

Lower Cost Accommodations

Attachment F to Agenda File No. 2019-0145



**PORT of
SAN DIEGO**
Waterfront
Development



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*Achieve
Ambitions*

DRAFT: Proposal and Financial Summaries

April 2019



- The San Diego Unified Port District (District) issued a Request for Proposals (RFP) for the development of lower cost overnight accommodations on January 22, 2019
- Total of 79 RFP downloads
- The District received four proposals by the March 7, 2019 due date
- Three of the proposals were deemed responsive

Sleepbox






| | | | |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Developer | Sleepbox, Inc. Developed one project in the US at Dulles International Airport. | Hotel Investment Group (HIG). Has developed over 25 hotels in California and Texas for several franchises. | CaRE Development. Based in LA; financed and developed over \$750 million of hotel developments in US gateway cities, including the Waldorf Astoria Beverly Hills Hotel. |
| Proposed Brand and Operations | Sleepbox. Currently operates project at Dulles International Airport. | Avid. HIG operates all owned assets, as well as third-party buildings, totaling over 60 buildings in the last 27 years. | Stay Open. Currently operates two “pod” concept hotels in New Zealand totaling nearly 550 beds. |
| Architect | Sargenti Architects. Principal team member experience includes hospitality and retail development; Sleepbox CEO is an architect. | Afra Construction & Design. Designed over 62 hotels in California, New Mexico, Texas, Wyoming, Arizona, and Colorado for several franchises. | Carrier Johnson. San Diego-based with extensive local experience. Hotel experience includes LAX Hyatt House / Hyatt Place Hotel. |
| Other Team Members | Shiboomi, Inc. (Financing); Oomf, Inc. (Technology development); Local engineers and consultants (to be determined) | JJK Group, Inc. (Structural engineer); Tarelton Engineering (MEP); Omega Engineering Consultants, Inc. (Civil); Emerald Design (Landscape) | Ambruster, Goldsmith & Delvac (Entitlements); John Labib & Associates (Structural & Civil); Kunzik & Sara (General Contractor) |
| Local Experience | None. | Holiday Inn Express (Hotel Circle); Moore Place | SD-based architect and GC. Entitlements group has experience working with the District on other projects. |
| Team Collaboration | Partnership with Sargenti Architects created to work on development projects around the US. | Team has worked together on a number of projects, including local developments. | Developer and operator collaboration for planned Hollywood and Santa Monica hotels. |

Sleepbox



| Proposer Concept | Micro hotel; Sleepboxes and enclosed separate bathroom area. Level of design and service of mid-tier or higher-end hotel offered at the price of a budget or economy hotel. | Hotel; standard rooms and extended stay suites with boutique finishes. | Redefined hostel; 8-12 person pod rooms with shared bathroom space and six ensuite rooms. Focus on social experience and tech emphasis. |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Proposer Identified Market / Guests | Urban explorers; travelers desiring an affordable hotel experience that is as seamless and compelling as modern technology services. | Business and leisure guests seeking modern, comfortable forward-designed lower cost accommodations. | Budget conscious travelers and locals seeking affordable, vibrant, tech-enabled accommodations and a social atmosphere. |
| Experience with Proposed Concept | Proposed project would be first non-airport development in the US (Dulles International Airport). | Developer/operator experience with affordable hotels; proposed project would be first Avid brand hotel in CA and second in the US (Oklahoma City). | Proposed project would be first in the US. Three Jucy Snooze operating properties in NZ. Two other Stay Open projects planned for Hollywood and Santa Monica. |
| Proposer Identified Competitive Set | Rate comparables: chain scales similar to Days Inn, Econo Lodge, Motel 6, America's Value Inn. Brand comparables: Moxy, Yotel, Motto . | Motel 6, Pacific Inn & Suites, Hampton Inn, Holiday Inn Express, Wyndham Garden, Porto Vista. | R.K. Hostel, ITH Adventure Hostel, Found San Diego, USA Hostels San Diego, HI San Diego, Lucky D's, Hostel on 3 rd , Pacifica Hostel. |



