



SUMMARY OF FINDINGS

Proposed Convention Center Hotel Kansas City

WEST 14TH STREET AND WYANDOTTE STREET
KANSAS CITY, MISSOURI



SUBMITTED TO:

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February 21, 2013

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Re: Proposed Convention Center Hotel Kansas City
Kansas City, Missouri
HVS Reference: 2013020147

Dear Mr. Swerdling:

Pursuant to your request, we herewith submit our summary of findings pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in the Kansas City area. We have studied the proposed project, and the summary results of our fieldwork and analysis are presented in this document. Our report was prepared in accordance with the Uniform Standards of Professional Practice (USPAP), as provided by the Appraisal Foundation.

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

DRAFT DOCUMENT

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1. Executive Summary

Subject of the Study

The subject of the study is parcel to be improved with a full-service, convention headquarters lodging facility; the hotel will be affiliated with the Hyatt brand. The property is expected to open on January 1, 2017 and will feature 1,000 rooms, a restaurant and lounge, 65,000-75,000 square feet of meeting space, an indoor pool, an indoor whirlpool, an exercise room, a business center, a gift shop, and valet and self parking services. The hotel will also feature all necessary back-of-the-house space.

As of June 30, 2012, Hyatt brand hotels and resorts worldwide portfolio consisted of 492 properties in 45 countries, operating under the Hyatt, Hyatt Resorts, Hyatt Regency, Grand Hyatt, Park Hyatt, Andaz, Hyatt Place, and Hyatt House brands. Lobbies and rooms are designed to reflect the best of the local cultures; the food and beverage outlets are inventive; and exceptional technology, meeting, and fitness facilities are available.

The subject site's location is the northwest quadrant of the intersection of West 14th Street and Wyandotte Street, Kansas City, Missouri, 64105. This site is located adjacent to the Power& Light District of downtown Kansas City.

Ownership, Franchise, and Management Assumptions

The proposed hotel will be managed by Hyatt. Details pertaining to management terms were not yet determined at the time of this report; therefore, our forecast fees represent a blended average of what would be expected on a base-fee and incentive-fee basis. Any incentive fee would be considered after debt service. We have assumed a market-appropriate base management fee of 3.0% of total revenues in our study.

The proposed subject property is expected to be managed by the brand throughout the forecast period and will, therefore, not be subject to franchise fees.

Overview of Local Area Economy

Kansas City is a thriving cultural and economic center at the heart of the United States. First a trading post and river port settlement, the city developed after the Civil War as a link in the intercontinental railroad network, which led to prosperous grain, livestock, and meat-packing industries. During the 20th century, Kansas City garnered a national reputation for its distinctive architecture, boulevard system, and innovations in urban redevelopment; this redevelopment has continued into the 21st century. Growth and redevelopment efforts have been

especially notable in the metropolitan's urban core, with the H&R Block Headquarters relocation to the Power & Light District in 2006, the opening of the Sprint Center in 2007, and the opening of the Kauffman Center for the Performing Arts in November of 2011. The northern Kansas City metropolitan area is home to more than one thousand companies engaged in manufacturing, warehousing, transportation, wholesale and retail trade, and business and personal services.

Locally, the unemployment rate was 9.2% in 2011; for this same area in 2012, the most recent month's unemployment rate was registered at 7.5%, versus 8.1% for the same month in 2011.

The following bullet points highlight major demand generators for this market:

- The federal, state, and city governments act as one of the area's largest employment sectors. Kansas City houses the Charles Evans Whittaker U.S. Courthouse, which includes 16 courtrooms, the U.S. Circuit Court of Appeals, Judge's Chambers, U.S. Attorney's office, U.S. Marshall's offices, and other court-related agencies. Although Independence retains its status as the original county seat, Kansas City serves as a second county seat and the center of county government for Jackson County. The Kansas City Hall and the Richard Bolling Federal Building are also located within the Government District. Lastly, the Federal Reserve Bank and the Internal Revenue Service operate offices in Kansas City, and although neither is located within the Government District, both are important components of the city's integration with the federal government.
- Hallmark Cards, Inc. is the largest greeting card manufacturer in the world, and its corporate headquarters are located in the Crown Center in Downtown Kansas City. In 2010, the company reported consolidated annual revenues of \$4.1 billion. Its products are available in 100 countries around the world and in more than 40,000 stores in the U.S. Hallmark's gross revenues are sufficiently high for the company to be ranked among the Fortune 500 and 1000; however, as a privately-held company, it is ineligible for that distinction.
- Kansas City is home to seven Fortune 1000 company headquarters, five of which are located within the downtown core. H&R Block is the city's highest ranked Fortune 1000 company. H&R Block's world headquarters were moved to the Power & Light District in October of 2006. The headquarters occupy a 525,000-square-foot office building, which also includes a 300-seat theater that serves as the second home of the Kansas City Repertory Theater. In the fiscal year ending in April 2011, H&R Block reported annual revenues of \$3.8 billion and prepared more than 24.5 million income tax returns worldwide, including countries such as Canada and Australia.

As the largest city in the state of Missouri and anchor city of the Kansas City Metropolitan Area, the Kansas City market benefits from a diversified economic base. Aside from a strong governmental component, several Fortune 500 and Fortune 1000 companies, as well as a number of other large national and international companies, call Kansas City home. It is evident that the market realized a slowdown in 2008 and 2009, consistent with that of the national economy. The area's largest employers have exercised some consolidation efforts, with the strongest impact evident in the information technology and construction industries. According to economic development officials, the market began stabilizing and showing signs of recovery in 2010. Although the downtown center will lose a significant anchor when AMC Entertainment moves out of its Power & Light District location, the company will relocate its corporate headquarters to Leawood, Kansas, which is part of the greater Kansas City area. The area continues to attract new development activity, which should help the market rebound going forward. As such, the overall outlook for the market is generally optimistic.

This area is served by Kansas City International Airport. Air traffic registered 9,384,476 passengers in 2003; by 2012, this level had changed to 9,749,507. The change in passenger traffic between 2011 and 2012 was -4.0%; moreover, a rate of change of -4.0% was registered in the year-to-date period for 2012 when compared with the same period for 2011.

