Complete, Self-Contained Appraisal Report

Embassy Suites

Spring Valley, New York

Prepared by:

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Submitted to:

Mr. John Downs
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Hotel Development, LLC
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July 27, 2001

Mr. John Downs
Vice President
Real Estate Development
Hotel Development, LLC
9110 Main Street, Suite 900
Los Angeles, California 90212

Re: Embassy Suites
Spring Valley, New York
HVS Reference: #2001010184

Dear Mr. Downs:

Pursuant to your request, we herewith submit our complete, self-contained appraisal report pertaining to the above-captioned property. We have inspected the site and facilities, and have analyzed the hotel market conditions in the Spring Valley area. Our report was prepared in accordance with, and is subject to, the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the Uniform Standards of Professional Practice (USPAP), as provided by the Appraisal Institute.

Based on the available data, our analysis, and our experience in the hotel industry, it is our opinion that the market value of the fee simple interest in the 200-unit subject property described in this report, as of July 1, 2001, is:

$31,200,000

THIRTY ONE MILLION TWO HUNDRED THOUSAND DOLLARS

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings and valuation. The complete, self-contained appraisal report is made part hereof, and must remain attached in order for the value opinion set forth to be considered valid.

This report may not be distributed or relied upon by other persons or entities without our written permission. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Very truly yours,
HOSPITALITY VALUATION SERVICES
Division of Hotel Appraisals, LLC

Erich Baum
Senior Associate

Stephen Rushmore, MAI, CHA
Managing Member

EB: SR: am

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1. Summary of Salient Data and Conclusions

Property:	Embassy Suites
Location:	4100 Central Avenue Spring Valley, New York 11233
Date of Inspection:	July 1, 2001
Interest Appraised:	Fee simple
Date of Value:	July 1, 2001

Land Description

Area:	±6.57 acres, or ±286,189 square feet
Zoning:	RS – Regional Shopping
Assessor's Parcel Number:	150-375-2
Flood Zone:	C – areas of minimal flooding

Improvements Description

Year Opened:	1990
Property Type:	First-class, all-suite hotel
Guestrooms:	200
Number of Stories:	Six
Food and Beverage Facilities	
Atrium Restaurant:	125 seats
Mermaid Lounge:	75 seats
Meeting Space:	5,055 square feet
Parking:	250 spaces (surface lots)

Summary of Value Parameters

Highest and Best Use (as vacant):	First-class, all-suite hotel
Highest and Best Use (as improved):	First-class, all-suite hotel
Number of Years to Stabilize:	Three
Stabilized Year:	2004/05

Valuation Assumptions

Mortgage Interest Rate:	8.75%
Amortization Period:	20 years
Debt Service Constant:	0.106045
Loan-to-Value Ratio:	65%
Stabilized Inflation Rate:	3.0%
Equity Yield Rate:	20%
Terminal Capitalization Rate:	11.0%
Selling Expenses:	3.0%
Holding Period:	10 years
Calculated Discount Rate:	13.6%

Opinions of Value – Upon Completion

Income Capitalization Approach:	$31,200,000
Sales Comparison Approach:	$29,000,000 to $33,200,000
Cost Approach:	Not Applicable
Estimated Replacement Cost:	$33,400,000
Market Value, as of July 1, 2001:	$31,200,000
Market Value Conclusion per Room:	$156,000

2. Nature of the Assignment

Subject of the Appraisal

The subject of the complete, self-contained appraisal report is the fee simple interest in a ±286,189-square-foot (±6.57-acre) parcel improved with a 200-room, all-suite lodging facility known as the Embassy Suites. The property opened in 1990. In addition to guestrooms, the subject property contains a restaurant, a lounge, a lobby bar, ±5,055 square feet of meeting space, an indoor swimming pool, a fitness room, a gift shop, ±250 surface parking spaces, and other facilities and amenities typical of a first-class, all-suite hotel. The subject site is located at the northwestern quadrant of the intersection formed by Central Avenue (State Route 59) and Exit 14 of the New York State Thruway (Interstate 87/287) in the City of Spring Valley, Rockland County, the State of New York. The hotel site's civic address is 4100 Central Avenue, Spring Valley, New York, 11233.

Property Rights Appraised

The property rights appraised are the fee simple ownership of the land and improvements, including the furniture, fixtures, and equipment. The fee simple interest is defined as "absolute ownership unencumbered by any other interest or estate subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."[1] The subject property is appraised as a going concern (i.e., an open and operating facility).

Ownership, Franchise, and Management History and Assumptions

Spring Valley Hotel Associates, a New York limited partnership, acquired the subject land on March 18, 1988. The purchase price for the unimproved parcel was $2,800,000. The hotel was then constructed by the partnership and sold to Hotel Development, LLC, on January 1, 1990, when the hotel opened. The purchase price for the improved property was $24,000,000. A photocopy of the subject property's legal description, which was provided by the hotel owners, is presented in the Addenda to this report; the appraisers assume no responsibility regarding the accuracy of this legal description.

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[1] *The Dictionary of Real Estate Appraisal* - Third Edition, American Institute of Real Estate Appraisers, Chicago, IL, 1993, p. 140.

The subject property was constructed as an all-suite facility, and is operated under a franchise agreement with Embassy Suites. This agreement expires in 2010. In light of the subject property's current condition and the supply and demand dynamics in the local market, we assume that the hotel will continue to operate as an Embassy Suites following a sale.

The hotel is operated subject to a management agreement with HEI Hotels of Westport, Connecticut. Either party can terminate the management contract upon sale of the subject property.

Objective of the Appraisal

The objective of the complete, self-contained appraisal report is to evaluate the supply and demand factors affecting the market for transient accommodations in the Spring Valley area for the purpose of developing an opinion of the subject property's market value.

The following definition has been agreed upon by the agencies that regulate federal financial institutions in the United States:

> The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.[2]

[2] *Federal Register*, Vol. 55, No. 165, August 24, 1990, p. 34696.

Use of the Appraisal

This appraisal is being prepared for use by Hotel Development, LLC in connection with a refinancing of the subject property. The information presented in this report should not be disseminated to or relied upon by the public or third parties without the express written consent of HVS International.

Scope of the Appraisal

All information was collected and analyzed by the staff of HVS International. Representatives of Hotel Development, LLC provided information relating to the physical plant, as well as historical operating data. Otherwise, we have investigated numerous improved sales in the market area and have spoken with buyers, sellers, brokers, property developers, and public officials. Unless noted otherwise, we have inspected the competitive lodging facilities, and have analyzed the sales summarized in this report, and our value conclusion is based on this investigation and analysis.

Method of Study

The methodology used to develop this complete, self-contained appraisal report is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled, *The Valuation of Hotels and Motels,*[3] *Hotels, Motels and Restaurants: Valuations and Market Studies,*[4] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[5] and *Hotels and Motels: Valuations and Market Studies.*[6]

1. The subject site has been evaluated from the viewpoint of its physical utility for the operation of a hotel, as well as access, visibility, and other relevant locational factors.
2. The subject property's improvements have been reviewed and assessed in terms of their quality of construction, design, and layout efficiency.
3. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hotel-related

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[3] Stephen Rushmore, *The Valuation of Hotels and Motels*, Chicago, IL, American Institute of Real Estate Appraisers, 1978.

[4] Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*, Chicago, IL, American Institute of Real Estate Appraisers, 1983.

[5] Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*, Chicago, IL, American Institute of Real Estate Appraisers, 1990.

[6] Stephen Rushmore and Erich Baum, *Hotels and Motels: Valuations and Market Studies*, Chicago, IL, Appraisal Institute, 2001.

economic and demographic trends that may have an impact on future demand for hotels.

4. Dividing the market for transient accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
5. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness.
6. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
7. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for Hotels sets forth the anticipated economic benefits of the subject property and provide the basis for the income capitalization approach.
8. The appraisal considers the three approaches to value: cost, sales comparison, and income capitalization. Because lodging facilities are income-producing properties that are normally bought and sold on the basis of capitalization of their anticipated stabilized earning power, the greatest weight is given to the value indicated by the income capitalization approach. We find that most hotel investors employ a similar procedure in formulating their purchase decisions, and thus, the income capitalization approach most closely reflects the rationale of typical buyers.

Marketing Period

We estimate the marketing period of the subject property to be less than or equal to twelve months, assuming that it is ultimately transacted at or near the concluded market value.

Pertinent Dates

The effective date of this appraisal is July 1, 2001. Research of the data and primary fieldwork was performed in the month of July, 2001. We have only considered information available through July 31, 2001. Stephen Rushmore inspected the subject property on July 1, 2001.

3. Description of the Land

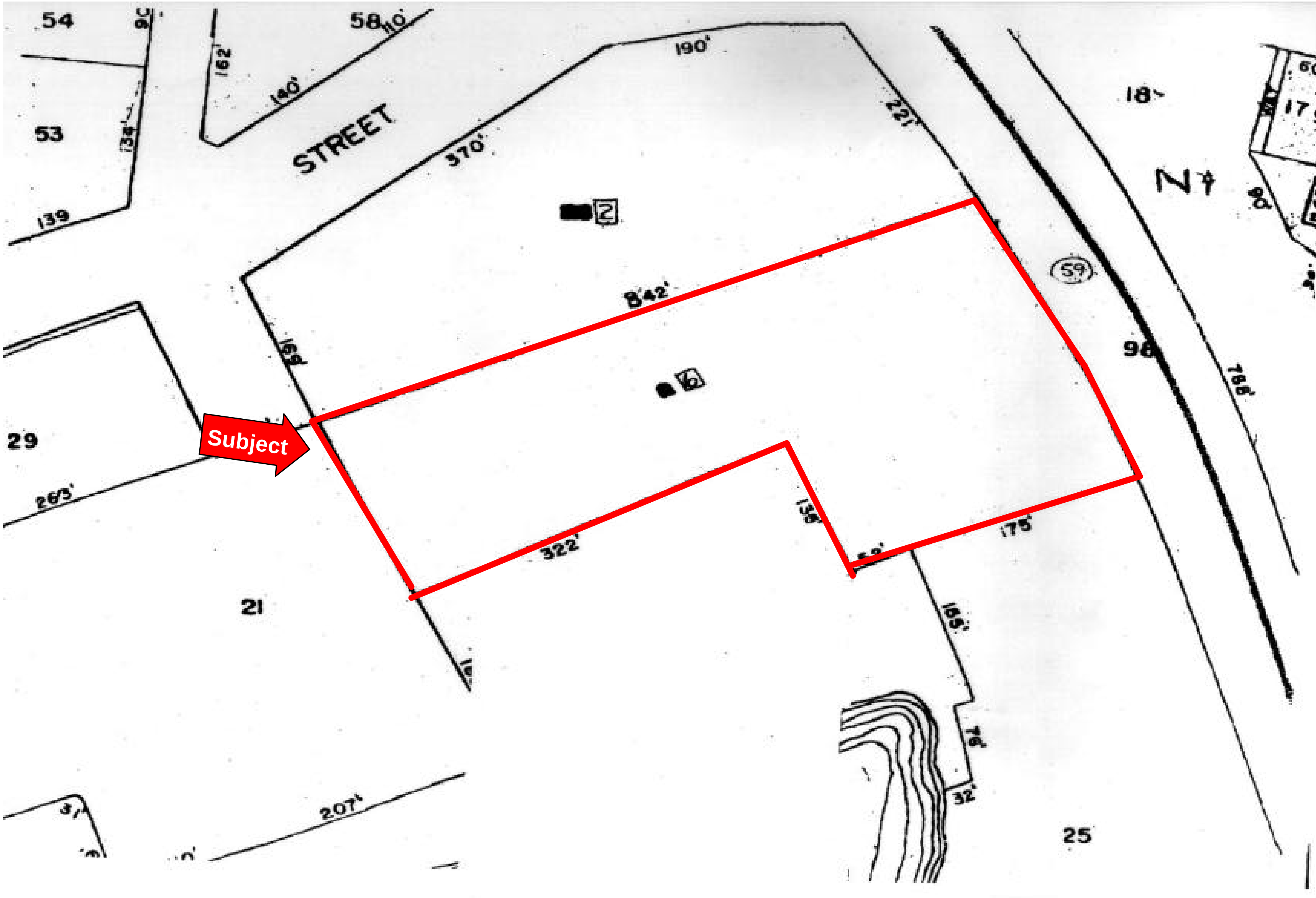
The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its overall value. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a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

The subject site is located at the northwestern quadrant of the intersection formed by Central Avenue (State Route 59) and Exit 14 of the New York State Thruway (Interstate 87/287). Municipal jurisdictions governing the property include the City of Spring Valley, Rockland County, and the State of New York.

Physical Characteristics

According to information provided by the City of Spring Valley's Assessor's Office, the subject parcel measures ±6.57 acres, or ±286,189 square feet. For property tax purposes, the subject site is identified as parcel #150-375-2. The site is rectangular with ±700 feet of frontage on Central Avenue to the east; ±409 feet of frontage along a vacant site to the south; ±700 feet of frontage alongside a strip mall to the west; and ±409 feet of frontage alongside a Chili's Restaurant to the north. The vacant land that the subject site abuts to the north is a corner parcel that borders the New York State Thruway to the south. The owners of this vacant corner parcel reportedly intend to develop a 250-room Sheraton Hotel on the site.

Central Avenue provides primary vehicular access to the site. The topography of the parcel features a gentle downward slope from west to east. The hotel is set back approximately 150 feet from Central Avenue, and the natural grade of the land places the first floor of the building roughly eight feet above street level. This elevation produces an attractive and highly visible entryway. The size and topography of the subject parcel appear to be well suited for hotel use.



STREET
Subject
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53
58
139
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788'
25
N

PARCEL MAP

Site Utility

The subject site does not contain any excess development potential. The existing improvements (including the buildings, surface parking lots, and recreational facilities) fully occupy the site, with no excess land for future expansion.

Regional Access

It is important to analyze a lodging facility's ease of access with respect to regional and local transportation routes and demand generators. The subject site is readily accessible to a variety of local, county, state, and interstate highways. The New York State Thruway, the Garden State Parkway, the Palisades Parkway, and State Routes 9W and 17 all pass within several miles of the hotel, and serve as major commutation and intra-regional transport routes linking New England with the Middle Atlantic states. Routes 45, 59, 202, 303, and 304 primarily serve as local commuting arteries for county residents.

Interstate 87/287 is part of the New York State Thruway, a limited-access toll route that originates in New York City and extends northward to Albany, and westward through Utica, Syracuse, and Rochester before terminating in Buffalo, New York. In Albany, I-87 branches off from the Thruway system and extends north to the Canadian border, where it becomes Quebec Highway 15 before continuing to Montreal. Interstate 287 crosses the Hudson River at the Tappan Zee Bridge (several miles east of the subject site), and becomes the Cross Westchester Expressway; this highway provides a direct link with the New England Turnpike (I-95) in Rye, New York. Interstate 87 continues south from the Tappan Zee Bridge and becomes the Major Deegan Expressway when it enters New York City.

Virtually all highway traffic to and from New York City, northwestern New England, and the western, central, and northern portions of New York State funnels through the New York State Thruway as it crosses the Tappan Zee Bridge. As a result, the subject site benefits from exposure to thousands of passing motorists. More importantly, the Thruway provides high-speed access to the many communities and business centers in northern New Jersey and southern New York that generate demand for the subject property.

The Garden State Parkway is a north-south, limited-access tollway that extends north from Cape May – at the southern tip of New Jersey – to the New York State Thruway, approximately one-half mile west of the subject site. This parkway is restricted to non-commercial vehicles, and has become one of the preferred passenger routes through New Jersey. Like the New

York State Thruway, the Garden State Parkway significantly increases the subject property's market area by facilitating high-speed access from many nearby business centers and communities.

The Palisades Parkway, another north-south, non-commercial highway, extends from Bear Mountain Bridge in upper Rockland County to the George Washington Bridge, which connects New Jersey with Manhattan. The Palisades Parkway intersects the New York State Thruway and State Route 59 less than three miles east of the subject site.

U.S. Route 9W is a north/south thoroughfare that parallels the Hudson River in the easterly portion of Rockland County. This roadway originates in Albany and extends south to intersect the Palisades Parkway, the New York State Thruway, and State Route 59 (approximately five miles east of the subject property) before terminating at the George Washington Bridge.

State Route 17 originates in Kearny, New Jersey, near the Lincoln Tunnel, and extends northwest through the western portion of Rockland County, paralleling the New York State Thruway. At Harriman, Route 17 turns westward and passes along the southern tier of New York State before terminating at the Pennsylvania border, near Erie.

Overall, regional access to the subject property is excellent. The well-developed network of high-speed interstate highways and superior local roadways significantly increases the subject site's primary market area and facilitates the capture of room night demand and local food and beverage patrons.

Airport Access

The Spring Valley area is also accessible by air, with the nearest airport facilities provided by Stewart Airport, which is situated in Newburgh, New York (approximately ten miles north of the subject property). The subject site occupies a fair location with respect to this facility, and may be expected to receive some direct airport-related demand from airline crews or delayed passengers. Most passengers arriving at Stewart Airport rent automobiles and drive to other destinations, such as Spring Valley.

Local Access and Visibility

Central Avenue (State Route 59) forms the subject site's eastern boundary and provides direct vehicular access to the site. In the vicinity of the subject site, Central Avenue is a four-lane, undivided highway. The speed limit is 40 miles per hour, and a relatively unobstructed view of the hotel will be available from a distance of one-half mile in either direction; this facilitates safe left- and right-hand turns into and out of the property. Central Avenue passes under the New York State Thruway in the immediate vicinity of the subject site; this underpass is approximately 100 feet long (to accommodate the six-lane Thruway above), and drivers traveling northbound on Central Avenue will not be able to see the hotel until they have emerged from the northern end of the underpass. Because the subject parcel has ±700 feet of frontage along Central Avenue, there will be ample time for northbound motorists to gain sight of the hotel and negotiate a left-hand turn after the underpass.

Drivers traveling southbound on Central Avenue descend a long hill that begins approximately three-quarters of a mile north of the subject site. From the southbound lanes, the site is fully visible for the length of the downhill grade. Because the commercial improvements along Central Avenue are only one or two stories high, they will not obstruct the view of the hotel.

The New York State Thruway is elevated approximately 15 feet as it crosses over Central Avenue, in the subject site's immediate vicinity. By virtue of its mid-rise construction, the subject property is clearly visible to motorists traveling in either direction along the Thruway from a distance of approximately one mile.

Central Avenue can be reached from Exit 14 of the New York State Thruway. Along this portion of the Thruway, tolls are collected at central plazas situated approximately two miles east of each exit. As a result, traffic flows freely from the Thruway to Central Avenue. The sign for Exit 14 can be seen from a distance of two miles from the westbound lanes of the Thruway; this sign indicates that the exit is for Spring Valley and Nanuet. A similar sign is posted one mile from the exit, and the subject property is expected to be fully visible from that point. A third sign provides a one-quarter mile warning and advises exiting motorists to bear left.

After exiting the Thruway, westbound drivers slow to a 25-mile-per-hour speed limit and proceed down a semicircular ramp that drops approximately 15 feet to the grade of Central Avenue. The intersection of the westbound Thruway exit ramp and Central Avenue is situated directly across from the subject parcel; thus, the site is highly visible to all motorists who use this ramp. The exit ramp intersects the eastern side of Central Avenue at a traffic signal, and drivers either turn left onto southbound Central Avenue, or merge right to proceed north.

Eastbound motorists on the Thruway encounter a similar set of directional signs at two-mile, one-mile, and quarter-mile intervals. These signs advise travelers that Exit 14 provides access to Spring Valley and Nanuet via Central Avenue (Route 59). The subject property becomes visible approximately three-quarters of a mile prior to this exit, providing ample time for motorists to exit safely.

The eastbound exit ramp is also located on the east side of Central Avenue; exiting traffic passes over Central Avenue and loops to the right, descending roughly 14 feet before reaching grade level. A traffic light at the intersection of the Thruway exit ramp and Central Avenue allows safe left and right turns. To reach the subject site, motorists turn right at this light, continue under the Thruway overpass, and turn left into the subject site's entryway.

Access to the subject site is convenient from the New York State Thruway and Central Avenue. The hotel structure is readily visible to approaching motorists, and the extensive highway signage, well-marked exit ramps, and numerous traffic lights further facilitate access. Overall, the accessibility and visibility of the subject site enhances its utility for hotel use.

Access to Local Demand Generators

The subject property is in close proximity to a number of important generators of lodging demand. A variety of commercial businesses are located nearby, as are the Rockland County Convention and Exhibition Center and a limited number of tourist attractions. The following table outlines some of the area's major demand generators and their distance from the subject site.

Table 3-1 Local Demand Generators

Demand Generator	Approximate Distance from Subject Site (in Miles)	Approximate Driving Time (in Minutes)
Lederle Laboratories	2.0	6
Avon Products, Inc.	2.0	6
Chromalloy Corp.	0.5	3
BSR	0.5	3
Ciba-Geigy Materials	0.5	3
Chrysler Motors	12.0	15
Volkswagen	12.0	15
Rockland County Conv. Ctr.	8.0	10
U.S. Military Academy	15.0	25
Sunnyside Tourist Attraction	8.0	15

The subject site is centrally located with regard to many local businesses. As a result of the area's excellent highway system and the subject site's proximity to the New York State Thruway, the subject hotel's location is comparable or superior to those of its existing competitors in terms of access to nearby demand generators.

Utilities

Water, electricity, sewers, and telephone service are available at the subject site. A natural gas line lies one-half mile west of the property, but because of a moratorium on new connections and the expense of acquiring easements over adjoining parcels, the subject Embassy Suites is unlikely to use natural gas service. Several distributors deliver heating oil to the hotel, and a local carting company removes garbage. The following table lists the local utility companies that serve the subject site.

Table 3-2 Available Utilities

Utility	Provider
Water	Spring Valley Water Corporation
Electricity	Rockland Power & Light
Telephone	New York Telephone
Sewer	City of Spring Valley
Natural Gas	New York Gas Company
Oil	Various private suppliers
Garbage and Trash	Various private carters
Storm Drainage	City of Spring Valley

All necessary utilities and services are available to the subject site. It should be noted, however, that the lack of a natural gas connection precludes the possibility of alternating gas and oil based on availability and price, and also forces a greater dependence on electricity, which tends to be more expensive and less desirable for cooking, laundry operations, heating, and air conditioning.

Soil and Subsoil Conditions

Geological and soil reports were not provided to the appraisers or made available for review during the preparation of this report. The appraisers are not qualified to evaluate soil conditions, other than by a visual inspection of the surface. No extraordinary conditions were apparent.

Nuisances and Hazards

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

Flood Zone

According to Federal Emergency Management Agency Map Number #060137-0084C, dated February 4, 1997, the subject site is located in Flood Zone C, identified as "areas of minimal flooding." We cannot guarantee the accuracy of our data; therefore we recommend that a flood certification be obtained.

Seismicity

According to representatives of the City of Spring Valley, the subject site is not located in a seismic zone.

Legal Description

A copy of the subject property's legal description, as provided by representatives of the hotel developer, is presented in the Addenda to this report. The appraisers are not experts in interpreting legal descriptions. The description provided appears to be accurate; however, we suggest obtaining verification of this description from a qualified expert.

Easements and Encroachments

Two reciprocal easements are in effect across the subject land, as well as an adjacent site owned by Fisher Enterprises. The first non-exclusive easement allows the ingress and egress of motor vehicles and pedestrians; the access area is a 25-foot strip of land that connects the subject site to the Fisher Enterprises parking lot. The other easement is for the drainage of surface water and the installation and maintenance of underground utility lines. The reciprocal easement agreement is dated June 28, 1994, and the easements are granted in perpetuity.

Title Report

A copy of the subject property's title report was provided to the appraisers; a copy is presented in the Addenda to this report. We have reviewed the title report, and assume it to be accurate.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities, and we note the following advantages and disadvantages.

Advantages

- The subject parcel is a large site with frontage on Central Avenue, a local arterial with high exposure and a direct connection to the New York State Thruway.
- The subject parcel features a smooth topography with a gentle slope from west to east.
- A highly developed system of interstate highways and local routes lies in close proximity to the subject site.
- The site features excellent access and visibility from State Route 59 and the New York State Thruway, and is convenient with respect to local demand generators.
- All necessary utilities are available.

Disadvantages

- Stewart Airport is located ten miles north of the subject site making airport access only fair.
- Natural gas is not available.

The advantages exhibited by the subject site are all of particular importance to the operation of a hotel. The excellent access and visibility from the New York State Thruway is especially significant. Furthermore, the two disadvantages are expected to have little bearing on the hotel and its operations. The local market does not derive a substantial amount of direct airport business such as flight crews or delayed passengers. However, having an airport in the area does enhance the region's accessibility, which is beneficial to all local businesses.

4. Description of the Improvements

The quality of a lodging facility's physical improvements has a direct influence on its marketability and attainable occupancy and average rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. This section investigates the subject property's physical improvements and personal property in an effort to determine how they contribute to total value.

Property Overview

The subject Embassy Suites is a first-class, all-suite lodging facility containing 200 guestrooms, ±5,055 square feet of meeting space, a restaurant, a lounge, an indoor swimming pool, a fitness room, a gift shop, ±250 surface parking spaces, and other facilities and amenities typical of a hotel of this type. The six-story subject property originally opened in 1990 and is operated under a management contract with HEI Hotels. Overall, the hotel appears to be in good condition; and management representatives report that all of the building systems are in good working order.

The following table summarizes the subject property’s existing facilities.

Table 4-1 Facilities Summary

Guest Suites	No. of Rooms
Kings	125
Double/Doubles	75
Total	200
Food & Beverage Outlets	**No. of Seats**
Atrium Restaurant	125
Mermaid Lounge	75
Total	200
Meeting Space	**Square Footage**
California Ballroom	2,750
Spring Valley Room	530
Wine Room	400
Clipper Room	400
Conch Room	350
Periwinkle Room	325
Starfish Room	300
Total	5,055
Other Facilities	
Indoor Swimming Pool and Whirlpool	
Fitness Room	
Gift Shop	
Surface Parking Lots – 250 spaces	
Building Construction	
Exterior	Dryvit
Frame	Concrete block
Roof	Rubber membrane
Building Systems	
Elevators	Two guest/service
HVAC	Rooms - individual heat pump Public Space - central system
Laundry	Two washers Four dryers
Life Safety Systems	Fully sprinklered Hard-wired smoke detectors

Embassy Suites Concept

Embassy Suites represents one of the original all-suite hotel brands. All-suite hotels have become one of the most prominent lodging products in the past two decades, and are popular because of the value guests typically associate with large guestroom space allocations. Embassy Suites affiliates typically compete with full-service commercial hotels by providing travelers with a superior price/value relationship. Suite hotels offer guests two separate rooms that combine to form a unit that is larger than the single rooms available in typical commercial hotels. Moreover, many suite hotels are equipped with in-room refrigerators and wet bars. Features and services offered by typical Embassy Suites properties include the following.

- Two-room suites with a living room and a separate bedroom
- Wet bar and refrigerator
- Microwave oven
- Sofa bed in the living room
- Two color television sets and two telephones
- Complimentary cooked-to-order breakfast, served in the atrium
- Complimentary cocktails served for two hours in the evening

The Embassy Suites concept plays an integral role in the market penetration characteristics of its affiliated properties and has a strong influence on the value of a particular hotel. The Embassy Suites product is one of the most successful concepts in lodging industry history.

Following Hilton Corporation's acquisition of the Promus Companies, Inc., in 1999, the Embassy Suites brand is now part of Hilton's large stable of lodging products, including Hilton, Hilton Garden Inns, Homewood Suites, Doubletree, and Hampton Inn. The brands benefit from cross selling and the Hilton Honors guest program, which provides incentives for frequent use of Hilton brands.

Exterior Design

The hotel structure is situated in the approximate center of the subject site. Paved parking areas accommodating ±250 vehicles are located on the northern and southern sides of the building. There is little area between the building's eastern and western sides and the eastern and western property lines, and thus, portions of the site located directly east and west of the hotel structure are used primarily for traffic circulation.

The subject site's only vehicular entrance is located in the northwestern corner of the parcel, off Central Avenue. After entering the site, arriving guests proceed to the hotel's main entrance, which is located along the building's western side. Service traffic can gain access to the loading dock, which is located along the northern side of the building, by entering the site, turning right, and following a traffic lane around the northern parking area. To reach the southern and eastern sides of the hotel, motorists follow a traffic lane located along the site's western perimeter; this roadway leads past the main entrance and around the southern parking area.

A porte cochere extends over the main hotel entrance and covers the passenger arrival area. Because the main entrance is located on the western side of the hotel and fronts Central Avenue, it has a strong visual impact on passing motorists.

Three additional public entrances are available. One of these is located just north of the main entrance, along the building's western side. This entrance provides access to a public corridor that extends from the main lobby to the restaurant and lounge. Another entrance is situated in the western portion of the hotel's northern side, and opens into a small lobby that provides access to the food and beverage outlets. An attractive canopy identifying the Atrium Restaurant marks this entrance. A third entrance is located along the western portion of the building's southern side, and opens into a public corridor that leads to the meeting rooms. This corridor extends northward and terminates in the southeastern corner of the main lobby.

Construction and Interior Design

The subject property features three wings and an atrium. The central wing houses public areas, back-of-the-house facilities, and guestrooms on the second through sixth floors. The one-story south wing extends out from the center portion of the central wing, and houses the meeting and banquet rooms, the indoor swimming pool, and the front desk. Another one-story wing extends north from the central wing; this area contains the food and beverage outlets. All three wings are connected on the first floor, providing guests with indoor access to all building areas. The structure features a full basement.

Guestrooms in the central wing are single-loaded along interior corridors that lead into the square atrium. The atrium roof is constructed of glass panels that allow natural light to enter the interior. On the ground level, the atrium is landscaped with attractive greenery, small trees, streams, bridges, and ponds. The central guestroom wing is constructed on spread footings on a structural concrete-slab floor; walls consist of eight- and 12-inch structural concrete block. Floors are constructed of pre-cast panels and cast-in-place structural concrete. The roof decking consists of steel-pan construction under lightweight concrete and built-up roofing. The building's northern and southern facades largely consist of glass; the remainder of the structure is composed of concrete block that has been treated with Texcote, a special cement plaster. Exterior walls feature a masonry finish, and the eastern and western walls are equipped with interior fire escapes.

The single-story north and south wings are constructed of reinforced concrete spread footings and pads that are bonded to a structural concrete slab. Columns extend upward to support the floor of the ground level. Exterior walls are constructed of structural concrete block that extends to the ceiling. Large steel girders span the roof and provide column-free space in the lobby and the meeting rooms. The exposed mansard roof that covers the one-story wings is finished with clay tile; other areas feature built-up roofing. The property owners indicate that the roofing material covering the one-story wings is in good condition.

Lobby

The building's first floor houses virtually all of the subject property's public space, as well as certain back-of-the-house areas. Guests pass through the main hotel entrance and arrive in the center of the lobby's western portion. To the immediate left is the bell stand, beyond which are the front desk and the registration area. The front desk is roughly 30 feet long, and is easily identifiable; this area appears to be well equipped. The subject property's rooms department operates on a computerized system; management representatives indicate that this system works efficiently. Attractive walkways, lush plantings, small trees and fountains, streams, and waterfalls provide the lobby with a tropical ambiance.

Three public corridors intersect the rectangular atrium lobby at its northeastern, northwestern, and southwestern corners. The northeastern corridor provides access to the hotel's food and beverage facilities and an east/west corridor that leads to the meeting rooms and various administrative offices. Access to the guest elevators and the indoor swimming pool (which is situated in the southwestern corner of the building) is provided by the northwestern corridor. The southwestern corridor leads to the main ballroom and another small meeting facility; this corridor terminates at the building's southern entrance.

A gift shop is located along the northern wall of the lobby, and extends west to the northwestern public corridor. Because this facility features glass walls on its lobby sides, it is easy to identify. The gift shop is operated as a leased concession. Public restrooms serving the lobby are also located in this area, relatively close to the main ballroom.

The front desk area is finished with quarry tile floors and assorted wall coverings. A small seating area featuring a gas-fueled, four-sided fireplace is located near the front desk. Although this area appears to be in relatively good condition, given the property's age, the soft goods exhibit some signs of wear and tear, and will require replacement in the near future.

The guest elevator lobby is located in the center of the atrium, minimizing the distance from the elevators to the eastern- and westernmost guestrooms. The elevator lobby is spacious, and features a glass wall on its southern side that provides natural light and exterior views. It should be noted that the guest elevators are not visible from the front desk, which limits hotel personnel's ability to monitor access to the guestroom floors. Although this locational factor represents a form of functional obsolescence, we believe that this disadvantage can be overcome by appropriate managerial attention to security.

Guestrooms

The subject guestrooms are single loaded around the atrium lobby. Typical suites are 13 feet wide and 36 feet long (468 square feet), and feature a living area and a bedroom arranged in a boxcar configuration. The living area is furnished with the following items.

- Sofa bed
- Armchair
- Fabric drapes and sheers
- Coffee table
- End table
- Dinette set that can be used as work space
- Wet bar
- Refrigerator
- Small coffeemaker
- Microwave oven

- Floor lamp
- Push-button telephone
- Remote-controlled color television set equipped with Spectravision
- Hard-wired smoke detector
- Wall-to-wall carpeting
- Assorted artwork
- Assorted plants

The bathroom is situated beyond the living area and divides the two rooms. The bedroom contains the following furnishings and equipment.

- One king-size or two double beds
- Fabric drapes and sheers
- Credenza
- Remote-controlled color television set equipped with Spectravision
- Two nightstands
- Wall-mounted lamps
- Armchair
- Push-button telephone
- Hard-wired smoke detector
- Wall-to-wall carpet
- Assorted artwork
- Vanity sink

Guest bathrooms are standard three-fixture types equipped with porcelain commodes, fully tiled tub/shower units, counter-type sinks, wall-mounted mirrors, and tiled floors. Bathroom finishes include ceramic tile, vinyl, and plaster.

At the time of our inspection, the subject property's guest units appeared to be in good condition. The furnishings of all the guest suites were replaced in 1998, as part of a $2.5 million renovation. This renewal effort allowed property management to maintain a strong competitive position in the Spring Valley market.

Guestroom Corridors

Guestroom corridors are wide enough to permit the easy passage of housekeeping and room service carts, and the doorways are recessed to facilitate traffic circulation. The corridors are finished with carpeted floors, vinyl-covered walls, and acoustical-tile ceilings, and the lighting is adequate.

Fire exits at the eastern and western ends of each guestroom corridor lead to the interior fire escapes that flank both sides of the building. This configuration is favorable, in that it permits airing of the corridors, but is unfavorable because it allows guests access to the roof.

Each guestroom floor contains a vending area, a housekeeping closet, and an electrical closet. The vending area is located in the approximate center of the corridor, immediately across from the elevator lobby. Although the vending areas are somewhat unsightly because they are not enclosed, the locations are convenient to all guest units. The housekeeping closets provide access to the linen and trash chutes that serve all floors, and are large enough to permit linen and supply storage.

Management has created no-smoking levels on the fourth, fifth, and sixth floors of the central wing; this type of amenity costs very little, and requires no structural changes. We expect that the number of rooms allocated for this purpose will be increased or reduced, depending on demand and guest response.

Food and Beverage Outlets

The Atrium Restaurant, which seats 125 people at tables and banquettes, is situated in the northeastern portion of the hotel. This all-purpose facility is equipped with a built-in, circular buffet, and is finished with carpeted floors and acoustical-tile ceilings; direct access to the main kitchen is available. The Atrium Restaurant is attractive, although some cosmetic refurbishment may be necessary to offset deterioration of the soft goods and finishes. The restaurant serves a buffet breakfast from 7:00 a.m. to 10:00 a.m., a buffet lunch from 11:30 a.m. to 2:00 p.m., and dinner from 5:30 p.m. to 10:00 p.m.

Cocktails are available in the Mermaid Lounge, which seats up to 75 people at booths, tables, counters, and a 12-seat bar. This facility features a small dance floor, a piano, and a portable stage, and is finished with carpeted floors and acoustical spray-on concrete ceilings. Wall finishes are assorted, and include

French-pane windows that overlook the northern parking area. The Mermaid Lounge features indirect access from the main kitchen, and food service is provided at selected times. The lounge was refurbished in 1990, and appears to be in good condition. Hotel guests are invited to a complimentary cocktail reception from 5:00 p.m. to 7:00 p.m. each evening.

A small reception area serving the food and beverage outlets is located near the northern building entrance. One set of public restrooms is available for patrons using the restaurant, lounge, and two small meeting rooms that are located nearby. Management representatives report that these restroom facilities are adequate.

Meeting and Banquet Space

All of the subject property's function space is located on the building's first floor. The main facility is the ±2,750-square-foot California Ballroom, which is situated west of the lobby, in the southern portion of the building. Movable partitions can be used to create as many as three smaller divisions of roughly equal size. A food preparation and service area extends along the room's western side, allowing direct and simultaneous food and beverage service in each subdivision. The California Ballroom is finished with carpeted floors, vinyl-covered walls, and acoustical-tile ceilings featuring recessed, incandescent lighting. Each subdivision is equipped with individual climate controls, and a small storage room is located south of the food preparation and service areas. Although the California Ballroom is an attractive and flexible facility, the soft goods are worn and in need of refurbishment; this upgrading is considered necessary to allow the subject property's meeting and banquet space to remain competitive in the local market.

Public access to the California Ballroom is provided by a corridor that extends southward from the lobby to the southern parking area. This configuration is favorable because it allows meeting and banquet patrons to reach the ballroom from the southern parking area without walking through the main lobby. Despite this advantage, the corridor is too narrow and too vital to traffic circulation to allow it to be used for food and beverage service.

The ±530-square-foot Spring Valley Room is located east of the ballroom, across the public corridor. This facility does not feature separate public and service entrances, nor does it have any adjoining service area or prep kitchen. As a result, food and beverages must be transported through the public corridor that provides access to the ballroom. This constitutes a design disadvantage. When portions of the California Ballroom are not in use, food and beverages may be transported from the service area through the ballroom and directly across the public corridor.

Three small meeting facilities known as the Conch, Periwinkle, and Starfish Rooms are located off the corridor leading from the lobby to the food and beverage outlets; this corridor can also be reached from the guest elevator bank. Although these meeting rooms were designed as guest suites, their first-floor location and high ceilings render them only marginally suitable for that use. Management representatives indicate that the units are still rented to guests during peak demand periods. These rooms, which range from 300 to 350 square feet, are well suited for small meetings.

Two additional meeting and banquet facilities, known as the Wine and Clipper Rooms, are located in the northeastern corner of the building, near the restaurant and lounge. These rooms measure roundly 400 square feet each. Access to the main kitchen is indirect, and food and beverages must be transported through a public corridor. These rooms were recently renovated, and appear to be in excellent condition. Finishes consist of carpeted floors and acoustical spray-on concrete ceilings; the walls are covered with vinyl and mirrors. Although the ceilings in these rooms are somewhat low, large recessed areas in the center of the ceilings contribute a sense of space. Both the Wine and the Clipper Rooms feature individual climate controls.

Other Facilities

The subject property's indoor swimming pool is located on the first floor, in the southwestern corner of the building. The built-in pool is irregular in shape, and is surrounded by a deck constructed of quarry tile and artificial turf. A small, rectangular whirlpool is located near the pool. The entire area is enclosed by sliding glass doors on its southern and western sides; these doors can be opened when the weather permits, and the roof covering the pool slides open electrically to allow sunbathing. Because the pool is located on the side of the building closest to the New York State Thruway, traffic can be heard when the glass doors are open; however, management representatives report few complaints. Moreover, this location prevents the smell of chlorine from permeating the public areas, which tends to be a problem in many hotels with indoor swimming pools.

