NARRATIVE APPRAISAL REPORT *[SAMPLE REPORT]*

Carolinas Inn

100 MAIN STREET
KILLIAN, SOUTH CAROLINA

SUBMITTED TO:

Ms. Client Name
Your Bank

PREPARED BY:

HVS Consulting & Valuation
Office Location

February 15, 2018

Ms. Client Name
Client Firm
Client Address

Re: Carolinas Inn
100 Main Street
Killian, South Carolina
HVS Reference: 2018020000

HVS OFFICE
HVS Office Address
www.hvs.com

Dear Ms. Client:

Pursuant to your request, we herewith submit our narrative appraisal report pertaining to the above-captioned hotel. We have inspected the real estate and analyzed the market conditions in the Killian, South Carolina area. Our report has been 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 Appraisal Practice (USPAP), as provided by the Appraisal Foundation. This letter of transmittal is not valid as an opinion of value if detached from the supporting report.

The subject of the appraisal is the fee simple interest in a 1.7-acre (74,050-square-foot) parcel improved with a limited-service lodging facility known as the Carolinas Inn. The property, which opened in 1999, features 75 rooms, a breakfast dining area, 750 square feet of meeting space, an outdoor pool, a fitness room, a lobby workstation, a market pantry, a guest laundry room, and an outdoor patio and barbecue area. This appraisal report is being prepared for use in the refinancing of the subject property.

We have undertaken the appraisal process, and based on our analysis have concluded to the following opinions of market value:

	As Is	When Stabilized
Date of Value	January 5, 2018	February 1, 2021
Exposure Time (Months)	five to seven	five to seven
Real Property Value	$7,830,000	$8,550,000
Personal Property Value	270,000	150,000
Intangible Property Value	0	0
Reconciled Value	**$8,100,000**	**$8,700,000**
Reconciled Value per Key	**108,000**	**116,000**
Land Value	$800,000	N/A
Replacement Cost for Insurance Purposes	5,300,000	N/A
Interest Appraised	fee simple	fee simple

We have made no extraordinary assumptions specific to the subject property. However, several important general assumptions have been made that apply to this report. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

In regard to the stabilized value, we assume that the subject property's operations have stabilized by the stated stabilization date and that all of the projections and assumptions used in this appraisal, such as the occupancy, average rate, inflation forecast, and our forecast of income and expense, hold true. As of the prospective date of stabilization, our opinion of the market value of the subject property assumes that the hotel will be maintained in good competitive condition and that no major changes will have occurred in the local market or the national economy that would have affected the performance of the property by that date.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,
HVS

SAMPLE REPORT

HVS Director Name
HVS Director Contact Information
HVS Director State Appraisal License Information

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1. Summary of Salient Data and Conclusions

Property:	Carolinas Inn
Location:	100 Main Street Killian, South Carolina 29000 Richland County
Interest Appraised:	Fee Simple
Highest and Best Use (as improved):	Limited-service lodging facility

LAND DESCRIPTION

Area:	1.7 acres, or 74,050 square feet
Zoning:	BD – Business District
Assessor's Parcel Number(s):	R000000-00-00
FEMA Flood Zone:	Zone X

IMPROVEMENTS DESCRIPTION

Year Opened and Renovated:	1999; Renovated: 2014/15
Property Type:	Limited-service lodging facility
Building Area:	42,500 square feet
Guestrooms:	75
Number of Stories:	Four
Food and Beverage Facilities:	A breakfast dining area
Meeting Space:	750 square feet
Additional Facilities:	An outdoor pool, a fitness room, a lobby workstation, a market pantry, a guest laundry room, and an outdoor patio and barbecue area
Parking Spaces:	80 (Surface)

