

*Phase I Report on  
The Market Feasibility of  
Developing a hotel  
In Downtown  
Auburn, Washington*

Report Issue Date: February 8, 2013

K&M File #: 12-032

**Prepared by  
Thomas P. Kennedy, CHA  
Kennedy & Mohn, P.S.  
Seattle, Washington**

**Prepared for  
City of Auburn  
25 West Main Street  
Auburn, WA 98001**



**Kennedy & Mohn, P.S.**  
*Hotel Brokerage, Consulting, & Appraisals*  
[www.HotelRealtyNW.com](http://www.HotelRealtyNW.com)

February 8, 2013

Mr. Doug Lein  
Economic Development Manager  
c/o City of Auburn  
25 W Main Street  
Auburn, Washington 98001

Transmitted by email: [ksnyder@auburnwa.gov](mailto:ksnyder@auburnwa.gov); [dlein@auburnwa.gov](mailto:dlein@auburnwa.gov)

Dear Mr. Lein:

As requested, we have researched the potential for development of hotel in downtown Auburn, Washington on one of several possible sites located south of Main Street. Our report and analyses are presented subject to the attached assumptions and limiting conditions. The effective date of our analyses is January 18, 2013 the completion date of our fieldwork in Auburn. Our market feasibility study included the following scope of work.

- ◆ Orientation meeting with Mr. Douglas Lein, Mr. Kevin Snyder, and Ms. Elizabeth Chamberlain to gather information regarding possible sites for the proposed hotel and to gather information regarding the area that would be helpful to us in our evaluation of the market;
- ◆ Inspection of the possible sites regarding access, visibility, surrounding neighborhood, proximity to primary sources of demand, and advantages and disadvantages of the site compared to that of competitive hotels;
- ◆ Recommendations regarding the most suitable hotel development site;
- ◆ Interviews with State and local officials regarding economic conditions, development trends, and the need for additional lodging in the downtown Auburn;
- ◆ Inspection of the competitive hotels, interviews with hotel operators, franchise representatives regarding proposed hotels, and/or corporate representatives regarding competitive hotel market conditions and trends, and compiling and summarizing the competitive market's historical operating performance;
- ◆ Developing a projection of future market supply and demand conditions and the resulting market occupancy rates through the proposed hotel's fifth year of operation;
- ◆ General recommendations regarding the proposed hotel, the number and mix of guestrooms, and amenities;
- ◆ Documentation of our findings in a letter format with supporting tables.

**Thomas P. Kennedy, CHA**  
14108 SE 182<sup>nd</sup> • Renton, WA 98058  
Tel: (425) 277-5755 • Fax: (425) 277-5759  
[tkennedy@HotelRealtyNW.com](mailto:tkennedy@HotelRealtyNW.com)

**Michael J. Mohn, MAI**  
19709 51<sup>st</sup> Ave. SE • Bothell, WA 98012  
Tel: (425) 485-7925 • Fax: (425) 485-9114  
[mmohn@HotelRealtyNW.com](mailto:mmohn@HotelRealtyNW.com)

### **Introduction**

Kennedy & Mohn, P.S was engaged by the City of Auburn to assist in evaluating the potential for development of a hotel to be located on one of several sites located within a four block area in downtown Auburn, Washington. The sites are bordered on the north by West/East Main Street, on the south by 2<sup>nd</sup> Street SE/SW, on the east by A Street SE and on the west by A Street SW and the Auburn Transit Center.

### **Area**

Auburn is a suburban community located in the Puget Sound area approximately 25 miles southeast of Seattle, 14 miles northeast of Tacoma, seven miles south of Kent, and six miles east of Federal Way, and approximately 8 miles southwest of Covington. Major traffic routes through the area include Interstate 5 (I-5), State Route 167 (SR 167), and State Highway 18 (Hwy 18).

The City of Auburn is influenced by the economic conditions of the Greater Puget Sound region. Accordingly, we reviewed growth in employment for the Seattle Bellevue Everett Metropolitan Division and also Tacoma-Pierce County.

Seattle is located in Washington State in the northwestern corner of the United States. The city of Seattle is located within King County, approximately 150 miles south of the Canadian border, 32 miles north of Tacoma, and roundly 172 miles north of Portland, Oregon. King County is bounded on the north by Snohomish County, on the south by Pierce County, on the east by the Cascade Mountains and Chelan County, and on the west by the Puget Sound, Bainbridge Island, and the Kitsap and Olympic Peninsulas. King County is the most populous county in Washington.

The Seattle area is part of the Seattle-Bellevue-Everett Metropolitan District (SBEMD). According to U.S. Census data, in 2010 the SBEMD had an estimated population of 2,644,604 compared to Washington State's population of roundly 6,724,540 or just over 39 percent of the state's population. Since 1990, the population of the SBEMD increased at a compound average annual rate of 1.3 percent compared to that of the State which increased at a compound annual growth rate (CAAGR) of approximately 1.6 %. The estimated population for the SBEMD for 2012 was roundly 2,680,000, an increase of more than 35,000 over 2010 compared to an estimated population for Washington State of 6,817,770, an increase of more than 93,000 over 2010.

The SBEMD economy benefits from a well-developed transportation system that includes three interstate highways, two intercontinental railroads, extensive nationwide trucking, a ferry system, an international airport, a world-class seaport, and a newly developed light rail system. In addition, Seattle is closer to Asia than any other major U.S. port. The Seattle area has a highly educated and well-trained workforce, and is a national center for manufacturing, high technology industries, biotechnology, services, international trade, and tourism.

Seattle-Tacoma International Airport (SeaTac Airport) is located approximately 15 miles northwest of Auburn, and with the container and bulk seaports along both the Seattle and Tacoma waterfronts, the area has the advantage of being able to move goods, supplies, employees, and services locally or internationally in an expedient manner. The port of Seattle is ranked the 20th largest container port in the world and SeaTac Airport is the 17th busiest U.S. commercial service airport. SeaTac International Airport is equidistant by air to both Tokyo and London, and serves many destinations around the world, offering non-stop service to worldwide commercial centers. The number of passengers served by SeaTac Airport in 2012 was 33,223,111; including 29,975,042 domestic travelers and 3,248,049 international travelers. Passenger volumes at SeaTac have more than doubled since 1990. Between 1990 and 2012, total air passenger traffic at SeaTac Airport increased at a compound average annual rate of 3.3 percent. The increase in the number of passengers is an indication of a vibrant and stable economy. A long-awaited third runway opened at SeaTac Airport in November 2008. In addition, significant recent upgrades have been made to the main terminal, parking garage, and satellite transit system.

