



FEASIBILITY STUDY

Proposed Hotel Barlow

6770 MCKINLEY STREET
SEBASTOPOL, CALIFORNIA



SUBMITTED TO:

Mr. Barney Aldridge
Aldridge Development
6780 Depot Street #110
Sebastopol, California 95472

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PREPARED BY:

HVS Consulting & Valuation
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August 12, 2024

Mr. Barney Aldridge
Aldridge Development
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Sebastopol, California 95472

HVS SAN FRANCISCO

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Re: Proposed Hotel Barlow
Sebastopol, California
HVS Reference: 2024020454

Dear Mr. Aldridge:

Pursuant to your request, we herewith submit our feasibility study pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in the Sebastopol, California, area. We have studied the proposed project, and the results of our fieldwork and analysis are presented in this report. We have also reviewed the proposed improvements for this site. This report is not an appraisal but has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation and as applicable for this consulting assignment.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,
TS Worldwide, LLC



John Berean
Senior Vice President
Hawaii & Northern California Region Leader
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1. Executive Summary

Subject of the Feasibility Study

The subject of the feasibility study is a site measuring 50,530 square feet (1.16 acres) that is planned to be improved with a full-service, boutique lodging facility; the hotel is anticipated to operate independent of a brand affiliation. The property, which is expected to open on January 1, 2027, will feature 83 rooms, a restaurant & bar, and a rooftop bar, 3,200 square feet of meeting space, a rooftop pool, a full-service spa, a fitness center, and a retail outlet/boutique. The hotel will also contain the appropriate parking capacity and all necessary back-of-the-house space.

RENDERING OF PROJECT



The Barlow is a twelve-acre, mixed-use development located just east of Sebastopol's Downtown Plaza and features distilleries, breweries, wineries, restaurants, eateries, and retail boutiques. The abundant landscaped outdoor spaces and collaborative environment have made The Barlow highly desirable for prospective tenants, thereby allowing rent to be at a premium compared to other markets. The Barlow offers free parking and regularly hosts public events, such as live music performances and tasting tours. The proposed subject hotel is expected to elevate The Barlow as a destination for tourists and groups visiting Sonoma County by allowing them convenient access to explore the vibrant local community. The subject site's location is 6770 McKinley Street, Sebastopol, California 95472.

Pertinent Dates

The effective date of the report is August 12, 2024. The subject site was inspected by Jason Lee and John Berean on April 2, 2024. In addition to the inspection, Jason Lee participated in the research for this assignment and assisted in the report's preparation. John Berean participated in the analysis and reviewed the findings.

Ownership of the Subject Site

The developer of the proposed subject hotel is Aldridge Development. As mentioned previously, the subject site is currently improved with a light-industrial/office building that is leased to Guayaki. The tenant will be relocated within The Barlow, and the existing structure will be demolished as part of the proposed subject hotel's development.

Management and Franchise Assumptions

Details pertaining to management terms were not yet determined at the time of this report; however, we assume that the proposed hotel will be managed by a professional hotel-operating company, with fees deducted at rates consistent with current market standards. Our projections reflect a total management fee of 3.0% of total revenues.

The proposed hotel will reportedly remain independently operated throughout the forecast period; therefore, it will not be subject to franchise fees.

Summary of Hotel Market Trends

Our supply and demand analysis comprises all hotels identified by STR, both reporting and non-reporting, located in West Unincorporated Sonoma County and the City of Sebastopol. West Unincorporated Sonoma County includes the following cities, towns, and census-designated places: Bodega Bay, Forestville, Guerneville, Jenner, Monte Rio, Occidental, The Sea Ranch, and Sebastopol. We note that the Vintners Resort was included in this sample given its location in Unincorporated Sonoma County, although the hotel's civic address is in Santa Rosa. Our analysis incorporates estimates of market demand and rooms revenue based on our review of an STR Trend comprising all reporting properties in West Unincorporated Sonoma County, historical transient occupancy tax data for Unincorporated Sonoma County and Sebastopol, and STR data for the entirety of Sonoma County.

