting our industrial and service sectors from displacement due to commercial office development. And future opportunities for resident employment and ownership in these sectors will be enhanced:

The proposal also includes a Request for Conditional Use Authorization from the Planning Commission to convert the building into a hostel/hotel, which will provide opportunities for employment.

- F) The City will achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake.

Preparedness against injury and loss of life in an earthquake is improved by the proposed Project. Any construction or alteration associated would be executed in compliance with all applicable construction and safety measures.

- G) That landmark and historic buildings will be preserved:

The proposed project in conformance with Article 11 of the Planning Code and the Secretary of the Interior's Standards.

- H) Parks and open space and their access to sunlight and vistas will be protected from development:

The proposed Permit to Alter will not impact the City's parks and open space.

4. For these reasons, the proposal overall, appears to meet the Secretary of the Interior's Standards and the provisions of Article 11 of the Planning Code regarding Major Alterations to Category I (Significant) buildings.

DECISION

That based upon the Record, the submissions by the Applicant, the staff of the Department and other interested parties, the oral testimony presented to this Commission at the public hearings, and all other written materials submitted by all parties, the Commission hereby **GRANTS Permit to Alter Application, 2009.1100H** attached hereto as "EXHIBIT A" which is incorporated herein by reference as though fully set forth.

APPEAL AND EFFECTIVE DATE OF MOTION: APPEAL: Any aggrieved person may appeal this Motion to the Board of Appeals within thirty (30) days after the date of this Motion No. 0080. The effective date of this Motion shall be the date of this Motion. For further information, please contact the Board of Appeals in person at 1650 Mission Street, (Room 304) or call 575-6880.

I hereby certify that the Historical Preservation Commission ADOPTED the foregoing Motion on October 6, 2010.

Linda D. Avery
Commission Secretary

AYES: C. CHASE, A. WOLFRAM, K. HASZ, C. DAMKROGER, A. MARTINEZ

NAYS:

ABSENT: D. MATSUDA, J. BUCKLEY

ADOPTED: October 6, 2010



Market Study

Proposed Upscale Hostel San Francisco, California

Prepared For:

Mr. Simon Johnson
1095 Market Street Holding LLC
600 Montgomery Street
33rd Floor
San Francisco, CA 94111

Prepared By:

PKF Consulting
San Francisco

Date of the Report:

April 27, 2010

91095

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April 27, 2010

Mr. Simon Johnson
1095 Market Street Holding LLC
600 Montgomery Street
33rd Floor
San Francisco, CA 94111

Re: Study of the Potential Market Demand for a proposed 484-Bed Upscale Hostel to be located in San Francisco, California

Dear Mr. Johnson:

In accordance with your request, we have completed our analysis of the potential market demand for the proposed 484-bed upscale hostel (the "Subject") to be located at 1095 Market Street in San Francisco, California. Pursuant to our engagement, we have communicated our findings in this summary report. The conclusions set forth in this report are based on an analysis of the existing and potential future supply and demand for the competitive lodging market, as of the completion of our fieldwork in April 2010.

As in all studies of this type, the estimated results are based on competent and efficient management and presume no significant change in the status of the competitive lodging market from that as set forth in this report. The terms of our engagement are such that we have no obligation to revise our conclusions to reflect events or conditions that occur subsequent to the date of completion of our fieldwork. However, we are available to discuss the necessity for revisions in view of changes in the economy or market factors impacting the competitive lodging market.

Since the Subject's future performance is based on estimates and assumptions that are subject to uncertainty and variation, we do not present them as results that will actually be achieved. However, our analysis has been conscientiously prepared on the basis of information obtained during the course of this assignment and our experience in the industry. This letter report is subject to the Certification and Statement of Assumptions and Limiting Conditions presented in the Addenda.

It has been a pleasure working with you on this interesting assignment. If we can be of any further assistance in the interpretation of our findings, please feel free to contact us.

Yours sincerely,

PKF Consulting

By: Thomas E. Callahan, CPA, CRE, FRICS, MAI
Co-President & Chief Executive Officer – West
thomas.callahan@pkfc.com | 415.288.7828



By: Christopher A. Kraus, MAI
Senior Vice President
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By: Karina E. Parker
Senior Consultant
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I. INTRODUCTION AND METHODOLOGY

As we understand it, 1095 Market Street Holding LLC (“Market Street Holding”) controls the building located at 1095 Market Street in San Francisco, California. As we further understand it, Market Street Holding is evaluating the redevelopment of the site with a 484-bed upscale hostel. Accordingly, we have been engaged by Market Street Holding to conduct a study of the potential market demand for an upscale hostel at this location under the specific design program provided to us by representatives of Market Street Holding. As a component of this analysis we have provided our projections of the occupancy and average daily bed rate the proposed Subject could achieve for its first five years of operation. As will be discussed later in this report, for the purpose of our analysis, we have assumed that the proposed Subject will contain 484 beds and will be open and available for occupancy by July 1, 2012.

In order to assist Market Street Holding in assessing the market potential for the proposed Subject, we have performed a study that encompasses the following:

- Physically inspected the Subject site and reviewed the proposed development program;
- Evaluated the site for the proposed Subject and assessed the impact of the site’s accessibility, visibility, and location relative to demand generators on the marketability and likely customer base of the proposed Subject;
- Researched and analyzed current economic and demographic trends to determine their impact on future lodging demand in the San Francisco lodging market;
- Identified and researched the competitive supply of hostels in San Francisco that would compete most directly with the proposed Subject;
- Interviewed managers and owners of hostels, and local area industry participants;
- Reviewed the historical performance of the San Francisco lodging market and the identified comparable hostels; and,
- Prepared a forecast of the occupancy levels and average daily bed rates for the proposed Subject.

Several sources were used in compiling the background information and preparing the analyses contained in this report. These sources include PKF Consulting’s *Trends in the Hotel Industry*, data gathered through direct interviews with managers of competitive hostel properties and representatives of local businesses, and data

from various local government agencies. We also conducted a detailed interview with the principal of the Hostelling International American Hostel located in Seattle, Washington.

Lastly, it should be noted that for the purpose of this analysis, we have ultimately provided our forecast of the market potential in terms of occupancy and average daily bed rate. However, as the proposed Subject represents a hostel with several multi-bed dorm style rooms, our occupancy is based on 484 beds (rather than 94 rooms) and our average rate is based on the average rate charged for each bed (as opposed to room) rented. This is typical of how hostels measure and record their performance.

Based on the preceding work program, we have made a determination of the market viability for the proposed Subject. The results of our research and analysis are summarized in the following paragraphs with a discussion first on the site and proposed improvements, then on the state of the local area economics, followed by our analysis on the comparable hostel market and resulting projections for the proposed Subject.

