FEASIBILITY STUDY

Proposed Avid, an IHG Hotel

13998 Diplomat Drive
Farmers Branch, Texas

Submitted to:

Mr. Alkesh Patel
Diplomat Group LLC
1419 West Main Street, Suite 114
Battle Ground, Washington, 98604

Prepared By:

U.S. Hotel Appraisals
603 West 13th Street, Suite 2H
Austin, Texas, 78701
+1 (214) 629-0908

April 26, 2018

Mr. Alkesh Patel
Diplomat Group LLC
1419 West Main Street, Suite 114
Battle Ground, Washington, 98604

Re: Proposed Avid, an IHG Hotel; Farmers Branch, Texas; Job Reference #: 2018US0235

Dear Mr. Patel:

Thank you for the opportunity to complete this feasibility study of the Proposed Avid, an IHG Hotel for your company. We have studied the proposed project, and the results of our fieldwork and analysis are presented in this report. Our report was prepared in accordance with the Uniform Standards of Professional Appraisal 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 data and explanation contained within this report, as well as the stipulated assumptions and limiting conditions.

Sincerely, U.S. Hotel Appraisals, LLC

DRAFT REPORT

David R. Bone, Vice President
dbone@ushotelappraisals.com, +1 (214) 629-0908
State Appraiser License (TX) TX1380415G

TABLE OF CONTENTS

1. INTRODUCTION

The subject of this feasibility report is the Proposed Avid, an IHG Hotel to be located at 13998 Diplomat Drive, Farmers Branch, Texas 75234. Primary aspects of the site and project analyzed are summarized as follows:

• Proposed Property Type:	Limited-Service lodging facility
• Interest Considered:	Fee simple
• Site Size:	79,279 square feet (1.82 acres)
• Parcel Number:	006512000301B0000
• Zoning:	PD-22 - Planned Development
• Flood Zone:	Zone X500
• Expected Opening Date:	October 1, 2019
• Proposed Building Size:	41,643 square feet
• Proposed Building Stories:	Four
• Proposed Number of Rooms:	95
• Planned Food and Beverage Facilities:	Grab-and-Go Breakfast
• Planned Meeting Space:	None
• Other Facilities Planned:	A fitness room, a work area, and a market pantry
• Parking Spaces Planned:	100

Important dates and inspection information are presented as follows:

• Date of Report:	April 26, 2018
• Date of Inspection:	April 19, 2018
• Inspected By:	David R. Bone
• Assumed Opening Date:	October 1, 2019
• Date of Forecast Stabilization:	October 1, 2022

Parameters considered in the development of our net present value (NPV) opinion are summarized as follows:

• Terminal Capitalization Rate:	10.0%
• Discount Rate:	10.25%
• Direct Capitalization Rate:	9.00%

The results of the feasibility analysis are presented as follows:

- Net Present Value (As of Opening): $9,700,000
- Development Cost, with Incentive: $9,633,750
- Based on the parameters, the feasibility of the subject project is confirmed.

Assignment Conditions

The analysis is based on the extraordinary assumption that the described improvements have been completed as of the stated date of opening. The reader should understand that the completed subject property does not yet exist as of the date of this report. Our feasibility study does not address unforeseeable events that could alter the proposed project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, shall take place between the date of inspection and stated date of opening. The use of this extraordinary assumption may have affected the assignment results. We have made no other extraordinary assumptions specific to this feasibility study. However, several important general assumptions have been made that apply to this feasibility study and our studies of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

Ownership, Management, and Franchise Assumptions

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

The proposed subject hotel will reportedly operate under a franchise agreement with InterContinental Hotels Group as an Avid, an IHG Hotel; the agreement is expected to span 20 years. Based on our review of the agreement's terms or expected terms, the avid franchise is reflected in our forecasts with a royalty fee of 5% of rooms revenue, and a marketing assessment of 3% of rooms revenue.

Intended Use of the Feasibility Study

This feasibility study is being prepared for use in the asset evaluation of the subject property.

Identification of the Client and Intended User(s) of the Feasibility Study

The client for this engagement is Diplomat Group LLC. This report is intended for the addressee firm and may not be distributed to or relied upon by other persons or entities.

Marketing and Exposure Periods

The marketing and exposure periods are similar concepts and simply reflect different perspectives in time. Published surveys report marketing time, not the exposure period. Marketing time is an opinion of the amount of time it might take to sell a property at the concluded market value level during the period immediately after the effective date of an appraisal. According to the HVS Brokers Survey - Fall 2017, reported marketing times averaged 6.6 months for luxury/upper-upscale properties, 7.1 months for full-service hotels, and 5.9 *months for select-service hotels. Marketing time for* luxury/upper-upscale properties, full-service hotels, and select-service hotels averaged 6.8, 6.3, and 6.0 months, respectively, according to the PWC *Real Estate Investor Survey* - Third Quarter 2017. USRC reported average marketing times of 7.8 and 7.3 months, respectively, for full-service and limited-service hotels in its Mid-Year 2017 Hotel Investor Survey. Overall marketing time is averaging 6.0 months for hotels (versus 6.3 months for the third quarter), as reported by Situs RERC's fourth-quarter 2017 Real Estate Report. Our opinion is that the exposure period for the proposed subject hotel, prior to the assumed date of opening, is estimated to be less than or equal to five to seven months, while the marketing period for the proposed subject hotel, subsequent to the assumed date of opening, is less than or equal to five to seven months.

Scope of Work Performed

All information was collected and analyzed by the staff of U.S. Hotel Appraisals. Property-specific information was supplied by the developer of the hotel. 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-related factors. The subject hotel's proposed improvements have been reviewed for their expected quality of construction, design, layout efficiency, and items of physical deterioration and potential functional obsolescence. The surrounding economic environment has been reviewed to identify economic and demographic trends that may have an impact on future demand for hotels. The market for hotel accommodations has been investigated, including factors such as purpose of visit, average length of stay, facilities and amenities, seasonality, daily demand fluctuations, and price sensitivity. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness.

Documentation for an occupancy and average rate projection is derived utilizing a penetration analysis based on an analysis of lodging activity. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for Hotels sets forth the anticipated economic benefits of the proposed subject hotel and provide the basis for the feasibility analysis. The study compares the net present value of the forecast cash flows to the development cost of the hotel.

2. THE REAL ESTATE

Site Overview

The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate feasibility. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

The subject site is located in northern Farmers Branch, in the southwest quadrant of the intersection formed by Interstate 35E and Valwood Parkway. Important site attributes include the following:

- The site size spans 79,279 square feet (1.82 acres).
- The topography of the site is generally flat, and the shape should permit efficient use of the site for building and site improvements, including ingress and egress. Upon completion of construction, the subject site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. It is expected that the site will be developed fully with building and site improvements, thus contributing to the overall profitability of the hotel.
- We are not aware of any easements attached to the property that would significantly affect the utility of the site or marketability of this project.
- The subject site will reportedly be served by all necessary utilities.
- The site has the zoning designation of PD-22 - Planned Development. This zoning designation is a special district permitting specific commercial, industrial, and residential/commercial mixed uses that normally require site-plan approval prior to development. We assume that all necessary permits and approvals will be secured (including the appropriate liquor license if applicable) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

Direction	Adjacent Use
North	Valwood Parkway
South	Delegate Drive
East	Precision Landscape Management
West	Diplomat Drive

Aerial View of Site

Hazardous Waste

We were not informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.

Soil Conditions

Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by a visual inspection of the surface; no extraordinary conditions were apparent.

View North From Site

View South From Site

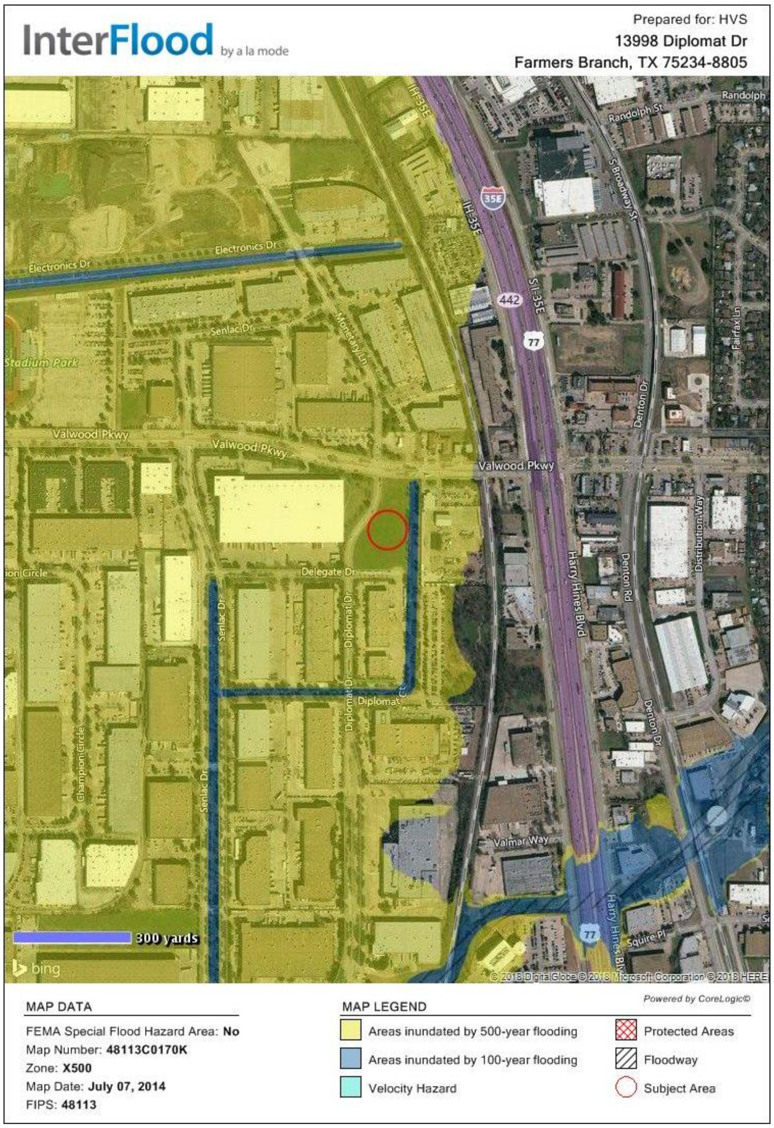
View East From Site

View West From Site

Flood Map

A copy of the flood map and flood map cover is illustrated below.

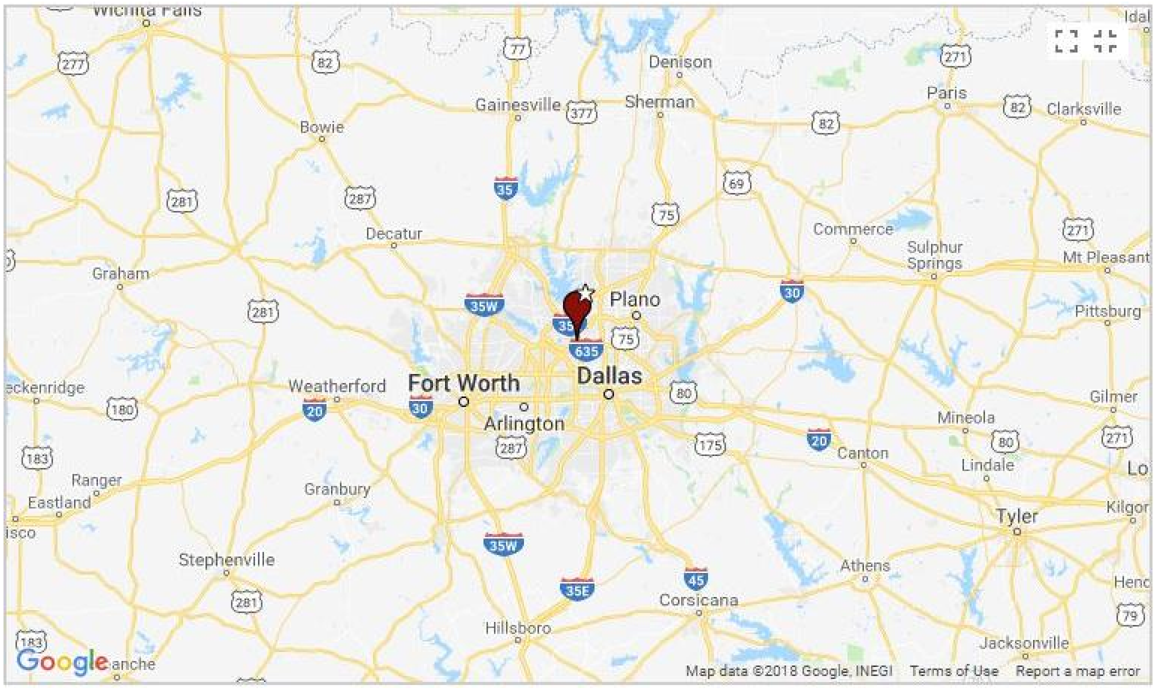
FEMA Map



Accessibility and Visibility of the Site

It is important to analyze the site with respect to regional and local transportation routes and demand generators, including ease of access. The subject site is readily accessible to a variety of local and regional highways.

Map of Primary Access Routes



Our summary of pertinent accessibility and visibility attributes and ratings is presented in the following table.

Summary of Access and Visibility Attributes

Major Local Highways:	Interstates 20, 30, 35E, 35W, 45, and 635
Primary Airport:	Dallas/Fort Worth International Airport
Distance to Airport (Miles):	Seven
Regional Access Rating:	Excellent
Local Accessibility Rating:	Very Good
Anticipated Building Visibility Rating:	Fair
Anticipated Hotel Signage Rating:	Good

Accessibility and/or Visibility Issues Noted:
According to the site plan provided by the developer and our understanding of the proposed subject site, the subject property will not have visibility from Interstates 35E or 635.

Neighborhood Analysis

The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment.

Neighborhood Summary

Neighborhood Boundaries:	
North:	Belt Line Road
South:	Royal Lane
East:	Interstate 35E
West:	MacArthur Boulev ard

Neighborhood Composition:			
Residential:	20%	Other:	5%
Retail/Restaurant:	25%	Undev eloped:	10%
Office/Industrial:	40%	Total:	100%
Life-Cycle Stage:	Growth		

Proximate Restaurants:

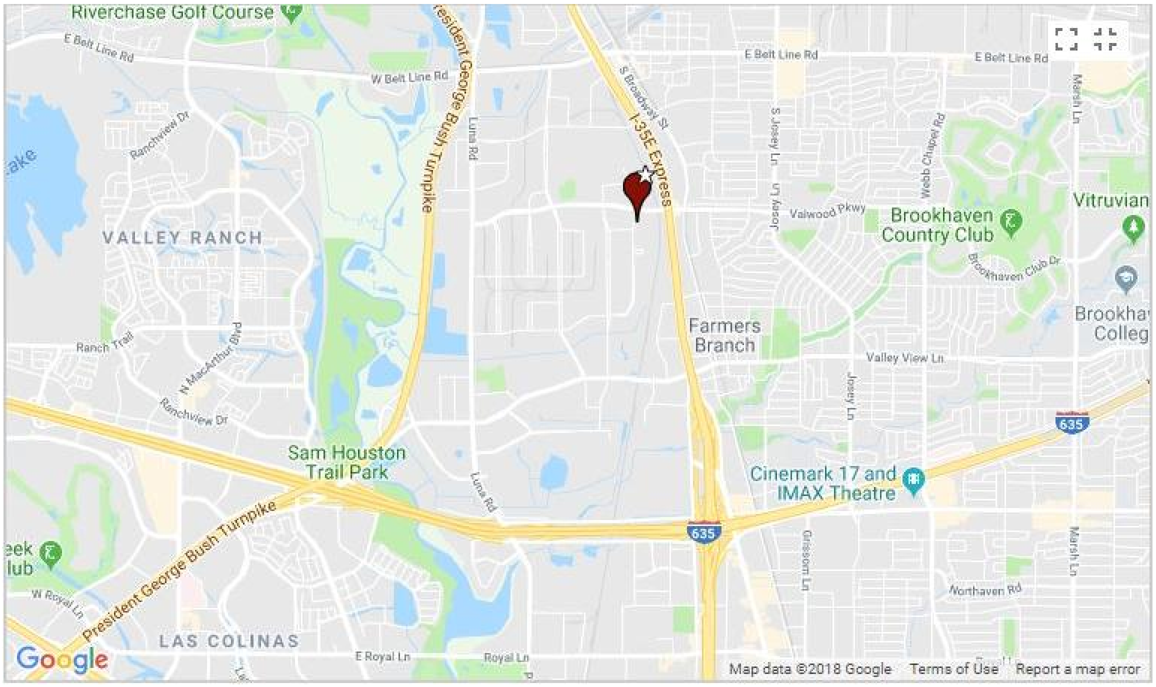
1 Jack In The Box
2 Waffle House
3 Taco Bueno
4 Dairy Queen

Proximate Businesses & Entities:

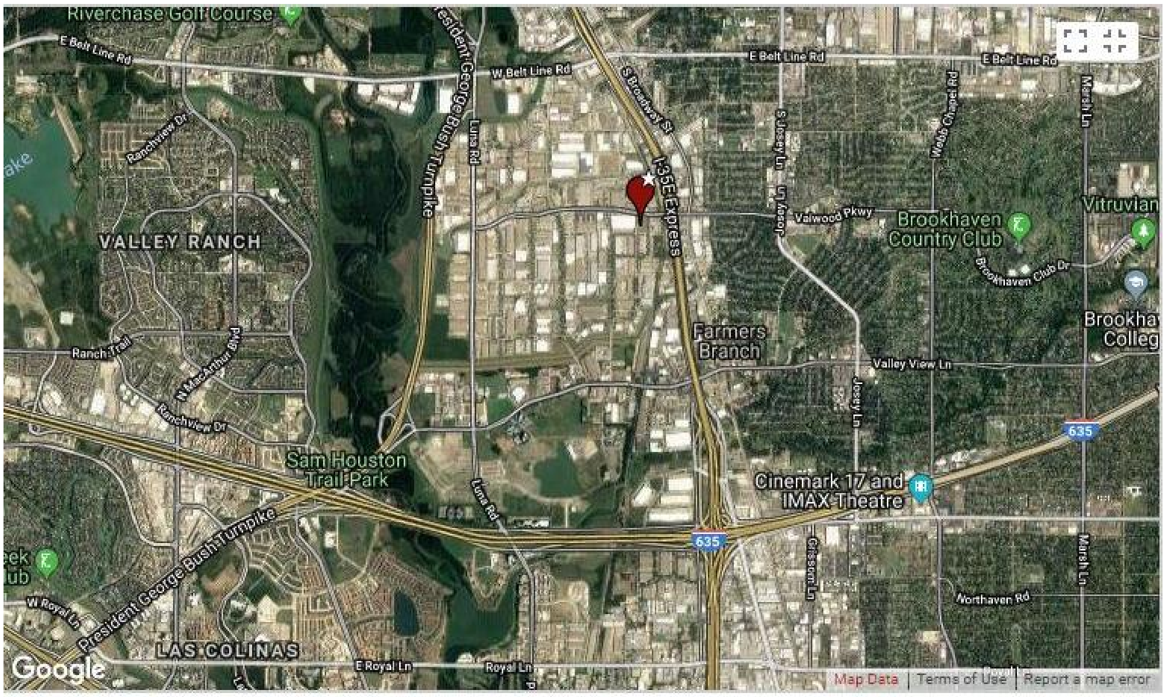
1 Satco Products of TX Inc.
2 Automated Packaging Systems
3 TD Industries
4 Spirit International
5 Valwood Park, Diplomat Center
6 Valley View Commerce Center, PS Business Park

Neighborhood Changes/Issues Noted:
In this neighborhood, significant dev elopment is occurring in the retail/restaurant, industrial, commercial, and residential sectors, as the area continues to undergo a major transformation. Notable changes in this neighborhood include the ongoing construction within the Mercer Crossing mixed-use dev elopment and robust residential growth around the intersection of Luna Road and Interstate 635. Sev eral thousand multi-family residential units and hundreds of single-family residences hav e either been completed recently or are under construction within a two-mile radius of Luna Road and Interstate 635

Neighborhood Map



Aerial View of Neighborhood



Proposed Improvements

The proposed subject hotel will be a lodging facility containing the facilities outlined in the following table, as well as the requisite back-of-the-house ancillary facilities.