Between 1990 and 2012, non-agricultural employment in the SBEMD increased at a compound average annual rate of roundly 1.2 percent. In 2012, approximately 83 percent of all non-agricultural jobs were in the services sector. Within the services sector, trade, transportation and utilities and professional and business service jobs represented approximately 39 percent of the services employment, while manufacturing employment represented just under 12 percent of total employment. In 1990, unemployment in the SBEMD was at 4.1 percent before reaching a high of 9.5 percent in 2010. By 2012, just over 69,000 jobs were added to the employment market, reducing the unemployment rate to 7.3 percent.

Seattle is the economic and cultural center of the northwestern United States and is the largest populated area north of San Francisco and west of Chicago. Once considered a one-industry town, Seattle is now also home to Microsoft, Starbucks, Amazon.com, Costco, Nintendo, Weyerhaeuser, and Nordstrom. Beginning in 2008 Seattle, like most other areas of the country and world suffered from a global recession that froze the capital markets and impacted all segments of the economy. Beginning in 2010, improvement began as can be seen clearly in the performance of hotels, which is again evident in the lodging market performance levels achieved in 2011 and YTD 2012. Seattle is considered to have one of the more stable economic foundations in the United States. With the significant development in the biomedical field now occurring in the South Lake Union area, the growing demand in the cruise ship market, a newly expanded convention center, and the on-going improvements being made to highways and light rail, Seattle is well-positioned to continue its recovery from the recession, while continuing to diversify and provide a stable environment for continued growth.

The Tacoma-Pierce County Metropolitan District (TMD) is heavily influenced by the Port of Tacoma and Joint Base Lewis McChord. Improvements to the Port of Tacoma's facilities and its dependence on global economics have allowed it to handle growing volumes of shipments. The

port is a major center for bulk and heavy-lift cargoes, as well as automobiles and medium-duty trucks. In 2011 the Port of Tacoma completed approximately \$34.5 billion in international trade and another \$3.0 billion of trade with Alaska.

Between 1990 and 2012, non-agricultural employment in the TMD increased at a compound average annual rate of roundly 1.5 percent, slightly higher than the 1.2 percent job growth in the larger Seattle area (SBEMD). Approximately 87 percent of all non-agricultural jobs were in the services sector. Within the services sector, trade, transportation and utilities and professional and business service jobs represented approximately 29 percent of the services employment. Government employment in the TMD represented more than 20 percent of total employment. In 1990, unemployment in the TMD was at 4.6 percent before reaching a high of 10.2 percent in 2010. Between 2010 and 2012 roundly 6,000 jobs were added to the employment market, reducing the unemployment rate to 8.9 percent.

Auburn is served by Sounder Commuter Rail which provides daily commuter train service each morning and afternoon between Lakewood on the south and Seattle on the north. Sound Transit and King County Metro also provide bus service to Auburn Station. The Sounder also provides service between Auburn and Seattle for baseball and football games and other special events, an effective way to minimize traffic and save on Seattle parking. Auburn Station has 676 parking spaces in a structured parking garage for transit customers. According to the spring 2013 Draft Service Implementation Plan, 963 passengers take Sounder Commuter rail from Auburn Station into Seattle daily.

Major employers for the city of Auburn are shown in the adjacent table.

<b><u>Primary Auburn Employers</u></b>	
Boeing	5,900
Auburn School District	1,850
Muckleshoot Casino Enterprises	1,500
The Outlet Collection	1,100
General Services Administration	500-1,000
Auburn MultiCare Hospital	850
Green River Community College	635
Emerald Downs	550
Zones	500
City of Auburn	350
Skills	325
Ply-Gem	295
Federal Aviation Administration (FAA)	275
Mohawk Plastics	250
AIM Aerospace	250
Aero Controls	200
Composite Solutions	200
Safeway	200
LMI Aerospace	160
<i>Source: City of Auburn 2012</i>	

- ◆ Auburn's Super Mall of the Great Northwest is in the process of becoming The Outlet Collection/Seattle. The enclosed shopping center, which opened in August 1995 and is owned by Glimcher Realty Trust, is undergoing a \$35 million remodel which is intended to give the retail stores more appeal and a more upscale feel. Located on a 155-acre site southwest of downtown Auburn, the Outlet Collection currently features 107 retail stores and 17 restaurants; however, the mix of retail outlets is expected to change and a number of new tenants will be added. As part of the renovation, the pedestrian qualities of the mall will be improved and the food court will be eliminated to make way for a dining emporium. According to mall management, the mall attracts tour groups over the six-month peak shopping period lasting from approximately April through October. The number one shopper (group or individual) is the international traveler, especially Asian travelers.
- ◆ The Muckleshoot Casino opened in May 1995. The continually expanding casino attracts hundreds of players each day and has a significant impact on Auburn's economy. While many of the players come from the Puget Sound area, more and more business is being attracted from areas located outside the Puget Sound region. According to marketing representatives, tour groups from western Canada frequently visit the casino on their way to other locations. Sometimes this requires overnight accommodations with local hotels. The tribe also operates a bingo hall, a convenience store/deli/gas station, and a retail strip mall.
- ◆ The White River Amphitheater is a joint venture of the Muckleshoot Tribe and Clear Channel Communications that provides world-class entertainment in a scenic location convenient to the entire Puget Sound region. The \$30 million amphitheater, which seats approximately 20,000, hosted 16 shows and 170,000 patrons in its first season during 2003. Concert-goers are attracted from across the state, with many needing overnight accommodations. There are approximately 6,800 parking spaces available at White River Amphitheatre in lots adjacent to the venue. Concert-goers can avoid the traffic by taking a bus to the Amphitheater from The Outlet Collection.
- ◆ Emerald Downs Racetrack opened June 20, 1996. The track operates from approximately April through mid-September, with the busiest months being July and August. According to track officials and local hotel operators, out-of-town guests are attracted from Washington and surrounding states. Average lengths of stay range from one weekend to approximately one month. Emerald Downs provides a restaurant and lounge, a gift shop, and banquet and meeting space capable of seating up to 1,200 people. In addition to business related to the racing season, the available facilities at Emerald Downs also attract weddings and other social events, banquets and meetings, auto shows,

and trade shows. Hotels located in Auburn and within the Green River Valley now accommodate guests requiring overnight lodging. According to representatives of Emerald Downs, approximately 700,000 visitors are attracted just for racing related activities. Emerald Downs was purchased by the Muckleshoot Tribe in January 2003.