Back-of-the-House Space

The subject property's basement extends under the entire building, and contains the bulk of the back-of-the-house facilities. These include engineering offices, a maintenance shop, an electrical switch room, a generator room, a telephone equipment room, the boiler room, a water softening equipment room, a sump pump room, an ice machine room, housekeeping offices, the laundry room, linen storage areas, employee locker rooms and restrooms, assorted areas for supplies and storage, and various other mechanical and electrical equipment rooms.

The subject property's two PVI boilers are reported to be in good working condition. The boilers are oil fired, and management representatives indicate that this equipment provides adequate hot water during peak demand periods. The hotel's laundry features four Cissell gas-fired dryers and two Floataire washers with capacities of 250 and 65 pounds, respectively. This equipment is also reportedly in good working condition, and is adequate to handle peak demand.

Based on information provided by the hotel owners, all of the subject property's operating systems are in good condition. Storage space is reported to be more than adequate, which is an uncommon advantage in a hotel of this size.

The subject property's main kitchen is located in the northwestern portion of the building's ground floor. The kitchen adjoins the employee cafeteria and service areas, which, in turn, provide access to the Atrium Restaurant and the Mermaid Lounge. Service to the ballroom is indirect; food and beverages must be transported from the main kitchen through the employee cafeteria and a public corridor before reaching a food preparation area situated behind the meeting room. Because the portion of the public corridor that must be crossed is situated west of the elevator bank and is generally used only by guests en route to the swimming pool, this configuration is not considered to be particularly disadvantageous. Food and beverages must also be transported through public corridors to reach the other ground-floor meeting and banquet facilities; however, because these small rooms require only limited service, the access problems are minimal. Another mitigating factor is that food and beverage products do not have to be transported through the lobby or down the corridor leading to the guest elevators.

The main kitchen features direct access to the loading dock and receiving area, which is situated in the eastern portion of the building. Moreover, all food and beverage storage areas are located in the vicinity of the main kitchen. This configuration is favorable, and allows the efficient transfer of food and beverage deliveries to their destinations.

Overall, the main kitchen appears to be well equipped, and is finished with quarry-tile floors and acoustical-tile ceilings. The hotel owners report that all kitchen equipment is in good working condition, with the exception of several ice machines, which are covered by a service contract.

Several administrative areas are located behind the front desk, including the general manager's office, the front desk manager's office, the switchboard, the reservations office, guest vaults, and a small luggage storage room. Additional administrative functions, including the accounting and sales offices, are concentrated along the corridor leading to the food and beverage outlets. These offices appear to be somewhat small, given the hotel's room count, but management representatives report that they are adequate.

Additional facilities located on the first floor include various storage and equipment rooms and a storage area that was originally designed as a game room.

Vertical Transportation

The subject property's only major design flaw is its vertical transportation system. The structure is served by two elevators that provide access to all of the floors, including the basement; these elevators must be used by both guests and service personnel. Because of their location in the approximate center of the building, the elevators are reasonably close to the main kitchen, the housekeeping department, the laundry, and the guestrooms. Nevertheless, the mingling of guest and service traffic is undesirable, and causes some delays for both guests and employees during peak periods. Further exacerbating this difficulty is the location of the fire stairs on the far sides of the building, which limits their usefulness for light service traffic. Management can do little to mitigate this design inadequacy, other than designating an elevator for service use during off-peak periods. Because of the structural requirements for elevator shafts and the fact that the building's walls are load-bearing, there is little possibility of installing another elevator.

In addition to the fire stairs, an interior service stairwell connects the basement level to the ground floor. Because the guestroom floors cannot be reached from this stairway, it does little to alleviate the load on the elevators. The presence of laundry and trash chutes on each floor is beneficial, and eliminates the need to transport these items in the elevators.

Although the hotel owners concede that additional elevators or dumbwaiters would be desirable, they report few guest complaints regarding the current system. Although the productivity of service personnel may be affected by long waits for elevators, our review of the subject property's operating history does not indicate that efficiency has been impeded to any significant degree. Although our income and expense forecasts implicitly consider the inefficiencies inherent to the subject property's vertical transportation system, the operating history suggests that inadequacies in this area have not had an unfavorable impact on the hotel's revenue-generating ability.

Heating, Ventilation, and Air Conditioning (HVAC)

All of the building's heating, ventilation, and air conditioning (HVAC) systems are electrical. Guest units are heated and cooled by individual heat-pump units. This type of system optimizes guest comfort by providing a high degree of climate control in each room. Although electric heating and cooling tends to be expensive, it is also highly efficient, because individual units can be turned off in unoccupied rooms. The HVAC equipment serving the hotel's public areas is located on the roofs of the single-story wings. All public areas can be heated or air conditioned on an individual basis. All of the subject property's HVAC equipment dates from the time of construction, although a computerized energy management system that was installed recently should generate some savings. Management representatives indicate that all of the HVAC equipment is in good operating condition.

Fire Protection

All building areas are equipped with hard-wired smoke alarms. As noted earlier, two sets of interior fire stairs span the height of the building along its eastern and western sides. The subject property was not originally constructed with a sprinkler system, although such a system was reportedly installed in 1994 at a cost of approximately $610,000.

Security

The subject property has instituted an extensive security program. The property is served by a state-of-the-art key electronic key system. In addition, the entire property can be monitored with television cameras placed in strategic positions both inside and outside of the building. The security office is situated at the employee entrance and time clock station.

Asbestos

According to information provided by management representatives, there is no asbestos present in the subject property's improvements; however, we have not been provided with an asbestos report to confirm this assertion. The reader should be advised that any costs associated with asbestos removal or containment could have an unfavorable impact on the hotel's market value, and the estimate set forth in this appraisal reflects our value conclusions prior to the deduction of any such costs. We suggest that interested parties initiate an independent analysis regarding current asbestos levels and the capital expenditures necessary to remove any asbestos that might be present.

ADA Conformance

Following the January 26, 1992 passage of the Americans with Disabilities Act, the subject property was subject to new physical standards. ADA standards principally address the number and accessibility of guestrooms designed to accommodate physically challenged guests, though a variety of safety standards are also included that can touch on the status of building systems. Due to the high, and sometimes prohibitive, cost of ADA conformance, necessary improvements have generally been limited to what is "readily achievable." When a property is in the process of refurbishment, efforts are expected to be made to address ADA standards at that time. For example, if, in the process of refurbishment, a vanity is being replaced, at that time the vanity should be raised so that it conforms to the ADA standards.

According to property management, the subject property's ADA issues have been fairly addressed. In the past year, the property hosted a group of physically challenged guests, a disabled veterans organization, and encountered no problems with conformance. HVS International is not an expert on ADA conformance and renders no opinion as to whether the subject property does or does not conform to ADA standards. Should a capital expenditure be necessary to bring the property into ADA conformance this would reduce our estimate of market value. Any ongoing costs related to ADA conformance are expected to be funded by normal annual reserves for replacement.

Conclusion

Overall, the subject property's existing improvements are in good condition, and appear to have a logical design. The structure is straightforward in design and configuration, permitting efficiency of operation and convenient guest traffic flow. The exterior building design is modern and inviting, which is beneficial in attracting motorists using the New York State Thruway and Central Avenue. The property's all-suite configuration further enhances the hotel's appeal to commercial and leisure travelers.

Interior finishes are attractive, although some wear and tear is evident in the lobby, meeting rooms, and the Atrium Restaurant. Soft goods in several areas are in need of replacement, and some refurbishment will be necessary in the near future. The replacement reserve should be adequate to cover the cost of necessary replacements and refurbishments. Despite these drawbacks, the hotel's image is enhanced by its dramatic atrium lobby, which is characterized by the extensive use of plantings, waterfalls, and other visual elements. The property also benefits from a recent guestroom renovation effort, completed in 1998 at a cost of approximately $2.5 million.

The subject property's vertical transportation system is a characterized by some inadequacy, and both operating efficiency and guest satisfaction could be improved by the availability of additional elevators. As noted earlier, the feasibility of installing this equipment is limited, and the subject property's historical operating results do not indicate that this inadequacy has caused any significant decline in the hotel's income-generating ability. Because the subject Embassy Suites reportedly operates without difficulty at high volume levels, we see no reason why the elevator system should have any greater impact in the future than it has had in the past.

5. Zoning

According to the City of Spring Valley zoning regulations and map (dated July, 1992), the subject site is zoned as follows.

RS – Regional Shopping

This zoning designation, which is intended to encourage large-scale commercial development, predominates in the subject property's immediate area and extends along Central Avenue for several miles in both directions. Lodging facilities, boarding houses, and tourist homes are permitted by special permit from the Board of Appeals.

The City of Spring Valley Building Department indicates that the RS zoning designation and the size of the subject parcel permit the operation of approximately 300 hotel rooms, along with associated facilities and amenities. The maximum building height is ten stories. Parking requirements are one space per guestroom for the first 30 units; one space for every two guestrooms for the next 30 units; and one space for every three guestrooms for the remaining units. The maximum floor area ratio (FAR) of the improve-ments is 1.5 times the area of the site.

Based on this information, the parameters of the subject property appear to be within the standards of the local zoning regulations. However, we do not warrant the subject property's conformance with local zoning regulations and recommend an independent verification. We assume that all necessary permits and approvals are secured (including an appropriate liquor license), and that the subject property has been constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations.

6. Assessed Value and Taxes

Property (or ad valorem) tax is one of the primary revenue sources of municipalities. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value, so properties with equal market values will have similar assessments and properties with higher and lower values will have proportionately larger and smaller assessments. Depending on the taxing policy of the munici-pality, property taxes can be based on the value of the real property or the value of the personal property and the real property.

The taxing jurisdiction governing the subject property assesses only real property. The assessed value ratio is reported to be approximately 55% of market value. The following table identifies how the subject property's 2000 property tax expense was calculated.

Table 6-1 Historical 2000 Property Tax Expense

Assessed Value						
Land	Building	Total		Tax Rate per $1,000 Ass'd		Tax Forecast
$3,000,000	$14,400,000	$17,400,000	x	$15.83	=	$275,442

Comparable Assessments

Because the objective of assessed value is to maintain a specific value relationship among all properties in a taxing jurisdiction, comparable hotel assessments should be evaluated to determine whether the subject property's assessed value is equitable. The following table summarizes the 2000 assess-ments established for the subject property and its primary competitors, each of which are also located in the City of Spring Valley taxing jurisdiction.

Table 6-2 Assessed Value of Comparable Hotels

Hotel	Number of Rooms	Total Assessment Land	Total Assessment Improvements	Assessment per Room Land	Assessment per Room Improvements
Embassy Suites	200	$3,000,000	$14,400,000	$15,000	$72,000
Marriott	347	4,858,000	27,760,000	14,000	80,000
Hilton	375	5,625,000	28,125,000	15,000	75,000
Westin	280	4,480,000	22,960,000	16,000	82,000
Radisson	225	2,700,000	13,500,000	12,000	60,000

Source: Spring Valley Assessor's Office

The subject property's assessment appears to be logical, when compared to the assessments of its primary competitors. The subject property's assessment is most comparable to those of the Hilton and the Marriott. The Westin features a higher-grade construction, while the Radisson's co-struction grade is lower.

Tax Rate Trends

The composition of the current tax rates applicable to the subject property is presented in the following table.

Table 6-3 Tax Rates Applicable to the Subject Property

Jurisdiction	Tax Rate per $1,000 of Assessment
City	$13.83
School	1.50
Library	0.30
Fire Department	0.20
Total	$15.83

The following table shows changes in the tax rate per $1,000 of assessed value during the past few years.

Table 6-4 Historical Tax Rates

Year	Tax Rate per $1,000 of Assessment	Percent Change from Previous Year
1997	$15.85	—
1998	16.37	3.3 %
1999	14.83	(9.4)
2000	15.83	6.7
Average Annual Percent Change:		(0.0) %

Source: Spring Valley Assessor's Office

The tax rate applicable to the subject site has been somewhat volatile in recent years. However, the overall change between 1997 and the current tax year was negligible.

Property Tax Forecast

Based on the preceding findings, we have used the subject property's actual 2000 property tax expense as the basis for our forecast, and have applied base inflationary gains of 3.0% per year in order to account for future growth in the expense. As noted above, the tax expense in 2000 equated to approximately $275,000.

7. Description of the Neighborhood

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. This section investigates the subject property's neighborhood and evaluates any pertinent locational factors that could affect its occupancy, average rate, food and bev-erage revenues, and overall profitability.

Neighborhood is defined by *The Dictionary of Real Estate* as a group of complementary land uses; a congruous grouping of inhabitants, buildings or business enterprises.[1] The neighborhood encompassing the subject property consists of an area running north along Central Avenue approximately one mile to the point where it turns from a commercial, retail strip to the more developed downtown district of Spring Valley. The southern end of the neighborhood is marked by a regional shopping mall. This commercial corridor is surrounded by residential development to the east and west.

The neighborhood surrounding the subject property is characterized by a mixture of first-class retail and office space along Central Avenue (State Route 59), and middle-income residential housing on the secondary streets leading from and paralleling Central Avenue. This area is suburban in character, compared to the more developed downtown district that is situated two miles north of the subject site. The commercial strip on Central Avenue extends from a regional shopping mall located just south of the subject prop-erty to the southern perimeter of Spring Valley's central business district.

Development in the subject property's neighborhood began approximately 20 years ago as a result of developmental pressures radiating away from the

[1] *The Dictionary of Real Estate - Third Edition,* Appraisal Institute, Chicago, IL, 1993, p. 242.

NEIGHBORHOOD MAP

core of the New York Metropolitan area. Growth occurred rapidly in recent decades; within ten years, most of the property along Central Avenue north of the New York State Thruway was improved with high-quality retail outlets and mid-rise office buildings. Tract developers undertook construction in the surrounding residential areas at the same time.

Property along Central Avenue south of the Thruway only recently captured the interest of developers. Historically, the Thruway acted as a barrier that inhibited the southerly expansion of Spring Valley. This situation changed rapidly in the mid-1980s, when a 500,000-square foot regional shopping center known as the Spring Valley Mall was constructed just south of the subject property, in the southwestern quadrant of the intersection formed by Central Avenue and the New York State Thruway. The mall, which is anchored by Saks Fifth Avenue and Macy's, and contains 68 outlets typical of those found in regional malls throughout the United States. These first-class retail establishments enhance the image of the area. The parcels adjoining the mall to the west are improved with well-maintained single-family homes.

One office complex and a multi-family apartment building are under construction on sites surrounding the mall. In addition, the owner of the land located directly south of the subject property, at the northwestern corner of Central Avenue and the New York Thruway, is being considered for hotel development. This 250-room hotel will reportedly be affiliated with Sheraton; it is expected to open in January, 2004, and to compete directly with the subject property. Otherwise, an area of potential development is located south of the Thruway, along Central Avenue. Although this area maintains a favorable image, the commercial appeal of property located in this area is still not on a par with sites situated further north on Central Avenue.

A one-story strip shopping center containing approximately 15 retail outlets is located immediately north of the subject site, on the western side of Central Avenue. The tenants include a men's wear shop, a women's lingerie boutique, a travel agent, a real estate broker, a jeweler, an ice cream shop, a liquor store, and an antique dealer. The quality and variety of these shops complement the subject property. Facilities located immediately north of the strip mall include a Mercedes-Benz dealer, a three-story medical building, and an office building housing the regional headquarters of IBM Office Equipment Marketing. This branch of the national computer firm is responsible for developing marketing programs in the northeastern United States and training all sales representatives. Most of the employees who attend training conferences in this building are housed in nearby lodging facilities.

Eight additional retail outlets are clustered north of the IBM building; these buildings were among the first commercial improvements constructed south of the downtown district. This shopping center is intended to serve local residents, and includes a grocery store, a pharmacy, a hairdresser, and a bank branch. Similar retail, office, and commercial improvements stretch north into downtown Spring Valley.

The land on the eastern side of Central Avenue, directly across from the Spring Valley Mall, is unimproved. Proposals for future development include office space, a fast-food restaurant, and strip-type retail establishments. Planning officials predict that most of this land is expected to be fully developed during the next five years.

The residential neighborhoods that flank Central Avenue are characterized by attractive middle-income housing. Most of the residents living in this area are employed by local businesses; approximately 10% commute to jobs in New York City.

Conclusion

The neighborhood surrounding the subject site appears well suited for the operation of a lodging facility. A base level of commercial and meeting demand is generated by the IBM complex and other nearby offices. Retail improvements such as the Spring Valley Mall provide a source of diversion for the hotel's guests. The neighborhood's attractive surroundings and first-class image enhance the subject property's market position, and we observed no adverse influences that are likely to have a detrimental impact on the hotel's attainable occupancy, average rate, or food and beverage volume.

Overall, the subject property's immediate neighborhood appears to be stable at the current time. The most notable new development in the area is associated with the prospective construction of a new 250-room Sheraton Hotel on the site directly south of the subject property. In addition, some vacant land is available south of the Thruway, which may encourage additional development and have a beneficial impact on local lodging facilities; however, the neighborhood is generally considered to be mature and stable.

8. Market Area Analysis

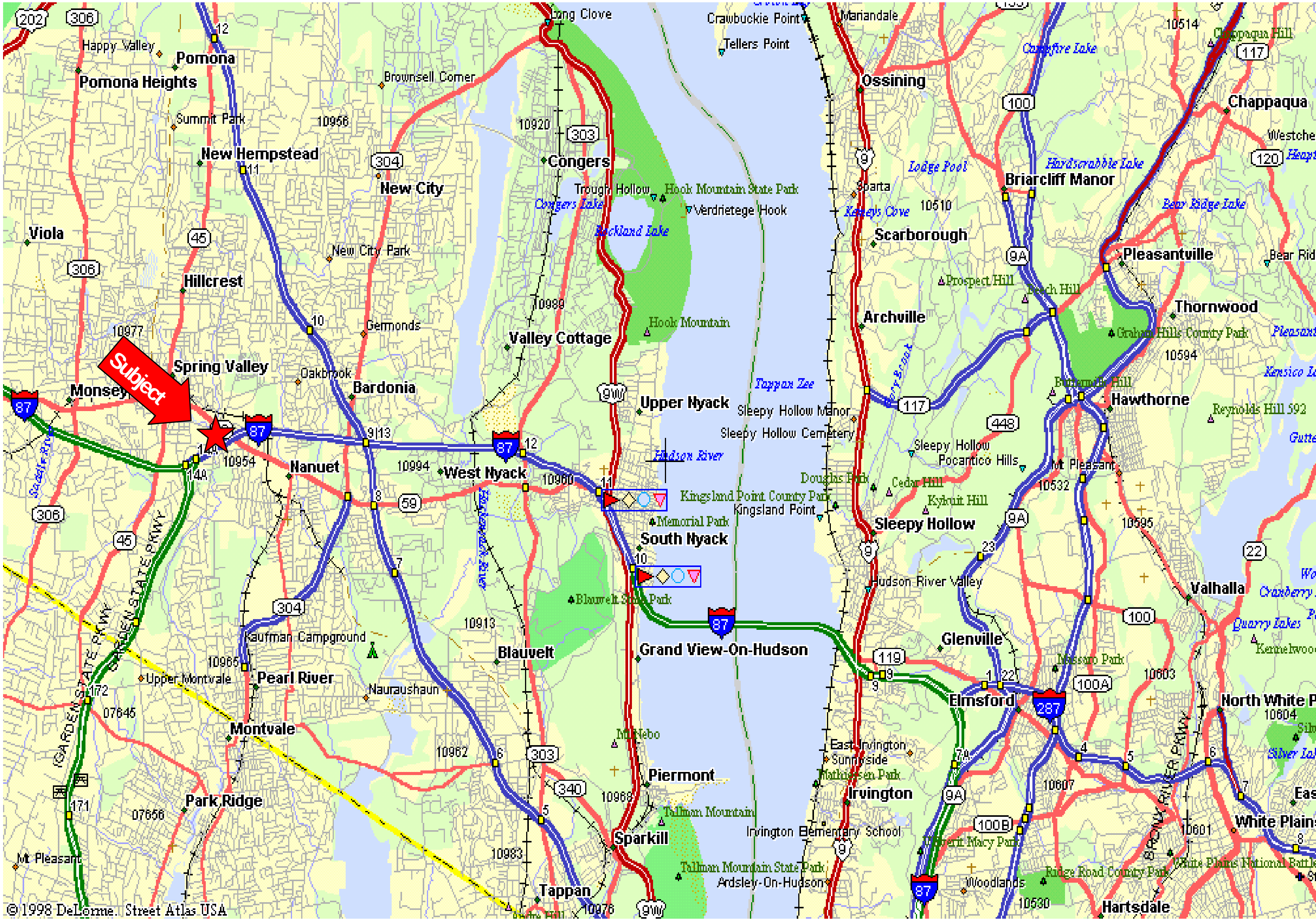
The economic vitality of the market area surrounding the subject property is an important consideration in forecasting lodging demand and income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project hostelry demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand with the objective of forecasting the amount of growth or decline in transient visitation by individual market segment (e.g., commercial, meeting and group, and leisure).

Market Area Overview

The subject property is located in the City of Spring Valley, Rockland County, and the State of New York. Spring Valley is situated in southern New York State, near the northern border of New Jersey, approximately 30 miles north of Manhattan. The subject property's primary market area is suburban in character, and can be defined as southern New York State and northern New Jersey; specifically, the market consists of Rockland County, New York City and the northern portion of Bergen County, New Jersey. Some hotel demand may also originate from Westchester, Putnam, and Orange Counties in New York, and from Passaic County in New Jersey.

Rockland County, which represents a major portion of the subject property's market area, is approximately 176 square miles, and is the state's smallest county north of New York City. Politically, the county is divided into five towns, the City of Spring Valley, 13 villages, and numerous hamlets.

Rockland County is part of the New York–Northern New Jersey–Long Island Consolidated Metropolitan Statistical Area (CMSA) – the largest CMSA in the country, which encompasses the New York, Northern New


Subject
Pomona
Pomona Heights
Happy Valley
Summit Park
New Hempstead
Brownsell Corner
Viola
Hillcrest
Spring Valley
Monsey
Nanuet
Bardonia
Oakbrook
Germonds
New City
New City Park
Congers
Congers Lake
Long Clove
Trough Hollow
Hook Mountain State Park
Verdrietege Hook
Rockland Lake
Hook Mountain
Valley Cottage
Upper Nyack
West Nyack
South Nyack
Memorial Park
Blauvelt State Park
Blauvelt
Grand View-On-Hudson
Piermont
Sparkill
Tappan
Tallman Mountain
Tallman Mountain State Park
Mt Nebo
Pearl River
Upper Montvale
Montvale
Nauraushaun
Kaufman Campground
Park Ridge
Mt Pleasant
Tappan Zee
Hudson River
Crawbuckie Point
Tellers Point
Mariandale
Ossining
Sparta
Kemeys Cove
Scarborough
Archville
Sleepy Hollow Manor
Sleepy Hollow Cemetery
Douglas Park
Kingsland Point County Park
Kingsland Point
Sleepy Hollow
Hudson River Valley
Glenville
Elmsford
East Irvington
Sunnyside
Irvington
Irvington Elementary School
Ardsley-On-Hudson
Woodlands
Hartsdale
Prospect Hill
Cedar Hill
Kykuit Hill
Sleepy Hollow
Pocantico Hills
Briarcliff Manor
Lodge Pool
Campfire Lake
Hardscrabble Lake
Pleasantville
Bear Ridge Lake
Bear Ridge
Thornwood
Graham Hills County Park
Hawthorne
Mt Pleasant
Valhalla
Reynolds Hill 592
Kensico Lake
Chappaqua
Chappaqua Hill
North White Plains
White Plains
East
Ridge Road County Park
Quarry Lakes
Cranberry Lake
Silver Lake
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AREA MAP

Jersey and Long Island Metropolitan Statistical Areas. These MSAs are comprised of a total of 24 counties located within two states. The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines a MSA as a large population nucleus, which, together with adjacent counties, has a high degree of social integration. A CMSA is defined as an aggregate of one or more MSAs.

Demographic Review

The following demographic and economic review sets forth population, per-capita income, food and beverage sales, and retail sales for Rockland County, the New York City MSA, the New York-Northern New Jersey-Long Island CMSA, the State of New York, and the United States as a whole from 1980 through 2005. While not directly correlated with hotel room night demand, population and retail sales serve as a general measure of a market's health. The per-capita income reflects the economic well being of the populace.

Table 8-1 Demographic and Economic Review

					Average Annual Percent Change		
	1980	**1995**	**2000**	**2005**	**1980-00**	**1995-00**	**2000-05**
Resident Population (Thousands)							
Rockland County	259.6	275.9	284.6	292.0	0.5 %	0.6 %	0.5 %
New York City MSA	8,277.1	8,602.3	8,699.4	8,691.3	0.2	0.2	(0.0)
NY/No. NJ/Long Island CMSA	18,844.2	19,754.4	20,114.7	20,262.2	0.3	0.4	0.1
State of New York	17,566.4	18,144.8	18,223.5	18,291.9	0.2	0.1	0.1
United States	227,225.6	262,764.0	275,205.8	286,608.5	1.0	0.9	0.8
Per-Capita Personal Income*							
Rockland County	$21,296.0	$28,795.0	$32,240.0	$33,726.0	2.1 %	2.3 %	0.9 %
New York City MSA	20,271.0	28,996.0	32,338.0	34,241.0	2.4	2.2	1.2
NY/No. NJ/Long Island CMSA	20,731.0	29,149.0	32,716.0	34,812.0	2.3	2.3	1.2
State of New York	18,880.0	25,648.0	28,727.0	30,520.0	2.1	2.3	1.2
United States	17,203.0	21,438.0	24,205.0	25,886.0	1.7	2.5	1.4
W&P Wealth Index							
Rockland County	123.8	134.3	133.2	130.3			
New York City MSA	117.8	135.3	133.6	132.3			
NY/No. NJ/Long Island CMSA	120.5	136.0	135.2	134.5			
State of New York	109.7	119.6	118.7	117.9			
United States	100.0	100.0	100.0	100.0			
Food and Beverage Sales (Gross)*							
Rockland County	$155.4	$186.2	$205.5	$230.4	1.4 %	2.0 %	2.3 %
New York City MSA	5,667.9	6,982.0	7,653.1	8,338.5	1.5	1.9	1.7
NY/No. NJ/Long Island CMSA	12,451.0	15,867.3	17,418.1	19,148.1	1.7	1.9	1.9
State of New York	11,229.9	14,236.1	15,411.6	16,882.4	1.6	1.6	1.8
United States	153,971.4	222,195.2	250,472.6	284,409.9	2.5	2.4	2.6
Total Retail Sales (Millions)*							
Rockland County	$1,702.5	$2,072.7	$2,340.4	$2,523.0	1.6 %	2.5 %	1.5 %
New York City MSA	47,092.1	50,897.0	56,821.4	59,783.6	0.9	2.2	1.0
NY/No. NJ/Long Island CMSA	128,758.0	154,879.5	173,303.0	183,874.7	1.5	2.3	1.2
State of New York	112,142.6	130,387.1	143,744.6	151,815.3	1.2	2.0	1.1
United States	1,636,704.5	2,137,660.7	2,456,949.7	2,694,391.0	2.1	2.8	1.9

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

Rockland County population has increased at modest rates historically, growing at an average annual rate of 0.5% per year between 1980 and 2000, and 0.6% per year between 1995 and 2000. Through 2005, the rate of growth is projected at 0.5% per year. The rates of growth in the subject county are higher than those noted for the MSA, the CMSA, and the state, and lower than those noted for the nation at large.

Per-capita personal income growth rates are fairly consistent among the populations noted in the preceding table. Between 1995 and 2000, the county's personal income increased at an average annual rate of 2.3%, basically matching the rates of growth noted for the MSA, the CMSA, and the state, and slightly below the national growth rate. Through 2005, all of the populations studied are expected to experience decelerated personal income growth, with Rockland County's rate of growth falling to 0.9% per year.

The W&P Wealth Index measures each population's relative affluence by dividing the per capita personal income by the national average. (Therefore, the national W&P Wealth Index is always 100.0). The index results for the subject county, the MSA, and the CMSA are all well above national averages, with 2000 indices ranging from 133.2 in Rockland County to 135.2 in the CMSA. The State of New York also posts a per capita personal income well above the national average, with an index of 118.7 noted in 2000. These figures generally correlate with the disposable income of the populace and also tend to be highly correlated with attainable average daily room rental levels.

Growth in food and beverage sales levels in Rockland County accelerated in recent years. Whereas the rate of growth equated to 1.4% between 1980 and 2000, the rate of growth equated to 2.0% between 1995 and 2000. Through 2005, the rate of growth is projected to be 2.3%. Historical trends for retail sales indicate a similar trend, with the growth rate rising to 2.5% between 1995 and 2000. However, through 2005, retail sales growth in the county is expected to slow to 1.5% per year.

Work Force Characteristics

The characteristics of an area's work force provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE), wholesale trade, and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, and transportation, communications, and public utilities (TCPU) employers can also be important, depending upon the company type. The following table sets forth the Rockland County work force distribution by business sector in 1980, 1995, and 2000, as well as a forecast for 2005.

Table 8-2 Historical and Projected Employment - Rockland County (+,000)

Industry	1980	Percent of Total	1995	Percent of Total	2000	Percent of Total	2005	Percent of Total	Average Annual Compounded Percent Change 1980-2000	1995-2000	2000-2005
Farm	0.1	0.1 %	0.1	0.0 %	0.0	0.0 %	0.0	0.0 %	(2.4) %	(1.2) %	(0.8) %
Agriculture Services, Other	0.6	0.6	0.9	0.7	1.1	0.9	1.1	0.8	3.2	4.1	(0.3)
Mining	0.4	0.4	0.2	0.2	0.3	0.2	0.3	0.2	(2.1)	4.4	1.4
Construction	3.7	3.6	4.6	3.6	5.9	4.4	5.8	4.3	2.4	5.2	(0.4)
Manufacturing	16.4	15.9	13.0	10.4	12.3	9.3	11.8	8.7	(1.4)	(1.1)	(0.8)
Trans., Comm. & Public Utils.	4.1	3.9	6.7	5.4	7.8	5.9	8.1	6.0	3.3	3.0	0.7
Total Trade	22.2	21.5	25.3	20.2	25.6	19.4	25.9	19.2	0.7	0.3	0.2
Wholesale Trade	4.9	4.7	6.4	5.1	6.7	5.0	6.8	5.0	1.5	0.8	0.3
Retail Trade	17.3	16.8	18.9	15.1	18.9	14.3	19.1	14.2	0.5	0.1	0.2
Finance, Ins., & Real Estate	7.2	7.0	11.6	9.3	12.8	9.7	13.1	9.7	2.9	1.9	0.5
Services	27.2	26.4	42.5	34.0	46.5	35.2	48.7	36.2	2.7	1.8	0.9
Total Government	21.3	20.7	20.2	16.2	19.7	14.9	19.9	14.8	(0.4)	(0.5)	0.2
Federal Civilian Govt.	0.8	0.8	0.8	0.6	0.7	0.5	0.7	0.5	(0.6)	(2.8)	(0.6)
Federal Military Govt.	0.7	0.7	0.6	0.5	0.6	0.4	0.6	0.4	(1.2)	(2.1)	(0.0)
State & Local Govt.	19.8	19.2	18.8	15.0	18.4	14.0	18.6	13.8	(0.4)	(0.4)	0.2
Totals	103.2	100.0 %	125.1	100.0 %	132.0	100.0 %	134.7	100.0 %	1.2 %	1.1 %	0.4 %

Source: Woods and Poole Economics, Inc.

Between 1980 and 2000, the county's population increased at an average annual rate of 1.2%, with the rate of growth slowing slightly to 1.1% per year between 1995 and 2000. Through 2005, the rate of growth is expected to slow further, to 0.4%.

Historically, the county's economic expansion over the past two decades has been paced by the growth of the FIRE and services sectors, both of which tend to correlate with commercial business travel. The FIRE sector occupies a strategic position with respect to the control of investment capital, property transfers, and the provision of insurance. The professional firms operating in this sector often generate a considerable amount of commercial hotel demand. Between 1980 and 2000, the FIRE sector grew at an average annual rate of 2.9%, increasing from 7.0% of total county employment in 1980 to 9.7% of total employment by 2000. Through 2005, FIRE employment is projected to grow at an average annual rate of 0.5% per year. Because FIRE employment is highly correlated to hotel demand, this increase should have a favorable impact on the local lodging industry.

"Services" is the largest employment sector in Rockland County, and health care contributes a significant share of this category. Between 1980 and 2000, the services sector employment increased at an average annual rate of 2.7%, increasing from 26.4% of total employment in 1980 to 35.2% of total county employment by 2000. A strong services sector is a favorable indicator of lodging demand. Firms engaged in service-related activities tend to attract out-of-town visitors who must use local lodging facilities. In addition, many service firms are relatively immune to fluctuations in the national economy, and thus, provide a stabilizing influence. Between 2000 and 2005, services employment in Rockland County is expected to increase at an average annual compounded rate of 0.9%.

Reflecting trends also noted nationwide, the county's manufacturing sector receded historically, falling from 15.9% of total employment in 1980 to 9.3% of total employment in 2000. Employment in Rockland County's manufacturing firms declined at an average annual compounded rate of 1.4% between 1980 and 2000, with the rate of decline slowing somewhat to 1.1% between 1995 and 2000. According to information provided by the Chamber of Commerce, there were more than 100 manufacturing plants in Rockland County in 2000 and these plants shipped products worth more than $1.2 billion out of the area, representing an approximate 9% increase from 1995.

Between 1990 and 2000, two manufacturing plants terminated operations in Rockland County. A total of 408 major manufacturing plants closed in the New York metropolitan area during this ten-year period. Projections indicate a further decline of 0.8% per year in manufacturing employment in Rockland County between 2000 and 2005.

Rockland County's manufacturing base is relatively diversified, although pharmaceutical and cosmetics firms show some prominence. This diversification is beneficial, and helps to offset declines in any one industry.

Among the remaining sectors, strong rates of growth were also realized in the construction, TCPU, and agricultural services sectors, though none of these sectors is particularly large in real terms. The government and trade sectors are of significant size. The government sector has receded slightly in recent years while the trade sector has experienced modest expansion rates.

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in Rockland County.

Table 8-3 Major Employers in Rockland County

Firm	Product	Number of Employees
Lederle Laboratories	Pharmaceuticals	3,600
Avon Products	Cosmetics	1,200
Chromalloy Corp.	Metals	650
BSR	Electronics	600
Lamon Geological	Geological research	600
Ciba-Geigy	Pharmaceuticals	500
Swivelieri Company	Light fixtures	500
Le Croy	Electronics	475
Materials Research	Plastics	460
Grant Hardware Company	Hardware	450
St. Regis Paper	Research	450
Federal Paper	Cartons	425
Prentice-Hall	Publishing	425
Xerox	Research	400
IBM	Research	400
Chrysler Motors	Automobiles	390
RCA	Electronics	350

Source: Rockland County Chamber of Commerce

Most of Rockland County's major employers operate from office and industrial parks situated along the New York State Thruway. All are within a 20-minute drive of the subject property and can be considered primary demand generators. Among the preceding employers, significant expansions have been most common among the pharmaceutical sector employers. Lederle and Ciba-Geigy have both expanded their regional presence in recent years, and have become more important sources of local lodging demand.

Unemployment Statistics

The following table presents historical average unemployment rates for Rockland County, as compared to the State of New York and the United States at large, between 1993 and May, 2001.

Table 8-4 Unemployment Statistics

Year	Rockland County	State of New York	United States
1993	6.6 %	9.2 %	6.8 %
1994	6.1	8.6	6.1
1995	5.8	7.8	5.6
1996	5.0	7.2	5.4
1997	4.4	6.4	5.0
1998	4.1	5.9	4.5
1999	3.4	5.2	4.2
2000	3.0	4.9	4.0
May, 2000	2.9 %	4.7 %	3.9 %
May, 2001	2.9	4.5	4.0

Source: New York State Employment Department

The county's unemployment rate has receded consistently since 1993, falling from 6.6% to an annual average of 3.0% in 2000. Through May, 2001, the county unemployment rate has remained flat, when compared to the unemployment level as of May, 2000. The county unemployment rate has generally remained below the state and national levels historically, although similar trends have been noted for all three populations.

Office Space Statistics

Trends in occupied office space are 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 in the amount of occupied office space may have a proportional impact on commercial lodging demand, and a less direct effect on meeting demand.

The following table sets forth historical and projected office market statistics as compiled by the Rockland County Real Estate Board, including figures relating to inventory, vacancy rate, occupied space, and rental levels.

Table 8-5 Rockland County Office Space Statistics

Year	Inventory	Percent Change	Vacancy Rate	Occupied Space	Percent Change	Effective Rent	Effective Rent Change
Historical							
1995	7,288,000	---	12.2 %	6,399,000	---	$19.21	---
1996	7,288,000	0.0 %	7.9	6,712,000	4.9 %	20.93	9.0 %
1997	7,288,000	0.0	5.3	6,902,000	2.8	24.22	15.7
1998	7,288,000	0.0	5.9	6,858,000	(0.6)	26.52	9.5
1999	7,316,000	0.4	3.2	7,082,000	3.3	28.46	7.3
2000	7,776,000	6.3	3.6	7,496,000	5.8	39.58	39.1
Projected							
2001	8,579,000	10.3	3.5	8,279,000	10.4	40.72	2.9
2002	9,601,000	11.9	5.2	9,102,000	9.9	39.07	(4.1)
2003	10,201,000	6.2	4.9	9,701,000	6.6	38.67	(1.0)
2004	10,652,000	4.4	4.4	10,183,000	5.0	38.95	0.7

Source: Rockland County Real Estate Board

The Rockland County office market experienced no significant change in inventory until 2000, when a 6.3% increase in supply was noted. The market's vacancy rate fell steadily through the late 1990s, as supply remained static and absorption (measured as the positive change in occupied space) continued at a relatively steady pace. Negative absorption was recorded in 1998, although positive absorption resumed in 1999 and 2000. Strong gains in effective rental levels were also noted historically, as a result of the decreasing vacancy rate and increased scarcity of large blocks of space for rent. Through 2004, the Rockland County Real Estate Board anticipates strong gains in supply, with a 10.3% gain in inventory anticipated through 2001, and an 11.9% gain projected for 2002. The gains in inventory are expected to drive the vacancy rate up slightly, and also, to eliminate the dramatic gains in rental rates noted historically. The gain in inventory is an important indi-cator for the subject lodging market, as it will allow for the entry of additional demand generators.

Convention Activity

Meeting and convention visitation took on greater significance in the local economy with the 1992 opening of the Rockland County Convention and Exhibition Center. This county-operated facility is located in downtown Suffern, approximately eight miles west of the subject property, and currently offers a 50,000-square-foot exhibition hall that can accommodate groups of 5,000 to 7,500 people. Fifteen additional meeting rooms seat between 25 and 500 people each.

Most of the functions presently held at the Rockland County Convention and Exhibition Center consist of retail trade shows and entertainment and sporting events. Although these activities do not generate significant lodging demand, the facility typically draws 40 to 50 meetings annually that do contribute room nights to area hotels. The following table outlines the number of conventions held at the Rockland County Convention and Exhibition Center since its opening, as well as attendance figures.