II. PROPERTY DESCRIPTION

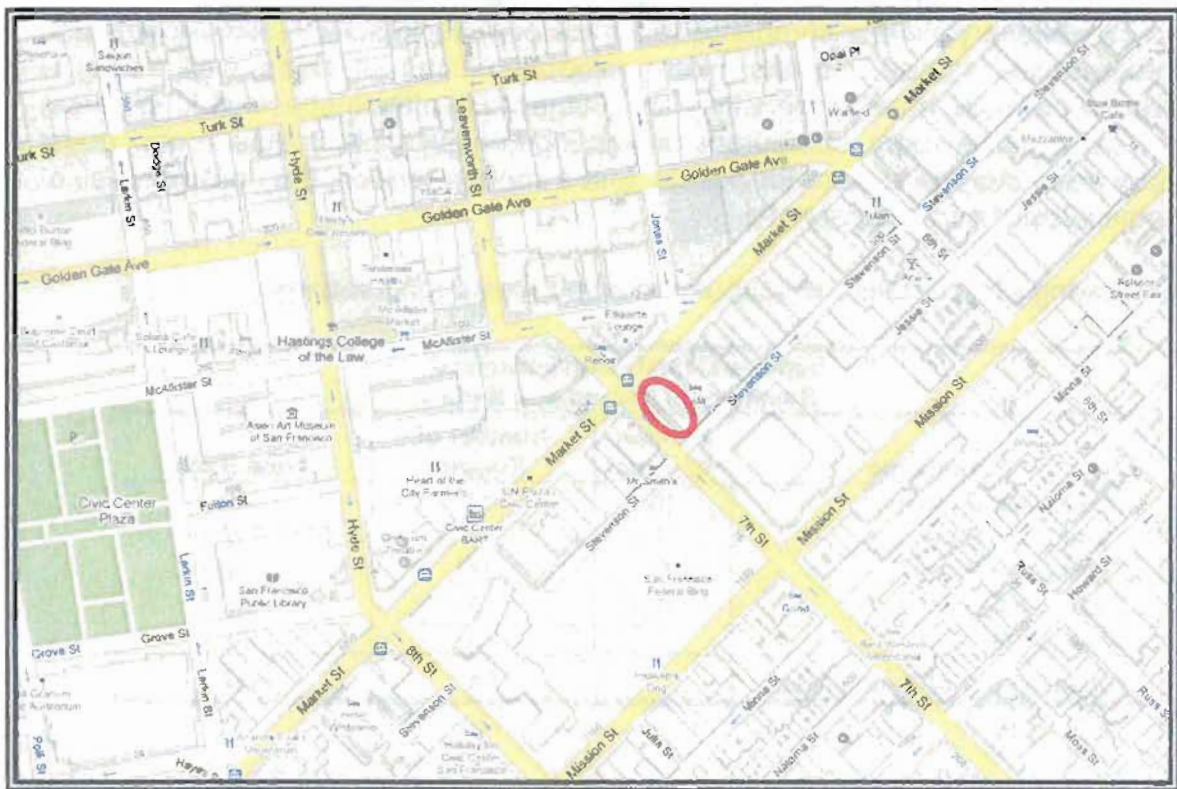
A. Site Description

As mentioned previously, the Subject site is located at 1095 Market Street, at the east corner of Market and Seventh Streets in San Francisco, California. Market Street is a prominent four-lane, two-way thoroughfare which traverses San Francisco. Seventh Street is a four-lane, two-way thoroughfare which provides access from Market Street to the South of Market Area (“SOMA”) and the eastern portion of the City. The Subject site is currently improved with an eight-story office building. Retail space occupies the first floor but this space is currently vacant. The building also has a full basement. This building will be renovated and will contain the proposed Subject. Stevenson Street, a small one-way street abuts the southern side of the Subject site and provides access for vehicles and pedestrians but is not a highly trafficked local thoroughfare.

The Subject site is bordered directly to the south by Stevenson Street, to west by Seventh Street, to the north by Market Street, and to the east by a two-story retail building which is currently vacant. The San Francisco Federal Building and the Federal Courthouse are located on Seventh Street between Market and Mission Streets. The Orpheum Theatre and UN Plaza are located one block southwest of the Subject site on Market Street. The Golden Gate and Warfield Theaters are located one block northeast of the Subject site, also on Market Street. The Subject site can be reached via various approaches from Interstates 80 and 280 and Highways 1 and 101 and the Bay Area Rapid Transit (“BART”) Civic Center station is located less than one block from the Subject site on Market Street.

The Subject site is located in San Francisco’s Theater District, also referred to as “Mid-Market” and is proximate to numerous civic buildings and just south of the Union Square District and north of the SOMA. Other attractions within a quick walk of the Subject site include San Francisco City Hall, the Asian Art Museum of San Francisco, Bill Graham Civic Auditorium, Herbst Theatre, the War Memorial Opera House, and Davies Symphony Hall. The neighborhood also offers various dining options and late night entertainment such as Mr. Smith’s and Etiquette Lounge. The area offers entertainment and cultural activities to tourists visiting San Francisco. It should be noted that the neighborhood is in a period of transition and continues to emerge as a “more attractive” and popular neighborhood for tourists. Accordingly, while other regions of the City such as Fisherman’s Wharf, Union Square, SOMA, and the Financial District are deemed more trendy and offer more services, the Civic Center neighborhood still offers convenience to many of the attractions in the City.

The proposed Subject will have excellent visibility from Market and Seventh Streets due to the corner block location. The proposed Subject will also have excellent accessibility as Market Street is a major thoroughfare in the City of San Francisco. In addition, the proposed Subject is located a half block from the BART Civic Center Terminal and the MUNI rail lines. The following page contains a map of the local area and indicates the location of the Subject site relative to the many attractions mentioned above.



Local Area Map

In conclusion, the proposed Subject site is located along a major thoroughfare in San Francisco and is proximate to many leisure demand generators as discussed above. While this location on Market Street is not as popular as other neighborhoods in the city for tourists, overall, the location of the site is ranked “very good,” as outlined in the following table.

Site Analysis					
	Excellent	Very Good	Good	Fair	Poor
Accessibility	X				
Visibility	X				
Proximity to Demand			X		
Long-term Strategic Potential		X			

B. Proposed Improvement Description

The proposed Subject will represent a 484-bed upscale hostel that is envisioned to represent a unique blend between a traditional hostel and a boutique hotel. According to representatives of 1095 Market Street Holding, the Subject will feature high quality furniture and fixtures in the public areas similar to public areas at an upscale boutique hotel. The public spaces will be feature a modern-upscale design and will be conducive to people gathering and interacting. However, unlike a boutique hotel, the Subject’s target market is centered on international backpackers and “flashpackers” due to the hostel like environment of sharing a sleeping room and bathroom. Flashpackers are affluent backpackers and are associated with more discretionary income compared to a traditional backpacker. Since rooms and bathrooms are shared, hostels offer accommodations at rates well below a traditional boutique hotel in the City. The Subject will offer a spacious lobby area, cyber café, game room, restaurant and lounge, night club, media room, guest laundry area, storage lockers for guests, and a rooftop terrace, thus providing all of the amenities of a traditional hotel.

The following table details the various room/bed type configurations.

Upscale Hostel - San Francisco Summary of Rooms and Beds			
Room Type	Number of Beds	Number of Rooms	Total Beds
10 Bed Dorm Room	10	13	130
8 Bed Dorm Room	8	14	112
6 Bed Dorm Room	6	27	162
Triple/Family	3	20	60
Single Suite	1	20	20
Total Number of Rooms/Beds		94	484

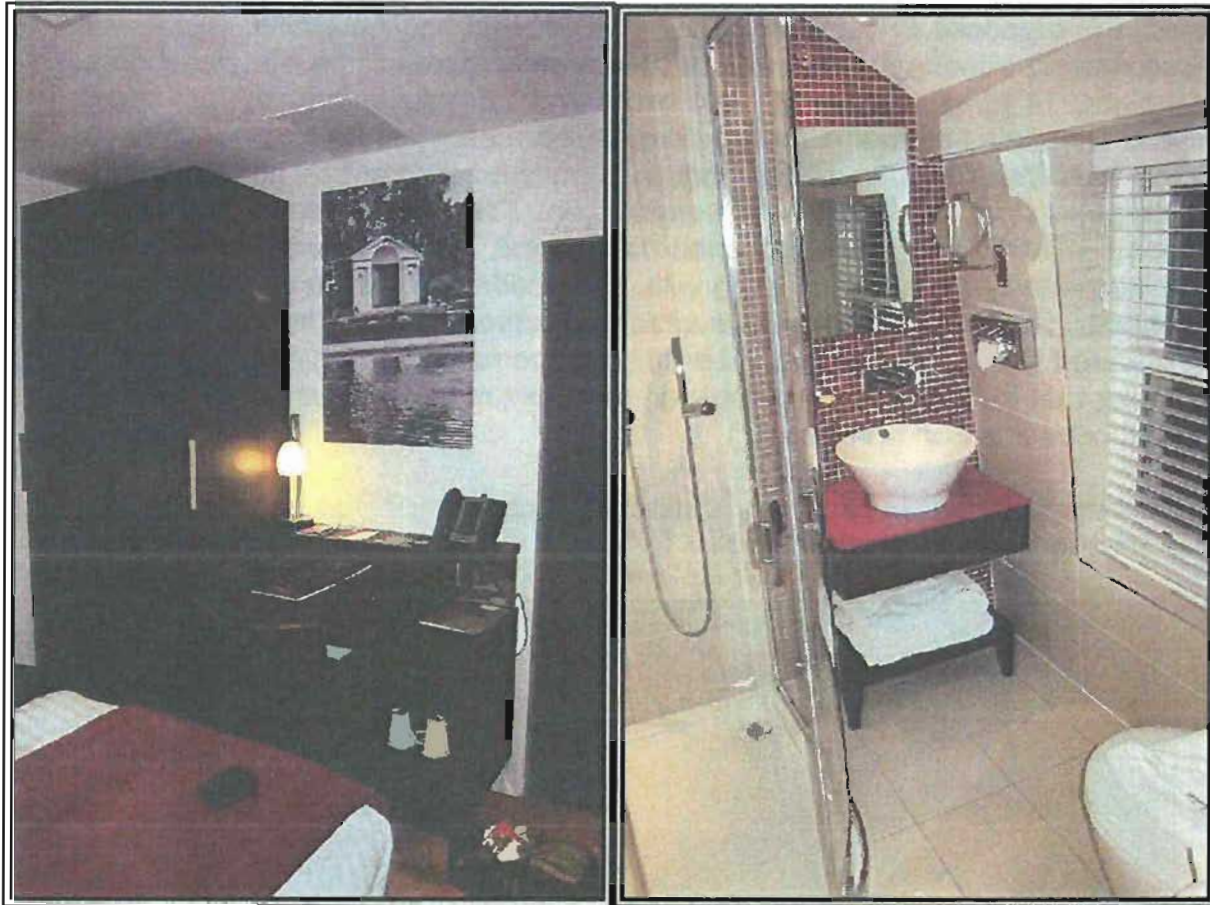
As noted, the proposed Subject will offer a mix of room configurations, with many multi-bed rooms. Among the dorm room style rooms, there will be 13 guestrooms with 10 beds, 14 guestrooms with eight beds, and 27 guestrooms with six beds. Men's and women's bathrooms for the dorm styled rooms will be located on each floor, and thus these rooms will not contain a private bathroom. The dorm style rooms range in size from 318 to 337 square feet. Triple/family rooms and single suite rooms will feature private, attached bathrooms. The proposed Subject will offer 20 triple/family guestrooms, each with three beds and 20 single suites each with one bed. Guestrooms with private attached bathrooms range in size from 204 to 262 square feet. In total there will be 94 guestrooms containing 484 beds. It is worth noting that the Subject, as proposed, contains the largest number of beds of any hostel located in San Francisco.