- ◆ Washington National Golf Club opened to the public on August 12, 2000. Located approximately three miles east of downtown Auburn, and east of Green River Community College and SR-18, the two 18-hole courses are the official home to the University of Washington Golf Program. A University of Washington theme is provided throughout the course. Washington National is one of the nicest courses in Washington, capable of hosting PGA tournament play.

A table summarizing key economic indicators is provided on the following page.





Multi-Care  
Auburn Medical Center

City Hall

One Main  
Professional  
Plaza

West/East Main Street

Site B

Site A

Sunbreak Cafe

1<sup>st</sup> Street SE/SW

Site C

Site D

Auburn Sounder Station and  
Parking Garage

A Street SW

A Street SE

2<sup>nd</sup> Street SW/SE

100 ft  
50 m



### **Potential Sites**

The site for the proposed hotel could be located anywhere within a four block area of downtown Auburn that is bordered on the north by West/East Main Street, on the south by 2<sup>nd</sup> Street SE and SW, on the east by A Street SE, and on the west by A Street SW. The potential sites are subdivided by South Division Street which extends north and south, and by 1<sup>st</sup> Street SE which extends east and west. An aerial of the potential sites is provided on the facing page (Sites labeled A – D).

Site A is comprised of three parcels that are owned by the Bank of Washington, one plaza parcel that is owned by the City of Auburn, and another parcel that is owned by the Bank of Skagit County. Site A is located immediately south of West Main Street and City Hall, east of A Street SW and north of the Sun Break Café, which is privately owned and not part of the potential site. Currently, the site is occupied by a parking lot that fronts on A Street SW and West Main Street, an older 7,900 square foot commercial building that is presently vacant, an unimproved lot, and a parking lot located east of the Sun Break Café and south of the plaza area. These parcels could allow for a total site area of roundly 36,088 square feet (excludes Sun Break Café and City-owned plaza parcel). However, the plaza parcel located at the site's northeastern corner that is owned by the City of Auburn (8,320 square feet) could potentially be incorporated to enhance the hotel's design. Site A has excellent visibility, is located near City Hall, retail shops and offices, and would provide a buffer to the railroad tracks located one block to the west, on the other side of the three-story building that houses Oddfellas Pub & Eatery.

As we understand, all but one parcel of Site B is currently under contract for potential development of a residential and mixed-use project. Like Site A, Site B fronts on East Main Street, south of the Auburn Professional Plaza Building. This site is bordered on the north by East Main Street, on the south by 1<sup>st</sup> Street SE, on the east by A Street SE, and on the west by South Division Street. An alley separates the northern and southern parcels and may be able to expand the sites, if vacated. This site has excellent visibility, is located a little further from the railroad tracks (which is beneficial), is slightly closer to retail, and would also make a suitable hotel site if the planned project is not completed.

Site C is located to the East of Auburn Station and the Auburn Station Parking Garage, south of 1<sup>st</sup> Avenue SW, east of A Street SW, west of South Division Street, and north of 2<sup>nd</sup> Street SW. Because of the site's proximity to the transit station, it is slightly more exposed to the sounds of the railroad and is considered less desirable for hotel use. Site C size includes three parcels totaling 55,230 square feet, which currently excludes a residence with a site area of 7,200 square feet that is privately owned. With the exception of the privately parcel, the remainder of the site is owned by the City of Auburn.

Site D is located east of South Division Street, south of 1<sup>st</sup> Avenue SE, west of A Street SE, and north of 2<sup>nd</sup> Street SE. This site is currently occupied by a two-story building that fronts on

South Division Street and houses the Visitor Information Center and the Auburn Area Chamber of Commerce. This site does not offer the advantage of proximity to West/East Main Street businesses; and therefore is considered somewhat less desirable for hotel use. Site D includes ten parcels totaling 57,124 square feet. With the exception of one parcel totaling 9,286 square feet that is owned by Chase Bank, the remaining parcels totaling 47,838 square feet are owned by the City of Auburn.

Following a review of the available sites, our recommendation would be to utilize Site A, including the parking area located east of Sun Break Café for the most viable hotel site. This site provides the most central location downtown and would enhance the continued development of Main Street.

Significant improvements have been made in downtown Auburn within this four block area to revitalize the area and make it more appealing to businesses and new development, and essentially making the sites shovel ready for new development. In addition, the four block area is exempt from traffic impacts through June 2014, subject to renewal by the City Council. The City has also made it possible for other downtown businesses to make improvements by initiating a façade improvements program where a 50 percent matching fund is made available for improvements up to \$5,000 (\$2,500 match). In addition, the City invested approximately \$9.2 million dollars to improve water and sewer lines, storm water retention, and street front improvements for the four block area. Incentives for developers include: a construction sales tax refund; a Fee Deferral Program for Impact and System Development Charges; and a Small Business Development Assistance Program.

All of the sites currently are zoned Downtown Urban Center (DUC). Design guidelines for the four block area have been implemented by the City to ensure development visually enhances the downtown area and provides for good pedestrian access. These design standards, known as the Auburn Junction Design Standards, take the place of the DUC design standards; however, the underlying DUC zoning applies as well. DUC zoning allows a base height of 75 feet with possible bonuses available. Off-street parking within the DUC zone is required; however, the City allows flexibility. We recommend at least one space per planned hotel room with additional spaces for banquet and meeting space per current standards of one space per every 500 square feet of meeting/banquet space. It may be possible to design some simple street front retail uses that require minimum square footage to shelter surface level parking.