Proposed Hotel Characteristics

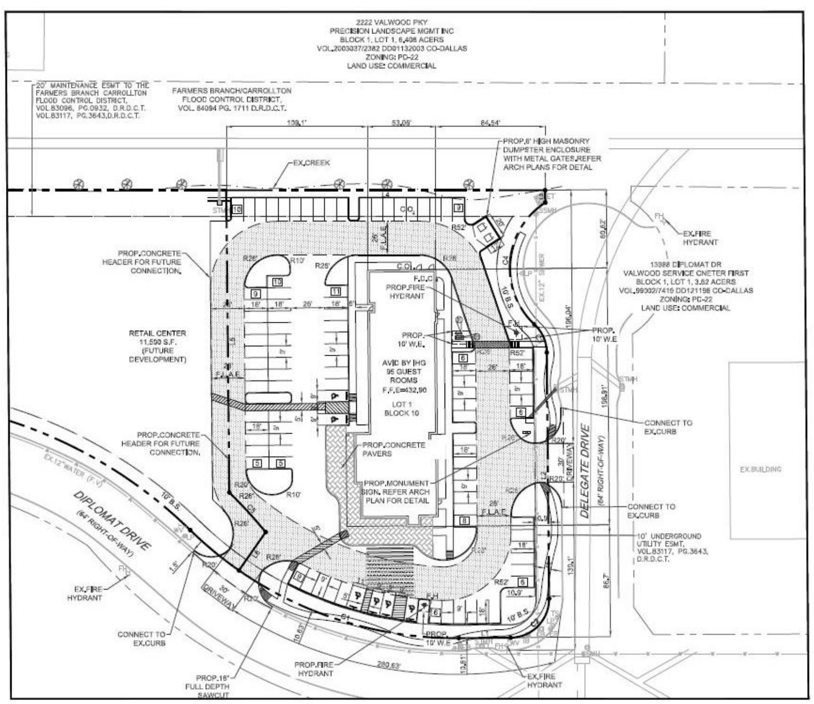
Expected Opening Year:	2019	Dining Facilities:	Grab-and-Go Breakfast
Number of Buildings:	one		
Number of Stories:	four	Meeting Space (SF):	None
Building Square Feet:	41,643		
Parking Spaces:	100	Amenities:	Fitness Room, Market Pantry, Work Area, Coffee/Water Station
Guestroom Type Breakdown:			
King:	46		
Queen/Queen:	49		
Total:	95		

Site Improvements, Structure, & Vertical Access

The proposed hotel will comprise one four-story building. Surface parking will be located around the building. Other site improvements will include freestanding signage, located at the main entrance to the site, as well as landscaping and sidewalks. Additional signage is expected to be placed on the exterior of the building. The hotel's main entrance will lead directly into the lobby, and the first (ground) floor will house the public areas and the back-of-the-house space. Guestrooms are planned to be located on the first through fourth floors. The site and building components are expected to be normal for a hotel of this type and should meet the standards for this suburban Farmers Branch market.

Picture of Subject Site

Site Plan



Public Areas

The hotel's Breakfast Beacon (a grab-and-go counter) will be located opposite the front desk in the lobby. Its size and layout should be appropriate for the hotel. The furnishings of the space are expected to be of a similar style and finish as lobby and guestroom furnishings. The hotel is planned to offer a fitness room as a recreational facility. Other amenities are likely to include a coffee and water station, a work area (an area for guests to plug their computers in and charge their phones), and a market pantry. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

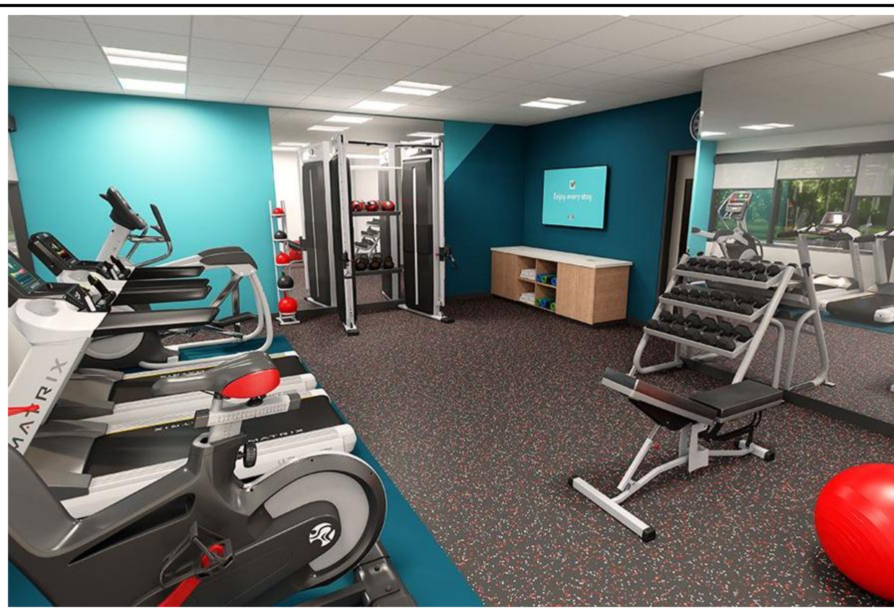
Typical Subject Exterior - Front

Typical Subject Exterior - Back

Typical Subject Public Area - Lobby

Typical Subject Public Area – Breakfast Area

Typical Subject Public Area – Fitness Room

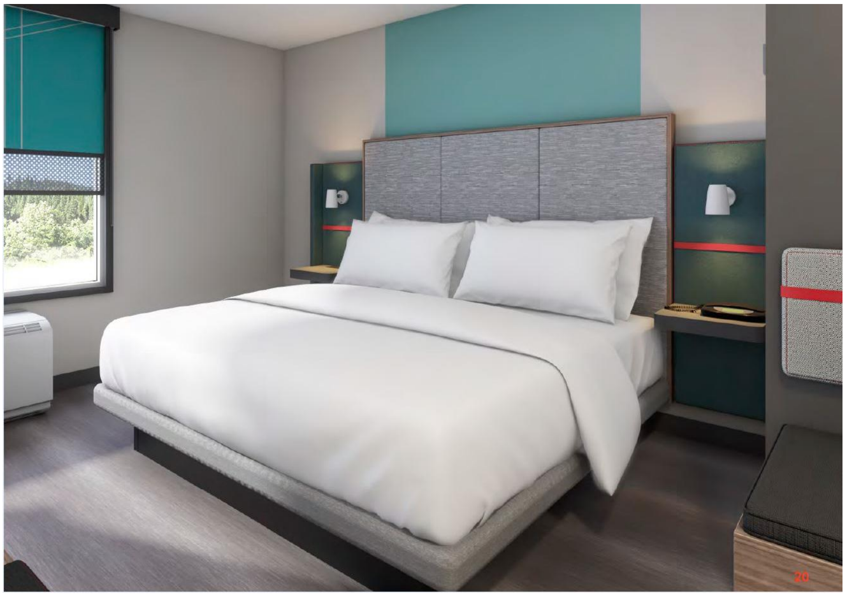


Typical Floor Plan – First Floor

Guestrooms

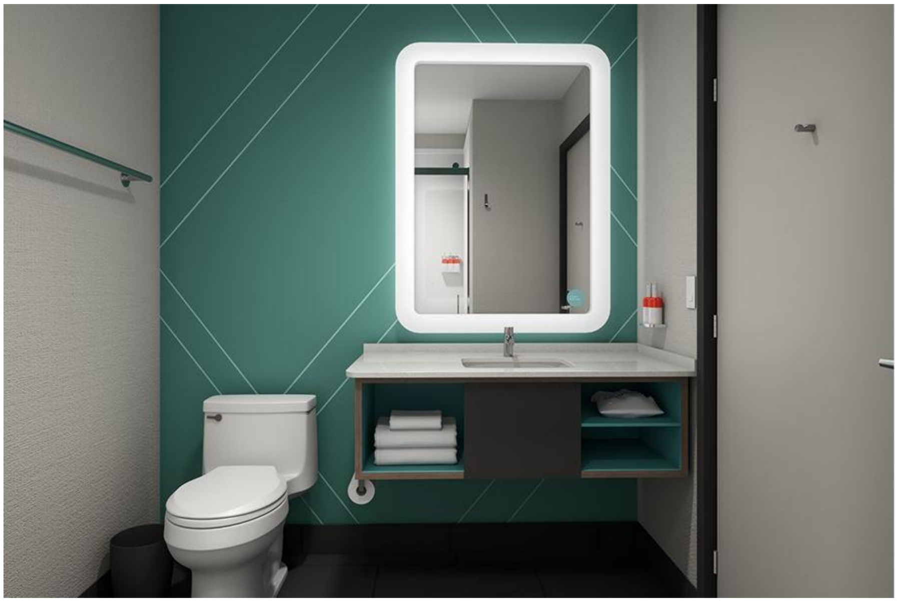
The hotel is expected to feature standard guestroom configurations, with guestrooms present on all levels of the property's proposed single building. The standard guestrooms should offer typical amenities for this product type. The guestroom bathrooms are anticipated to be of a standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a stone countertop. The floors are expected to be finished with tile, and the walls will likely be finished with wallcovering. Overall, the guestrooms should offer a competitive product for this Farmers Branch neighborhood.

Typical Subject Guestroom



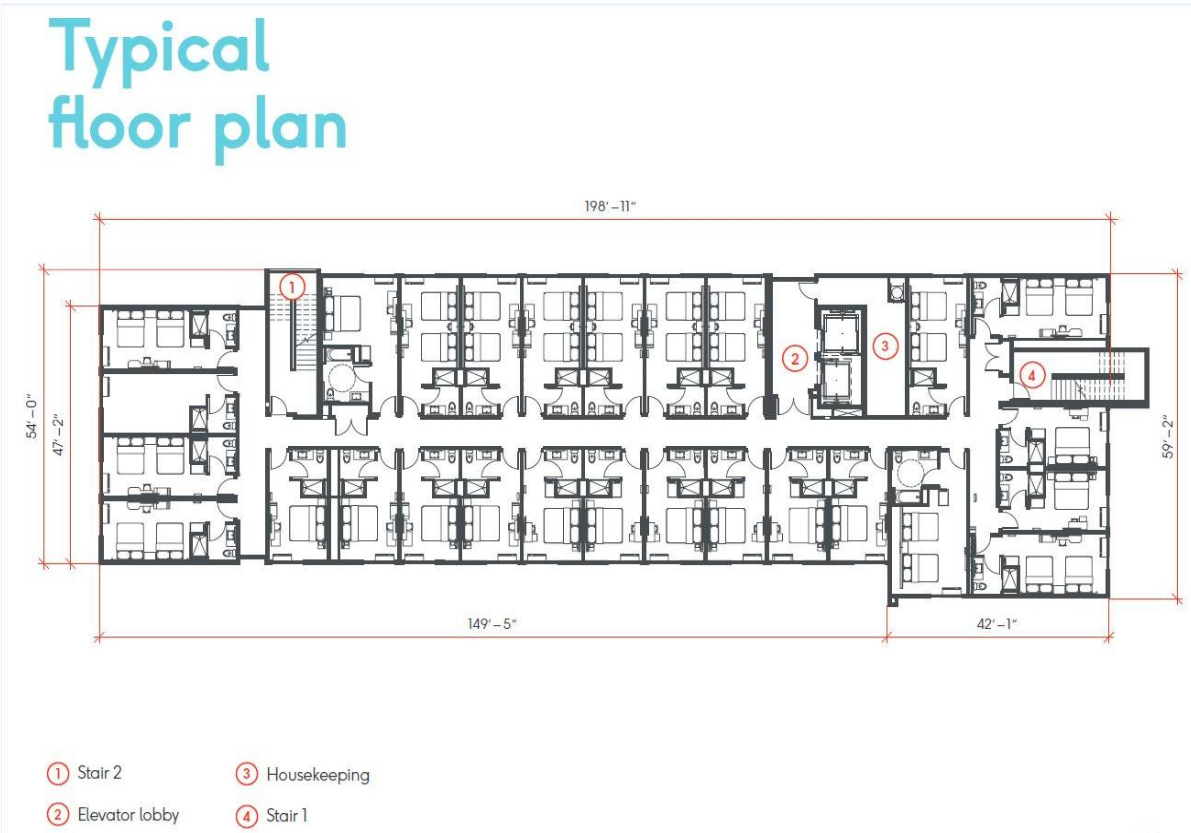
Typical Subject Guestroom Living Area

Typical Subject Guestroom Bathroom



Typical Subject Guestroom Closet Area

Floor Plan – Typical Guestroom Floor



Support Areas and Engineering Systems

The hotel is expected to be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a prep kitchen to service the needs of the breakfast dining area. These spaces should be adequate for a hotel of this type and should allow for the efficient operation of the property under competent management.

We assume that the property will be built according to all pertinent codes and brand standards. Moreover, we assume its construction will not create any environmental hazards (such as mold) and that the property will fully comply with the Americans with Disabilities Act.

Capital Expenditures

Our analysis assumes that, after its opening, the hotel will require ongoing upgrades and periodic renovations in order to maintain its competitive level in this market and to remain compliant with brand standards. These costs should be adequately funded by the forecasted reserve for replacement, as long as a successful, ongoing preventive-maintenance program is employed by hotel staff.

Proposed Improvements Conclusion

Overall, the proposed subject hotel should offer a well-designed, functional layout of support areas and guestrooms. All typical and market-appropriate features and amenities appear to be included in the hotel's design. We assume that the building will be fully open and operational on the stipulated opening date and will meet all local building codes and brand standards. Furthermore, we assume that the hotel staff will be adequately trained to allow for a successful opening and that pre-marketing efforts will have introduced the product to major local accounts at least six months in advance of the opening date.

3. MARKET AREA ANALYSIS

The economic vitality of the market area is an important consideration in forecasting lodging demand. The purpose of this chapter is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. These trends are then correlated based on their propensity to reflect variations in lodging demand.

Status of the National Economy

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy expanded during the last three years, with a relatively low point in growth occurring during the fourth quarter of 2015 and the first quarter of 2016, as well as the first quarter of 2017. Most recently, the U.S. economy expanded by 3.1% and 3.0% in the second and third quarters of 2017, respectively. The recent acceleration reflected strong personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, exports, and federal government spending.

GDP Rate of Change

Retail Sales Growth

After a 0.1% drop in August, retail sales expanded by 1.0% and 0.5% in September and October 2017, respectively, much in line with expectations. This was followed by 0.8% growth in November, largely attributed to holiday shopping. The overall sentiment of the consumer remains relatively strong, illustrated by consumer confidence, as follows.

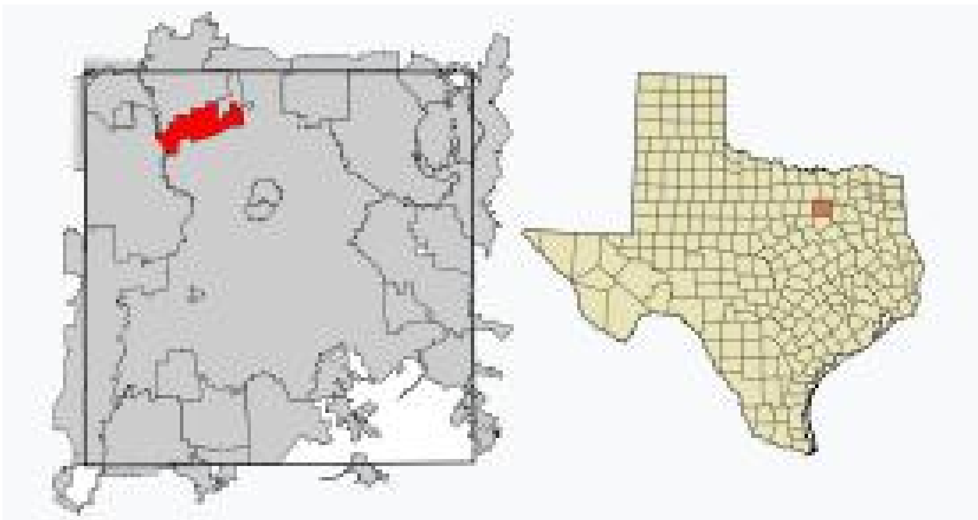
Consumer Confidence

U.S. economic growth continues to support expansion of lodging demand. In 2017, demand growth through November registered 2.7%, stronger than the 1.6% level recorded in 2016. The economic growth, low unemployment, higher levels of personal income, and stability in the U.S. economy as of early 2018 is helping to maintain strong interest in hotel investments by a diverse array of market participants.

Overview of the Local Market Area

The subject's greater market area spans Dallas County.

Location Within State

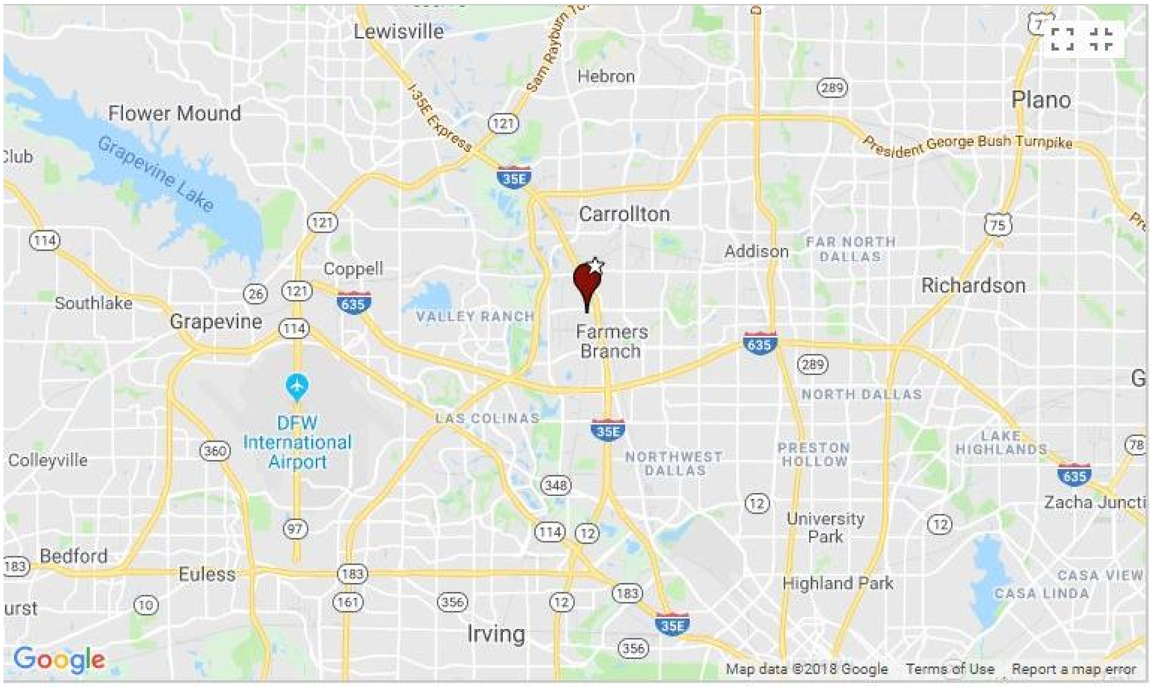


City Vital Statistics

Year Settled:	1850
Year Incorporated:	1946
Area (Square Miles):	12
Elevation (Feet):	463
Population (2016):	34,988

Source: Wikipedia

Map of Market Area



Economic and Demographic (Social) Statistics

Based on fieldwork conducted in the area and our in-house sources, we have evaluated various economic and demographic statistics to determine trends in lodging demand. A primary source of economic and demographic statistics used in this analysis is the Complete Economic and Demographic Data Source published by Woods & Poole Economics, Inc., a well-regarded forecasting service based in Washington, D.C.

Economic and Demographic Statistics and Trends

					Average Annual Compounded Change		
	2000	2010	2017	2020	2000-10	2010-17	2017-20
Resident Population (Thousands)							
Dallas County	2,220.8	2,373.4	2,619.8	2,725.9	0.7 %	1.4 %	1.3 %
Dallas-Fort Worth-Arlington, TX MSA	5,235.4	6,452.7	7,333.4	7,738.0	2.1	1.8	1.8
Dallas-Fort Worth, TX-OK CSA	5,597.0	6,844.7	7,743.3	8,160.1	2.0	1.8	1.8
State of Texas	20,944.5	25,245.7	28,259.8	29,649.5	1.9	1.6	1.6
United States	282,162.4	309,347.1	327,505.1	336,690.4	0.9	0.8	0.9
Per-Capita Personal Income*							
Dallas County	$43,118	$43,282	$50,832	$53,476	0.0	2.3	1.7
Dallas-Fort Worth-Arlington, TX MSA	40,836	41,498	47,854	50,219	0.2	2.1	1.6
Dallas-Fort Worth, TX-OK CSA	39,964	40,866	47,230	49,593	0.2	2.1	1.6
State of Texas	34,121	37,659	44,036	46,183	1.0	2.3	1.6
United States	36,812	39,622	44,290	46,375	0.7	1.6	1.5
W&P Wealth Index							
Dallas County	119.4	111.9	117.1	117.5	(0.6)	0.7	0.1
Dallas-Fort Worth-Arlington, TX MSA	113.4	107.1	109.8	109.8	(0.6)	0.3	0.0
Dallas-Fort Worth, TX-OK CSA	110.5	105.1	107.9	108.1	(0.5)	0.4	0.0
State of Texas	94.0	96.2	100.0	100.1	0.2	0.6	0.0
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Dallas County	$4,056	$4,438	$5,824	$6,210	0.9	4.0	2.2
Dallas-Fort Worth-Arlington, TX MSA	8,138	10,654	14,420	15,575	2.7	4.4	2.6
Dallas-Fort Worth, TX-OK CSA	8,472	11,066	14,958	16,141	2.7	4.4	2.6
State of Texas	27,748	37,635	51,705	55,656	3.1	4.6	2.5
United States	368,829	447,728	571,731	602,635	2.0	3.6	1.8
Total Retail Sales (Millions)*							
Dallas County	$36,592	$35,440	$43,733	$46,464	(0.3)	3.0	2.0
Dallas-Fort Worth-Arlington, TX MSA	80,693	94,010	119,854	129,151	1.5	3.5	2.5
Dallas-Fort Worth, TX-OK CSA	85,190	98,441	125,097	134,661	1.5	3.5	2.5
State of Texas	291,221	341,775	433,586	464,763	1.6	3.5	2.3
United States	3,902,830	4,130,414	4,932,756	5,181,433	0.6	2.6	1.7

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The U.S. population has grown at an average annual compounded rate of 0.8% from 2010 through 2017. The county's population has increased at a quicker pace than the nation's population; the average annual growth rate of 1.4% between 2010 and 2017 reflects a gradually expanding area. Following this population trend, per-capita personal income increased modestly, at 2.3% on average annually for the county between 2010 and 2017. Local wealth indexes have remained stable in recent years, registering a relatively high 117.1 level for the county in 2017.