The following pictures provide an illustrative example of the quality of the guestrooms the Subject will offer.



Sample of Single Suite Room¹

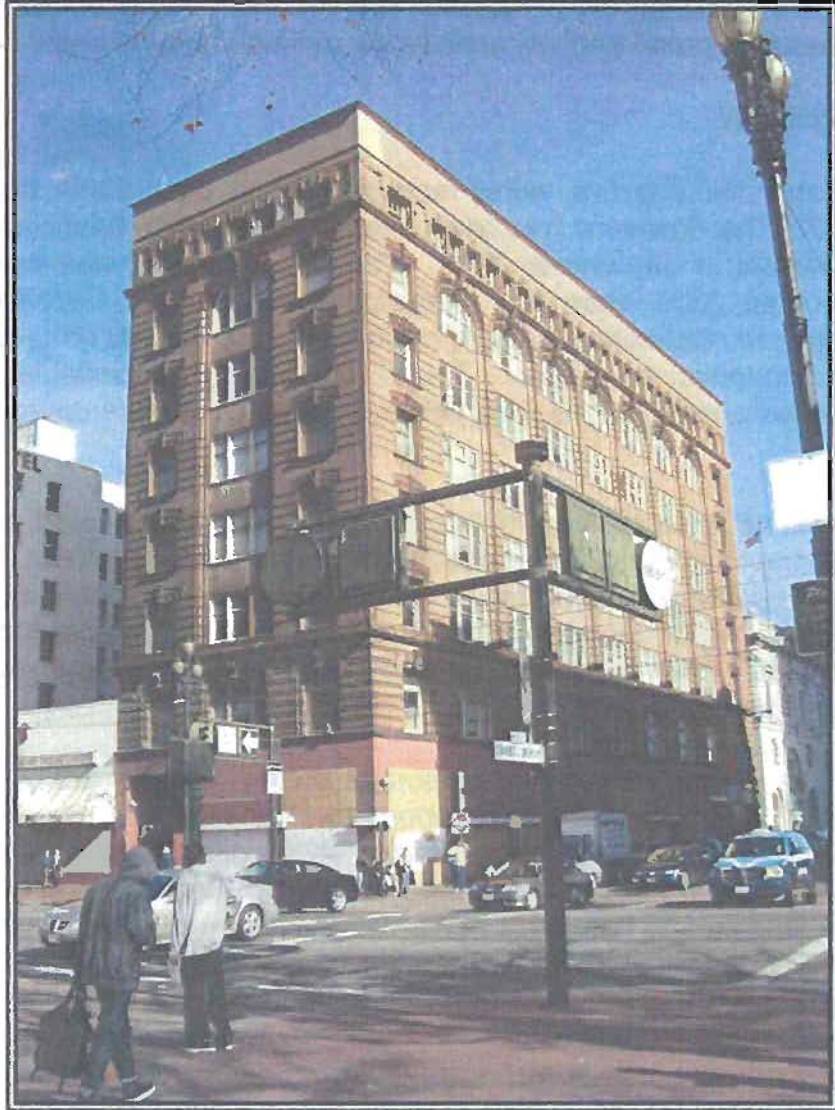
¹ Picture of a guestroom at Hotel Indigo London - Paddington



Sample of Single Suite Room ²

The proposed Subject's main entrance will be on Market Street and the entrance to the night club will be located on Stevenson Street. The ground floor will contain the lobby area, internet café, restaurant and lounge. The second through eighth floors will contain guestrooms and communal bathrooms. There will be a roof garden on top of the building available for guest use. The basement will contain the nightclub, videogames, cinema area and guest laundry. The following picture is of the current improvements. This building will be renovated to accommodate the 484-bed upscale hostel.

² Picture of a guestroom at Hotel Indigo London - Paddington



Exterior of 1095 Market Street looking toward Market and Seventh Streets

Based on discussions with representatives of 1095 Market Street Holding, we understand that the renovation of the building will start after all the remaining tenants have vacated the building. The conversion and restoration of the proposed Subject will take approximately 16 months and therefore the Subject could be open and available for occupancy by late 2012. For purposes of this analysis, we have assumed an opening date of July 1, 2012. Lastly, we understand that the renovation budget is approximately \$16,500,000, which equates to \$175,532 per room based on 94 rooms. Based on our experience in evaluating traditional hotel developments and renovation budgets, the Subject's renovation is expected to result in a high-quality hostel, superior to any of the other hostels located in San Francisco and on par with many of the boutique hotels.

Lastly, we understand that the proposed Subject will not be affiliated with an international hostelling brand and will operate as an independent hostel.

III. AREA REVIEW

The United States fell into the worst recession since the 1930's beginning in December 2007. The downturn has been exacerbated by the financial crisis that took hold of markets in September 2008. The U.S. economy was essentially in decline until August 2009 when the recession likely ended. Over this period, employers eliminated approximately eight million jobs, the biggest drop in any post-World War II economic downturn. Credit was largely unavailable as banks worldwide recorded approximately \$1.6 trillion of losses and write-downs since the start of 2007.

Following the end of the recession in August 2009, U.S. GDP posted an annually adjusted gain of approximately 5.6 percent in the fourth quarter of 2009. That being said, the national economy is projected to recover slowly as business spending and hiring begins to lift. As of January 2010, business spending has not increased as the availability of credit remains limited and unemployment remains at approximately 9.7 percent.

Going forward, a solid recovery in corporate profits and generally supportive financial markets are necessary to support the transition to a self-sustaining expansion. A moderate recovery, rather than a "V" shaped recovery is expected in 2010 as financial markets are not expected to stabilize until the end of this year. While interbank lending and corporate bond markets have returned to normal, other parts of the financial system are still not functioning well. Private issuance of residential and commercial mortgage-backed bonds has not returned, a steady stream of small banks continues to fail, and most depository institutions are reluctant to extend credit except to households and corporate borrowers with the most pristine balance sheets. Also key to the recovery is job growth and employment, which is expected to stabilize after the second quarter of 2010. Job growth sufficient to bring down the national unemployment rate is unlikely to occur until the fall of 2010. However, unemployment rates are unlikely to return to average historic levels until 2014. In summary, while the recession is officially over, the U.S. economy will likely experience a gradual, "U" shaped recovery.

In addition to understanding the issues affecting the U.S. economy, it is also necessary to review the dynamics of the local market.

San Francisco Bay Area Introduction: The San Francisco Bay Area consists of San Francisco, Santa Clara, Contra Costa, Marin, San Mateo, Napa, Sonoma, Solano, and Alameda Counties, and includes the Cities of San Francisco, Oakland, and San Jose. The Bay Area is headquarters to 25 of the nation's leading Fortune 500 companies and continues to be acclaimed for its wealth of technology companies,

world-class universities (Stanford and Berkeley), and cultural and recreational attractions.

Located south of San Francisco, Silicon Valley is known for the dense concentration of electronics and computer companies located in the area and has become the center of the world's technology industry. Internet and technology firms such as Apple, Cisco Systems, Google, Hewlett Packard, IBM, Intel, Microsoft, Oracle, and Yahoo! are either headquartered or have a strong presence in the area, helping to spawn supporting companies such as law, financial services, and consulting firms. Centered primarily in Santa Clara County, Silicon Valley has positively impacted the entire San Francisco Bay Area driving demand for both office space and hotel room nights.

San Francisco Overview: San Francisco is the focal point of the Bay Area and a major West Coast financial, retail, and transportation center. San Francisco's economy is driven primarily by technology and tourism. Although the city has been negatively impacted by the economic downturn, the fundamental economic drivers remain strong. Numerous developments within the city will also facilitate economic growth going forward.

Tourism: San Francisco is a world-class tourist destination and is widely appreciated for its numerous attractions, picturesque scenery, and diverse culture. San Francisco is consistently ranked in the top 10 best cities to visit by the *Condé Nast Traveler's* Readers' Choice Awards. The city has approximately 34,000 hotel rooms and more than 3,000 restaurants.

The **Golden Gate Bridge** serves as the gateway into the San Francisco Bay and connects the city with Marin County to the north. The bridge, which was completed in 1937, is famous as it overcame a number of construction obstacles with progressive engineering for that time.