Based on our review of Sites A through D, we consider Site A to be the most suitable site for potential hotel development. The following discussion of site advantages and disadvantages apply to Site A.

**Site advantages:**

- ◆ Central location in downtown Auburn along Main Street with good access to retail, restaurants, commuter rail service, and commercial businesses.

- ◆ Four block downtown area has already had improvements.
- ◆ Relatively close to the hospital, Boeing, GSA, The Outlet Collection, Zones, and other primary demand generators.
- ◆ No other quality hotels located in downtown Auburn.
- ◆ Potential to attract hotel guests that might elect to use commuter rail service and accommodations in Auburn versus staying in more congested and expensive hotels in Seattle.
- ◆ Centrally location has easy access to Highway 18 and State Route 167.
- ◆ Highly motivated planning and development departments desiring new development in downtown Auburn.
- ◆ Sales tax refund available for building construction.
- ◆ Fee Deferral Program for impact fees and System Development Fees.
- ◆ Small Business Development Assistance Program.

**Site disadvantages:**

- ◆ Noise from the nearby railroad tracks will require additional building enhancements to help mitigate noise.
- ◆ Lack of highway visibility.

The site's central location in downtown Auburn along Main Street is considered appropriate for hotel use.

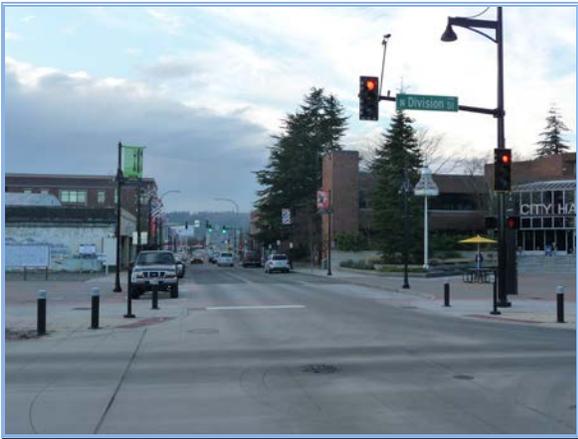
Site & Surrounding Area Photos



Looking east along E Main Street



Looking south along S Division Street



Looking west along W Main Street



Professional Plaza at Division & Main



View of Auburn City Hall & Plaza



Aerial view of Sun Break Café

Site & Surrounding Area Photos



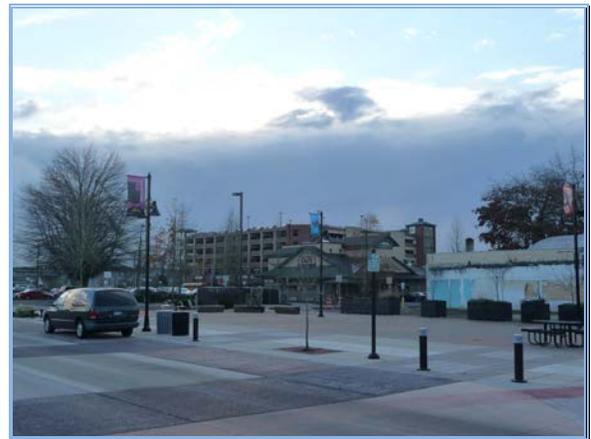
Looking W of 1<sup>st</sup> Avenue W at Oddfellas