The market benefits from a variety of tourist and leisure attractions in the area. The peak season for tourism in this area is from May to September. During other times of the year, weekend demand comprises travelers passing through en route to other destinations, people visiting friends or relatives, and other similar weekend demand generators. Primary attractions in the area include the following:

- Crown Center is a major commercial complex and tourist destination located across the street from Union Station. The complex is home to Hallmark Cards, Inc., a shopping center, restaurants, entertainment venues, and several other establishments. A LEGOLAND Discovery Center is under construction at Crown Center and is expected to open in the spring of 2012. Science City is located in the restored Union Station complex, which also includes restaurants, shops, and other exhibits. Science City is an interactive museum and science center, allowing participants to explore fossils, caves, anatomy, and weather, among other phenomena.
- Contained within one block of the new Power & Light District, Kansas City Live! features a multilevel design with dining and entertainment options, surrounding a covered center atrium that houses events ranging from live music to family festivals. In addition, Arrowhead Stadium, home to the NFL's

Kansas City Chiefs; Kauffman Stadium, home of the Kansas City Royals baseball team; and Kemper Arena are all located in the Truman Sports Complex, approximately eight miles southeast of the metropolitan core. According to representatives at the Convention and Visitor's Association, the local market's sports tourism has been strong. A June 2010 article reported that Kansas City will host the 2012 Major League Baseball All-Star Game, an event that is anticipated to generate 16,200 room nights.

- Kansas City is known for its jazz heritage, which is celebrated in the American Jazz Museum. Jazz continues to be a popular draw in the city's 18th & Vine Historic Jazz District. Other local museums include the Nelson-Atkins Museum of Art and the Kemper Museum of Contemporary Art and Design. The nearby city of Independence is also home to the Harry S. Truman Presidential Museum and Library.
- Kansas Speedway features a 1.5-mile, tri-oval track with 15-degree banking in the turns; the Speedway has a seating capacity of 150,000. The top-level NASCAR Sprint Cup series holds the annual Camping World RV 400 at the track. The Hollywood Casino at Kansas Speedway is under construction and is expected to open in the first quarter of 2012. The casino will offer slot machines, table games, and a live poker room, in addition to a variety of restaurants and cocktail lounges.

Overview of Local Area Lodging Market Trends

The 1,000-room Proposed Convention Center Hotel Kansas City will be located in Kansas City, Missouri. The greater market surrounding the subject site offers 327 hotels and motels, spanning 32,710 rooms. Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are expected to be primarily competitive with the proposed subject property.

Smith Travel Research (STR) is an independent research firm that compiles and publishes data on the lodging industry, and this information is routinely used by typical hotel buyers. STR has compiled historical supply and demand data for this competitive set.

FIGURE 1-1 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)

Year	Average Daily	Available Room	Change	Occupied Room	Change	Occupancy	Average	Change	RevPAR	Change
	Room Count	Nights		Nights			Rate			
2001	4,509	1,645,614	—	1,026,019	—	62.3 %	\$110.14	—	\$68.67	—
2002	4,653	1,698,345	3.2 %	1,060,963	3.4 %	62.5	108.41	(1.6) %	67.72	(1.4) %
2003	4,653	1,698,345	0.0	989,983	(6.7)	58.3	105.51	(2.7)	61.50	(9.2)
2004	4,467	1,630,455	(4.0)	990,963	0.1	60.8	108.15	2.5	65.73	6.9
2005	4,485	1,637,058	0.4	1,010,777	2.0	61.7	112.81	4.3	69.65	6.0
2006	4,680	1,708,200	4.3	1,026,790	1.6	60.1	116.54	3.3	70.05	0.6
2007	4,809	1,755,240	2.8	1,055,555	2.8	60.1	123.32	5.8	74.16	5.9
2008	4,872	1,778,280	1.3	1,053,198	(0.2)	59.2	128.18	3.9	75.92	2.4
2009	4,872	1,778,280	0.0	946,161	(10.2)	53.2	118.46	(7.6)	63.03	(17.0)
2010	4,872	1,778,280	0.0	1,061,851	12.2	59.7	118.32	(0.1)	70.65	12.1
2011	4,872	1,778,187	(0.0)	1,064,937	0.3	59.9	119.50	1.0	71.57	1.3
2012	4,870	1,777,369	(0.0)	1,086,387	2.0	61.1	126.69	6.0	77.44	8.2
Average Annual Compounded Change:										
2001-2012			0.7 %		0.5 %			1.3 %		1.1 %

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
Marriott Kansas City Downtown	Upper Upsc	Mar-93	Apr 1985
Hilton Kansas City President	Upper Upsc	Dec-05	Jun 1926
Crowne Plaza Kansas City Downtown	Upscale Cla	Sep-07	Jun 1967
Hotel Phillips	Upscale Cla	Sep-01	Jun 1931
Holiday Inn Kansas City Downtown Aladdin	Upper Mids	May-07	Jun 1981
Sheraton Hotel Kansas City @ Crown Center	Upper Upsc	Dec-11	Jul 1980
Westin Kansas City @ Crown Center	Upper Upsc	Jun-73	Jun 1973
Holiday Inn Country Club Plaza	Upper Mids	Feb-05	Jun 1967
Embassy Suites Kansas City Plaza	Upper Upsc	Mar-85	Mar 1977
Marriott Kansas City Country Club Plaza	Upper Upsc	Aug-99	Feb 1987
Sheraton Hotel Suites Country Club Plaza	Upper Upsc	Aug-92	Apr 1991
InterContinental Kansas City @ The Plaza	Luxury Clas	Jan-06	Jun 1972
Total	6		

Source: STR Global

The following table illustrates the historical occupancy and average levels for selected hotels in the market.

FIGURE 1-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation				Estimated 2010				Estimated 2011				Estimated 2012						
		Convention	In-House Group	Commercial	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Marriott Kansas City Downtown	983	45 %	20 %	25 %	10 %	983	51 %	\$123.00	\$62.73	983	51 %	\$117.00	\$59.67	983	53 %	\$127.00	\$67.31	12.8 %	89.0 %	90.3 %
Sheraton Kansas City Crown Center	730	10	40	30	20	730	65	113.00	73.45	730	63	114.00	71.82	730	52	113.00	58.76	(18.2)	87.4	78.8
Westin Crown Center Kansas City	724	10	40	35	15	724	64	118.00	75.52	724	63	117.00	73.71	724	63	127.00	80.01	8.5	105.9	107.3
Sub-Totals/Averages	2,437	23 %	32 %	30 %	14 %	2,437	59.1 %	\$118.09	\$69.74	2,437	58.2 %	\$116.03	\$67.48	2,437	55.7 %	\$123.08	\$68.52	1.5 %	93.5 %	91.9 %
Secondary Competitors	2,432	12 %	34 %	30 %	25 %	1,467	60.0 %	\$119.25	\$71.57	1,467	61.6 %	\$121.30	\$74.75	1,467	65.9 %	\$128.27	\$84.54	13.1 %	110.7 %	113.4 %
Totals/Averages	4,869	19 %	33 %	30 %	19 %	3,904	59.4 %	\$118.53	\$70.43	3,904	59.5 %	\$118.08	\$70.21	3,904	59.5 %	\$125.24	\$74.54	6.2 %	100.0 %	100.0 %