Fisherman's Wharf and **Pier 39** are located along the San Francisco Bay and offer scenic views of the Golden Gate Bridge and **Alcatraz Island**, a historic maximum-security prison. Tourists enjoy the many seafood restaurants, fish markets, import houses, souvenir shops, and street entertainers that make up Fisherman's Wharf. Pier 39 offers a number of restaurants, videogame arcades, carnival rides, and is home to a popular family of sea lions. Also located in the Fisherman's Wharf area is **Ghirardelli Square**, a quaint shopping center and home to San Francisco's famous Ghirardelli chocolates. Fisherman's Wharf is California's second largest attraction, with Disneyland taking the number one place honors.

San Francisco also boasts the largest **Chinatown** in the nation. Chinatown, which is located between the Financial District, Union Square, and Nob Hill, is characterized by San Francisco's large Chinese population, offering a number of souvenir stores, restaurants, and a fortune cookie factory.

Union Square is often considered the heart of San Francisco from a tourist perspective. In addition to the famous square, the surrounding neighborhood offers access to cable cars, world class shopping, noted hotels and restaurants, and the city’s major theaters.

Transportation: San Francisco has a complex transportation system with a sophisticated air, highway, rail, trucking, and water infrastructure.

The San Francisco International Airport (“SFO”) is located approximately 15 miles south of the city between the cities of South San Francisco and Millbrae. SFO was historically the fifth busiest airport in the United States, but due to heavy declines in passenger traffic, the airport has fallen to twentieth in terms of volume. In 2009, SFO serviced approximately 37.2 million passengers, approximately the same number of passengers serviced in 2008. However, it should be noted that in 2009, international passenger volume declined by 7.2 percent, where as domestic passenger volume increased by 2.8 percent. Through YTD February, total passenger traffic increased 6.7 percent over the prior year’s level, primarily due to improving domestic travel.

San Francisco International Airport Annual Passenger Traffic

Year	Domestic	Percent Change	International	Percent Change	Total Volume	Percent Change
2000	32,236,666	-	8,051,166	-	40,287,832	-
2001	26,404,659	-18.1%	7,539,723	-6.4%	33,944,382	-15.7%
2002	23,463,770	-11.1%	7,277,890	-3.5%	30,741,660	-9.4%
2003	22,091,234	-5.8%	6,695,151	-8.0%	28,786,385	-6.4%
2004	24,594,752	11.3%	7,562,076	12.9%	32,156,828	11.7%
2005	24,740,291	0.6%	8,053,759	6.5%	32,794,050	2.0%
2006	24,595,770	-0.6%	8,488,758	5.4%	33,084,528	0.9%
2007	26,354,276	7.1%	8,962,965	5.6%	35,317,241	6.7%
2008	28,103,031	6.6%	8,963,784	0.0%	37,066,815	5.0%
2009	28,903,104	2.8%	8,321,146	-7.2%	37,224,250	0.4%
CAGR	-1.21%		0.37%		-0.98%	-
YTD February 2009	3,779,411		1,205,625		4,985,036	-
YTD February 2010	4,068,389	7.6%	1,252,571	3.9%	5,320,960	6.7%

Source: **San Francisco International Airport**

Additional airports that service the San Francisco Bay Area include the Oakland International Airport, located approximately 10 miles east, and the San Jose International Airport, located approximately 40 miles south.

The major highways in and out of the city include Interstates 80 and 280 and Highways 1 and 101. Interstate 80 connects with the Bay Bridge and Oakland. Highway 101 connects with the Golden Gate Bridge and Marin County.

BART, a high-speed rail system, is a major commuter transportation system that links 43 stations in the Counties of Alameda, Contra Costa, San Mateo, and San Francisco. BART has had a tremendous impact on the Bay Area, as it has allowed the region to grow both commercially and residentially. BART transports approximately 70 million passengers annually. In June 2003, BART opened four new stations in the Peninsula, including the one at SFO, making it the most easily accessible airport in the Bay Area. CalTrain also provides commuter rail service to the Peninsula cities from San Francisco to Gilroy. As previously noted, the Civic Center station of BART is located less than one block from the Subject site.

City Developments: The city continues to be involved in various medium to large scale development projects that will revive some underused areas and improve other already popular districts of the city. These areas include Union Square, the Embarcadero, and Mission Bay.

San Francisco Centre, which is a retail center located proximate to Union Square, completed an expansion, which included converting the adjacent 835 Market Street building. San Francisco Centre is now the nation's largest urban retail facility. The new property houses the nation's second largest Bloomingdale's and Nordstrom department stores.

The continuous development of **The Embarcadero**, San Francisco's waterfront between Mission Bay and Fisherman's Wharf, is part of a master plan called the Waterfront Land Use Plan of 1997. The \$1.0 billion mixed-use plan emphasizes opening up the bay to residents and tourists and promotes the development of abandoned piers and buildings into more attractive uses. The Ferry Building, a San Francisco landmark, is the most visual of the numerous Embarcadero developments. After a comprehensive renovation and restoration, the Ferry Building now houses numerous restaurants, shops, and a farmer's market. Piers 1½, 3, and 5 are also in the process of being upgraded to house restaurants, retail, and office space. Talks of a cruise terminal and retail complex at Piers 30 to 32 have stalled recently, but developers and city officials hope to one day capitalize on the 86 ship calls and quarter million passengers that arrive in San Francisco annually.

Mission Bay, which is a redevelopment area located just south of AT&T Park (formerly Pacific Bell Park), is the city's largest raw land development project. The project, when fully completed, will consist of a 2.7 million-square foot University of California San Francisco ("UCSF") research facility, 6,000 residential units, 750,000 square feet of retail space, and 49 acres of parking and open space. The city is promoting Mission Bay as the future headquarters to the world's biotechnology industry, taking many initiatives to attract biotechnology companies and research institutions to the area. These initiatives recently paid off as San Francisco was named the headquarters of the California Institute of Regenerative Medicine, a \$3.0 billion stem-cell research program funded by the state. The program's offices will

be adjacent to the UCSF Mission Bay campus. The presence of the program is expected to help attract numerous other biotechnology companies to the area.

San Francisco has long been known for its collection of art and culture and is the home of a diverse selection of museums. Over the past five years, many of these museums have begun revitalization and expansion projects. The DeYoung Fine Art Museum, the Mexican Museum, the Contemporary Jewish Museum, and the California Academy of Sciences are all in phases of renovation, expansion, or recently completed construction. These upgrades will ensure that San Francisco will remain a cultural center for many years to come.

Conclusion: San Francisco has demonstrated the city's economic strength as the local economy quickly recovered from the downturn of the early 2000s and prospered through the mid 2000s. As the economy recovers from the recession, San Francisco is poised to recover relatively quickly due to its economic diversity and knowledge based employment.

San Francisco, in particular, remains one of the most desirable tourist destinations in the world. The aforementioned indicators are projected to lead to an increase in all segments of travel. As such, we are of the opinion that local demographic and economic conditions will continue to facilitate demand for the Subject.

IV. LODGING MARKET ANALYSIS

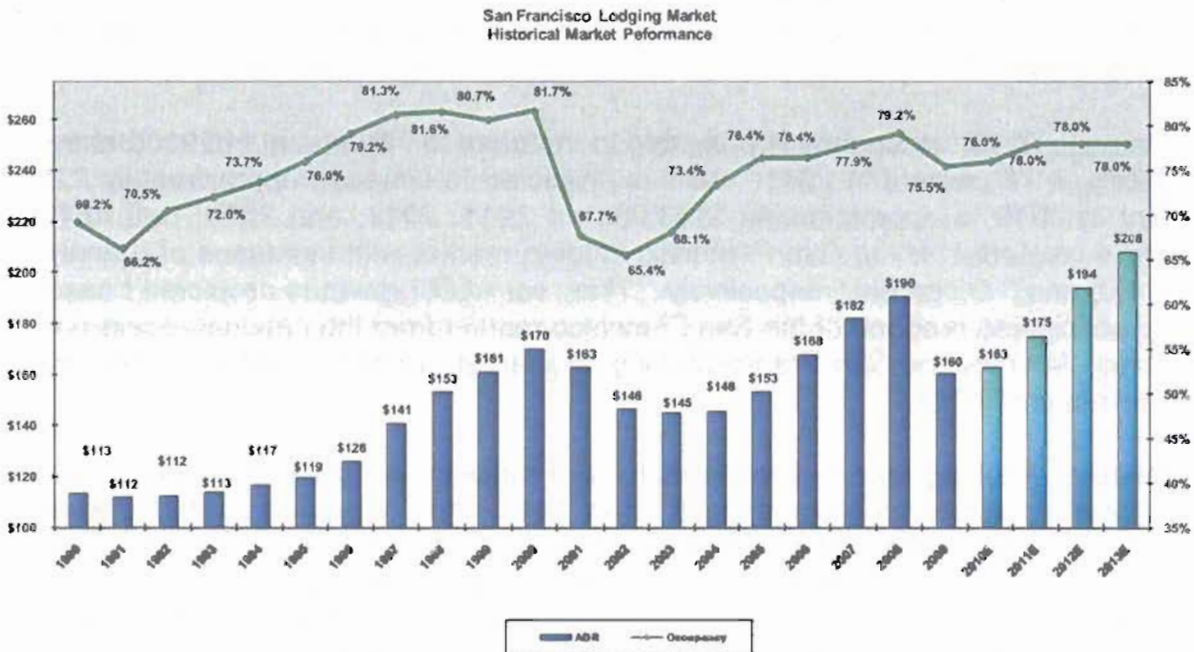
Presented in the following section is an overview of the overall lodging market in San Francisco followed by a discussion of the competitive hostel market and our resulting projections of the potential market performance of the proposed Subject. In this analysis, we have also provided a brief overview of the performance of a sample of traditional hotels located in the Civic Center area. A review of the performance of these properties serves as an indication of the strength of lodging demand in the Civic Center market, although these traditional hotels benefit from group and commercial demand generated by visitors to nearby government agencies.