Food and beverage sales totaled $5,824 million in the county in 2017, versus $4,438 million in 2010. This reflects a 4.0% average annual change, which is stronger than the 0.9% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 2.2%, which is forecast through 2020. The retail sales sector demonstrated an annual decline of -0.3% registered in the decade 2000 to 2010, followed by an increase of 3.0% in the period 2010 to 2017. An increase of 2.0% average annual change is expected in county retail sales through 2020.

County Employment Trends

Industry	2000	Percent of Total	2010	Percent of Total	2017	Percent of Total	2020	Percent of Total	Average Annual Compounded Change 2000-2010	2010-2017	2017-2020
Farm	1.0	0.1 %	1.0	0.1 %	1.1	0.0 %	1.1	0.0 %	(0.3) %	1.5 %	0.7 %
Forestry, Fishing, Related Activities And Other	0.8	0.0	0.7	0.0	1.0	0.0	1.0	0.0	(1.9)	5.7	1.4
Mining	17.4	0.9	29.6	1.6	39.1	1.8	40.2	1.7	5.5	4.1	0.9
Utilities	5.6	0.3	5.4	0.3	5.1	0.2	5.1	0.2	(0.4)	(0.9)	(0.0)
Construction	111.6	5.9	100.8	5.4	130.4	5.9	141.7	6.0	(1.0)	3.7	2.8
Manufacturing	187.3	10.0	120.0	6.4	118.7	5.4	120.2	5.1	(4.4)	(0.2)	0.4
Total Trade	318.7	16.9	263.5	14.1	313.5	14.2	328.3	14.0	(1.9)	2.5	1.5
Wholesale Trade	127.8	6.8	108.5	5.8	125.8	5.7	127.9	5.5	(1.6)	2.1	0.6
Retail Trade	190.9	10.1	155.0	8.3	187.8	8.5	200.4	8.5	(2.1)	2.8	2.2
Transportation And Warehousing	74.8	4.0	68.9	3.7	82.0	3.7	85.1	3.6	(0.8)	2.5	1.2
Information	91.0	4.8	51.4	2.7	56.8	2.6	57.6	2.5	(5.6)	1.4	0.5
Finance And Insurance	133.3	7.1	161.0	8.6	202.8	9.2	221.2	9.4	1.9	3.4	2.9
Real Estate And Rental And Lease	78.9	4.2	90.8	4.8	105.4	4.8	111.2	4.7	1.4	2.2	1.8
Total Services	707.1	37.6	801.9	42.8	973.1	43.9	1,034.8	44.1	1.3	2.8	2.1
Professional And Technical Services	156.1	8.3	163.9	8.7	193.9	8.8	204.1	8.7	0.5	2.4	1.7
Management Of Companies And Enterprises	10.1	0.5	26.6	1.4	39.7	1.8	44.1	1.9	10.2	5.9	3.5
Administrative And Waste Services	161.5	8.6	168.1	9.0	210.3	9.5	223.2	9.5	0.4	3.3	2.0
Educational Services	22.1	1.2	33.0	1.8	36.8	1.7	39.4	1.7	4.1	1.6	2.2
Health Care And Social Assistance	118.6	6.3	163.3	8.7	194.3	8.8	209.7	8.9	3.2	2.5	2.6
Arts, Entertainment, And Recreation	26.9	1.4	29.6	1.6	34.3	1.5	36.0	1.5	0.9	2.2	1.6
Accommodation And Food Services	120.9	6.4	122.1	6.5	146.4	6.6	154.2	6.6	0.1	2.6	1.8
Other Services, Except Public Administration	90.9	4.8	95.4	5.1	117.4	5.3	124.2	5.3	0.5	3.0	1.9
Total Government	155.1	8.2	178.0	9.5	186.3	8.4	197.4	8.4	1.4	0.7	2.0
Federal Civilian Government	28.8	1.5	28.4	1.5	25.6	1.2	25.9	1.1	(0.1)	(1.5)	0.4
Federal Military	7.4	0.4	6.8	0.4	5.9	0.3	5.9	0.3	(0.9)	(1.9)	0.1
State And Local Government	119.0	6.3	142.8	7.6	154.8	7.0	165.6	7.1	1.8	1.2	2.3
TOTAL	1,882.5	100.0 %	1,872.9	100.0 %	2,215.3	100.0 %	2,344.9	100.0 %	(0.1) %	2.4 %	1.9 %
MSA	3,436.6	—	3,948.9	—	4,775.4	—	5,087.4	—	1.4 %	2.8 %	2.1 %
U.S.	165,370.9	—	173,034.7	—	194,801.7	—	203,418.4	—	1.0	1.7	1.5

Source: Woods & Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county contracted at an average annual rate of -0.1%. This trend was below the growth rate recorded by the MSA and also lagged the national average, reflecting the contracting nature of the local economy throughout most of the decade until the recession in the latter years. More recently, the pace of total employment growth in the county accelerated to 2.4% on an annual average from 2010 to 2017, reflecting the initial years of the recovery.

Of the primary employment sectors, total services recorded the highest increase in number of employees during the period from 2010 to 2017, increasing by 171,242 people, or 21.4%, and rising from 42.8% to 43.9% of total employment. Of the various service sub-sectors, administrative and waste services and health care and social assistance were the largest employers. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.9% on average annually through 2020. The trend is above the forecast rate of change for the U.S. as a whole during the same period.

The following table illustrates historical and projected employment, households, population, and average household income data as provided by REIS for the overall Dallas market.

Employment and Households - Dallas

Year	Total Employment	% Chg	Office Employment	% Chg	Industrial Employment	% Chg	Households	% Chg	Population	% Chg	Household Avg. Income	% Chg
2010	2,073,830	—	699,344	—	311,094	—	1,539,060	—	4,287,830	—	$119,156	—
2011	2,117,470	2.1 %	715,321	2.3 %	317,598	2.1 %	1,571,700	2.1 %	4,381,560	2.2 %	129,431	8.6 %
2012	2,175,470	2.7	739,483	3.4	321,508	1.2	1,603,760	2.0	4,465,740	1.9	136,799	5.7
2013	2,251,730	3.5	769,354	4.0	324,193	0.8	1,635,540	2.0	4,547,920	1.8	135,513	(0.9)
2014	2,346,600	4.2	804,237	4.5	331,273	2.2	1,665,030	1.8	4,646,580	2.2	144,150	6.4
2015	2,438,070	3.9	831,319	3.4	336,655	1.6	1,690,870	1.6	4,744,800	2.1	147,762	2.5
2016	2,541,330	4.2	868,722	4.5	350,467	4.1	1,719,430	1.7	4,840,900	2.0	148,231	0.3
2017	2,596,890	2.2	894,881	3.0	354,410	1.1	1,759,970	2.4	4,936,650	2.0	152,721	3.0
Forecasts												
2018	*2,655,630*	*2.3 %*	*915,511*	*2.3 %*	*358,263*	*1.1 %*	*1,800,320*	*2.3 %*	*5,032,530*	*1.9 %*	*$160,013*	*4.8 %*
2019	*2,699,520*	*1.7*	*930,429*	*1.6*	*360,472*	*0.6*	*1,837,760*	*2.1*	*5,125,430*	*1.8*	*166,551*	*4.1*
2020	*2,733,100*	*1.2*	*942,201*	*1.3*	*361,792*	*0.4*	*1,874,530*	*2.0*	*5,217,450*	*1.8*	*171,644*	*3.1*
2021	*2,794,150*	*2.2*	*965,577*	*2.5*	*365,429*	*1.0*	*1,912,890*	*2.0*	*5,313,490*	*1.8*	*178,283*	*3.9*
2022	*2,850,820*	*2.0*	*988,210*	*2.3*	*368,219*	*0.8*	*1,951,360*	*2.0*	*5,411,670*	*1.8*	*185,012*	*3.8*
Average Annual Compound Change												
2010 - 2017		2.8		3.2		1.4		2.0		2.0		4.4
2014 - 2017		3.6		3.9		2.3		1.8		2.1		3.0
Forecast 2010 - 2017		*1.9 %*		*2.0 %*		*0.8 %*		*2.1 %*		*1.9 %*		*3.9 %*

Total employment decreased by an average annual compound rate of -0.9% during the recession of 2010 to 2012, followed by an increase of 3.3% from 2012 to 2017. By comparison, office employment reflected compound change rates of -0.1% and 3.6%, during the same respective periods. Total employment is expected to expand by 2.3% in 2018, while office employment is forecast to expand by 2.3% in 2018. From 2017 through 2022, REIS anticipates that total employment will expand at an average annual compound rate of 1.8%, while office employment will expand by 1.9% on average annually during the same period.

The number of households is forecast to expand by 2.0% on average annually between 2017 and 2022. Population is forecast to expand during this same period, at an average annual compounded rate of 1.8%. Household average income is forecast to grow by 3.7% on average annually from 2017 through 2022.

The following table reflects radial demographic trends for our market area measured by three points of distance from the subject site.

Demographics by Radius

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2023 Projection	8,941	92,144	279,338
2018 Estimate	8,584	86,445	261,019
2010 Census	8,135	76,831	230,318
2000 Census	8,694	72,516	212,308
Percent Change: 2018 to 2023	4.2%	6.6%	7.0%
Percent Change: 2010 to 2018	5.5%	12.5%	13.3%
Percent Change: 2000 to 2010	-6.4%	6.0%	8.5%
Households			
2023 Projection	2,313	34,167	111,371
2018 Estimate	2,221	32,043	103,953
2010 Census	2,109	28,102	90,717
2000 Census	2,283	26,239	83,047
Percent Change: 2018 to 2023	4.1%	6.6%	7.1%
Percent Change: 2010 to 2018	5.3%	14.0%	14.6%
Percent Change: 2000 to 2010	-7.6%	7.1%	9.2%
Income			
2018 Est. Average Household Income	$59,142	$87,597	$106,624
2018 Est. Median Household Income	48,260	66,299	76,395
2018 Est. Civ. Employed Pop 16+ by Occupation			
Architecture/Engineering	16	609	2,707
Arts/Design/Entertainment/Sports/Media	61	852	2,865
Building/Grounds Cleaning/Maintenance	351	2,274	5,190
Business/Financial Operations	90	3,400	12,992
Community/Social Services	21	355	1,212
Computer/Mathematical	60	2,897	11,090
Construction/Extraction	573	3,468	7,603
Education/Training/Library	64	1,524	6,087
Farming/Fishing/Forestry	32	108	153
Food Preparation/Serving Related	361	2,620	7,372
Healthcare Practitioner/Technician	51	1,361	5,834
Healthcare Support	52	553	1,653
Installation/Maintenance/Repair	131	1,285	3,890
Legal	8	403	1,840
Life/Physical/Social Science	0	218	955
Management	108	4,201	17,442
Office/Administrative Support	451	6,048	17,752
Production	630	3,459	7,246
Protective Services	85	576	1,582
Sales/Related	387	4,711	16,719
Personal Care/Service	100	1,313	4,461
Transportation/Material Moving	366	2,901	7,371

Source: Environics Analytics

This source reports a population of 261,019 within a five-mile radius of the subject site, and 103,953 households within this same radius. Average household income within a five-mile radius of the subject site is currently reported at $106,624, while the median is $76,395.

Unemployment

The following table presents historical unemployment rates for the proposed subject hotel's market area.

Unemployment Statistics

Year	City	MSA	State	U.S.
2007	3.8 %	4.3 %	4.3 %	4.6 %
2008	4.7	4.9	4.8	5.8
2009	7.9	7.8	7.6	9.3
2010	8.0	8.1	8.1	9.6
2011	7.5	7.6	7.8	8.9
2012	6.7	6.6	6.7	8.1
2013	5.7	6.1	6.3	7.4
2014	4.8	5.0	5.1	6.2
2015	3.8	4.1	4.4	5.3
2016	3.8	3.8	4.6	4.9
Recent Month - Feb				
2017	4.5 %	4.3 %	4.8 %	4.7 %
2018	3.5	3.7	4.1	4.1

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

Current U.S. unemployment levels are now firmly below the annual averages of the last economic cycle peak of 2006 and 2007, when annual averages were 4.6%. National unemployment registered 4.1% each month during the first quarter of 2018, as well as the last quarter of 2017, roughly six points below the October 2009 peak of 10.0%. Total nonfarm payroll employment increased by 176,000, 326,000, and 103,000 jobs in January, February, and March of 2018, respectively. Gains in March occurred in the manufacturing, health care, and mining sectors. Unemployment has remained under the 5.0% mark since May 2016, reflecting a trend of relative stability and the overall strength of the U.S. economy. Right now, we're in a transitionary month where we're seeing the ten-year trend ending with full-year 2016 stats because *not all cities and counties* have full-year 2017 data yet, even though the BLS has the full-year 2017 data for each state and the nation. Moreover, the BLS does have data to provide the month vs. month comparison of a month in 2017 vs. a month in 2018, such as February. The full-year 2017 data are typically published around May 10. Locally, the unemployment rate was 3.8% in 2016; for this same area in 2018, the most recent month's unemployment rate was registered at 3.5%, versus 4.5% for the same month in 2017.

U.S. Unemployment

Initial Jobless Claims

Job Vacancies

Major Employers

Major employers for this market are illustrated in the following table.

Major Employers

Rank	Firm	Number of Employees
1	IBM Corporation	1,870
2	Federal Government - Internal Revenue Service	1,200
3	Monitronics Securities	1,100
4	Anserteam LLC	1,001
5	Telvista	1,000
6	TD Industries	900
7	Haggar Clothing Company	750
8	Sprint	700
9	Encore Enterprises, Inc.	650
10	Glazer's Wholesale Drug Company	650

Source: City of Farmers Branch, Comprehensive Annual Financial Report, 2017

Farmers Branch is home to more than 4,000 companies, including over 250 corporate headquarters, such as JDA Software, Occidental Chemical, Iidon Security, Taco Bueno, SoftLayer Technologies and Monitronics. Farmers Branch is bordered by two interstate highways and two toll roads, and is less than 15 minutes from Dallas/Fort Worth International Airport and Dallas Love Field. In addition, the service provided by the Dallas Area Rapid Transit's Light Rail Green Line enhances Farmers Branch's reputation as a premier transportation hub for North Texas. Revitalization efforts and new construction projects are evident throughout greater Dallas, including the 225-acre Mercer Business Park development in Farmers Branch and the nearby CityLine project in Richardson, as well as the proposed $3-billion mixed-use Dallas Midtown redevelopment project in the Galleria submarket. Construction started in winter 2017 on the first 30 houses in Mercer Crossing, a $1 billion mixed-use development. All of the 660 home lots in Mercer Crossing will reportedly be completed in 2018, including single-family home and townhome lots. Mercer Crossing is planned for more than 3,000 residents, and will include multifamily, commercial, and retail space. Bedrosians Tile and Stone plans to put its new regional base of operations and distribution center within the Mercer Crossing development. The 120,000-square-foot facility is designed to have a 20,000-square-foot showroom, a mezzanine-level regional office, and a 100,000-square-foot attached distribution center.

Valwood Logistics Center, an industrial park development, is being developed on Senlac Drive, near Interstate 35E by Panattoni. The development is slated to include a 151,000-suare-foot speculative warehouse on a nearly twelve-acre site near Valley View Lane. Home Point Financial Corp is moving its Dallas regional office to Two Colinas Crossing. The mortgage company has rented almost 65,000 square feet of office space in Two Colinas Crossing, located on Luna Road, south of Interstate 635. IBM leased 66,018 square feet of space and an undisclosed financial services firm leased 33,028 square feet of space in Two Colinas Crossing recently. The Centre, a 50-acre office park, will reportedly be renovated into a mixed-use development. The 40-year-old office park, located on Midway Road in Farmers Branch, contains 11 office buildings spanning more than 800,000 square feetof space. Plans for the park include tearing down three of the office buildings and replacing them with apartments and retail. The plans also include 193 rental townhomes, 70 apartments, and first-floor retail.

Office Space

Trends in occupied office space are typically among the most reliable indicators of lodging demand because firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or occupied office space may have a proportional impact on commercial lodging demand and a less direct effect on meeting demand. The following tables detail office space statistics for the pertinent market area.

Office Market Overview

		Inventory		Occupied Office	Vacancy	Average Asking
	Submarket	Buildings	Square Feet	Space	Rate	Lease Rate
1	Las Colinas	42	7,708,000	6,120,200	20.6 %	$30.80
2	Preston Center	23	2,954,000	2,596,600	12.1	30.50
3	Flwr Md/Lewv /Denton	64	4,177,000	3,521,200	15.7	18.99
4	NC Expy/NE Dallas	60	5,525,000	4,690,700	15.1	22.35
5	W LBJ Freeway	22	4,364,000	3,146,400	27.9	27.71
6	Stemmons Fwy/L Field	55	8,902,000	6,178,000	30.6	17.15
7	**Addsn/Crltn/FBrnch**	**223**	**27,301,000**	**21,758,900**	**20.3**	**23.98**
8	North Dallas	37	2,847,000	2,189,300	23.1	18.94
9	LBJ/NC Expy	54	8,253,000	6,379,600	22.7	18.99
10	Irv ing	122	13,889,000	11,305,600	18.6	22.25
11	Far East Dallas	17	799,000	623,200	22.0	18.25
12	South Dallas	31	1,306,000	1,141,400	12.6	17.98
13	E Dallas/Nr NC Exy	48	7,003,000	6,071,600	13.3	24.65
14	Dallas CBD	53	25,974,000	18,181,800	30.0	25.00
15	Uptown	56	9,336,000	7,935,600	15.0	36.25
16	Richardson	75	6,850,000	5,233,400	23.6	17.57
17	Oaklawn	19	1,499,000	1,181,200	21.2	26.44
18	Plano/Allen	245	28,096,000	23,066,800	17.9	27.20
	Total	**1,246**	**166,783,000**	**131,321,500**	**21.3 %**	**$24.59**

Source: REIS Report, 4th Quarter, 2017

The subject site is located in the Addsn/Crltn/FBrnch submarket, which houses 27,301,000 square feet of office space. The submarket's vacancy rate of 20.3% is on par with the overall market average. The average asking lease rate of $23.98 is below the average for the broader market.

The following table illustrates a trend of office space statistics for the overall Dallas market and the Addsn/Crltn/FBrnch submarket.

Office Market Detailed Statistics

	Dallas Market							Addsn/Crltn/FBrnch Submarket						
Year	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2010	152,342,000	—	115,531,000	—	24.2 %	$19.20	—	25,940,000	—	19,974,000	—	23.0 %	$17.94	—
2011	152,156,000	(0.1) %	116,828,000	1.1 %	23.2	19.45	1.3 %	25,956,000	0.1 %	19,960,000	(0.1) %	23.1	18.28	1.9 %
2012	152,484,000	0.2	117,407,000	0.5	23.0	19.95	2.6	25,956,000	0.0	20,064,000	0.5	22.7	19.15	4.8
2013	152,670,000	0.1	118,190,000	0.7	22.6	20.55	3.0	25,956,000	0.0	20,324,000	1.3	21.7	19.82	3.5
2014	155,209,000	1.7	120,543,000	2.0	22.3	21.84	6.3	26,287,000	1.3	20,846,000	2.6	20.7	21.08	6.4
2015	158,790,000	2.3	124,089,000	2.9	21.9	22.74	4.1	26,452,000	0.6	21,215,000	1.8	19.8	21.83	3.6
2016	163,164,000	2.8	128,589,000	3.6	21.2	23.79	4.6	26,973,000	2.0	21,821,000	2.9	19.1	23.37	7.1
2017	166,783,000	2.2	131,322,000	2.1	21.3	24.59	3.4	27,301,000	1.2	21,759,000	(0.3)	20.3	23.98	2.6
Forecasts														
2018	*169,648,000*	*1.7 %*	*133,209,000*	*1.4 %*	*21.5 %*	*$25.28*	*2.8 %*	*27,541,000*	*0.9 %*	*21,823,000*	*0.3 %*	*20.8 %*	*$24.55*	*2.4 %*
2019	*171,008,000*	*0.8*	*134,069,000*	*0.6*	*21.6*	*25.97*	*2.7*	*27,791,000*	*0.9*	*21,935,000*	*0.5*	*21.1*	*25.10*	*2.2*
2020	*172,023,000*	*0.6*	*134,919,000*	*0.6*	*21.6*	*26.68*	*2.7*	*28,029,000*	*0.9*	*22,039,000*	*0.5*	*21.4*	*25.67*	*2.3*
2021	*173,311,000*	*0.7*	*136,426,000*	*1.1*	*21.3*	*27.46*	*2.9*	*28,338,000*	*1.1*	*22,186,000*	*0.7*	*21.7*	*26.31*	*2.5*
2022	*174,633,000*	*0.8*	*137,850,000*	*1.0*	*21.1*	*28.25*	*2.9*	*28,649,000*	*1.1*	*22,320,000*	*0.6*	*22.1*	*26.91*	*2.3*
Average Annual Compound Change														
2010 - 2017		0.1		0.8			2.3		0.0		0.6			3.4
2014 - 2017		2.2		2.7			4.6		1.3		1.7			4.9
Forecast 2010 - 2017		*0.9 %*		*1.0 %*			*2.8 %*		*1.0 %*		*0.5 %*			*2.3 %*

Source: REIS Report, 4th Quarter, 2017

From 2009 through 2012, occupied office space contracted at an average annual compound rate of -1.2%, reflecting the impact of the recession. The onset of the recovery is evident in the 1.8% average annual change in occupied office space from 2012 to 2017. From 2017 through 2022, the inventory of occupied office space is forecast to increase at an average annual compound rate of 0.7%, with available office space expected to increase 0.7%, thus resulting in an anticipated vacancy rate of 21.1% as of 2022.