FIGURE 1-3 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation				Total Competitive Level	Estimated 2010			Estimated 2011			Estimated 2012					
		Convention	In-House Group	Commercial	Leisure		Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Crowne Plaza Kansas City Downtown	385	25 %	20 %	25 %	30 %	70 %	270	48 %	\$106.00	\$50.88	270	56 %	\$105.00	\$58.80	270	59 %	\$102.00	\$60.18
Embassy Suites Kansas City Plaza	266	5	35	45	15	55	146	75	123.00	92.25	146	74	124.00	91.76	146	75	131.00	98.25
Hilton President Kansas City	213	15	20	40	25	70	149	65	137.00	89.05	149	68	139.00	94.52	149	68	145.00	98.60
Holiday Inn at the Plaza Kansas City	240	5	35	20	40	55	132	41	97.00	39.77	132	43	101.00	43.43	132	55	109.00	59.95
Holiday Inn Kansas City Downtown Aladdin	193	40	5	30	25	70	135	53	95.00	50.35	135	51	98.00	49.98	135	62	107.00	66.34
Hotel Phillips Kansas City	217	5	35	25	35	60	130	50	99.00	49.50	130	47	97.00	45.59	130	55	106.00	58.30
InterContinental at the Plaza	366	0	45	20	35	55	201	66	160.00	105.60	201	65	162.00	105.30	201	70	168.00	117.60
Marriott Kansas City Country Club Plaza	295	5	40	40	15	55	162	69	121.00	83.49	162	73	131.00	95.63	162	76	137.00	104.12
Sheraton Suites Country Club Plaza	257	5	65	20	10	55	141	77	103.00	79.31	141	76	104.00	79.04	141	74	131.00	96.94
Totals/Averages	2,432	12 %	34 %	30 %	25 %	60 %	1,467	60.0 %	\$119.25	\$71.57	1,467	61.6 %	\$121.30	\$74.75	1,467	65.9 %	\$128.27	\$84.54

Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities. Each primary competitor was inspected and evaluated.

According to the City of Kansas City Planning Office, and our research and inspection (as applicable), new supply expected to be competitive within the proposed subject property's competitive submarket is outlined in the following table.

FIGURE 1-4 NEW SUPPLY

Proposed Property	Number of Rooms	Total Competitive Level	Estimated Opening Date	Developer	Development Stage
Proposed Convention Center Hotel Kansas City	1,000	100 %	January 1, 2017	City	Early Development
Totals/Averages	1,000				

Market segmentation is a useful procedure because individual classifications often exhibit unique characteristics in terms of growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the room-night demand by market segment and analyzing the characteristics of each segment, the demand for transient accommodations can be projected.

FIGURE 1-5 ACCOMMODATED ROOM NIGHT DEMAND

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Convention	157,159	19 %
In-House Group	278,989	33
Commercial	251,642	30
Leisure	160,331	19
Total	848,121	100 %

Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following average annual compounded market-segment growth rates.

FIGURE 1-6 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

Market Segment	Annual Growth Rate								
	2013	2014	2015	2016	2017	2018	2019	2020	2021
Convention	4.0 %	3.0 %	2.0 %	4.0 %	3.0 %	2.0 %	2.0 %	2.0 %	2.0 %
In-House Group	3.0	2.0	2.0	3.0	2.0	1.0	1.0	1.0	1.0
Commercial	4.0	3.0	3.0	2.0	2.0	2.0	2.0	2.0	2.0
Leisure	2.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Base Demand Growth	3.3 %	2.5 %	2.1 %	2.5 %	2.0 %	1.5 %	1.5 %	1.5 %	1.5 %

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.

FIGURE 1-7 FORECAST OF MARKET OCCUPANCY

	2017	2018	2019	2020	2021
Convention					
Base Demand	183,942	187,621	191,374	195,201	199,105
Unaccommodated Demand	3,589	3,661	3,734	3,809	3,885
Induced Demand	86,400	108,000	108,000	108,000	108,000
Total Demand	273,932	299,282	303,108	307,010	310,990
Growth Rate	11.0 %	9.3 %	1.3 %	1.3 %	1.3 %
In-House Group					
Base Demand	314,095	317,236	320,409	323,613	326,849
Unaccommodated Demand	6,129	6,190	6,252	6,314	6,378
Induced Demand	20,400	24,000	24,000	24,000	24,000
Total Demand	340,624	347,426	350,661	353,927	357,227
Growth Rate	3.4 %	2.0 %	0.9 %	0.9 %	0.9 %
Commercial					
Base Demand	288,862	294,639	300,532	306,543	312,674
Unaccommodated Demand	6,385	6,513	6,643	6,776	6,911
Total Demand	295,247	301,152	307,175	313,319	319,585
Growth Rate	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Leisure					
Base Demand	171,863	173,582	175,317	177,071	178,841
Unaccommodated Demand	3,927	3,966	4,006	4,046	4,087
Total Demand	175,790	177,548	179,323	181,117	182,928
Growth Rate	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
Totals					
Base Demand	958,763	973,079	987,632	1,002,427	1,017,469
Unaccommodated Demand	20,030	20,330	20,635	20,945	21,260
Induced Demand	106,800	132,000	132,000	132,000	132,000
Total Demand	1,085,593	1,125,409	1,140,267	1,155,373	1,170,730
less: Residual Demand	0	0	0	0	0
Total Accommodated Demand	1,085,593	1,125,409	1,140,267	1,155,373	1,170,730
Overall Demand Growth	6.4 %	3.7 %	1.3 %	1.3 %	1.3 %
Market Mix					
Convention	25.2 %	26.6 %	26.6 %	26.6 %	26.6 %
In-House Group	31.4	30.9	30.8	30.6	30.5
Commercial	27.2	26.8	26.9	27.1	27.3
Leisure	16.2	15.8	15.7	15.7	15.6
Existing Hotel Supply	3,904	3,904	3,904	3,904	3,904
Proposed Hotels					
Proposed Convention Center Hotel Kansas C ¹	1,000	1,000	1,000	1,000	1,000
Available Rooms per Night	1,789,997	1,789,997	1,789,997	1,789,997	1,789,997
Nights per Year	365	365	365	365	365
Total Supply	4,904	4,904	4,904	4,904	4,904
Rooms Supply Growth	25.6 %	0.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	60.6 %	62.9 %	63.7 %	64.5 %	65.4 %

¹ Opening in January 2017 of the 100% competitive, 1000-room Proposed Convention Center Hotel Kansas City

These room-night projections for the market area are used in determining the proposed subject property's expected occupancy levels based on penetration levels forecast by segment.