In the latter years of last decade, occupancy ranged from 71.0% to 76.0%, with ADR having surpassed the \$238 mark in 2019, as the market benefited from the increase in discretionary spending and the economic expansion in the San Francisco Bay Area. We note that wildfires influenced the market between 2017 and 2020, and flooding along the Russian River also affected lodging demand in 2019. In March 2020, the COVID-19 pandemic began to affect the local market, similar to the rest of the nation, resulting in decreased business activity, inclusive of the hospitality, tourism, and wine-making industries; leisure travel was suspended in Sonoma County between late March and mid-June. While visitor volume to Sonoma Valley began to improve in the summer, the Glass Fire in September significantly affected the market. Tourism was again suspended in December 2020, as a temporary stay-

at-home order was issued for the greater San Francisco Bay Area; however, a rebound commenced in 2021, with the occupancy increasing through 2022. Heightened inflation, strong pent-up demand for drive-to leisure destination markets, and local hoteliers' commitment to maintaining rate integrity contributed to a full recovery in ADR in 2021 and continued growth in 2022.

Year-end 2023 data illustrate occupancy just under the 60.0% mark. Local hoteliers note that demand has contracted somewhat because of an increase in travel to European destinations following the removal of all pandemic-related restrictions. As a result, ADR growth began to normalize, declining from the heightened levels of years prior, but remaining nevertheless favorable in 2023. In 2022, market RevPAR well surpassed the pre-pandemic levels, peaking above the \$200 mark, in line with the corresponding high ADR for the year, but then decreased accordingly in 2023. In general, the near-term outlook for the competitive market is cautious given the recent moderation in RevPAR. However, the long-term outlook is optimistic because of the region's popularity as a destination market, its proximity to the San Francisco Bay Area, and its high barriers to entry.

The following table provides a historical perspective on the supply and demand trends for West Sonoma County.

FIGURE 1-1 HISTORICAL SUPPLY AND DEMAND TRENDS

| Year | Average Daily Room Count | Available Room Nights | Change | Occupied Room Nights | Change | Occupancy | Average Rate | Change | RevPAR | Change |
|-----------------------------------|--------------------------|-----------------------|--------|----------------------|---------|-----------|--------------|--------|----------|--------|
| 2016 | 1,042 | 380,330 | — | 282,139 | — | 74.2 % | \$215.74 | — | \$160.04 | — |
| 2017 | 1,042 | 380,330 | 0.0 % | 286,859 | 1.7 % | 75.4 | 225.80 | 4.7 % | 170.31 | 6.4 % |
| 2018 | 1,076 | 392,740 | 3.3 | 298,600 | 4.1 | 76.0 | 236.77 | 4.9 | 180.02 | 5.7 |
| 2019 | 1,076 | 392,740 | 0.0 | 278,958 | (6.6) | 71.0 | 238.86 | 0.9 | 169.66 | (5.8) |
| 2020 | 1,076 | 392,740 | 0.0 | 206,677 | (25.9) | 52.6 | 200.69 | (16.0) | 105.61 | (37.8) |
| 2021 | 1,076 | 392,740 | 0.0 | 241,896 | 17.0 | 61.6 | 304.88 | 51.9 | 187.78 | 77.8 |
| 2022 | 1,076 | 392,740 | 0.0 | 248,484 | 2.7 | 63.3 | 316.40 | 3.8 | 200.18 | 6.6 |
| 2023 | 1,076 | 392,740 | 0.0 | 228,650 | (8.0) | 58.2 | 301.90 | (4.6) | 175.76 | (12.2) |
| Average Annual Compounded Change: | | | | | | | | | | |
| 2016 – 2019 | | | 1.1 % | | (0.4) % | | | 3.5 % | | 2.0 % |
| 2016 – 2023 | | | 0.5 | | (3.0) | | | 4.9 | | 1.3 |