Airport Statistics

Dallas/Fort Worth International Airport is one of the nation's largest airports and serves as headquarters for American Airlines. In February 2011, the $2.7-billion DFW International Airport Terminal Renewal and Improvement Program (TRIP), a seven-year plan to improve Terminals A, B, C, and E, commenced. Additionally, the DART Rail Orange Line connection inside the airport opened in August 2014. The comprehensive renovation of Terminal A was completed in January 2017, and Terminal E was completed in August 2017. Terminal B is still undergoing renovations, which are expected to be completed in 2018. Plans to renovate Terminal C have been placed on hold as the possibility of building a sixth terminal (Terminal F) is considered; officials estimate that construction would span roughly five years if the project were to move forward.

Airport Statistics

Year	Passenger Traffic	Percent Change*	Percent Change**
2008	57,093,187	—	—
2009	56,030,457	(1.9) %	(1.9) %
2010	56,905,600	1.6	(0.2)
2011	57,806,918	1.6	0.4
2012	58,590,633	1.4	0.6
2013	60,436,739	3.2	1.1
2014	63,522,823	5.1	1.8
2015	65,512,471	3.1	2.0
2016	65,598,618	0.1	1.8
2017	67,092,224	2.3	1.8
Year-to-date Feb			
2017	9,831,028	—	—
2018	10,179,296	3.5 %	—

*Annual average compounded percentage change from the previous year

**Annual average compounded percentage change from first year of data

Source: Dallas/Fort Worth International Airport

Convention Center

A convention center serves as a gauge of visitation trends to a particular market. Convention centers also generate significant levels of demand for area hotels and serve as a focal point for community activity. Typically, hotels within the closest proximity to a convention center – up to three miles away – will benefit the most. Hotels serving as headquarters for an event benefit the most, by way of premium rates and the hosting of related banquet events. During the largest of conventions, peripheral hotels may benefit from compression within the city as a whole. The city does not have a typical convention center. The city does offer meeting facilities at five full-service hotels in the area -- the Omni Dallas Hotel at Park West, DoubleTree by Hilton Dallas near the Galleria, DoubleTree by Hilton Farmers Branch, Sheraton Dallas Hotel by the Galleria, and Wyndham Garden Dallas North.

Tourism

The subject market benefits from a variety of tourism and leisure attractions in the area. Leisure demand generators include the Farmers Branch Historical Park, Farmers Branch Rose Gardens, Dr. Pepper Stars Center, Firehouse Theatre, John F. Burke Nature Preserve, Brookhaven College, Dallas Christian College, Barney Wood Athletic Complex, Brookhaven Country Club, Gussie Field Watterworth Park, Liberty Plaza, and the Farmers Branch Aquatic Center. Special events also play a role during key weekends, such as Bloomin Bluegrass, Camping Under the Stars - Vintage Baseball Festival, Fishin' Fun, Pickups-N-Panels Car & Truck Show, Celebration of Roses, and Halloween in the Park. No major changes related to these attributes of the market are expected in the near future.

Governmental and Environmental Factors

The Farmers Branch area is subject to a normal form of local government and is also subject to the laws and regulations of Dallas County and the state of Texas. None of these laws or government entities was noted to have a particularly abnormal influence on the operation of the property, its marketability, or property values in the market area. The environment of the proposed subject hotel's city appears normal to its surrounding areas; we observed no adverse conditions, and no such conditions were reported by market representatives. No noted environmental factors have particularly positive or negative influences on property values in the subject market area.

Conclusion

We have reviewed and studied various social, economic, government, and environment data and observations pertaining to Dallas County and the state of Texas. No adverse governmental or environmental factors were noted. We will relate these historical and expected growth trends based on their propensity to reflect changes in lodging demand.

4. HOTEL MARKET TRENDS

This chapter will begin with an overview of national lodging demand trends to determine what macro changes have occurred in this real estate sector. Next, we will provide a definition of the subject's pertinent hotel market and review each competitive hotel (future competitors). We then provide an analysis and discussion pertaining to the occupancy and average rate trends of this competitive set.

National Trends Overview

In 2004, the U.S. hotel industry was in a period of recovery, concurrent with overall economic strengthening, and U.S. hotel occupancy soon peaked from 2005 through 2007, at roughly 63%. Supply increases during this period were notable as well, which kept occupancy stable despite increases in demand. As the nation entered the recession at the close of 2007, occupancy began to decline in 2008; however, hoteliers were able to maintain average rates increases initiated in early 2008 through the third quarter of 2008. The banking sector crisis of the latter part of 2008, as well as the ongoing recession, led to a significant decline in demand and average rates beginning in late 2008 that materialized completely in 2009. The restrictions on corporate travel and reductions on leisure spending reached a critical point throughout much of that year. Fewer travelers on the highways for vacations, or families taking shortened vacations, also affected transient-highway lodging demand. Construction activity slowed greatly, as financing sources for these projects were unavailable, and this lack of construction-related lodging demand had a direct impact on the economy and mid-price hotel sectors in particular. While occupancy dropped to an all-time low of 54.6% in 2009, rates fell only to $98.15, a level just above the 2006 point.

Projects that had entered the pipeline during the peak of 2007 through early 2008 opened throughout the country in 2009 and 2010, placing further pressure on occupancy levels and limiting rate growth. While demand began to strengthen in 2010, hoteliers were hesitant to raise rates considering the severe declines experienced in 2009; moreover, groups were able to command discounted rates for 2010 bookings made during 2009. With 2010 trends reflecting a firm recovery, and travel returning to normalized levels, hoteliers were able to command higher rates. From 2011 through 2017, corporate travel steadily strengthened, hiring activity was steady, budgets for leisure travel were favorable, and construction projects benefitted most markets. In 2017, unemployment continued to fall and the job market was relatively robust, contributing to strong levels of corporate demand. Consumer confidence remained very high, a driving factor in heightened leisure demand with a propensity to spend disposable income on travel. By year-end 2017, occupancy reached a peak of 65.9%, as demand growth slightly exceeded supply growth. Average rate increased 2.1% for the year, and the net change in RevPAR was 3.0%, reflecting a healthy lodging market overall.

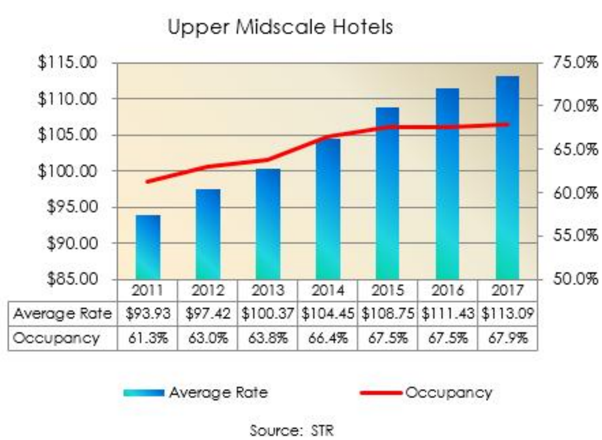
U.S. Hotel Performance

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average Rate	$91.03	$97.82	$104.31	$107.38	$98.15	$98.09	$101.80	$106.07	$110.30	$114.92	$120.30	$124.13	$126.72
Occupancy	63.0%	63.1%	62.8%	59.8%	54.6%	57.5%	59.9%	61.3%	62.2%	64.4%	65.4%	65.4%	65.9%

In the midscale lodging sector, occupancy made consistent gains between 2010 and 2015, before reaching a plateau of 59.4%. After little change in 2016, occupancy in this sector resumed upward momentum, ending at 60.0% in 2017. Average rate gains have also been steady in recent years, reaching nearly $87 in 2017. We anticipate occupancy in this category to remain near the 60% mark in 2018, with average rate growth continuing between 2.0% and 2.5%. For upper-midscale hotels, after improving for several years, occupancy also reached a plateau in 2015 and 2016, at 67.5%, before strengthening to 67.9% in 2017. We expect occupancy to remain near the 68% level in 2018. Average rate growth was a more modest 1.5% for upper-midscale hotels, compared to the growth rate of 2.0% for midscale hotels, just surpassing $113 in 2017. Average rate for this category is anticipated to increase between 1.5% and 2.0% in 2018.

Midscale Hotel Performance

	2011	2012	2013	2014	2015	2016	2017
Average Rate	$72.34	$74.45	$76.64	$79.84	$83.32	$85.23	$86.99
Occupancy	53.2%	54.8%	55.9%	58.3%	59.4%	59.3%	60.0%



	2011	2012	2013	2014	2015	2016	2017
Average Rate	$93.93	$97.42	$100.37	$104.45	$108.75	$111.43	$113.09
Occupancy	61.3%	63.0%	63.8%	66.4%	67.5%	67.5%	67.9%

In the economy lodging sector, occupancy peaked at roughly 57% from 2005 through 2007, and then fell to 48.9% in 2009. Occupancy recovery then ensued, with occupancy reaching nearly 58% by 2014. Occupancy has bracketed the 58% mark since that time, most recently registering 58.1% by year-end 2017. We anticipate occupancy to expand slightly to 58.5% by year-end 2018. Average rate grew to just over $54 by 2008, before falling to roughly $49 by 2010. This level recovered to $53.83 by 2013, essentially reaching the prior peak rate for this category; average rate expanded further through 2017, to $62.48 at year's end. We expect a 2.0% to 2.5% gain in average rate within this chain scale in 2018.

Economy Hotel Performance

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Average Rate	$49.62	$52.26	$53.78	$54.32	$50.95	$49.29	$50.47	$52.54	$53.83	$56.14	$58.82	$60.86	$62.48
Occupancy	57.4%	57.3%	56.9%	54.4%	48.9%	51.6%	53.4%	54.2%	55.2%	57.5%	58.1%	57.7%	58.1%

Average Rate — Occupancy

Source: STR

The following table provides additional insights for year-to-date performance for the U.S. hotel industry across a variety of different categories.

Lodging Sector Performance Statistics

	Occ. - YTD March			ADR - YTD March			RevPAR - YTD March			Percent Change	
	2017	2018	% Change	2017	2018	% Change	2017	2018	% Change	Rms. Avail.	Rms. Sold
United States	61.0 %	61.6 %	0.9 %	$124.25	$127.37	2.5 %	$75.83	$78.46	3.5 %	2.0 %	3.0 %
Region											
New England	52.2 %	54.5 %	4.4 %	$128.19	$129.08	0.7 %	$66.88	$70.34	5.2 %	1.8 %	6.3 %
Middle Atlantic	57.8	60.8	5.3	137.91	141.19	2.4	79.71	85.92	7.8	2.4	7.8
South Atlantic	66.1	66.5	0.6	129.88	134.75	3.7	85.89	89.60	4.3	1.6	2.1
East North Central	51.9	52.4	0.9	98.01	99.32	1.3	50.88	52.01	2.2	2.1	3.0
East South Central	56.2	55.8	(0.6)	91.92	94.13	2.4	51.66	52.57	1.8	2.0	1.4
West North Central	49.9	49.1	(1.5)	92.01	95.44	3.7	45.90	46.90	2.2	2.2	0.7
West South Central	60.9	62.6	2.8	103.54	105.07	1.5	63.10	65.80	4.3	2.6	5.4
Mountain	63.2	62.6	(1.1)	129.53	129.94	0.3	81.91	81.29	(0.8)	1.5	0.4
Pacific	70.0	70.0	0.0	157.74	163.19	3.5	110.37	114.17	3.5	2.2	2.2
Class											
Upper-Midscale	62.0 %	62.6 %	1.0 %	$110.25	$112.36	1.9 %	$68.35	$70.38	3.0 %	3.8 %	4.9 %
Midscale	54.6	55.0	0.7	89.13	91.90	3.1	48.71	50.57	3.8	0.3	1.0
Economy	53.4	53.9	1.0	67.15	69.66	3.7	35.84	37.54	4.8	(0.2)	0.8
Location											
Suburban	62.5 %	63.0 %	0.8 %	$105.73	$108.23	2.4 %	$66.06	$68.15	3.2 %	2.3 %	3.1 %
Airport	71.5	72.2	1.0	116.42	119.08	2.3	83.19	85.97	3.3	1.5	2.5
Interstate	49.8	50.7	1.6	80.05	82.23	2.7	39.89	41.66	4.4	1.6	3.3
Small Metro/Town	49.2	50.0	1.5	92.91	95.33	2.6	45.75	47.63	4.1	1.6	3.1
Chain Scale											
Upper-Midscale	62.0 %	62.6 %	1.1 %	$108.05	$110.16	2.0 %	$66.94	$68.98	3.0 %	3.8 %	4.9 %
Midscale	54.0	54.4	0.9	82.51	84.95	3.0	44.54	46.24	3.8	1.5	2.4
Economy	52.9	53.5	1.3	58.41	60.75	4.0	30.87	32.51	5.3	0.1	1.3

Source: STR - Lodging Review

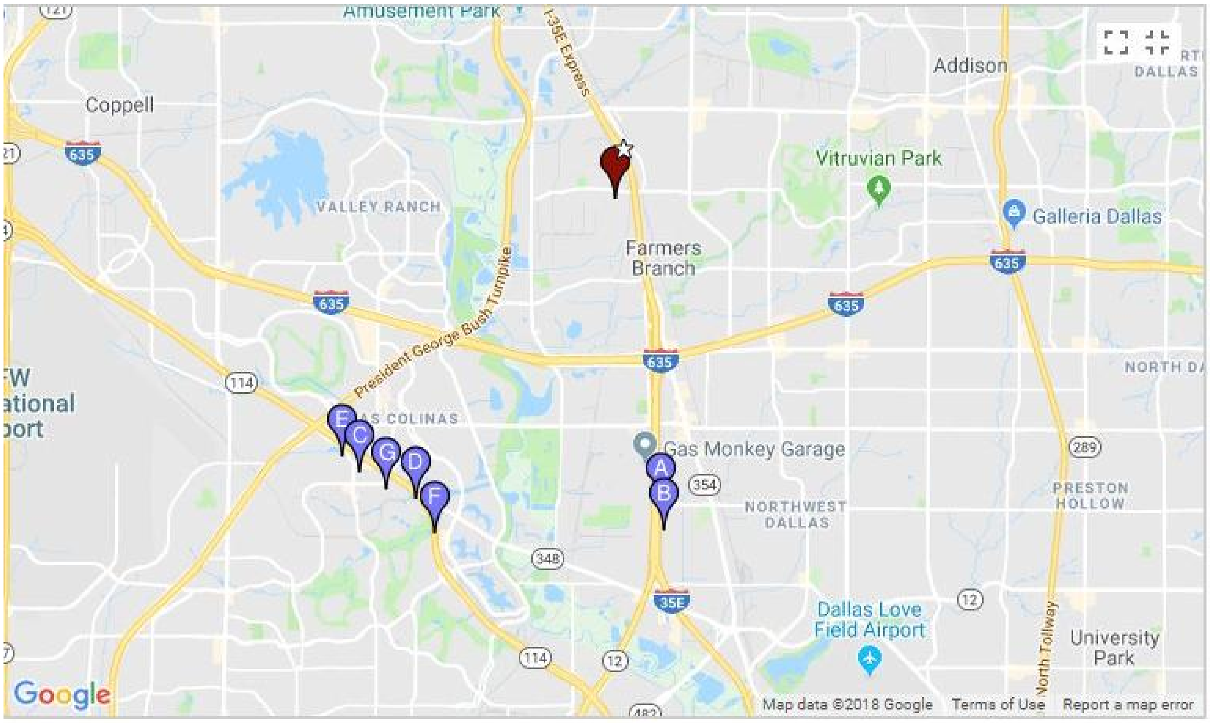
Definition of Subject Market

The 95-room Proposed Avid, an IHG Hotel will be located in Farmers Branch, Texas. The subject site is located in the greater Carrollton/Farmers Branch lodging market. Within this greater market, the proposed subject hotel will compete with a smaller set of hotels based on various factors, such as price point, scope of service, and location.

Selected Competitive Set of Hotels – Operating Performance

		Est. Segmentation			Estimated 2017							
Property	**Number of**	**Commercial**	**Leisure**	**Group**	**Weighted Annual Room Count**	**Occ.**	**Occupancy Penetration**	**Average Rate**	**Average Rate Penetration**	**RevPAR**	**RevPAR Penetration**
La Quinta Inn & Suites Dallas I-35 Walnut Hill	121	70 %	25 %	5 %	121	60 - 65 %	90 - 95 %	$80 - $85	90 - 95 %	$50 - $55	80 - 85 %
Quality Inn & Suites I-35/Walnut Hill	85	70	25	5	85	55 - 60	80 - 85	60 - 65	60 - 65	35 - 40	50 - 55
Wingate Las Colinas	100	75	20	5	100	70 - 75	100 - 110	80 - 85	85 - 90	55 - 60	85 - 90
Fairfield Inn & Suites by Marriott Dallas Las Colinas	118	75	20	5	118	70 - 75	100 - 110	95 - 100	100 - 110	70 - 75	110 - 120
Comfort Suites Las Colinas Center	54	70	25	5	54	75 - 80	100 - 110	90 - 95	95 - 100	65 - 70	100 - 110
Holiday Inn Express Hotel & Suites Irving Convention Center Las Colinas	128	75	20	5	128	70 - 75	100 - 110	105 - 110	110 - 120	75 - 80	120 - 130
Hampton Inn Dallas Irving Las Colinas	135	75	20	5	135	70 - 75	100 - 110	105 - 110	110 - 120	75 - 80	110 - 120
Totals/Averages	**741**	**73 %**	**22 %**	**5 %**	**741**	**70.3 %**	**100.0 %**	**$91.87**	**100.0 %**	**$64.57**	**100.0 %**

Map of Competition



Proposed avid, an IHG Hotel	D Fairfield Inn & Suites by Marriott Dallas Las Colinas (Primary)
A La Quinta Inns & Suites Dallas I 35 Walnut Hill Lane (Primary)	E Comfort Suites Las Colinas Center (Primary)
B Quality Inn & Suites I 35 E Walnut Hill (Primary)	F Holiday Inn Express Hotel & Suites Irving Convention Center Las Colinas (Primary)
C Wingate By Wyndham Dallas Las Colinas (Primary)	G Hampton Inn Dallas Irving Las Colinas (Primary)

Each competitor was inspected and evaluated; these hotels are described as follows.

Competitor #1 - La Quinta Inn & Suites Dallas I-35 Walnut Hill

- Address: 2421 Walnut Hill Lane
Dallas, TX
- Room Count: 121
- Access Relative to Subject: Similar
- Visibility Relative to Subject: Superior
- Condition: Excellent

The following table illustrates this property's 2017 estimated operating performance.

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	RevPAR Penetration
Est. 2017	121	60 - 65 %	$80 - $85	$50 - $55	90 - 95 %	80 - 85 %

Competitor #2 - Quality Inn & Suites I-35/Walnut Hill

- Address: 10835 Composite Lane, Dallas, TX
- Room Count: 85
- Access Relative to Subject: Similar
- Visibility Relative to Subject: Superior
- Condition: Very good

The following table illustrates this property's 2017 estimated operating performance.

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	RevPAR Penetration
Est. 2017	85	55 - 60 %	$60 - $65	$35 - $40	80 - 85 %	50 - 55 %

Competitor #3 - Wingate by Wyndham Dallas Las Colinas

- Address: 850 West Walnut Hill Lane, Irving, TX
- Room Count: 100
- Access Relative to Subject: Similar
- Visibility Relative to Subject: Similar
- Condition: Excellent

The following table illustrates this property's 2017 estimated operating performance.

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	RevPAR Penetration
Est. 2017	100	70 - 75 %	\$80 - \$85	\$55 - \$60	100 - 110 %	85 - 90 %

Competitor #4 - Fairfield Inn & Suites by Marriott Dallas Las Colinas

- Address: 630 West John Carpenter Freeway, Irving, TX
- Room Count: 118
- Access Relative to Subject: Similar
- Visibility Relative to Subject: Superior
- Condition: Very good

The following table illustrates this property's 2017 estimated operating performance.