In order to estimate the performance of the proposed Subject, it is important to understand the dynamics of the greater San Francisco lodging market.

With nearly 34,000 hotel rooms, San Francisco represents one of the largest and strongest performing lodging markets in the United States. Specifically, San Francisco benefits from strong demand from leisure travelers, individual and group commercial demand, and group/convention demand and as a world class city, is also a popular destination for international travelers. The San Francisco lodging market has historically achieved occupancy levels in the mid 70 percent range with strong ADR growth rates.

A. Historical and Projected Performance of San Francisco Lodging Market

Included in the following table is the historical performance of the San Francisco lodging market and our forecast for occupancy and ADR based on current economic trends for 2010, 2011, 2012, and 2013.



Source: PKF Consulting

Between 1990 and 2009, occupancy ranged from a low of approximately 65.4 percent in 2002 to a high of 81.7 percent in 2000. It should be noted that between 1995 and 2000, the City achieved an average occupancy of 80.1 percent, deemed to be the maximum performance of the market based on the timing of demand and market seasonality. During this period, there was a significant amount of unsatisfied demand, or demand that was turned away to other Bay Area markets due to the limited growth in supply between those years. This high demand allowed hotel managers to significantly increase room rates.

In 2001, the citywide occupancy declined to 67.7 percent as a result of the slowing economy and the sharp decline in travel following the terrorist attacks on 9/11. From 2003 through 2008, with minimal new supply and demand increasing, occupancy increased 13.8 percentage points, resulting in an occupancy of 79.2

percent. In 2009, consistent with the economic downturn, occupancy for the San Francisco lodging market declined to 75.5 percent.

Between 1990 and 2000, the citywide average daily rate (“ADR”) increased from approximately \$113.00 in 1990 to \$170.00 in 2000. During this 10-year period, ADR declined only once in 1991. With the sharp decline in demand beginning 2001 through 2003, hotel managers again discounted room rates, and ADR declined from a high of roundly \$170.00 in 2000 to a low of \$145.00 in 2003. The resurgence in demand, which led to higher occupancy rates, has allowed significant rate growth from 2004 through 2008. In 2008, the overall San Francisco lodging market achieved an ADR of \$190.00. In 2009, as a result of the economic downturn, ADR declined 19.7 percent over prior year levels as hotel managers discounted rates to attract demand.

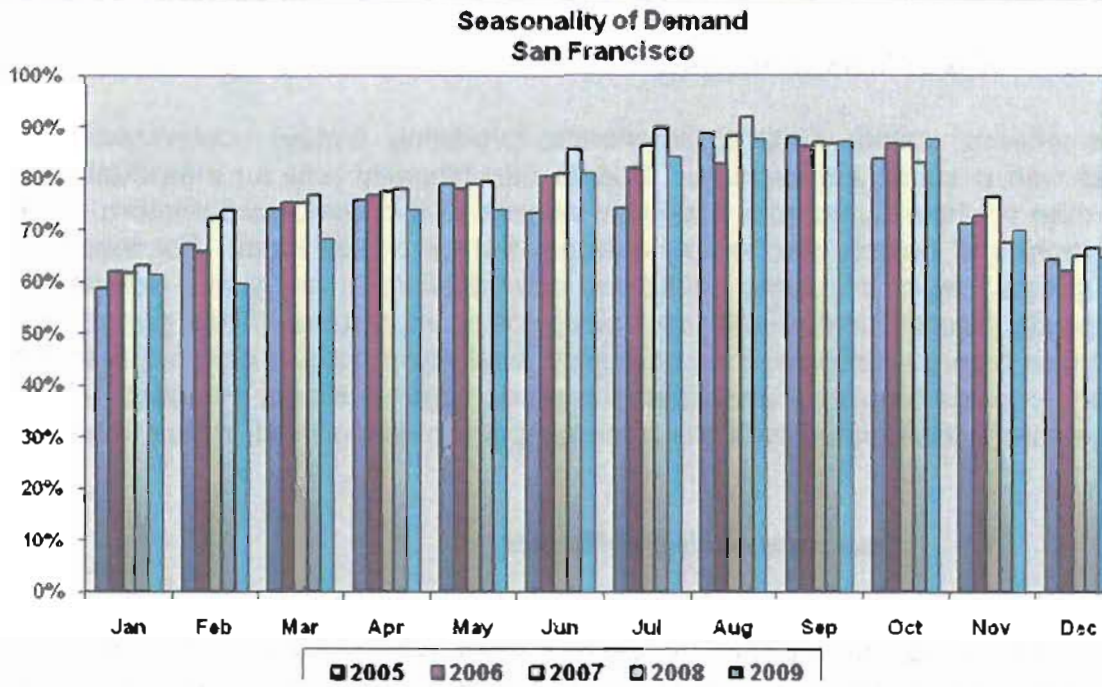
Beginning in 2010, occupancy is projected to increase to 76 percent in 2010 before stabilizing at 78 percent in 2011. ADR is projected to increase approximately 2.0 percent in 2010 to approximately \$163.00. In 2011, 2012, and 2013, real ADR growth is projected for the San Francisco lodging market with increases of roundly 7.0, 11.0, and 7.0 percent, respectively. This real ADR growth is projected based on the anticipated rebound of the San Francisco market from the national recession. As noted, ADR for the San Francisco lodging market is not projected to return to 2008 levels until 2012.

In summary, the long-term outlook is that San Francisco will continue to be one of the nation’s premier lodging markets, with both high occupancies and above inflationary ADR growth. While the San Francisco lodging market experienced a significant decline in revenue per available room (RevPAR) in 2009, the performance of the lodging market is projected to rebound over the next few years at a faster pace than most national lodging markets due to the following key factors:

- The San Francisco Bay Area's has a highly diversified economy with technology, tourism, financial, telecommunication, and basic industries;
- San Francisco continues to be a world-class destination for domestic and international leisure travelers and convention planners; and,
- There are extremely high barriers to entry for new hotel development as a result of the limited availability of land, long entitlement process, and prohibitive construction costs.

1. Seasonality

The seasonality of demand in San Francisco is largely tied to leisure travel, as well as the convention calendar. Presented in the following table is a graph summarizing the occupancy of San Francisco by month from 2005 through 2009.



Source: PKF Consulting

As noted, the summer and fall months of June, July, August, September, and October are generally the strongest months due to the seasonal increase of leisure travelers in the summer and conventioners in the fall. It is worth noting that the City’s occupancy level hovered just below 90 percent in August, September, and October. January, February, November and December are the slowest months as both commercial and leisure travel declines during the holiday season.

Based on discussions with local area hostel operators, occupancy patterns at hostels generally follow the same demand pattern as the overall San Francisco lodging market. March is typically a stronger month than February and April due to an influx of students visiting San Francisco during spring break. These students are typically looking for budget accommodations. Another variance is that November and February are typically the slowest months rather than December and January. Hostels benefit from international tourists visiting San Francisco during the winter holidays.

2. Changes to Supply

The opening of the 550-room InterContinental Hotel in March 2008 marks the most recent addition in the San Francisco lodging market and there have been no recent hostel additions. There are a handful of proposed hotel developments within the City. These developments are highly speculative and are unlikely to come to

fruition in the near term. Based on our research we have not identified any potential hostels developments in San Francisco, aside from the proposed Subject.

B. Hostel Market Analysis

Hostels offer a unique lodging experience; providing budget accommodations coupled with a social atmosphere. Guests can typically rent an individual bed, rather than a whole guestroom and have access to a communal bathroom. The demographics of hostels are notably different from a typical hotel. For example, hostel guests tend to be young adults and are traveling for pleasure. Guests are also typically budget minded and are looking for an adventure. Since guests rent beds rather than guestrooms, the occupancy level at a hostel is calculated as the percent of beds occupied, rather than the percentage of rooms occupied. Also, average rate is associated with the average price paid per bed, rather than per room.

1. Comparable Hostel Market

There are approximately 20 hostels located throughout the City of San Francisco, offering various accommodations at various price points. Albeit, the proposed Subject will offer a higher quality level lodging experience than any hostel located in San Francisco, we have research the most comparable hostels in San Francisco. We have identified Elements hostel, the Green Tortoise and Hostelling International's Fisherman's Wharf hostel, City Center hostel, and Downtown hostel as comparable hostels to the proposed Subject. These properties represent the highest quality hostels in San Francisco and the three affiliated with Hostelling International are amongst the most recognized and utilized facilities in the City.