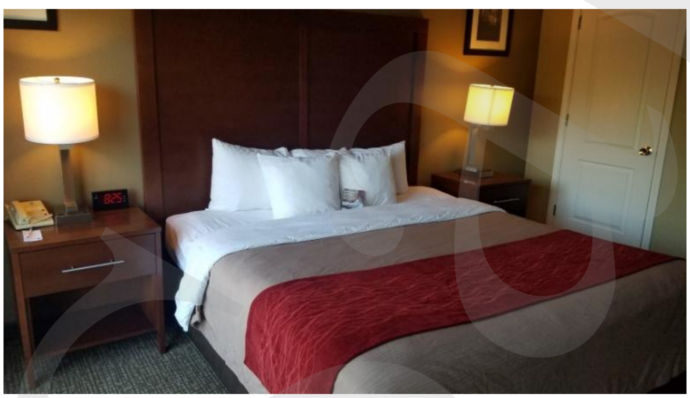
SUBJECT PROPERTY

LOBBY

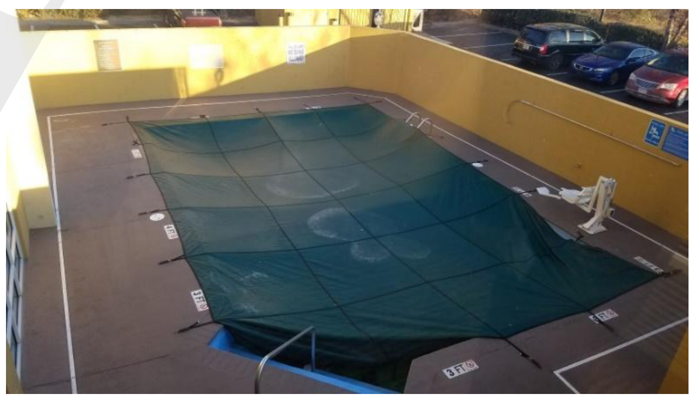
BREAKFAST DINING AREA

MEETING ROOM

GUESTROOM



POOL



SWOT

The following SWOT analysis sets forth the key factors that a purchaser of the subject property would consider when making an investment decision:

Strengths & Opportunities

- Clear lines of sight from Interstate 77 and easy access
- Expansions of nearby companies and new companies moving to the area
- Recently completed property improvement plan and comprehensive renovation in 2014/15

Weaknesses & Threats

- New supply will affect the subject hotel's performance in the near term
- Property can be affected by new supply in the greater market given some reliance on compression from Columbia and nearby areas
- Dated design given 1999 construction

FIGURE 1-1 HISTORICAL AND PROJECTED ROOMS REVENUE METRICS

Year	Occupancy Total	Occupancy % Change	Average Rate Total	Average Rate % Change	RevPAR Total	RevPAR % Change
Historical						
2013	68.4 %	—	$74.75	—	$51.13	—
2014	58.6	(14.3) %	82.58	10.5 %	48.42	(5.3) %
2015	68.5	16.8	85.82	3.9	58.79	21.4
2016	73.2	6.8	97.63	13.8	71.45	21.5
2017	82.2	12.3	86.08	(11.8)	70.76	(1.0)
Projected						
2018/19	79.0 %	(4.2) %	$90.22	4.8 %	$71.27	0.7 %
2019/20	75.0	(5.1)	93.38	3.5	70.03	(1.7)
2020/21	75.0	0.0	96.60	3.5	72.45	3.5
Stabilized	76.0	1.3	99.50	3.0	75.62	4.4
2022/23	76.0	0.0	102.49	3.0	77.89	3.0

FIGURE 1-2 HISTORICAL AND PROJECTED REVENUE, HOUSE PROFIT, AND EBITDA LESS REPLACEMENT RESERVE

	Year	Total Revenue Total	Total Revenue % Change	House Profit Total	House Profit % Change	House Profit Ratio	EBITDA Less Replacement Reserve Total	EBITDA Less Replacement Reserve % Change	EBITDA Less Replacement Reserve As a % of Ttl Rev
Historical	2013	$1,438,000	—	$447,000	—	31.1 %	$253,000	—	17.6 %
	2014	1,362,000	(5.3) %	517,000	15.7 %	38.0	319,000	26.1 %	23.4
	2015	1,665,000	22.2	766,000	48.2	46.0	536,000	68.0	32.2
	2016	2,032,000	22.0	924,000	20.6	45.5	688,000	28.4	33.8
Calendar Year	2017	2,021,000	(0.5)	978,000	5.8	48.4	732,000	6.4	36.2
Projected	2018/19	$2,036,000	0.7 %	$976,000	(0.2) %	48.0 %	$721,000	(1.5) %	35.5 %
	2019/20	2,003,000	(1.6)	937,000	(4.0)	46.7	669,000	(7.2)	33.3
	2020/21	2,072,000	3.4	972,000	3.7	46.9	696,000	4.0	33.5
	2021/22	2,162,000	4.3	1,023,000	5.2	47.4	736,000	5.7	34.1
	2022/23	2,226,000	3.0	1,054,000	3.0	47.4	758,000	3.0	34.1