Looking across Site C at building on Site D



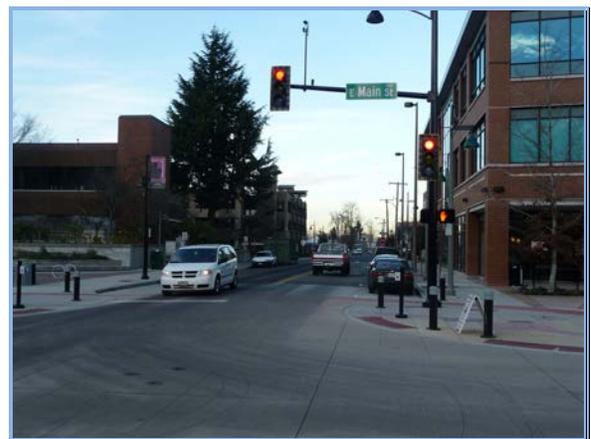
Looking east at Site C



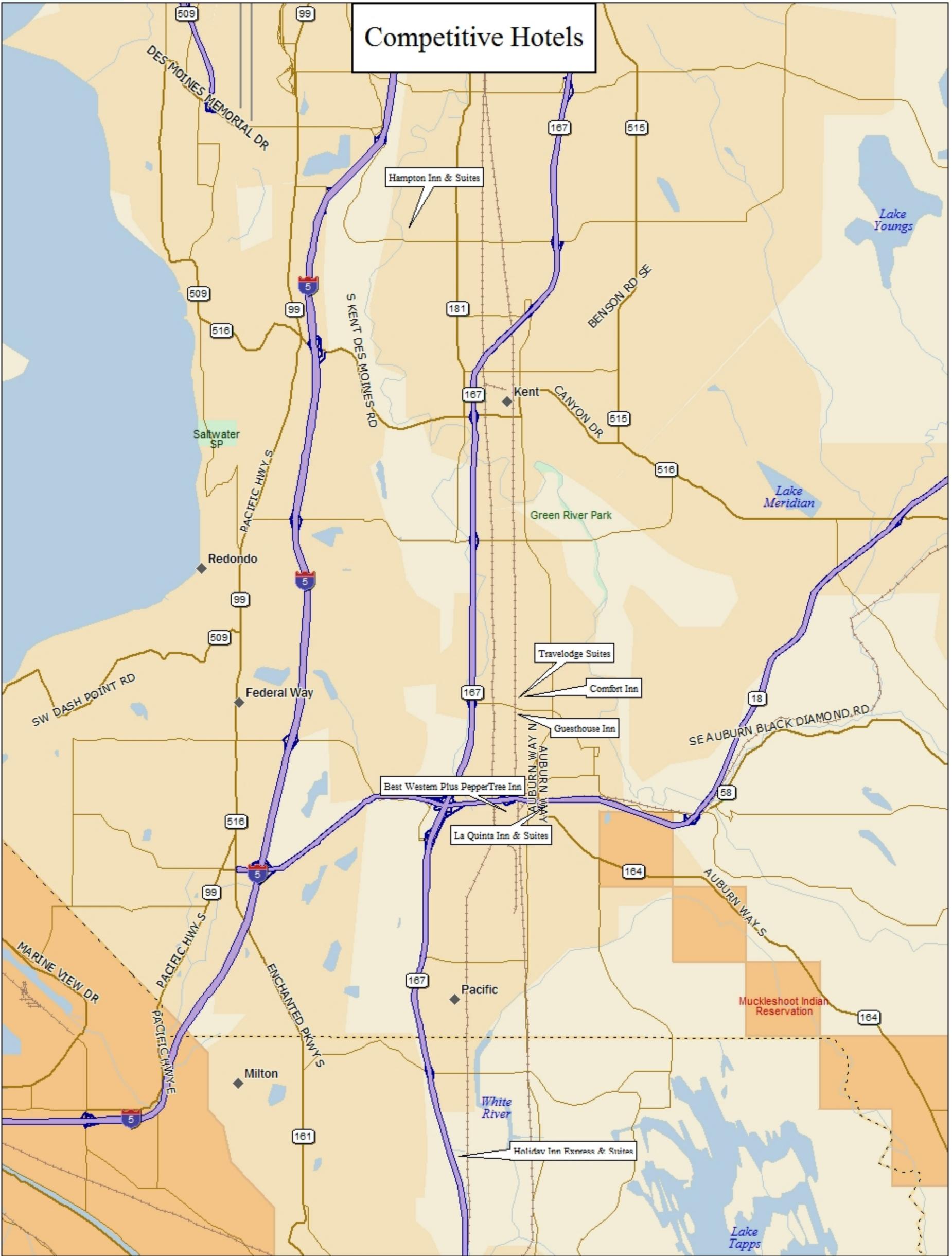
Looking SW Site A Plaza & building



View of northern half of Site B



Looking north along N Division at Main



Data use subject to license.

© DeLorme. DeLorme Street Atlas USA® 2011.

www.delorme.com



MN (16.3° E)



Data Zoom 10-7

**Lodging Market**

We defined the competitive lodging market for the proposed hotel to include seven hotels, five located within Auburn, one located in Sumner, east of Highway 167; and another located in Kent, north of S 212<sup>th</sup> Street and west of West Valley Highway. Only two of Auburn’s hotels have a three diamond, AAA rating and the other three Auburn area hotels included in the competitive set have two diamond, AAA ratings and are considered to be in average condition. The properties located in Sumner, south of Auburn, and Kent, located north of Auburn, are newer hotels and both have a three diamond AAA rating. These hotels were included to allow us to see how hotels of better quality with an affiliation with one of the premier brands might perform. The competitive hotels range in size from 52 to 124 guestrooms. These hotels were considered competitive based on the appearance and quality of the properties, their size and general condition, location, and affiliation or input gathered from our interviews in the local market. The table below summarizes primary characteristics of the competitive hotels.

Competitive Auburn Area Hotels - 2012								
Competitive Hotels	Number	AAA	% of	Year	Published	Meeting Space (S.F.)		
	Rooms	Rating	Total	Opened	Room Rates	Total	Largest	Per Room
Best Western Plus PepperTree - Auburn	124	◆◆◆	19.3%	Jul-99	\$89 to \$220	0	0	0
Comfort Inn Auburn	52	◆◆	8.1%	Jun-97	\$79 to \$189	300	300	6
GuestHouse Inn - Auburn	96	◆◆	14.9%	Jun-90	\$89 to \$99	0	0	0
La Quinta Inn & Suites - Auburn	70	◆◆◆	10.9%	Nov-11	\$89 to \$134	0	0	0
Travelodge Suites - Auburn	95	◆◆	14.8%	Jan-98	\$63 to \$117	300	300	3
Holiday Inn Express & Suites - Sumner	112	◆◆◆	17.4%	Oct-08	\$99 to \$169	1,850	1,250	17
Hampton Inn & Suites - Kent	95	◆◆◆	14.8%	Jul-10	\$159 to \$189	1,122	810	12
<b>Overall Competitive Market</b>	<b>644</b>		100.0%					

NA = Not Available  
 Comp = Complimentary

Sources: AAA 2012 TourBook, Hotel Websites, Smith Travel Research, & K&M Research

- ◆ None of the competitive hotels offers a restaurant.
- ◆ The Auburn hotels have little if any banquet and meeting space; only the Kent and Sumner hotels each offer more than 1,000 square feet of banquet and meeting space.
- ◆ The 70-room La Quinta is the newest hotel to enter the Auburn market; the remaining Auburn hotels range in age from 14 to 23 years, making them vulnerable to new supply.
- ◆ Three of the Auburn hotels only achieved two diamond AAA ratings and are only considered to be in average condition.

Competitive Hotels



Best Western Plus PepperTree - Auburn



LaQuinta Inn & Suites - Auburn



Comfort Inn - Auburn



Travelodge Suites - Auburn



GuestHouse Inn - Auburn



Holiday Inn Express & Suites - Sumner

## Competitive Hotels



Hampton Inn & Suites - Kent

- ◆ For the trailing twelve-month period ending November 2012, the competitive hotels achieved an annual market occupancy rate of only 54.1 percent, a market average room rate of \$89.43, and revenue per available room (RevPAR) of \$48.36.
- ◆ For YTD performance through November 2012, the competitive hotels achieved a market occupancy rate of 55.5 percent at an average room rate of \$89.97 and RevPAR of \$49.92.