Hostelling International's Downtown hostel is the largest hostel in San Francisco with 292 beds. Hostelling International's Downtown hostel is the closest hostel to the proposed Subject, located five blocks to the northeast. Hostelling International's City Center hostel has 185 beds and is located further from the downtown core of San Francisco. Hostelling International's 144-bed Fisherman's Wharf hostel is located within Fort Mason, a former U.S. Army post, proximate to Fisherman's Wharf and the Marina District of San Francisco. The Fisherman's Wharf hostel is surrounded by open spaces and offers excellent scenery and views of the San Francisco Bay. The Green Tortoise is located in the North Beach district of San Francisco and offers basic accommodations. Elements hostel is the smallest hostel in the comparable set with 43 beds. This hostel is located in the Mission District of the City and is attached to Medjool, a restaurant/night club. In concept, Elements is most like the proposed Subject despite its small size.

It should be noted that Hostelling International ("HI") is the primary "brand" for hostels throughout the world. Travelers can become members of Hostelling International for a nominal annual fee and are then offered discounts at all affiliated Hostelling International facilities worldwide. Hostelling International contains more

than 4,000 hostels in 90 countries and many of these facilities are both owned and operated by Hostelling International, although owners can also enter into a license agreement with HI for a fee.

The following table provides a summary of facilities and published rates at the aforementioned five comparable hostels.

Comparable Hostels - San Francisco						
	H.I. Fisherman's Wharf		H.I. City Center		H.I. Downtown	
						
Location:	Fort Mason, Building 240		685 Ellis Street		312 Mason Street	
Beds:	144		185		292	
Restaurant:	Café Franco		Ivy's Place Café		No	
Kitchen:	Yes		Yes		Yes	
Guest Laundry:	Yes		No		Yes	
Other Amenities:	Game Room		Game Room		Movie Room	
Rates:	Private Room	\$85.00	2-bed Private Room	\$85.00	Double Room	\$94.00
	6-bed Dorm Room	\$30.00	4-bed Dorm Room	\$26.00	2 Beds with bathroom	\$89.00
	8-bed Dorm Room	\$28.00	5-bed Dorm Room	\$26.00	2 Beds no bath	\$69.00
	24-bed Dorm Room	\$26.00			4-bed Dorm Room	\$27.00
					6-bed Dorm Room	\$27.00

Comparable Hostels - San Francisco				
	Elements Hostel		Green Tortoise	
				
Location:	2524 Mission Street		494 Broadway	
Beds:	43		N/A	
Restaurant:	Medjool		No	
Kitchen:	No		Yes	
Guest Laundry:	Yes		Yes	
Other Amenities:	Adjoined to Medool Restaurant		Billiards	
Rates:	Singles	\$60.00	Triple Dorm Room	\$85.00
	Doubles	\$60.00	Double Room	\$70.00
	4-bed Dorm Room	\$27.00	Twin Twin room	\$70.00
	6-bed Dorm Room	\$25.00	Dorm Bed	\$27.00
	12-bed Dorm Room	\$22.00		

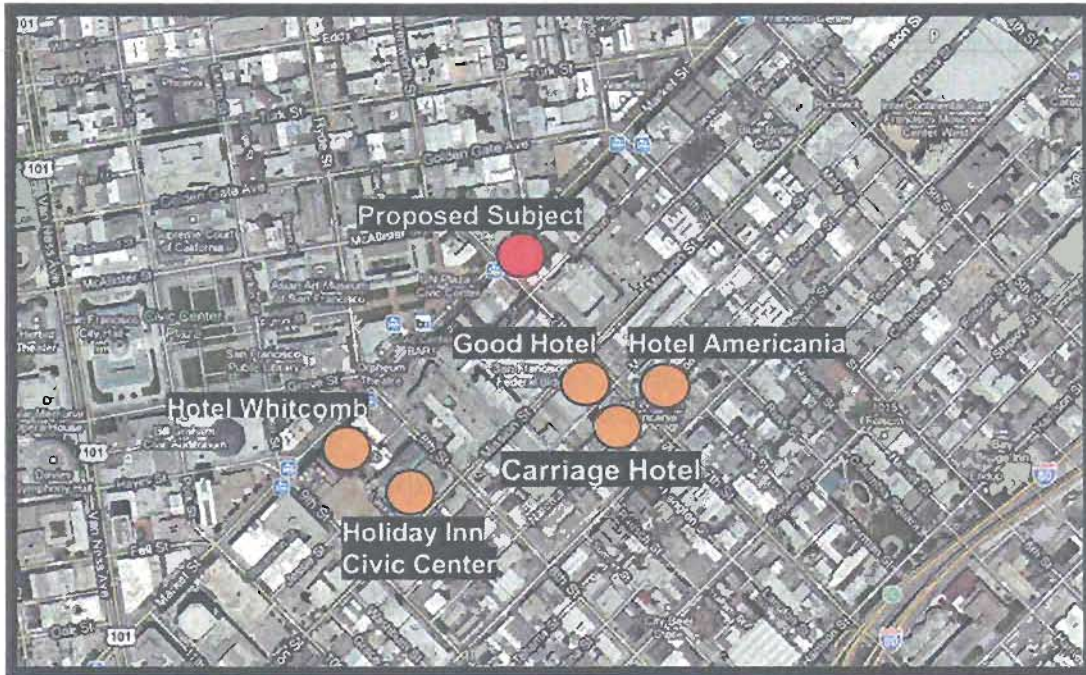
As noted, the identified competitive hotels range in size from 43 to 292 beds, and all of the hostels offer a large number of multi-bed dorms. Furthermore, published rates at these hotels range from approximately \$22.00 to \$27.00 for a bed in a multi-bed dorm to \$60.00 to \$94.00 for a private room with a private bath. However, because of the high percentage of multi-bed dorms, it is reported that the average rate (per bed) rented at these hostels ranges from \$30 to \$40. In addition, based on our discussions with representatives of these properties, we understand that the occupancies of these properties range from 50 to 80 percent. The range in occupancy levels are primarily impacted by size, number of multi-bed dorm rooms, and location of the hostels. Generally speaking, hostels cater almost entirely to young, cost conscious, highly mobile international and domestic travelers, and therefore are also more susceptible to seasonality. Accordingly, most hostels achieve very high occupancy levels during the peak summer and fall months, but lower occupancy during the late fall and early winter as leisure travel in the City slows.

2. Local Lodging Market Overview

As discussed, we have also provided a brief overview of a sample of hotel properties located within a two block radius of the Subject site in the Civic Center market. Specifically, we have reviewed the performance of the Hotel Whitcomb, Holiday Inn Civic Center, Good Hotel, Best Western Americana Hotel, and the Carriage Hotel. A summary of these properties, map highlighting their location relative to the proposed Subject, and a table of the historical performance, in aggregate, of these five properties over the last four years has been presented in the following pages.

Neighborhood Hotels		
Property	Rooms	Year Opened
Hotel Whitcomb	459	1919
Holiday Inn Civic Center	388	1970
Hotel Americana	143	1961
Good Hotel	117	1915
Carriage Hotel	48	1980
Total	1,155	-

As noted, the five hotels range in size from 459 rooms to 48 rooms, and with the exception of the Holiday Inn, all properties operate as independent hotels. It should also be noted that as traditional hotels, each guestroom offers its own private bathroom as well as other traditional hotel amenities.



As noted, the five hotels are all located within a two block radius of the proposed Subject. Presented below is the historical market performance of these five traditional hotels from 2006 to 2009.

Historical Performance of the Neighborhood Hotels									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	ADR	Percent Change	RevPAR	Percent Change
2006	421,575	-	328,727	-	78.0%	\$93.53	-	\$72.93	-
2007	421,575	0.0%	336,028	2.2%	79.7%	\$96.08	2.7%	\$76.58	5.0%
2008	421,575	0.0%	283,391	-15.7%	67.2%	\$102.35	6.5%	\$68.80	-10.2%
2009	421,575	0.0%	296,572	4.7%	70.3%	\$89.11	-12.9%	\$62.69	-8.9%
CAGR	0.0%	-	-3.4%	-	-	-1.6%	-	-4.9%	-

Source: PKF Consulting

The hotels located near the Subject site achieved an occupancy of 78.0 percent in 2006. In 2007, the occupancy level reached 79.7 percent but declined by 12.5 points in 2008 to 67.2 percent. The decline in demand in 2008 was primarily due to the fact that three of the five hotels were under renovation which limited the market's capacity to accommodate demand during peak periods. In 2009, occupancy increased by 2.8 points to 70.3 percent. The average occupancy for the hotels over the four year period was 73.8 percent, which was nearly 4 occupancy points below the overall San Francisco average of 77.3 percent over the same period as presented earlier in this section. This indicates that the Civic Center market area, as a whole, has historically performed below many of the other more

popular areas of San Francisco such as Fisherman's Wharf, Union Square, SOMA, and the Financial District.