Forecast of the Proposed Subject Property's Occupancy

The proposed subject property's occupancy forecast is set forth as follows, with the adjusted projected penetration rates used as a basis for calculating the amount of captured market demand.

FIGURE 1-8 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2017	2018	2019	2020	2021
Convention					
Demand	273,932	299,282	303,108	307,010	310,990
Market Share	32.7 %	33.8 %	35.0 %	35.6 %	35.6 %
Capture	89,473	101,259	105,938	109,406	110,824
Penetration	160 %	166 %	171 %	175 %	175 %
In-House Group					
Demand	340,624	347,426	350,661	353,927	357,227
Market Share	17.7 %	18.8 %	20.1 %	21.2 %	21.2 %
Capture	60,122	65,472	70,622	75,170	75,871
Penetration	87 %	92 %	99 %	104 %	104 %
Commercial					
Demand	295,247	301,152	307,175	313,319	319,585
Market Share	13.2 %	14.1 %	15.0 %	15.0 %	15.0 %
Capture	38,910	42,529	46,214	47,139	48,081
Penetration	65 %	69 %	74 %	74 %	74 %
Leisure					
Demand	175,790	177,548	179,323	181,117	182,928
Market Share	11.4 %	12.3 %	12.3 %	12.3 %	12.3 %
Capture	19,957	21,924	22,143	22,365	22,588
Penetration	56 %	61 %	61 %	61 %	61 %
Total Room Nights Captured	208,463	231,184	244,917	254,079	257,365
Available Room Nights	364,999	365,000	365,000	365,000	365,000
Subject Occupancy	57 %	63 %	67 %	70 %	71 %
Marketwide Available Room Nights	1,789,997	1,789,997	1,789,997	1,789,997	1,789,997
Fair Share	20 %	20 %	20 %	20 %	20 %
Marketwide Occupied Room Nights	1,085,593	1,125,409	1,140,267	1,155,373	1,170,730
Market Share	19 %	21 %	21 %	22 %	22 %
Marketwide Occupancy	61 %	63 %	64 %	65 %	65 %
Total Penetration	94 %	101 %	105 %	108 %	108 %

These positioned segment penetration rates result in the following market segmentation forecast.

FIGURE 1-9 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2017	2018	2019	2020	2021
Convention	43 %	44 %	43 %	43 %	43 %
In-House Group	29	28	29	30	29
Commercial	19	18	19	19	19
Leisure	10	9	9	9	9
Total	100 %	100 %	100 %	100 %	100 %

These projections reflect years beginning January 1, 2017, which correspond to the first projection year in the forecast of income and expense for the proposed subject property.

FIGURE 1-10 FORECAST OF OCCUPANCY

Year	Subject Property's Occupancy
2017	57 %
2018	63
2019	67
2020	70

Forecast of the Proposed Subject Property's Average Rate

The defined competitive market realized an overall average rate of \$123.08 in the 2012 base year, improving from the 2011 level of \$116.03. We have selected the rate position of \$128.00, in base-year dollars, for the proposed subject hotel.

FIGURE 1-11 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

Year	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	59.5 %	—	\$125.24	—	—	\$128.00	102.2 %
2013	61.5	5.0 %	131.51	—	5.0 %	134.40	102.2
2014	63.0	4.0	136.77	—	4.0	139.78	102.2
2015	64.3	4.0	142.24	—	4.0	145.37	102.2
2016	71.6	4.0	147.93	—	5.5	153.36	103.7
2017	60.6	3.0	152.36	57.0 %	4.0	159.50	104.7
2018	62.9	3.0	156.93	63.0	3.5	165.08	105.2

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the proposed subject property’s average rates in the initial operating period have been discounted to reflect this likelihood.

The following average rates will be used to project the subject property's rooms revenue; this forecast reflects years beginning on January 1, 2017, which correspond with our financial projections.

FIGURE 1-12 FORECAST OF AVERAGE RATE

Year	Occupancy	Average Rate
2017	57 %	\$159.50
2018	63	165.08
2019	67	170.03
2020	70	175.13

Forecast of Income and Expense

The following table presents a detailed forecast through the fifth projection year, including amounts per available room (PAR) and per occupied room (POR). The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on January 1, 2017, expressed in inflated dollars for each year.