Table 8-6 Convention Center Statistics

Year	Number of Conventions	Percent Change	Number of Delegates	Percent Change
1992	14	---	7,000	---
1993	22	57.1 %	12,100	72.9 %
1994	36	63.6	20,700	71.1
1995	30	(16.7)	18,000	(13.0)
1996	41	36.7	25,825	43.5
1997	45	9.8	29,250	13.3
1998	46	2.2	26,923	(8.0)
1999	49	6.5	31,875	18.4
2000	51	4.1	33,071	3.8
Average Annual Percentage Change, 1992-2000:		17.5 %		21.4 %

Source: Rockland County Convention Bureau

The Rockland County Convention and Exhibition Center has demonstrated impressive growth since its 1992 opening, although increases have become more moderate as the facility has matured. Between 1992 and 2000, the number of delegates using this facility increased at an annual compounded rate of approximately 21%, although the gain in 2000 equated to approximately 4%.

Preliminary plans for a renovation and expansion of this facility are taking shape. The goal of the plans is to allow the facility to attract larger and more up-scale meetings and conventions. Completion of the project is preliminarily slated for 2005, expanding the exhibition hall to 75,000 square feet of space that will be able to accommodate groups of 7,500 to 10,000 people. An additional ten meeting rooms seating between 50 and 250 people will provide ample breakout space. The entire facility will be upgraded with state-of-the art convention and conference amenities. Because of the preliminary nature of the expansion plans, this potential upgrade to an existing demand generator has been treated speculatively for purposes of our appraisal. No demand increase has been factored into our projections at this stage.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

The subject property is situated approximately ten miles south of Stewart Airport, which is located in Newburgh, New York. American and Delta Airlines, as well as several commuter carriers serve this regional air facility. The popularity of Stewart Airport has increased in recent years as businesses have relocated to Rockland and Putnam Counties and the New York City airports have grown more congested.

Most of the passengers arriving at Stewart Airport are commercial travelers visiting firms in Rockland and Putnam Counties. Local agencies report airport car rentals averaging approximately three days, and it is reasonable to conclude that many of the arriving passengers who rent automobiles also stay in area hotels. The following table shows historical passenger counts at Stewart Airport.

Table 8-7 Airport Statistics

Year	Total Passengers	Percent Change
1990	372,420	---
1991	368,554	(1.0) %
1992	405,455	10.0
1993	466,872	15.1
1994	472,888	1.3
1995	625,874	32.4
1996	678,520	8.4
1997	705,522	4.0
1998	725,336	2.8
1999	774,122	6.7
2000	887,250	14.6
Average Annual Percent Change, 1990-00:		9.1 %

Source: Stewart Airport Authority

Passenger counts at Stewart Airport increased at an average annual compounded rate of 9.1% between 1990 and 2000. Although the strong rate of growth is a positive indicator for the local economy, the number of Stewart Airport passengers remains small in real terms. Although the increases in passenger counts is auspicious and provides some benefit to local lodging facilities, the overall impact on the area's hotel demand is limited by the small number of passengers actually using Stewart Airport.

Tourist Attractions

More than 35% of the land in Rockland County is reserved for recreational use, and thus, trends in leisure travel are key indicators of the area's lodging demand. Leisure demand is extremely beneficial to hotels because these travelers often seek accommodations on weekends, holidays, and during the summer months, when commercial demand is low. This additional patronage helps to smooth operational peaks and valleys, thereby allowing increased efficiency and higher profits. According to the New York State Tourism Commission, approximately 42% of Rockland County's leisure demand occurs during the months of June, July, and August. As a result of the region's natural beauty during the fall foliage season, weekend demand is also strong in September and October. Skiers and other winter sports enthusiasts often generate weekend hotel demand in January and February. The summer months and fall and winter weekends are slow periods for commercial visitation, which underscores the stabilizing effect of having both commercial and leisure demand bases in the market.

The point of origin of leisure travelers influences the demand for local lodging facilities; markets that draw vacationers from distant areas enjoy stronger hotel demand and longer lengths of stay than those that attract a more local clientele. The New York State Tourism Commission reports that the five states that provide the greatest amount of leisure demand in Rockland County are New York, Pennsylvania, Massachusetts, New Jersey, and Connecticut. Because all of these states are relatively close to Rockland County, much of this visitation is likely to consist of one- or two-day stays, which may benefit local hotels to some degree.

The following descriptions of the area's tourist attractions reflects the variety of activities that draw leisure travelers to Rockland County either as a destination or as an interesting stopping point on a longer journey. By virtue of the area's well-developed highway system, numerous travelers pass through Rockland County bound for destinations outside of the subject property's market area; some of these individuals use local lodging facilities.

Palisades Interstate Park System – The Palisades Interstate Park System consists of the 11 recreational areas. These parks provide over 6,000 acres of land for a variety of recreational uses, including golf courses, tennis courts and water sports, as well as scenic spots for picnicking or hiking.

U.S. Military Academy – This nationally known, time-honored institution, which is located approximately 15 miles north of Spring Valley in West Point, New York, is among the area's most popular tourist attractions. West Point offers a variety of visitor activities: the Information Center features films and displays on cadet training, the West Point Museum has exhibits on military history and ordnance, and nearby Fort Putnam is a fully restored Revolutionary War fortification. Visitor counts at the West Point Information Center show moderate historical growth, as indicated in the following table.

Table 8-8 West Point Visitation

Year	Number of Vistors	Percent Change
1992	218,176	---
1993	232,793	6.7 %
1994	242,338	4.1
1995	237,249	(2.1)
1996	244,366	3.0
1997	246,890	1.0
1998	253,852	2.8
1999	258,796	1.9
2000	260,793	0.8
Average Annual Percent Change, 1992-2000:		2.3 %

Source: West Point Information Center

Sunnyside – Washington Irving's Hudson River estate is situated in Tarrytown, approximately eight miles east of the subject property. This beautifully landscaped estate, which was constructed in 1835, contains Irving's furnishings, personal effects, and library.

Philipsburg Manor – Situated in North Tarrytown, Philipsburg Manor is a restored 17th-Century manor house that features an operating gristmill, a granary, a wharf, and a wooden dam across a local river. The tour of the premises includes a 15-minute film.

Old Dutch Church of Sleepy Hollow – This quaint Dutch church was built in Tarrytown in 1690 on what had been the manor of Frederick Philipse. The building is fully restored, and includes a replica of the original pulpit.

Stony Point Battlefield and Museum – This restoration of the historic Stony Point Battlefield is located approximately eight miles north of the subject property. The park features a number of cannons and bunkers, as well as a museum displaying an extensive collection of firearms from the Revolutionary War.

General Motors Assembly Plant – A speaker-equipped tour train shows the entire automobile assembly process at the General Motors Plant in Tarrytown, on the Hudson River.

Nyack's "**Antique Row**" – Nyack, which is located eight miles east of Spring Valley, is a popular destination for antique enthusiasts.

Conclusion

Rockland County has experienced consistent economic growth in past decades, as developmental pressures have radiated outward from the urban core of the New York Metropolitan area. The county has emerged as a significant suburban community, with a vital and growing office community and a node of first-class hotel development. Although the regional real estate markets were thrown into conditions of oversupply in the early 1990s, the excess capacity has been largely absorbed, and a new wave of commercial construction has been taking shape in the past two years. Overall, the economic outlook is highly positive.

The "Market for Transient Accommodations" section of this appraisal will relate the historical and projected growth trends reviewed herein to specific market segments based on their propensity to reflect changes in lodging demand. This analysis will provide a basis for forecasting changes in room night demand in the subject property's market area.

9. Market for Transient Accommodations

The market for transient accommodations is an all-encompassing term referring to the many types of travelers who use lodging facilities in a given area. These travelers represent the market's accommodated room night demand. In addition, the market may be characterized by latent demand, which consists of unaccommodated demand and/or induced demand. Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Induced demand repre-sents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can induce demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

This section will begin with an analysis of historical lodging demand trends to determine what changes have occurred; the historical number of competitive hotel rooms will then be estimated to evaluate local supply trends. Areawide occupancy levels can be calculated based on the number of hotel rooms available in the market and the demand for lodging accommodations. The total room night demand will be divided into individual market segments to allow us to forecast growth rates based on the economic and demographic data set forth earlier in this report. We will also identify unaccommodated and induced demand that may have an impact on the future performance of local lodging facilities.

Definition of the Subject Hotel Market

The subject property is located in the Spring Valley market area, a lodging market that is characterized by three types of hotel development. The first group represents the subject property and its primary competition, and includes the market area’s first-class, full-service hotels. These properties are dispersed throughout the market, but are generally situated in the immediate vicinity of the various nodes of office park development, with convenience to the highway system serving the region. The second group of hotels includes six hotels offering more limited services, although still offering a good-quality lodging product. Typified by the market's Courtyard by Marriott affiliate, the hotels feature modern products that appeal to business travelers, but offer abbreviated food and beverage service and limited meeting facilities. The hotels tend to be clustered in the vicinity of the Spring Valley Mall, but are also (in some cases) located near the market's key office nodes. The subject property competes secondarily with this group of hotels. A third group of hotels may be characterized as lower-quality limited-service hotels, chiefly situated on the outskirts of the Spring Valley market area. The number of hotels (and their associated room counts) has not been quantified in this analysis, as they are not competitive with the subject property to any meaningful extent.

Historical Supply and Demand Data

Smith Travel Research (STR) is an independent research firm that compiles data on the lodging industry; typical hotel buyers routinely use its published data. STR has compiled historical supply and demand data for the primary and secondary competitors identified later in this narrative, in the "Competition" section. This information is presented in the following table, along with the marketwide occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate, and provides an indication of how well rooms revenue is being maximized.

Table 9-1 Historical Supply and Demand Trends (STR)

	1994	1995	1996	1997	1998	1999	2000	Year-to-Date Through June 2000	Year-to-Date Through June 2001	Average Annual Compounded Change: 1994-2000
Average Daily Room Count	1,941	1,941	1,941	1,941	1,941	2,017	2,151	2,091	2,211	
Available Room Nights	708,465	708,465	708,465	708,465	708,465	736,205	785,115	378,471	400,191	
Change	—	0.0 %	0.0 %	0.0 %	0.0 %	3.9 %	6.6 %	—	5.7 %	1.7 %
Occupied Room Nights	476,797	491,675	513,637	534,183	527,098	549,945	594,332	284,610	299,343	
Change	—	3.1 %	4.5 %	4.0 %	(1.3) %	4.3 %	8.1 %	—	5.2 %	3.7 %
Occupancy	67.3 %	69.4 %	72.5 %	75.4 %	74.4 %	74.7 %	75.7 %	75.2 %	74.8 %	
Change	—	3.1 %	4.5 %	4.0 %	(1.3) %	0.4 %	1.3 %	—	(0.5) %	2.0 %
Average Rate	$89.11	$91.75	$93.45	$101.25	$114.93	$123.21	$131.95	$131.25	$141.09	
Change	—	3.0 %	1.9 %	8.3 %	13.5 %	7.2 %	7.1 %	—	7.5 %	6.8 %
RevPAR	$59.97	$63.67	$67.75	$76.34	$85.51	$92.04	$99.89	$98.70	$105.54	
Change	—	6.2 %	6.4 %	12.7 %	12.0 %	7.6 %	8.5 %	—	6.9 %	8.9 %

Source: Smith Travel Research

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample, and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information by skewing the results. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nevertheless, STR data provides the best indication of aggregate growth or decline in existing supply and demand, and thus, it has been considered in our analysis.

Note that the preceding market data published by STR pertains to the eleven hotels identified later in this narrative as primary and secondary competition. The STR market data differs from the HVS International marketwide estimates due to the fact that HVS weights the secondary competitors' room counts in order to reflect their relative competitiveness.

In the preceding survey, note that the competitive market's inventory remained static between 1994 and 1998, but increased in 1999 with the July 1st opening of the 150-room Hilton Garden Inn. This new inventory was phased into the market through 1999 and 2000. In addition, a 120-room SpringHill Suites entered the market on July 1, 2000. As a result of these new hotel openings, the market's supply increased by 3.9% in 1999, 6.6% in 2000, and 5.7% through June, 2001.

The market's response to the new inventory is reflective of its health. Demand growth continued to outpace supply growth in 1999 and 2000, driving marketwide occupancy levels to 75.7% as of year-end 2000, up from 67.3% in 1994. The new inventory has slowed average rate growth some-what; although this dynamic may also be attributable to the lower pricing levels associated with the new inventory. After average rate growth of 13.5% in 1998, the rate of growth slowed to 7.2% in 1999 and 7.1% in 2000. Through June, 2001, the market's average rate posted another gain of 7.5%, although occupancy dipped slightly. Demand growth of 5.2% was slightly outpaced by the year-to-date supply gain, 5.7%.

Overall, the market's RevPAR increased at an average annual rate of 8.9% between 1994 and 2000, with slightly slower growth noted in 2000 and through year-to-date 2001. As yet, the national economic slowdown has yet to have a definitive impact on the subject lodging market. The regional economy appears to be sufficiently diversified as to limit the adverse impact of the decelerating or receding economic trends noted on a national level.

Impact of Economic Downturn

Economic data through June, 2001 indicates that a slowdown in the national economy is well underway. In order to understand the likely impact of the current downturn on the subject property, we have attempted to place the current trends in a historical context.

Occupancy is influenced by two factors: supply and demand. Of these two, supply has historically been by far the most influential. Over the past three decades, a majority of the decreases in occupancy have occurred when the rate of supply growth has outpaced the rate of demand growth. Data compiled by Smith Travel Research and HVS International indicates that, on a national basis, occupancy has decreased in 17 of the past 30 years. In only six of these years did demand actually decline. In the other 11 years, supply growth in excess of demand growth was the cause.

At this point in time, the supply side of the equation is relatively straightforward. The data compiled by the principal sources covering the hospitality industry all agree: the rate of supply growth is decelerating, and has fallen dramatically from the peak recorded in 1998. Furthermore, this decrease is relatively consistent in all sectors, from limited- service to full-service to extended-stay properties. As always, this trend is influenced first and foremost by the availability of financing. And as money for new development is becoming harder and harder to come by, the development pipeline will continue to diminish. With the current, widespread concerns about the performance of the industry as a whole – and particularly, the fear of softening demand levels, construction financing will likely continue to be a challenge. As a result, on a national level, supply is likely to remain under control for the near- to mid-term. However, many individual markets are still facing supply increases, as the projects now under construction or in the current pipeline are completed. In these markets, supply will continue to be factor in occupancy trends for the next several years.

Demand is not so easily addressed. History has demonstrated that demand decreases only in times of severe stress. In the early 1980s – a period of prolonged economic malaise, followed by a brief recession that was characterized by high inflation and interest rates, which, in turn, caused demand to decrease in 1980, 1981, 1982 and 1983; this period represented the only extended of demand declines. The two other decreases occurred during periods of recession that spanned several years. However, demand actually declined in only one year during each of these recessions, when a specific factor exacerbated the economic downturn. In 1974, it was the combination of a recession and an energy crisis that was characterized by severe gasoline shortages and sharply higher prices. In 1991, the crisis was a national recession, combined with a war.

It is clear that the national economy is slowing, and that the lodging industry is vulnerable in the current economic climate. Travel and entertainment expenses are often viewed as more discretionary – and more easily curtailed -– than other business expenses. Fewer and shorter business trips, greater scrutiny of travel expenses, and limitations on the number of meetings held as well as the number of attendees are common cost control strategies that directly affect the lodging industry.

The parallels between the 1974 downturn and the current energy situation are also notable, and cause for concern. Rising energy costs put further pressure on corporate profits, necessitating expense controls. The fact that higher fuel costs are likely to cause an increase in airline fares and automobile costs will only intensify the focus on controlling business travel expense – and could potentially affect the leisure and convention segments as well.

It seems almost certain that these forces will affect lodging demand; in fact, data for the first quarter of 2001 reflects the beginning of this trend. The character of the industries that support those markets will directly influence demand trends in individual markets. We are already seeing declining demand in markets areas where the recent demand growth has been driven by high-tech industries. However, it does not automatically follow that a decrease in demand is inevitable. Demand does not simply grow or decline, it also moves: from market to market, and from hotel to hotel. Meetings once held in a more distant, more expensive market may relocate to a more affordable local alternative. Business travelers whose expense accounts once ran to a full service hotel may seek out less expensive – and often equally suitable – alternatives among the "focused-service" lodging sector. In these circumstances, one property's decrease is another's growth.

In the subject lodging market, no evidence of significant cut backs in travel have yet been noted in the current year, according to local operators. Although the market's high-technology sector has reportedly softened, growth in other sectors of the lodging market has allowed most hotels to maintain occupancy levels comparable to those noted through 2000.

Whereas demand declines are anticipated in many lodging markets through-out the nation in 2001, the subject lodging market appears to be poised to post a modest growth rate through the near term.

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Although a market may have various segments, the three primary classifications occurring in most areas are commercial, meeting and group, and leisure.

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

Segment 1	Commercial
Segment 2	Meeting & Group
Segment 3	Leisure
Segment 4	Government

Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2000 distribution of accommodated room night demand as follows.

Table 9-2 Accommodated Room Night Demand

	Marketwide		Embassy Suites	
Market Segment	Accommodated Demand	Percentage of Total	Accommodated Demand	Percentage of Total
Commercial	308,830	56 %	42,596	75 %
Meeting & Group	119,010	22	8,519	15
Leisure	67,185	12	5,679	10
Government	54,112	10	0	0
Totals	**549,136**	**100 %**	**56,794**	**100 %**

The subject lodging market is primarily dependent upon individual commercial travelers, which accounted for 56% of the market's demand in 2000. Meeting and group demand represented 22% of the demand in 2000; the remainder of the demand was essentially evenly divided among individual leisure travelers, and individuals and groups traveling as part of a governmental function. The subject property's market mix differs from that of the market at large, due to its greater share of individual commercial demand. In addition, the subject hotel does not accommodate any government demand.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to deter-mine future trends in room night demand.

Commercial Segment

The commercial segment consists of individual businesspeople visiting various firms in the subject property's market. This demand is strongest Monday through Thursday nights, declines significantly on Friday and Satur-day, and increases somewhat on Sunday. In markets where the weekday occupancy often exceeds 90%, some unaccommodated commercial demand is likely to be present. The typical length of stay for commercial guests ranges from one to three days, and the rate of double occupancy is a low 1.2 to 1.3 people per room. Commercial demand is relatively constant throughout the year, although some declines are noticeable in late December and during other holiday periods.

The commercial segment includes numerous smaller classifications; however, the primary categories considered in this analysis are individual business travelers and high-volume corporate accounts. Most individual business travelers are visiting firms in the immediate area or passing through en route to other destinations. Their lodging choices are influenced by brand loyalty (and frequent traveler programs in particular), as well as location and convenience with respect to businesses and amenities. Local companies also generate high-volume corporate accounts; demand in this sub-segment may include employees of the firm or its affiliates, and often consists of training groups. These companies typically designate hotels as "preferred" accom-modations; in return, the selected lodging facilities generally offer a significant discount from their published rates. Typically, these rates are negotiated on an annual basis, and the size of the discount is tied to the number of room nights produced. Note that government demand is often categorized as commercial demand, but it has been separately identified in this analysis as constituting its own segment.

Commercial demand in the subject property's market is generated by a wide variety of corporations, with the pharmaceutical and high-technology sectors playing a particularly important role. Large firms operating in the area include IBM, Xerox, Lederle Laboratories, Avon Products, Inc., Chromalloy Corporation, BSR, Lamon Geological, Ciba-Geigy, Materials Research, and Prentice-Hall. Individuals visiting smaller local companies also contribute a significant portion of the area's hotel demand. In addition, business travelers passing through Spring Valley en route to other destinations may stop at local lodging facilities because they provide a convenient resting point along the area's major highways.

All of the economic and demographic data presented earlier have some influence on commercial lodging demand; the trends that have the most direct correlation are changes in FIRE, service, wholesale trade, and total employment; occupied office space; and air passenger counts. A review of this data indicates that historical growth rates were relatively modest for the various employment sectors, though more substantial rates of growth were associated with airport passenger counts and office space occupancy levels. Smith Travel Research estimates that overall lodging demand in the local market increased at an average annual rate of 4.2% between 1994 and 2000, with a 5.2% gain noted through the year-to-date, 2001. Our research indi-cates that the growth of commercial demand has been slightly higher than these levels. Considering these historical trends, and anticipating some impact associated with the current economic slowdown noted nationwide, we project commercial demand growth equal to 3.0% in 2000, declining to 2.5% per year thereafter.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Because of vaca-tions, the summer months represent the slowest period for this market segment; winter demand varies. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups.

Corporate groups are one of the most profitable components of this segment, because they exhibit limited price sensitivity, and they often sponsor banquets and other events that generate revenue for the host hotel. In the subject property's market, the same major employers that account for high-volume corporate accounts generate most of the market's corporate group activity. This demand may take the form of training programs, sales meetings, division conferences, and similar events with a business purpose. Corporate groups generally meet during the workweek, thus generating lodging demand on Monday through Thursday nights. The average length of stay is two to four days, although training groups may stay six nights or more. Double-occupancy rates in this category typically range from 1.0 to 1.5.

Association demand is generally divided on a geographical basis: the most common categories are national, regional, and state associations. Depending on their nature, these associations may be more rate sensitive than commercial groups, particularly when members are not reimbursed by their employers, but must pay to attend (i.e., guestroom and conference fees). The scheduling pattern of associations also depends on the nature of the group. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends.

The SMERFE market consists of groups that are social, military, ethnic, religious, fraternal, or educational in nature. Examples include family or military reunions, youth groups, and fraternal organizations such as the Knights of Columbus. These groups are extremely budget conscious, and have a strong preference for weekend and summer meeting times, when rates are generally lowest. Typically, groups such as this have a high double-occupancy rate of 2.0 to 2.5, and the length of stay is relatively short (one to three nights). Most hotel operators use this type of demand to bolster occupancy during off-peak times of the month and year, when other demand sources are limited.

Most group and meeting demand in Rockland County is generated by local businesses; events may include training sessions, small exhibits, product announcements, meetings, and seminars. These small functions generally range from 20 to 50 people. Civic groups and professional societies are a secondary source of group and meeting demand; attendance at these non-commercial events usually range from 75 to 250 people. Most meetings and conventions in the subject property's market area are held at local hotels; large groups that require more space generally use the Rockland County Convention and Exhibition Center.

Future meeting and group demand is closely related to growth in the commercial segment. Because most meetings have either a direct or an indirect business purpose, the economic considerations that have an impact on commercial travel also affect meeting and group demand. The exception is non-commercial meetings, which are tied to the economic factors that influence leisure travel. It should be noted that meetings and similar events are booked in advance, and thus, growth in this segment tends to lag slightly behind increases in commercial demand.

In projecting meeting and group demand in the subject property's market, we have considered all of the data sources applicable to the commercial segment, as well as trends in convention activity and leisure travel. As noted earlier in the narrative, the Rockland County Convention and Exhibition Center has demonstrated impressive growth since its 1992 opening, although growth has slowed in more recent years. Growth in delegate attendance amounted to approximately 4% in 2000. An expansion and renovation of the facility is currently being planned, but no specific benefit to the market is factored into this analysis, due to the speculative nature of the project. Considering these factors, we have projected meeting and group segment demand growth equal to 2.5% in 2001, declining to 2.0% per year in 2002 and thereafter.

Leisure Segment

The leisure market segment consists of individuals and families who are spending time in the area or passing through en route to other destinations. Their travel purposes may include sightseeing, recreation, visiting friends and relatives, or numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods are negatively correlated with commercial visitation, underscoring the stabilizing effect of capturing weekend and summer tourist travel. The typical length of stay ranges from one to four days, depending on the destination and travel purpose, and the rate of double occupancy typically ranges from 1.8 to 2.5 people per room.

Leisure travelers tend to be the most price-sensitive segment of the lodging market. They may prefer low-rise accommodations. where parking is convenient to the rooms, and they often select accommodations that include complimentary amenities such as continental breakfast. Ease of highway access and proximity to tourist attractions and retail centers are important locational considerations. Leisure demand in the subject property's market is generated by the sites and attractions described earlier in this report. The excellent regional highway system (and the New York State Thruway, in particular) creates some demand from travelers en route to other destinations.

Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income often have a strong correlation to non-commercial visitation. Traffic counts on nearby highways and attendance levels at local attractions can also form a basis for projections. Of the economic and demographic data presented earlier in this report, trends in retail sales, retail sector employment, total employment, and air traffic counts tend have the strongest influence on leisure demand. Based on our analysis these indicators, we project growth in the leisure segment at 2.0% in 2001, slowing to 1.5% per year in 2002 and thereafter.

Government Segment

In the course of our fieldwork, we determined that several local operators identified individuals and groups traveling as part of a government related function as a separate demand segment. Government demand is easily identified in the market due to the fact that government employees are granted a *per diem* allocation for guestroom and food and beverage expenditures. The *per diem* allocation has tended to be in the range of $100 to $120 historically. Whereas this price range is too low to appeal to operators of the market's highest-rated hotels, most other operators in the market allocate a share of their occupancy to government demand. The secondary com-petitors are particularly reliant upon this demand source.

Government demand growth trends are generally consistent with those noted for the commercial segment, although they tend to be less volatile, experiencing slower rates of growth in periods of economic expansion and stronger rates of growth in periods of economic recession. For purposes of this appraisal, we have projected government demand growth at 1.0% in 2001, with yearly growth of 0.5% projected in 2002 and thereafter.

Conclusion

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, four segments were defined as representing the subject property's lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following average annual compounded market segment growth rates.

Table 9-3 Average Annual Compounded Market Segment Growth Rates

	Annual Compounded Growth Rates				
Market Segment	**2001**	**2002**	**2003**	**2004**	**2005**
Comm'l.	3.0 %	2.5 %	2.5 %	2.5 %	2.5 %
Meeting & Group	2.5	2.0	2.0	2.0	2.0
Leisure	2.0	1.5	1.5	1.5	1.5
Gov't.	1.0	0.5	0.5	0.5	0.5
Base Demand Growth	**2.6 %**	**2.1 %**	**2.1 %**	**2.1 %**	**2.1 %**

These growth rates will be used in subsequent sections of this report to forecast changes in lodging demand.

Latent Demand

A table presented earlier in this section illustrated the accommodated room night demand in the subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were actually used by guests. Latent demand reflects potential room night demand that has not been realized by the existing competitive supply, and can be divided into unaccommodated demand and induced demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all of the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated room night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future and it is necessary to quantify this demand. Areawide occupancy in excess of 70% is typically the first sign of possible unaccommodated demand in any given market. In the subject lodging market, occupancy levels approached 76% in 2000 – a particularly high occupancy rate in a market that is primarily dependent upon individual commercial travelers. Because of the corporate nature of the market's de-mand, it peaks during mid-week and declines significantly on weekends. The high occupancy rate indicates that sellouts are common during midweek periods throughout the year. Furthermore, with the strong midweek demand for more lucrative commercial travelers, it is likely that a significant component of the market's more price-sensitive travelers are being displaced. In consideration of these factors, we have quantified unaccommodated demand as follows.

Table 9-4 Unaccommodated Demand Estimates

Market Segment	Unaccommodated Demand Percentage
Commercial	10 %
Meeting & Group	7
Leisure	3
Government	0

This previously latent demand may only be accommodated following the opening of new inventory in the market. As such, the new demand is factored into our analysis commensurate with the opening of new hotels. In addition, the unaccommodated demand ratio is applied to the rolling base demand total for each segment, including the effects of any base demand growth over the interim periods.

Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

In the subject lodging market, the openings of the 250-room Sheraton and the 225-room Crowne Plaza are both expected to result in induced demand in the meeting and group segment. Both hotels are expected to be equipped with large arrays of meeting space, and will also have sales staffs working to draw groups to Spring Valley. In addition, the Sheraton and Crowne Plaza brands both have strong reputations among meeting planners.

Among the 475 new rooms associated with the Sheraton and the Crowne Plaza, we estimate that a total of 42,000 new room nights will be induced into the market, representing approximately 24 points of occupancy among this new inventory. These new room nights are phased into the market gradually, following the opening of the new Sheraton and Crowne Plaza hotels in 2004. (The Sheraton is expected to open on January 1, 2004, and the Crowne Plaza is anticipated to open on July 1, 2004.) The following table shows the schedule used to factor the induced demand into the market, accounting for the gradual accrual of the benefits associated with the new hotels' marketing efforts.

Table 9-5 Induced Demand Calculation

	Induced Demand			
Market Segment	**2004**	**2005**	**2006**	**2007**
Meeting & Group	21,000	31,500	37,800	42,000
Phase-in Factor	50 %	75 %	90 %	100 %

Accommodated Demand and Marketwide Occupancy

Based upon a review of the market dynamics in the subject property's competitive environment, we have forecasted growth rates for each market segment. We have also analyzed the existence of unaccommodated demand in the market, as well as the potential for induced demand to occur in the future. Adding the various demand components, the marketwide demand levels may be projected. In addition, the following table sets forth the projected marketwide occupancy, calculated by dividing the demand projection by the forecast of future supply. The basis for the supply forecast is detailed in the subsequent section of this narrative.

Table 9-6 Marketwide Occupancy Projection

		2000	2001	2002	2003	2004	2005	2006	2007
Comercial									
Base Demand		308,830	318,095	326,047	334,198	342,553	351,117	359,895	368,892
Base Demand Growth Rate		—	3.0 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %
Unaccommodated Demand		—	2,144	5,791	7,740	28,072	35,112	35,990	36,889
Induced Demand		—	0	0	0	0	0	0	0
Total		308,830	320,238	331,838	341,938	370,626	386,229	395,885	405,782
Meeting & Group									
Base Demand		119,010	121,985	124,425	126,913	129,451	132,040	134,681	137,375
Base Demand Growth Rate		—	2.5 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Unaccommodated Demand		—	575	1,547	2,057	7,426	9,243	9,428	9,616
Induced Demand		—	0	0	0	21,000	31,500	37,800	42,000
Total		119,010	122,560	125,972	128,971	157,877	172,783	181,909	188,991
Leisure									
Base Demand		67,185	68,529	69,557	70,600	71,659	72,734	73,825	74,932
Base Demand Growth Rate		—	2.0 %	1.5 %	1.5 %	1.5 %	1.5 %	1.5 %	1.5 %
Unaccommodated Demand		—	139	371	490	1,762	2,182	2,215	2,248
Induced Demand		—	0	0	0	0	0	0	0
Total		67,185	68,667	69,927	71,090	73,421	74,916	76,040	77,180
Gov't.									
Base Demand		54,112	54,653	54,926	55,201	55,477	55,754	56,033	56,313
Base Demand Growth Rate		—	1.0 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
Unaccommodated Demand		—	0	0	0	0	0	0	0
Induced Demand		—	0	0	0	0	0	0	0
Total		54,112	54,653	54,926	55,201	55,477	55,754	56,033	56,313
Totals		549,136	566,119	582,663	597,199	657,400	689,682	709,866	728,266
Percent Change		—	3.1 %	2.9 %	2.5 %	10.1 %	4.9 %	2.9 %	2.6 %
Supply Projections									
Existing Supply		1,988	1,988	1,988	1,988	1,988	1,988	1,988	1,988
Proposed Supply									
Sheraton Hotel	1					250	250	250	250
Crowne Plaza	2					113	225	225	225
Doubletree Club	3			68	102	102	102	102	102
Existing SpringHill Suites	4		45	45	45	45	45	45	45
Available Rooms per Night		1,988	2,032	2,101	2,134	2,497	2,609	2,609	2,609
Nights per Year		365	365	365	365	365	365	365	365
Total Supply		725,536	741,826	766,683	778,874	911,251	952,249	952,249	952,249
Rooms Supply Growth		—	2.2 %	3.4 %	1.6 %	17.0 %	4.5 %	0.0 %	0.0 %
Marketwide Occupancy		**75.7 %**	**76.3 %**	**76.0 %**	**76.7 %**	**72.1 %**	**72.4 %**	**74.5 %**	**76.5 %**

1 Opening in January, 2004 of the 100% competitive, 250-room Sheraton Hotel
2 Opening in July, 2004 of the 100% competitive, 225-room Crowne Plaza
3 Opening in May, 2002 of the 70% competitive, 145-room Doubletree Club
4 Phase in of remaining competitive rooms at SpringHill Suites: 120 rooms x 75 % competitiveness x 50% (six months of the year)

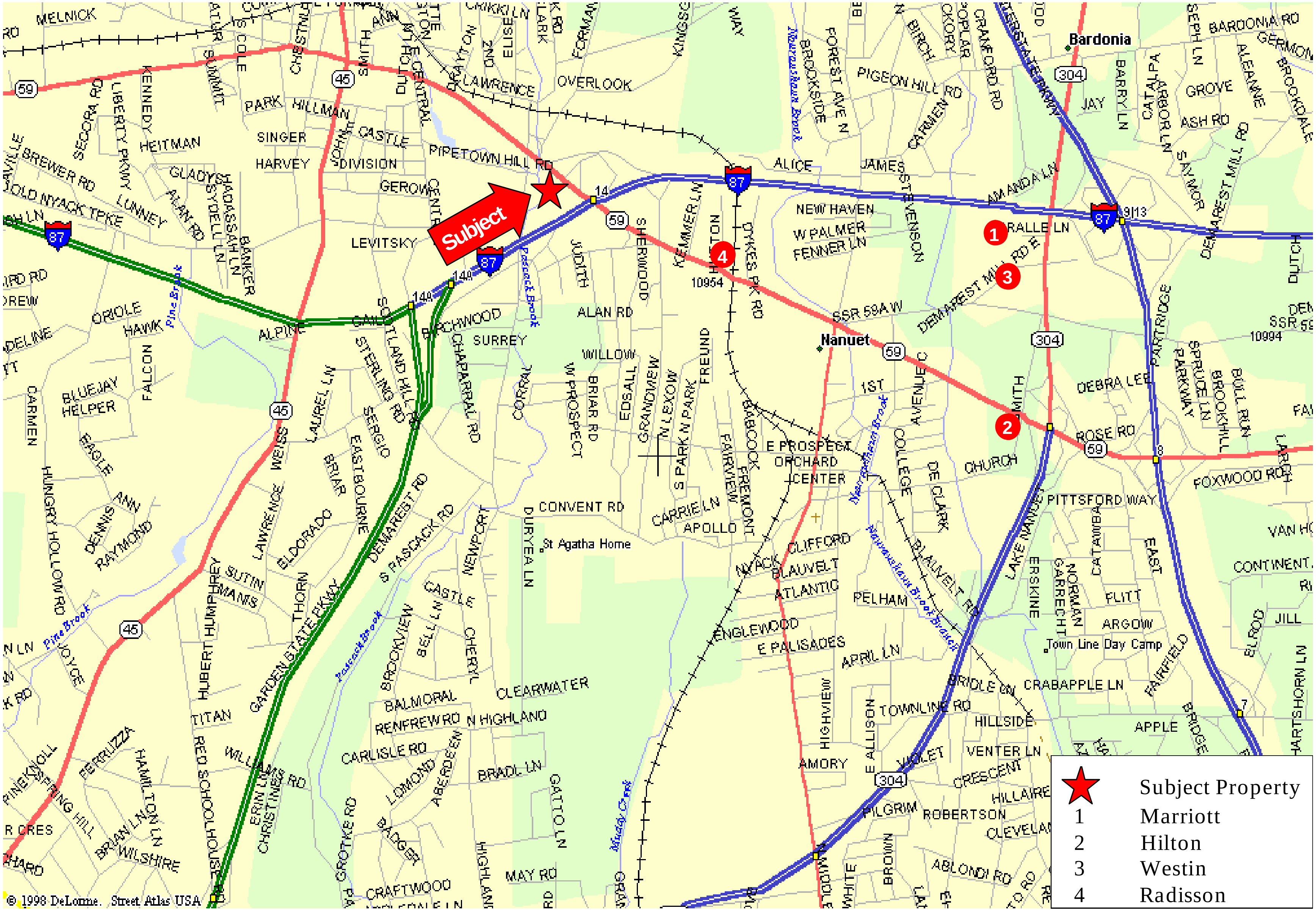
Marketwide occupancy levels are expected to remain in the range of 76% to 77% through 2003, and then to dip to approximately 72% following the openings of the new Sheraton and Crowne Plaza affiliates. A Doubletree Club affiliate is also expected to enter the market in 2002.

10. Competition

An integral component of the supply and demand relationship that has a direct impact on the availability of lodging demand is the current and anticipated supply of competitive lodging facilities. To evaluate an area's competitive environment, the following steps should be taken:

- Identify the area's lodging facilities and determine which are directly and indirectly competitive with the subject property.
- Determine whether additional hotel rooms will enter the market in the foreseeable future (net of attrition).
- Quantify the number of existing and proposed hotel rooms available in the market.
- Review the rate structure, occupancy levels, market orientation, facilities, and amenities of each competitor.

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of the area's hotels, as well as the comments of management representatives, we have identified five properties that are considered to be primary competitors with the subject Embassy Suites. Including those of the subject property, these primary competitors contained a total of 1,427 rooms in 2000. Six additional lodging facilities are judged to be only secondarily competitive. Although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primarily competitive supply, they do compete with the subject property to some extent. The room count of each secondary competitor has been weighted to reflect the degree to which it competes with the subject property. The aggregate weighted room count of the secondary competitors in 2000 was 545.



COMPETITION MAP

Primary Competitors

The following tables summarize the important operating characteristics of the primary competitors and the aggregate secondary competitors. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table also sets forth each property's penetration factors; penetration is the ratio between a specific hotel's operating results and the corresponding data for the market. If the penetration factor is greater than 100%, the property is performing better than the market as a whole; conversely, if the penetration is less than 100%, the hotel is performing at a level below the marketwide average.

Table 10-1 Primary Competitors and Aggregate Secondary Competitors

		Estimated 2000 Market Segmentation				Estimated 1999				Estimated 2000				
Property	Number of Rooms	Comm'l.	Meeting & Group	Leisure	Gov't.	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration
Embassy Suites	200	75 %	15 %	10 %	0 %	200	75 %	$143	$107	200	78 %	$150	$117	102.8 %
Marriott	347	55	35	10	0	347	70	150	105	347	75	157	118	99.1
Hilton	375	50	30	5	15	375	76	125	95	375	74	145	107	97.8
Westin	280	60	25	15	0	280	75	140	105	280	73	153	112	96.4
Radisson	225	25	20	20	35	225	78	115	90	225	77	125	96	101.7
Sub-Totals & Averages	**1,427**	**53 %**	**26 %**	**11 %**	**10 %**	**1,427**	**74 %**	**$135**	**$100**	**1,427**	**75 %**	**$147**	**$110**	**99.2 %**
Secondary Competitors	784	65 %	10 %	15 %	11 %	456	76 %	$96	$73	561	77 %	$104	$80	102.1 %
Totals & Averages	**2,211**	**56 %**	**22 %**	**12 %**	**10 %**	**1,883**	**75 %**	**$125**	**$94**	**1,988**	**76 %**	**$134**	**$102**	**100.0 %**

Table 10-2 Primary Competitors

Property	Number of Rooms	Year Opened	Facilities and Amenities	Meeting Space (SF)	Meeting Space per Room	Last Renovation
Embassy Suites	200	1990	Atrium, pool, rest., lounge, fitness room	5,055	25	1998
Marriott	347	1987	Pool, 2 rest., 2 lounge, bus. ctr, fitness room	32,000	92	1999
Hilton	375	1985	Pool, 1 rest., 2 lounge, fitness room	22,000	59	1997
Westin	280	1993	Health club, 2 rest., 2 lounge, bus. Ctr.	20,250	72	2000
Radisson	225	1982	Pool, 1 rest., lounge, fitness room	9,500	42	1993
Totals & Averages	1,427			88,805	62	

Each of the primary competitors is affiliated with a nationally recognized, first-class, full-service hotel brand. The hotels are dispersed throughout the Spring Valley area, but are principally located in the immediate vicinity of the major office park nodes in the area. In 2000, the Marriott led the competitive market with a RevPAR (rooms revenue per available room) of approximately $118, equal to 115.7% of the market average. The subject Embassy Suites was just behind the Marriott, with a RevPAR of $117, equal to 114.6% of the market average. The Westin and the Hilton also posted RevPAR levels in excess of the market average.