The table on the following page summarizes the historical annual room availability for the competitive lodging facilities we reviewed, the number of occupied rooms, and the overall occupancy rate, average room rate, and revenue per available room (RevPAR). These figures were compiled from our interviews with hotel operators and from a Smith Travel report we analyzed and summarized which shows the historical performance of the competitive hotels for trailing twelve-month periods ending November 30<sup>th</sup> 2009 through 2012 and YTD November 2012 compared to YTD November 2011. Between December 2008 and November 30, 2012, the competitive hotel rooms supply increased at an average annual rate of 10.4 percent. Additions to supply include the opening of the 102-room Holiday Inn Express & Suites in Sumner in October 2008; the 95-room Hampton Inn & Suites in Kent in July 2010; and the 70-room La Quinta Inn & Suites in Auburn in November 2011. This represents just over a 75 percent increase in the competitive rooms supply, with only 70 of the new hotel rooms located in Auburn.

<b>Competitive Lodging Market Auburn Area</b>							
<b>Historical Performance</b>							
	<u>Fiscal Years Ending November 30th</u>				<u>CAAGR</u>	<u>YTD</u>	<u>YTD</u>
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2009-2012</u>	<u>2012</u>	<u>2011</u>
<b>Available Rooms</b>							
Competitive Hotels	479	519	580	644		644	580
Percentage Change		8.3%	11.7%	11.1%		11.0%	
<b>Available Room Nights</b>							
Competitive Hotels	174,835	189,370	211,610	235,060	10.4%	215,096	193,816
Percentage Change		8.3%	11.7%	11.1%		11.0%	
<b>Occupied Room Nights</b>							
Competitive Hotels	89,098	95,191	109,401	127,118	12.6%	119,351	102,771
Percentage Change		6.8%	14.9%	16.2%		16.1%	
<b>Market Occupancy</b>							
Competitive Hotels	51.0%	50.3%	51.7%	54.1%		55.5%	53.0%
<b>Market Average Room Rate</b>							
Competitive Hotels	\$88.28	\$87.72	\$91.63	\$89.43	0.4%	\$89.97	\$92.00
Percentage Change		-0.6%	4.5%	-2.4%		-2.2%	
<b>Market Average RevPAR</b>							
Competitive Hotels	\$44.99	\$44.09	\$47.37	\$48.36	2.4%	\$49.92	\$48.78
Percentage Change		-2.0%	7.4%	2.1%		2.3%	
Source: Kennedy & Mohn, P.S. & Smith Travel Research							
Fiscal years are full years ending November 30th and YTD periods are for 11-month periods ending November 30th							

**Segmentation**

Lodging demand in the competitive market has been segmented into three primary categories: commercial and government travelers doing business in the area; leisure travelers visiting area attractions or friends and family; and group travelers, which includes those attending meetings or conferences, sporting events, or other group functions. According to data provided by Smith Travel Research and hotel operators, annual lodging demand is busiest on Tuesday

<b>Estimated Mix of Rooms Demand</b>		
<u>Demand Segment</u>	<u>Occupied Rooms</u>	<u>% of Total Demand</u>
Commercial & Government	58,000	45.4%
Group	32,100	25.1%
Leisure	37,800	29.6%
Total Demand	127,900	100%
Total may not sum due to rounding		
Source: Hotel Interviews		

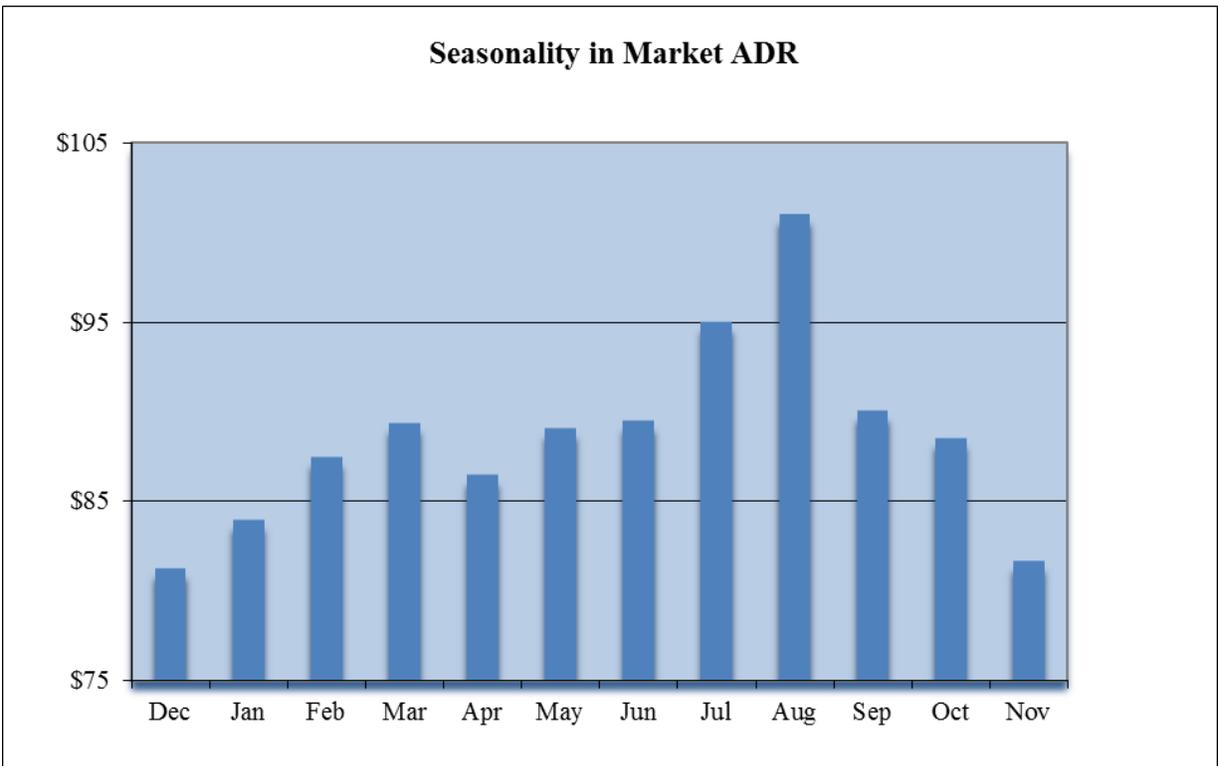
through Saturday nights, with Sunday being the slowest night and Monday being moderately busy. The adjacent table summarizes the estimated mix of demand for the competitive market for 2012. According to our interviews, approximately 45 percent of demand comes from commercial and government travelers, approximately 25 percent of demand comes from groups attending primarily sporting events, or conferences, and approximately 30 percent of overall market demand is derived from leisure travelers.