FIGURE 1-13 DETAILED FORECAST OF INCOME AND EXPENSE

	2017 (Calendar Year)				2018				2019				Stabilized				2021			
Number of Rooms:	1000				1000				1000				1000				1000			
Occupancy:	57%				63%				67%				70%				70%			
Average Rate:	\$159.50				\$165.08				\$170.03				\$175.13				\$180.39			
RevPAR:	\$90.91				\$104.00				\$113.92				\$122.59				\$126.27			
Days Open:	365				365				365				365				365			
Occupied Rooms:	208,050	%Gross	PAR	POR	229,950	%Gross	PAR	POR	244,550	%Gross	PAR	POR	255,500	%Gross	PAR	POR	255,500	%Gross	PAR	POR
REVENUE																				
Rooms	\$33,183	52.1 %	\$33,183	\$159.50	\$37,960	53.1 %	\$37,960	\$165.08	\$41,581	53.7 %	\$41,581	\$170.03	\$44,746	54.1 %	\$44,746	\$175.13	\$46,089	54.1 %	\$46,089	\$180.39
Food	18,741	29.4	18,741	90.08	20,745	29.0	20,745	90.22	22,358	28.9	22,358	91.42	23,793	28.7	23,793	93.12	24,507	28.7	24,507	95.92
Beverage	7,200	11.3	7,200	34.61	7,815	10.9	7,815	33.99	8,324	10.7	8,324	34.04	8,785	10.6	8,785	34.38	9,049	10.6	9,049	35.42
Garage/Parking	2,661	4.2	2,661	12.79	2,870	4.0	2,870	12.48	3,045	3.9	3,045	12.45	3,205	3.9	3,205	12.55	3,301	3.9	3,301	12.92
Spa/Health Club	831	1.3	831	3.99	879	1.2	879	3.82	922	1.2	922	3.77	962	1.2	962	3.76	990	1.2	990	3.88
Rentals & Other Income	1,108	1.7	1,108	5.33	1,172	1.6	1,172	5.10	1,229	1.6	1,229	5.02	1,282	1.5	1,282	5.02	1,321	1.5	1,321	5.17
Total Revenues	63,724	100.0	63,724	306.29	71,442	100.0	71,442	310.69	77,458	100.0	77,458	316.74	82,774	100.0	82,774	323.97	85,257	100.0	85,257	333.69
DEPARTMENTAL EXPENSES *																				
Rooms	8,908	26.8	8,908	42.82	9,515	25.1	9,515	41.38	10,034	24.1	10,034	41.03	10,515	23.5	10,515	41.16	10,831	23.5	10,831	42.39
Food & Beverage	16,960	65.4	16,960	81.52	17,970	62.9	17,970	78.15	18,852	61.4	18,852	77.09	19,683	60.4	19,683	77.04	20,274	60.4	20,274	79.35
Garage/Parking	1,283	48.2	1,283	6.17	1,339	46.7	1,339	5.82	1,391	45.7	1,391	5.69	1,442	45.0	1,442	5.65	1,486	45.0	1,486	5.81
Spa/Health Club	606	72.9	606	2.91	629	71.5	629	2.73	651	70.6	651	2.66	673	70.0	673	2.63	693	70.0	693	2.71
Total	27,757	43.6	27,757	133.42	29,453	41.2	29,453	128.08	30,929	39.9	30,929	126.47	32,314	39.0	32,314	126.47	33,284	39.0	33,284	130.27
DEPARTMENTAL INCOME	35,967	56.4	35,967	172.88	41,989	58.8	41,989	182.60	46,529	60.1	46,529	190.27	50,459	61.0	50,459	197.49	51,974	61.0	51,974	203.42
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	5,512	8.7	5,512	26.50	5,788	8.1	5,788	25.17	6,035	7.8	6,035	24.68	6,272	7.6	6,272	24.55	6,461	7.6	6,461	25.29
Marketing	4,686	7.4	4,686	22.52	4,920	6.9	4,920	21.39	5,130	6.6	5,130	20.98	5,332	6.4	5,332	20.87	5,492	6.4	5,492	21.49
Prop. Operations & Maint.	2,646	4.2	2,646	12.72	2,778	3.9	2,778	12.08	2,897	3.7	2,897	11.84	3,011	3.6	3,011	11.78	3,101	3.6	3,101	12.14
Utilities	2,425	3.8	2,425	11.66	2,547	3.6	2,547	11.07	2,655	3.4	2,655	10.86	2,760	3.3	2,760	10.80	2,843	3.3	2,843	11.13
Total	15,269	24.1	15,269	73.39	16,032	22.5	16,032	69.72	16,716	21.5	16,716	68.36	17,375	20.9	17,375	68.00	17,896	20.9	17,896	70.04
HOUSE PROFIT	20,697	32.3	20,697	99.48	25,957	36.3	25,957	112.88	29,813	38.6	29,813	121.91	33,084	40.1	33,084	129.49	34,078	40.1	34,078	133.38
Management Fee	1,912	3.0	1,912	9.19	2,143	3.0	2,143	9.32	2,324	3.0	2,324	9.50	2,483	3.0	2,483	9.72	2,558	3.0	2,558	10.01
INCOME BEFORE FIXED CHARGES	18,786	29.3	18,786	90.29	23,814	33.3	23,814	103.56	27,489	35.6	27,489	112.41	30,601	37.1	30,601	119.77	31,520	37.1	31,520	123.37
FIXED EXPENSES																				
Property Taxes	4,277	6.7	4,277	20.56	4,341	6.1	4,341	18.88	4,428	5.7	4,428	18.11	4,561	5.5	4,561	17.85	4,698	5.5	4,698	18.39
Insurance	517	0.8	517	2.48	532	0.7	532	2.31	548	0.7	548	2.24	565	0.7	565	2.21	581	0.7	581	2.28
Reserve for Replacement	637	1.0	637	3.06	1,429	2.0	1,429	6.21	2,324	3.0	2,324	9.50	3,311	4.0	3,311	12.96	3,410	4.0	3,410	13.35
Total	5,431	8.5	5,431	26.10	6,302	8.8	6,302	27.41	7,300	9.4	7,300	29.85	8,436	10.2	8,436	33.02	8,689	10.2	8,689	34.01
NET INCOME	\$13,355	20.8 %	\$13,355	\$64.19	\$17,512	24.5 %	\$17,512	\$76.16	\$20,189	26.2 %	\$20,189	\$82.56	\$22,165	26.9 %	\$22,165	\$86.75	\$22,830	26.9 %	\$22,830	\$89.36

*Departmental expenses are expressed as a percentage of departmental revenues.