In terms of demand segmentation, the primary competitors drew approximately 53% of their total demand from individual commercial travelers, with the Embassy Suites' market mix particularly slanted toward this variety of travel. The largest hotel in the market is the Hilton, with 375 rooms. It drew 30% of its demand from the meeting and group segment. The Marriott, with 347 rooms, drew 35% of its demand from this segment. The Hilton and the Radisson were unique among the primary competitors in that each property relied upon a share of government demand. The Radis-son is the oldest of the primary competitors and it posts the lowest average rates.

Most of the primary competitors have received some form of significant renovation in recent years. As noted earlier in this narrative, the subject property's guestrooms were renewed in 1998, at a cost of $2.5 million. Furnishings in other areas of the hotel are expected to require renewal in the near term. We have assumed that these efforts will be funded using typical reserves for replacement.

Each primary competitor was inspected and evaluated. Descriptions of our findings are presented in the following text.

Marriott

The 347-room Marriott Hotel is located approximately three miles east of the subject property, off Exit 14B of the New York State Thruway, in the immediate vicinity of the Lederle Laboratories corporate campus. The Marriott is not visible from the Thruway, but access is direct and simple.

The Marriott was originally constructed in 1987, and has operated as a Marriott affiliate over the course of its operating history. Shaner Hotels acquired the property in 1998; Shaner subsequently completed a major renovation of the hotel in 1999, at a cost of approximately $10 million. The meeting space was completely renewed as part of this effort. The Marriott features the largest allotment of meeting space in the region, both in real terms (±32,000 square feet), and as a ratio to the guestroom count (±92 square feet per guestroom). The hotel is not particularly convenient to the Rockland County Convention and Exhibition Center; hotel management essentially relies upon its own sales and marketing staff to generate the Marriott's group demand.

In addition to meeting space, the Marriott contains an indoor pool and whirlpool, two restaurants and lounges, a business center, and a fitness center. Certain elements of the hotel appear to reflect functional obsolescence, although the benefits of the Marriott affiliation appear to be a more than mitigating factor in this regard. The hotel leads the market in terms of average rate and RevPAR; a degree of this strong performance may be attributed to the loyalty of Marriott clientele and the strength of the brand.

Hilton Hotel

The 375-room Hilton Hotel is located on Route 59, near the Palisades Parkway, approximately three miles southeast of the subject property. The hotel is visible from the Palisades Parkway for northbound motorists, although access can be confusing, due to the orientation of the roadways in this area.

The Hilton was constructed in 1985 and has been owned and operated by Hilton Hotels Corporation throughout its operating history. The property was thoroughly renovated in 1997, and is reportedly due for another phase of renewals in the coming year. The property's exterior will reportedly be re-newed, in order to overcome a window design feature that limits the hotel's curb appeal. Interior furnishings are generally in good condition. The hotel contains ±22,000 square feet of meeting space, as well as one restaurant, two lounges, an indoor swimming pool, and a fitness room. The Hilton is highly convenient to IBM, and posted particularly strong average rate growth in 2000, due to some shifts in market mix. Hotel management decreased the property's dependence upon government demand, and succeeded in replacing the demand with more lucrative demand sources.

Westin Hotel

The 280-room Westin Hotel is located in the immediate vicinity of the Marriott Hotel. Like the Marriott, it is not visible from the New York State Thruway, but access is direct and simple.

The Westin is the newest hotel among the primary competitors. It is arguably the highest-quality hotel in the survey, owing to the high grade of the construction and the quality of the furnishings. In 2000, a renewal of the hotel guestroom furnishings was completed, in order to ensure the property's competitive position. In recent years, the Westin has made significant average rate gains; property management expects the property to finish 2001 with a market-leading average rate, surpassing that of the Marriott.

Westin facilities include ±20,250 square feet of meeting space, two restaurants, two lounges, and a business center. The meeting space includes an amphitheater that has proven popular as a high-end conference venue. The hotel is also operated in conjunction with a health club that maintains a private membership. Guests have complimentary use of the facility, which includes a lap swimming pool, a sauna, a steam room, a weight room, and a whirlpool.

Radisson

The 225-room Radisson is located at Exit 14 of the New York State Thruway, approximately one mile southeast of the subject site. The Radisson is visible from both directions along the Thruway, and access is direct and simple.

The Radisson is the oldest of the primary competitors, and was originally constructed in 1982 as a Sheraton Inn. The property's affiliation changed several times through the 1980s and early 1990s, but has remained as a Radis-son since 1993. The Radisson's physical quality is below that of each of the other primary competitors, owing to its age and some deferred maintenance and renewal efforts. The property was last renovated in 1993, as part of its change to the Radisson flag. The property exterior is particularly dated in design, although the interiors may be characterized as being in satisfactory condition.

The Radisson's facilities include ±9,500 square feet of meeting space, an indoor pool, a restaurant and lounge, and a fitness room. The property is owned and operated by Lodgian, which acquired the hotel in 1993. The property maintains a strong occupancy rate through its use of government demand. Government demand accounted for approximately 35% of the Radisson's demand in 2000.

Secondary Competitors

The secondary competitors represent a mix of six hotels, each of which may be characterized as a "focused-service" hotel. The focused-service segment bridges the limited-service and full-service product segments, featuring good-quality guestrooms and limited public facilities. Due to differences in product design and location, these hotels' room counts have been weighted to reflect their less direct level of competitiveness. The following tables set forth the pertinent operating characteristics of the secondary competitors.

Table 10-3 Secondary Competitors

Property	Number of Rooms	Estimated 2000 Market Segmentation: Comm'l.	Meeting & Group	Leisure	Govt.	Total Competitive Level	Estimated 1999: Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Estimated 2000: Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Courtyard by Marriott	119	70 %	10 %	10 %	10 %	85 %	101	84 %	$105	$88	101	82 %	$115	$94
Four Points by Sheraton	125	50	5	20	25	80	100	82	95	78	100	83	95	79
AmeriSuites	105	60	5	20	15	75	79	77	92	71	79	75	100	75
Wyndham Garden	165	65	10	15	10	70	116	67	92	62	116	70	97	68
Hilton Garden Inn	150	75	15	10	0	80	60	65	95	62	120	78	110	86
SpringHill Suites	120	70	15	15	0	75	---	---	---	---	45	75	100	75
Totals & Averages	**784**	**65 %**	**10 %**	**15 %**	**11 %**	**77 %**	**456**	**76 %**	**$96**	**$73**	**561**	**77 %**	**$104**	**$80**

Table 10-3 Secondary Competitors (continued)

Property	Number of Rooms	Year Opened	Facilities and Amenities	Meeting Space (SF)	Meeting Space per Room	Last Renovation	Ownership Entity
Courtyard by Marriott	119	1987	Rest., lounge, pool, fitness room	1,250	11	1997	CNL
Four Points by Sheraton	125	1985	Rest., lounge, pool, fitness room	5,000	40	1995	Local Investors
AmeriSuites	105	1993	Comp. breakfast, pool, fitness room	500	5	N/A	Ocean Properties
Wyndham Garden	165	1990	Rest., lounge, pool, fitness room	2,500	15	1990	Interstone
Hilton Garden Inn	150	1999	Rest., lounge, pool, fitness room	4,500	30	N/A	Local Investors
SpringHill Suites	120	2000	Comp. breakfast, pool, fitness room	---	---	N/A	CNL
Totals & Averages	784			13,750	18		

The ***Courtyard by Marriott*** is located in the immediate vicinity of the Spring Valley Mall, and is in good condition. The property was constructed in 1987, but received a thorough renovation in 1997, as part of the ten-year renewal plan instituted by Marriott. The property generates the highest average rates and RevPAR levels of the secondary competitors, owing to the strength of the Courtyard brand and Marriott's loyal clientele.

The ***Four Points by Sheraton*** is also located in the vicinity of the Spring Valley Mall. This property was originally constructed as a Quality Inn in 1985, but was flagged as a Four Points hotel in 1995; the hotel was renovated at the same time. It features the largest array of meeting space among the second-ary competitors.

The ***AmeriSuites*** is located near the Marriott, off Exit 14B. The property's facilities are highly limited, but each room is identified as a suite. In fact, the rooms feature a partial wall dividing the living room and bedroom areas. The property opened in 1993.

The ***Wyndham Garden*** originally opened as a Ramada Inn in the 1970s; the property was subsequently closed, and reopened in 1990 after a thorough renovation. The hotel features a low-rise design reflecting functional obsolescence; however, the interiors have been thoroughly renewed. The hotel is located near downtown Spring Valley, and is relatively convenient to the Rockland County Convention and Exhibition Center.

The ***Hilton Garden Inn*** opened on July 1, 1999, with 150 rooms, off Exit 14 of the New York State Thruway. The property features the prototypical Hilton Garden Inn design.

The ***SpringHill Suites*** opened on July 1, 2000, with 120 rooms. This product is an emerging Marriott brand and is designed in a manner that is comparable to the AmeriSuites prototype. Pricing tends to be comparable to Marriott's Courtyard brands.

Supply Changes

It is important to consider any new hotels that might have an impact on the subject property's operating performance. In order to determine prospects for future changes in supply, we have interviewed local hotel operators, developers, and government officials. In the course of this investigation, several changes in supply are anticipated in the subject lodging market. The projects are listed in the order in which they are expected to enter the market.

- The 120-room ***SpringHill Suites*** opened on July 1, 2000. Half of the competitive rooms were factored into this analysis in the base year, 2000. The remainder of the competitive rooms will be factored into the market through 2001.
- A 145-room ***Doubletree Club hotel*** is currently under construction, representing the adaptive reuse of a former apartment building in downtown Spring Valley. The project was expected to commence in early July, at the time of our fieldwork, and is being completed by a prominent local developer. The hotel is expected to open on May 1, 2002. Doubletree Club represents another "focused-service" brand, with limited public space. The property is expected to offer a chain-affiliated coffee shop and limited meeting space. Due to differences in market orientation and location, the room count is weighted for competitiveness at 70%.
- A 250-room ***Sheraton Hotel*** is proposed for the land located directly south of the subject site, at the intersection of Central Avenue and the New York State Thruway. The project will be developed by Hotel Develop-ment, LLC, the owner of the subject Embassy Suites, and is expected to compete directly with the subject property, opening on January 1, 2004.
- A 225-room ***Crowne Plaza*** is being planned on a site near the Hilton, off Route 59, near the Palisades Parkway. This project remains speculative at this point, considering that the developer is not experienced with commercial real estate. However, given the strength of the competitive market, it appears likely that some form of full-service hotel development, apart from the proposed Sheraton, will enter the subject lodging market. We have factored the Crowne Plaza into the analysis at 100% competi-tiveness, assuming a July 1, 2004 opening date.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the value of the subject property may be positively or negatively affected.

Based on our fieldwork, no other lodging development is planned in the near future. However, future improvement in market conditions will raise the risk of increased competition. Our forecast of stabilized occupancy and average rate is intended to reflect such risks.

Conclusion

The Spring Valley lodging market has experienced strong and consistent growth in recent years, with a slight moderation of prospects noted as a result of the national economic slowdown. The Marriott and the subject Embassy Suites led the competitive market in 2000, with the Hilton and Westin hotels also posting strong operating results in 2000. The competitive market is ex-pected to experience a number of additions to supply in future years. Our projections account for the opening of new Doubletree Club, Sheraton, and Crowne Plaza affiliates.

11. Projection of Occupancy

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, beverages, 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.

Historical Operating Performance

The following table sets forth the subject property's historical occupancy, average rate, and RevPAR (rooms revenue per available room). For the purpose of comparison, we have also presented corresponding data (as provided by Smith Travel Research) for the competitive hotels described in the preceding section. In addition to the annual percent change calculations, we have determined the subject property's occupancy, average rate, and RevPAR penetration rates.

Table 11-1 Historical Trends

	1994	1995	1996	1997	1998	1999	2000	Year-to-Date Through June 2000	Year-to-Date Through June 2001
Embassy Suites									
Occupancy	70.3 %	75.3 %	75.9 %	77.5 %	76.2 %	74.6 %	77.8 %	77.8 %	78.1 %
Change	—	7.1 %	0.7 %	2.1 %	(1.7) %	(2.1) %	4.3 %	—	0.4 %
Occupancy Penetration	104.5 %	108.6 %	104.7 %	102.8 %	102.4 %	99.9 %	102.8 %	103.5 %	104.4 %
Average Rate	$105.16	$108.67	$113.24	$116.57	$125.15	$142.87	$149.85	$149.85	$153.86
Change	—	3.3 %	4.2 %	2.9 %	7.4 %	14.2 %	4.9 %	—	2.7 %
Average Rate Penetration	118.0 %	118.4 %	121.2 %	115.1 %	108.9 %	116.0 %	113.6 %	114.2 %	109.0 %
RevPAR	$73.97	$81.87	$85.95	$90.34	$95.36	$106.58	$116.58	$116.58	$120.16
Change	—	10.7 %	5.0 %	5.1 %	5.6 %	11.8 %	9.4 %	—	3.1 %
RevPAR Penetration	123.3 %	128.6 %	126.9 %	118.3 %	111.5 %	115.8 %	116.7 %	118.1 %	113.9 %
Spring Valley, NY									
Occupancy	67.3 %	69.4 %	72.5 %	75.4 %	74.4 %	74.7 %	75.7 %	75.2 %	74.8 %
Change	—	3.1 %	4.5 %	4.0 %	(1.3) %	0.4 %	1.3 %	—	(0.5) %
Average Rate	$89.11	$91.75	$93.45	$101.25	$114.93	$123.21	$131.95	$131.25	$141.09
Change	—	3.0 %	1.9 %	8.3 %	13.5 %	7.2 %	7.1 %	—	7.5 %
RevPAR	$59.97	$63.67	$67.75	$76.34	$85.51	$92.04	$99.89	$98.70	$105.54
Change	—	6.2 %	6.4 %	12.7 %	12.0 %	7.6 %	8.5 %	—	6.9 %

Source: Smith Travel Research

The subject property's occupancy rate has remained well above 70% since 1995, a year in which the hotel's occupancy penetration factor equated to 108.6%. In the following years, the market's occupancy rate improved at a rapid rate, and eventually exceeded the subject hotel's occupancy rate, in 1999. In 2000, the subject hotel's occupancy rate again exceeded the market average, and has continued to do so through June, 2001.

In terms of average rate, the subject property's pricing has consistently remained well above the market average. However, some decline in the average rate penetration factor was also noted through 1998. In 1998, a $2.5 million renovation effort was completed at the subject property. With the completion of this project, management raised pricing dramatically in 1999, resulting in a 14.2% gain in that year.

As a result of the product renewal, the subject property's RevPAR penetration factor increased dramatically in 1999, rising to 116.0% in that year. This factor slipped slightly in 2000, and has dipped again through June, 2001. Nevertheless, the subject property's RevPAR remains near the top of the competitive market, behind only that of the Marriott.

The following table illustrates the subject property's monthly performance during the past two calendar years.

Table 11-2 Historical Monthly Performance of the Subject Property

	Occupancy		Average Rate		RevPAR	
Month	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**
January	65.1 %	67.8 %	$132.15	$138.61	$85.97	$94.04
February	79.8	83.2	137.76	144.49	109.87	120.18
March	70.4	73.4	139.96	146.80	98.48	107.72
April	77.3	80.6	137.55	144.27	106.29	116.27
May	75.2	78.5	146.84	154.02	110.49	120.85
June	79.9	83.3	148.03	155.26	118.26	129.35
July	84.4	88.0	154.50	162.05	130.35	142.58
August	75.2	78.4	156.80	164.46	117.93	128.99
September	80.0	83.5	146.41	153.56	117.18	128.17
October	76.8	80.1	137.29	143.99	105.40	115.29
November	64.5	67.3	144.23	151.27	93.10	101.83
December	67.3	70.2	135.55	142.17	91.22	99.79
Totals	**74.6 %**	**77.8 %**	**$142.87**	**$149.85**	**$106.58**	**$116.58**

The subject property's occupancy has historically peaked in summer months, when leisure demand through the region augments the existing base of commercial demand. Spring and fall months are also relatively strong, owing to the impact of increased meeting and group demand. Demand tapers off between November and January. Pricing levels generally vary directly with occupancy, peaking in the summer months and dropping off in the winter.

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive posture within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share.

In this equation, market share represents that portion of total market demand accommodated by a property and fair share represents the subject hotel's portion of the total supply (calculated as the subject property's room count divided by the total supply of the market at large).

If a property with a fair share of 5% is capturing 5% of the market demand in a given year, then its occupancy will equal the marketwide occupancy, and its penetration rate will equal 100% (5% ÷ 5% = 100%). If the same property achieves a market share in excess of its fair share, then its occupancy will be greater than the marketwide occupancy, and its penetration rate will be greater than 100%. For example, if a property's fair share is 5% and its market share is 7%, then its penetration rate is 140% (7% ÷ 5% = 140%). Conversely, if the property captures less than its fair share, then its occupancy will be below the marketwide average, and its penetration rate will be less than 100%.

Penetration rates can be calculated for each market segment of a property, and for the property as a whole. For example, leisure segment penetration can be determined by: 1) dividing the subject property's leisure room nights captured (property's total room nights captured multiplied by property's leisure segment percentage) by: 2) the hotel's fair share of total areawide leisure demand (property's fair share percentage multiplied by the market's total leisure room night demand). Simplifying the formula, a hotel's market share percentage divided by its fair share percentage equals its market penetration. In essence, a penetration above 100% in a certain market segment indicates that the hotel is capturing more than its fair share of that source of demand, while a penetration rate below 100% indicates that a hotel is capturing less than its fair share of demand. A penetration of 100% indicates that the hotel is capturing its pro-rata share of the market segment's room night demand.

The following table identifies the basis for the calculation of the subject property's historical penetration rates by segment for 2000.

Table 11-3 Subject Property's Historical Penetration Rates by Segment

Market Segment	Subject Property's Total Room Night Capture		Market Segment Percentage		Fair Share		Marketwide Occupied Room Nights		Subject Property's Penetration
Commercial	(56,794	x	75 %)	÷	(10.06 %	x	308,830	) =	137 %
Meeting & Group	(56,794	x	15 %)	÷	(10.06 %	x	119,010	) =	71 %
Leisure	(56,794	x	10 %)	÷	(10.06 %	x	67,185	) =	84 %
Government	(56,794	x	0 %)	÷	(10.06 %	x	54,112	) =	0 %
Overall	**(56,794**	**x**	**100 %)**	÷	**(9.84 %**	**x**	**549,136**	**) =**	**103 %**

Explanation of Market Share and Penetration Rate Adjustment

The subject property's occupancy is forecasted by estimating the hotel's penetration by market segment for each year of the forecast period. The estimation of penetration rates is based upon our review of the historical penetration rates of the subject property and its competitors. If the subject hotel and all of its competitors are expected to remain stable in their ability to penetrate the market, then the historical penetration rates may be appropriately projected to remain the same throughout the forecast period. However, when additions to supply are anticipated or if a particular hotel is expected to alter its ability to compete in some way (e.g., through a refurbish-ment or change in brand or management), then penetration rates for all the hotels in the market must be adjusted. The reason for the need to adjust the penetration rates of all the hotels in the market is due to the circular calculation of the penetration rate. A hotel's penetration rate is calculated as its market share of demand divided by its fair share of demand. If one hotel's penetration rate increases, thereby increasing its market share and leaving less demand for the other hotels in the market to capture, then the pene-tration rates of the remaining hotels automatically decline (all other things being equal).

For example, let us assume that a hotel is slated for a renovation and repositioning, thereby enabling the hotel to improve its occupancy through increased market penetration. A higher penetration by one hotel will result in a larger capture of room nights by that hotel, thus leaving a reduced number of room nights to be shared by the rest of the competitive set. The additional room nights captured by this hotel will come out of the same finite pie of demand from which the other hotels in the market draw their demand. Any inducement of new demand due to the repositioning will have already have been built into the forecast of marketwide demand in the forecast of market-wide occupancy.

The similar impact is felt when a new hotel is added to the market. Penetration rates for the new hotel are forecasted. The penetration rates are multiplied by the hotel's fair share percentage (calculated as the hotel's fair share of supply) to calculate the hotel's market share percentage. The hotel's market share percentage is then multiplied by the total demand forecasted for that market segment in that year, resulting in the room nights captured by the new hotel in that segment. When the new hotel enters the market the penetration of all the existing hotels will automatically be impacted because they will each be capturing a smaller amount of the demand pie once the new hotel takes its share. If the new hotel captures less then its fair share of demand then the penetration rates of the existing hotels will increase, and alternatively, if the new hotel captures greater than its fair share of demand then the penetration rates of the existing hotels will decline. Thus, the pene-tration rate of a stable hotel is often impacted year to year by the penetration rates of its competitors.

An existing hotel may retain the same number of room nights captured in a particular market segment when a new hotel is added to the market, but that hotel's penetration rate must increase to do so. This adjustment occurs because the existing hotel's fair share percentage declines as new rooms are added to the market, and so to remain at the same level of room night capture its penetration rate must increase (rooms night captured = fair share x penetration rate x total market segment demand).

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by primary competitors and the aggregate of secondary competition are set forth for each segment for the base year, 2000. The results are used as a basis for comparison with the subject property, as well as our forecast of penetration rates for the subject hotel and each competitive hotel into the future.

Table 11-4 Historical Penetration Rates

Property	Comm'l.	Meeting & Group	Leisure	Govt.	Overall
Embassy Suites	137 %	71 %	84 %	0 %	103 %
Marriott	97	160	81	0	99
Hilton	87	135	40	149	98
Westin	103	111	118	0	96
Radisson	45	94	166	361	102
Secondary Competition	118	46	122	110	102

The subject Embassy Suites realized the strongest overall penetration rate at 103%, with the Radisson and the aggregate of secondary competition both at 102%. The Embassy Suites was uniquely strong in the commercial segment, accommodating 137% of its fair share of demand in that segment. The

Westin and the aggregate of secondary competitors both performed well in the commercial segment, as well. In the meeting and group segment, the Marriott attracted 160% of its fair share of demand, with the Hilton also per-forming well with a penetration factor of 135% in this segment. These hotels have the largest allotments of meeting space. The Radisson led in both the leisure and government segments, with penetration factors of 166% and 361%, respectively. The secondary competitors also performed well in the leisure and government segments, reflecting the price sensitivity associated with these travelers. Among the primary competitors, the Westin also posted a strong leisure segment penetration level, while the Hilton had a strong presence in the government segment.

Projected Penetration Rates by Market Segment

Penetration rates for the subject property and each of the competitive hotels have been forecasted based upon the historical performance of each property and the changes we foresee in the marketplace going forward. Changes in market share and penetration rates are expected due to the opening of three new hotels.

The following tables set forth, by market segment, the projected penetration rates for the subject property and each hotel in the competitive set throughout the projection period.

Table 11-5 Commercial Segment Penetration Rates

Hotel	2001	2002	2003	2004	2005	2006	2007
Embassy Suites	137 %	137 %	137 %	137 %	137 %	137 %	137 %
Marriott	97	97	97	97	97	97	97
Hilton	87	87	87	87	87	87	87
Westin	103	103	103	103	103	103	103
Radisson	45	45	45	45	45	45	45
Secondary Competition	118	118	118	118	118	118	118
New Hotels							
Sheraton Hotel	---	---	---	85	94	97	97
Crowne Plaza	---	---	---	85	94	97	97
Doubletree Club	---	90	95	100	100	100	100

The subject property's commercial segment penetration factor is projected to remain at 137% through the projection period. Similarly, no changes are anticipated in the existing competitors' penetration factors. As for the new supply, the new Sheraton and Crowne Plaza affiliates are both expected to stabilize with a commercial segment penetration factor of 97%. The new Doubletree Club is expected to stabilize with a 100% penetration factor in the commercial segment.

Table 11-6 Meeting & Group Segment Penetration Rates

Hotel	2001	2002	2003	2004	2005	2006	2007
Embassy Suites	71 %	71 %	71 %	71 %	71 %	71 %	71 %
Marriott	160	160	160	160	160	160	160
Hilton	135	135	135	135	135	135	135
Westin	111	111	111	111	111	111	111
Radisson	94	94	94	94	94	94	94
Secondary Competition	46	46	46	46	46	46	46
New Hotels							
Sheraton Hotel	---	---	---	128	135	140	140
Crowne Plaza	---	---	---	125	130	135	135
Doubletree Club	---	100	105	110	110	110	110

The subject property's meeting and group segment penetration factor is projected to remain at 71% through the projection period. Similarly, no changes are anticipated in the existing competitors' penetration factors. Among the new hotels, the new Sheraton will contain approximately 15,000 square feet of meeting space (equal to 60 square feet per guestroom), comparable to the allotments of the Hilton and the Westin; it is projected to stabilize with a meeting and group penetration factor of 140%. Information relating to the new Crowne Plaza's likely meeting space allotment was not available at the time of our fieldwork. Based on our understanding of the product's preliminary plans and scope, we have positioned the hotel with a stabilized meeting and group penetration factor of 135%. A relatively high group penetration factor is also projected for the Doubletree Club, despite its status as a focused-service hotel. This hotel will be highly convenient to the Rockland County Convention and Exhibition Center, and is expected to house a large share of the room night demand generated by this facility. The new Doubletree Club is expected to stabilize with a 110% penetration factor in the meeting and group segment.

Table 11-7 Leisure Segment Penetration Rates

Hotel	2001	2002	2003	2004	2005	2006	2007
Embassy Suites	84 %	84 %	84 %	84 %	84 %	84 %	84 %
Marriott	81	81	81	81	81	81	81
Hilton	40	40	40	40	40	40	40
Westin	118	118	118	118	118	118	118
Radisson	166	166	166	166	166	166	166
Secondary Competition	122	122	122	122	122	122	122
New Hotels							
Sheraton Hotel	---	---	---	80	84	85	85
Crowne Plaza	---	---	---	85	88	90	90
Doubletree Club	---	80	83	85	85	85	85

The subject property's meeting and group segment penetration factor is projected to remain at 71% through the projection period. Similarly, no changes are anticipated in the existing competitors' penetration factors. Among the new hotels, we have projected the new Sheraton's leisure segment penetration factor at a stabilized level equal to 85%, comparable to the results projected for the Doubletree Club. The Crowne Plaza is expected to be priced below the market and therefore attract a larger share of leisure demand than the other two new hotels. The Doubletree Club's location downtown is expected to hinder its appeal to leisure travelers; as a result, its penetration factor is well below that of the other secondary competitors.

Table 11-8 Government Segment Penetration Rates

Hotel	2001	2002	2003	2004	2005	2006	2007
Embassy Suites	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Marriott	0	0	0	0	0	0	0
Hilton	149	149	149	149	149	149	149
Westin	0	0	0	0	0	0	0
Radisson	361	361	361	361	361	361	361
Secondary Competition	110	110	110	110	110	110	110
New Hotels							
Sheraton Hotel	---	---	---	50	50	50	50
Crowne Plaza	---	---	---	100	100	100	100
Doubletree Club	---	110	110	110	110	110	110

The subject property is expected to continue to operate without accommodating a measurable share of government demand. We anticipate that the new Sheraton will accommodate only a minimal share of government demand, as reflected in its stabilized penetration factor of approximately 50%. The Crowne Plaza is expected to accommodate its fair share of government demand (i.e., a 100% penetration factor), while the Doubletree Club is projected to stabilize with a 110% government segment penetration factor.

Because the supply and demand balance for the competitive market is dynamic, particularly in relation to proposed new hotel supply entering the competitive market, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market, and consequently upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (when an under-maintained or poorly marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply, or a change in the relative penetration performance of one or more hotels in the competitive market.

Our projections of penetration, demand capture and occupancy performance for the subject property take into account these types of adjustment to market share within the defined competitive market. Consequently, the actual penetration factors applicable to the subject property and its competitors for each market segment in each projection year may vary somewhat from the input penetration factors set out in tables above. A complete description of this process is presented in the Addenda to this report.

The following table shows the output penetration factors applicable to the subject property, after the effect of market share adjustment has been taken into account.

Table 11-9 Market Penetration Output by Segment - Subject Property

Market Segment	2001	2002	2003	2004	2005	2006	2007
Commercial	136.5 %	137.0 %	136.9 %	139.7 %	138.2 %	137.4 %	137.4 %
Meeting & Group	72.0	72.0	71.8	68.8	67.5	66.9	66.9
Leisure	83.6	84.2	84.3	86.5	86.4	86.2	86.2
Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Penetration	103.0 %	103.7 %	103.9 %	104.9 %	103.7 %	103.0 %	103.1 %

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

Table 11-10 Forecast of Subject Property's Occupancy

Market Segment	2000	2001	2002	2003	2004	2005	2006
Commercial							
Demand	308,830	318,095	326,047	334,198	342,553	351,117	359,895
Market Share	13.8 %	13.5 %	13.3 %	13.1 %	12.1 %	11.7 %	11.6 %
Capture	42,596	43,029	43,287	43,872	41,456	40,909	41,702
Penetration	137.1 %	136.5 %	137.0 %	136.9 %	139.7 %	138.2 %	137.4 %
Meeting & Group							
Demand	119,010	121,985	124,425	126,913	129,451	132,040	134,681
Market Share	7.2 %	7.1 %	6.9 %	6.8 %	6.7 %	6.8 %	6.9 %
Capture	8,519	8,683	8,632	8,677	8,703	8,940	9,331
Penetration	71.1 %	72.0 %	72.0 %	71.8 %	68.8 %	67.5 %	66.9 %
Leisure							
Demand	67,185	68,529	69,557	70,600	71,659	72,734	73,825
Market Share	8.5 %	8.2 %	8.1 %	8.0 %	7.1 %	6.8 %	6.8 %
Capture	5,679	5,650	5,604	5,618	5,087	4,963	5,024
Penetration	84.0 %	83.6 %	84.2 %	84.3 %	86.5 %	86.4 %	86.2 %
Government							
Demand	54,112	54,653	54,926	55,201	55,477	55,754	56,033
Market Share	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Capture	0	0	0	0	0	0	0
Penetration	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Total Room Nights Captured	**56,794**	**57,362**	**57,523**	**58,166**	**55,246**	**54,812**	**56,057**
Available Room Nights	73,000	73,000	73,000	73,000	73,000	73,000	73,000
Occupancy	**78 %**	**79 %**	**79 %**	**80 %**	**76 %**	**75 %**	**77 %**
Marketwide Available Room Nights	725,536	741,826	766,694	778,874	911,524	952,249	952,249
Fair Share	**10 %**	**10 %**	**10 %**	**9 %**	**8 %**	**8 %**	**8 %**
Marketwide Occupied Room Nights	549,136	566,119	582,663	597,199	657,400	689,682	709,866
Market Share	**10 %**	**10 %**	**10 %**	**10 %**	**8 %**	**8 %**	**8 %**
Marketwide Occupancy	**76 %**	**76 %**	**76 %**	**77 %**	**72 %**	**72 %**	**75 %**
Total Penetration	**103 %**	**103 %**	**104 %**	**104 %**	**105 %**	**104 %**	**103 %**

The subject property's overall penetration factor is expected to increase slightly, growing from 103% in 2000 to 105% in 2004, before declining again to 103% through 2006.

The following table summarizes the subject property's projected market segmentation.

Table 11-11 Subject Property's Market Segmentation

	2000	2001	2002	2003	2004	2005	2006
Commercial	75 %	75 %	75 %	75 %	75 %	75 %	74 %
Meeting & Group	15	15	15	15	16	16	17
Leisure	10	10	10	10	9	9	9
Government	0	0	0	0	0	0	0
Totals	100 %	100 %	100 %	100 %	100 %	100 %	100 %

The subject property's market mix is expected to moderate only slightly, with a modest increase in the percentage of meeting and group demand offset by a modest decrease in the percentage of leisure demand.

Based on the preceding analysis, the following forecast of occupancy results. Dividing the total number of room nights captured by the subject property's annual number of available room nights (calculated as 200 x 365) produces the projected occupancy levels.

Table 11-12 Subject Property's Occupancy Forecast – Calendar Years

	2000	2001	2002	2003	2004	2005	2006
Total Room Nights Captured	56,794	57,362	57,523	58,166	55,246	54,812	56,057
Available Room Nights	73,000	73,000	73,000	73,000	73,000	73,000	73,000
Occupancy	77.8 %	78.6 %	78.8 %	79.7 %	75.7 %	75.1 %	76.8 %
Rounded	78 %	79 %	79 %	80 %	76 %	75 %	77 %

Because the date of value for this appraisal is July 1, 2001, we have adjusted the calendar-year projections to reflect fiscal years beginning July 1st. The following table identifies the fiscal-year projections.

Table 11-13 Forecast of Occupancy – Fiscal Years

Year	Occupancy
2001/02	79 %
2002/03	79
2003/04	78
Stabilized	75

Based on the preceding analysis, we have chosen to use a stabilized level of 75%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and 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 non-recurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe that it is equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

12. Average Rate Analysis

One of the most important considerations in estimating the value of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which, in turn, provides the basis for estimating most other income and expense categories.

The Concept of Average Rate

A hotel's average room rate is the weighted average of the various amounts charged to different market segments, such as rack rates, published rates, commercial rates, and contract rates. The average rate also takes into account differentials during peak and off-peak periods, including various seasons of the year, holidays, and weekends. Different types of rooms may also com-mand varying rates, and thus, have an impact on the overall average rate. The following is a description of several typical rate categories.

- *Rack Rate* – An undiscounted room rate generally given to anyone who does not qualify for or request a discounted rate. The term is derived from the room rack (now a computer terminal) at the front desk, which contains information about each room's rate, including the highest amount that can be charged for that type of unit. When a hotel is expected to be full during a certain period or when a guest arrives without a reservation, the rack rate is usually the only rate available. The average rate is almost always lower than the rack rate.
- *Published Rate* – The rate listed in directories and other publications. This rate is usually quoted as a range (i.e., single: $70 - $100), and represents the various rack rates for specific types of accommodations. Published rates usually set the upper limit of average rate, and average rates tend to be closest to published rates in the case of single – rather than double – rooms.

- *Commercial Rate* – A discounted rate available to certain commercial travelers. Some hotels charge all commercial travelers a commercial rate upon request, while others offer it only to established accounts based on their projected use of the hotel. Commercial rates vary because they can be negotiated between the business and the hotel. These rates are always below the rack and published rates and, depending on the market mix, may approximate the property's average rate.
- *Contract Rate* – A discounted rate available to specific high-volume users, such as airlines, convention groups, and bus tours. Contract rates are negotiated and often apply to a block of rooms that are reserved on an ongoing basis and paid for regardless of use. Depending on the amount of use and the time it occurs, a contract rate may be heavily discounted and thus, significantly lower than both the average rate and the commercial rate.
- *Complimentary Rooms* – It is customary for hotels to provide rooms to very important guests on a complimentary basis. When performing a room night analysis, complimentary rooms should be included in the occupancy projection, because these occupied rooms represent actual demand (although they generate no revenue). However, the inclusion of complimentary rooms in the occupancy lowers the calculated average rate, and thus, the treatment of complimentary rooms in the average rates obtained from competitive properties must be consistent in order to draw an accurate rate comparison.

In the case of existing lodging facilities, we can use the operating history as a starting point and project average rate based on market conditions and the property's relative degree of competitiveness. This process is outlined as follows.

1. The subject property's historical monthly average rate is analyzed to determine trends that may continue to influence operating performance. Any relationship between changes in average rate and occupancy should be taken into account.
2. The average rates of competitive properties are considered to determine whether the subject property's rates reflect market conditions, competent management, and buyer's expectations.

3. Factors that may have an impact on future average rate increases are analyzed, and future growth rates are estimated.
4. The subject property's average rate is projected based on the growth estimates.

Average Rate by Month

The following table shows the subject property's monthly average rate from 1998 to 2000.

Table 12-1 Subject Property's Average Rate by Month

Month	1998	1999	2000
January	$115.76	$132.15	$138.61
February	120.67	137.76	144.49
March	122.60	139.96	146.80
April	120.49	137.55	144.27
May	128.63	146.84	154.02
June	129.67	148.03	155.26
July	135.34	154.50	162.05
August	137.35	156.80	164.46
September	128.25	146.41	153.56
October	120.26	137.29	143.99
November	126.34	144.23	151.27
December	118.74	135.55	142.17
Annual Average Rate	**$125.15**	**$142.87**	**$149.85**

The above table shows the seasonality of the subject property's average rate. On a monthly basis, the Embassy Suites achieves its highest average rate during the summer months, when demand peaks. Average rate remains relatively strong during the spring and fall, and then tapers in the winter months.

Competitive Positioning

The Embassy Suites' average rate will be projected using a competitive positioning method. This technique begins with an analysis of the average rates achieved by the subject property and its competitors. These rates estab-lish a range that reflects certain characteristics of the specific market, such as price sensitivity, demand orientation, and occupancy. The subject property's average rate is then compared to those of the hotels to which it is most similar in terms of size, quality, facilities, amenities, market orientation, location, management, image, and affiliation. Adjustments are made to reflect any relevant differences.

Although the average rate analysis presented here follows the occupancy projections, these two statistics are highly correlated; in reality, one cannot project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by rooms revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the 2000 occupancy, average rate, and RevPAR levels of the subject property and its competitors.

Table 12-2 Occupancy, Average Rate and RevPAR of the Competitors

Property	2000 Average Room Rate	2000 Rooms Revenue Per Available Room
Embassy Suites	$149.85	$117
Marriott	157.00	118
Hilton	145.00	107
Westin	153.00	112
Radisson	125.00	96
Averages	**$146.91**	**$110**

The subject property's 2000 average rate was slightly above the market average indicated by the primary competitors, and below that of the Marriott and the Westin. The property's RevPAR is second only to that of the Marriott, and well above the market average. Based on our analysis of the subject lodging market, the subject property's historical 2000 average rate appears to be a reasonable basis for future year projections.

Average Rate Changes

It is important to note that hotel room rate increases do not necessarily conform to the underlying monetary inflation rate, because lodging facilities are influenced by market conditions such as the relationship between supply and demand. A hotel's ability to raise room rates is affected by a number of factors, including the following.

- **Supply and Demand Relationships –** The relationship between supply and demand is one of the factors that determine hotel occupancies and average rates. Strong markets where lodging demand is increasing faster than supply are often characterized by rate growth that exceeds inflation. Markets that are overbuilt or suffering from declining demand are unlikely to exhibit any significant increases in average rates.

- **Inflationary Pressures –** Price increases caused by inflation affect hotel room rates by eroding profit margins and encouraging operators to raise prices. This strategy is effective only in markets that are characterized by a healthy supply and demand relationship.
- **Improving the Competitive Standard –** When a new lodging facility enters a mature market, its rates may be set higher than the marketwide average in an effort to justify the development costs. This temporary condition may allow other competitors to achieve corresponding gains by effectively raising the amount the market will bear. However, if the addition to supply has a severe impact on the occupancy levels of other hotels, price competition may ensue.
- **Property-Specific Improvements –** Changes that make a hotel more or less attractive to guests can have an impact on average rate. An expansion, renovation, upgrading, or the introduction of additional facilities and amenities may enable greater-than-inflationary room rate increases. Likewise, deferred maintenance may make a property less competitive, engendering a decline in room rates.