FIGURE 1-3 SUMMARY OF INVESTMENT PARAMETERS AND MARKET VALUE OPINIONS

	As Is		When Stabilized	
Date of Value	January 5, 2018		February 1, 2021	
Number of Rooms	75		75	
Interest Appraised	fee simple		fee simple	
Exposure Time (Months)	five to seven		five to seven	
Assumed Capital Deduction	0		N/A	
Approaches to Value				
INCOME CAPITALIZATION APPROACH				
Discount Rate	10.65	%	10.75	%
Applied Terminal Cap Rate	9.0		9.0	
Transaction Costs	3.0		3.0	
Initial Value Indication	$8,100,000		$8,700,000	
Capital Deduction	0		0	
Income Approach Value Conclusion	**$8,100,000**		**$8,700,000**	
Per Room	**108,000**		**116,000**	
Cap Rate - Historical TTM NOI	9.0	%		
Cap Rate - Year One NOI	8.9		8.5	%
Cap Rate - Deflated Stabilized NOI	8.4			
SALES COMPARISON APPROACH	**$6,800,000**	-	N/A	
	$8,300,000			
COST APPROACH	N/A		N/A	
Land Value	$800,000		N/A	
REPLACEMENT COST FOR INSURANCE PURPOSES	**$5,300,000**		N/A	
Reconciled Value Opinion				
Real Property Value	$7,830,000		$8,550,000	
Personal Property Value	270,000		150,000	
Intangible Property Value	0		0	
Reconciled Value	**$8,100,000**		**$8,700,000**	
Per Room	**108,000**		**116,000**	

2. Nature of the Assignment

Subject of the Appraisal

The subject of the appraisal is the fee simple interest in a 1.7-acre (74,050-square-foot) parcel improved with a limited-service lodging facility known as the Carolinas Inn. The property, which opened in 1999, features 75 rooms, a breakfast dining area, 750 square feet of meeting space, an outdoor pool, a fitness room, a lobby workstation, a market pantry, a guest laundry room, and an outdoor patio and barbecue area. The hotel also contains all necessary back-of-the-house space. The hotel's civic address is 100 Main Street, Killian, South Carolina, 29016.

Property Rights Appraised

The property rights appraised are the fee simple ownership of the real and personal property. The fee simple estate 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 Carolinas Inn is appraised as an open and operating facility.

Objective of the Appraisal

The objective of the appraisal is to develop an opinion of the subject property’s “as is” market value, land value, prospective market value upon stabilization, and replacement cost for insurance purposes. The following definition of market value 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 are 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

[1] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

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]

"As is" market value is defined by the Appraisal Institute as follows:

> The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date.[3]

Prospective market value is defined by the Appraisal Institute as follows:

> A forecast of the value expected at a specified future date.[4]

The prospective value opinion upon stabilization estimates the market value of a property upon reaching a stabilized level of operation. Operations are stabilized at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property.

Pertinent Dates

The effective date of the "as is" market value opinion is January 5, 2018. The effective date of the "when stabilized" prospective market value conclusion is February 1, 2021. The subject property was inspected by HVS Director on January 5, 2018.

Ownership, Franchise, and Management and Assumptions

The subject property is currently owned by Current Owner LLC. The subject property was last sold in 2006; Current Owner LLC has owned the property since that time, having purchased it from Prior Owner LLC Inc for a reported price of $4,200,000. No transfers of the property have reportedly occurred since 2005. The hotel is neither listed nor under contract for sale, and we have no knowledge of any recent listings.