FIGURE 1-14 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2017		2018		2019		2020		2021		2022		2023		2024		2025		2026	
Number of Rooms:	1000		1000		1000		1000		1000		1000		1000		1000		1000		1000	
Occupied Rooms:	208,050		229,950		244,550		255,500		255,500		255,500		255,500		255,500		255,500		255,500	
Occupancy:	57%		63%		67%		70%		70%		70%		70%		70%		70%		70%	
Average Rate:	\$159.50	% of	\$165.08	% of	\$170.03	% of	\$175.13	% of	\$180.39	% of	\$185.80	% of	\$191.37	% of	\$197.11	% of	\$203.03	% of	\$209.12	% of
RevPAR:	\$90.91	Gross	\$104.00	Gross	\$113.92	Gross	\$122.59	Gross	\$126.27	Gross	\$130.06	Gross	\$133.96	Gross	\$137.98	Gross	\$142.12	Gross	\$146.38	Gross
REVENUE																				
Rooms	\$33,183	52.1 %	\$37,960	53.1 %	\$41,581	53.7 %	\$44,746	54.1 %	\$46,089	54.1 %	\$47,471	54.1 %	\$48,896	54.1 %	\$50,362	54.1 %	\$51,873	54.1 %	\$53,429	54.1 %
Food	18,741	29.4	20,745	29.0	22,358	28.9	23,793	28.7	24,507	28.7	25,242	28.7	26,000	28.7	26,780	28.7	27,583	28.7	28,411	28.7
Beverage	7,200	11.3	7,815	10.9	8,324	10.7	8,785	10.6	9,049	10.6	9,320	10.6	9,600	10.6	9,888	10.6	10,185	10.6	10,490	10.6
Other Operated Departments	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Garage/Parking	2,661	4.2	2,870	4.0	3,045	3.9	3,205	3.9	3,301	3.9	3,400	3.9	3,502	3.9	3,608	3.9	3,716	3.9	3,827	3.9
Spa/Health Club	831	1.3	879	1.2	922	1.2	962	1.2	990	1.2	1,020	1.2	1,051	1.2	1,082	1.2	1,115	1.2	1,148	1.2
Rentals & Other Income	1,108	1.7	1,172	1.6	1,229	1.6	1,282	1.5	1,321	1.5	1,360	1.5	1,401	1.5	1,443	1.5	1,486	1.5	1,531	1.5
Total	63,724	100.0	71,442	100.0	77,458	100.0	82,774	100.0	85,257	100.0	87,814	100.0	90,450	100.0	93,162	100.0	95,957	100.0	98,836	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	8,908	26.8	9,515	25.1	10,034	24.1	10,515	23.5	10,831	23.5	11,156	23.5	11,490	23.5	11,835	23.5	12,190	23.5	12,556	23.5
Food & Beverage	16,960	65.4	17,970	62.9	18,852	61.4	19,683	60.4	20,274	60.4	20,882	60.4	21,509	60.4	22,154	60.4	22,819	60.4	23,503	60.4
Other Operated Departments	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Garage/Parking	1,283	48.2	1,339	46.7	1,391	45.7	1,442	45.0	1,486	45.0	1,530	45.0	1,576	45.0	1,623	45.0	1,672	45.0	1,722	45.0
Spa/Health Club	606	72.9	629	71.5	651	70.6	673	70.0	693	70.0	714	70.0	736	70.0	758	70.0	780	70.0	804	70.0
Total	27,757	43.6	29,453	41.2	30,929	39.9	32,314	39.0	33,284	39.0	34,282	39.0	35,311	39.0	36,370	39.0	37,461	39.0	38,585	39.0
DEPARTMENTAL INCOME	35,967	56.4	41,989	58.8	46,529	60.1	50,459	61.0	51,974	61.0	53,532	61.0	55,139	61.0	56,792	61.0	58,496	61.0	60,251	61.0
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	5,512	8.7	5,788	8.1	6,035	7.8	6,272	7.6	6,461	7.6	6,654	7.6	6,854	7.6	7,060	7.6	7,272	7.6	7,490	7.6
Marketing	4,686	7.4	4,920	6.9	5,130	6.6	5,332	6.4	5,492	6.4	5,656	6.4	5,826	6.4	6,001	6.4	6,181	6.4	6,366	6.4
Prop. Operations & Maint.	2,646	4.2	2,778	3.9	2,897	3.7	3,011	3.6	3,101	3.6	3,194	3.6	3,290	3.6	3,389	3.6	3,490	3.6	3,595	3.6
Utilities	2,425	3.8	2,547	3.6	2,655	3.4	2,760	3.3	2,843	3.3	2,928	3.3	3,016	3.3	3,106	3.3	3,199	3.3	3,295	3.3
Total	15,269	24.1	16,032	22.5	16,716	21.5	17,375	20.9	17,896	20.9	18,433	20.9	18,986	20.9	19,556	20.9	20,142	20.9	20,746	20.9
HOUSE PROFIT	20,697	32.3	25,957	36.3	29,813	38.6	33,084	40.1	34,078	40.1	35,099	40.1	36,153	40.1	37,237	40.1	38,354	40.1	39,504	40.1
Management Fee	1,912	3.0	2,143	3.0	2,324	3.0	2,483	3.0	2,558	3.0	2,634	3.0	2,713	3.0	2,795	3.0	2,879	3.0	2,965	3.0
INCOME BEFORE FIXED CHARGES	18,786	29.3	23,814	33.3	27,489	35.6	30,601	37.1	31,520	37.1	32,465	37.1	33,440	37.1	34,442	37.1	35,475	37.1	36,539	37.1
FIXED EXPENSES																				
Property Taxes	4,277	6.7	4,341	6.1	4,428	5.7	4,561	5.5	4,698	5.5	4,839	5.5	4,984	5.5	5,133	5.5	5,287	5.5	5,446	5.5
Insurance	517	0.8	532	0.7	548	0.7	565	0.7	581	0.7	599	0.7	617	0.7	635	0.7	654	0.7	674	0.7
Reserve for Replacement	637	1.0	1,429	2.0	2,324	3.0	3,311	4.0	3,410	4.0	3,513	4.0	3,618	4.0	3,726	4.0	3,838	4.0	3,953	4.0
Total	5,431	8.5	6,302	8.8	7,300	9.4	8,436	10.2	8,689	10.2	8,950	10.2	9,219	10.2	9,495	10.2	9,780	10.2	10,073	10.2
NET INCOME	\$13,355	20.8 %	\$17,512	24.5 %	\$20,189	26.2 %	\$22,165	26.9 %	\$22,830	26.9 %	\$23,515	26.9 %	\$24,221	26.9 %	\$24,947	26.9 %	\$25,695	26.9 %	\$26,466	26.9 %

*Departmental expenses are expressed as a percentage of departmental revenues.

Our positioning of each revenue and expense level is supported by comparable operations or trends specific to this market.

FIGURE 1-15 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2010/11	2010	2010	2007	2008	2012
Number of Rooms:	730 to 910	710 to 880	800 to 980	1100 to 1350	870 to 1080	1000
Days Open:	365	365	365	365	366	365
Occupancy:	72%	74%	81%	70%	59%	70%
Average Rate:	\$135	\$177	\$220	\$131	\$150	\$138
RevPAR:	\$97	\$131	\$179	\$92	\$88	\$97
REVENUE						
Rooms	61.4 %	60.2 %	61.7 %	66.8 %	63.4 %	54.1 %
Food & Beverage	34.8	35.4	35.2	28.5	31.3	39.4
Other Operated Departments	1.3	1.4	2.2	2.3	2.7	5.0
Rentals & Other Income	2.5	3.1	0.8	2.3	2.7	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	23.6	30.3	20.2	32.0	24.1	23.5
Food & Beverage	54.2	65.3	66.2	74.0	73.2	60.4
Other Operated Departments	64.8	32.3	58.4	49.4	96.4	50.8
Rentals & Other Income	7.1	0.0	0.0	4.5	0.0	0.0
Total	34.4	41.8	37.1	43.8	40.8	39.0
DEPARTMENTAL INCOME						
	65.6	58.2	62.9	56.2	59.2	61.0
OPERATING EXPENSES						
Administrative & General	7.0	8.9	5.9	9.2	8.7	7.6
Marketing	7.9	4.8	4.5	6.4	7.8	6.4
Property Operations & Maintenance	4.0	5.1	3.1	5.4	5.0	3.6
Utilities	3.1	2.5	3.3	4.3	5.1	3.3
Total	22.1	21.4	16.7	25.3	26.6	21.0
HOUSE PROFIT						
	43.5	36.8	46.2	30.9	32.6	40.0
Management Fee	3.0	2.9	7.0	2.3	2.5	3.0
INCOME BEFORE FIXED CHARGES						
	40.5	34.0	39.2	28.6	30.1	37.0

* Departmental expense ratios are expressed as a percentage of departmental revenues