In determining average rate projections, changes that occur prior to occupancy stabilization are generally attributable to factors that are specific to the property and the market. After a hotel achieves a stabilized occupancy, room rates are generally expected to continue to increase at the underlying inflation rate throughout the remainder of the projection period.

According to the data provided by Smith Travel Research, the subject lodging market's average rate increased at an average annual rate of 6.8% per year between 1994 and 2000, with an additional gain of 7.5% noted through June 2001. Prospects for continued average rate growth are expected to moderate in future years, owing to the significant additions to supply expected to enter the market. In addition, the subject property's average rate growth has already moderated through June, 2001, with a gain of 2.7% noted through this year-to-date period. Based on a consideration of these factors, as well as the slowing of the national economy through the current year, we have applied only base inflationary gains of 3.0% to the base year average rate.

The following table shows how the subject property's average rate has been projected on a calendar-year basis.

Table 12-3 Subject Property's Average Rate Forecast

Year	Projected Rate Growth	ADR
2000	---	$149.85
2001	3.0 %	154.35
2002	3.0	158.98
2003	3.0	163.75
2004	3.0	168.66
2005	3.0	173.72

As with the occupancy projection, the average rate projection has been converted to fiscal years, in conformance with the beginning date of our income and expense projections, and our date of value – July 1, 2001. The following table sets for the fiscal average rate projections, as well as the occupancy projection, through the stabilized year.

Table 12-4 Fiscalized Forecast of Occupancy and Average Rate – Fiscal Years

Year	Average Rate	Occupancy
2001/02	$156.64	79 %
2002/03	161.34	79
2003/04	166.18	78
Stabilized	---	75

13. Highest and Best Use

The concept of highest and best use is a fundamental element in the determination of value of real property, either as if vacant or as improved. Highest and best use is defined as follows:

> The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.[1]

The concept of highest and best use is the premise upon which value is based and is a product of competitive forces in the marketplace.

> The principle of balance holds that real property value is created and sustained when contrasting, opposing, or interacting elements are in a state of equilibrium. This principle applies to relationships among various property components as well as the relationship between the costs of production and the property's productivity. The point of economic balance is achieved when the combination of land and building is optimal (i.e., when no marginal benefit or utility is achieved by adding another unit of capital). The law of increasing returns holds that larger amounts of the agents of production produce greater net income up to a certain point, after which the law of diminishing returns is applied.[2]

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[1] Appraisal Institute, *The Dictionary of Real Estate Appraisal* - 3rd ed., Chicago, IL, Author, 1992, p. 149.

[2] *Ibid*., p. 40.

As if Vacant

Land value is derived from potential use rather than actual use. The highest and best use is that which generates the greatest return to the land. An analysis as to the highest and best use of the land should be made first and may be influenced by many factors. In estimating highest and best use, there are four stages of analysis:

1. Physically possible use. What uses of the site are physically possible?

   The subject site features sufficient physical utility for a wide variety of commercial uses, including hotel, retail, restaurant, and office buildings. The site has strong exposure along Central Avenue, and is partially visible and easily accessed from the New York State Thruway.

2. Legally permissible use. What uses are permitted by zoning, deed restrictions, lease encumbrances, or any other legally binding codes, restrictions, or interests?

   As detailed in the "Zoning" section of this report, the subject property is located in the RS – Regional Shopping district, which encourages large-scale commercial development. A variety of commercial uses are legal under this designation, although the most probable, given the subject site's size would be a big-box retail building, a hotel, or an office building.

3. Financially feasible use. Which possible and permissible uses will produce a net return to the owner of the site?

   In the course of this analysis, we have prepared a financial analysis for a first-class, all-suite hotel, and can conclude based on this process that such a use would feasible were the site again vacant. We have not prepared financial analyses for the other uses that may be legal and physical possible. Based on our review of the subject lodging market, an office building may also prove to be feasible on the subject site.

4. Maximally productive use. Among the feasible uses, which use will produce the highest net return or the highest present worth?

Our review of various national investor surveys conducted by the American Council of Life Insurance, CB Commercial, Korpacz, and Scott Stahl, & Burbach, indicates that hotels typically generate the highest rates of return among potential commercial uses. In consideration of the foregoing factors influencing development in the subject property's immediate area, it is the appraisers' opinion that the highest and best use of the subject site, as if vacant, is as improved with a first-class, all-suite hotel.

As Improved

After determining the highest and best use of the land, an analysis and opinion should be made regarding the highest and best use of the property, as improved. The highest and best use of the property, as improved, is the most profitable likely use to which it can be put. The opinion of this use may be based on the highest and most profitable continuous use for which a property is adapted and needed, or for which it is likely to be in demand in the reasonably near future. Events affecting value that are within the realm of possibility but are not reasonably probable should be excluded from consideration, and the intended use cannot be considered if it is dependent upon an uncertain act of another person.

An analysis of the highest and best use as improved differs from an evaluation of the highest and best use as vacant, because it recognizes that the existing improvements may have sufficient utility and value to justify their continued use. The existing improvements will continue to represent the highest and best use of the site until the value of the land (as vacant and available for its highest and best use) is greater than the value of the site as improved, plus the cost to remove the existing improvements.

Consistent use is the concept that land cannot be valued on the basis of one use while the improvements are valued on the basis of another; this is because the value of the improvements (if any) must contribute to the value of the land. Improvements that do not represent the land's highest and best use but have a substantial remaining economic life are considered an interim use that will continue until it is feasible to develop the land to its highest and best use. The four stages of analysis are similar to those used to determine the highest and best use of the land as if vacant.

1. Possible use. What uses of the site are physically possible?

   The subject property is adaptable for a variety of commercial applications. The site is improved with a 200-room lodging facility, which obviously constitutes a possible use. The improvements appear to be appropriate for hotel use; the building is straightforward in design and configuration, which permits a relatively efficient operation and convenient guest traffic flow. The structure features good-quality materials and workmanship, and has been well maintained.

2. Legally permissible use. What uses are permitted by zoning and deed restrictions and are reasonably probable rather than speculative or conjectural?

   The subject property's improvements represent a use that is legally permissible and neither speculative nor conjectural. We are aware of no significant nuisances, hazards, or other adverse conditions affecting the property. Overall, the improvements conform to the physical and economic characteristics of the surrounding neighborhood.

3. Financially feasible use. Which possible and permissible uses will produce a net return to the property owner?

   The subject property's improvements represent a substantial use of the parcel. We have not prepared financial analyses associated with the prospective adaptation of the subject improvements to an alternate use. It is possible that such an adaptation to an office building would be feasible.

4. Maximally productive use. Among the feasible uses, which will produce the greatest net return or the highest present worth?

   The financially feasible uses of the subject property have been analyzed to determine which will provide the greatest net return. The principle of balance and the related concept of conformity indicate that the optimal mix of property components is realized when a property conforms to the demands of its market, such that no marginal benefit or utility can be achieved by making any significant changes.

Various alternative uses of the subject property have been considered. Based on our analysis of the hotel's location, site characteristics, zoning, surrounding land uses, the market influences of supply and demand, and the fact that the value of the land does not exceed the value of the hotel plus the cost of demolition, it is our opinion that the property's highest and best use, as improved, is as a first-class, all-suite hotel. No significant changes to the subject property are considered to be appropriate or necessary.

Conclusion

We have analyzed economic considerations and a number of potential alternative uses of the subject property. It is our opinion that the subject property's highest and best use, as improved, is a first-class, all-suite hotel. It is furthermore our opinion that the subject property’s highest and best use, as vacant, is as a first-class, all-suite hotel.

14. Approaches to Value

In appraising real estate for market value, the professional appraiser has three approaches from which to select: income capitalization, cost, and sales comparison. Although all of the three valuation procedures are considered, the inherent strengths of each approach and the nature of the subject property must be evaluated to determine which will provide supportable estimates of market value. The appraiser then selects one or more of the appropriate approaches in arriving at a final value estimate.

Income Capitalization Approach

The income capitalization approach analyzes a property's ability to generate financial returns as an investment. The appraisal estimates a property's operating cash flow, projecting revenue and expenses. Inherent to the income approach is the capitalization of the resulting net operating income. Using the Simultaneous Valuation Formula (SVF) capitalization model, the projected net income before debt service is allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. Through an income capitalization procedure, the value of each component is calculated. The total of the mortgage component and the equity component equals the value of the property. The model reflects traditional analysis of return on and return of capital. The value derived from the SVF analysis is then compared to a conventional discounted cash flow analysis as a final check.

The income approach is often selected as the preferred valuation method for operating properties because it most closely reflects the investment rationale of knowledgeable buyers.

Cost Approach

The cost approach estimates market value by computing the current cost of replacing the property and, in the case of existing hotels, subtracting any depreciation resulting from physical deterioration, functional obsolescence, and external (or economic) obsolescence. The value of the land, as if vacant and available, is then added to the depreciated value of the improvements to produce a total value estimate.

The cost approach is most reliable for estimating the value of new properties; however, as the improvements deteriorate and market conditions change, the resultant loss in value becomes increasingly difficult to quantify accurately. Based on our experience with hotel investors, the cost approach is most applicable for new and proposed properties.

Sales Comparison Approach

The sales comparison approach estimates the value of a property by comparing it to similar properties sold on the open market. To obtain a supportable estimate of value, the sales price of a comparable property must be adjusted to reflect any dissimilarity between it and the property being appraised.

The sales comparison approach is most useful in the case of simple forms of real estate such as vacant land and single-family homes, where the properties are homogeneous and the adjustments are few and relatively simple to compute. In the case of complex investments such as shopping centers, office buildings, restaurants, and lodging facilities, where the adjustments are numerous and more difficult to quantify, the sales comparison approach loses much of its reliability.

Hotel investors typically do not employ the sales comparison approach in reaching their final purchase decisions. Although the sales comparison approach may provide a range of values that supports the final estimate, reliance on this approach beyond the establishment of broad parameters is rarely justified by the quality of the sales data.

Reconciliation

The final step in the valuation process is the reconciliation and correlation of the value indications. Factors that are considered in assessing the reliability of each approach include the purpose of the appraisal, the nature of the subject property, and the reliability of the data used. In the reconciliation, the applicability and supportability of each approach are considered and the range of value indications is examined. The most significant weight is given to the approach that produces the most reliable solution and most closely reflects the criteria used by typical investors.

Our nationwide experience with numerous hostelry buyers and sellers indicates that the procedures used in estimating market value by the income capitalization approach are comparable to those employed by the hotel and motel investors who constitute the marketplace. For this reason, the income capitalization approach produces the most supportable value estimate, and it is generally given the greatest weight in the hotel valuation process.

15. Income Capitalization Approach

The income capitalization approach is based on the principle that the value of a property is indicated by its net return, or what is known as the present worth of future benefits. The future benefits of income-producing properties, such as hotels, are net income before debt service and depreciation (as estimated by a forecast of income and expense) and any anticipated re-versionary proceeds from a sale. These future benefits can be converted into an indication of market value through a capitalization process and dis-counted cash flow analysis. Using the income capitalization approach, the subject property has been valued by analyzing the local market for transient accommodations, examining existing and proposed competition, and developing a forecast of income and expense that reflects current and anticipated income trends and cost components through a stabilized year of operation.

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any non-recurring conditions that may result in unusual revenues or expenses. The stabilized year's net income is then extended into an 11-year forecast of income and expense by applying the assumed underlying inflation rate to each revenue and expense item from the stabilized year forward, unless otherwise noted. The 11-year forecast of net income then forms the basis of a ten-year discounted cash flow analysis where ten years of net income and a reversion derived from the capitalized 11th year's net income are discounted back to the date of value and summed to derive an estimate of market value. The ten-year period reflects the typical holding period of large real estate assets such as hotels. In addition, the ten-year time frame provides for the stabilization of income streams and comparison of yields with alternate types of real estate. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.

Capitalization Methodology

Two methods are utilized to discount the subject property's projected net income into an estimate of value. Method One is a mortgage-equity, ten-year discounted cash flow analysis in which the cash flow to equity and the equity reversion are discounted to the present value at the equity yield rate, and the income to the mortgagee is discounted at a mortgage interest rate. The sum of the equity and mortgage values is the total property value. Method Two is a simple ten-year discounted cash flow analysis in which the annual net income before debt service and the reversionary proceeds following a sale at the end of the tenth year are discounted back to the date of the appraisal at an overall discount rate, and then totaled to produce an indication of the present worth of future benefits.

As stated in the textbook entitled, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*, published by the Appraisal Institute, "of the three valuation approaches available to the appraiser, the income capitalization approach generally provides the most persuasive and supportable conclusions when valuing a lodging facility." This text recommends that using a ten-year forecast and an equity yield rate (Method One) "most accurately reflects the actions of typical hotel buyers, who purchase properties based on their leveraged discounted cash flow." The simpler procedure of using a ten-year forecast and a discount rate (Method Two) is "less reliable because the derivation of the discount rate has little support. Moreover, it is difficult to adjust the discount rate for changes in the cost of capital."[1]

Method One

To convert the projected income stream into an estimate of value through Method One, the anticipated net income (before debt service and depreciation) is allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. The total of the mortgage component and the equity component equals the value of the property. The process is described as follows.

1. The terms of typical hotel financing are set forth, including interest rate, amortization term, and loan-to-value ratio.
2. An equity yield rate of return is established. Numerous hotel buyers base their equity investments on a ten-year equity yield rate projection that takes into account ownership benefits such as periodic cash flow distributions, residual sale or refinancing distributions that return any

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[1] Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*, Chicago, IL, Appraisal Institute, 1992, p. 236.

property appreciation and mortgage amortization, income tax benefits, and various non-financial considerations such as status and prestige. The equity yield rate is also known as the internal rate of return on equity.

3. The value of the equity component is calculated by first deducting the annual debt service from the projected net income before debt service, leaving the net income to equity for each year. The net income as of the 11th year is capitalized into a reversionary value. After deducting the mortgage balance at the end of the tenth year and the typical brokerage and legal costs, the equity residual is discounted back to the date of value at the equity yield rate. The net income to equity for each of the ten projection years is also discounted to the present value. The sum of these discounted values equates to the value of the equity component. Adding the equity component to the initial mortgage balance yields the overall property value.

   Because the mortgage and the debt service amounts are unknown but the loan-to-value ratio was determined in Step #1, the preceding calculation can be solved through an iterative process or by use of a linear algebraic equation that computes the total property value. The algebraic equation that solves for the total property value using a ten-year mortgage and equity technique was developed by Suzanne R. Mellen, CRE, MAI, Managing Director of the San Francisco office of HVS International. A complete discussion of the technique is presented in her article entitled, "Simultaneous Valuation: A New Technique."[2]

4. The value is proven by allocating the total property value between the mortgage and equity components and verifying that the rates of return set forth in Steps #1 and #2 can be met from the projected net income.

[2] Suzanne Mellen, "Simultaneous Valuation: A New Technique," *Appraisal Journal* April, 1983.

Method Two

The process of converting the projected income stream into an estimate of value through Method Two is described as follows.

1. An appropriate discount rate is selected to apply to the projected net income before debt service. This rate reflects the "free and clear" internal rate of return to an all cash purchaser or a blended rate of debt and equity return requirements. The discount rate takes into consideration the degree of perceived risk, anticipated inflation, market attitudes, rates of return on other investment alternatives, and availability and cost of financing. The discount rate is chosen by reviewing sales transactions and investor surveys, and interviewing market participants.
5. A reversionary value reflecting the sales price of the property at the end of the ten year holding period is calculated by capitalizing the 11th-year net income by the terminal capitalization rate and deducting typical brokerage and legal fees.
6. Each year's forecasted net income before debt service and depreciation and the reversionary sales proceeds at the end of the ten year holding period are converted to a present value by multiplying the cash flow by the chosen discount rate for that year in the forecast. The sum of the discounted cash flows equates to the value of the subject property.

Review of Operating History

The subject property opened in 1990. Because the Embassy Suites is an existing hotel with an established operating performance, its historical income and expense experience can serve as a basis for projections. The following income and expense statements were provided by property ownership representatives and are not audited. Where applicable, we have reorganized the statements in accordance with the *Uniform System of Accounts for Hotels*.

Table 15-1 Historical Operating Performance – Trailing 12 Months and Calendar Year 2000

Period:	**2000/01 – (7/1/00 - 6/30/01)**				**2000**			
Number of Rooms:	**200**				**200**			
Occupied Rooms:	**57,013**				**56,794**			
Days Open:	**365**		**Amount per**	**Amount per**	**365**		**Amount per**	**Amount per**
Occupancy:	**78.1%**	**Percentage**	**Available**	**Occupied**	**77.8%**	**Percentage**	**Available**	**Occupied**
Average Rate:	**$153.86**	**of Revenue**	**Room**	**Room**	**$149.85**	**of Revenue**	**Room**	**Room**
REVENUE								
Rooms	$8,772	81.6 %	$43,860	$153.86	$8,511	81.3 %	$42,553	$149.85
Food	1,259	11.7	6,294	22.08	1,236	11.8	6,180	21.76
Beverage	332	3.1	1,660	5.82	328	3.1	1,640	5.78
Telephone	232	2.2	1,160	4.07	225	2.1	1,125	3.96
Other Income	159	1.5	795	2.79	166	1.6	830	2.92
Total	10,754	100.0	53,769	188.62	10,466	100.0	52,328	184.27
DEPARTMENTAL EXPENSES								
Rooms	1,942	22.1	9,710	34.06	1,859	21.8	9,295	32.73
Food & Beverage	1,215	76.4	6,075	21.31	1,186	75.8	5,930	20.88
Telephone	144	62.1	720	2.53	145	64.4	725	2.55
Other Expenses	80	50.3	400	1.40	79	47.6	395	1.39
Total	3,381	31.4	16,905	59.30	3,269	31.2	16,345	57.56
DEPARTMENTAL INCOME	7,373	68.6	36,864	129.32	7,197	68.8	35,983	126.71
OPERATING EXPENSES								
Administrative & General	776	7.2	3,880	13.61	755	7.2	3,775	13.29
Marketing	414	3.8	2,070	7.26	424	4.1	2,120	7.47
Franchise Fee	658	6.1	3,290	11.54	638	6.1	3,191	11.24
Property Operations & Maintenance	448	4.2	2,240	7.86	428	4.1	2,140	7.54
Energy	439	4.1	2,195	7.70	409	3.9	2,045	7.20
Total	2,735	25.4	13,675	47.97	2,654	25.4	13,271	46.74
HOUSE PROFIT	4,638	43.2	23,189	81.35	4,542	43.4	22,712	79.98
Management Fee	323	3.0	1,613	5.66	314	3.0	1,570	5.53
INCOME BEFORE FIXED CHARGES	4,315	40.1	21,577	75.69	4,228	40.4	21,142	74.45
FIXED EXPENSES								
Property Taxes	279	2.6	1,395	4.89	275	2.6	1,375	4.84
Insurance	43	0.4	215	0.75	40	0.4	200	0.70
Reserve for Replacement	430	4.0	2,151	7.54	419	4.0	2,093	7.37
Total	752	7.0	3,761	13.19	734	7.0	3,668	12.92
NET INCOME	$3,563	33.1 %	$17,816	$62.50	$3,495	33.4 %	$17,474	$61.53

Table 15-2 Historical Operating Performance – Calendar Years 1998 and 1999

Calendar Year:	1999				1998			
Number of Rooms:	200				200			
Occupied Rooms:	54,458				55,626			
Days Open:	365		Amount per	Amount per	365		Amount per	Amount per
Occupancy:	74.6%	Percentage	Available	Occupied	76.2%	Percentage	Available	Occupied
Average Rate:	$142.87	of Revenue	Room	Room	$125.15	of Revenue	Room	Room
REVENUE								
Rooms	$7,780	81.1 %	$38,902	$142.87	$6,962	80.4 %	$34,808	$125.15
Food	1,203	12.5	6,015	22.09	1,119	12.9	5,596	20.12
Beverage	308	3.2	1,540	5.66	269	3.1	1,343	4.83
Telephone	210	2.2	1,048	3.85	200	2.3	1,001	3.60
Other Income	96	1.0	479	1.76	107	1.2	534	1.92
Total	9,597	100.0	47,984	176.23	8,656	100.0	43,282	155.62
DEPARTMENTAL EXPENSES								
Rooms	1,805	23.2	9,025	33.15	1,643	23.6	8,215	29.54
Food & Beverage	1,169	77.4	5,847	21.47	1,027	74.0	5,135	18.46
Telephone	126	60.2	631	2.32	139	69.2	693	2.49
Other Expenses	51	53.6	257	0.94	53	49.9	266	0.96
Total	3,152	32.8	15,761	57.88	2,862	33.1	14,309	51.45
DEPARTMENTAL INCOME	6,445	67.2	32,224	118.34	5,795	66.9	28,973	104.17
OPERATING EXPENSES								
Administrative & General	735	7.7	3,676	13.50	723	8.4	3,616	13.00
Marketing	404	4.2	2,022	7.43	386	4.5	1,932	6.95
Franchise Fee	584	6.1	2,918	10.72	522	6.0	2,611	9.39
Property Operations & Maintenance	419	4.4	2,096	7.70	391	4.5	1,954	7.03
Energy	393	4.1	1,965	7.22	381	4.4	1,903	6.84
Total	2,535	26.4	12,677	46.56	2,403	27.8	12,016	43.20
HOUSE PROFIT	3,909	40.8	19,547	71.79	3,392	39.1	16,957	60.97
Management Fee	288	3.0	1,440	5.29	260	3.0	1,298	4.67
INCOME BEFORE FIXED CHARGES	3,622	37.7	18,108	66.50	3,132	36.2	15,659	56.30
FIXED EXPENSES								
Property Taxes	267	2.8	1,335	4.90	255	2.9	1,275	4.58
Insurance	45	0.5	225	0.83	39	0.5	195	0.70
Reserve for Replacement	384	4.0	1,919	7.05	346	4.0	1,731	6.22
Total	696	7.3	3,479	12.78	640	7.4	3,201	11.51
NET INCOME	$2,926	30.4 %	$14,629	$53.72	$2,492	28.8 %	$12,458	$44.79

Review of Historical Statements

The subject property's income and expense history, since 1998, has been remarkably stable. The hotel's net income ratio has increased as a consequence of strong gains in total revenue, particularly rooms revenue. In 1998, net income equated to 28.8% of total revenue, with this ratio up to 33.1% of total revenue for the 12 months ending June 30, 2001. No unusual or anomalous expense items were noted in our review.

Comparable Operating Statements

In order to lend further context to the review of the subject property's operating history, we have gathered income and expense data from a variety of other Embassy Suites affiliates from throughout the nation, searching in particular for affiliates with comparable locations, average rate levels, and room counts. The results of the survey contained on the following tables pertain to four Embassy Suites affiliates; a composite statement showing aggregate data is also presented.

Table 15-3 Comparable Operating Data

	Comp #1				Comp #2			
Year:	2000				2000			
Number of Rooms:	200-275				450-500			
Occupied Rooms:	58,621				56,946			
Days Open:	365		Amount per	Amount per	365		Amount per	Amount per
Occupancy:	74.7%	Percentage	Available	Occupied	79.6%	Percentage	Available	Occupied
Average Rate:	$139.45	of Revenue	Room	Room	$155.67	of Revenue	Room	Room
REVENUE								
Rooms	$8,175	81.2 %	$38,022	$139.45	$8,865	81.7 %	$45,228	$155.67
Food	1,129	11.2	5,251	19.26	1,336	12.3	6,816	23.46
Beverage	275	2.7	1,279	4.69	407	3.7	2,074	7.14
Telephone	250	2.5	1,164	4.27	186	1.7	950	3.27
Other Income	234	2.3	1,088	3.99	62	0.6	314	1.08
Total	10,063	100.0	46,804	171.66	10,855	100.0	55,383	190.62
DEPARTMENTAL EXPENSES								
Rooms	1,610	19.7	7,490	27.47	2,101	23.7	10,719	36.89
Food & Beverage	1,031	73.4	4,793	17.58	1,298	74.5	6,623	22.80
Telephone	112	44.9	523	1.92	123	65.8	625	2.15
Other Income	111	47.6	518	1.90	13	21.7	68	0.23
Total	2,865	28.5	13,324	48.87	3,535	32.6	18,036	62.08
DEPARTMENTAL INCOME	7,198	71.5	33,480	122.79	7,320	67.4	37,347	128.54
OPERATING EXPENSES								
Administrative & General	755	7.5	3,510	12.87	771	7.1	3,932	13.53
Marketing	483	4.8	2,247	8.24	456	4.2	2,326	8.01
Franchise Fee	613	6.1	2,852	10.46	665	6.1	3,392	11.68
Propert Oper. & Maint.	372	3.7	1,732	6.35	467	4.3	2,381	8.20
Energy	533	5.3	2,481	9.10	467	4.3	2,381	8.20
Total	2,756	27.4	12,821	47.02	2,825	26.0	14,413	49.61
HOUSE PROFIT	4,442	44.1	20,659	75.77	4,495	41.4	22,934	78.93
Management Fee	302	3.0	1,404	5.15	326	3.0	1,661	5.72
IBFC	4,140	41.1	19,255	70.62	4,169	38.4	21,272	73.22
FIXED EXPENSES								
Property Taxes	195	1.9	907	3.33	235	2.2	1,199	4.13
Insurance	40	0.4	186	0.68	67	0.6	342	1.18
Reserve for Replacement	403	4.0	1,872	6.87	434	4.0	2,215	7.62
Total	638	6.3	2,965	10.88	736	6.8	3,756	12.93
NET INCOME	$3,502	34.8 %	$16,290	$59.74	$3,433	31.6 %	$17,516	$60.29

Table 15-3 Comparable Operating Data (continued)

	Comp #3				Comp #4			
	2000				2000			
Number of Rooms:	**600-650**				**234**			
Occupied Rooms:	**54,890**				**65,168**			
Days Open:	**365**				**365**			
Occupancy:	**72.3%**				**76.3%**			
Average Rate:	**$149.24**	**Percentage of Revenue**	**Amount per Available Room**	**Amount per Occupied Room**	**$127.39**	**Percentage of Revenue**	**Amount per Available Room**	**Amount per Occupied Room**
REVENUE								
Rooms	$8,192	78.4 %	$39,384	$149.24	$8,302	78.6 %	$35,477	$127.39
Food	1,471	14.1	7,070	26.79	1,202	11.4	5,138	18.45
Beverage	430	4.1	2,069	7.84	392	3.7	1,677	6.02
Telephone	203	1.9	976	3.70	331	3.1	1,415	5.08
Other Income	148	1.4	710	2.69	340	3.2	1,451	5.21
Total	10,443	100.0	50,209	190.26	10,567	100.0	45,158	162.15
DEPARTMENTAL EXPENSES								
Rooms	1,868	22.8	8,979	34.03	1,677	20.2	7,166	25.73
Food & Beverage	1,300	68.4	6,251	23.69	1,045	65.5	4,464	16.03
Telephone	134	65.9	643	2.44	168	50.8	719	2.58
Other Income	83	56.0	398	1.51	196	57.6	836	3.00
Total	3,384	32.4	16,271	61.66	3,085	29.2	13,185	47.34
DEPARTMENTAL INCOME	7,059	67.6	33,937	128.60	7,482	70.8	31,973	114.81
OPERATING EXPENSES								
Administrative & General	658	6.3	3,163	11.99	898	8.5	3,838	13.78
Marketing	512	4.9	2,460	9.32	507	4.8	2,168	7.78
Franchise Fee	614	5.9	2,954	11.19	623	5.9	2,661	9.55
Propert Oper. & Maint.	366	3.5	1,757	6.66	666	6.3	2,845	10.22
Energy	470	4.5	2,259	8.56	454	4.3	1,942	6.97
Total	2,620	25.1	12,594	47.72	3,148	29.8	13,454	48.31
HOUSE PROFIT	4,439	42.5	21,343	80.88	4,334	41.0	18,519	66.50
Management Fee	313	3.0	1,506	5.71	317	3.0	1,355	4.86
IBFC	4,126	39.5	19,837	75.17	4,017	38.0	17,165	61.64
FIXED EXPENSES								
Property Taxes	166	1.6	798	3.02	275	2.6	1,175	4.22
Insurance	38	0.4	183	0.69	100	0.9	427	1.53
Reserve for Replacement	418	4.0	2,008	7.61	423	4.0	1,806	6.49
Total	622	6.0	2,989	11.33	798	7.5	3,409	12.24
NET INCOME	$3,504	33.5 %	$16,848	$63.84	$3,219	30.5 %	$13,756	$49.40

Table 15-4 Comparable Operating Data – Composite

Number of Rooms:	**853**	**(Avg. = 261)**		
Occupied Rooms:	**235,625**			
Days Open:	**365**		**Amount per**	**Amount per**
Occupancy:	**75.7%**	**Percentage**	**Available**	**Occupied**
Average Rate:	**$142.32**	**of Revenue**	**Room**	**Room**
REVENUE				
Rooms	$33,533	80.0 %	$39,312	$142.32
Food	5,138	12.3	6,023	21.81
Beverage	1,504	3.6	1,763	6.38
Telephone	971	2.3	1,138	4.12
Other Income	783	1.9	917	3.32
Total	41,928	100.0	49,154	177.95
DEPARTMENTAL EXPENSES				0.00
Rooms	7,256	21.6	8,506	30.79
Food & Beverage	4,673	70.4	5,479	19.83
Telephone	537	55.3	629	2.28
Other Income	403	51.5	472	1.71
	12,869	30.7	15,087	54.62
DEPARTMENTAL INCOME	29,059	69.3	34,067	123.33
OPERATING EXPENSES				
Administrative & General	3,082	7.3	3,613	13.08
Marketing	1,958	4.7	2,295	8.31
Franchise Fee	2,515	6.0	2,948	10.67
Propert Oper. & Maint.	1,870	4.5	2,193	7.94
Energy	1,924	4.6	2,256	8.17
Total	11,349	27.1	13,305	48.17
HOUSE PROFIT	17,710	42.2	20,762	75.16
Management Fee	1,258	3.0	1,475	5.34
INCOME BEFORE FIXED CHARGES	16,452	39.2	19,287	69.82
FIXED EXPENSES				
Property Taxes	871	2.1	1,021	3.70
Insurance	245	0.6	287	1.04
Reserve for Replacement	1,677	4.0	1,966	7.12
Total	2,793	6.7	3,274	11.85
NET INCOME	$13,659	32.6 %	$16,013	$57.97

The comparable industry data strongly supports the conclusion that the subject property's historical results reflect a market-level performance. Net income at the comparable properties ranged from 30.5% to 34.8% of total revenue, with a composite indication of 32.6% of total revenue. The subject property's net income for the 12 months ending June 30, 2001 equated to 33.1% of total revenue.

Premise of Forecast

The forecast of income and expense is intended to reflect the appraiser's subjective estimate of how a typical buyer would project the subject property's future operating results. Depending on the dynamics of the local market, a typical buyer's projection may be adjusted upward or downward. We have attempted to consider these factors in formulating this forecast.

Base-Year Statement of Income and Expense

Based on our review of the operating histories of the subject property and the comparable hotels, we have derived a base-year statement of income and expense, which is expressed in 2000/01 dollars, beginning as of July 1, 2000. The units of comparison include a percentage of departmental and total revenue, amounts per available room, and amounts per occupied room. The income and expense ratios are based on the subject property's actual occupancy level of 78.1% realized for the 12 months ending June 30, 2001 and the average daily rate of $153.86 achieved during the same period. The base-year profit-and-loss statement will be used to determine the relationship between the fixed and variable components.

Table 15-5 Base-Year Statement of Income and Expense – 2000/01 Dollars

Fiscal Year:	**2000/01**			
Number of Rooms:	**200**			
Occupancy:	**78.1%**	**Percent of**	**Amount per**	**Amount per**
Average Rate:	**$153.86**	**Total**	**Available**	**Occupied**
Occupied Rooms:	**57,013**	**Revenue**	**Room**	**Room**
Revenue:				
Rooms	$8,772	81.6 %	$43,860	$153.86
Food	1,259	11.7	6,294	22.08
Beverage	332	3.1	1,660	5.82
Telephone	232	2.2	1,160	4.07
Other Income	159	1.5	795	2.79
Total Revenue	10,754	100.0	53,769	188.62
Expenses:				
Rooms*	1,942	22.1	9,710	34.06
Food & Beverage*	1,215	76.4	6,075	21.31
Telephone*	144	62.1	720	2.53
Other Income*	80	50.3	400	1.40
Administrative & General	776	7.2	3,880	13.61
Marketing	414	3.8	2,070	7.26
Franchise Fee	658	6.1	3,290	11.54
Property Operations & Maintenance	448	4.2	2,240	7.86
Energy	439	4.1	2,195	7.70
Management Fee	323	3.0	1,613	5.66
Property Taxes	279	2.6	1,395	4.89
Insurance	43	0.4	215	0.75
Reserve for Replacement	430	4.0	2,151	7.54
Total Expenses	7,191	66.9	35,953	126.12
Net Income	**$3,563**	**33.1 %**	**$17,816**	**$62.50**

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

Fixed and Variable Component Analysis

HVS International 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 held constant, while the variable component is adjusted for the percent change between the projected occupancy and facility usage and that which produced the known level of revenue or expense.

The following table illustrates the revenue and expense categories that can be projected using this fixed-and-variable component model. These percentages show the portion of each category that is typically fixed and variable; the middle column describes the basis for calculating the percentage of variability while the last column sets forth the fixed percentage that has been utilized in this valuation.

Table 15-6 Range of Fixed and Variable Ratios

Category	Percent Fixed	Percent Variable	Index of Variability	Selected Fixed Ratio
Revenues				
Food	25 - 50	50 - 75	Occupancy	25 %
Beverage	0 - 30	70 - 100	Food Revenue	0
Telephone	10 - 40	60 - 90	Occupancy	10
Other Income	30 - 60	40 - 70	Occupancy	70
Departmental Expenses				
Rooms	50 - 70	30 - 50	Occupancy	60
Food & Beverage	35 - 60	40 - 65	Food & Beverage Revenue	55
Beverage	55 - 75	25 - 45	Beverage Revenue	55
Telephone	40 - 60	40 - 60	Telephone Revenue	60
Other Expenses	40 - 60	40 - 60	Other Income	70
Undistributed Operating Expenses				
Administrative & General	65 - 85	15 - 35	Total Revenue	75
Marketing	65 - 85	25 - 45	Total Revenue	75
Franchise Fee	0	100	Occupancy	0
Property Operations & Maintenance	55 - 75	25 - 45	Total Revenue	75
Energy	80 - 95	5 - 20	Total Revenue	75
Management Fee	0	100	Total Revenue	0
Fixed Expenses				
Property Taxes	100	0	Total Revenue	100
Insurance	100	0	Total Revenue	100
Reserve for Replacement	0	100	Total Revenue	0

This forecast of revenue and expense is accomplished through a step-by-step approach, following the format of the *Uniform System of Accounts for Hotels*.

Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

A general rate of inflation must be established that will be applied to most revenue and expense categories. The following table shows inflation estimates made by analysts at some noted institutions and corporations.

Table 15-7 Inflation Estimates

Source	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier) November of 2000	May of 2001
Gail Fosler, Conference Board	3.4 %	3.5 %
John Mueller, LBMC	3.0	2.6
Daniel E. Laufenberg, American Express	3.0	3.1
Richard DeKaser, National City	3.1	2.9
Richard Yamarone, Argus Research	2.5	2.0
Kurt Karl, Swiss Re	3.2	2.6
Stephen Gallagher, SG Cowen	3.4	2.2
Ram Bhagavatula, Royal Bank of Scotland	---	2.8
Thomas W. Synnott III, U.S. Trust	3.4	3.4
William B. Hummer, Hummer Investments	4.1	3.3
Susan Sterne, Economic Analysis	2.6	2.5
Diane C. Swonk, Bank One	3.2	2.9
Gary Thayer, AG Edwards	2.5	2.8
Sung Won Sohn, Wells Fargo Bank	3.5	2.5
Mark Zandi, Economy.com	2.9	2.7
Ian Sheperdson, High Frequency Econ.	3.2	2.6
Saul Hymans, RSQE Univ. of Michigan	3.2	2.8
John McDevitt, 3M	3.2	2.8
W. Van Bussmann, DaimlerChrysler	3.2	2.7
David Orr, First Union	3.5	2.5
Bruce Steinberg, Merrill Lynch	2.6	2.2
John Lonski, Moody's Investors Service	3.4	2.7
Neal Soss, Credit Suisse First Boston	---	2.7
Jim Coons, Huntington National Bank	3.0	2.8
Michael Cosgrove, Econoclast	3.2	2.4
Richard D. Rippe, Prudential Securities	3.1	2.6
David Resler, Nomura Securities Int'l	3.1	2.7
Mickey D. Levy, Bank of America	2.5	2.5
Allen Sinai, Decision Economics	3.3	2.3
Nancy Lazar/Ed Hyman ISI Group	3.0	2.2
Donald Ratjczek, Morgan Keegan	2.8	2.8
J. Dewey Deane, Vanderbilt University	3.5	3.2
David W. Berson, Fannie Mae	2.8	2.8
David L. Littman, Comerica Bank	3.1	3.4
Nicholas S. Perna, Perna Associates	3.5	3.0
Maureen Allyn, Scudder, Kemper Investments	3.2	3.0
Stuart G. Hoffman, PNC Financial Svcs. Group	3.3	2.9
Maury Harris, UBS Warburg LLC	3.5	2.5
Wayne D. Angell, Bear Stearns	2.2	2.2
William Dudley, Goldman Sachs	3.2	2.9
Robert V. DiClemente, Salomon/Citibank	3.2	2.5
Paul McCulley, PIMCO	3.5	2.8
Maria F. Ramirez, MFR	3.5	3.2
James F. Smith, Univ. of North Carolina	2.7	3.2
Peter Hooper, Deutsche Bank	2.7	2.8
Tracy Herrick, Jefferies & Co.	4.0	3.8
Lawrence Kudlow, ING Barings	---	2.5
R. Berner/D. Greenlaw, Morgan Stanley	3.3	2.9
William T. Wilson, Ernst & Young	---	3.0
Brian S. Wesbury, Griffin Kubik	3.0	2.4
David M. Blitzer, Standard & Poors	3.3	3.0
A. Gary Shilling, Shilling & Co.	2.1	1.9
Averages	3.1 %	2.8 %
Actual Number as of December 29, 2000	3.4	

Source: *Wall Street Journal* , January 2, 2001 and July 3, 2000

As the preceding table indicates, the financial analysts who were surveyed anticipate inflation rates ranging from 2.1% to 4.1% (on an annualized basis) during the second half of 2000. The average estimate was 3.1% compared to the actual inflation of 3.4% in 2000. For the 12 months ending in May of 2001, the inflation forecasts range from 1.9% to 3.8%, with an average of 2.8%.

As a further check on these inflation projections, we have reviewed historical increases in the Consumer Price Index (CPI-U). Because the value of real estate is predicated on cash flows over a relatively long period, inflation should be considered from a long-term perspective.