The ADR of the neighborhood hotels increased from \$93.53 in 2006 to \$102.35 in 2008. In 2009, the ADR declined by 12.9 percent to \$89.11 as a decline in demand for the over San Francisco market placed a downward pressure on ADRs throughout the City.

Hotels in this area benefit from their proximity to the Federal Building, the Ninth Circuit Courthouse, City Hall, and other civic buildings in the area. Additionally these hotels benefit from their location near the BART Civic Center station, which provides easy accessibility for leisure tourists. However, given their location away from the Moscone Convention Center, Central Business District, and Union Square, the Civic Center hotels are at a disadvantage at capturing convention demand as well as leisure and commercial demand.

C. Projected Performance of the Proposed Subject

In our analysis of the future market performance of the proposed Subject, we have relied upon our general knowledge of hostel operations, our knowledge of the San Francisco lodging market, and on our discussions with hostel operators both locally and in the Seattle, Washington area. In addition, we have considered the following competitive advantages and disadvantages in formulating our projections:

Competitive Advantages:

- The proposed Subject will represent the newest hostel in the San Francisco market and will represent a blend between a traditional hostel and a boutique hotel;
- The proposed Subject will offer the highest quality hostel accommodations in San Francisco, on par with other boutique hotels in the City;
- The proposed Subject benefits from a good location on Seventh Street, which is proximate to the Federal Building, the Ninth Circuit Courthouse, numerous theaters and museums, and attractions in the Civic Center. The proposed Subject is also within walking distance to Union Square, Moscone Center, Yerba Buena Gardens and various other San Francisco tourist attractions; and,
- The proposed Subject is located at the same intersection as the BART Civic Center station. BART is the fastest and most inexpensive form of transportation from the Bay Area airports to the proposed Subject site.

Competitive Weakness:

- 83 percent of the proposed Subject's bed inventory is located in multi-bed dorms with six or more beds. As a result, not only is the proposed Subject the largest hostel in San Francisco, but it has the largest percentage of multi-bed dorm rooms;
- The proposed Subject's neighborhood is generally inferior to the comparable hostels' locations in the Fisherman's Wharf, Union Square, and Downtown markets. Although the Subject site is within walking distance to many San Francisco attractions, the immediate area lacks restaurants and retail outlets. Additionally, the area is characterized by a handful of single room occupancy ("SRO") facilities and numerous unoccupied ground floor retail spaces; and,
- The proposed Subject is not affiliated with any international hostel brand and will operate as an independent hostel.

1. Occupancy

Based on the aforementioned, we have estimated the occupancy for the proposed Subject. Given the fact that the proposed Subject represents a hostel and has 484 beds, the largest of any hostel in San Francisco, we have first projected the occupancy, by bed type, for a typical, or stabilized year of operation. Presented below is our estimate of the occupancy of the proposed Subject for each of the five room types.

Upscale Hostel - San Francisco					
Room Type	Number of Beds	Number of Rooms	Total Beds Daily	Annual Occupancy	Beds/Rooms Sold Annually
10 Bed Dorm Room	10	13	130	60%	28,470
8 Bed Dorm Room	8	14	112	60%	24,528
6 Bed Dorm Room	6	27	162	70%	41,391
Triple/Family	3	20	60	70%	15,330
Single Suite	1	20	20	75%	5,475
Total/Average		94	484	65%	115,194

In our analysis, we project the 10-bed dorm and 8-bed dorm rooms to run an occupancy level of 60 percent. We project the occupancy of 6-bed dorm rooms and triple/family rooms to run an occupancy level of 70 percent. We project the single suite rooms to achieve the highest occupancy among the room types at 75 percent. Our estimate by bed type results in an annualized occupancy level of roundly 65 percent for a typical year of operation.

As a point of comparison, the overall San Francisco lodging market has achieved historical occupancy levels in the mid 70 percent range with occupancy forecast to reach 78 percent by 2011. In addition, the sample of five hotels located in the immediate neighborhood has historically achieved occupancy levels in the mid 60s to high 70s percent range, with a four year average of approximately 74 percent. However, it is important to note that the proposed Subject is a hostel, and 83 percent of the bed inventory is located in rooms with six or more beds and a shared bathroom. Furthermore, with a focus on only one source of demand (leisure), the Subject is expected to be impacted by the seasonality of leisure and vacation travelers. It is therefore our opinion that this large inventory of multi-bed dorm rooms and focus on the leisure segment will prevent the proposed Subject from achieving a higher annual occupancy, despite the peak demand periods of the summer and nearly fall.

As a test of reasonableness to our projected occupancy, we have estimated the performance, by month, that the proposed Subject could reasonably achieve. This estimate is provided below, and is based, in part, on the traditional seasonality trends experienced throughout San Francisco.

Per discussions with the general managers of similar facilities, occupancies during the peak summer months are in excess of 90 percent, while during the slowest months, occupancy levels are in the 40 percent range. It should also be noted, that occupancy levels of larger dorm rooms (e.g. 10-bed dorm room) are typically lower than the smaller dorm rooms or single rooms mostly because there are more beds to sell. The following table outlines our occupancy projections by month for a stabilized year of operation for the proposed Subject.

Estimated Monthly Occupancy of the Proposed Subject													
	Jan	Feb	March	April	May	June	July	August	Sept	Oct	Nov	Dec	Annual
Days	31	28	31	30	31	30	31	31	30	31	30	31	365
Beds Available	15,004	13,552	15,004	14,520	15,004	14,520	15,004	15,004	14,520	15,004	14,520	15,004	176,660
Beds Sold	6,752	4,743	8,252	7,986	10,503	10,890	14,254	14,254	13,794	11,253	5,082	6,752	114,514
Occupancy	45%	35%	55%	55%	70%	75%	95%	95%	95%	75%	35%	45%	65%

In our monthly occupancy projections, we have taken into consideration that the proposed Subject will be the largest hostel in San Francisco, approximately 31 percent larger than the Hostelling International Downtown hostel. Due to the proposed Subject's large size, we estimate an occupancy level of roundly 35 percent in February and November, the lowest occupancy months for hostels located in San Francisco. We also project the hostel to be essentially sold out from July through September, resulting in an occupancy level of 95 percent during these months. As a result of the monthly fluctuation in occupancy, we estimate the annual occupancy to be 65 percent. While this occupancy figure is lower than the other occupancy level achieved by the comparable hostels in San Francisco, this is deemed reasonable due to the proposed Subject's large size. As a point of comparison, based on our detailed interviews with the owners of the 314-bed Hostelling International American Hotel in

Seattle, that property historically has achieved an annual bed occupancy of roundly 45 percent.

While we project a stabilized occupancy for the proposed Subject of 65 percent, in the first year of operation, we estimate the proposed Subject will achieve an occupancy level of 60 percent, as it establishes itself in the market place. At a stabilized occupancy of 65 percent the proposed Subject is projected to perform slightly below the Hostelling International San Francisco facilities.

2. Average Daily Bed Rate

The next step in our analysis is to determine the average bed rate of the proposed Subject. First, we have reviewed the published rates by bed type of the aforementioned comparable hotels, detailed in the following table.

Comparable Hostels - San Francisco	
H.I. Fisherman's Wharf	
Room Type	Rate
Private Room	\$85.00
6-bed Dorm Room	\$30.00
8-bed Dorm Room	\$28.00
24-bed Dorm Room	\$26.00
H.I. City Center	
Room Type	Rate
2-bed Private Room	\$85.00
4-bed Dorm Room	\$26.00
5-bed Dorm Room	\$26.00
H.I. Downtown	
Room Type	Rate
Double Room	\$94.00
2 Beds with bathroom	\$89.00
2 Beds no bath	\$69.00
4-bed Dorm Room	\$27.00
6-bed Dorm Room	\$27.00
Elements Hostel	
Room Type	Rate
Singles	\$60.00
Doubles	\$60.00
4-bed Dorm Room	\$27.00
6-bed Dorm Room	\$25.00
12-bed Dorm Room	\$22.00
Green Tortoise	
Room Type	Rate
Triple Dorm Room	\$85.00
Double Room	\$70.00
Twin Twin Room	\$70.00
Dorm Bed	\$27.00

According to discussions with hostel operators, the published rates are inline with the rates actually achieved as there is rarely any discounting of rates. Unlike hotels, discounting published rates is uncommon for hostels. Therefore, we have assumed that the published rates of the comparable hostels are inline with their actual average daily bed rate performance.

The comparable hostels charge between \$70.00 and \$94.00 for a private room with private bath with either a double bed or two twin beds. A single bed in a dorm-like room with a shared bath, ranges from \$22.00 to \$30.00. There is also typically a small spread between dorm beds in small rooms (e.g. 4-bed dorm room) and large rooms (e.g. 12-bed dorm room). As noted, these published rates all fall within a narrow range amongst the comparable hotels, and are also similar to the published rates of the Seattle hostel we reviewed.