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	RevPAR Penetration
Est. 2017	118	70 - 75 %	$95 - $100	$70 - $75	100 - 110 %	110 - 120 %

Competitor #5 - Comfort Suites Las Colinas Center

- Address: 1223 Greenway Circle
  Irving, TX
- Room Count: 54
- Access Relative to Subject: Similar
- Visibility Relative to Subject: Similar
- Condition: Very good

The following table illustrates this property's 2017 estimated operating performance.

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	RevPAR Penetration
Est. 2017	54	75 - 80 %	\$90 - \$95	\$65 - \$70	100 - 110 %	100 - 110 %

Competitor #6 - Holiday Inn Express Hotel & Suites Irving Convention Center Las Colinas

- Address: 333 West John Carpenter Freeway
  Irving, TX
- Room Count: 128
- Access Relative to Subject: Similar
- Visibility Relative to Subject: Superior
- Condition: Very good

The following table illustrates this property's 2017 estimated operating performance.

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	RevPAR Penetration
Est. 2017	128	70 - 75 %	$105 - $110	$75 - $80	100 - 110 %	120 - 130 %

Competitor #7 - Hampton Inn Dallas Irving Las Colinas

- Address: 820 Walnut Hill Lane, Irving, TX
- Room Count: 135
- Access Relative to Subject: Similar
- Visibility Relative to Subject: Similar
- Condition: Very good

The following table illustrates this property's 2017 estimated operating performance.

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	RevPAR Penetration
Est. 2017	135	70 - 75 %	$105 - $110	$75 - $80	100 - 110 %	110 - 120 %

New Supply

It is important to consider any new hotels that may have an impact on the proposed subject hotel's operating performance. Based upon our research and inspection (as applicable), new supply considered in our analysis is presented in the following table.

Proposed Property	Number of Rooms	Total Competitive Level	Weighted Room Count	Estimated Opening Date	Development Stage
Proposed Subject Property	95	100 %	95	October 1, 2019	Early Development
La Quinta Inn & Suites	109	100	109	August 1, 2018	Under Construction
Holiday Inn Express & Suites	104	100	104	August 1, 2018	Under Construction
Hampton Inn & Suites by Hilton	116	100	116	August 1, 2019	Early Development
Totals/Averages	**424**		**424**		

The proposed La Quinta Inn & Suites, Holiday Inn Express & Suites, and Hampton Inn & Suites by Hilton will be similar to the proposed subject hotel in terms of product offering and service level, both located within one mile of the subject site; therefore, these hotels are expected to be fully competitive.

Furthermore, we note that a TownePlace Suites by Marriott - Farmers Branch, a Candlewood Suites, a WaterWalk Hotel Apartments, and a TownePlace Suites by Marriott - Irving are all either proposed or under construction within a five-mile radius of the subject site; however, these extended-stay hotels are expected to target a different customer base. A Hampton Inn & Suites by Hilton is proposed for a site in Carrollton, roughly five miles from the subject site; however, this hotel is expected to target a different customer base, Lastly, two sites, both within one mile of the subject site, have been entitled for hotel development. However, both are speculative in nature. Therefore, these hotels have only been considered qualitatively in our positioning of the proposed subject hotel's stabilized occupancy level.

Historical Market Performance

STR is an independent research firm that compiles data on the lodging industry, and this information is routinely used by typical hotel buyers. STR has compiled historical supply and demand data for hotels in the proposed subject hotel's market.

Hotels Included in STR Trend Report

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
La Quinta Inns & Suites Dallas I 35 Walnut Hill Lane	121	Mar 2011	Dec 1983
Comfort Suites Las Colinas Center	54	Mar 1996	Mar 1996
Wingate By Wyndham Dallas Las Colinas	100	Apr 1997	Apr 1997
Hampton Inn Dallas Irv ing Las Colinas	135	Jun 1997	Jun 1997
Holiday Inn Express & Suites Irv ing Conv ention Center Las Colir	128	Apr 2008	Dec 1997
Fairfield Inn & Suites Dallas Las Colinas	118	Jan 1998	Jan 1998
Quality Inn & Suites I 35 E Walnut Hill	85	Dec 2015	Feb 2000
Total	**741**		

Source: STR Global

The following table illustrates historical supply and demand data, as well as revenue per available room (RevPAR) for the hotels included in the trend report. RevPAR is calculated by multiplying occupancy by average rate.

Market Supply, Demand, Occupancy, and Average Rate Trends

							Year-to-Date Through February		Average Annual Compounded
	2012	2013	2014	2015	2016	2017	2017	2018	Change: 2012-2017
Avg. Daily Room Count	741	741	741	741	741	741	741	741	
Available Room Nights	270,465	270,465	270,465	270,465	270,465	270,465	43,719	43,719	
Change	—	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	—	0.0 %	0.0 %
Occupied Room Nights	154,411	170,441	182,085	184,258	192,002	190,338	29,336	28,221	
Change	—	10.4 %	6.8 %	1.2 %	4.2 %	(0.9) %	—	(3.8) %	4.3 %
Occupancy	57.1 %	63.0 %	67.3 %	68.1 %	71.0 %	70.4 %	67.1 %	64.6 %	
Average Rate	$78.56	$82.29	$86.32	$90.73	$93.70	$91.78	$96.28	$98.86	
Change	—	4.8 %	4.9 %	5.1 %	3.3 %	(2.0) %	—	2.7 %	3.2 %
RevPAR	$44.85	$51.86	$58.11	$61.81	$66.52	$64.59	$64.61	$63.81	
Change	—	15.6 %	12.1 %	6.4 %	7.6 %	(2.9) %	—	(1.2) %	7.6 %

Source: STR

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample; furthermore, not every property reports data in a consistent and timely manner, and many independent properties do not participate in the service. STR also limits the percentage that any one property's room count or any one brand's room count may comprise of the total requested sample. These factors can influence the overall quality of the information by skewing the results, and these inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis.

Historical Monthly Occupancy Trends

Month	2012	2013	2014	2015	2016	2017	2018
January	54.6 %	59.0 %	58.7 %	61.2 %	66.0 %	64.2 %	60.6 %
February	58.0	61.4	67.0	69.8	71.4	70.3	68.9
March	59.9	66.6	74.8	70.8	73.1	74.3	—
April	61.0	69.1	69.3	69.2	82.5	77.8	—
May	60.6	62.4	66.8	66.8	74.4	70.0	—
June	64.6	67.5	74.8	74.2	78.3	68.7	—
July	55.1	70.4	71.1	70.6	71.1	70.4	—
August	55.1	64.4	67.6	68.0	68.5	73.8	—
September	55.4	57.9	67.9	72.6	70.7	73.7	—
October	62.1	69.0	74.6	77.9	76.6	75.3	—
November	53.3	58.5	63.5	65.8	67.2	69.2	—
December	45.8	49.9	52.0	51.1	52.7	57.0	—
Annual Occupancy	**57.1 %**	**63.0 %**	**67.3 %**	**68.1 %**	**71.0 %**	**70.4 %**	**—**
Year-to-Date	**56.2 %**	**60.2 %**	**62.6 %**	**65.2 %**	**68.5 %**	**67.1 %**	**64.6 %**

Source: STR Global

Historical Monthly Average Rate Trends

Month	2012	2013	2014	2015	2016	2017	2018
January	$79.33	$82.76	$86.40	$92.56	$94.63	$94.50	$97.15
February	81.01	82.88	90.19	92.58	97.35	98.08	100.52
March	77.09	81.64	87.02	92.02	94.83	93.98	—
April	79.26	84.74	93.99	93.52	96.81	92.39	—
May	76.24	82.88	85.17	88.82	94.62	94.83	—
June	78.17	81.47	87.61	91.75	95.01	90.89	—
July	76.16	79.66	85.20	88.71	92.35	90.44	—
August	80.37	80.39	81.73	87.49	90.86	86.67	—
September	80.07	82.62	85.17	88.71	92.83	90.83	—
October	82.08	85.99	88.96	93.68	95.71	94.84	—
November	77.32	81.88	81.19	91.45	91.23	90.87	—
December	75.03	80.16	81.74	86.31	85.35	81.81	—
Annual Average Rate	**$78.56**	**$82.29**	**$86.32**	**$90.73**	**$93.70**	**$91.78**	**—**
Year-to-Date	**$80.15**	**$82.82**	**$88.33**	**$92.57**	**$95.97**	**$96.28**	**$98.86**

Source: STR Global

During the illustrated historical period, occupancy increased year-over-year from 2012 through 2016 -- peaking at 71% in 2016. The average rate of demand growth during this time was 5.7%. Occupancy fell less than one percentage point in 2017; however, remaining strong at roughly 70%. Average rates have similarly increased year-over-year from 2012 through 2016, surpassing $93 in 2016. The median rate of average rate growth during this period was 4.5%. In 2017, the marketwide average rate level dropped by 2.0%, to just below $92.00. Year-to-date 2018 data illustrate a softening in occupancy and a roughly $2.50 gain in average rate. RevPAR reached its high point in 2016. The overall strong economy has contributed to the latest trend. The near-term outlook is cautiously optimistic due to the massive influx of new hotel supply planned for this area; however, the myriad business, commercial, and industrial parks, as well as the market's proximity to Irving demand generators and the Dallas/Fort Worth International Airport is expected to bode well for the market.

Forecast of Future Demand Change

Based upon a review of the market dynamics in the proposed subject hotel's competitive environment, we have forecast demand change rates. The following table details our projections of market demand change and available room nights; occupancy levels for the market are also forecast.

Projection of Market-Wide Supply, Demand, and Occupancy

Year	Occupied Room Nights	Change	Room Supply	Available Room Nights	Change	Occupancy	Change
2015	184,402	—	741	270,465	—	68.2 %	—
2016	192,067	4.2 %	741	270,465	0.0 %	71.0	4.2 %
2017	190,103	-1.0	741	270,465	0.0	70.3	-1.0
Calendar Year Forecast							
2018	201,067	5.8 % *	830	303,054	12.0 % *	66.3 %	-5.6 % *
2019	236,139	17.4	1,027	374,698	23.6	63.0	-5.0
2020	271,276	14.9	1,165	425,225	13.5	63.8	1.2
2021	278,819	2.8	1,165	425,225	0.0	65.6	2.8
2022	284,823	2.2	1,165	425,225	0.0	67.0	2.2

** Percent change compared to prior calendar year.*

Demand (occupied room nights) is forecast to change by 5.8% between the 2017 base year and 2018. This is followed by 17.4%, 14.9%, and 2.8% rates of annual change in the 2019, 2020, and 2021, respectively. These growth rates reflect the weighted average result of our forecasting model that takes into consideration the expectations for each primary demand segment. Accordingly, the rates of change do not represent rounded numbers. After on our forecast of supply change is reflected in the room supply, this results in forecast occupancy levels of 66.3%, 63.0%, 63.8%, and 65.6% during the first four respective projection years. By 2022, the market is forecast to reach an occupancy level of 67.0%.

Conclusion

After achieving an occupancy level of 70.3% in 2017, we have forecast the local occupancy level to reach 67.0% by the fifth projection year. Our forecast is supported by the historical hotel market data, the primary market data collected while in the field, trends in the local economy presented in the previous chapter, and our hotel industry expertise.

5. REVPAR FORECAST

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance and market value. Most of a lodging facility's other revenue sources (such as food, beverage, and telephone income) are driven by the number of guests, and many expense levels also vary with occupancy. Consequently, a well-documented forecast of occupancy is essential. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a competent hotel management team to achieve an optimal mix of occupancy and average rate.

Brand Performance Overview

The following table provides two full years of historical occupancy, average rate, and RevPAR data for budget, economy, and mid-price brands. For this illustration, we only included brands with nationwide RevPAR levels under $105.00.

Brand Performance

	OCCUPANCY			ADR			RevPAR		
Brand	2016	2017	% Chg.	2016	2017	% Chg.	2016	2017	% Chg.
Hilton Garden Inn	74.7%	75.5%	1.1 %	$132.08	$132.87	0.6 %	$98.65	$100.33	1.7 %
Courtyard by Marriott	67.7%	69.6%	2.8	134.97	136.59	1.2	91.34	95.09	4.1
Hyatt Place	72.4%	74.0%	2.2	126.81	129.77	2.3	91.82	96.02	4.6
Home2 Suites by Hilton	75.8%	78.7%	3.8	115.64	116.91	1.1	87.65	92.03	5.0
Staybridge Suites	76.8%	76.5%	(0.4)	116.46	118.03	1.3	89.49	90.33	0.9
Hampton Inn	73.7%	74.3%	0.8	120.81	122.02	1.0	89.05	90.65	1.8
Holiday Inn Express	68.8%	68.7%	(0.1)	111.52	112.64	1.0	76.74	77.43	0.9
Fairfield Inn by Marriott	65.4%	67.5%	3.2	109.82	110.81	0.9	71.81	74.75	4.1
Comfort Suites	69.3%	70.1%	1.1	96.32	97.01	0.7	66.74	67.96	1.8
Candlewood Suites	74.3%	74.3%	(0.0)	82.12	83.69	1.9	61.05	62.36	2.1
Comfort Inn	65.6%	66.0%	0.6	92.56	94.23	1.8	60.70	62.23	2.5
Wingate by Wyndham	62.7%	56.0%	(10.7)	90.70	89.38	(1.5)	56.84	50.06	(11.9)
Hawthorn Suites	66.3%	61.8%	(6.8)	82.39	82.76	0.4	54.60	51.12	(6.4)
Mainstay Suites	65.2%	68.4%	4.9	76.29	76.70	0.5	49.70	52.47	5.6
Sleep Inn	65.1%	65.5%	0.6	82.08	82.96	1.1	53.47	54.35	1.6
Clarion	58.3%	59.3%	1.7	82.35	84.64	2.8	48.01	50.14	4.4
Quality	59.1%	59.8%	1.2	77.80	79.25	1.9	45.99	47.41	3.1
Ramada	53.6%	52.0%	(3.0)	73.72	68.44	(7.2)	39.50	35.62	(9.8)
Microtel Inn & Suites	57.4%	53.8%	(6.3)	68.89	70.28	2.0	39.55	37.82	(4.4)
Baymont Inn & Suites	51.8%	47.6%	(8.1)	70.63	70.10	(0.8)	36.57	33.37	(8.8)
Suburban Extended Stay	75.5%	76.0%	0.7	49.96	51.76	3.6	37.72	39.31	4.2
Travelodge	50.5%	45.4%	(10.1)	70.73	70.35	(0.5)	35.74	31.94	(10.6)
Days Inn	50.6%	46.9%	(7.3)	68.06	67.02	(1.5)	34.44	31.45	(8.7)
Rodeway Inn	55.7%	56.0%	0.5	63.04	64.51	2.3	35.08	36.09	2.9
Econo Lodge	54.1%	54.5%	0.7	61.41	62.95	2.5	33.22	34.29	3.2
Howard Johnson	49.7%	50.4%	1.4	61.32	57.48	(6.3)	30.47	29.00	(4.8)
Super 8	57.8%	54.5%	(5.7)	48.18	45.73	(5.1)	27.84	24.92	(10.5)
Knights Inn	46.0%	43.6%	(5.2)	49.80	50.67	1.7	22.90	22.09	(3.5)
Max	76.8%	78.7%	4.9 %	$134.97	$136.59	3.6 %	$98.65	$100.33	5.6 %
Min	46.0%	43.6%	(10.7)	48.18	45.73	(7.2)	22.90	22.09	(11.9)

We note that the data reflect a relatively wide range of performance metrics:

- In 2017, occupancy ranged from a low of 43.6% for Knights Inn to a high of 78.7% for Home2 Suites by Hilton (these two brands held the high and low positions in 2016 as well). Several brands had modest gains in occupancy, and Mainstay Suites and Home2 Suites by Hilton had the most significant gains of roughly three points of occupancy each. Wingate and Travelodge had the most significant declines, followed by Baymont Inns. Twelve brands lost some ground in occupancy in 2017, while 16 registered gains.

- In 2017, average rates ranged from $45.73 for Super 8 to a high of $136.59 for Courtyard by Marriott. Clarion and Suburban Extended Stay had the most significant gains in average rate, of 2.8% and 3.6%, respectively, while Ramada the largest drop of 7.2%. Six brands lost ground in rate in 2017; all remaining brands moved to a higher rate position.

- In 2017, RevPAR ranged from $22.09 for Knights Inn to a high of $100.33 for Hilton Garden Inn. Mainstay Suites had the most significant gain in RevPAR, at 5.6%, while eight other brands grew RevPAR in excess of 3.0%. Ten brands lost ground in RevPAR in 2017.

Projection of Occupancy

The proposed subject hotel's occupancy has been projected using a penetration analysis. The next table illustrates the historical and projected change in market-wide occupancy (see Chapter 4 for discussion), as well as the proposed subject hotel's projected penetration levels and resulting occupancy forecast.

Occupancy Projection

Year	Market-wide Hotel Occupancy	Proposed Subject Property: Occupied Room Nights	Available Room Nights	Occupancy	Penetration
2015	68.2 %				
2016	71.0				
2017	70.3				
Calendar Year Forecast					
2018	66.3 %				
2019	63.0	4,964	8,740	57 %	90.1 %
2020	63.8	22,415	34,675	65	101.3
2021	65.6	24,164	34,675	70	106.3
2022	67.0	24,683	34,675	71	106.3

The proposed subject hotel's occupancy penetration is positioned above the market-average level by the stabilized year. This level appropriately ramps up during the early years of operation as the hotel gains recognition in the local market. Major accounts from the Carrollton/Farmers Branch area will need to visit the property after its opening, and then perhaps test the property with one or two guests, before sending substantial levels of business to the hotel (for both small group and transient corporate travelers). Leisure travelers may need to first see the hotel, as well, before staying at the hotel on their next return visit. Accordingly, by the stabilized year, the proposed subject property reaches an appropriate penetration level based on our assessment of its planned facility, location, and new IHG brand affiliation, among other factors.

Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 71% (2022/23 fiscal year). The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

Projection of Average Rate

The proposed subject hotel's average rate has also been projected using a penetration analysis. The following table illustrates the historical and projected market-wide average rate, as well as the proposed subject hotel's average rate forecast.

Average Rate Projection

	Market-wide		Proposed Subject Property				
Year	Hotel Average Rate	Change	Occupied Room Nights	Rooms Revenue	Average Rate	Change	Penetration
2015	$90.65	—					
2016	93.75	3.4 %					
2017	91.87	-2.0					
Calendar Year Forecast							
2018	$95.09	3.5 % *					
2019	99.37	4.5	4,964	$473,533	$95.39	—	96.0 %
2020	103.84	4.5	22,415	2,280,968	101.76	6.7 % *	98.0
2021	107.99	4.0	24,164	2,557,264	105.83	4.0	98.0
2022	111.77	3.5	24,683	2,703,592	109.53	3.5	98.0

** Percent change compared to prior calendar year.*

The Carrollton/Farmers Branch market should experience ADR growth through the near term. The proposed subject hotel's rate position should reflect growth similar to market trends because of the proposed hotel's new facility, strong brand affiliation, and proximity to the Mercer Crossing mixed-use development.

Based on these considerations, the previous table illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied a base underlying inflation rate of 3.0% annually throughout our projection period.

Projection of RevPAR

We calculated both the market's and the proposed subject hotel's RevPAR using the projected occupancy and average room rates presented previously. These RevPAR levels are illustrated in the following table.

RevPAR Projection

Year	Market-wide Hotel RevPAR	Change	Proposed Subject Property RevPAR	Proposed Subject Property Change	Proposed Subject Property RevPAR Penetration
2015	$61.80	—			
2016	66.57	7.7 %			
2017	64.57	-3.0			
Calendar Year Forecast					
2018	$63.09	(2.3) % *			
2019	62.62	(0.7)	$54.18	—	86.5 %
2020	66.24	5.8	65.78	21.4 % *	99.3
2021	70.81	6.9	73.75	12.1	104.2
2022	74.87	5.7	77.97	5.7	104.1

** Percent change compared to prior calendar year.*

Our forecast data illustrates a 104.1% RevPAR penetration level for the proposed subject hotel by 2022. This level is supported by the illustrated occupancy and average rate forecasts presented and the supporting assumptions discussed for each respective forecast.

Summary of Forecast

The following occupancies and average rates will be used to project the proposed subject hotel's rooms revenue; this forecast begins on October 1, 2019 (calendar years have been converted to fiscal years when applicable), and corresponds with our financial projections.

Forecast of Occupancy, Average Rate, and RevPAR

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2019/20	63 %	100.15	2.0 %	98.15
2020/21	68	104.80	1.0	103.76
2021/22	71	108.60	0.0	108.60
2022/23	71	111.99	0.0	111.99

6. FORECAST OF CASH FLOW

We have developed a forecast of income and expense for the proposed subject hotel. This forecast is based on the facilities program set forth previously, as well as the occupancy and average rate forecast discussed in the prior chapter.