Table 15-8 National Consumer Price Index (All Urban Consumers)

Year	National Consumer Price Index	Percent Change from Previous Year
1991	136.2	---
1992	140.3	3.0 %
1993	144.5	3.0
1994	148.2	2.6
1995	152.4	2.8
1996	156.9	3.0
1997	160.5	2.3
1998	163.0	1.6
1999	166.6	2.2
2000	172.2	3.4
Average Annual Compounded Change,		
1991 - 2000		2.6 %
1996 - 2000		2.4 %

Source: Bureau of Labor Statistics

Between 1991 and 2000, the national CPI-U increased at an average annual compounded rate of 2.6%. The rate of CPI-U growth accelerated in recent years, with growth of 3.4% noted in 2000. In consideration of these trends and our assessment of probable property appreciation levels, we have applied an underlying inflation rate of 3.0%. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Forecast of Income and Expense

Each revenue and expense item has been forecasted based upon our review of the subject property's operating history within the context of the com-parable income and expense statements. The following narrative identifies the basis for the projections.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in previous sections of this report. The subject property is expected to stabilize at 75% occupancy while experiencing inflationary gains of 3.0% per year in average rate going forward from its historical 2000 results.

Food Revenue

Food revenue is generated by a hotel's restaurants, coffee shops, snack bars, banquet rooms, and room service. In the case of the subject property, food revenue is generated by its restaurant, lounge, and banquet service in the ±5,055 square feet of meeting space. We have projected the subject prop-erty's food revenue in line with the historical results for the 12 months ending June 30, 2001. Future variations in food revenue are a function of inflation as well as shifts in the hotel's occupancy rate.

Beverage Revenue

Beverage revenue is generated by the sale of alcoholic beverages in a hotel's restaurants and banquet rooms and the sale of alcoholic and non-alcoholic beverages in the bars and lounges. We have projected the subject property's beverage revenue in line with the historical results for the 12 months ending June 30, 2001. Historically, beverage revenue equated to 26.4% of food revenue. This ratio is applied throughout the projection period.

Telephone Revenue

Telephone revenue is generated by hotel guests who charge local and long-distance calls to their rooms, and by individuals who use the property's public telephones. We have projected the subject property's telephone revenue in line with the historical results for the 12 months ending June 30, 2001. Future variations in telephone revenue are a function of inflation as well as shifts in the hotel's occupancy rate.

Other Income

Other income is derived from sources other than guestrooms, food and beverages, and telephone services. Other income for the subject property is generated by the gift shop, in-room movies, vending sales, and other miscellaneous sources. We have projected the subject property's other income in line with the historical results for the 12 months ending June 30, 2001. Future variations in other income are a function of inflation as well as shifts in the hotel's occupancy rate.

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy (because managers can schedule maids, bell personnel, and house cleaners to work when demand requires), much of a hotel's payroll is fixed. Front desk personnel, public area cleaners, the housekeeper, and other supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy.

Commissions and reservations are usually based on room sales, and thus, are highly sensitive to changes in occupancy and average rate. While guest supplies vary 100% with occupancy, linen, and other operating expenses are only slightly affected by volume. We have projected the subject property's rooms expense in line with the historical results for the 12 months ending June 30, 2001. Future variations in rooms expense are a function of inflation as well as shifts in the hotel's occupancy rate.

Food and Beverage Expense

Food expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. The costs associated with food sales and payroll are moderately to highly correlated to food revenues. Items such as china, linen and uniforms are less dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor. Beverage expenses consist of items necessary for the operation of a hotel's lounge and bar areas. The costs associated with beverage sales and payroll are moderately to highly correlated to beverage revenues. We have projected the subject property's food and beverage expense in line with the historical results for the 12 months ending June 30, 2001. Future variations in food and beverage expense are a function of inflation as well as shifts in the hotel's occupancy rate.

Telephone Expense

Telephone expense consists of all costs associated with this department. In the case of small hotels with automated systems, the operation of telephones may be an additional responsibility of front desk personnel; however, most large properties employ full-time operators. The bulk of the telephone expense consists of the cost of local and long-distance calls billed by the telephone companies that provide these services. Because most calls are made by in-house guests, these costs are moderately correlated to occupancy. We have projected the subject property's telephone expense in line with the historical results for the 12 months ending June 30, 2001. Future variations in telephone expense are a function of inflation as well as shifts in the hotel's occupancy rate.

Other Expense

Other expense consists of costs associated with other income, and is dependent on the nature of the revenue. For example, if a hotel leases its gift shop to an outside operator, the gift shop expenses are limited to items such as rental fees and commissions. If the property operates its own gift shop, both revenues and expenses will be higher, and the hotel is responsible for the cost of goods sold, payroll, and so forth. In the case of the subject property, the gift shop is leased. We have projected the subject hotel's other expense in line with the historical results for the 12 months ending June 30, 2001. Future variations in other expense are a function of inflation as well as shifts in the hotel's occupancy rate.

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume. We have projected the subject property's administrative and general expense in line with the historical results for the 12 months ending June 30, 2001. Future variations in administrative and general expense are a function of inflation as well as shifts in the hotel's occupancy rate.

Marketing Expense

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities.

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be projected accurately.

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

We have projected the subject property's marketing expense in line with the historical results for the 12 months ending June 30, 2001. Future variations in marketing expense are a function of inflation as well as shifts in the hotel's occupancy rate.

Franchise Fee

Franchise fees include royalties and marketing assessments. The royalty portion of the franchise expense represents the fees paid to the franchisor for the use of the company's name, trademarks, and service marks. The marketing assessment is associated with national sales and advertising programs.

In the case of the subject property, franchise fee expense was deducted at a rate of 7.5% of rooms revenue, reflecting current costs established by Hilton Hotels Corporation for the use of its Embassy Suites brand. This fee includes a 4.0% royalty and a 3.5% marketing assessment. Fees for reservation system support are assumed to be part of the rooms expense ratio.

Property Operations and Maintenance

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial con-struction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long term.

We have projected the subject property's property operations and maintenance expense in line with the historical results for the 12 months ending June 30, 2001. Future variations in property operations and maintenance expense are a function of inflation as well as shifts in the hotel's occupancy rate.

Energy Expense

The energy consumption of a lodging facility takes several forms, including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel energy are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their energy requirements with less expensive sources, such as gas and oil, for heating and cooking.

We have projected the subject property's energy expense in line with the historical results for the 12 months ending June 30, 2001. Future variations in energy expense are a function of inflation as well as shifts in the hotel's occupancy rate.

Management Fee

Management expense consists of the basic fee paid to the type of company that is anticipated to operate the subject property. Some companies provide management services alone, while others also provide a brand name affiliation. When a management company has no brand identification, the property owner often acquires a franchise that provides the necessary image, brand recognition, and reservation system. Although most hotel management companies employ a fee schedule that includes a basic fee (usually a percentage of total revenue) and an incentive fee (usually a percentage of defined profit), the incentive portion is often subordinated to debt service and may not appear in a forecast of net income before debt service. Basic hotel management fees are almost always based on a percentage of total revenue, which means they have no fixed component.

Although the incentive fee does not decrease the cash flow available for debt service, it does reduce the potential cash flow to equity, and must be accounted for in the valuation process. Generally, the most appropriate procedure for handling the impact of the incentive fee on the equity component is to use the projected net income before debt service and incentive fee, but adjust the equity dividend or yield rate upward to reflect this added management cost. The adjusted equity dividend and yield rates will be described later in this section.

In the case of the subject property, management fees were deducted at a rate equal to 3.0% of total revenues, consistent with the terms of the management contract with HEI Hotels.

Property Taxes

The basis for the property tax expense projection was detailed in a previous section of this report.

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage.

Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, dis-tance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

We have projected the subject property's insurance expense in line with the historical results for the 12 months ending June 30, 2001. Future variations in insurance expense are a function of inflation.

Reserve for Replacement

Furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

Maintenance is an accumulating expense. If management elects to postpone performing a required procedure, the expenditure has not been eliminated or saved, but only deferred payment until a later date. The age of a lodging facility greatly influences the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. A well-organized preventative maintenance program often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless the occupancy trend.

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but nevertheless affect an owner's cash flow, an appraisal should reflect these expenses in the form of an appropriate reserve for replacement.

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service and limited-service hotels. The findings of the study were published in a report in 1995.[3] The historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also per-formed based upon the cost to replace short and long lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year, and depend upon both the actual and effective age of a property. Based upon this study we find that hotel lenders and investors now are requiring reserves for replacement ranging from 4% to 5% of total revenue.

Based on an analysis of comparable lodging facilities, 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.

Summary of Projections

Based on the preceding analysis, we have formulated a forecast of income and expense. The table on the following page presents a detailed forecast through the stabilized year, including amounts per available room (PAR) and per occupied room (POR). For the purpose of comparison, this table also presents the subject property's most recent full year of operating history. The second table illustrates our ten-year forecast of income and expense, pre-sented with a lesser degree of detail. The forecasts pertain to fiscal operating years beginning July 1, 2001, and are expressed in inflated dollars for each year.

[3] The International Society of Hotel Consultants, *CapEx, A Study of Capital Expenditure in the U.S. Hotel Industry*, 1995.

Table 15-9 Detailed Forecast of Income and Expense and Most Recent Operating History: Embassy Suites, Spring Valley, New York

	Historical Operating Results																			
	2000/01				**2001/02**				**2002/03**				**2003/04**				**Stabilized**			
Number of Rooms:	**200**				**200**				**200**				**200**				**200**			
Occupancy:	**78%**				**79%**				**79%**				**78%**				**75%**			
Average Rate:	**$153.86**				**$156.64**				**$161.34**				**$166.18**				**$171.17**			
Days Open:	**365**				**365**				**365**				**365**				**365**			
Occupied Rooms:	**57,013**	**%Gross**	**PAR**	**POR**	**57,670**	**%Gross**	**PAR**	**POR**	**57,670**	**%Gross**	**PAR**	**POR**	**56,940**	**%Gross**	**PAR**	**POR**	**54,750**	**%Gross**	**PAR**	**POR**
REVENUE																				
Rooms	$8,772	81.6 %	$43,860	$153.86	$9,034	81.4 %	$45,170	$156.65	$9,305	81.4 %	$46,525	$161.35	$9,462	81.4 %	$47,310	$166.17	$9,371	81.2 %	$46,855	$171.16
Food	1,259	11.7	6,294	22.08	1,308	11.8	6,539	22.68	1,347	11.8	6,735	23.36	1,374	11.8	6,871	24.14	1,375	11.9	6,873	25.11
Beverage	332	3.1	1,660	5.82	345	3.1	1,725	5.98	355	3.1	1,776	6.16	362	3.1	1,812	6.37	363	3.1	1,813	6.62
Telephone	232	2.2	1,160	4.07	241	2.2	1,207	4.19	249	2.2	1,243	4.31	253	2.2	1,266	4.45	252	2.2	1,259	4.60
Other Income	159	1.5	795	2.79	164	1.5	822	2.85	169	1.5	846	2.94	174	1.5	868	3.05	177	1.5	884	3.23
Total Revenues	10,754	100.0	53,769	188.62	11,093	100.0	55,463	192.34	11,425	100.0	57,126	198.11	11,626	100.0	58,128	204.17	11,537	100.0	57,684	210.72
DEPARTMENTAL EXPENSES *																				
Rooms	1,942	22.1	9,710	34.06	2,009	22.2	10,047	34.84	2,070	22.2	10,349	35.89	2,121	22.4	10,605	37.25	2,151	23.0	10,755	39.29
Food & Beverage	1,215	76.4	6,075	21.31	1,256	76.0	6,282	21.78	1,294	76.0	6,470	22.44	1,327	76.4	6,635	23.31	1,349	77.7	6,746	24.64
Telephone	144	62.1	720	2.53	149	61.7	745	2.58	153	61.7	767	2.66	157	62.1	786	2.76	160	63.4	799	2.92
Other Expenses	80	50.3	400	1.40	82	50.2	412	1.43	85	50.2	425	1.47	87	50.3	437	1.54	90	50.7	449	1.64
Total	3,381	31.4	16,905	59.30	3,497	31.5	17,486	60.64	3,602	31.5	18,011	62.46	3,693	31.8	18,464	64.85	3,750	32.5	18,748	68.49
DEPARTMENTAL INCOME	7,373	68.6	36,864	129.32	7,595	68.5	37,976	131.70	7,823	68.5	39,116	135.65	7,933	68.2	39,664	139.32	7,787	67.5	38,936	142.23
OPERATING EXPENSES																				
Administrative & General	776	7.2	3,880	13.61	800	7.2	3,998	13.86	824	7.2	4,118	14.28	846	7.3	4,228	14.85	863	7.5	4,316	15.77
Marketing	414	3.9	2,070	7.26	427	3.8	2,133	7.40	439	3.8	2,197	7.62	451	3.9	2,256	7.92	461	4.0	2,303	8.41
Franchise Fee	658	6.1	3,290	11.54	678	6.1	3,388	11.75	698	6.1	3,489	12.10	710	6.1	3,548	12.46	703	6.1	3,514	12.84
Property Operations & Maintenance	448	4.2	2,240	7.86	462	4.2	2,308	8.00	475	4.2	2,377	8.24	488	4.2	2,441	8.57	498	4.3	2,492	9.10
Energy	439	4.1	2,195	7.70	452	4.1	2,262	7.84	466	4.1	2,330	8.08	478	4.1	2,392	8.40	488	4.2	2,442	8.92
Total	2,735	25.4	13,675	47.97	2,818	25.4	14,088	48.86	2,902	25.4	14,511	50.32	2,973	25.6	14,866	52.22	3,013	26.1	15,066	55.03
HOUSE PROFIT	4,638	43.1	23,190	81.35	4,778	43.1	23,888	82.84	4,921	43.1	24,605	85.33	4,960	42.6	24,798	87.10	4,774	41.4	23,870	87.20
Management Fee	323	3.0	1,613	5.66	333	3.0	1,664	5.77	343	3.0	1,714	5.94	349	3.0	1,744	6.13	346	3.0	1,731	6.32
INCOME BEFORE FIXED CHARGES	4,315	40.1	21,577	75.69	4,445	40.1	22,224	77.07	4,578	40.1	22,891	79.39	4,611	39.6	23,054	80.98	4,428	38.4	22,139	80.87
FIXED EXPENSES																				
Property Taxes	279	2.6	1,395	4.89	287	2.6	1,437	4.98	296	2.6	1,480	5.13	305	2.6	1,524	5.35	314	2.7	1,570	5.74
Insurance	43	0.4	215	0.75	44	0.4	221	0.77	46	0.4	228	0.79	47	0.4	235	0.83	48	0.4	242	0.88
Reserve for Replacement	430	4.0	2,151	7.54	444	4.0	2,219	7.69	457	4.0	2,285	7.92	465	4.0	2,325	8.17	461	4.0	2,307	8.43
Total	752	7.0	3,761	13.19	775	7.0	3,877	13.44	799	7.0	3,993	13.85	817	7.0	4,084	14.35	824	7.1	4,119	15.05
NET INCOME	$3,563	33.1 %	$17,816	$62.50	$3,670	33.1 %	$18,348	$63.63	$3,780	33.1 %	$18,898	$65.54	$3,794	32.6 %	$18,970	$66.63	$3,604	31.3 %	$18,020	$65.83

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

Table 15-10 Ten-Year Forecast of Income and Expense: Embassy Suites, Spring Valley, New York ($+,000)

	2001/02		2002/03		2003/04		2004/05		2005/06	
Number of Rooms:	**200**		**200**		**200**		**200**		**200**	
Occupied Rooms:	**57,670**		**57,670**		**56,940**		**54,750**		**54,750**	
Occupancy:	**79%**	**% of**	**79%**	**% of**	**78%**	**% of**	**75%**	**% of**	**75%**	**% of**
Average Rate:	**$156.64**	**Gross**	**$161.34**	**Gross**	**$166.18**	**Gross**	**$171.17**	**Gross**	**$176.30**	**Gross**
REVENUE										
Rooms	$9,034	81.4 %	$9,305	81.4 %	$9,462	81.4 %	$9,371	81.2 %	$9,653	81.2 %
Food	1,308	11.8	1,347	11.8	1,374	11.8	1,375	11.9	1,416	11.9
Beverage	345	3.1	355	3.1	362	3.1	363	3.1	373	3.1
Telephone	241	2.2	249	2.2	253	2.2	252	2.2	259	2.2
Other Income	164	1.5	169	1.5	174	1.5	177	1.5	182	1.5
Total	11,093	100.0	11,425	100.0	11,626	100.0	11,537	100.0	11,884	100.0
DEPARTMENTAL EXPENSES										
Rooms	2,009	22.2	2,070	22.2	2,121	22.4	2,151	23.0	2,216	23.0
Food & Beverage	1,256	76.0	1,294	76.0	1,327	76.4	1,349	77.7	1,390	77.7
Telephone	149	61.7	153	61.7	157	62.1	160	63.4	165	63.4
Other Expenses	82	50.2	85	50.2	87	50.3	90	50.7	92	50.7
Total	3,497	31.5	3,602	31.5	3,693	31.8	3,750	32.5	3,862	32.5
DEPARTMENTAL INCOME	7,595	68.5	7,823	68.5	7,933	68.2	7,787	67.5	8,022	67.5
OPERATING EXPENSES										
Administrative & General	800	7.2	824	7.2	846	7.3	863	7.5	889	7.5
Marketing	427	3.8	439	3.8	451	3.9	461	4.0	474	4.0
Franchise Fee	678	6.1	698	6.1	710	6.1	703	6.1	724	6.1
Property Operations & Maintenance	462	4.2	475	4.2	488	4.2	498	4.3	513	4.3
Energy	452	4.1	466	4.1	478	4.1	488	4.2	503	4.2
Total	2,818	25.4	2,902	25.4	2,973	25.6	3,013	26.1	3,104	26.1
HOUSE PROFIT	4,778	43.1	4,921	43.1	4,960	42.6	4,774	41.4	4,918	41.4
Management Fee	333	3.0	343	3.0	349	3.0	346	3.0	357	3.0
INCOME BEFORE FIXED CHARGES	4,445	40.1	4,578	40.1	4,611	39.6	4,428	38.4	4,561	38.4
FIXED EXPENSES										
Property Taxes	287	2.6	296	2.6	305	2.6	314	2.7	323	2.7
Insurance	44	0.4	46	0.4	47	0.4	48	0.4	50	0.4
Reserve for Replacement	444	4.0	457	4.0	465	4.0	461	4.0	475	4.0
Total	775	7.0	799	7.0	817	7.0	824	7.1	849	7.1
NET INCOME	$3,670	33.1 %	$3,780	33.1 %	$3,794	32.6 %	$3,604	31.3 %	$3,713	31.3 %

	2006/07		2007/08		2008/09		2009/10		2010/11	
Number of Rooms:	**200**		**200**		**200**		**200**		**200**	
Occupied Rooms:	**54,750**		**54,750**		**54,750**		**54,750**		**54,750**	
Occupancy:	**75%**	**% of**	**75%**	**% of**	**75%**	**% of**	**75%**	**% of**	**75%**	**% of**
Average Rate:	**$181.59**	**Gross**	**$187.04**	**Gross**	**$192.65**	**Gross**	**$198.43**	**Gross**	**$204.38**	**Gross**
REVENUE										
Rooms	$9,942	81.2 %	$10,240	81.2 %	$10,548	81.2 %	$10,864	81.2 %	$11,190	81.2 %
Food	1,458	11.9	1,502	11.9	1,547	11.9	1,594	11.9	1,641	11.9
Beverage	385	3.1	396	3.1	408	3.1	420	3.1	433	3.1
Telephone	267	2.2	275	2.2	283	2.2	292	2.2	301	2.2
Other Income	188	1.5	193	1.5	199	1.5	205	1.5	211	1.5
Total	12,240	100.0	12,607	100.0	12,986	100.0	13,375	100.0	13,776	100.0
DEPARTMENTAL EXPENSES										
Rooms	2,282	23.0	2,350	23.0	2,421	23.0	2,494	23.0	2,568	23.0
Food & Beverage	1,431	77.7	1,474	77.7	1,519	77.7	1,564	77.7	1,611	77.7
Telephone	169	63.4	175	63.4	180	63.4	185	63.4	191	63.4
Other Expenses	95	50.7	98	50.7	101	50.7	104	50.7	107	50.7
Total	3,978	32.5	4,097	32.5	4,220	32.5	4,347	32.5	4,477	32.5
DEPARTMENTAL INCOME	8,262	67.5	8,509	67.5	8,765	67.5	9,028	67.5	9,299	67.5
OPERATING EXPENSES										
Administrative & General	916	7.5	943	7.5	972	7.5	1,001	7.5	1,031	7.5
Marketing	489	4.0	503	4.0	518	4.0	534	4.0	550	4.0
Franchise Fee	746	6.1	768	6.1	791	6.1	815	6.1	839	6.1
Property Operations & Maintenance	529	4.3	545	4.3	561	4.3	578	4.3	595	4.3
Energy	518	4.2	534	4.2	550	4.2	566	4.2	583	4.2
Total	3,197	26.1	3,293	26.1	3,391	26.1	3,493	26.1	3,598	26.1
HOUSE PROFIT	5,065	41.4	5,217	41.4	5,374	41.4	5,535	41.4	5,701	41.4
Management Fee	367	3.0	378	3.0	390	3.0	401	3.0	413	3.0
INCOME BEFORE FIXED CHARGES	4,698	38.4	4,839	38.4	4,984	38.4	5,134	38.4	5,288	38.4
FIXED EXPENSES										
Property Taxes	333	2.7	343	2.7	353	2.7	364	2.7	375	2.7
Insurance	51	0.4	53	0.4	54	0.4	56	0.4	58	0.4
Reserve for Replacement	490	4.0	504	4.0	519	4.0	535	4.0	551	4.0
Total	874	7.1	900	7.1	927	7.1	955	7.1	984	7.1
NET INCOME	$3,824	31.3 %	$3,938	31.3 %	$4,057	31.3 %	$4,178	31.3 %	$4,304	31.3 %

Income Capitalization

The subject property has been valued via a ten-year, mortgage-equity discounted cash flow analysis. The conversion of a property's forecasted net income into an estimate of value is based on the premise that investors typically purchase real estate with a small amount of equity cash (25% to 40%) and a large amount of mortgage financing (60% to 75%). The amounts and terms of available mortgage financing and the rates of return that are required to attract sufficient equity capital form the basis for allocating the net income between the mortgage and equity components and deriving a value estimate.

Other investment parameters used by the appraisers in the income capitalization approach include an overall capitalization rate and total property yield, or “free and clear” discount rate. An overall terminal capitalization rate is utilized to calculate the property's reversionary sales proceeds at the end of the assumed ten-year holding period in the dis-counted cash flow analysis. Once the value of the property is estimated via the mortgage-equity capitalization technique, the appraisers perform analyses to cross-check the appropriateness of the value estimate based upon other market derived parameters. The overall capitalization rate equating the subject property's historical and first year's net income to the estimated market value is compared with overall rates derived from comparable hotel sales. The discount rate, which is the total property yield equating the hotel's forecasted net income before debt service to the estimated market value, is also compared with discount rates derived from comparable hotel sales.

Mortgage Component

Data for the mortgage component may be developed from statistics of actual hotel mortgages made by long-term lenders. The American Council of Life Insurance, which represents 20 large life insurance companies, publishes quarterly information pertaining to the hotel mortgages issued by its member companies.

Because of the six- to nine-month lag time in reporting and publishing hotel mortgage statistics, it is necessary to update this information to reflect current lending practices. Our research indicates that the greatest degree of correlation exists between the average interest rate of a hotel mortgage and the concurrent yield on an average A corporate bond.

The following table summarizes the average mortgage interest rates of the hotel loans made by these lenders. For the purpose of comparison, the average A corporate bond yield (as reported by *Moody's Bond Record*) is also shown.

Table 15-11 Average Mortgage Interest Rates & Average A Corporate Bond Yields

	Period	Average Interest Rate	Average A Corporate Bond Yield
2000	3rd Quarter	8.76 %	8.03 %
	2nd Quarter	8.87	8.25
	1st Quarter	8.88	8.09
1999	4th Quarter	8.65	7.91
	3rd Quarter	8.19	7.78
	2nd Quarter	8.05	7.41
	1st Quarter	7.86	6.98
1998	4th Quarter	7.47	6.87
	3rd Quarter	7.12	6.87
	2nd Quarter	7.44	6.98
	1st Quarter	7.26	7.00
1997	4th Quarter	7.65	7.46
	3rd Quarter	8.44	7.42
	2nd Quarter	8.85	7.84
	1st Quarter	8.25	7.71

Sources: American Council of Life Insurance; *Moody's Bond Record*

The relationship between hotel interest rates and the yields from the average A corporate bond can be detailed through a regression analysis, which is expressed as follows.

$$Y = 2.3969 + 0.8115 X$$

Where: Y = Estimated Hotel/Motel Mortgage Interest Rate
X = Current Average A Corporate Bond Yield
(Coefficient of correlation is 97%)

The April 2, 2001 average yield on average A corporate bonds, as reported by *Moody's Bond Record*, was 7.69%. Using a factor of 7.69% in the equation presented above produces an estimated hotel/motel interest rate of roundly 8.64%.

In addition to the mortgage interest rate estimate derived from this regression analysis, HVS International constantly monitors the terms of hotel mortgage loans made by our institutional lending clients. In the current market, hotel projects are typically able to secure mortgage financing at interest rates ranging from 8.5% to 9.5%, depending on the location, affiliation, operator, and loan-to-value ratio. In the current lending climate, strong hotel projects that are structured on an economic basis can secure mortgage financing at interest rates ranging from 8.75% to 9.25%, depending on the property, location, affiliation, operator, and loan-to-value ratio.

At present, we find that lenders who are active in the market are using loan-to-value ratios of 65% to 75%, and amortization periods of 20 to 30 years. The exact terms offered depend on specific factors such as the property's location, the age and quality of the physical facility, local hostelry market conditions, and (perhaps more significantly) the profile of the borrower. The strongest projects typically command the highest loan-to-value ratios.

Based on the subject property's quality, location, market setting, and borrower profile, we have applied a ratio of 65%. In addition, based on the preceding analysis of the current lodging industry mortgage market and adjustments for specific factors such as the property's location and conditions in the local hotel market, it is our opinion that an 8.75% interest, 20-year amortization mortgage with a 0.106045 constant is appropriate for the subject property. A direct correlation between the interest rate and the loan-to-value ratio exists, where at a lower interest rate, a lower loan-to-value is applied.

Equity Component

The remaining capital required for a hotel investment generally comes from the equity investor. The rate of return that an equity investor expects over a ten-year holding period is known as the equity yield. Unlike the equity dividend, which is a short-term rate of return, the equity yield specifically considers a long-term holding period (generally ten years), annual inflation-adjusted cash flows, property appreciation, mortgage amortization, and proceeds from a sale at the end of the holding period. To establish an appropriate equity yield rate, HVS International uses two sources of data*:* past appraisals and investor interviews.

Hotel Sales – During the past 12 months, HVS International has appraised more than 1,000 hotels, including properties located in most major national markets. Each appraisal used a similar mortgage-equity approach in which income is projected and then discounted to a current value at rates reflecting the cost of debt and equity capital. In the case of hotels that were sold subsequent to our valuations, we are able to determine an appropriate equity yield rate by inserting the projection into a valuation model, and adjusting the appraised value to reflect the actual sales price by modifying the return assumptions. The following table shows a representative sample of hotels that were sold shortly after we appraised them, along with the imputed equity return based on our valuation approach.

Table 15-12 Sample of Hotels Sold

Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Overall Rate Based on Net Operating Income: Stabilized Year	Historical Year	Projected Year One
Hampton Inn	Stevenson Ranch, CA	128	Jul-01	16.6 %	29.2 %	13.3 %	11.2 %	12.7 %
Residence Inn	Stevenson Ranch, CA	90	Jul-01	12.8	20.1	10.7	10.5	10.5
Fairfield Inn	Stevenson Ranch, CA	66	Jul-01	15.4	26.4	12.4	12.1	12.2
Springhill Suites	Charlotte, NC	136	Mar-01	16.0	24.2	13.4	---	10.2
Courtyard Kansas City	Overland, KS	168	Feb-01	16.0	24.3	12.3	---	10.6
Radisson Daytona	Daytona Beach, FL	260	Dec-00	15.3	23.8	12.4	7.4	11.7
Courtyard	Alpharetta, GA	154	Aug-00	16.9	26.5	14.1	---	12.2
Residence Inn	Merrifield, VA	159	Jul-00	12.9	20.4	11.5	---	10.1
Wyndham DTC	Denver, CO	180	Jun-00	14.4	21.1	12.5	---	10.2
Wyndham	Billerica, MA	210	Jun-00	15.3	23.2	13.1	---	11.0
TownPlace Suites	Scarborough, ME	95	Apr-00	15.2	22.9	11.7	---	11.2
TownPlace Suites	Tewksbury, MA	95	Apr-00	15.1	22.7	11.7	---	11.7
Embassy Suites	Pleasant Hill, CA	249	Apr-00	13.7	21.1	10.4	12.3	11.7
Westin St. Francis	San Francisco, CA	1,192	Apr-00	10.2	13.0	8.5	9.7	8.7
L'Ermitage	Beverly Hills, CA	124	Apr-00	10.7	13.8	9.0	3.7	7.2
Loews Coronado Bay Resort	Coronado, CA	440	Jan-00	13.8	21.1	10.7	9.2	11.1
Sheraton Miramar	Santa Monica, CA	300	Sep-99	13.5	21.7	10.2	8.4	10.4
Hampton Inn	Tampa, FL	134	Sep-99	13.7	21.9	10.7	11.0	11.0
Hampton Inn	Jacksonville, FL	130	Sep-99	14.4	22.5	12.0	13.8	10.0
Executive Inn	Sacramento, CA	190	Aug-99	13.9	21.8	10.9	12.8	12.8
Hyatt Regency	La Jolla, CA	419	Jul-99	11.8	17.6	9.6	10.6	10.2
Ramada Canopy Plaza	Singer Island, CA	125	Jul-99	19.6	34.8	16.7	17.4	14.4
Residence Inn	San Diego, CA	121	Jun-99	13.1	19.0	10.2	---	9.1
Hilton Garden Inn	Sacramento, CA	153	Jun-99	15.9	25.0	11.6	---	12.0
Clift Hotel	San Francisco, CA	362	May-99	11.5	15.2	8.5	7.0	7.5
Hilton Hotel	Gaithersburg, MD	301	Apr-99	22.8	39.5	18.3	11.5	15.0
Donatello Hotel	San Francisco, CA	94	Apr-99	14.9	24.8	12.5	9.0	10.0
Hilton Hotel	Gaithersburg, MD	301	Apr-99	22.8	39.5	18.3	11.5	15.0
Semiahmoo Inn	Blaine, WA	198	Mar-99	17.5	27.3	11.9	10.4	10.5
Embassy Suites Airport	Orlando, FL	174	Feb-99	11.4	15.1	10.1	3.9	8.8
Colonial Plaza Inn	Orlando, FL	230	Feb-99	11.0	17.4	12.9	---	12.6
Marriott Wardman Park	Washington, DC	1,338	Jan-99	12.8	19.9	10.7	10.2	7.8
Grand Wailea Resort	Maui, HI	761	Dec-98	12.6	20.3	9.0	6.6	6.6
Hotel Rex	San Francisco, CA	94	Nov-98	11.7	17.4	9.5	6.5	9.6
Best Western Palmer Inn	Princeton, NJ	106	Nov-98	14.6	24.7	12.2	12.5	12.3
ANA Hotel	San Francisco, CA	667	Sep-98	11.4	11.4	8.6	6.3	7.3

Source: HVS International

Investor Interviews – HVS International is in constant contact with numerous institutional and individual hotel investors. This source of equity funds has definite return requirements that can be expressed as an equity yield rate based on a ten-year projection of net income before incentive management fees, but after debt service. Based on our surveys and investor interviews, the following table illustrates the equity yield requirements of a cross-section of hotel investors.

Table 15-13 Equity Yield Requirements

Source of Equity	Equity Yield Requirement
Individual Syndicator	20% - 24%
Institution	18% - 20%

Equity Yield Rate

Based on the assumed 65% loan-to-value ratio, the risk inherent in achieving the projected income stream, and the age, condition, and anticipated market position of the subject property, it is our opinion that an equity investor is likely to require an equity yield rate of 20%. This estimate is well supported by the equity yield requirements presented previously.

Terminal Capitalization Rate

Inherent in this valuation process is the assumption of a sale at the end of the ten-year holding period. The estimated reversionary sales price as of that date is calculated by capitalizing the projected 11th-year net income by an overall terminal capitalization rate. An allocation for the selling expenses is deducted from this sales price, and the net proceeds to the equity interest (also known as the equity residual) are calculated by deducting the outstanding mortgage balance from the reversion. For purposes of this analysis, we have applied a terminal capitalization rate of 11.0%.

Valuation of the Mortgage and Equity Components

The valuation of the mortgage and equity components is accomplished using an algebraic equation that calculates the exact amount of debt and equity that the hotel will be able to support based on the anticipated cash flow (as estimated by the forecast of income and expense) and the specific return requirements demanded by the mortgage lender (interest) and the equity investor (equity yield).

Using the variables, we estimate the value of the fee simple interest in the subject property via the income capitalization approach, as of July 1, 2001, to be $$31,200,000.

Mathematical Proof of Value

The value is mathematically proven by calculating the yields to the mortgage and equity components during the projection period. If the mortgagee achieves an 8.75% yield and the equity yield is 20%, then $31,200,000 is the correct rounded value by the income capitalization approach. Using the assumed financial structure set forth in the previous calculations, market value can be allocated between the debt and equity as follows.

Mortgage Component	(65%)	$20,284,000
Equity Component	(35%)	10,922,000
Total		$31,206,000

The annual debt service is calculated by multiplying the mortgage com-ponent by the mortgage constant.

Mortgage Component	$20,284,000
Mortgage Constant	0.106045
Annual Debt Service	$2,151,023

The 11-year forecast of net income and ten-year forecast of net income to equity are presented in the following table.

Table 15-14 Eleven-Year Forecast of Net Income and Ten-Year Forecast of Net Income to Equity

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Occupancy	79 %	79 %	78 %	75 %	75 %	75 %	75 %	75 %	75 %	75 %	75 %
Average Rate	$156.64	$161.34	$166.18	$171.17	$176.30	$181.59	$187.04	$192.65	$198.43	$204.38	$210.51
Net Income Before Debt Service	3,670	3,780	3,794	3,604	3,713	3,824	3,938	4,057	4,178	4,304	4,433
Less: Debt Service	2,151	2,151	2,151	2,151	2,151	2,151	2,151	2,151	2,151	2,151	2,151
Net Income to Equity	**$1,519**	**$1,629**	**$1,643**	**$1,453**	**$1,562**	**$1,673**	**$1,787**	**$1,906**	**$2,027**	**$2,153**	**$2,282**
Debt Coverage Ratio	1.71	1.76	1.76	1.68	1.73	1.78	1.83	1.89	1.94	2.00	2.06
Cash-on-Cash Return	13.9 %	14.9 %	15.0 %	13.3 %	14.3 %	15.3 %	16.4 %	17.5 %	18.6 %	19.7 %	20.9 %

The debt coverage ratio and cash-on-cash return calculated in the first projection year are both considered acceptable and attractive returns in the current market. The net proceeds to equity upon sale of the property are determined by deducting sales expenses (brokerage and legal fees) and the outstanding mortgage balance.

The equity residual at the end of the tenth year is calculated by deducting brokerage and legal fees and the mortgage balance from the reversionary value. The reversionary value is calculated as the 11th year's net income capitalized by the terminal capitalization rate. The calculation is shown as follows.

Reversionary Value	($ 4,433,000/0.110)	$40,300,000
Less:		
Brokerage and Legal Fees		1,209,000
Mortgage Balance		14,303,000
Net Sale Proceeds to Equity		$24,788,000

The discount rate (before debt service), the yield to the lender, and the yield to the equity position have been calculated by computer, with the following results.

Table 15-15 Internal Rates of Return

Position	Value	Projected Yield (Internal Rate of Return) Over 10-Year Holding Period
Total Property	$31,207,000	13.6 %
Mortgage	20,284,000	8.6
Equity	10,922,000	20.0

Note: Whereas the mortgage constant and value are calculated on the basis of monthly mortgage payments, the mortgage yield in this proof assumes single annual payments. As a result, the proof's derived yield may be slightly less than that actually input.

The following tables demonstrate that the property receives its anticipated yields, proving that the value is correct, based on the assumptions used in this approach.

Table 15-16 Free and Clear Discount Rate - Discounted Cash Flow Analysis

Year	Net Income Available for Debt Service		Present Worth of $1 Factor @ 13.6%		Discounted Cash Flow
2001/02	$3,670,000	x	0.880399	=	$3,231,000
2002/03	3,780,000	x	0.775102	=	2,930,000
2003/04	3,794,000	x	0.682399	=	2,589,000
2004/05	3,604,000	x	0.600783	=	2,165,000
2005/06	3,713,000	x	0.528928	=	1,964,000
2006/07	3,824,000	x	0.465668	=	1,781,000
2007/08	3,938,000	x	0.409973	=	1,614,000
2008/09	4,057,000	x	0.360940	=	1,464,000
2009/10	4,178,000 *	x	0.317771	=	1,328,000
2010/11	43,395,000 *	x	0.279765	=	12,140,000
			Total Property Value		$31,206,000

*10th year net income of $4,304,000 plus sales proceeds of $39,091,000

Table 15-17 Mortgage Component Yield

Year	Total Annual Debt Service		Present Worth of $1 Factor @ 8.6%		Discounted Cash Flow
2001/02	$2,151,000	x	0.920567	=	$1,980,000
2002/03	2,151,000	x	0.847444	=	1,823,000
2003/04	2,151,000	x	0.780129	=	1,678,000
2004/05	2,151,000	x	0.718161	=	1,545,000
2005/06	2,151,000	x	0.661115	=	1,422,000
2006/07	2,151,000	x	0.608601	=	1,309,000
2007/08	2,151,000	x	0.560258	=	1,205,000
2008/09	2,151,000	x	0.515755	=	1,109,000
2009/10	2,151,000 *	x	0.474787	=	1,021,000
2010/11	16,454,000 *	x	0.437073	=	7,192,000
			Value of Mortgage Component		$20,284,000

*10th year debt service of $2,151,000 plus outstanding mortgage balance of $14,303,000

Table 15-18 Equity Component Yield

Year	Net Income to Equity		Present Worth of $1 Factor @ 20.0%		Discounted Cash Flow
2001/02	$1,519,000	x	0.833330	=	$1,266,000
2002/03	1,629,000	x	0.694440	=	1,131,000
2003/04	1,643,000	x	0.578698	=	951,000
2004/05	1,453,000	x	0.482246	=	701,000
2005/06	1,562,000	x	0.401870	=	628,000
2006/07	1,673,000	x	0.334891	=	560,000
2007/08	1,787,000	x	0.279075	=	499,000
2008/09	1,906,000	x	0.232561	=	443,000
2009/10	2,027,000 *	x	0.193801	=	393,000
2010/11	26,941,000 *	x	0.161500	=	4,351,000
			Value of Equity Component		$10,923,000

*10th year net income to equity of $2,153,000 plus sales proceeds of $24,788,000

Valuation Method Two: Discounted Cash Flow

The total property yield derived from the previous valuation method was 13.6%. After reviewing the total property yields indicated by industry surveys, it is our opinion that a 13.5% discount factor would be appropriate for the Embassy Suites. The following table illustrates the discounted cash flow analysis using a 13.5% discount factor.