FIGURE 1-2 HOTELS INCLUDED IN WEST SONOMA COUNTY

| Location | Hotels Included in Sample | Class | Number of Rooms | Year Opened |
|---------------|--|----------------------|-----------------|-------------|
| Bodega Bay | The Lodge at Bodega Bay | Luxury Class | 83 | 1960 |
| Bodega Bay | Bodega Harbor Inn | Economy Class | 17 | 1941 |
| Bodega Bay | Bodega Coast Inn | Upscale Class | 44 | 1987 |
| Bodega Bay | The Inn at the Tides | Upscale Class | 86 | 1984 |
| Bodega Bay | Sonoma Coast Villa | Upper Upscale Class | 19 | 1992 |
| Bodega Bay | Bodega Bay Inn | Upscale Class | 14 | 1977 |
| Forestville | Farmhouse Inn | Luxury Class | 25 | 2009 |
| Guerneville | West Sonoma Inn & Spa | Upper Midscale Class | 34 | 1948 |
| Guerneville | The Creekside Inn | Upscale Class | 28 | 1939 |
| Guerneville | The Stavrاند | Luxury Class | 21 | 1922 |
| Guerneville | Fern Grove Cottages | Upscale Class | 21 | 1940 |
| Guerneville | Dawn Ranch | Luxury Class | 73 | 1905 |
| Guerneville | Cottages on River Road | Midscale Class | 19 | 1935 |
| Guerneville | The Woods Hotel | Upscale Class | 19 | 1951 |
| Guerneville | Boon hotel and spa | Upscale Class | 15 | 1957 |
| Guerneville | Highlands Resort | Economy Class | 17 | 1948 |
| Guerneville | R3 Hotel | Economy Class | 23 | 1930 |
| Guerneville | The Rio Nido Lodge | Economy Class | 8 | 1935 |
| Guerneville | Johnson's Beach | Economy Class | 14 | 1950 |
| Guerneville | Surrey Resort Russian River | Upper Upscale Class | 31 | 1948 |
| Guerneville | The Guerneville Lodge | Upscale Class | 12 | 1945 |
| Guerneville | AutoCamp Russian River | Upscale Class | 34 | 2018 |
| Jenner | Timber Cove Resort | Luxury Class | 46 | 1963 |
| Jenner | Ocean Cove Lodge | Midscale Class | 16 | 1962 |
| Jenner | Jenner Inn | Upper Upscale Class | 18 | 1962 |
| Jenner | Fort Ross Lodge | Upscale Class | 22 | 1982 |
| Monte Rio | Casa Secoya | Upscale Class | 26 | 1977 |
| Monte Rio | Highland Dell Lodge | Upper Midscale Class | 13 | 1906 |
| Monte Rio | Rio Villa Beach Resort | Economy Class | 12 | 1946 |
| Monte Rio | Boho Manor | Upscale Class | 14 | 1905 |
| Occidental | Occidental Lodge | Economy Class | 24 | 1860 |
| Occidental | Inn @ Occidental | Upper Upscale Class | 18 | 1860 |
| The Sea Ranch | The Sea Ranch Lodge | Upper Upscale Class | 19 | 1965 |
| Santa Rosa | Vintners Resort | Luxury Class | 78 | 1984 |
| Sebastopol | Fairfield Inn & Suites Santa Rosa Sebastopol | Upper Midscale Class | 82 | 1998 |
| Sebastopol | Sebastopol Inn | Upper Midscale Class | 31 | 1999 |

1,076

Source: STR

We have identified seven luxury hotels in Sonoma County that are anticipated to be fully competitive with the Proposed Hotel Barlow. These primary competitors are listed in the following table.

FIGURE 1-3 PRIMARY COMPETITORS

| Hotels Included in Sample | Class | Competitive Status | Number of Rooms | Year Affiliated | Year Opened | Notes |
|---------------------------|--------------|--------------------|-----------------|-----------------|-------------|--|
| MacArthur Place Sonoma | Luxury Class | Primary | 64 | Mar 2021 | Jan 1900 | S/O (Apr '20); R/O (May '20); S/O (Jan '21); R/O (Mar '21) |
| Gaige House | Luxury Class | Primary | 23 | Jun 2020 | Jun 1986 | S/O (Apr '20); R/O (Jun '20) |
| Kenwood Inn & Spa | Luxury Class | Primary | 28 | Jun 2020 | Jun 1989 | S/O (Apr '20); R/O (Jun '20) |
| Hotel Healdsburg | Luxury Class | Primary | 56 | Jun 2020 | Nov 2001 | S/O (Apr '20); R/O (Jun '20) |
| Farmhouse Inn | Luxury Class | Primary | 25 | Jun 2020 | Jun 2009 | S/O (Apr '20); R/O (May '20) |
| H2 Hotel | Luxury Class | Primary | 36 | Jun 2020 | Jul 2010 | S/O (Apr '20); R/O (May '20) |
| Montage Healdsburg | Luxury Class | Primary | 130 | Dec 2020 | Dec 2020 | |

Total 362

Source: STR

The following tables reflect our estimates of operating data for the primary competitors on an individual basis. These trends are presented in detail in the Supply and Demand Analysis chapter of this report.