FIGURE 1-16 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2010/11	2010	2010	2007	2008	2012
Number of Rooms:	730 to 910	710 to 880	800 to 980	100 to 1350	870 to 1080	1000
Days Open:	365	365	365	365	366	365
Occupancy:	72%	74%	81%	70%	59%	70%
Average Rate:	\$135	\$177	\$220	\$131	\$150	\$138
RevPAR:	\$97	\$131	\$179	\$92	\$88	\$97
REVENUE						
Rooms	\$35,426	\$47,720	\$65,326	\$33,560	\$32,350	\$35,323
Food & Beverage	20,100	28,078	37,303	14,332	15,986	25,718
Other Operated Departments	741	1,097	2,375	1,176	1,363	3,289
Rentals & Other Income	1,428	2,436	873	1,139	1,355	1,012
Total	57,694	79,331	105,876	50,207	51,054	65,342
DEPARTMENTAL EXPENSES						
Rooms	8,350	14,449	13,193	10,731	7,794	8,301
Food & Beverage	10,890	18,333	24,697	10,607	11,700	15,538
Other Operated Departments	480	355	1,387	582	1,314	1,670
Rentals & Other Income	101	0	0	51	0	0
Total	19,821	33,138	39,278	21,971	20,809	25,509
DEPARTMENTAL INCOME						
	37,873	46,193	66,598	28,237	30,246	39,833
OPERATING EXPENSES						
Administrative & General	4,029	7,059	6,195	4,614	4,452	4,952
Marketing	4,571	3,827	4,758	3,197	3,961	4,209
Property Operations & Maintenance	2,333	4,049	3,244	2,723	2,562	2,377
Utilities	1,816	2,015	3,449	2,155	2,613	2,179
Total	12,749	16,951	17,646	12,689	13,589	13,716
HOUSE PROFIT						
	25,124	29,242	48,952	15,548	16,657	26,117
Management Fee	1,730	2,293	7,400	1,166	1,276	1,960
INCOME BEFORE FIXED CHARGES						
	23,395	26,949	41,552	14,381	15,381	24,157

FIGURE 1-17 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2010/11	2010	2010	2007	2008	2012
Number of Rooms:	730 to 910	710 to 880	800 to 980	100 to 1350	870 to 1080	1000
Days Open:	365	365	365	365	366	365
Occupancy:	72%	74%	81%	70%	59%	70%
Average Rate:	\$135	\$177	\$220	\$131	\$150	\$138
RevPAR:	\$97	\$131	\$179	\$92	\$88	\$97
REVENUE						
Rooms	\$135.36	\$176.74	\$219.95	\$131.36	\$150.39	\$138.25
Food & Beverage	76.80	103.99	125.60	56.10	74.31	100.66
Other Operated Departments	2.83	4.06	8.00	4.60	6.34	12.87
Rentals & Other Income	5.45	9.02	2.94	4.46	6.30	3.96
Total	220.45	293.81	356.48	196.53	237.34	255.74
DEPARTMENTAL EXPENSES						
Rooms	31.90	53.52	44.42	42.00	36.23	32.49
Food & Beverage	41.61	67.90	83.15	41.52	54.39	60.82
Other Operated Departments	1.83	1.31	4.67	2.28	6.11	6.54
Rentals & Other Income	0.39	0.00	0.00	0.20	0.00	0.00
Total	75.74	122.73	132.25	86.00	96.74	99.84
DEPARTMENTAL INCOME	144.71	171.08	224.23	110.53	140.61	155.90
OPERATING EXPENSES						
Administrative & General	15.40	26.15	20.86	18.06	20.70	19.38
Marketing	17.47	14.17	16.02	12.52	18.41	16.47
Property Operations & Maintenance	8.91	15.00	10.92	10.66	11.91	9.30
Utilities	6.94	7.46	11.61	8.44	12.15	8.53
Total	48.71	62.78	59.41	49.67	63.17	53.68
HOUSE PROFIT	96.00	108.30	164.82	60.86	77.44	102.22
Management Fee	6.61	8.49	24.92	4.57	5.93	7.67
INCOME BEFORE FIXED CHARGES	89.39	99.81	139.90	56.29	71.50	94.55

FIGURE 1-18 COMPARABLE OPERATING STATEMENTS: COMPOSITE STATEMENT

	Number of Rooms:	4,705			
	Days Open:	365			
	Occupancy:	70.8%		Amount per	Amount per
	Average Rate:	\$162.57	Percentage	Available	Occupied
	RevPAR:	\$115.12	of Revenue	Room	Room
REVENUE					
Rooms		\$197,704	62.2 %	\$42,020	\$162.57
Food & Beverage		105,091	33.1	22,336	86.42
Other Operating Departments		6,362	2.0	1,352	5.23
Rentals & Other Income		6,598	2.1	1,402	5.43
Total		317,805	100.0	67,546	261.33
DEPARTMENTAL EXPENSES					
Rooms		50,799	25.7	10,797	41.77
Food & Beverage		69,852	66.5	14,846	57.44
Other Operating Departments		2,798	44.0	595	2.30
Rentals & Other Income		146	2.2	31	0.12
Total		124,702	39.2	26,504	102.54
DEPARTMENTAL INCOME		193,103	60.8	41,042	158.79
OPERATING EXPENSES					
Administrative & General		24,413	7.7	5,189	20.07
Marketing		18,804	5.9	3,997	15.46
Property Operations & Maintenance		13,847	4.4	2,943	11.39
Utilities		11,348	3.6	2,412	9.33
Total		68,412	21.5	14,540	56.25
HOUSE PROFIT		124,691	39.2	26,502	102.53
Management Fee		12,492	3.9	2,655	10.27
INCOME BEFORE FIXED CHARGES		112,199	35.3	23,847	92.26

In conclusion, our analysis reflects a profitable operation, with net income expected to total 26.9% of total revenue by the stabilized year. The stabilized total revenue comprises primarily rooms revenue, with a secondary portion derived from other income sources. On the cost side, departmental expenses total 39.0% of revenue by the stabilized year, while undistributed operating expenses total 20.9% of total revenues; this assumes that the property will be operated competently by a well-known hotel operator. After a 3.0% of total revenues management fee, and 10.2% of total revenues in fixed expenses, a net income ratio of 26.9% is forecast by the stabilized year.

Method of Study

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by HVS for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels*,¹ *Hotels, Motels and Restaurants: Valuations and Market Studies*,² *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,³ and *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*.⁴

1. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant location factors.
2. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
3. Dividing the market for transient accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, required facilities and amenities, seasonality, daily demand fluctuations, and price sensitivity.
4. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness.
5. The subject property's proposed improvements have been evaluated or recommended for optimal capture of demand in this market and at the subject site's location.
6. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
7. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.

¹ Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

² Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

³ Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

⁴ Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*. (Chicago: Appraisal Institute, 1992).

