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Teatro ZinZanni's long-awaited waterfront hotel up for final approval

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A 192-room waterfront hotel has its foot hovering over the gas now that proposed plans are slated to race through the final green light.

Kenwood Investments' planned hotel, which would include space for dinner circus Teatro ZinZanni's new home, is up for Planning Commission approval later this week — roughly four years after it was initially proposed. The four-story development would transform the current Embarcadero parking lot between Vallejo and Davis streets into the new entertainment venue, hotel and privately financed public park.

San Francisco-based Hornberger + Worstell is the lead architect. The hotel is expected to open in late 2021.

The city's hospitality market has been through a series of transformations since the Teatro ZinZanni hotel was introduced.

So far this year, three new hotels have opened, boosting San Francisco's supply by nearly 650 rooms. Average daily rates at properties throughout the greater San Francisco area are forecast to climb by 6 percent to \$255.62 this year, according to CBRE Hotels research, which continues to call the region "one of the strongest lodging markets in the United States."

Even with a pipeline stuffed full of proposed developments, the market for San Francisco hotels is still hungry for more.

"The lack of sufficient hotel rooms in the city is glaring. This will be the opportunity to add more hotel room stock that the city is desperate for," Jay Wallace, Kenwood's vice president of development, recently said.

Hotel performance around the proposed Teatro ZinZanni development "is indicative of robust demand," a CBRE market study commissioned by Kenwood reported. The study found the San Francisco hotel market is significantly underserved, and unsatisfied demand has spilled over to surrounding areas such as South San Francisco and Oakland.



HORNBERGER + WORSTELL

The hotel development will include a permanent theatre for the circus dinner company Teatro ZinZanni.

Even with all of the anticipated hotel developments, the region's occupancy rate is forecast to stick at or above 85 percent.

Operating as TKZ Broadway LLC, the joint venture between Kenwood and Teatro ZinZanni acquired the site in 2014 as a sole-source bidder. The deal is part of a 66-year ground lease with the San Francisco Port Commission, the maximum allowed by law. Annual rent will start at \$1 million, and will also include a percentage of the hotel's revenue.

Based on the current market, the Teatro ZinZanni hotel will be able to open with rates starting at about \$320 a night, a figure that would include introductory discounts typical of any hotel opening's promotional period. That is a healthy boost compared to the development's pro forma, which originally slated opening rates of about \$275 per night.

With its unique event and meeting space driving group demand, the hotel is projected to post higher-than-average occupancy rates, according to CBRE research. By 2024, occupancy is expected to level off at 87 percent, and average nightly rates will post annual increases of about 3 percent.

A hotel flag has not yet been chosen for the future Embarcadero destination, but it will fall somewhere in the upscale, chain-branded pool that includes AC Hotels by Marriott (NASDAQ: MAR), Hilton Garden Inn or Hyatt Place.

With a straight shot to Fisherman's Wharf, Ghirardelli Square, the Ferry Building Marketplace and other hot spots along the waterfront, the hotel's position at the heart of the city's strengthening tourism market will give it an edge compared to other proposed hotels.

Group I recently broke ground on a \$350 million Mid-Market development that will include a 236-room hotel operated by the Sydell Group. A 250-room Marriott is under construction in Mission Bay, and is expected to open later next year. Plans to transform the Hearst Building at Third and Market streets into a 170-room hotel secured Planning Commission approval last week and are now on their way to the Board of Supervisors.

In addition to feeding the market's growing appetite for more hotel rooms, the Teatro ZinZanni hotel has gotten the thumbs-up from groups such as the Golden Gate Tenants Association, North Beach Neighbors, the San Francisco Travel Association, the local chapter of Unite Here, the Hotel Council of San Francisco and others.

Teatro ZinZanni had an 11-year run until it was displaced in 2011 by the Port's development of the America's Cup site. Norm Langill, ZinZanni's managing member, previously said its new venue will not only secure its future along the San Francisco waterfront, but also ensure its long-term financial success.

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