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July 14, 2015

City of Morgan Hill
Attn: Ms. Edith Ramirez
Principal Planner/Economic Development Manager
17575 Peak Avenue
Morgan Hill, CA 95037

Dear Ms. Ramirez:

On behalf of HTL Hospitality Advisors I am pleased to present this letter providing our review of the Draft report on the Morgan Hill lodging market prepared by Hotel Appraisers & Advisors (HA&A). We have been provided with their Phase I report as well as the data used to compile their analysis. We have not conducted our own research and analysis, but have used our experience in the industry and our general knowledge of the Santa Clara County lodging market to inform our review of their data, analysis, and conclusions.

Based on our review of the materials provided by HA&A, in general we concur with the findings and conclusions presented in their report. More specifically as to their major assertions:

On Slide 41 (#3) they state: *The local market data indicate opportunities for potential hotel developments in Morgan Hill, as occupancy levels have exceeded 70% for top performers in recent years. Moreover, RevPAR levels have exceeded \$90 for top performers in recent years, suggesting potential for additional upscale hotel development.* This conclusion is reasonable given all of the data they have presented, such as on slides 29-33 where they focus on the Top 5 hotels in the market. The Top 5 hotels have much higher peak occupancy than the market overall, and therefore more unaccommodated demand. Further, these 5 hotels combine to contribute 79% of total citywide TOT, and receive far higher customer reviews. All of this data lends support to this statement.

In item #4 (same slide) they state: *A substantial amount of unaccommodated is estimated to exist in the Morgan Hill market, which should moderate the impact from potential new supply.* They reference the high occupancy levels (80% and even 90% plus) for several days of the week to support this, which is a strong indicator of unaccommodated demand. Furthermore, on slide 32 they point out that no new properties were built in Morgan Hill during the last national development cycle.

On Slide 42, they indicate that there are lodging brands available to be introduced in the market, as well as an under-representation of both Upscale and Upper Midscale properties in Morgan Hill. Based on the data they present regarding the market's growth in occupancy, ADR, and RevPAR these are reasonable conclusions.

It has been a pleasure to work with you on this Peer Review engagement. We look forward to assisting the City further as you continue to explore new opportunities for lodging development.

Sincerely,

A. Corey Limbach
Managing Director