Date of Inspection

The subject site has not been inspected by Brett E. Russell.

2. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a summary of findings only for a market study of the proposed subject property; this is not an appraisal report.
2. This report is to be used in whole and not in part.
3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would impact the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
5. We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
6. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed the proposed hotel would be designed and constructed to be in full compliance with the ADA.
7. We have made no survey of the site, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate will be within the boundaries of the property described, and that no encroachment will exist.
8. All information, financial operating statements, estimates, and opinions obtained from parties not employed by TS Worldwide, LLC are assumed to be true and correct. We can assume no liability resulting from misinformation.
9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all

licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.

11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
17. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared based upon information obtained during the course of this study and are intended to reflect the expectations of a typical hotel investor.
18. This analysis assumes continuation of all provisions of the Internal Revenue Code of 1986, as amended to date.
19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.

20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
22. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide, LLC as employees, rather than as individuals.

3. Certification

The undersigned hereby certify that, to the best of our knowledge and belief:

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Brett E. Russell personally inspected the property described in this report; Brett E. Russell participated in the analysis and reviewed the findings, but did not personally inspect the property;
9. Brett E. Russell provided significant assistance to Brett E. Russell, and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report;
10. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;

11. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and
12. as of the date of this report, Brett E. Russell has completed the Standards and Ethics Education Requirement of the Appraisal Institute for Associate Members; and as of the date of this report, Brett E. Russell has completed the requirements of the continuing education program of the Appraisal Institute.

DRAFT REPORT

Brett E. Russell
Senior Vice President
TS Worldwide, LLC

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

A market has three existing hotels with the following operating statistics:

BASE-YEAR OCCUPANCY AND PENETRATION LEVELS

Property	Number of Rooms	Fair Share	Commercial	Meeting and Group	Leisure	Occupancy	Penetration
Hotel A	100	23.5 %	60 %	20 %	20 %	75.0 %	100.8 %
Hotel B	125	29.4	70	10	20	65.0	87.4
Hotel C	200	47.1	30	60	10	80.0	107.5
Totals/Average	425	100.0 %	47 %	38 %	15 %	74.4 %	100.0 %

Based upon each hotel's room count, market segmentation, and annual occupancy, the annual number of room nights accommodated in the market from each market segment can be quantified, as set forth below.

MARKET-WIDE ROOM NIGHT DEMAND

Market Segment	Annual Room Night Demand	Percentage of Total
Commercial	54,704	47.4 %
Meeting and Group	43,481	37.7
Leisure	17,246	14.9
Total	115,431	100.0 %

The following discussion will be based upon an analysis of the commercial market segment. The same methodology is applied for each market segment to derive an estimate of a hotel's overall occupancy. The table below sets forth the commercial demand accommodated by each hotel. Each hotel's commercial penetration factor is computed by:

- 1) calculating the hotel's market share % of commercial demand (commercial room nights accommodated by subject hotel divided by total commercial room nights accommodated by all hotels) and
- 2) dividing the hotel's commercial market share % by the hotel's fair share %.

The following table sets forth each hotel's fair share, commercial market share, and commercial penetration factor.

COMMERCIAL SEGMENT PENETRATION FACTORS					
Property	Number of Rooms	Fair Share	Commercial Capture	Commercial Market Share	Commercial Penetration
Hotel A	100	23.5 %	16,425	30.0 %	127.6 %
Hotel B	125	29.4	20,759	37.9	129.0
Hotel C	200	47.1	17,520	32.0	68.1
Totals/Average	425	100.0 %	54,704	100.0 %	100.0 %

If a new 100-room hotel enters the market, the fair share of each hotel changes because of the new denominator, which has increased by the 100 rooms that have been added to the market.

COMMERCIAL SEGMENT FAIR SHARE		
Property	Number of Rooms	Fair Share
Hotel A	100	19.0 %
Hotel B	125	23.8
Hotel C	200	38.1
New Hotel	100	19.0
Total	525	100.0 %

The new hotel's penetration factor is projected for its first year of operation. It is estimated that the hotel will capture (penetrate) only 85% of its fair share as it establishes itself in the market. The new hotel's market share and room night capture can be calculated based upon the hotel's estimated penetration factor. When the market share of the existing hotels and that of the new hotel are added up, they no longer equal 100% because of the new hotel's entry into the market. The market share of each hotel must be adjusted to reflect the change in the denominator that comprises the sum of each hotel's market share.

This adjustment can be mathematically calculated by dividing each hotel's market share percentages by the new denominator of 97.1%. The resulting calculations reflect each hotel's new adjusted market share. The sum of the adjusted market shares equals 100%, indicating that the adjustment has been successfully completed. Once the market shares have been calculated, the penetration factors can be recalculated (adjusted market share divided by fair share) to derive the adjusted penetration factors based upon the new hotel's entry into the market. Note that each existing hotel's penetration factor actually increases because the new hotel is capturing (penetrating) less than its fair share of demand.

COMMERCIAL SEGMENT PROJECTIONS (YEAR 1)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	127.6 %	24.3 %	25.0 %	131.4 %	13,688
Hotel B	125	23.8	129.0	30.7	31.6	132.8	17,299
Hotel C	200	38.1	68.1	25.9	26.7	70.1	14,600
New Hotel	100	19.0	85.0	16.2	16.7	87.5	9,117
Totals/Average	525	100.0 %		97.1 %	100.0 %		54,704

In its second year of operation, the new hotel is projected to penetrate above its fair share of demand. A penetration rate of 130% has been chosen, as the new hotel is expected to perform at a level commensurate with Hotel A and Hotel B in this market segment. The same calculations are performed to adjust market share and penetration factors. Note that now the penetration factors of the existing hotels decline below their original penetration rates because of the new hotel's above-market penetration. Also, note that after the market share adjustment, the new hotel retains a penetration rate commensurate with Hotel A and Hotel B, though the penetration rates of all three hotels have declined by approximately nine percentage points because of the reapportionment of demand.

Once the market shares of each hotel have been adjusted to reflect the entry of the new hotel into the market, the commercial room nights captured by each hotel may be projected by multiplying the hotel's market share percentage by the total commercial room-night demand. This calculation is shown below.

COMMERCIAL SEGMENT PROJECTIONS (YEAR 2)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	131.4 %	25.0 %	23.1 %	121.5 %	12,662
Hotel B	125	23.8	132.8	31.6	29.3	122.9	16,004
Hotel C	200	38.1	70.1	26.7	24.7	64.8	13,507
New Hotel	100	19.0	130.0	24.8	22.9	120.3	12,531
Totals/Average	525	100.0 %		108.1 %	100.0 %		54,704