Sleepbox



| Building Size | 9,200 <i>Interior leasable square feet (Annex Building)</i> | 90,550 <i>gross SF</i> | 22,370 <i>gross SF</i> |
|------------------------|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| Building Floors | Two <i>Including Annex Building rooftop activation</i> | Four <i>55 feet maximum height</i> | Two <i>Including addition of second floor to Annex Building</i> |
| Site/Land Area | 35,100 SF <i>annex building, exterior common areas and parking</i> | ~3 acres, ~130,680 SF <i>entire site area</i> | 34,220 SF <i>annex building, parking and circulation</i> |
| Units | 48 Sleepboxes for 70 guests 24 single rooms 22 queen rooms 2 ADA rooms | 200 Rooms King bedrooms and suites Double queen bedrooms and suites 20 suites with kitchenettes (extended stay) | 33 rooms, 226 pods/beds 21 eight-person pod rooms 4 twelve-person pod rooms 2 ADA pod rooms 6 ensuite, private one-bedroom rooms |
| Parking | 48 surface spaces maximum <i>Proposer goal to comply with CEQA at minimum parking ratio</i> | 163 surface spaces | 42 surface spaces maximum <i>Proposer goal to reduce given transit priority area</i> |
| Amenities | Outdoor spaces (patio, garden, rooftop activation); Local food and beverage trucks and pop-ups | Free WiFi, bike rental, electronic charging stations, continental breakfast, laundry, fitness center, pool, conference room | Rooftop bar and restaurant, amenity and lounge space |

Development Cost and Financing

Sleepbox



Development Costs

\$3.2 million total;
\$65,300 per Sleepbox

\$30.2 million total;
\$150,900 per room

\$10.6 million;
\$47,082 per bed

Development Funding

\$3.5 million in-lieu funds;
Equity for predevelopment

\$6 million in-lieu funds;
Conventional bank loan (65% LTV);
Equity

\$6 million in-lieu funds;
Equity

Fee and Return Expectations

Sleepbox development fee not identified

15% operating fee to Sleepbox
combined management, brand, booking,
marketing, franchise

28% to 35% expected IRR
10-year equity internal rate of return

\$800,000 development fee
\$4,000 per key

4% management fee to HIG
10% franchise fee to brand

17% expected IRR
equity internal rate of return

\$272,000 development fee
4% of direct hard costs




Ramp up to 11% operating fee to CaRE/Jucy
combined management, brand, franchise, sales
and marketing; additional accounting and
technology fee of \$55 per pod per year

15% to 20% expected IRR
equity internal rate of return




Operations



Representative Year: Operating Year 4

| |  |  |  |
|-------------------------------------------|----------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Average Daily Rates | \$79 | \$98 | \$37 <i>weighted average</i> \$35 <i>per pod/bed</i> ; \$116 <i>per ensuite rooms</i> |
| Occupancy | 80% | 73% | 80% |
| Revenue | \$1,073,000 room revenue (additional \$460,000 food and beverage revenue not included in proforma) | \$5,241,000 room revenue plus: \$105,000 food and beverage revenue | \$2,437,000 room revenue plus: \$364,000 food and beverage revenue |
| Total Expenses (including ground rent) | \$859,000 | \$3,755,000 | \$1,678,000 |
| Reserves | \$54,000 (5% of revenue) | \$160,000 (3% of revenue) | \$84,000 (3% of revenue) |
| Net Operating Income (less reserves) | \$161,000 (15% margin) | \$1,430,000 (27% margin) | \$1,040,000 (37% margin) |

Potential Ground Rent

| |  |  |  |
|------------------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Ground Rent Assumption (Percentage rents) | 7.0% room revenues 4.0% food and beverage | 7.0% room revenues 4.0% food and beverage | 7.0% room revenues 4.0% food and beverage |
| Total Potential Ground Rent (10 years, nominal basis) | \$922,000 ⁽¹⁾ (ground rent payments begin operating year 1) | \$2,962,000 (ground rent payments begin operating year 4) | \$1,922,000 (ground rent payments begin operating year 1) |
| Present Value Ground Rent (10 years, 5% discount rate) | \$708,000 ⁽¹⁾ (ground rent payments begin year 1) | \$2,102,000 (ground rent payments begin year 4) | \$1,469,000 (ground rent payments begin year 1) |
| Present Value Ground Rent per Leased Land Area | \$20.00 per SF; \$878,000 per acre (35,100 SF land area) | \$16.00 per SF; \$701,000 per acre (~3 acre land area) | \$43.00 per SF; \$1,871,000 per acre (34,220 SF land area) |

(1) Includes Sleepbox identified \$460,000 annual food and beverage revenues for purposes of ground rent calculation, which was not included in the proposed proforma.