### Seasonality In Occupancy and Average Room Rates

As can be seen in the graph below, the competitive market is subject to typical seasonal influences, with demand peaking in June through September averaging the low 60 to low 70 percent level and dropping into or below the 50 percent level during the remaining months. We attribute this to the current oversupply of guestrooms in the area and the lack of business travelers that typically strengthen weekday occupancy levels. As the economy continues to rebuild from the recession and as new companies move into the Auburn area we would expect this to gradually strengthen.



As shown in the table below, average room rates typically peak during the busier summer months of July and August and dip to their lowest levels during the slow winter months. This is likely due in part to the more modest quality of most of Auburns hotels and their limited ability to attract demand. Discounted business is best reflected by the average room rates achieved in the slower winter months.



During our research, we did not learn of any hotels being considered for development in the Auburn area. For the purpose of our analysis, we included a 100-room hotel on the subject site, entering the market in approximately January 2018. With the addition of the 100 room subject, this represents an increase in the competitive rooms supply of just over 15 percent.

### Projected Market Conditions

Rooms demand is expected to increase due to underlying growth in rooms demand which results from economic stimulus and from unsatisfied or induced demand during various times of the year. With the addition of a new 100-room hotel, the competitive market rooms supply is projected to increase at a compound average annual growth rate of 1.5 percent between 2012 and 2022, significantly less than the 10.4 percent average annual growth in rooms supply that occurred primarily as a result of hotel development to the north and south of Auburn between FY

2009 and FY 2012. Based on a review of historical growth in rooms demand, population, employment, and air passenger traffic, we have estimated the underlying growth in demand for hotel rooms will increase at approximately 2.0 to 2.5 percent annually in future years. With the addition of newer, better-quality hotel rooms to the competitive market, hotel guests that would not stay in Auburn due to capacity issues at the better quality hotel or due to the marginal quality of the other competitive hotels will now be able to be accommodated. We have estimated that the new rooms will achieve approximately a 75 percent occupancy rate during the 92 day peak period and that this demand will be attracted during their first two years of operation. In addition, during the remaining 273 days of the year, we have estimated the new hotels would attract an additional 15 percent of their available rooms, or roundly 4,100 additional room nights of business if the proposed hotel has approximately 3,500 square feet of banquet and meeting space. Collectively, total unsatisfied and induced demand is equal to approximately 110 room nights for each new room entering the market, or approximately 30 percent of their available rooms. Demand is projected to continue to increase at the projected underlying rates of 2.0 to 2.5 percent annually through 2021, decreasing in the later years of our projection by approximately 50 basis points in each demand segment as the base of demand continues to compound.

As can be seen from a review of the table on the following page, the market occupancy rate is projected to increase gradually to roundly 61 percent in 2017 before declining to approximately 57 percent as the new hotel enters the market. The market occupancy rate is projected to reach 64 percent by 2022, the end of the projection period.

<b>Projected Changes In Market Supply &amp; Demand - Auburn, Washington</b>												
	<b>Projected Calendar Years Ending December 31st</b>											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
<b>MARKET SUPPLY:</b>												
Best Western Plus PepperTree - Auburn	124	124	124	124	124	124	124	124	124	124	124	124
Comfort Inn Auburn	52	52	52	52	52	52	52	52	52	52	52	52
GuestHouse Inn - Auburn	95	95	95	95	95	95	95	95	95	95	95	95
La Quinta Inn & Suites - Auburn	70	70	70	70	70	70	70	70	70	70	70	70
Travelodge Suites - Auburn	96	96	96	96	96	96	96	96	96	96	96	96
Holiday Inn Express & Suites - Summer	112	112	112	112	112	112	112	112	112	112	112	112
Hampton Inn & Suites - Kent	95	95	95	95	95	95	95	95	95	95	95	95
Subject							100	100	100	100	100	100
Average Daily Rooms	644	644	644	644	644	644	744	744	744	744	744	744
Annual Room Nights	235,060	235,060	235,060	235,060	235,060	235,060	271,560	271,560	271,560	271,560	271,560	271,560
Percentage Change	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	15.5%	0.0%	0.0%	0.0%	0.0%	0.0%
CAAGR							1.5%					
<b>MARKET DEMAND:</b>												
Corporate/Government Demand	58,000	59,450	60,940	62,460	64,020	65,620	72,660	76,280	78,190	80,140	81,740	
Underlying Change		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.0%
Induced/Unsatisfied Demand							5,400	1,800				
Group/Meeting Demand	32,100	32,740	33,390	34,060	34,740	35,430	37,840	39,200	39,980	40,780	41,390	
Underlying Change		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.5%
Induced/Unsatisfied Demand							1,700	600				
Tourist/Leisure Demand	37,800	38,750	39,720	40,710	41,730	42,770	45,040	46,570	47,730	48,920	49,900	
Underlying Change		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.0%
Induced/Unsatisfied Demand							1,200	400				
Total Demand	127,900	130,940	134,050	137,230	140,490	143,820	155,540	162,050	165,900	169,840	173,030	
Total Change		782	3,040	3,110	3,180	3,330	11,720	6,510	3,850	3,940	3,190	
Percent Change	0.6%	2.4%	2.4%	2.4%	2.4%	2.4%	8.1%	4.2%	2.4%	2.4%	1.9%	
CAAGR							3.1%					
<b>MARKET OCCUPANCY RATE:</b>	<b>54%</b>	<b>56%</b>	<b>57%</b>	<b>58%</b>	<b>60%</b>	<b>61%</b>	<b>57%</b>	<b>60%</b>	<b>61%</b>	<b>63%</b>	<b>64%</b>	

## **Conclusions & Recommendations**

Although Auburn has a number of aging and marginal quality hotels, the current performance of its existing properties may make it challenging to attract new hotel development at this time. According to our projections, it could take five or more years before a new hotel could be supported within the local market. However, as new development continues to occur and more employers enter the market, lodging market conditions could become more favorable. Furthermore, the attraction of a better quality hotel that is affiliated with a nationally-known hotel brand with a strong central reservation system could also help attract demand that may now be leaving the market to seek superior accommodations.