We have also reviewed the average daily bed rates of the Hotel Whitcomb, Holiday Inn Civic Center, Hotel Americana, Good Hotel, and the Carriage Hotel, outlined in the following table.

Neighborhood Hotels	
Property	2009 ADR
Hotel Whitcomb	Low \$80s
Holiday Inn Civic Center	Mid \$90s
Hotel Americana	High \$90s
Good Hotel	High \$70s
Carriage Hotel	Low \$100s
Average	\$89.11

As noted, the average daily rate in 2009 for these traditional hotels was \$89.11, within the range of the published rates for a private room with a private bath at the comparable hostels.

Based on the review of the comparable hostels and neighborhood hotels, we have estimated the hypothetical average bed rate for each room type assuming the proposed Subject was open and stabilized as of 2010. The following table details our bed rate projections by room type stated in 2010 value dollars.

Upscale Hostel - San Francisco							
Room Type	Number of Beds	Number of Rooms	Total Beds	Annual Occupancy	Beds/Rooms Sold Annually	Average Rate per Bed/Suite	Bed Revenue
10 Bed Dorm Room	10	13	130	60%	28,470	\$35.00	\$996,000
8 Bed Dorm Room	8	14	112	60%	24,528	\$35.00	\$858,000
6 Bed Dorm Room	6	27	162	70%	41,391	\$45.00	\$1,863,000
Triple/Family	3	20	60	70%	15,330	\$55.00	\$843,000
Single Suite	1	20	20	75%	5,475	\$110.00	\$602,000
Total/Average		94	484	65%	115,194	\$45.00	\$5,162,000

Due to the proposed Subject superior quality we estimate that the proposed Subject can achieve an average bed rate approximately 15 percent above the comparable hotels' highest rated accommodations for a private room with a private bath. Specifically, we project the proposed Subject could achieve an average bed rate of \$35.00 for beds in 10 and eight person dorm rooms. For a bed in a six person dorm room, we estimate the proposed Subject can achieve an average bed rate of \$45.00. We estimate triple rooms to achieve an average bed rate of \$55.00 and single suite rooms to achieve an average rate of \$110.00. Based on our preceding occupancy estimates by room type, this results in a weighted average of roundly \$45.00 per bed. We have used this hypothetical rate of \$45.00 state in today's dollars to estimate the average rate of the proposed Subject upon opening. In order to estimate the average rate of the proposed Subject upon opening, we have inflated our hypothetical bed rate of \$45.00 by the assumed long term rate of inflation, or three percent. While the average daily room rates of traditional hotels is expected to increase at levels above inflation between 2010 and 2012, hostel pricing strategy differs from traditional hotels and rate increases above inflation are rare.

We have assumed a three percent growth factor over the projection period. The following table details our average daily bed rate projections.

Proposed Upscale Hostel Projected Performance			
Year	Estimated Bed Rate ²	Market Growth	Percent Change
2010	\$45.00	-	-
2011	\$46.25	3.0%	-
2012/13 ¹	\$47.75	3.0%	-
2013/14	\$49.25	3.0%	3.2%
2014/15	\$50.75	3.0%	3.1%
2015/16	\$52.25	3.0%	3.0%
2016/17	\$53.75	3.0%	3.0%

¹ Represents a full fiscal year beginning July 1.
² Rounded to the nearest quarter.
Source: PKF Consulting

Upon opening in 2012, we estimate the average bed rate to be \$47.75, increasing at roundly three percent per year thereafter, inline with our assumed rate of inflation.

Based on our preceding occupancy and ADR analysis, we have developed our performance forecast over the first five years of operation. The following table summarizes our estimated annual market performance for the proposed Subject based on a projected opening date of July 1, 2012.

As previously discussed, we estimate the proposed Subject to achieve an occupancy of 60 percent in the first year of operation before reaching a stabilized occupancy of 65 percent in second year of operation. A lower occupancy in the first

year of operation is typical as the hostel will be developing its position in the market place.

Proposed Upscale Hostel Projected Performance					
Year ¹	Estimated Bed Rate ²	Percent Change	Occupancy	Revenue Per Available Bed	Percent Change
2012/13 ³	\$47.75	-	60.0%	\$28.65	-
2013/14	\$49.25	2.1%	65.0%	\$32.01	11.7%
2014/15	\$50.75	2.1%	65.0%	\$32.99	3.0%
2015/16	\$52.25	2.0%	65.0%	\$33.96	3.0%
2016/17	\$53.75	4.0%	65.0%	\$34.90	3.0%

¹ Represents a fiscal year (July 1 to June 30)
² Rounded to the nearest quarter
³ Represents an opening date of mid-year 2012.
Source: PKF Consulting

Although it is possible that the Subject will experience growth in bed occupancy and bed ADRs above those estimated above, it is also possible that sudden economic downturns, unexpected additions to room supply, or other external factors will force the property below the selected point of stability. Consequently, the estimated occupancy and ADR levels are representative of the most likely potential operations of the Subject over the projection period based on our analysis of the market as of the date of this report.

V. CONCLUSIONS

Based on our market research and our understanding of the San Francisco lodging market, there is adequate demand for the proposed Subject. The proposed Subject will be uniquely positioned as a blend between a hostel and boutique hotel in the San Francisco lodging market. We are of the opinion that the proposed Subject will be well received by the leisure-oriented and budget minded traveler to San Francisco. Furthermore, we are of the opinion that the proposed Subject will enhance the overall appearance of the Mid-market area.

ADDENDA

- A. CERTIFICATION OF CONSULTANTS**
- B. STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

ADDENDUM A
CERTIFICATION OF CONSULTANTS

CERTIFICATION OF THE CONSULTANTS

We, Thomas E. Callahan, CPA, CRE, FRICS, MAI, Christopher A. Kraus, MAI, and Karina E. Parker certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, conclusions, and recommendations.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- We have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- We have made a personal inspection of the property that is the subject of this report.
- No one has provided significant professional assistance to the persons signing this report.
- We certify that, to the best of our knowledge and belief, the reported analysis, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.

- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Thomas E. Callahan, CPA, CRE, FRICS, MAI and Christopher A. Kraus, MAI have completed the requirements of the continuing education program of the Appraisal Institute.
- Thomas E. Callahan, CPA, CRE, FRICS, MAI and Christopher A. Kraus, MAI are Certified General Real Estate Appraisers in the State of California.

Yours sincerely,

PKF Consulting



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ADDENDUM B

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

Economic and Social Trends - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

Information Furnished by Others - In preparing the report, the consultant was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

Hidden Conditions - The consultant assumes no responsibility for hidden or unapparent conditions of the properties, subsoil, ground water or structures. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

Hazardous Materials - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. The consultant assumes no responsibility for the presence of any such substance or material on or in the subject property, nor for any expertise or engineering knowledge required to discover the presence of such substance or material. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

Zoning and Land Use - Unless otherwise stated, the subject property is assumed to be in full compliance with all applicable zoning and land use regulations and restrictions.

Licenses and Permits - Unless otherwise stated, the property is assumed to have all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization that have been or can be obtained or renewed for any use on which the performance estimates contained in this report are based.

Engineering Survey - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

Subsurface Rights - No opinion is expressed as to the value of subsurface oil, gas or mineral rights or whether the property is subject to surface entry for the exploration or removal of such materials, except as is expressly stated.

Maps, Plats and Exhibits - Maps, plats and exhibits included in this report are for illustration only to serve as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose, nor should they be removed from, reproduced or used apart from the report.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

(Continued)

Legal Matters - No opinion is intended to be expressed for matters which require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

Right of Publication - Possession of this report, or a copy of it, does not carry with it the right of publication. Without the written consent of the consultant, this report may not be used for any purpose by any person other than the party to whom it is addressed. In any event, this report may be used only with properly written qualification and only in its entirety for its stated purpose.

Archeological Significance - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archeological significance.

Compliance with the Americans with Disabilities Act - The Americans with Disabilities Act ("ADA") became effective January 26, 1992. It is assumed that the property will be in direct compliance with the various detailed requirements of the ADA.

Definitions and Assumptions - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

Utilization of the Land and/or Improvements - It is assumed that the utilization of the land and/or improvements is within the boundaries or property described herein and that there is no encroachment or trespass.

Dissemination of Material - Neither all or any part of the contents of this report shall be disseminated to the general public through advertising or sales media, public relations media, new media or other public means of communication without the prior written consent and approval of the consultant(s).

Distribution and Liability to Third Parties - The party of whom this report was prepared may distribute copies of this report only in its entirety to such third parties as may be selected by the party for whom this report was prepared; however, portions of this report shall not be given to third parties without our written consent. Liability to third parties will not be accepted.

Use in Offering Materials - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation may not be reproduced or references made to the report or to PKF Consulting in any sale offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

Limits to Liability - PKF Consulting cannot be held liable in any cause of action resulting in litigation for any dollar amount which exceeds the total fees collected from this individual engagement.

Legal Expenses - Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.