The subject property is currently owner-operated; however, our appraisal assumes that the subject property will be managed by a professional hotel-operating company, with fees deducted at rates consistent with current market standards. We have assumed a market-appropriate total management fee of 3.0% of total revenues in our study. Please refer to the Income Capitalization Approach chapter for additional discussion pertaining to our management fee assumptions.

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[2] *Federal Register*, Vol. 75, No. 237, December 10, 2010: 77472.

[3] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

[4] Appraisal Institute, The Dictionary of Real Estate Appraisal, 4th ed. (Chicago: Appraisal Institute, 2010).

Full discussion of the hotel's franchise agreement would appear here in our report. This example reflects a typical discussion for a

The hotel currently operates as a [Brand] under a license agreement with [Parent Brand]. According to the owner, the agreement reportedly expires in 2030, although no termination date can be determined from the information received. The property's current franchise agreement calls for a royalty fee of 5.75% of rooms revenue, a marketing assessment of 2.00% of rooms revenue, and a reservation system fee of 1.75% of rooms revenue. We note that the current franchise agreement cannot automatically be transferred to a new owner upon the sale of the property. We have assumed that a buyer would elect to continue to operate the hotel as a [Brand] and would enter into a license agreement that would reflect the current terms as published in the company's Franchise Disclosure Document (FDD). The costs of the [Brand] affiliation, which are reflected in our forecast, comprise a 6% royalty fee and a 3.5% advertising assessment (percentage of rooms revenue). Other charges related to the affiliation, such as frequent guest programs, are reflected in the appropriate departmental expenses going forward, consistent with the Uniform System of Accounts for the Lodging Industry (USALI). However, it is important to note we were not able to allocate these expenses historically.

A new license could require upgrades or renovations to the property in order to comply with prevailing brand standards, which would necessitate additional investment. We have assumed that any requirements of a property improvement plan (PIP) would be covered by the first year's reserve for replacement given the comprehensive renovation completed in 2014/15; therefore, we have not applied a capital deduction.

A brand overview is provided next; an overview for Marriott Hotels is provided here as an example:

Marriott Hotels is the company's flagship brand of full-service hotels and resorts; as of year-end 2017, there were 347 hotels (137,333 rooms) operating under the brand in the U.S. Each Marriott hotel features multiple restaurants and lounges, room service, a fitness center/health club, a swimming pool and whirlpool, a gift shop, a concierge, a business center, and meeting facilities. The properties also benefit from their participation in Marriott Rewards, a successful frequent-guest program. Primary competitors of the brand include Hilton, Embassy Suites by Hilton, DoubleTree by Hilton, Sheraton, Westin, Fairmont, Hyatt, and InterContinental, among others. In 2017, the brand's North American properties achieved an average occupancy level of 68.7%, an average daily rate of $173.21, and an average RevPAR of $119.02.

We assume that the hotel will retain its current brand affiliation throughout the holding period. Inherent in this assumption is the expectation that the property will be operated in accordance with brand standards, including requirements for services and cleanliness; that the hotel will be maintained in good condition, with all building systems in good working order; and that any necessary refurbishments or renovations will be completed in a timely manner and in accordance with the requirements of the brand. The franchise inspection report provided for our review is dated August 18, 2017. We assume that any deficiencies in the property noted in the report will be addressed in a timely manner and that the hotel will pass all future franchise inspections.

Projected Capital Improvements

Our forecast of income and expense incorporates a reserve for replacement in recognition of the future renovation needs of the property.

Most Probable Buyer

The subject property is a nationally branded, limited-service hotel that would be attractive to active buyers. The hotel enjoys a favorable location in the suburbs of a secondary market and offers an appropriate array of facilities and amenities. The hotel has undergone a significant renovation within the last few years, which would be considered an advantage for a potential buyer. It is our opinion that the most probable buyer of the subject property would be a regional or local entrepreneurial buyer or group. This type of buyer would seek to implement its own management team, or a third-party professional hotel operator, and to maintain a nationally recognized brand affiliation.