Table 15-19 Discounted Cash Flow Analysis

Year	Net Income	Discount Factor @ 13.5%	Discounted Cash Flow
2001/02	$3,670,000	0.88106	$3,233,480
2002/03	3,780,000	0.77626	2,934,270
2003/04	3,794,000	0.68393	2,594,835
2004/05	3,604,000	0.60258	2,171,708
2005/06	3,713,000	0.53091	1,971,268
2006/07	3,824,000	0.46776	1,788,721
2007/08	3,938,000	0.41213	1,622,948
2008/09	4,057,000	0.36311	1,473,120
2009/10	4,178,000	0.31992	1,336,613
2010/11	43,395,000 *	0.28187	12,231,538
		Estimated Market Value	$31,358,501
		(Say)	$31,400,000

Reversion Analysis

11th Year's Net Income	$4,433,000
Capitalization Rate	11.0%
Total Sales Proceeds	$40,300,000
Less: Transaction Costs @ 3.0%	1,209,000
Net Sales Proceeds	$39,091,000

*10th year net income of $4,304,000 plus sales proceeds of $39,091,000

Reconciliation

Based on our extensive experience in the hotel industry and comprehensive support provided by literature published by the Appraisal Institute, it is our opinion that the valuation procedure embodied by Method One most closely reflects the investment rationale of typical hotel buyers. As stated in the textbook entitled *Hotels and Motels: A Guide to Market Analysis, Investment Analysis and Valuation.*[4] Method Two (which discounts the projected net income and reversion using an overall discount rate, or total property yield) "does not consider the impact of mortgage debt, leverage and the specific equity demands of typical hotel investors. . . . This technique is simple but less reliable because the derivation of the discount rate has little support." In light

4 Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*, Chicago, IL, Appraisal Institute, 1992, p. 236.

of this consideration, we have relied on the $31,200,000 value conclusion indicated by Method One.

Overall Capitalization Rates

The following table shows how overall capitalization rates for the subject property have been derived based on our estimate of market value via the income capitalization approach, $31,200,000. Note that the stabilized year's net income has been deflated to first-year dollars.

Table 15-20 Overall Capitalization Rates

Year	Net Operating Income	Overall Capitalization Rate
2000 Historical*	$3,563,195	11.4 %
Forecast 2001/02	3,670,000	11.8 %
Deflated Stabilized (2001) Dollars	3,298,000	10.6 %

The overall capitalization rates are considered to be appropriate for a lodging facility such as the Embassy Suites.

Debt Coverage Ratio

The following table shows the subject property's debt coverage ratios (i.e., the extent to which net operating income exceeds annual debt service) for the first four projection years. The table also details the annual cash-on-cash return, which is calculated as the annual net income, after debt service, divided by the total equity investment.

Table 15-21 Debt Coverage Ratio

Fiscal Year	Debt Coverage Ratio	Cash-on-Cash Return
2001/02	1.71	13.9 %
2002/03	1.76	14.9
2003/04	1.76	15.0
Stabilized	1.68	13.3

Conclusion

Using the income capitalization approach, the subject property was valued by estimating the present worth of future net income before debt service and depreciation for a ten-year period. Projections were prepared through an analysis of historical income, consideration of the subject property's competitive market, and comparisons with comparable operations. To convert the forecasted net income stream into an estimate of value, the net income was allocated to mortgage and equity components based on market rates of return and loan-to-value ratios. Based on these procedures, we estimate the subject property's market value via the income capitalization approach to be $31,200,000.

16. Sales Comparison Approach

The sales comparison approach determines an opinion of the market value of a property by comparing it to similar properties recently sold or being offered in the open market. Market value is indicated by the price at which equally desirable properties have sold, or for which they can be purchased. The sales comparison approach is based on the principle of substitution, which asserts that when a property is replaceable, its value is limited to the cost of ac-quiring an equally desirable substitute (assuming that no costly delay is incurred in making substitution).

Hotel investors typically do not employ the sales comparison approach in reaching their final purchase decisions. Factors such as the numerous insupportable adjustments that are necessary and the general inability to determine the true financial terms and human motivations of comparable transactions often make the results of the sales comparison approach questionable. Although the sales comparison approach may provide a range of values that supports the final opinion, reliance on this approach beyond the establishment of broad parameters is rarely justified by the quality of sales data.

Comparable Sales

Our selection of comparable sales is based upon a comprehensive search for transactions of hotels that that are similar to the subject property. We searched for sales of properties in the subject market area and throughout the Northeastern United States. The comparable sales are described as follows.

Sale #1:

Property:	**Sheraton Hotel**
Location:	1200 Information Highway Danbury, Connecticut
Date of Sale:	March, 2001
Interest Conveyed:	Fee simple
Sales Price:	$52,600,000
Grantor:	Danbury West, LLC
Grantee:	Starwood Hotels & Resorts
Year Opened:	1999
Number of Rooms:	363
Price per Room:	$144,904
Confirmed by:	Grantee
RevPAR (2000):	$110
Derived Overall Capitalization Rate:	10.6%

Sale #2:

Property:	**Embassy Suites**
Location:	15 Fourth Street Wilmington, Delaware
Date of Sale:	January, 2001
Interest Conveyed:	Fee simple
Sales Price:	$43,700,000
Grantor:	FelCor Lodging Trust
Grantee:	LaSalle Hotel Properties
Year Opened:	1990
Number of Rooms:	265
Price per Room:	$164,906
Confirmed by:	Grantor
RevPAR (2000):	$120
Derived Overall Capitalization Rate:	9.6%

<u>Sale #3:</u>

Property:	**Embassy Suites**
Location:	150 West Ossining Boulevard White Plains, New York
Date of Sale:	July, 2000
Interest Conveyed:	Fee simple
Sales Price:	$42,000,000
Grantor:	White Plains Associates, LLC
Grantee:	MeriStar Hospitality
Year Opened:	1984
Number of Rooms:	300
Price per Room:	$140,000
Confirmed by:	Grantee
RevPAR:	Not Available
Derived Overall Capitalization Rate:	Not Available

<u>Sale #4:</u>

Property:	**Hilton Suites**
Location:	500 Market Street Providence, Rhode Island
Date of Sale:	June, 2000
Interest Conveyed:	Leasehold
Sales Price:	$33,750,000
Grantor:	Hilton Hotels
Grantee:	Hospitality Properties Trust
Year Opened:	1989
Number of Rooms:	225
Price per Room:	$150,000
Confirmed by:	Grantor
RevPAR (1999):	$115
Derived Overall Capitalization Rate:	Not Available

Sale #5:

Property:	**Marriott Hotel**
Location:	5 Washington Court Spring Valley, New York
Date of Sale:	February, 1998
Interest Conveyed:	Fee simple
Sales Price:	$45,000,000
Adjusted Sale Price:	$55,000,000 (reflects completion of $10-million renovation following sale, in 1999)
Grantor:	Valley Investors, LP
Grantee:	Shaner Hotels
Year Opened:	1987
Number of Rooms:	347
Price per Room:	$158,501
Confirmed by:	Grantee
RevPAR (1997):	$90
Derived Overall Capitalization Rate:	11.0%

Review of Comparable Sales

The table on the following page sets forth the adjustment grid used to account for differences between the transacted properties and the subject hotel. A linear adjustment is applied to account for the difference in property rights conveyed in the case of Comparable Sale #4. The leasehold interest in the Providence Hilton was transferred. As land value typically accounts for between 10% and 20% of a hotel's value, this sale has been adjusted upward by 15%. No other linear adjustments are considered to be necessary in this analysis.

Otherwise, cumulative adjustments have been applied to account for differences in location and product quality. The following table summarizes the adjustments that have been applied to the comparable sales.

Table 16-1 Comparable Sales Adjustment Grid

Elements of Comparison		Sale #1 Sheraton Hotel Danbury, CT	Sale #2 Embassy Suites Wilmington, DE	Sale #3 Embassy Suites NY	Sale #4 Hilton Suites Providence, RI	Sale #5 Marriott Hotel Spring Valley, NY
Sale Price		$52,600,000	$43,700,000	$42,000,000	$33,750,000	$55,000,000
Number of Rooms		363	265	300	225	347
Price per Room		$144,904	$164,906	$140,000	$150,000	$158,501
Date of Sale		Mar-01	Jan-01	Jul-00	Jun-00	Feb-98
Adjustments for Transaction Characteristics						
Property Rights Conveyed		fee simple	fee simple	fee simple	leasehold	fee simple
Adjustment		0.0%	0.0%	0.0%	15.0%	0.0%
Adjusted Price		$144,904	$164,906	$140,000	$172,500	$158,501
Adjustments for Property Characteristics						
Location/Market		inferior	superior	superior	superior	similar
Adjustment		5.0%	-5.0%	-5.0%	-5.0%	0.0%
Physical Condition/Facilities		superior	similar	inferior	similar	inferior
Adjustment		-5.0%	0.0%	5.0%	0.0%	5.0%
Total Cumulative Adjustment		0.0%	-5.0%	0.0%	-5.0%	5.0%
Final Adjusted Unit Price		**$144,904**	**$156,660**	**$140,000**	**$163,875**	**$166,427**
	(Say)	**$145,000**	**$157,000**	**$140,000**	**$164,000**	**$166,000**

Among the comparable sales, the hotels described in Sales #2, #3, and #4 are all considered to feature locations that are slightly superior to that of the subject property, owing chiefly to the higher-rated pricing environment. The location of Sale #1 is considered to be inferior to that of the subject property, while Sale #5's location is considered to be directly comparable.

In terms of physical condition, the hotels described in Sales #2 and #4 are both considered to feature products that are directly comparable the subject property. The Embassy Suites in White Plain, #Sale #3, and the Marriott in Spring Valley, Sale #5, were both constructed in the mid-1980s. Upward adjustments are necessary to account for these hotels' inferior quality. The Sheraton in Danbury, described as Sale #1, was constructed in 1999, and presents a higher-quality product.

Conclusion

Although the sales comparison approach may be useful in providing a value range and reflecting certain market characteristics, its applicability is limited by the numerous possible points of difference between the subject property and other hotels that have sold in recent years. These factors may include location, access, size, services and facilities offered, market conditions, chain affiliation, market orientation, management, rate structure, age, physical con-dition, date of sale, the highest and best use of the land, and the anticipated profitability of the operation. Circumstances surrounding a sale, such as financing terms, tax considerations, income guarantees, sales of partial interests, duress on the part of the buyer or seller, or a particular deal structure can also cause a disparity between the sales price and pure market value. Moreover, it may be impossible to determine the marketing periods that were necessary to consummate the transactions. It is extremely difficult to quantify the appropriate adjustment factors accurately because of their number and complexity, as well as the difficulty in obtaining specific, detailed information. Any attempt to manipulate the necessary adjustments is insupportable and purely speculative.

Because appraisers are expected to reflect the analytical processes and actions of typical buyers and sellers rather than to create a highly subjective valuation approach, the investment rationale of hotel owners is an essential consideration. As specialists in the valuation of hotels, we find that typical buyers purchase properties based on a thorough analysis of the anticipated economic benefits of property ownership, rather than on historical sales data.

In light of these factors, it is our opinion that the sales comparison approach is unsuitable for indicating a specific estimate of the subject property's market value; however, this approach may indicate a range of values that can be used to test the reasonableness of the value indicated by the income capitali-zation approach. The adjusted sales prices set forth earlier range from approximately $145,000 to $166,000 per room, or $29,000,000 to $33,200,000 for the 200-unit subject property. The income capitalization approach indicates a value of $31,200,000, which falls within this range.

17. Cost Approach

The cost approach reflects a set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of, or replacement for, the existing structure; deducting accrued depreciation from the reproduction or replacement cost; and adding the estimated land value plus an entrepreneurial profit. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.

Given the age of the subject property, the cost approach is neither a useful valuation methodology nor one that would be employed by potential purchasers of the property.

However, in this report section, we will estimate the replacement cost as new of the improvements, plus the market value of the site, plus an entrepreneurial profit incentive to arrive at the *total* cost new to "rebuild" the subject property. Hotel buyers often use the replacement cost of a hotel as a benchmark against the income approach market value of the property. In perfect markets, as the gap between market value and total cost new diminishes, there is an equal incentive to build new hotels as there is to buy existing facilities.

Replacement Cost

Replacement cost is the current construction cost of a building with the same utility as the subject property, but built with modern materials and according to current construction and design standards. As a basis for estimating the developmental costs, we have used a hotel development cost survey conducted by HVS International. This survey is published annually in a newsletter entitled, *The Hotel Valuation Journal*. The survey presents the range of per room costs associated with various components of hotel development, including improvements, furniture and equipment, pre-opening expenses, and operating capital. Statistics are compiled for three types of hotels: luxury, standard, and economy. The results of this survey are presented in the following table.

Table 17-1 Hotel Development Cost Survey (Amounts per Room)

		Improvements	Furniture, Fixtures, & Equipment	Pre-Opening	Operating Capital	Total	Percent Change
1985							
	Luxury	$60,000 - $115,000	$13,400 - $30,000	$3,000 - $5,000	$2,100 - $3,100	$78,500 - $153,100	— - —
	Standard	38,000 - 57,000	9,500 - 16,500	1,900 - 3,600	1,500 - 2,500	50,900 - 79,600	— - —
	Economy	20,000 - 36,000	5,000 - 8,800	1,000 - 1,700	1,000 - 1,500	27,000 - 48,000	— - —
1986							
	Luxury	62,000 - 120,000	13,700 - 30,600	3,100 - 5,200	2,300 - 3,100	81,100 - 158,900	1.7 - 1.9
	Standard	39,000 - 60,000	9,700 - 16,800	2,000 - 3,800	1,500 - 2,600	52,200 - 83,200	1.3 - 2.3
	Economy	21,000 - 37,000	5,100 - 9,000	1,000 - 1,800	1,100 - 1,500	28,200 - 49,300	2.2 - 1.4
1987							
	Luxury	63,000 - 122,000	13,800 - 30,900	3,300 - 5,500	2,300 - 3,200	82,400 - 161,600	0.8 - 0.8
	Standard	40,000 - 61,000	9,800 - 16,800	2,100 - 3,900	1,500 - 2,600	53,400 - 84,300	1.1 - 0.7
	Economy	21,000 - 39,000	5,200 - 9,100	1,100 - 1,800	1,100 - 1,500	28,400 - 51,400	0.4 - 2.1
1988							
	Luxury	65,000 - 125,000	14,000 - 31,000	3,300 - 5,500	2,300 - 3,200	84,600 - 164,700	2.7 - 1.9
	Standard	41,000 - 63,000	10,000 - 17,100	2,100 - 3,900	1,500 - 2,600	54,600 - 86,600	2.2 - 2.7
	Economy	22,000 - 40,000	5,200 - 9,100	1,100 - 1,800	1,100 - 1,500	29,400 - 52,400	3.5 - 1.9
1989							
	Luxury	66,000 - 126,000	15,000 - 32,000	3,300 - 5,500	2,300 - 3,200	86,600 - 166,700	2.4 - 1.2
	Standard	41,000 - 64,000	10,500 - 18,000	2,100 - 3,900	1,500 - 2,600	55,100 - 88,500	0.9 - 2.2
	Economy	22,000 - 40,000	5,500 - 9,700	1,100 - 1,800	1,100 - 1,500	29,700 - 53,000	1.0 - 1.1
1990							
	Luxury	67,000 - 128,000	15,400 - 33,000	3,500 - 5,700	2,500 - 3,500	88,400 - 170,200	2.1 - 2.1
	Standard	42,000 - 65,000	10,800 - 18,500	2,200 - 4,000	1,600 - 2,800	56,600 - 90,300	2.7 - 2.0
	Economy	22,500 - 41,000	5,600 - 10,000	1,200 - 1,800	1,200 - 1,600	30,500 - 54,400	2.7 - 2.6
1991							
	Luxury	65,000 - 122,000	14,500 - 31,500	3,700 - 5,900	2,600 - 3,600	85,800 - 163,000	(2.9) - (4.2)
	Standard	40,000 - 63,000	10,000 - 17,800	2,300 - 4,200	1,700 - 2,900	54,000 - 87,900	(4.6) - (2.7)
	Economy	21,000 - 39,000	5,000 - 9,500	1,300 - 2,000	1,300 - 1,700	28,600 - 52,200	(6.2) - (4.0)
1992							
	Luxury	64,000 - 120,000	14,200 - 30,900	3,800 - 6,100	2,700 - 3,700	84,700 - 160,700	(1.3) - (1.4)
	Standard	39,000 - 62,000	9,800 - 17,400	2,300 - 4,400	1,800 - 3,000	52,900 - 86,800	(2.0) - (1.3)
	Economy	21,000 - 38,000	4,900 - 9,300	1,400 - 2,100	1,300 - 1,800	28,600 - 51,200	0.0 - (1.9)
1993							
	Luxury	63,000 - 119,000	14,000 - 30,500	3,900 - 6,200	2,800 - 3,800	83,700 - 159,500	(1.2) - (0.7)
	Standard	39,000 - 61,000	9,700 - 17,200	2,300 - 4,500	1,800 - 3,000	52,800 - 85,700	(0.2) - (1.3)
	Economy	21,000 - 38,000	4,900 - 9,200	1,400 - 2,100	1,300 - 1,800	28,600 - 51,100	0.0 - (0.2)
1994							
	Luxury	64,000 - 121,000	14,300 - 31,100	3,900 - 6,200	2,800 - 3,800	85,000 - 162,100	1.6 - 1.6
	Standard	40,000 - 63,000	10,000 - 17,600	2,400 - 4,600	1,800 - 3,000	54,200 - 88,200	2.7 - 2.9
	Economy	22,000 - 40,000	5,100 - 9,500	1,500 - 2,200	1,300 - 1,800	29,900 - 53,500	4.5 - 4.7
1995							
	Luxury	65,000 - 124,000	14,800 - 32,300	4,100 - 6,400	2,900 - 4,000	86,800 - 166,700	2.1 - 2.8
	Standard	41,000 - 65,000	10,400 - 18,300	2,500 - 4,800	1,900 - 3,100	55,800 - 91,200	3.0 - 3.4
	Economy	23,000 - 42,000	5,400 - 9,900	1,600 - 2,300	1,300 - 1,800	31,300 - 56,000	4.7 - 4.7
1996							
	Luxury	66,000 - 126,000	15,000 - 34,200	4,300 - 6,500	2,900 - 4,100	88,200 - 170,800	1.6 - 2.5
	Standard	42,000 - 67,000	10,500 - 18,500	2,500 - 4,900	1,900 - 3,100	56,900 - 93,500	2.0 - 2.5
	Economy	23,000 - 43,000	5,600 - 9,900	1,600 - 2,300	1,300 - 1,800	31,500 - 57,000	0.6 - 1.8
1997							
	Luxury	68,000 - 131,500	15,000 - 36,000	4,500 - 6,800	3,000 - 4,300	90,500 - 178,600	2.6 - 4.6
	Standard	43,000 - 69,500	10,500 - 19,000	2,800 - 5,000	2,000 - 3,100	58,300 - 96,600	2.5 - 3.3
	Economy	24,000 - 47,000	5,600 - 10,000	1,750 - 2,500	1,500 - 2,000	32,850 - 61,500	4.3 - 7.9
1998							
	Luxury	70,000 - 139,400	15,300 - 37,800	4,600 - 7,100	3,100 - 4,400	93,000 - 188,700	2.8 - 5.7
	Standard	43,900 - 71,200	10,600 - 19,600	2,900 - 5,100	2,000 - 3,200	59,400 - 99,100	1.9 - 2.6
	Economy	24,500 - 48,600	5,700 - 10,100	1,800 - 2,600	1,500 - 2,000	33,500 - 63,300	2.0 - 2.9
1999							
	Luxury	73,900 - 149,200	15,800 - 39,700	4,700 - 7,500	3,200 - 4,500	97,600 - 200,900	4.9 - 6.5
	Standard	45,700 - 75,500	10,800 - 20,600	2,900 - 5,100	2,000 - 3,200	61,400 - 104,400	3.4 - 5.3
	Economy	25,200 - 50,500	5,900 - 10,600	1,900 - 2,700	1,500 - 2,000	34,500 - 65,800	3.0 - 3.9

Average Annual Compounded Percent Change:

1985 - 1999:	Luxury	1.6% - 2.0%	1992 - 1999:	Luxury	2.0% - 3.2%
	Standard	1.3% - 2.0%		Standard	2.2% - 2.7%
	Economy	1.8% - 2.3%		Economy	2.7% - 3.6%

Source: HVS International

Based on our inspection of the subject property, we consider the Embassy Suites to be classified in the luxury category. The total development cost in the luxury category ranges from $97,600 to $200,900 per room. We believe that the subject property falls toward the middle of this range.

Improvements

Improvements include all buildings and other relatively permanent structures located on, or attached to, the subject parcel. The cost of the improvements includes costs of materials, fees, and labor to construct the subject property's improvements. Based on our estimates, we estimate the replacement cost of the subject property's improvements to be roughly $100,000 per room, or a total of $20,000,000.

Furniture, Fixtures and Equipment

Furniture, fixtures, and equipment (FF&E) include all non-permanent, removable items at the subject property, such as guestroom furnishings, kitchen equipment, and items of decor. The cost of the furniture, fixtures, and equipment, along with all fees associated with installing and furnishing the items in the subject property comprise the total cost of furniture, fixtures, and equipment. Based on our inspection of the property, we estimate the replacement cost of the subject property's furniture, fixtures, and equipment (as if new) at roundly $17,500 per room, or a total of $3,500,000.

Pre-Opening Costs

Pre-opening costs include expenses such as marketing, staffing, training and administrative expenditures. We estimate the pre-opening costs for the subject property to be roughly $5,000 per room, or a total of $1,000,000.

Operating Capital

Operating capital includes a working capital reserve to maintain adequate cash flow until the operation reaches a break-even point. We estimate the amount of operating capital for the subject property to be roundly $3,500 per room, or a total of $700,000.

Based on the preceding analysis, we estimate the replacement cost of the subject property as follows.

Table 17-2 Replacement Cost

Item	Cost per Room	Cost
Building	$ 100,000	$ 20,000,000
Furniture, Fixtures, & Equipment	17,500	3,500,000
Pre-Opening	5,000	1,000,000
Operating Capital	3,500	700,000
Total Replacement Cost	**$ 126,000**	**$ 25,200,000**

Land Valuation

Land value may be estimated in a variety of ways including the sales comparison approach and the allocation, extraction, or ground rent capitalization methods. The ground lease capitalization approach applies a ground lease rental formula to the subject property's projected revenues in order to forecast the income and value attributable to the land. Hypothetical lease terms are derived from leases of comparable properties. These are typically expressed as a percentage of revenue, usually rooms or total revenue. The resulting economic rent, which may be considered the income attributable to the land, is then capitalized at a land capitalization rate in order to render a land value conclusion.

Over the past 15 years, hotels and resorts have routinely been constructed on leased land. While the lease terms differ somewhat from property to property, the basis for the rental calculation is often tied to a percentage of revenue formula. Using the forecasted revenues for the subject property and applying a typical hotel ground lease rental formula, the appraiser can determine the hotel's economic rental, or what can be termed the income attributed to the land. The land value can then be estimated by capitalizing the hypothetical ground rent. The self-adjusting aspect of this approach is a key element to its reliability.

We have researched actual long-term ground leases encumbering hotels, looking in particular for rental formulas based on a combination of rooms, food and beverage, and resort and other revenues. Our analysis of these ground lease rental formulas indicates that economic ground rents for hotels such as the subject property typically range from approximately 2% to 5% of rooms revenue. For purposes of this analysis, we have applied a ground rent ratio equal to 4.0% of rooms revenue. Based on the revenue projections set forth for the subject property as part of this appraisal, the following table shows how the economic ground rent has been calculated. Note that the stabilized revenue level has been deflated back to first projection year dollars.

Discounted Stabilized Rooms Revenue	$8,575,792
Rental Percentage	4.0 %
Economic Ground Rent	$343,032

Rent generated from an unsubordinated ground lease represents a low-risk flow of income. Because the tenant improvements typically amount to more than five times the value of the land, the risk of default is almost nonexistent. For hotel ground leases where rent is tied to revenue, the landlord is also protected from the adverse effects of inflation. Based on these minimal risk factors and the current cost of long-term capital, it is our opinion that the appropriate ground rent overall capitalization rate would be 9.0%, due to the aforementioned low level of risk.

Applying the indicated capitalization rate to the subject property's economic ground rent results in the following estimate of land value.

$$\frac{\text{Economic Ground Rent}}{\text{Capitalization Rate}} = \frac{\$343,032}{9\ \%} = \$3,811,463$$

(Say) $3,800,000

The subject property's land value, as estimated by the economic ground lease approach, equates to $3,800,000.

Allocation of Developer's Profit

Developer's profit represents the entrepreneurial incentive anticipated by hotel developers to induce the construction of a new hotel project. As a result of economic conditions in the hotel industry, developer's profit has not always been in evidence. If the economic value of a new hotel does not exceed development cost, indicating that developers will not earn any profit from their effort, it would most likely not be a project that would be completed since the financial incentive is not present. Developer's profit is applied to the buildings; the furniture, fixtures, and equipment; and the land as follows.

Table 17-3 Allocation of Developer's Profit

Item	Profit Percentage	Cost	Developer's Profit
Improvements	15.0 %	$21,700,000	$3,255,000
Furniture, Fixtures, & Equipment	15.0	3,500,000	525,000
Land Value	15.0	3,800,000	570,000
Total Developer's Profit			**$4,350,000**

Conclusion

In the estimation of development cost for the Embassy Suites, the costs of several components of the total property were quantified. The land value was estimated by ground lease approach. The replacement cost of the building improvements was estimated based on a hotel development cost survey conducted by HVS International. We have estimated the replacement cost of the subject property to be approximately $33,400,000 , including land. The following table summarizes our estimate of the total cost new to rebuild the subject property.

Table 17-4 Recap of Total Cost New Estimate

Item		Cost
Improvements		$21,700,000
Furniture, Fixtures, & Equipment		3,500,000
Land		3,800,000
Developer's Profit		4,350,000
Total Cost New Estimate		**$33,350,000**
	(Say)	**$33,400,000**

18. Reconciliation of Value Indications

The reconciliation, which is the last step in the appraisal process, involves summarizing and correlating the data and procedures employed throughout the analysis. The final value conclusion is arrived at after reviewing the estimates indicated by the cost, sales comparison, and income capitalization approaches. The relative significance, applicability, and defensibility of each indicated value are considered, and the greatest weight is given to that approach deemed most appropriate for the property being appraised.

The purpose of this report is to estimate the market value of the fee simple interest in the subject property; our appraisal involves a careful analysis of the property itself and the economic, demographic, political, physical, and environmental factors that influence real estate values. Based on the data set forth in this report, the following value indications were developed.

Approach	Value Indication
Income Capitalization	\$31,200,000
Sales Comparison	\$29,000,000 to \$33,200,000
Cost (Replacement Cost)	\$33,400,000

Income Capitalization Approach

To estimate the subject property's value via the income capitalization approach, we have analyzed the local market for transient accommodations, examined the competitive environment, projected occupancy and average rate levels, and developed a forecast of income and expense that reflects anticipated income trends and cost components through a stabilized year of operation. The subject property's projected net income before debt service was allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. Through a discounted cash flow and income capitalization procedure, the value of each component was calculated; the total of the mortgage and equity components equates to the value of the property.

Our nationwide experience indicates that the procedures used in estimating market value by the income capitalization approach are comparable to those employed by the hotel investors who constitute the marketplace. For this reason, we believe that the income capitalization approach produces the most supportable value estimate, and it is given the greatest weight in our final estimate of the subject property's market value.

Sales Comparison Approach

The sales comparison approach uses actual sales of similar properties to provide an indication of the subject property's value. Although we have investigated a number of sales in an attempt to develop a range of value indications, several adjustments are necessary to render these sales prices applicable to the subject property. The adjustments, which tend to be subjective, diminish the reliability of the sales comparison approach; furthermore, typical hotel investors employ a sales comparison procedure only to establish broad value parameters.

The hotel sales outlined earlier in this report indicate an adjusted value range of $145,000 to $166,000 per available room. The income capitalization ap-proach indicates a per-room value of approximately $156,000. This inform-ation suggests that no adjustment of the value indicated by the income capitalization approach appears to be warranted.

Cost Approach

Because the cost approach does not reflect the economic factors that motivate knowledgeable hotel investors (i.e., projected net income and return on investment), the cost approach is typically given limited weight in the valuation of existing income-producing properties. Furthermore, the difficulty in estimating and substantiating a number of highly subjective variables (such as effective age, accrued depreciation, and the remaining economic life of the improvements) limits the applicability of the cost approach as an effective valuation method. Moreover, lodging facilities are rarely sold or purchased on the basis of depreciated cost.

Considering the property's age and the difficulty of objectively estimating accrued depreciation, we have not developed a market value estimate for the subject hotel via the cost approach. However, we did employ cost approach methodology to develop a replacement cost estimate. The process involves adding an estimate of the land value to the estimated cost of replacing the hotel improvements and personal property.

Value Conclusion

Careful consideration has been given to the strengths and weaknesses of the three approaches to value discussed above. In recognition of the purpose of this appraisal, we have given primary weight to the value indicated by the income capitalization approach. Thus, based on our analysis, it is our opinion that the market value of the fee simple interest in the Embassy Suites, as of July 1, 2001, is:

$31,200,000

THIRTY ONE MILLION TWO HUNDRED THOUSAND DOLLARS

The value estimate equates to a per-room value of $156,000. The estimate of market value includes the land, the improvements, and the furniture, fixtures, and equipment. The appraisal assumes that the hotel is open and operational. The estimate of value assumes either the availability of third-party financing or the willingness and capability of the seller to take back purchase-money financing so that a buyer can obtain the level of debt set forth in the Income Capitalization Approach section of this appraisal.

Marketing Period

In light of the renewed interest in hotel investments and the increasing availability of debt and equity capital, we believe that it will take less than or equal to 12 months to sell the subject property, assuming that it is placed on the market at the concluded value.

Exposure Period

The exposure period, referring to the amount of time necessary for the real estate to have been exposed retrospectively, prior to the date of value, is estimated to be less than or equal to 12 months.

Allocation of Property Components

The income-generating capability of a hotel or motel is totally dependent upon having a suitable inventory of furniture, fixtures and equipment. Removal of these items could decrease the value of the property by as much as the cost to replace, plus the loss of income incurred during the period in which the hotel could not function while waiting for the replacement inventory.

As set forth in the Cost Approach section of this appraisal, the replacement cost of the new furniture, fixtures, and equipment within the subject property were estimated at $3,500,000. Since a hotel's furniture, fixtures, and equipment is such an integral component of a lodging facility's ability to generate income and is seldom removed from the property or sold separately, the value produced by the separation of the personal property component from the real property is not a particularly meaningful finding.

The land value was also estimated in the Cost Approach section of this report based on the ground lease approach. The land value was estimated to equal roundly $3,800,000.

After allocating the reconciled market value of the subject property to the furniture, fixtures, and equipment ($3,500,000) and the land ($3,800,000), the value remaining is allocated to the improvements ($23,900,000).

19. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. 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.
3. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, 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.
4. We have not considered the presence of potentially hazardous materials such as asbestos, urea formaldehyde foam insulation, PCBs, any form of toxic waste, polychlorinated biphengyls, pesticides, or lead-based paints. The appraisers are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field, if desired.
5. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have conducted no specific compliance survey to determine whether the subject property is operating in accordance with the various detailed requirements of the ADA. It is possible that the property does not conform to the requirements of the act, and this could have an unfavorable effect on value. Because we have no direct evidence regarding this issue, our estimate of value does not consider possible non-compliance with the ADA.
6. 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 land and improvements is within the boundaries of the property described, and that there is no encroachment or trespass, unless noted.

7. All information, financial operating statements, estimates, and opinions obtained from parties not employed by Hospitality Valuation Services are assumed to be true and correct. We can assume no liability resulting from misinformation.
8. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
9. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
10. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded, unless specified otherwise.
11. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
12. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard *per diem* fees and travel costs are paid prior to the appearance.
13. 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.
14. We take no responsibility for any events or circumstances that take place subsequent to either the date of value or the date of our field inspection, whichever occurs first.
15. 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 value estimate.

16. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of a typical hotel buyer.
17. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.
18. 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.
19. 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.
20. Although this analysis employs various mathematical calculations to provide value indications, the final estimate is subjective and may be influenced by our experience and other factors not specifically set forth in this report.
21. Any distribution of the total value between the land and improvements or between partial ownership interests applies only under the stated use. Moreover, separate allocations between components are not valid if this report is used in conjunction with any other analysis.
22. This study was prepared by Hospitality Valuation Services, a division of Hotel Appraisals, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of Hotel Appraisals, LLC as employees, rather than as individuals.

20. Certification

We, the undersigned appraisers, hereby certify:

1. that the statements of fact presented in this report are true and correct to the best of our knowledge and belief;
2. that the reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. that Stephen Rushmore personally inspected the property described in this report;
4. that the appraisers have extensive experience in the valuation of hotels and believe that they are competent to undertake this appraisal;
5. that we have no current or contemplated interests in the real estate that is the subject of this report;
6. that we have no personal interest or bias with respect to the subject matter of this report or the parties involved;
7. that this report sets forth all of the limiting conditions (imposed by the terms of this assignment) affecting the analyses, opinions, and conclusions presented herein;
8. that the fee paid for the preparation of this report is not contingent upon our conclusions, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
9. that this report has been prepared in accordance with, and is subject to, the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;
10. that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;

11. that this report has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (as adopted by the Appraisal Foundation);
12. that as of the date of this report, Stephen Rushmore has completed the requirements of the continuing education program of the Appraisal Institute;
13. that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this appraisal report;
14. that our engagement in this assignment was not contingent upon developing or reporting predetermined results; and
15. that this appraisal is not based on a requested minimum value, a specific value, or the approval of a loan.

Erich Baum
Senior Associate
Hotel Appraisals, LLC

Stephen Rushmore, MAI, CHA
Managing Member
Hotel Appraisals, LLC

EB: SR: am

Exterior of the Subject Property

Lobby

Double-Double Guestroom

Bedroom of Two-Room Suite

Bedroom of Two-Room Suite

Two-Room Suite Bar Area

Two-Room Suite Living Room Area

Typical Bathroom

View of the Atrium

Meeting Room of the Subject Property

Swimming Pool

Marriott

Hilton

Westin

Radisson

Penetration Adjustment Explanation

Let us illustrate the penetration adjustment referred to in the occupancy projection analysis with an example.

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

Table 1 Base-Year Occupancy and Penetration Levels

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

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

Table 2 Marketwide Room Night Demand

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

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

1) calculating the hotel's market share percentage of commercial demand (commercial room nights accommodated by subject hotel divided by total commercial room nights accommodated by all hotels) and

2) dividing the hotel's commercial market share percentage by the hotel's fair share percentage.

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

Table 3 Commercial Segment Penetration Factors

Property	Number of Rooms	Fair Share	Commercial Capture	Commercial Market Share	Commercial Penetration
Hotel A	100	23.5 %	12,973	30.0 %	127.6 %
Hotel B	125	29.4	14,054	37.9	129.0
Hotel C	200	47.1	27,677	32.0	68.1
Totals & Averages	**425**	**100.0 %**	**820,566**	**100.0 %**	**100.0 %**

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

Table 4 Commercial Segment Fair Share

Property	Number of Rooms	Fair Share
Hotel A	100	19.0 %
Hotel B	125	23.8
Hotel C	200	38.1
New Hotel	100	19.0
Totals	**525**	**100.0 %**

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

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

Table 5 Commercial Segment Projections (Year 1)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	127.6 %	24.3 %	25.0 %	131.4 %	13,687
Hotel B	125	23.8	129.0	30.7	31.6	132.8	17,299
Hotel C	200	38.1	68.1	25.9	26.7	70.1	14,600
New Hotel	100	19.0	85.0	16.2	16.7	87.5	9,117
Totals	**525**	**100.0 %**		**97.1 %**	**100.0 %**		**54,704**

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

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

Table 6 Commercial Segment Projections (Year 2)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	131.4 %	25.0 %	23.1 %	121.5 %	12,662
Hotel B	125	23.8	132.8	31.6	29.3	122.9	16,004
Hotel C	200	38.1	70.1	26.7	24.7	64.8	13,507
New Hotel	100	19.0	130.0	24.8	22.9	120.3	12,531
Totals	**525**	**100.0 %**		**97.1 %**	**100.0 %**		**54,704**

Simultaneous Valuation Formula Explanation

The algebraic equation known as the simultaneous valuation formula, which solves for the total property value using a ten-year mortgage and equity technique, was developed by Suzanne R. Mellen, CRE, MAI, Managing Director of the San Francisco office of HVS International. A complete discussion of the technique is presented in her article entitled, "Simultaneous Valuation: New Technique."[1]

The process of solving for the value of the mortgage and equity components begins by deducting the annual debt service from the projected income before debt service, leaving the net income to equity for each year. The net income as of the 11th year is capitalized into a reversionary value using the terminal capitalization rate. The equity residual, which is the total reversion-ary value less the mortgage balance at that point in time and less any brokerage and legal costs associated with the sale, is discounted to the date of value at the equity yield rate. The net income to equity for each projection year is also discounted back to the date of value. The sum of these discounted values equals the value of the equity component. Because the equity component comprises a specific percentage of the total value, the value of the mortgage and the total property can be computed easily.

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1 Suzanne R. Mellen, "Simultaneous Valuation: A New Technique," *Appraisal Journal*, April, 1983.

This process can be expressed in two algebraic equations that set forth the mathematical relationships between the known and unknown variables using the following symbols.

NI	=	Net income available for debt service
V	=	Value
M	=	Loan-to-value ratio
f	=	Annual debt service constant
n	=	Number of years in the projection period
de	=	Annual cash available to equity
dr	=	Residual equity value
b	=	Brokerage and legal cost percentage
P	=	Fraction of the loan paid off during the projection period
fp	=	Annual constant required to amortize the entire loan during the projection period
Rr	=	Overall terminal capitalization rate that is applied to net income to calculate the total property reversion (sales price at the end of the projection period)
1/Sn	=	Present worth of $1 factor (discount factor) at the equity yield rate

Using these symbols, the following formulas can be used to express some of the components of this mortgage and equity valuation process.