The preceding chapter presented a full forecast of the proposed hotel's expected occupancy and average rate level. For the purpose of forecasting the hotel's remaining revenue sources and expense categories, we have reviewed actual operating statements from other similar hotels, as well as national averages as provided by the HOST Report.

Comparable Operating Data

The following comparable operating statements from properties with a similar scope of service are from our database of hotel statistics and have also been used in our formulation of the proposed subject hotel's projections.

The data are presented in four tables:

1. Percent of revenue

2. Amounts per available room

3. Amounts per occupied room

4. Composite statement

Following these figures, we have presented additional nationwide operating statistics as provided by STR's most recent HOST Report.

Percent of Revenue

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5
Number of Rooms:	**100 to 140**	**60 to 80**	**90 to 120**	**50 to 70**	**90 to 120**
Days Open:	**365**	**365**	**365**	**365**	**365**
Occupancy:	**69%**	**69%**	**75%**	**74%**	**70%**
Average Rate:	**$94**	**$91**	**$93**	**$89**	**$92**
RevPAR:	**$65**	**$62**	**$70**	**$66**	**$64**
REVENUE					
Rooms	98.3 %	98.8 %	97.3 %	100.0 %	98.3 %
Other Operated Departments	0.8	1.0	1.8	0.0	1.4
Miscellaneous Income	0.9	0.2	0.9	0.0	0.3
Total	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*					
Rooms	23.4	23.3	22.2	23.9	23.5
Other Operated Departments	59.2	45.5	58.7	0.0	57.1
Total	23.5	23.5	22.7	23.9	23.9
DEPARTMENTAL INCOME	76.5	76.5	77.3	76.1	76.1
OPERATING EXPENSES					
Administrative & General	7.6	7.8	6.7	7.4	7.6
Info. and Telecom. Systems	1.5	1.4	1.3	0.0	1.4
Marketing	3.1	3.1	2.7	3.0	3.1
Franchise Fee	9.1	8.7	8.2	8.7	7.2
Property Operations & Maintenance	3.8	4.0	3.5	3.8	3.9
Utilities	5.4	5.2	4.6	5.1	5.0
Total	30.5	30.2	27.0	28.0	28.3
HOUSE PROFIT	46.0	46.3	50.3	48.1	47.8
Management Fee	3.0	3.0	2.5	3.5	3.0
INCOME BEFORE FIXED CHARGES	43.0	43.3	47.8	44.6	44.8
FIXED EXPENSES					
Property Taxes	2.9	6.2	1.5	1.5	5.4
Insurance	0.8	1.0	0.3	1.4	1.4
Total	3.7	7.2	1.8	2.9	6.8
NET INCOME	39.3 %	36.1 %	46.0 %	41.7 %	38.0 %

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

Amounts per Available Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5
Number of Rooms:	**100 to 140**	**60 to 80**	**90 to 120**	**50 to 70**	**90 to 120**
Days Open:	**365**	**365**	**365**	**365**	**365**
Occupancy:	**69%**	**69%**	**75%**	**74%**	**70%**
Average Rate:	**$94**	**$91**	**$93**	**$89**	**$92**
RevPAR:	**$65**	**$62**	**$70**	**$66**	**$64**
REVENUE					
Rooms	$23,769	$22,696	$25,647	$24,251	$23,421
Other Operating Departments	192	228	487	0	330
Miscellaneous Income	221	38	225	1	70
Total	24,182	22,961	26,358	24,252	23,821
DEPARTMENTAL EXPENSES					
Rooms	5,559	5,293	5,702	5,786	5,506
Other Operating Departments	114	104	286	0	188
Total	5,673	5,397	5,988	5,786	5,695
DEPARTMENTAL INCOME	18,509	17,564	20,370	18,466	18,126
OPERATING EXPENSES					
Administrativ e & General	1,829	1,783	1,767	1,805	1,820
Info. and Telecom. Systems	369	324	346	0	340
Marketing	759	706	710	720	734
Franchise Fee	2,197	2,005	2,162	2,107	1,719
Property Operations & Maintenance	922	913	918	927	927
Utilities	1,302	1,202	1,209	1,238	1,197
Total	7,379	6,933	7,112	6,798	6,737
HOUSE PROFIT	11,130	10,631	13,258	11,668	11,389
Management Fee	725	689	659	849	715
INCOME BEFORE FIXED CHARGES	10,405	9,943	12,599	10,819	10,675
FIXED EXPENSES					
Property Taxes	704	1,418	407	368	1,279
Insurance	196	239	91	339	337
Total	900	1,656	498	707	1,616
NET INCOME	$9,505	$8,287	$12,101	$10,112	$9,059

Amounts per Occupied Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5
Number of Rooms:	**100 to 140**	**60 to 80**	**90 to 120**	**50 to 70**	**90 to 120**
Days Open:	**365**	**365**	**365**	**365**	**365**
Occupancy:	**69%**	**69%**	**75%**	**74%**	**70%**
Average Rate:	**$94**	**$91**	**$93**	**$89**	**$92**
RevPAR:	**$65**	**$62**	**$70**	**$66**	**$64**
REVENUE					
Rooms	$94.41	$90.54	$93.40	$89.31	$91.65
Other Operating Departments	0.76	0.91	1.77	0.00	1.29
Miscellaneous Income	0.88	0.15	0.82	0.00	0.27
Total	96.05	91.60	95.99	89.31	93.21
DEPARTMENTAL EXPENSES					
Rooms	22.08	21.12	20.77	21.31	21.55
Other Operating Departments	0.45	0.41	1.04	0.00	0.74
Total	22.53	21.53	21.81	21.31	22.28
DEPARTMENTAL INCOME	73.52	70.07	74.18	68.00	70.93
OPERATING EXPENSES					
Administrative & General	7.27	7.11	6.44	6.65	7.12
Info. and Telecom. Systems	1.47	1.29	1.26	0.00	1.33
Marketing	3.01	2.82	2.59	2.65	2.87
Franchise Fee	8.73	8.00	7.87	7.76	6.73
Property Operations & Maintenance	3.66	3.64	3.34	3.41	3.63
Utilities	5.17	4.80	4.40	4.56	4.68
Total	29.31	27.66	25.90	25.03	26.36
HOUSE PROFIT	44.21	42.41	48.28	42.97	44.57
Management Fee	2.88	2.75	2.40	3.13	2.80
INCOME BEFORE FIXED CHARGES	41.33	39.67	45.88	39.84	41.77
FIXED EXPENSES					
Property Taxes	2.80	5.66	1.48	1.36	5.00
Insurance	0.78	0.95	0.33	1.25	1.32
Total	3.57	6.61	1.81	2.60	6.32
NET INCOME	$37.76	$33.06	$44.07	$37.24	$35.45

Composite Statement

Number of Rooms:	461			
Days Open:	365			
Occupancy:	71.3%		Amount per	Amount per
Average Rate:	$92.30	Percentage	Available	Occupied
RevPAR:	$65.83	of Revenue	Room	Room
REVENUE				
Rooms	$11,076	98.4 %	$24,026	$92.30
Other Operating Departments	125	1.1	271	1.04
Miscellaneous Income	61	0.5	132	0.51
Total	11,262	100.0	24,429	93.85
DEPARTMENTAL EXPENSES				
Rooms	2,568	23.2	5,569	21.40
Other Operating Departments	71	56.6	154	0.59
Total	2,638	23.4	5,723	21.99
DEPARTMENTAL INCOME	8,623	76.6	18,706	71.86
OPERATING EXPENSES				
Administrativ e & General	831	7.4	1,803	6.93
Info. and Telecom. Systems	139	1.2	302	1.16
Marketing	336	3.0	729	2.80
Franchise Fee	942	8.4	2,043	7.85
Property Operations & Maintenance	425	3.8	921	3.54
Utilities	569	5.1	1,234	4.74
Total	3,242	28.8	7,032	27.02
HOUSE PROFIT	5,382	47.8	11,674	44.85
Management Fee	331	2.9	718	2.76
INCOME BEFORE FIXED CHARGES	5,051	44.8	10,956	42.09
FIXED EXPENSES				
Property Taxes	381	3.4	827	3.18
Insurance	105	0.9	228	0.87
Total	486	4.3	1,055	4.05
NET INCOME	$4,564	40.5 %	$9,901	$38.04

We have also reviewed composite income and expense statements from the STR 2017 HOST Almanac. These statements were considered in our forecast of income and expense, although more so to provide a broad context of comparison in general.

	Total U.S.			Chain-Affiliated			Independent		
Occupancy	75.0%			75.0%			75.1%		
Average Size	119			119			112		
ADR	$114.99			$113.40			$163.17		
	Ratio to Sales	Per Available Room	Per Occupied Roomnight	Ratio to Sales	Per Available Room	Per Occupied Roomnight	Ratio to Sales	Per Available Room	Per Occupied Roomnight
REVENUE									
Rooms	96.7 %	$31,486	$114.99	96.9 %	$31,058	$113.40	92.8 %	$44,295	$163.17
Other Operated Departments	2.2	710	2.59	2.1	674	2.46	3.7	1,778	6.55
Miscellaneous Income	1.1	360	1.32	1.0	317	1.16	3.5	1,665	6.13
Total Revenue	100.0 %	$32,556	$118.90	100.0 %	$32,049	$117.01	100.0 %	$47,738	$175.85
DEPARTMENTAL EXPENSES									
Rooms	23.4 %	$7,367	$26.91	22.8 %	$7,089	$25.88	35.4 %	$15,702	$57.84
Other Operated Departments	64.8	460	1.68	64.8	437	1.59	65.0	1,156	4.26
Total Departmental Expenses	24.0 %	$7,827	$28.59	23.5 %	$7,526	$27.48	35.3 %	$16,858	$62.10
Total Departmental Profit	76.0 %	$24,729	$90.31	76.5 %	$24,524	$89.54	64.7 %	$30,880	$113.75
UNDISTRIBUTED OPERATING EXPENSES									
Administrative & General	8.7 %	$2,846	$10.39	8.7 %	$2,783	$10.16	9.9 %	$4,706	$17.34
Information & Telecommunications Systems	1.2	386	1.41	1.2	379	1.38	1.2	588	2.16
Marketing	4.9	1,592	5.81	4.9	1,563	5.71	5.1	2,441	8.99
Franchise Fees	4.6	1,507	5.50	4.8	1,552	5.67	0.3	160	0.59
Utility Costs	3.9	1,275	4.66	3.9	1,254	4.58	4.0	1,903	7.01
Property Operations & Maintenance	4.7	1,524	5.56	4.6	1,484	5.42	5.7	2,705	9.96
Total Undistributed Operating Expenses	28.0 %	$9,128	$33.34	28.1 %	$9,016	$32.92	26.2 %	$12,503	$46.06
GROSS OPERATING PROFIT	47.9 %	$15,601	$56.98	48.4 %	$15,508	$56.62	38.5 %	$18,377	$67.70
Management Fees	3.1	1,004	3.67	3.1	1,002	3.66	2.2	1,072	3.95
INCOME BEFORE FIXED CHARGES	44.8 %	$14,596	$53.31	45.3 %	$14,506	$52.96	36.2	$17,305	$63.75
Selected Fixed Charges									
Taxes	4.7 %	$1,542	$5.63	4.7 %	$1,491	$5.44	6.4 %	$3,078	$11.34
Insurance	1.0	320	1.17	1.0	308	1.12	1.4	688	2.53
EBITDA	**39.1 %**	**$12,734**	**$46.51**	**39.6 %**	**$12,708**	**$46.40**	**28.4 %**	**$13,539**	**$49.87**
Reserve for Replacement	1.4 %	$463	$1.69	1.4 %	$464	$1.69	1.0 %	$458	$1.69

STR 2017 HOST Almanac (Limited-service – Ratio to Sales)

	New England	Middle Atlantic	South Atlantic	East North Central	East South Central	West North Central	West South Central	Mountain	Pacific
Occupancy	70.1%	79.0%	76.1%	71.0%	74.2%	72.0%	70.5%	74.4%	81.5%
Average Size	119	147	116	107	110	110	116	122	130
ADR	$128.65	$173.67	$106.31	$97.39	$96.61	$94.18	$94.20	$99.45	$136.38
REVENUE									
Rooms	97.1 %	96.3 %	96.5 %	97.3 %	97.0 %	97.4 %	96.9 %	97.4 %	96.4 %
Other Operated Departments	2.4	2.1	2.5	2.0	2.1	1.7	2.4	1.7	2.1
Miscellaneous Income	0.5	1.6	1.0	0.7	0.9	0.8	0.8	0.9	1.5
Total Revenue	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
DEPARTMENTAL EXPENSES									
Rooms	22.3 %	28.1 %	22.8 %	22.9 %	21.8 %	23.8 %	23.1 %	22.2 %	21.2 %
Other Operated Departments	51.2	77.0	64.8	60.1	70.6	83.4	57.2	65.0	58.7
Total Departmental Expenses	22.9 %	28.7 %	23.6 %	23.5 %	22.6 %	24.6 %	23.7 %	22.8 %	21.6 %
Total Departmental Profit	77.1 %	71.3 %	76.4 %	76.5 %	77.4 %	75.4 %	76.3 %	77.2 %	78.4 %
UNDISTRIBUTED OPERATING EXPENSES									
Administrative & General	8.5 %	8.5 %	8.9 %	9.3 %	9.0 %	9.6 %	9.6 %	8.6 %	7.7 %
Information & Telecommunications Systems	1.2	1.1	1.1	1.5	1.3	1.4	1.4	1.3	0.9
Marketing	4.8	5.0	5.1	4.9	5.1	5.2	4.6	4.8	4.5
Franchise Fees	5.5	4.3	4.5	5.1	5.9	5.9	5.4	5.2	3.3
Utility Costs	5.1	3.5	4.2	4.2	4.5	4.3	4.1	3.9	3.2
Property Operations & Maintenance	4.8	4.5	4.9	5.0	4.9	5.1	5.3	4.6	3.9
Total Undistributed Operating Expenses	29.9 %	26.9 %	28.8 %	30.1 %	30.8 %	31.4 %	30.4 %	28.4 %	23.6 %
GROSS OPERATING PROFIT	47.1 %	44.4 %	47.6 %	46.4 %	46.6 %	43.9 %	45.9 %	48.8 %	54.8 %
Management Fees	3.0	2.8	3.2	3.1	3.5	2.8	3.0	3.0	3.3
INCOME BEFORE FIXED CHARGES	44.1 %	41.6 %	44.4 %	43.3 %	43.1 %	41.1 %	42.9 %	45.8 %	51.5 %
Selected Fixed Charges									
Taxes	5.0 %	8.1 %	3.5 %	5.0 %	3.0 %	4.8 %	5.5 %	3.1 %	3.5 %
Insurance	0.8	0.8	1.2	0.9	0.8	0.9	1.2	0.8	1.0
EBITDA	38.3 %	32.7 %	39.7 %	37.4 %	39.3 %	35.4 %	36.1 %	42.0 %	47.1 %
Reserve for Replacement	0.6 %	1.3 %	1.6 %	1.4 %	1.5 %	1.2 %	1.5 %	1.4 %	1.5 %

STR 2017 HOST Almanac (Limited-service – Per Available Rm.)

	New England	Middle Atlantic	South Atlantic	East North Central	East South Central	West North Central	West South Central	Mountain	Pacific
Occupancy	70.1%	79.0%	76.1%	71.0%	74.2%	72.0%	70.5%	74.4%	81.5%
Average Size	119	147	116	107	110	110	116	122	130
ADR	$128.65	$173.67	$106.31	$97.39	$96.61	$94.18	$94.20	$99.45	$136.38
REVENUE									
Rooms	$33,049	$49,667	$29,567	$25,225	$26,181	$24,790	$24,220	$27,051	$40,558
Other Operated Departments	816	1,082	762	514	562	445	597	483	883
Miscellaneous Income	159	814	309	188	251	214	189	252	635
Total Revenue	$34,024	$51,564	$30,638	$25,927	$26,994	$25,449	$25,006	$27,787	$42,075
DEPARTMENTAL EXPENSES									
Rooms	$7,386	$13,969	$6,739	$5,779	$5,708	$5,898	$5,589	$6,015	$8,583
Other Operated Departments	418	833	494	309	397	371	342	314	518
Total Departmental Expenses	$7,803	$14,802	$7,233	$6,088	$6,105	$6,269	$5,930	$6,329	$9,101
Total Departmental Profit	$26,220	$36,761	$23,406	$19,838	$20,890	$19,180	$19,076	$21,458	$32,974
UNDISTRIBUTED OPERATING EXPENSES									
Administrative & General	$2,905	$4,399	$2,732	$2,416	$2,442	$2,433	$2,394	$2,386	$3,251
Information & Telecommunications Systems	405	558	338	383	364	369	358	361	393
Marketing	1,628	2,600	1,568	1,274	1,375	1,313	1,154	1,334	1,914
Franchise Fees	1,872	2,209	1,394	1,334	1,583	1,506	1,344	1,446	1,386
Utility Costs	1,737	1,811	1,284	1,094	1,224	1,091	1,014	1,086	1,356
Property Operations & Maintenance	1,641	2,313	1,500	1,299	1,334	1,291	1,335	1,273	1,623
Total Undistributed Operating Expenses	$10,187	$13,890	$8,815	$7,800	$8,323	$8,003	$7,599	$7,886	$9,923
GROSS OPERATING PROFIT	$16,033	$22,871	$14,590	$12,038	$12,567	$11,177	$11,477	$13,572	$23,052
Management Fees	1,035	1,433	983	806	933	707	749	833	1,381
INCOME BEFORE FIXED CHARGES	$14,998	$21,439	$13,607	$11,232	$11,634	$10,470	$10,728	$12,739	$21,671
Selected Fixed Charges									
Taxes	$1,693	$4,196	$1,069	$1,306	$811	$1,213	$1,385	$853	$1,460
Insurance	284	393	368	228	220	235	309	224	408
EBITDA	$13,022	$16,850	$12,170	$9,697	$10,604	$9,021	$9,035	$11,663	$19,803
Reserve for Replacement	$208	$662	$479	$370	$409	$313	$380	$379	$644

STR 2017 HOST Almanac (Limited-service – Per Occupied Rm.)

	New England	Middle Atlantic	South Atlantic	East North Central	East South Central	West North Central	West South Central	Mountain	Pacific
Occupancy	70.1%	79.0%	76.1%	71.0%	74.2%	72.0%	70.5%	74.4%	81.5%
Average Size	119	147	116	107	110	110	116	122	130
ADR	$128.65	$173.67	$106.31	$97.39	$96.61	$94.18	$94.20	$99.45	$136.38
REVENUE									
Rooms	$128.65	$173.67	$106.31	$97.39	$96.61	$94.18	$94.20	$99.45	$136.38
Other Operated Departments	3.17	3.78	2.74	1.98	2.07	1.69	2.32	1.78	2.97
Miscellaneous Income	0.62	2.85	1.11	0.73	0.93	0.81	0.73	0.93	2.14
Total Revenue	$132.44	$180.30	$110.16	$100.10	$99.61	$96.68	$97.25	$102.15	$141.48
DEPARTMENTAL EXPENSES									
Rooms	$28.75	$48.84	$24.23	$22.31	$21.06	$22.41	$21.74	$22.11	$28.86
Other Operated Departments	1.63	2.91	1.77	1.19	1.46	1.41	1.33	1.16	1.74
Total Departmental Expenses	$30.37	$51.76	$26.01	$23.51	$22.53	$23.81	$23.06	$23.27	$30.60
Total Departmental Profit	$102.07	$128.54	$84.16	$76.59	$77.08	$72.87	$74.19	$78.89	$110.88
UNDISTRIBUTED OPERATING EXPENSES									
Administrative & General	$11.31	$15.38	$9.82	$9.33	$9.01	$9.24	$9.31	$8.77	$10.93
Information & Telecommunications Systems	1.58	1.95	1.21	1.48	1.34	1.40	1.39	1.33	1.32
Marketing	6.34	9.09	5.64	4.92	5.08	4.99	4.49	4.91	6.43
Franchise Fees	7.29	7.73	5.01	5.15	5.84	5.72	5.23	5.32	4.66
Utility Costs	6.76	6.33	4.62	4.22	4.52	4.15	3.94	3.99	4.56
Property Operations & Maintenance	6.39	8.09	5.39	5.02	4.92	4.91	5.19	4.68	5.46
Total Undistributed Operating Expenses	$39.65	$48.57	$31.70	$30.12	$30.71	$30.40	$29.55	$28.99	$33.37
GROSS OPERATING PROFIT	$62.41	$79.97	$52.46	$46.48	$46.37	$42.46	$44.64	$49.90	$77.51
Management Fees	4.03	5.01	3.54	3.11	3.44	2.69	2.91	3.06	4.64
INCOME BEFORE FIXED CHARGES	$58.38	$74.96	$48.92	$43.36	$42.93	$39.77	$41.72	$46.83	$72.87
Selected Fixed Charges									
Taxes	$6.59	$14.67	$3.85	$5.04	$2.99	$4.61	$5.38	$3.14	$4.91
Insurance	1.10	1.37	1.32	0.88	0.81	0.89	1.20	0.82	1.37
EBITDA	$50.69	$58.92	$43.76	$37.44	$39.13	$34.27	$35.14	$42.88	$66.59
Reserve for Replacement	$0.81	$2.31	$1.72	$1.43	$1.51	$1.19	$1.48	$1.39	$2.17

Inflation Assumption

A general rate of inflation must be established, which is applied to most revenue and expense categories. On average, the financial analysts who were surveyed in December 2017 for the Wall Street Journal's Economic Forecasting Survey anticipated inflation rates ranging from 1.6% to 3.1% (on an annualized basis) for June 2018, with the average of these data points at 2.3%. The survey average declines slightly, to 2.1%, for the December 2018 opinion.