FIGURE 1-4 PRIMARY COMPETITORS – OPERATING PERFORMANCE

| Property | Est. Segmentation | | | Estimated 2022 | | | | Estimated 2023 | | | | | |
|------------------------------------|-------------------|-------------|-------------------|----------------------------|---------------|-------------------|-----------------|----------------------------|---------------|-------------------|-----------------|-----------------------|-------------------|
| | Number of Rooms | Transient | Meeting and Group | Weighted Annual Room Count | Occ. | Average Rate | RevPAR | Weighted Annual Room Count | Occ. | Average Rate | RevPAR | Occupancy Penetration | Yield Penetration |
| Montage Healdsburg | 130 | 70 % | 30 % | 130 | 50 - 55 % | \$1,100 - \$1,125 | \$575 - \$600 | 130 | 50 - 55 % | \$1,050 - \$1,075 | \$550 - \$575 | 90 - 95 % | 130 - 140 % |
| Farmhouse Inn | 25 | 70 | 30 | 25 | 60 - 65 | 875 - 900 | 550 - 575 | 25 | 55 - 60 | 850 - 875 | 500 - 525 | 100 - 110 | 120 - 130 |
| MacArthur Place Hotel & Spa Sonoma | 64 | 70 | 30 | 64 | 55 - 60 | 700 - 725 | 400 - 425 | 64 | 70 - 75 | 600 - 625 | 425 - 450 | 120 - 130 | 100 - 110 |
| Gaige House | 23 | 90 | 10 | 23 | 65 - 70 | 575 - 600 | 400 - 425 | 23 | 35 - 40 | 375 - 400 | 140 - 150 | 65 - 70 | 35 - 40 |
| Kenwood Inn & Spa | 28 | 90 | 10 | 28 | 65 - 70 | 450 - 475 | 300 - 325 | 28 | 35 - 40 | 270 - 280 | 105 - 110 | 65 - 70 | 25 - 30 |
| Hotel Healdsburg | 56 | 90 | 10 | 56 | 60 - 65 | 600 - 625 | 375 - 400 | 56 | 50 - 55 | 575 - 600 | 300 - 325 | 90 - 95 | 75 - 80 |
| h2hotel Healdsburg | 36 | 95 | 5 | 36 | 65 - 70 | 425 - 450 | 300 - 325 | 36 | 60 - 65 | 400 - 425 | 260 - 270 | 110 - 120 | 60 - 65 |
| Sub-Totals/Averages | 362 | 78 % | 22 % | 362 | 60.2 % | \$773.94 | \$466.11 | 362 | 55.8 % | \$726.84 | \$405.50 | 100.0 % | 100.0 % |

** Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.*

**Summary of Forecast
Occupancy and
Average Rate**

Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, we have chosen to use a stabilized occupancy level of 74% and a base-year rate position of \$530.00 for the proposed subject hotel, with the occupancy and average daily rate (ADR) projections summarized below.

FIGURE 1-5 FORECAST OF OCCUPANCY AND AVERAGE RATE

| Year | Occupancy | Average Rate | | Average Rate After Discount |
|------|-----------|-----------------|----------|--------------------------------|
| | | Before Discount | Discount | |
| 2027 | 64 % | \$573.30 | 3.0 % | \$556.10 |
| 2028 | 70 | 596.23 | 1.0 | 590.27 |
| 2029 | 72 | 614.12 | 0.0 | 614.12 |
| 2030 | 74 | 632.54 | 0.0 | 632.54 |

**Summary of Forecast
Income and Expense
Statement**

Our positioning of each revenue and expense level is supported by comparable operations or trends specific to this market. Our forecast of income and expense is presented in the following table (figures in the forecast year columns have been divided by 1,000 and reflect thousands of dollars).