Debt Service – A property's debt service is calculated by first determining the mortgage amount that equals the total value (V) multiplied by the loan-to-value ratio (M). Debt service is derived by multiplying the mortgage amount by the annual debt service constant (f). The following formula represents debt service.

$$f \times M \times V = \text{Debt Service}$$

Net Income to Equity (Equity Dividend) – The net income to equity (d_e) is the property's net income before debt service (NI) less debt service. The following formula represents the net income to equity.

$$NI - (f \times M \times V) = d_e$$

Reversionary Value – The value of the hotel at the end of the tenth year is calculated by dividing the 11th-year net income before debt service (NI^{11}) by the terminal capitalization rate (R_r). The following formula represents the property's tenth-year reversionary value.

$$(NI^{11} \div R_r) = \text{Reversionary Value}$$

Brokerage and Legal Costs – When a hotel is sold, certain costs are associated with the transaction. Normally, the broker is paid a commission and the attorney collects legal fees. In the case of hotel transactions, brokerage and legal costs typically range from 1% to 4% of the sales price. Because these expenses reduce the proceeds to the seller, they are usually deducted from the reversionary value in the mortgage and equity valuation process. Brokerage and legal costs (b), expressed as a percentage of reversionary value (NI^{11}/R_r), are calculated by application of the following formula.

$$b\,(NI^{11} \div R_r) = \text{Brokerage and Legal Costs}$$

Ending Mortgage Balance – The mortgage balance at the end of the tenth year must be deducted from the total reversionary value (debt and equity) in order to determine the equity residual. The formula used to determine the fraction of the loan remaining (expressed as a percentage of the original loan balance) at any point in time (P) takes the annual debt service constant of the loan over the entire amortization period (f) less the mortgage interest rate (i), and divides it by the annual constant required to amortize the entire loan during the ten-year projection period (f_p) less the mortgage interest rate. The following formula represents the fraction of the loan paid off (P).

$$(f - i) \div (f_p - i) = P$$

If the fraction of the loan paid off (expressed as a percentage of the initial loan balance) is P, then the remaining loan percentage is expressed as 1 - P. The ending mortgage balance is the fraction of the remaining loan (1 - P) multiplied by the initial loan amount (M x V). The following formula represents the ending mortgage balance.

$$(1 - P) \times M \times V$$

Equity Residual Value – The value of the equity upon the sale at the end of the projection period (d_r) is the reversionary value less the brokerage and legal costs and the ending mortgage balance. The following formula represents the equity residual value.

$$(NI^{11} \div R_r) - (b\,(NI^{11} \div R_r) - ((1 - P) \times M \times V) = d_r$$

Annual Cash Flow to Equity – The annual cash flow to equity consists of the equity dividend for each projection year plus the equity residual at the end of the tenth year. The following formula represents the annual cash flow to equity.

$$NI^1 - (f \times M \times V) = d_e{}^1$$

$$NI^2 - (f \times M \times V) = d_e{}^2$$

$$NI^{10} - (f \times M \times V) = d_e{}^{10}$$

$$(NI^{11} \div R_r) - (b\,(NI^{11} \div R_r) - ((1 - P) \times M \times V) = d_r$$

Value of the Equity – If the initial mortgage amount is calculated by multiplying the loan-to-value ratio (M) by the property value (V), then the equity value is one minus the loan-to-value ratio multiplied by the property value. The following formula represents the value of the equity.

$$(1 - M)\ V$$

Discounting the Cash Flow to Equity to the Present Value – The cash flow to equity in each projection year is discounted to the present value at the equity yield rate ($1/S^n$). The sum of these cash flows is the value of the equity (1 - M) V. The following formula represents the calculation of equity as the sum of the discounted cash flows.

$$(d_e^1 \times 1 \div S^1) + (d_e^2 \times 1 \div S^2) + \ldots + (d_e^{10} \times 1 \div S^{10}) + (d_r \times 1 \div S^{10}) = (1 - M) V$$

Combining the Equations: Annual Cash Flow to Equity and Discounting the Cash Flow to Equity to the Present Value – The last step is to arrive at one overall equation that shows that the annual cash flow to equity plus the yearly discounting to the present value equals the value of the equity.

$$((NI^1 - (f \times M \times V))\ 1 \div S^1) + ((NI^2 - (f \times M \times V))\ 1 \div S^2) + \ldots$$

$$((NI^{10} - (f \times M \times V))\ 1/S^{10}) +$$

$$(((NI^{11} \div R_r) - (b\ (NI^{11} \div R_r)) - ((1 - P) \times M \times V))\ 1 \div S^{10}) = (1 - M) V$$

Because the property's value (V) is only unknown, this equation can be solved readily.

Ten-Year Projection of Income and Expense – Because the fixed and variable forecast of income and expense is carried out only to the stabilized year, it is necessary to continue the projection to the 11th year. In most cases, net income before debt service beyond the stabilized year is projected at an assumed inflation rate. By increasing a property's revenue and expenses at the same rate of inflation, net income remains constant as a percentage of total revenue, and the dollar amount escalates at the annual inflation rate. Hotel investors are currently using inflation rates of approximately 3.0% annually. The ten-year forecast of income and expense illustrates the subject property's net income, which is assumed to increase by 3.0% annually subsequent to the hotel's stabilized year of operation.

The following values are assigned to the variable components for the purposes of this valuation.

Table 1 Summary of Known Variables

Annual Net Income	NI	See Ten-Year Forecast
Loan-To-Value Ratio	M	65 %
Interest Rate	*i*	8.75 %
Debt Service Constant	f	0.10605
Equity Yield	Ye	20.0 %
Transaction Costs	b	3.0 %
Annual Constant Required to Amortize the Loan in Ten Years	fp	0.150392
Terminal Capitalization Rate	Rr	11.0 %

The following table illustrates the present worth of a $1 factor at the 20% equity yield rate.

Table 2 Present Worth of $1 Factor at the Equity Yield Rate

Year Ending	Present Worth of $1 Factor@ 20.0%
2001/02	0.833330
2002/03	0.694440
2003/04	0.578698
2004/05	0.482246
2005/06	0.401870
2006/07	0.334891
2007/08	0.279075
2008/09	0.232561
2009/10	0.193801
2010/11	0.161500

Using these known variables, the following intermediary calculations must be made before applying the simultaneous valuation formula. The fraction of the loan paid off during the projection period is calculated as follows.

$$P = (0.106045 - 0.0875) / (0.150392 - 0.0875) = 0.294875$$

The annual debt service is calculated as f x M x V.

$$(f \times M \times V) = 0.106045 \times 0.65 \times V = (0.068929)\ V$$

Inserting the known variables into the hotel valuation formula produces the following.

$$\begin{aligned}
&(3{,}670{,}000 - 0.06893\ V) \times 0.83333 + \\
&(3{,}780{,}000 - 0.06893\ V) \times 0.69444 + \\
&(3{,}794{,}000 - 0.06893\ V) \times 0.57870 + \\
&(3{,}604{,}000 - 0.06893\ V) \times 0.48225 + \\
&(3{,}713{,}000 - 0.06893\ V) \times 0.40188 + \\
&(3{,}824{,}000 - 0.06893\ V) \times 0.33490 + \\
&(3{,}938{,}000 - 0.06893\ V) \times 0.27908 + \\
&(4{,}057{,}000 - 0.06893\ V) \times 0.23257 + \\
&(4{,}178{,}000 - 0.06893\ V) \times 0.19381 + \\
&(4{,}304{,}000 - 0.06893\ V) \times 0.16151 +
\end{aligned}$$

$$(((4{,}433{,}000 / 11.0\%) - (0.03 \times (4{,}433{,}000 / 0.110)) -$$

$$((1 - 0.294875) \times 0.65 \times V)) \times 0.161506) = (1 - 0.65)\ V$$

Like terms are combined as follows.

$$\begin{aligned}
22{,}250{,}608 - 0.363008\ V &= (1 - 0.65)\ V \\
22{,}250{,}608 &= 0.713008\ V \\
V &= 22{,}250{,}608 / 0.713008 \\
V &= 31{,}206{,}681
\end{aligned}$$

Total Property Value, as
Indicated by the Income
Capitalization Approach (Say) = $31,200,000

Erich Baum

Employment

1988, 1990 to present	HVS INTERNATIONAL San Francisco, California Mineola, New York (Hotel-Motel Valuations, Market Studies, Feasibility Reports, and Investment Counseling)
1989	STOUFFER DALLAS HOTEL Dallas, Texas (Rotational Management Training)
1986, 1989	STATLER INN Ithaca, New York
1987	MARRIOTT'S MARCO ISLAND RESORT Marco Island, Florida
1986	PENN HARRIS MOTOR INN Camp Hill, Pennsylvania
Professional Affiliations	Cornell Hotel Society Certified General Appraiser - California (Identification No. AG020263)
Education	BS – School of Hotel Administration, Cornell University MAW – School of Arts and Sciences, University of San Francisco Appraisal Institute Courses 1A-1, SPP-A, SPP-B, I 120, I 310, II 520
Publications	Contributing Editor - *Hotel Investments Handbook*, Warren, Gorham, Lamont, Inc., New York, New York, 1997

Examples of Corporate and Institutional Clients Served

AIRCOA
American Real Estate Group
Amfac Resorts, Inc.
Anglo Irish Bank
Apollo Real Estate Advisors
Ashford Financial
Bank of America
Bank of Boston
Bank of California
Bank of New York
Bank of San Francisco
Bank One Corporation
Bankers Trust
BDO Seidman
Broad, Schulz, Larson & Wineberg
California Federal Bank
Canadian Imperial Bank
Chemical Bank
China Trust
CIGNA
Citibank
Citicorp Real Estate
Clement Chen & Associates
CNL Hospitality
J. W. Colachis Company
Creative Initiative
Credit Lyonnais
Credit du Nord
Donaldson, Lufkin & Jenrette
Finova
First Los Angeles Bank
Franklin County Correction Facilities Authority
The Fuji Bank
G Holdings Corporation
GE Capital
Gilbane Building Co.
The Grant Companies
Gray, Chary, Ames & Frye
Great Addresses
Great American Federal Savings Association
Heller Financial
Holiday Inns International
Host Marriott
Hyatt Corporation
ITT Sheraton
JMB Realty
Kawasaki Leasing
Key Bank
Lake County Business Outreach and Response Team
Lehman Brothers
Leisure Sports, Inc.
The Matrix Group
MEI Hotels
Mellon Bank
Motel 6 Operating L.P.
Moyer Enterprises
Nomura Securities International
Ocwen Capital Corporation
ORIX USA
Pacific First
Park Inn International
Pettit & Martin
Pillsbury, Madison & Sutro
The Procaccianti Group
The Prudential Realty Group
Red Lion Hotels & Inns
Republic Bank
Seafirst Bank
Security Pacific National Bank
Shaner Hotel Group
Société Generale
Starwood Lodging
Streich Long
Sumitomo Bank
Task Consultants, Inc.
Travelers Realty Investment
Union Bank

Examples of Corporate and Institutional Clients Served (continued)

United Kingfield Bank
U. S. Bancorp
U. S. Department of Labor
Windsor Capital Group
Robert E. Woolley, Inc.
Venterra Corporation
VMS Realty Partners
Westdeutsche Landesbank
Wingate Realty Finance

Appearance as an Expert Witness

Superior Court, New Britain, Connecticut
Board of Adjustment, New Castle County, Delaware
Board of Appeals, Woodstock, Vermont

Examples of Hotels Appraised or Evaluated

Alabama
- Radisson Hotel, Birmingham
- Proposed Hotel, Mobile

Alaska
- Barratt Inn, Anchorage

Arizona
- Holiday Inn, Bullhead City
- Proposed Hilton Garden Inn, Phoenix
- Loews Ventana Canyon, Tucson

Arkansas
- Holiday Inn, North Little Rock

California
- Proposed Summerfield Suites, Belmont
- Motel 6, Big Bear City
- Proposed Hotel, Big Bear Lake
- Marriott SFO, Burlingame
- Proposed Hotel, Clear Lake County
- Harris Ranch, Coalinga
- Trees Inn, Concord
- Furnace Creek Inn and Ranch, Death Valley
- Stovepipe Wells Village, Death Valley
- Budget Motel, Encinitas
- Motel 6, Gilroy
- Beverly Hills Country Club, Los Angeles
- Ma Maison Sofitel, Los Angeles
- Proposed Rancho Malibu, Malibu
- Red Lion, Modesto
- Proposed Courtyard, Newark
- Proposed Residence Inn, Newark

California (cont.)
- Holiday Inn, Palo Alto
- Pleasanton Hilton, Pleasanton
- La Quinta Motor Inn, Rancho Penasquitos
- Mission Inn, Riverside
- Red Lion Hotel, Ronhert Park
- Sterling Hotel, Sacramento
- Holiday Inn Bayside, San Diego
- Marriott Suites, San Diego
- Rancho Bernardo Inn, San Diego
- Summerhouse Inn, San Diego
- U.S. Grant Hotel, San Diego
- Donatello Hotel, San Francisco
- Grand Hyatt, San Francisco
- Howard Johnson Pickwick Hotel, San Francisco
- Hyatt Fisherman's Wharf, San Francisco
- Juliana Hotel, San Francisco
- Marriott Fisherman's Wharf, San Francisco
- Orchard Hotel, San Francisco
- Parc 55, San Francisco
- Park Hyatt, San Francisco
- San Francisco Hilton, San Francisco
- San Francisco Marriott, San Francisco
- Savoy Hotel, San Francisco
- Sheraton Fisherman's Wharf, San Francisco
- Tuscan Inn, San Francisco
- Inn at Pasatiempo, Santa Cruz
- Santa Monica Beach Hotel, Santa Monica
- Ramada Inn, Solana Beach
- Walnut Creek Marriott, Walnut Creek
- Proposed Westin Clubsport, Walnut Creek

Examples of Hotels Appraised or Evaluated (continued)

Colorado
- Proposed Hilton Garden Inn, Denver
- Proposed Summerfield Suites, Denver

Connecticut
- Comfort Inn, Cromwell
- Radisson, Cromwell
- Proposed Resort, East Haddam
- Holiday Inn Express, East Windsor
- Harley Hotel, Enfield
- Best Western Olympic Inn, Groton
- Sheraton, Hartford
- Grand Chalet, New Haven
- Proposed Hotel, New London
- Radisson, New London
- Susse Chalet, Stamford
- Courtyard by Marriott, Waterbury
- Courtyard by Marriott, Windsor
- Doubletree Hotel, Windsor Locks
- Homewood Suites, Windsor Locks
- Sheraton Bradley Airport, Windsor Locks

Delaware
- Radisson Hotel & Suites, New Castle County
- Christiana Hilton Inn, Newark
- Proposed Wyndham Hotel, Wilmington

Florida
- Best Western Diplomat, Kissimmee
- Airport Hilton, Melbourne
- Proposed Summerfield Suites, Miami
- Heart of Palm Beach, Palm Beach
- Holiday Inn Express, Tampa
- Holiday Inn, Titusville

Georgia
- Proposed Resort & Conference Center, Atlanta

Hawaii
- Coco Palms, Kauai
- The Westin Kauai at Kauai Lagoons, Lihue
- Grand Wailea Resort, Maui

Idaho
- Super 8, Coeur d'Alene
- Super 8, Lewiston
- Super 8, Sandpoint

Illinois
- Radisson, Arlington Heights
- Wyndham Northwest, Itasca
- Hyatt Hotel, Rosemont
- Marriott, Schaumburg

Iowa
- Holiday Inn, Iowa City

Kentucky
- Harley Hotel, Lexington

Louisiana
- Chateau Sonesta, New Orleans
- Fairmont Hotel, New Orleans
- Pallas Suite Hotel, New Orleans
- Proposed Grand Bay Hotel, New Orleans
- St. Louis Hotel, New Orleans
- St. Ann Hotel, New Orleans

Maine
- Proposed Hilton Garden Inn, Auburn
- Proposed Hotel, Portland
- Susse Chalet, Portland

Maryland
- Holiday Inn Express, Frederick
- Courtyard by Marriott, Hunt Valley
- Proposed Hotel, Kent Island
- Silver Spring Motel, Silver Spring

Massachusetts
- Homewood Suites, Billerica
- Doubletree Guest Suites, Boston
- Fairmont Copley, Boston
- Proposed Residence Inn, Boston
- Tremont House, Boston
- Hilton Hotel, Dedham
- Ramada Inn, Falmouth
- Comfort Suites, Haverhill
- Harborview Hotel, Hyannis
- Ramada Inn, Hyannis
- Four Points Hotel, LEominster
- Holiday Inn Express, Lexington
- Doubletree Hotel, Lowell
- Sheraton Inn, Lowell
- Comfort Inn, Northborough

Examples of Hotels Appraised or Evaluated (continued)

Massachusetts (cont.)
- Ramada Inn, Rockland
- Publick House, Sturbridge
- Proposed Summerfield Suites, Waltham
- Proposed Sierra Suites, Woburn
- Crowne Plaza Hotel, Worcester
- Flagship Inn, Yarmouth
- Gull Way Suites, Yarmouth

Michigan
- Radisson Suites, Farmington Hills
- Holiday Inn - East, Grand Rapids
- Holiday Inn, Muskegon
- Hilton Suites, Romulus
- Radisson Plaza, Southfield

Minnesota
- Airport Hilton, Bloomington
- Holiday Inn Select, Bloomington
- Doubletree Guest Suites, Minneapolis

Mississippi
- Comfort Inn, Clarksdale
- Hampton Inn, Greenwood
- Best Western, Greenville
- Motel 6, Hattiesburg
- Quality Inn, Oxford

Nevada
- Super 8, Carson City

New Hampshire
- Proposed SpringHill Suites, Manchester
- Crowne Plaza, Nashua
- Residence Inn, Nashua
- Merrimack Hotel & Conference Center, Merrimack

New Jersey
- Proposed Hotel, Freehold
- Proposed Hotel, Jersey City
- Proposed Summerfield Suites, Morristown
- Summerfield Suites, Mt. Laurel
- Proposed TownePlace Suites, Mt. Laurel
- Proposed Marriott, Newark
- Proposed Summerfield Suites, Parsippany
- Holiday Inn, Somerset
- Proposed Homewood Suites, Somerset
- Sunrise Suites, Tinton Falls

New Mexico
- Inn at Loretto, Santa Fe

New York
- Holiday Inn Arena, Binghamton
- Best Western Albany Airport, Colonie
- Best Western, Lockport
- Ramada Milford Plaza, New York
- Hampton Inn, Syracuse
- Courtyard by Marriott, Tarrytown
- Holiday Inn University, Vestal

North Carolina
- Proposed GuestHouse Suites, Greensboro
- Hampton Inn - Airport, Greensboro

Ohio
- Embassy Suites, Blue Ash
- Harley Hotel, Cincinnati
- Proposed Convention Hotel, Columbus
- Marriott Hotel, Sharonville
- Hampton Inn, St. Clairsville

Oklahoma
- Proposed Hotel, Oklahoma City

Oregon
- Vintage Plaza Hotel, Portland
- Execulodge, Salem
- Holiday Inn, Wilsonville

Pennsylvania
- Comfort Inn, Hershey
- Omni Hotel, Philadelphia
- Proposed Residence Inn, Philadelphia
- Harley Hotel, Pittsburgh
- Proposed Hotel & Conference Center, Scranton
- Courtyard by Marriott, Valley Forge

Rhode Island
- Newport Harbor Hotel, Newport
- Boutique Hotel, Providence
- Westin Hotel, Providence
- Crowne Plaza, Warwick
- Proposed Hotel, Warwick
- Proposed Holiday Inn Express, Warwick
- Proposed Staybridge Suites, Warwick

Examples of Hotels Appraised or Evaluated (continued)

South Carolina
- Hampton Inn, Columbia
- Comfort Inn, Greenville
- Hampton Inn, Greenville
- Hampton Inn, Spartanburg

Tennessee
- Homewood Suites, Germantown
- Holiday Inn Select, Memphis
- Motel 6, Memphis
- Radisson Hotel, Memphis
- Wyndham Garden, Memphis
- Holiday Inn Crowne Plaza, Nashville
- Holiday Inn Express, Nashville
- Comfort Inn, Oak Ridge

Texas
- Fairmont Hotel, Dallas
- Hawthorn Suites, Houston
- Proposed Hotel at Southfork Ranch, Parker

Vermont
- Radisson Hotel, Burlington
- The Inn at Essex, Essex
- Comfort Inn, Rutland
- Woodstock Inn & Resort, Woodstock

Virginia
- Hyatt Hotel, Arlington
- Hampton Inn, Chantilly
- Embassy Suites, Crystal City
- Holiday Inn Crowne Plaza, Crystal City
- Proposed Hilton Garden Inn, Fair Oaks
- Four Points, Harrisonburg
- Homewood Suites, Herndon
- Holiday Inn, Leesburg
- Homewood Suites, Merrifield
- Holiday Inn - West, Richmond
- Hyatt Hotel, Richmond

Washington
- Embassy Suites, Bellevue
- Red Lion Hotel, Bellevue
- Homecourt Suites, Kent
- Embassy Suites, Lynnwood
- Red Lion Hotel, Sea-Tac
- Holiday Inn Crowne Plaza, Seattle
- Proposed Red Lion, Seattle
- Red Lion Hotel, Spokane
- Shilo Inn, Spokane
- Skamania Lodge, Stevenson
- Howard Johnson, Tacoma
- Sheraton Hotel, Tacoma
- Shilo Inn, Tacoma
- Doubletree Suites, Tukwila
- Red Lion Hotel, Yakima

West Virginia
- Holiday Inn Hotel & Suites, Huntington
- Hampton Inn, Wheeling

Wisconsin
- Wyndham Garden, Brookfield
- Holiday Inn - Airport, Milwaukee
- Holiday Inn - West, Milwaukee

Wyoming
- Super 8, Cody
- Super 8, Jackson

Dominican Republic
- Punta Cana Resort, Punta Cana

Mexico
- Omni Hotel, Ixtapa

Puerto Rico
- Hyatt Dorado Beach, Dorado
- Hyatt Regency Cerromar, Dorado

West Indies
- Proposed Hotel & Casino, St. Kitts
- Club St. Lucia, St. Lucia
- Ladera Resort, St. Lucia

Stephen Rushmore, MAI, CHA

Employment

1980 to present	HVS INTERNATIONAL Mineola, New York President and Founder (Hotel/Motel Market Studies, Feasibility Reports, Valuations, and Investment Counseling)
1977 – 1980 *1971 – 1974*	HELMSLEY-SPEAR HOSPITALITY SERVICES, INC. New York, New York (Real Estate)
1974 – 1977	JAMES E. GIBBONS ASSOCIATES Garden City, New York (Mortgage Banking, Appraisals, Hotel Operations)
Affiliated Ownership Interests	HVS INTERNATIONAL (MINEOLA, NEW YORK) East coast office for hotel/motel counseling and appraisals
	HVS INTERNATIONAL (SAN FRANCISCO, CALIFORNIA) West coast office for hotel/motel counseling and appraisals
	HVS INTERNATIONAL (MIAMI, FLORIDA) Southeast office for hotel/motel counseling and appraisals
	HVS INTERNATIONAL (BOULDER, COLORADO) Midwest office for hotel/motel counseling and appraisals
	HVS INTERNATIONAL (VANCOUVER, CANADA) Canadian office for hotel/motel counseling and appraisals
	HVS INTERNATIONAL (LONDON, ENGLAND) European office for hotel/motel counseling, appraisals, and brokerage

Affiliated Ownership Interests (continued)

HVS INTERNATIONAL (SÃO PAULO, BRAZIL)
South American office for hotel/motel counseling and appraisals

HVS INTERNATIONAL (NEW DELHI, INDIA)
Indian office for hotel/motel counseling and appraisals

HVS INTERNATIONAL (SINGAPORE)
Asian office for hotel/motel counseling and appraisals

HVS ASSET MANAGEMENT & OPERATIONAL ADVISORY SERVICES
Consulting services focused on enhancing hotel profitability and asset value

HVS CAPITAL CORP.
Full-service hospitality investment and banking

HVS COMPASS DESIGN
Interior design services for hospitality facilities

HVS CONVENTION, SPORTS AND ENTERTAINMENT FACILITIES CONSULTING
Full-service consulting for a wide range of public facilities

HVS – ECO SERVICES
Environmental consulting for hotels and motels; waste management; recycling; green product selection; administrator of the ECOTEL Certification

HVS – EXECUTIVE SEARCH
Hotel/motel executive search and human resource consulting

HVS FOOD & BEVERAGE SERVICES
Specialized consulting services for restaurants and other food service facilities

HVS GAMING SERVICES
Specialized consulting and valuation services for casinos and other types of gaming activities

HVS INVESTMENT SERVICES
Agency and brokerage services covering Europe, Asia, and Africa

Affiliated Ownership Interests (continued)

HVS TECHNOLOGY STRATEGIES
Technology solutions for hospitality organizations

HVS TIMESHARE SERVICES
Specialized consulting and valuation services for timeshare projects

HOSPITALITY VALUATION SOFTWARE, INC.
Founder of a software company that develops and distributes hotel financial analysis software

SIX HATS – A HOSPITALITY COMPANY
Management services for hotels, motels, and resorts

Professional Affiliations

Appraisal Institute – Member (MAI) (SREA)
– Developer and Instructor, Hotel Investment and Valuation Seminar
– Developer and Instructor, Hotel Computer Valuation Seminar

American Hotel and Motel Association
– Certified Hotel Administrator (CHA)
– Industry Real Estate Financing Advisory Council (IREFAC)
– Educational Institute – Board of Trustees

Hotel Brokers International
– Certified Hotel Broker (CHB)

Michigan State University – Honorary Faculty, Honorary Alumnus

Certified General Appraiser – Arkansas, Connecticut, Georgia, Massachusetts, Michigan, New Jersey, New York, South Carolina

Licensed Real Estate Broker – New York

Board of Advisers
– *Real Estate Workouts & Asset Management*

Editorial Board – *Cornell Hotel & Restaurant Administration Quarterly*

Financial, Real Estate Editor – *HOTELS* magazine

Professional Affiliations (continued)	American Arbitration Association – National Real Estate Valuation Council
	Cornell Hotel Society
	Cornell School of Hotel Administration – Dean's Advisory Board
	New York University Center for Hospitality, Tourism, & Travel Administration – Executive Committee, Co-chair capital campaign
	New York University Hospitality Investment Conference – Executive Committee, Board of Advisors, Patron
	Board of Directors – Winthrop-University Hospital
	Chairman – Winthrop South Nassau Hospital System
	Beta Gamma Sigma – National Honor Society in Business and Management
Significant Accomplishments	Founder of HVS International – a global hotel consulting firm with eleven offices and 150 professionals
	Founder of Microtel – a national budget lodging chain
	Founder of HEI Hotels – a hotel ownership and management company consisting of 20 full-service hotels. HEI was sold to Starwood Lodging Trust in 1997.
	Founder of www.roadfood.com – a website devoted to finding the most memorable local eateries along the highways and back roads of America.
	Commercial pilot with instrument and multi-engine ratings (Duke and Bonanza)
Endowments	HVS International Professor of Hotel Finance and Real Estate – School of Hotel Administration, Cornell University (currently held by Professor Jan deRoos)
	Rushmore–Jennings Computer Laboratory – New York University, The Center for Hospitality, Travel and Tourism
Education	BS – School of Hotel Administration, Cornell University
	MBA – Graduate School of Business Administration (Finance), University of Buffalo

Partial List of Teaching and Lecture Assignments

Cornell University – *Computer Valuation Techniques*

Michigan State University – *Hotel Management Contracts*

University of North Carolina – *Hotel Market Studies*

University of Virginia – *Assessing Hotels*

American Arbitration Association – *Real Estate Arbitration*

American Hotel and Motel Association – *Hotel Obsolescence*

Appraisal Institute – *Hotel Valuation (over 50 seminars)*

International Association of Assessing Officers – *Hotel Valuation*

Montreal Appraisal Society – *Total Project Analysis*

Society of Real Estate Appraisers – *Lease Seminar*

Published Books and Seminars

Textbooks

The Valuation of Hotels and Motels,
Appraisal Institute, Chicago, Illinois, 1978

Hotels, Motels and Restaurants: Valuations and Market Studies,
Appraisal Institute, Chicago, Illinois, 1983

How to Perform an Economic Feasibility Study of a Proposed Hotel/Motel,
American Society of Real Estate Counselors, Chicago, Illinois, 1986

Hotel Investments: A Guide for Owners and Lenders,
Warren, Gorham and Lamont, Inc., New York, New York, 1990

The Computerized Income Approach to Hotel Market Studies and Valuations,
Appraisal Institute, Chicago, Illinois, 1990

Hotel Investments: A Guide for Owners and Lenders, 1992 Supplement,
Warren, Gorham and Lamont, Inc., New York, New York, 1992

Hotel Investments: A Guide for Owners and Lenders, 1993 Supplement,
Warren, Gorham and Lamont, Inc., New York, New York, 1992

Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations,
Appraisal Institute, Chicago, Illinois, 1992

Hotel Investments Handbook,
Warren, Gorham and Lamont, Inc., New York, New York, 1997

Published Books and Seminars (continued)

Textbooks (continued)

Hotel Investments Handbook – 1999
West Group, New York, New York, 1999

Hotels & Motels – Valuations and Market Studies,
Appraisal Institute, Chicago, Illinois, 2001

Student Manuals

The Valuation of Lease Interests,
Society of Real Estate Appraisers, Chicago, Illinois, 1976

Hotel-Motel Valuation Seminar,
Appraisal Institute, Chicago, Illinois, 1981, 1988, 1990, 1994

The Computerized Approach to Hotel Market Studies and Valuations Seminar,
Appraisal Institute, Chicago, Illinois, 1991

Demonstration Appraisals

Demonstration Appraisal of a Proposed Hotel, Spring Valley, New York, Hospitality Valuation Services, Mineola, New York, 1983, 1990, 1996

Chapters

The Real Estate Handbook–Second Edition, Dow Jones-Irwin, 1989, "Hotels and Motels"

Arbitration of Real Estate Valuation Principles, American Arbitration Association, 1987, "Arbitration in the Hospitality Industry"

Ethics in Hospitality Management: A Book of Readings, Educational Institute of the American Hotel and Motel Association, 1992, "Ethics in Hotel Appraising"

The Lodging and Food Service Industry, Educational Institute of the American Hotel and Motel Association, 1993, "Insider's Insights"

Cover Stories

"Getting Your Money's Worth," *Lodging Hospitality*, July, 1998

"Rushmore Uses Expertise to Create Personal Niche," *Hotel and Motel Management*, January 11, 1999

"In Demand: Stephen Rushmore," *Hotels' Investment Outlook*, December, 2000

Published Articles

AAHOA Hospitality	"What Does it Cost to Fly a Flag?" September, 1997
The Appraisal Journal	"Using Total Project Analysis to Compete for Investment Capital," October, 1975 "The Appraisal of Food Service Facilities," July, 1980 "Publish and Prosper," October, 1980 "Valuation of Hotels and Motels for Assessment Purposes," April, 1984 "Adjusting Comparable Sales for Hotel Assessment Appeals," July, 1986 "Hotel Business Value and Working Capital: A Clarification," January, 1987 "Ethics in Hotel Appraising," July, 1993
The Appraiser	"Hotel-Motel Appraisal Misconceptions Set Straight," January, 1979 "No Conventional Financing Available for Hotels: Rushmore," December, 1979 "Estimating Hotel Land Values Using Comparable Ground Leases," April, 1980
Bulletin of the Cornell Society of Hotelmen	"Employment Philosophy for a Consulting Practice," July, 1984
Business Travel News	"A Snapshot of a Classic Recovery," July, 1995
The Canadian Appraiser	"Hotel/Motel Market Sales Update," Summer, 1987
Canadian Lodging Outlook	"Hotel Appraisal Myths," September, 1998
Capital Sources for Real Estate	"Stephen Rushmore Discusses the Future of the Lodging Industry," December, 1994
Cayuga Advisor	"Secrets to Success in Consulting," October, 1992
Chapter News and Notes	"Quantifying a Hotel's Business Value," November, 1979
Cornell Hotel & Restaurant Administration Quarterly	"A Preliminary Market Study," November, 1974 "How Much is Your Place Worth Today? A Case Study in Hotel – Motel Valuation," May, 1975 "What Can Be Done About Your Hotel's Real Estate Taxes?" May, 1977 "The Appraisal of Lodging Facilities," August, 1978 "The Appraisal of Food Service Facilities," February, 1979 "The Appraisal of Lodging Facilities – Update," November, 1984

Published Articles (continued)

Cornell Hotel & Restaurant Administration Quarterly (continued)	"Hotel Sales Prices Down More Than 12%," May, 1991 "Seven Current Hotel Valuation Techniques," August, 1992 "The Valuation of Distressed Hotels," October, 1992 "Hotel Lending in the 1990's: Amateurs Beware," December, 1994 "Investment Values of Lodging Property: Modeling the Effects of Income Taxes and Alternative Lender Criteria," December, 1995 "Investment Values of Lodging Property: Proof of Value for Selected Models," February, 1996 "Hotel Value Trends: Yesterday, Today, and Tomorrow," December, 1997 "Keys and Hotel Security – From Metal to Plastic," December, 1998
FCI Spec Sheet	"Employment Philosophy for a Consulting Practice," September, 1984
Florida Hotel & Motel Journal	"Rushmore Reports Rising Hotel Prices," February, 1995
Global Hospitality Advisor	"Top Market Predictions & Opportunities for Developers," January, 2001
Hospitality Business Review	"Economic Trends in the U.S. Lodging Industry," Fall, 1999
Hospitality Industry International	"Investing in Luxury Hotels?" December, 1997
Hotel & Motel Management	"Average Rate vs. Project Cost," May 1, 1974 "How to Increase the Marketability of Your Motel," April, 1981 "Tougher Lending, Lower Room Rate Hikes On Way?" June, 1981 "What is That Mortgage Loan Going to Cost You?" August, 1981 "How to Perform a Study of Your Property's Market," October, 1981 "How do High Interest Rates Affect Your Motel's Value?" December, 1981 "How to Buy a Feasibility Study That Works for You," February, 1982 "Settling Lease Conflicts Quickly Through Arbitration," April, 1982 "Are Casino Hotels Really Worth $500,000 Per Room?" June, 1982 "Discount Rates and Internal Rate of Return," August, 1982 "Determining a Property's Extended Life Cycle," November, 1982 "Using Microcomputers for Forecasting," December, 1982

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Hotel & Motel Management (continued)	"Update on Hotel Development Costs," January, 1983 "Estimating a Site's Worth by Finding Its Profit Value," June, 1983 "Hotel Construction May Be Slowing Down a Little Bit," April, 1983 "The Investor's Risk Sways to Prevailing Economic Winds," August, 1983 "Is Your Property Tax at as Low a Level as it Should Be?" October, 1983 "The Ultimate Guest Room: Could it Ever Exist Anywhere?" December, 1983 "Rushmore Uses Expertise to Create Personal Niche," January, 1999
Hotel-Motor Inn Journal	"A Preventive Maintenance System for Motels," March, 1975
HOTELS	"How to Make Money in Today's Market," April, 1999 "Structuring Management Contracts," May, 1999 "Using Cycle Analysis to Increase Your Investment Returns," June, 1999 "Bad Year For Hotel Values," July, 1999 "Maybe The Reserve For Replacement Should Be 7% to 11% Of Revenue," August, 1999 "The Real Cost Of Hotel Franchises," September, 1999 "Taking Care Of Business," October, 1999 "Using Hotel Development Cost To Determine Feasibility," November, 1999 "Even With Overbuilding, Hotel Values Continue To Rise," January, 2000 "Making Alan Greenspan Your Partner," February, 2000 "How To Get The Best Sales Price," March, 2000 "Internet 101: Introduction To Building A Hotel Web Site," April, 2000 "Mid-Rate Extended-Stay Provides Best Return," May, 2000 "'e-' Is For Employment," June, 2000 "Good Time To Invest In U.S. Hotels," July, 2000 "Europe, Asia Values Show Slow To Moderate Growth," August, 2000 "Bringing Hotel Market Studies Into The 21st Century, September, 2000 "Save With Your Healthcare Program," October, 2000 "System For Selecting Management Company," November, 2000 "Six Things To Consider Before Obtaining A Hotel Franchise," January, 2001 "How To Manage The Lower Returns Of Luxury, 5-Star Hotels," February, 2001 "The Global Approach To Hotel Valuations," March, 2001 "Don't Worry About the Recession," May, 2001 "What do Hotel Franchises Actually Cost?", June, 2001 "Timeshare 101," July, 2001 "Great Time to Own Hotels in the United States," August, 2001

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Real Estate Column *HOTELS Magazine*	Real estate editor for a major monthly hospitality periodical
Hospitality Column *Real Estate Finance Journal*	Contributing hospitality editor
Computer Software *Hospitality Valuation Software*	Hotel financial software for room night analyses, income and expense forecasts, and valuation calculations – developed and distributed for the Appraisal Institute
Hotel-Motel Data *Hospitality Market Data Exchange*	National clearinghouse for information pertaining to hotel and motel transactions
Hotel Valuation Index	National index of hotel value trends for 47 individual market areas
Hospitality Seminar Series	Intensive short courses for hotel and restaurant professionals
Hotel Franchise Fees Analysis Guide	Analysis of hotel franchise fees and costs
Hospitality Bibliography	Comprehensive literature index of hotel and restaurant books and articles
Awards *Robert H. Armstrong Award*	For the most significant contribution to the *Appraisal Journal* in 1975
Cornell University School of Hotel Administration	"Hotelie of the Year" award - 1999
Activities	Commercial pilot, instrument, multi-engine; sailing; skiing; authority on road food

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UBS Securities
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Zeckendorf Company

Appearances as an Expert Witness

Administrative Law Court – SEC, Washington, DC
Appellate Tax Board, Boston, Massachusetts
Arbitration, Newark, New Jersey
Arbitration, Wayne, New Jersey
Assessment Appeals Board, Los Angeles County, Los Angeles, California
Board of Equalization and Review, Washington, District of Columbia (2)
Board of Taxation, Atlantic City, New Jersey
Bureau de Revision Evaluation Fonciere du Quebec, Montreal, Canada
Circuit Court, Orange County, Orlando, Florida
Condemnation Review Board, Minneapolis, Minnesota
Corporation Committee, Rhode Island State Senate
Court of Common Pleas, Allegheny County, Pennsylvania
Court of Common Pleas, Franklin County, Ohio
Court of Common Pleas, Montgomery, Pennsylvania
Court of Common Pleas, Pittsburgh, Pennsylvania
Court of Common Pleas, Philadelphia, Pennsylvania
Court of Queen's Bench of Alberta, Canada
District Court, Arapahoe County, Colorado
District Court, Dallas County, Texas
District Court, Harris County, Texas
District Court, Tarrant County, Texas
District Court, Hennepin County, Minneapolis, Minnesota
District Court, Knoxville, Tennessee
Federal Bankruptcy Court, Oakland, California
Federal Bankruptcy Court, Los Angeles, California
Federal Bankruptcy Court, San Diego, California
Federal Bankruptcy Court, Denver, Colorado
Federal Bankruptcy Court, District of Columbia
Federal Bankruptcy Court, Miami, Florida (2)
Federal Bankruptcy Court, Chicago, Illinois
Federal Bankruptcy Court, New Orleans, Louisiana

Appearances as an Expert Witness (continued)

Federal Bankruptcy Court, Greenbelt, Maryland
Federal Bankruptcy Court, Baltimore, Maryland
Federal Bankruptcy Court, Rockville, Maryland (2)
Federal Bankruptcy Court, Boston, Massachusetts
Federal Bankruptcy Court, Grand Rapids, Michigan
Federal Bankruptcy Court, Las Vegas, Nevada
Federal Bankruptcy Court, Newark, New Jersey (2)
Federal Bankruptcy Court, Manhattan, New York (2)
Federal Bankruptcy Court, Westbury, New York
Federal Bankruptcy Court, Philadelphia, Pennsylvania
Federal Bankruptcy Court, Reading, Pennsylvania
Federal Bankruptcy Court, Salt Lake City, Utah
Federal Bankruptcy Court, Madison, Wisconsin (2)
Federal District Court, Rochester, New York
Federal District Court, Philadelphia, Pennsylvania (2)
Judicial Arbitration and Mediation Services, Dallas, Texas
Michigan Tax Tribunal, Detroit, Michigan
New Jersey Tax Court, Newark, New Jersey (2)
Superior Court, District of Columbia
Superior Court, Clayton County, Georgia (2)
Superior Court, Mount Holly, New Jersey
Superior Court of North Carolina
Superior Court, Nashua, New Hampshire
Supreme Court, New York State, Buffalo, New York
Supreme Court, New York State, Manhattan, New York
Supreme Court, New York State, Riverhead, New York
Tax Review Board, San Joaquin County, Stockton, California
Tax Review Board, Bangor, Maine Tax Review Board, Schenectady, New York
Tax Review Board, Yorktown, New York
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U.S. District Court, Wilmington, Delaware
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