Intended Use of the Appraisal

This appraisal report is being prepared for use in the refinancing of the subject property.

Identification of the Client and Intended User(s)

The client for this engagement is Client Firm. The Client Firm is the intended user of this report.

Assignment Conditions

"Extraordinary Assumption" is defined in USPAP as follows:

> An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions

external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.[5]

We have made no extraordinary assumptions specific to the subject property. However, several important general assumptions have been made that apply to this report. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

In regard to the stabilized value, we assume that the subject property's operations have stabilized by the stated stabilization date and that all of the projections and assumptions used in this appraisal, such as the occupancy, average rate, inflation forecast, and our forecast of income and expense, hold true. As of the prospective date of stabilization, our opinion of the market value of the subject property assumes that the hotel will be maintained in good competitive condition and that no major changes will have occurred in the local market or the national economy that would have affected the performance of the property by that date.

Marketing and Exposure Periods

The concepts of marketing period and exposure period are similar and simply reflect different perspectives in time. Exposure period is defined as the estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at its market value, as of the date of value. The exposure period reflects a retrospective opinion based on an analysis of past events and assumes a competitive and open market. Marketing period refers to the amount of time necessary to market the hotel subsequent to our date of value for it to sell for the appraised value, and thus is a prospective opinion.

[5] The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice*, 2016–2017 ed.

Our opinion is that the exposure period for the subject property, prior to our date of value, is estimated to be five to seven months, while the marketing period for the subject property, subsequent to our date of value, is five to seven months. The marketing and sales process for hotels is extremely efficient. Brokers specializing in hotel transactions actively solicit potential buyers on an ongoing basis and maintain databases on hotel investor criteria. According to the brokers interviewed, the current period from when a property is listed to when the sale closes is typically six to nine months. Brokers are able to electronically produce marketing materials, elicit interest, schedule property tours, accept offers, and select a buyer in approximately 90 to 120 days. Following the execution of a purchase and sale agreement, the due diligence and closing period is typically 90 days.

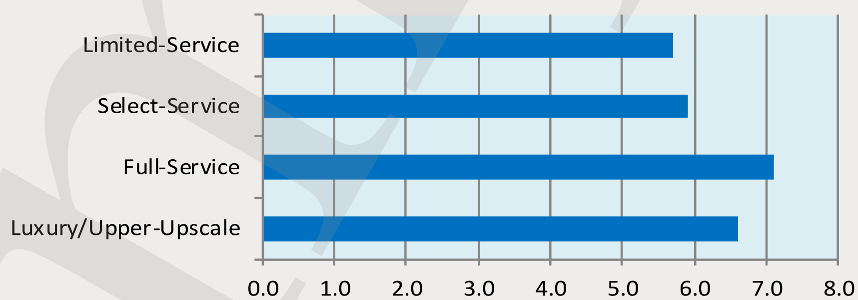
With continued strong operating performance, hotel properties are actively sought-after by investors. Financing remains readily available from a variety of sources, including balance-sheet lenders, life insurance companies, and CMBS lenders, as well as local sources for smaller loans. Marketing time has bracketed the six- to seven-month timeframe since mid-year 2014, and remains near six months across most property-type categories thus far in 2018, reflecting the health of the hotel transaction market.

Published surveys report marketing time, not the exposure period. Marketing time is an opinion of the amount of time it might take to sell a property at the concluded market value level during the period immediately after the effective date of an appraisal. According to the HVS Brokers Survey - Fall 2017, reported marketing times averaged 6.6 months for luxury/upper-upscale properties, 7.1 months for full-service hotels, and 5.9 months for select-service hotels. Marketing time for luxury/upper-upscale properties, full-service hotels, and select-service hotels averaged 6.8, 6.3, and 6.0 months, respectively, according to the PWC Real Estate Investor Survey - Third Quarter 2017. USRC reported average marketing times of 7.8 and 7.3 months, respectively, for full-service and limited-service hotels in its Mid-Year 2017 Hotel Investor Survey. Overall marketing time is averaging 6.3 months for hotels (versus 6.0 months for the first and second quarters), as reported by Situs RERC's third-quarter 2017 Real Estate Report. The following table illustrates marketing periods reported in recent PWC Real Estate Investor Surveys.