Inflation Rate

Core Inflation Rate

As a further check on these inflation projections, we have reviewed historical increases in the Consumer Price Index (CPI-U). Between 2007 and 2017, the national CPI increased at an average annual compounded rate of 1.7%; from 2012 through 2017, the CPI rose by a slightly lower average annual compounded rate of 1.3%. In 2017, the CPI rose by 2.1%, a notable increase from the level of 1.3% recorded in 2016. In consideration of the latest trends, the projections set forth above, and our assessment of probable property appreciation levels, we have applied an underlying inflation rate of 2.5% in the first two projection years, followed by 3.0% annually throughout the remaining projection period.

Adjusted Historical Year Statement and Forecast of Income and Expense

The adjusted historical year statement and the forecast of income and expense are intended to reflect the appraisers' opinion of how a typical buyer would analyze the proposed subject hotel's historical operating results and project its future activity. Based on the market for hotel accommodations in the proposed subject hotel's market area and the anticipated position of the proposed subject hotel in its identified competitive market, we have developed an adjusted historical year statement and a forecast of income and expense. Important points are as follows:

- The forecast begins on October 1, 2019, in current value dollars for each year. The rooms revenue forecast is based on the occupancy and average rate projection presented in Chapter Six.
- Revenues associated with the proposed subject hotel's other operated departments and miscellaneous income category have been forecast to reflect the hotel's planned facilities and amenities. Expense levels fall within a range of reasonableness given the provided comparable operating statements; furthermore, franchise and management fees are set forth in accordance with our assumptions provided in the Nature of the Assignment chapter.
- The comparable operating statements illustrated rooms expense ranging between 22.2% and 23.9% of rooms revenue; on a per-occupied-room basis, the range was between $20.77 and $22.08. We have projected rooms expense for the proposed subject hotel at 25.8% in the first year (or $25.37 per occupied room), stabilizing at 23.0% in 2022/23 (or $25.76 per occupied room).
- The comparable operating statements illustrated other operated departments expense ranging from $0.00 to $1.04 per occupied room. We have projected a stabilized expense ratio of 54.9% in 2022/23.
- As a percentage of total revenue, the comparable operations indicate an administrative and general expense range from 6.7% to 7.8%, or $1,767 to $1,829 per available room. By the 2022/23 stabilized year, these amounts change to $2,177 per available room and 7.4% of total revenue.
- As a percentage of total revenue, the comparable operations indicate a marketing expense range from 2.7% to 3.1%, or $706 to $759 per available room. By the 2022/23 stabilized year, these amounts change to $878 per available room and 3.0% of total revenue.
- The proposed subject hotel will reportedly operate under a franchise agreement with InterContinental Hotels Group as an Avid, an IHG Hotel; the agreement is expected to span 20 years.
- As a percentage of total revenue, the comparable operations indicate a property operations and maintenance expense range from 3.5% to 4.0%, or $913 to $927 per available room. By the 2022/23 stabilized year, these amounts change to $1,113 per available room and 3.8% of total revenue.
- As a percentage of total revenue, the comparable operations indicate a utilities expense range from 4.6% to 5.4%, or $1,197 to $1,302 per available room. By the 2022/23 stabilized year, these amounts change to $1,470 per available room and 5.0% of total revenue.
- Total management fees for the proposed subject hotel have been forecast at 3.0% of total revenue. This level is considered typical for a hotel of this type, which should pay a base fee between 2.0% and 4.0% of total revenues to the management company.
- The subject property's future assessment has been based on a review of comparable assessments in the area. The comparable data, assessment history, and property tax burden forecast is illustrated in the following tables.

Assessment History

	Real Property			
	Assessed Value			
Year	Land	Improvements	Real Property Total	Percent Change
2014	$365,430	$0	$365,430	—
2015	365,430	0	365,430	0.0 %
2016	530,000	0	530,000	45.0
2017	530,000	0	530,000	0.0

Property Assessments – Comparable Data

Hotel	Year Open	Land	Improvements	Total
La Quinta Inn & Suites Dallas I-35 Walnut Hill	1983	$689,720	$5,118,320	$5,808,040
Quality Inn & Suites I-35/Walnut Hill	2000	325,720	2,432,690	2,758,410
Wingate Las Colinas	1997	1,188,000	3,687,000	4,875,000
Fairfield Inn & Suites by Marriott Dallas Las Colinas	1998	1,134,240	5,819,100	6,953,340
Comfort Suites Las Colinas Center	1996	402,300	2,738,850	3,141,150
Holiday Inn Express Hotel & Suites Irving Convention Center Las Colinas	1997	1,488,380	6,247,350	7,735,730
Hampton Inn Dallas Irving Las Colinas	1997	1,214,280	6,190,720	7,405,000
Assessments per Room	*# of Rms*			
La Quinta Inn & Suites Dallas I-35 Walnut Hill	121	$5,700	$42,300	$48,000
Quality Inn & Suites I-35/Walnut Hill	85	3,832	28,620	32,452
Wingate Las Colinas	100	11,880	36,870	48,750
Fairfield Inn & Suites by Marriott Dallas Las Colinas	118	9,612	49,314	58,927
Comfort Suites Las Colinas Center	54	7,450	50,719	58,169
Holiday Inn Express Hotel & Suites Irving Convention Center Las Colinas	128	11,628	48,807	60,435
Hampton Inn Dallas Irving Las Colinas	135	8,995	45,857	54,852
Positioned Subject - Per Room	**95**	**$9,000**	**$48,000**	**$57,000**
Positioned Subject - Total		**$855,000**	**$4,560,000**	**$5,415,000**

Source: Dallas Central Appraisal District

Tax Burden

	Real Property		
	Land	Real Property	Total
Positioned (Assessed Value)	$855,000	$4,560,000	$5,415,000
Tax Rate			2.86001
Tax Burden as of Base Year			$154,869

Tax Forecast – Real Property

Year	Real Property Total Tax Burden (Positioned Prior to Increase)	Base Rate of Tax Burden Increase	% Positioned Tax Burden	Taxes Payable
Positioned		—		$154,869
2019/20	$154,869	5.1 %	100 %	$162,710
2020/21	162,710	2.5	100	166,777
2021/22	166,777	3.0	100	171,781
2022/23	171,781	3.0	100	176,934

- Based upon the comparable data and the structural attributes of the proposed subject hotel, we project the proposed subject hotel's insurance expense at $303 per available room by the stabilized year (positioned at $251 on a per-available-room basis in base-year dollars). This forecast equates to 1.0% of total revenue on a stabilized basis.
- Based upon the results of this study, our review of comparable lodging facilities, and our industry expertise, we estimate that a reserve for replacement of 4.0% of total revenues is sufficient to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment. This amount is ramped up during the initial projection period.

The following table presents a detailed forecast through the third projection year, including amounts per available room and per occupied room. 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 October 1, 2019, expressed in inflated dollars for each year.

U.S. Hotel Appraisals uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

Detailed Forecast of Income and Expense

	2019/20	Begins October			2020/21				2021/22			
Number of Rooms:	**95**				**95**				**95**			
Occupancy:	**63%**				**68%**				**71%**			
Average Rate:	**$98.15**				**$103.76**				**$108.60**			
RevPAR:	**$61.84**				**$70.55**				**$77.11**			
Days Open:	**365**				**365**				**365**			
Occupied Rooms:	**21,845**	**%Gross**	**PAR**	**POR**	**23,579**	**%Gross**	**PAR**	**POR**	**24,619**	**%Gross**	**PAR**	**POR**
OPERATING REVENUE												
Rooms	$2,144	99.1 %	$22,568	$98.14	$2,446	99.2 %	$25,747	$103.74	$2,674	99.2 %	$28,147	$108.61
Other Operated Departments	13	0.6	139	0.60	14	0.6	146	0.59	14	0.5	152	0.59
Miscellaneous Income	7	0.3	69	0.30	7	0.3	73	0.29	7	0.3	76	0.29
Total Operating Revenues	2,164	100.0	22,776	99.05	2,467	100.0	25,966	104.62	2,696	100.0	28,376	109.49
DEPARTMENTAL EXPENSES *												
Rooms	554	25.8	5,833	25.37	588	24.0	6,186	24.92	616	23.0	6,481	25.01
Other Operated Departments	7	56.2	78	0.34	8	55.4	81	0.33	8	54.9	83	0.32
Total Expenses	562	26.0	5,911	25.71	595	24.1	6,266	25.25	624	23.1	6,564	25.33
DEPARTMENTAL INCOME	1,602	74.0	16,865	73.34	1,871	75.9	19,700	79.37	2,072	76.9	21,811	84.16
UNDISTRIBUTED OPERATING EXPENSES												
Administrative & General	182	8.4	1,918	8.34	192	7.8	2,022	8.15	201	7.4	2,113	8.16
Info & Telecom Systems	35	1.6	372	1.62	37	1.5	392	1.58	39	1.4	410	1.58
Marketing	73	3.4	773	3.36	77	3.1	815	3.28	81	3.0	852	3.29
Franchise Fee	172	7.9	1,805	7.85	196	7.9	2,060	8.30	214	7.9	2,252	8.69
Prop. Operations & Maint.	93	4.3	981	4.27	98	4.0	1,034	4.17	103	3.8	1,081	4.17
Utilities	123	5.7	1,295	5.63	130	5.3	1,365	5.50	136	5.0	1,427	5.51
Total Expenses	679	31.3	7,145	31.07	730	29.6	7,689	30.98	773	28.5	8,134	31.39
GROSS HOUSE PROFIT	923	42.7	9,720	42.27	1,141	46.3	12,011	48.39	1,299	48.4	13,677	52.78
Management Fee	65	3.0	683	2.97	74	3.0	779	3.14	81	3.0	851	3.28
INCOME BEFORE NON-OPR. INC. & EXP.	858	39.7	9,037	39.30	1,067	43.3	11,232	45.25	1,218	45.4	12,826	49.49
NON-OPERATING INCOME & EXPENSE												
Property Taxes	163	7.5	1,713	7.45	167	6.8	1,756	7.07	172	6.4	1,808	6.98
Insurance	26	1.2	278	1.21	27	1.1	286	1.15	28	1.0	295	1.14
Reserve for Replacement	43	2.0	456	1.98	74	3.0	779	3.14	108	4.0	1,135	4.38
Total Expenses	232	10.7	2,446	10.64	268	10.9	2,821	11.36	308	11.4	3,238	12.49
EBITDA LESS RESERVE	$626	29.0 %	$6,591	$28.66	$799	32.4 %	$8,411	$33.89	$911	34.0 %	$9,588	$37.00

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

Ten-Year Forecast of Revenue and Expense

	2019/20		2020/21		2021/22		2022/23		2023/24		2024/25		2025/26		2026/27		2027/28		2028/29	
Number of Rooms:	**95**		**95**		**95**		**95**		**95**		**95**		**95**		**95**		**95**		**95**	
Occupied Rooms:	**21,845**		**23,579**		**24,619**		**24,619**		**24,619**		**24,619**		**24,619**		**24,619**		**24,619**		**24,619**	
Occupancy:	**63%**		**68%**		**71%**		**71%**		**71%**		**71%**		**71%**		**71%**		**71%**		**71%**	
Average Rate:	**$98.15**	**% of**	**$103.76**	**% of**	**$108.60**	**% of**	**$111.99**	**% of**	**$115.35**	**% of**	**$118.81**	**% of**	**$122.38**	**% of**	**$126.05**	**% of**	**$129.83**	**% of**	**$133.72**	**% of**
RevPAR:	**$61.84**	**Gross**	**$70.55**	**Gross**	**$77.11**	**Gross**	**$79.51**	**Gross**	**$81.90**	**Gross**	**$84.36**	**Gross**	**$86.89**	**Gross**	**$89.49**	**Gross**	**$92.18**	**Gross**	**$94.94**	**Gross**
OPERATING REVENUE																				
Rooms	$2,144	99.1 %	$2,446	99.2 %	$2,674	99.2 %	$2,757	99.2 %	$2,840	99.2 %	$2,925	99.2 %	$3,013	99.2 %	$3,103	99.2 %	$3,196	99.2 %	$3,292	99.2 %
Other Operated Departments	13	0.6	14	0.6	14	0.5	15	0.5	15	0.5	16	0.5	16	0.5	17	0.5	17	0.5	18	0.5
Miscellaneous Income	7	0.3	7	0.3	7	0.3	7	0.3	8	0.3	8	0.3	8	0.3	8	0.3	9	0.3	9	0.3
Total Operating Revenues	2,164	100.0	2,467	100.0	2,696	100.0	2,779	100.0	2,863	100.0	2,949	100.0	3,037	100.0	3,128	100.0	3,222	100.0	3,319	100.0
DEPARTMENTAL EXPENSES *																				
Rooms	554	25.8	588	24.0	616	23.0	634	23.0	653	23.0	673	23.0	693	23.0	714	23.0	735	23.0	757	23.0
Other Operated Departments	7	56.2	8	55.4	8	54.9	8	54.9	8	54.9	9	54.9	9	54.9	9	54.9	9	54.9	10	54.9
Total Expenses	562	26.0	595	24.1	624	23.1	642	23.1	662	23.1	681	23.1	702	23.1	723	23.1	745	23.1	767	23.1
DEPARTMENTAL INCOME	1,602	74.0	1,871	75.9	2,072	76.9	2,137	76.9	2,201	76.9	2,267	76.9	2,336	76.9	2,405	76.9	2,477	76.9	2,552	76.9
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	182	8.4	192	7.8	201	7.4	207	7.4	213	7.4	219	7.4	226	7.4	233	7.4	240	7.4	247	7.4
Info & Telecom Systems	35	1.6	37	1.5	39	1.4	40	1.4	41	1.4	43	1.4	44	1.4	45	1.4	46	1.4	48	1.4
Marketing	73	3.4	77	3.1	81	3.0	83	3.0	86	3.0	88	3.0	91	3.0	94	3.0	97	3.0	100	3.0
Franchise Fee	172	7.9	196	7.9	214	7.9	221	7.9	227	7.9	234	7.9	241	7.9	248	7.9	256	7.9	263	7.9
Prop. Operations & Maint.	93	4.3	98	4.0	103	3.8	106	3.8	109	3.8	112	3.8	116	3.8	119	3.8	123	3.8	126	3.8
Utilities	123	5.7	130	5.3	136	5.0	140	5.0	144	5.0	148	5.0	153	5.0	157	5.0	162	5.0	167	5.0
Total Expenses	679	31.3	730	29.6	773	28.5	796	28.5	820	28.5	845	28.5	870	28.5	896	28.5	923	28.5	951	28.5
GROSS HOUSE PROFIT	923	42.7	1,141	46.3	1,299	48.4	1,341	48.4	1,381	48.4	1,422	48.4	1,465	48.4	1,509	48.4	1,554	48.4	1,601	48.4
Management Fee	65	3.0	74	3.0	81	3.0	83	3.0	86	3.0	88	3.0	91	3.0	94	3.0	97	3.0	100	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	858	39.7	1,067	43.3	1,218	45.4	1,257	45.4	1,295	45.4	1,334	45.4	1,374	45.4	1,415	45.4	1,457	45.4	1,501	45.4
NON-OPERATING INCOME & EXPENSE																				
Property Taxes	163	7.5	167	6.8	172	6.4	177	6.4	182	6.4	188	6.4	193	6.4	199	6.4	205	6.4	211	6.4
Insurance	26	1.2	27	1.1	28	1.0	29	1.0	30	1.0	31	1.0	32	1.0	32	1.0	33	1.0	34	1.0
Reserve for Replacement	43	2.0	74	3.0	108	4.0	111	4.0	115	4.0	118	4.0	121	4.0	125	4.0	129	4.0	133	4.0
Total Expenses	232	10.7	268	10.9	308	11.4	317	11.4	326	11.4	336	11.4	346	11.4	357	11.4	367	11.4	378	11.4
EBITDA LESS RESERVE	$626	29.0 %	$799	32.4 %	$911	34.0 %	$940	34.0 %	$969	34.0 %	$998	34.0 %	$1,028	34.0 %	$1,058	34.0 %	$1,090	34.0 %	$1,123	34.0 %

The following chapter will present our feasibility analysis, based on the results of the cash flow forecast.

7. FEASIBILITY ANALYSIS

The feasibility of the subject project hinges upon the net value added by the planned improvements. If the value added by the project results in a return that is in excess of the project's all-in cost, then the project is deemed feasible. Therefore, the following steps are taken.

1. A present value indication is developed for the property in its "when complete" state, assuming the planned improvements were to be made to the site. This is performed by taking the cash flow projections developed in the previous chapter and using discounted cash flow techniques to comprise a present value estimate.

2. The all-in cost for the project is stated and reviewed to serve as the benchmark for feasibility.

3. The cost is then deducted from the present value added by the improvements. If the net result is a positive number, the project is feasible and there is an adequate return on investment. If the net result is a negative number, the project is not feasible at the market return rates used in the analysis.

The first step is to provide an indication of the present value of the proposed subject hotel in its completed state, assuming all previously discussed future improvements were made to the site. This benchmark is best achieved by a utilizing a discounted cash flow approach, which appropriately considers all changes in income over the first ten years of operation.

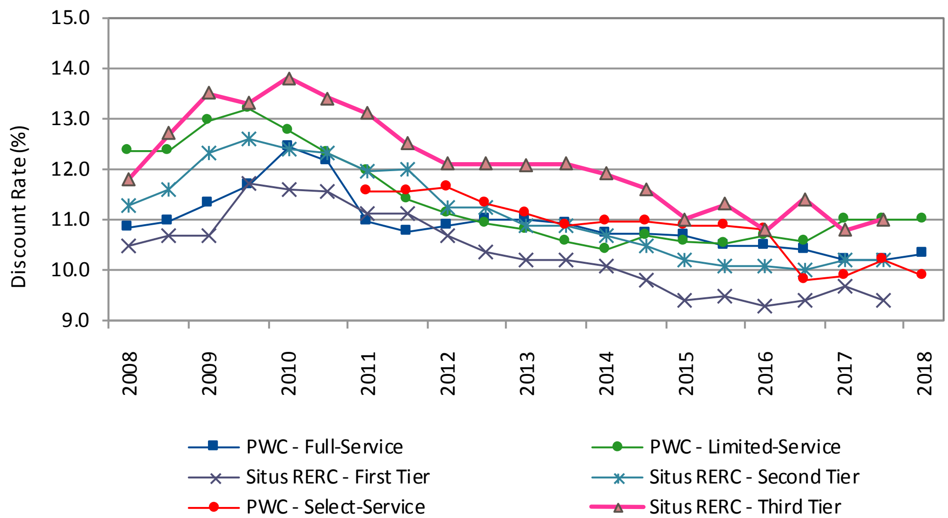
The discounted-cash-flow analysis applies a discount factor to forecast revenues over a ten year period, inclusive of a reversion of the hotel at the end of the holding period. To assist in positioning the discount rate and terminal capitalization rate, we have reviewed several recent investor surveys: *PWC Real Estate Investor Survey, CRE/RERC Real Estate Report, USRC Hotel Investment Survey,* and the *PKF Hospitality Investment Survey*. The following table summarizes the range of discount rates and exit capitalization rates indicated by the investor surveys for hotels similar in class to the proposed subject hotel. The averages for each survey are listed directly underneath the ranges.