The size and quality of the existing hotels limit the amount of sales and marketing efforts these hotels can afford to make. Based on our review of the existing hotels, when market conditions permit, a three diamond, AAA quality hotel with approximately 100 rooms is what might be appropriate for the site and the market. This would be large enough to support a sales manager to market the facility. Given the number of restaurants located in downtown Auburn, and in particular, Site A's proximity to the well-known, and highly regarded Sun Break Café as well as Oddfellas Pub & Eatery, it may not be necessary for a new hotel at this location to have a restaurant. However, Auburn is in dire need of banquet and meeting space. Accordingly, we would highly recommend a new hotel include a minimum of 3,000 square feet of banquet and meeting space designed adjacent to a service kitchen that can be used by a local caterer or the hotel staff to provide banquet services for the banquet and meeting space. This is expected to allow the property and the market to attract demand especially during the spring and fall months, when occupancies are lower. As we understand Longhorn Restaurant provides such service or an arrangement might also be established with the owner of the Sun Break Café to provide this service. The hotel should also include the following amenities and services which are unlikely to change pending more favorable market conditions.

- ◆ Complimentary hot breakfast
- ◆ Business center
- ◆ Valet laundry service for guests
- ◆ Guest laundry
- ◆ Internet (wireless & hard wire connection)
- ◆ Fitness center
- ◆ Complimentary parking
- ◆ Affiliation with a major hotel chain

Recommendation for the appropriate mix of guest rooms should be addressed when market conditions have improved to a level where they would better support development of a hotel.

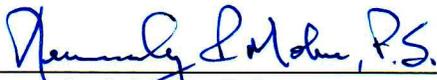
To be able to see when market conditions are more suitable for hotel development, we recommend you allow us to periodically order an updated Smith Travel Research Report for the

Mr. Doug Lein  
February 8, 2013  
Page 19

competitive hotel market. The current cost of such a report is roundly \$520 (inclusive of taxes) which is subject to periodic change.

We trust that you will find the commentary and counsel provided herein to be of value to the planning and timing of your project. Should you have any questions or require clarification of any of the items discussed in this letter, please feel free to call me at: 425.277.5755.

Sincerely,



Kennedy & Mohn, P.S.

By: Thomas P. Kennedy, CHA

TPK/mjm

Mr. Doug Lein  
February 8, 2013  
Page 20

## ADDENDUM

## **GENERAL ASSUMPTIONS**

This feasibility study report has been prepared under the following general assumptions:

- ◆ No responsibility is assumed for matters of a legal nature.
- ◆ Responsible ownership and competent property management are assumed.
- ◆ The information provided by others is believed to be reliable. However, no warranty is given for its accuracy.
- ◆ All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
- ◆ It is assumed there are no hidden or inapparent conditions of the property, subsoil, or structures that render it more or less useful. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
- ◆ Full compliance with all applicable federal, state, and local environmental regulations and laws is assumed.
- ◆ Full compliance with all applicable zoning and use regulations and restrictions is assumed.
- ◆ It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained.
- ◆ It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass.

## **LIMITING CONDITIONS**

This feasibility study report has been prepared under the following general limiting conditions:

- ◆ Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of Kennedy & Mohn, P.S., and in any event only with proper written qualification and only in its entirety.
- ◆ Kennedy & Mohn, P.S., is not required to give further consultation, testimony, or be in attendance in court with reference to this report unless arrangements have been previously made.
- ◆ Projections of future revenue, expenses, net operating income, mortgage debt service, capital outlays, cash flow, or inflation represent our judgment of the assumptions likely to be used by informed persons in the marketplace. These estimates are intended solely for analytical purposes and are not intended to accurately predict future results or events. Actual performance will differ from these projections, and these differences may be significant.
- ◆ Estimates of project cost and operating performance are based on building plans and specifications provided by the client during the course of the study. Cost figures are intended as approximations only, and should be verified by competent architectural and engineering firms. In addition, to the extent that the eventual design and construction of the project vary from the plans and specifications provided, the actual development costs and operating performance of the project will differ from the estimates presented herein.
- ◆ Unless otherwise stated in this report, the existence of hazardous substances, including without limitation asbestos, polychlorinated biphenyls, petroleum leakage, or agricultural chemicals, which may or may not be present on the property, or other environmental conditions, were not called to the attention of nor did the consultant become aware of such during the consultant's inspection. The consultant has no knowledge of the existence of such materials on or in the property unless otherwise stated. The consultant, however, is not qualified to test such substances or conditions. The presence of such substances, such as asbestos, urea formaldehyde foam insulation, or other hazardous substances or environmental conditions, may affect the feasibility of the project. Our analysis is predicated on the assumption that there is no such condition on or in the property or in such proximity thereto. No responsibility is assumed for any such conditions, nor for any expertise or engineering knowledge required to discover them.

## CERTIFICATION

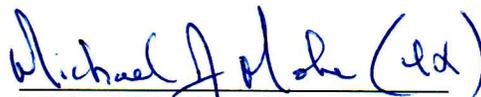
I certify that, to the best of my knowledge and belief:

- ◆ 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 my personal, unbiased professional analyses, opinions, and conclusions.
- ◆ I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- ◆ My compensation is not contingent upon the attainment of a stipulated result or upon an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.
- ◆ My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with and subject to the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and the Code of Professional Ethics and 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.
- ◆ Tom Kennedy made a personal inspection of the property that is the subject of this report. Michael Mohn has not inspected the subject property.
- ◆ No one provided real property appraisal assistance to the persons signing this report.
- ◆ As of the date of this report, Michael Mohn has completed the requirements of the continuing education program of the Appraisal Institute.



---

Thomas P. Kennedy, CHA



---

Michael J. Mohn, MAI