FIGURE 2-1 MARKETING PERIODS (MONTHS)

Property Type	*HVS Brokers Survey* Fall 2017	*USRC Hotel Survey* Mid-Year 2017	*PWC Investor Survey* 3rd Quarter '17
Luxury/Upper-Upscale	2.0 to 14.0	—	3.0 to 12.0
Average	*6.6*	—	*6.8*
Full-Service	1.0 to 15.0	6.0 to 9.0	3.0 to 9.0
Average	*7.1*	*7.3*	*6.3*
Select-Service	1.0 to 12.0	—	2.0 to 12.0
Average	*5.9*	—	*6.0*
Limited-Service	1.0 to 12.0	7.0 to 9.0	2.0 to 12.0
Average	*5.7*	*7.8*	*6.9*

HVS Brokers Survey (Months)



Scope of Work

The methodology used to develop this appraisal 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,*[6] *Hotels & Motels: Valuations and Market Studies,*[7] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[8] *Hotels and Motels: A Guide to Market Analysis,*

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

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

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

Investment Analysis, and Valuations,[9] and *Hotels and Motels – Valuations and Market Studies,*[10] as well as in accordance with the Uniform System of Accounts for the Lodging Industry (USALI).

1. All information was collected and analyzed by the staff of HVS. Information such as historical operating statements, franchise and/or management agreements, site plans, floor plans, and leases, as applicable, were supplied by the client or property management.
2. The subject site was evaluated from the viewpoint of its utility for the development and operation of a hotel. The potential existence of surplus or excess land was investigated. We have reviewed adjacent uses, regional and local accessibility attributes, and visibility characteristics. A study of the local neighborhood was undertaken to determine its boundaries, land uses, recent developments, and life-cycle stage. Other aspects of the land, such as soil and subsoil conditions, nuisances, hazards, easements, encroachments, zoning, and the current flood zone of the property, have been evaluated.
3. The subject property's improvements were inspected to evaluate their current condition, quality of construction, and design and layout, including any items of physical deterioration or functional obsolescence. A list of facilities and amenities that the property offers has been compiled, and past upgrades of each area of the hotel have been investigated. Recent capital expenditures, as well as planned future upgrades, have been reviewed. The remaining economic life of the hotel has been estimated.
4. Economic and demographic statistics for the subject property's market have been reviewed to identify specific hostelry-related trends that may affect future demand for hotels. Workforce characteristics have been evaluated, including employment trends by sector and unemployment rates. Major businesses and industries operating in the local area were investigated, and local area office statistics and trends were reviewed, as available. Passenger levels and recent changes at the area's pertinent airport have been researched, and visitor demand generators have been identified and evaluated.

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

[10] Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies.* (Chicago: Appraisal Institute, 2001).

5. An STR Trend Report pertaining to historical trends in room-night supply, demand, occupancy, average rate, and RevPAR for the subject property and a group of selected competitors has been ordered and analyzed. Performance levels for each of the competitive hotels have been researched and/or estimated. Ownership, management, facilities, renovations, and other pertinent factors for the competitive properties have been investigated. Potential new hotel supply was researched and quantified. Occupancy levels of the subject property and its existing competition provide a basis for quantifying current accommodated demand in the market. The market for hotel accommodations is segmented based on the specific characteristics of the types of travelers utilizing the area's hotels. By segmenting the demand accommodated by each hotel, the total demand by market segment is quantified. The demand generated by each market segment is then projected by year up through a point of hypothetical market stabilization. Latent demand, if applicable, is estimated and added to the base demand forecast, resulting in a forecast of overall occupancy for the competitive market.

6. Based on the physical, economic, financial, and legal factors influencing the subject property, a conclusion regarding the property's highest and best use, as currently improved, was developed. The highest and best use of the subject land, as if vacant, was also evaluated based on current real estate trends and market conditions.