Results of Recent Investment Surveys – Discount Rates and Terminal Capitalization Rates, Hotels

Source	Discount Rate *Average*	Terminal Cap. Rate *Average*
HVS Hotel Brokers Survey Select-Service Hotels - Fall 2017	8.5% - 14.5% *11.4%*	8.0% - 13.0% *9.2%*
PWC Real Estate Investor Survey Select-Service Hotels - 1st Quarter 2018	7.5% - 12.0% *9.9%*	7.0% - 10.75% *8.9%*
HVS Hotel Brokers Survey Limited-Service Hotels - Fall 2017	9.0% - 15.0% *12.2%*	7.0% - 14.0% *9.9%*
PWC Real Estate Investor Survey Limited-Service & Economy Hotels - 1st Quarter 2018	8.5% - 13.0% *11.0%*	7.75% - 11.0% *9.8%*
Situs RERC Real Estate Report 2nd Tier Hotels - 4th Quarter 2017	8.0% - 12.5% *10.2%*	7.0% - 10.7% *8.9%*
Situs RERC Real Estate Report 3rd Tier Hotels - 4th Quarter 2017	8.0% - 13.0% *10.8%*	7.0% - 11.6% *10.2%*
USRC Hotel Investment Survey Limited-Service Hotels - Winter 2018	10.0% - 12.0% *11.3%*	9.25% - 10.5% *9.4%*

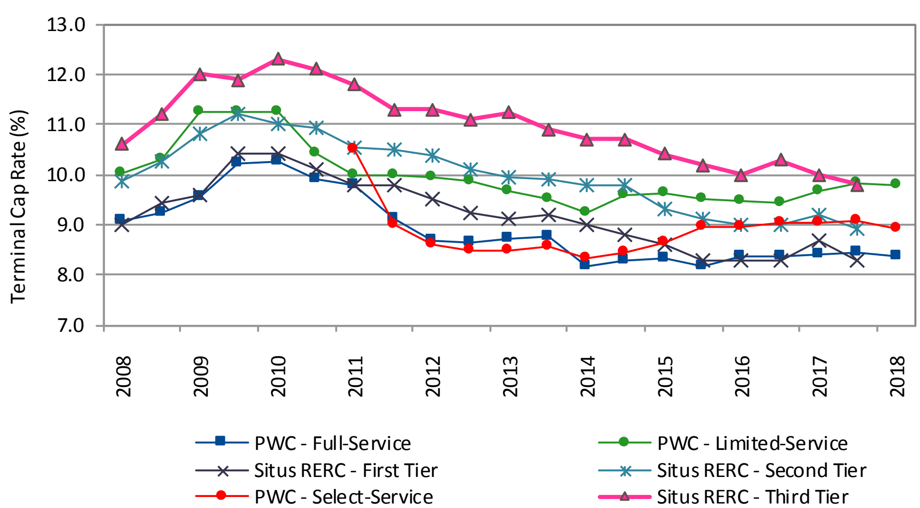
The following chart summarizes the averages presented for discount rates in various investor surveys during the past decade.

Historical Trend of Hotel Discount Rates



The following chart summarizes the averages presented for exit capitalization rates in various investor surveys during the past decade.

Historical Trend of Hotel Terminal Capitalization Rates



Based on our review of the survey data, as well as our review of recent sales, recent conversations with hotel investors and brokers, and our industry knowledge and expertise, we have positioned a discount rate and terminal capitalization rate that is most appropriate for the proposed subject hotel. These opinions are presented in the following table.

Selection of Discount Rate and Terminal Capitalization Rate

Discount Rates:	
Averages of Surveys:	9.9% - 12.2%
Data Points of Surveys:	7.5% - 15.0%
Selected Discount Rate:	10.25%
Terminal Capitalization Rates:	
Averages of Surveys:	8.9% - 10.2%
Data Points of Surveys:	7.0% - 14.0%
Selected Terminal Cap Rate:	10.00%

These selected rates were utilized in our discounted-cash-flow analysis, which is presented in the following table.

Discounted Cash Flow Analysis – For Test of Feasibility

Year	EBITDA Less Reserve		Discount Factor @ 10.25%	Discounted Cash Flow
2019/20	$595,034		0.90703	$539,714
2020/21	779,645		0.82270	641,415
2021/22	910,830		0.74622	679,675
2022/23	940,374		0.67684	636,482
2023/24	968,817		0.61391	594,769
2024/25	997,722		0.55684	555,569
2025/26	1,027,853		0.50507	519,135
2026/27	1,058,377		0.45811	484,855
2027/28	1,090,000		0.41552	452,941
2028/29	12,283,000	*	0.37689	4,629,507
			Estimated Value	$9,734,064
			(SAY)	$9,700,000
			Per Room	$102,000

Reversion Analysis

11th Year's EBITDA Less Reserves	$1,156,540
Capitalization Rate	10.0%
Total Sales Proceeds	$11,565,396
Less: Transaction Costs @ 3.5%	404,789
Net Sales Proceeds	$11,160,607

*10th year net income of $1,122,854 plus sales proceeds of $11,161,000

The proposed subject represents a hotel with 95 guestrooms and the appropriate public areas and back-of-the-house spaces for a hotel of this type. The proposed facility is further detailed in Chapter Three; please refer to this chapter for a full discussion of the proposed building.

Proposed Subject Property – Cost to Construct (Estimate)

Item	Cost
Building, Pre-Opening & Working Capital, Soft Costs	$7,220,000
Furniture, Fixtures, & Equipment	1,425,000
Land	530,000
Entrepreneurial Incentive	458,750
Total Cost New Estimate	**$9,633,750**

Upon our review of this budget, we found the stated costs to be reasonable based on our experience in the industry. We have applied a developer's incentive of 5.0% to this total, which is equivalent to $458,750 . Adding this amount to the site and building cost of $9,175,000 results in a total positioned project cost of $9,633,750 .

The net present value of the cash flows of $9,700,000 exceeds the total positioned project cost of $9,633,750 . Based on the parameters, the feasibility of the subject project is confirmed.

The analysis is based on the extraordinary assumption that the described improvements have been completed as of the stated date of opening. The reader should understand that the completed subject property does not yet exist as of the date of this report. Our feasibility study does not address unforeseeable events that could alter the proposed project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, shall take place between the date of inspection and stated date of opening. The use of this extraordinary assumption may have affected the assignment results. We have made no other extraordinary assumptions specific to this feasibility study. However, several important general assumptions have been made that apply to this feasibility study and our studies of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

8. ASSUMPTIONS & LIMITING CONDITIONS

1) We note that the development of our feasibility opinion for the proposed subject hotel assumes this hypothetical condition: that the described improvements have been completed as of the assumed date of opening. The reader should understand that
   a) the improved subject property does not yet, in fact, exist as of the date of feasibility study;
   b) our analyses performed to develop the opinion of feasibility are based on a hypothesis, specifically that the improved subject property is assumed to exist when in fact it does not exist;
   c) certain events need to occur, as disclosed in the report, before the property analyzed with the proposed improvements will in fact exist; and
   d) the feasibility study does not address unforeseeable events that could alter the proposed property improvements and/or the market conditions reflected in the analyses. The estimated operating results presented in this report are based upon an evaluation of the overall economy; these 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 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.
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 valued 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 (if any exist on the site), such as underground storage tanks, that would render the property more or less valuable. 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 such as asbestos, urea-formaldehyde foam insulation, any form of toxic waste, polychlorinated biphenyls (PCBs), pesticides, mold, or lead-based paints. We are not qualified to detect hazardous substances and 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 conducted no specific compliance survey to determine whether the proposed subject hotel's plans conform to the various detailed requirements of the ADA. It is possible that the design does not conform to the requirements of the act, and such noncompliance could have an unfavorable effect on value. Because we have no direct evidence regarding this issue, our estimate of value does not consider possible noncompliance with the ADA.
7) We have made no survey of the property, 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 is within the boundaries of the property described and that there is no encroachment or trespass unless noted.
8) All information, financial operating statements, estimates, and opinions obtained from parties not employed by U.S. Hotel Appraisals, 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 (upon opening as well) encumbering the proposed subject hotel.
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 the appropriate liquor license if applicable), and that all licenses,

permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser (pre- and post-opening).

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 or other media.

13) We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and shall do so only when our standard per-diem fees and travel costs have been 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 either the date of opening or the date of our field inspection, whichever occurs first.

16) The quality of a lodging facility's on-site management has a direct effect on a property's economic viability and value. 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 and the feasibility opinion.

17) The estimated operating results presented in this report are based upon an evaluation of the overall economy; these 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 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 buyer.

18) This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of opening or the date of our field inspection, whichever occurs first.

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) Analyzing the feasibility of proposed hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide feasibility indications, the final opinion is subjective and may be influenced by our experience and other factors not specifically set forth in this report.

22) This study was prepared by US Hotel Appraisals, LLC, and all opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of this company as employees, rather than as individuals.

9. 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) David R. Bone has not performed services, as an appraiser or in any other capacity, on the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment;
5) we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
6) our engagement in this assignment was not contingent upon developing or reporting predetermined results;
7) 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 of the intended use of this study;
8) our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
9) David R. Bone personally inspected the property described in this report;
10) no one other than the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this feasibility report;
11) 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;
12) the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

DRAFT REPORT

David R. Bone, Vice President
State Appraiser License (TX) TX1380415G

ADDENDA

GLOSSARY

Assessed Value: 1.) A value set on real estate and personal property by a government as a basis for levying taxes. 2.) The monetary amount for a property as officially entered on the assessment roll for purposes of computing the tax levy. Assessed values differ from the assessor's estimate of actual (market) value for three major reasons: fractional assessment ratios, partial exemptions, and decisions by assessing officials to override market value. The process of gathering and interpreting economic data to provide information that can be used by policymakers to formulate tax policy.

Average Daily Rate (ADR): A statistical unit that represents the total guest room revenue divided by the total number of occupied rooms.

Base Year: This is the historical year from which future projections are based. This could be a calendar year or a fiscal year.

Business Enterprise Value (BEV): A term applied to the concept of the value contribution of the total intangible assets of a continuing business enterprise, such as marketing and management skill, an assembled work force, working capital, trade names, franchises, patents, trademarks, contracts, leases, and operating agreements.

Capital Expenditure: Investments of cash or the creation of liability to acquire or improve an asset (e.g. land, buildings, building additions, site improvements, machinery, equipment), as distinguished from cash outflows for expense items that are normally considered part of the current period's operations.

Capital Deduction: A deduction made from the value opinion in order to account for future capital expenditures. These expenditures, and hence the deduction, are assumed to be required in order to achieve the forecast results. The deduction is also considered in the positioning of the capitalization rate and other investment parameters.

Chain Scales: According to STR, hotel brands are categorized under the following chain scale segments: Luxury, Upper-Upscale, Upscale, Mid-Scale with Food and Beverage, Mid-Scale without Food and Beverage, and Economy. Chain scales are based primarily on the average rate achieved across a particular hotel brand.

Chronological Age: The number of years elapsed since an original structure was built; also known as "actual age" or "historical age."

Departmental Expenses: The costs associated with the following departments: Rooms – Includes labor costs such as salaries, wages, and benefits for front desk, housekeeping, reservations, bell staff, and laundry employees. Other operating expenses in the rooms department include costs associated with the procurement and maintenance of linens, cleaning supplies, guest supplies, and employee uniforms; payment of central or franchise reservation fees, equipment leases, and travel agent commissions; and cost of providing a continental breakfast. Food and Beverage – A combination of food and beverage departmental expenses, which include the cost of goods, labor and related benefits, and other operating expenses. Labor costs include the employment of departmental management; cooks and kitchen personnel; and service, banquet, and bartending staff. Other food and beverage operating expenses include the procurement and maintenance of china, silverware, linens, restaurant and kitchen supplies, menus and printing, and special promotions. Telecommunications – Consists of all costs associated with the operation of a hotel's telephone department, including the cost of calls, the labor cost of the hotel's telephone operators, and other related expenses. It is important to note that the telecommunications expense excludes capital lease payments. Other Expenses - Comprises those expenses that offset the revenue generated by other hotel-operated (as opposed to leased) departments such as garage and parking, athletic facilities, gift shop, and equipment rental facilities.

Depreciation: 1.) In appraising, a loss in property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date. 2.) In accounting, an allowance made against the loss in value of an asset for a defined purpose and computed using a specified method.

Developer's Incentive: A market-derived figure that represents the amount a developer expects to receive for his or her contribution to a project and risk.

Direct Construction Costs: 1.) Expenditures for the labor and materials used in the construction of improvements. Also called "hard costs." 2.) The labor, material, subcontractor, and heavy equipment costs directly incorporated into the construction of physical improvements.

Economic Life: The period over which improvements to real property contribute to property value.

Effective Age: Age attributed to a property on the basis of the amount of observed deterioration and obsolescence it has sustained; a property's effective age may be different from its chronological age.

Entrepreneurial Incentive: See "developer's incentive."

Equity Yield Rate: A rate of return on equity capital as distinguished from the rate of return on debt capital; the equity investor's internal rate of return. The equity yield rate considers the effect of debt financing on the cash flow to the equity investor.

Excess Land: With regard to an improved site, the land not needed to serve or support the existing improvement. With regard to a vacant site or a site considered as though vacant, the land not needed to accommodate the site's highest and best use. Such land may be separated from the larger site to have its own highest and best use, or it may allow for future expansion of the existing or anticipated improvement. See also: "surplus land."

Exposure Time: 1.) The period during which a property remains on the market. 2.) The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market. Exposure time is always presumed to occur prior to the effective date of the appraisal. See also: "marketing period."

Extraordinary Assumption: An assumption, directly related to a specific assignment, which if found to be false could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the proposed subject hotel; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis. An extraordinary assumption may be used in an assignment only if: 1.) It is required to properly develop credible opinions and conclusions; 2.) The appraiser has a reasonable basis for the extraordinary assumption; 3.) Use of the extraordinary assumption results in a credible analysis; and 4.) The appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

Fair Share: That portion of total supply accounted for by the same property.

Fixed Charges/Expenses: Operating expenses that generally do not vary with occupancy and that prudent management will pay whether the property is occupied or vacant. Fixed charges include the following: Property Taxes – Typically include taxes on real estate, business and occupation, personal property, utilities, and other municipal taxes. Insurance – Cost of insuring the hotel building and its contents against fire and weather damage, as well as damage associated with equipment malfunction, such as sprinkler leakage. This expense includes all insurance except that for workers' compensation.

Full-Service Operation: A hotel operation that provides a more complete set of services than those offered at an extended-stay, select-service, or limited-service property. The services of a full-service operation may include room service, valet, concierge, transportation and tour services, entertainment facilities, barber shop, bellhop service, laundry service, free continental breakfast, restaurant and lounge, turn-down service, morning newspapers, fitness centers, and more extensive banquet and meeting space.

Going-Concern Value: 1.) The market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate. 2.) Tangible and intangible elements of value in a business enterprise resulting from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place. 3.) The value of an operating business enterprise. Goodwill (an intangible asset category usually composed of elements such as franchise reputation, customer patronage, location, products, and similar factors) may be separately measured but is an integral component of going-concern value.

Hard Costs: See "direct costs."

Hypothetical Condition: Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the proposed subject hotel, such as market conditions or trends, or about the integrity of data used in an analysis. A hypothetical condition may be used in an assignment only if: 1.) Use of the hypothetical condition is required for legal purposes, purposes of meaning, or purposes of comparison; 2.) Use of the hypothetical condition results in a credible analysis; and 3.) The appraiser complies with the disclosure requirements set for in USPAP for hypothetical conditions.

Indirect Construction Costs: Expenditures or allowances for items other than labor and materials that are necessary for construction, but are not typically part of the construction contract. Indirect costs may include administrative costs; professional fees; financing costs and the interest paid on construction loans; taxes and the builder's or developer's all-risk insurance during construction; and marketing, sales, and lease-up costs incurred to achieve occupancy or sale. Also called "soft costs."

Replacement cost for insurance purposes: 1.) The value of an asset or asset group that is covered by an insurance policy. Replacement cost for insurance purposes can be estimated by deducting costs of non-insurable items (e.g., land value) from market value. 2.) Value used by insurance companies as the basis for insurance, which is often considered to be the replacement or reproduction cost plus allowances for debris removal or demolition less deterioration and non-insurable items; sometimes cash value or market value, but often entirely a cost concept.

Investment Value: The specific value of an investment to a particular investor or class of investors based on individual investment requirements; distinguished from market value, which is impersonal and detached. See also: "market value."

Limited-Service Operation: A hotel operation without a food and beverage department, which provides basic amenities at a reasonable price to guests.

Loan-to-Value Ratio (LTV): The ratio between a mortgage loan and the value of the property pledged as security, usually expressed as a percentage.

Market Share: That portion of a market's total demand accommodated by a given property.

Market Value: The concept of market value varies slightly between jurisdictions and is being continually refined. The following definition incorporates the most widely accepted components of market value: The most probable price, as of a specified date, in cash, in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale. A fair determination of market value assumes that the buyer and seller are acting prudently, knowledgably, and for self-interest, and that neither is under undue duress.

Marketing Period: The time it takes an interest in real property to sell on the market subsequent to the effective date of an appraisal. This includes the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by concurrent market conditions. Marketing time differs from exposure time, which is always assumed to precede the effective date of an appraisal. See also: "exposure time."

Net Operating Income (NOI) or Earnings Before Interest, Taxes, Depreciation, and Amortization Less Replacement Reserve (EBITDA Less Replacement Reserve): The actual or anticipated net income that remains after all operating expenses are deducted from effective gross income, but before mortgage debt service and book depreciation are deducted; may be calculated before or after deducting replacement reserves. EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) is a term sometimes substituted for net operating income, particularly as a measure of the performance of Real Estate Investment Trusts (REITs) or under the 11th edition of the USALI.

Penetration Factor (By Segment): A rating factor that shows how well each property in the market area competes for a particular market segment, calculated by dividing a given hotel's market share by its fair share.

Per Available Room (PAR): A basis of comparison that is calculated by dividing a revenue or expense category's total dollar amount by the hotel's room count. This point of comparison is most useful when reviewing operating and fixed expense categories.

Per Occupied Room (POR): A basis of comparison that is calculated by dividing a revenue or expense category's total dollar amount by the number of occupied rooms in a given year. This point of comparison is most useful when reviewing revenue and departmental expense categories.

Property Improvement Plan (PIP): A brand-mandated plan of required renovations that enable a hotel to meet competitive standards and also contribute to the owner's ability to attain a new or renewed franchise agreement.

Replacement Cost: The estimated cost to construct a building with utility equivalent to the building being appraised. Replacement cost assumes current prices as of the effective appraisal date and the use of modern materials and current standards, design, and layout.

RevPAR (Revenue Per Available Room): A unit of comparison applied in the appraisal of lodging facilities, RevPAR is calculated by multiplying a property's percentage of occupancy by its average room rate. RevPAR is used throughout the lodging industry to compare the revenue of competing facilities.

Renegotiable Rate Mortgage (RRM): An alternative mortgage loan in which the interest rate is renegotiated periodically. The loan may be either a long-term loan with periodic interest rate adjustments, or a short-term loan that is renewed periodically at new interest rates, but based on a long-term mortgage.

Select-Service Operation: A hotel operation designed to answer the market demand for a level of service and amenities beyond the limited-service segment, but less than the full-service hotel segment; select-service properties offer a limited degree of food and beverage options and typically fall within middle to upper-middle tiers within their respective markets.

Site Improvements: Improvements to a site that make it suitable for its intended use or development. Site improvements include, but are not limited to, sidewalks, parking lots, freestanding signage, and landscaping.

Soft Costs: See: "indirect costs."

Stability: A stage in a market area's life cycle in which the market area experiences equilibrium without marked gains or losses.

Stabilized Expense: A projected expense that is subject to change, but has been adjusted to reflect an equivalent, stable annual expense.

Stabilized Income: Income at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist, and the existing conditions are those expected to continue over the economic life of the property; projected income that is subject to change, but has been adjusted to reflect an equivalent, stable annual income.

Stabilized Occupancy: Occupancy at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist, and the existing conditions are those expected to continue over the economic life of the property; the optimum range of long-term occupancy that an income-producing real estate project is expected to achieve under competent management after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings.

Stabilized Value: 1.) A value opinion that excludes from consideration any abnormal relationship between supply and demand such as is experienced in boom periods, when cost and sale price may exceed the long-term value, or during periods of depression, when cost and sale price may fall short of long-term value. 2.) A value opinion that excludes from consideration any transitory condition that may cause excessive construction costs (e.g., a bonus or premium for material), the abnormal inefficiency of labor, the cost of delay, or an excessive sale price.

Surplus Land: Land not necessary to support the highest and best use of the existing improvement but, because of physical limitations, building placement, or neighborhood norms, cannot be sold off separately. Such land may or may not contribute positively to value and may or may not accommodate future expansion of an existing or anticipated improvement. See also: "excess land."

Undistributed Operating Expenses: The costs associated with the following categories: Administrative and General (A&G) Expense – Includes all managerial and operational expenses that cannot be attributed to a particular department, including payroll and related expenses for the general manager, the human resources and training department, and security, clerical, and accounting operations. Other A&G expenses include office supplies, computer services, accounting and legal fees, cash overages and shortages, bad debt expenses, travel insurance, credit card commissions, transportation (non-guest), and travel and entertainment. Marketing Expense – Includes payroll and related expenses for the sales and marketing staff, direct sales expenses, advertising and promotion, travel expenses for the sales staff, and civic and community projects. Marketing expenses also include national advertising fees paid to a branded property's franchise company and the costs associated with frequent-stay programs. This expense category does not include royalty fees charged by the franchise company. Utility Expense – Utility expenses typically include electricity, fuel (oil, gas, and coal), purchased steam, and water. The utility costs include central plant and energy management systems. This category does not include waste removal, which is included in Property Operation and Maintenance Expense. Property Operations and Maintenance Expense – This category includes payroll and related expenses for maintenance personnel; maintenance supplies; repairs to and maintenance of the building and grounds; furniture and equipment; and the removal of waste. Franchise Fee – Includes only the royalty fees charged by franchise companies. Other fees or assessments are categorized under Marketing Expense or Rooms-Other Expenses. Management Fees – Fees charged by management organizations for management services or supervision. This expense includes both base and incentive fees.

Use Value: In real estate appraisal, the value a specific property has for a specific use. This may be the highest and best use of the property or some other use specified as a condition of the appraisal, and may be used where legislation has been enacted to preserve farmland, timberland, or other open-space land on urban fringes.