7. Occupancy of the subject property was projected based on a forecast of overall market penetration, or penetration by market segment. Average rate was projected based on competitive positioning, through the application of an overall ADR penetration rate, or penetration by each market segment's average rate.

8. Historical income and expense statements for the subject hotel have been reviewed, analyzed, and compared to the financial performance of comparable hotels. Inflation forecasts were researched, forming the basis for our own forecast of inflation. A projection of income and expense was prepared in accordance with the USALI, setting forth the anticipated economic benefits of the subject property. All projections are expressed in inflated dollars. Each line item has been reviewed individually. Amounts are forecast based on past performance, expected changes at the property in the future, and comparable hotel performance levels. Property taxes are forecast based on a review of past assessment levels, comparable hotel assessments, and historical tax rates.

9. Our forecast of net income for the subject property is capitalized into an opinion of value via a ten-year mortgage-equity technique, as well as a discounted-cash-flow analysis. Pertinent direct capitalization rates are also reviewed. Recent trends in interest rates, amortization, loan-to-value ratios, and equity return rates, as well as terminal capitalization rates, are researched and applied during this process.

10. As applicable, sales of comparable hotels have been researched for the local market, by brand nationally, and for the greater region as a whole. Among these sales, a smaller set of sales was selected for more detailed review and analysis. An adjustment grid was developed to assist in deriving our opinion of value via the sales comparison approach.

11. The cost approach was deemed inapplicable in the valuation of the subject property because it is not relied upon by hotel investors in the valuation process; moreover, it requires unsubstantiated calculations to derive an estimate of asset depreciation. An opinion of personal property value is presented, as well as an estimate of replacement cost for insurance purposes, if applicable.

12. The appraisal considers the following three approaches to value: cost, sales comparison, and income capitalization. We have investigated numerous improved sales in the market area and have spoken with buyers, sellers, brokers, property developers, and public officials. Because lodging facilities are income-producing properties that are normally bought and sold based on 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.

The results of the appraisal are based on this investigation and analysis and are conveyed in this report. The analyses, opinions, and conclusions were developed based on, and this report has been prepared in conformance with, our interpretation of the guidelines and recommendations set forth in USPAP.

3. Description of the Real Estate

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 property is located near Interstate 77 in the town of Killian, to the northwest of the intersection formed by Killian Road and McNulty Street. The street address of the Carolinas Inn is 100 Main Street, Killian, South Carolina, 29016.

Physical Characteristics

The subject site measures approximately 1.7 acres, or 74,050 square feet. The parcel's adjacent uses are set forth in the following table.

FIGURE 3-1 SUBJECT PARCEL'S ADJACENT USES

Direction	Adjacent Use
North	Bethel-Hanberry Elementary School
South	McDonald's
East	Subway Restaurant
West	Interstate 77 Exit Ramp

AERIAL PHOTOGRAPH

VIEW FROM SITE TO THE NORTH

VIEW FROM SITE TO THE SOUTH

VIEW FROM SITE TO THE EAST

VIEW FROM SITE TO THE WEST

Access and Visibility

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

MAP OF REGIONAL ACCESS ROUTES

Interstate 77 begins on the south side of Columbia and extends north to Charlotte and Statesville, North Carolina. Another primary regional access through the area is provided by east/west Interstate 26, which extends to Charleston to the southeast and Greenville to the northwest. East/west Interstate 20 provides access to Florence to the east and Atlanta, Georgia to the southwest, while Interstate 126 is utilized to access Downtown Columbia and extends northwest from U.S. Highway 176/U.S. Highway 21 to Interstate 26. The subject property's market is served by a variety of additional local routes, which are illustrated on the map.

Vehicular access to the subject property is provided by McNulty Street, which adjoins the property at the southeast corner of the lot. The subject property is located near a busy intersection and is relatively simple to locate from Interstate 77, which is the nearest major highway. Overall, the subject property benefits from very good accessibility and visibility attributes.

Airport Access

The subject property is served by the Columbia Metropolitan Airport, which is located approximately 18 miles to the southwest of the subject site. Charlotte Douglas International Airport is the closest major international airport, located approximately 60 miles to the north.

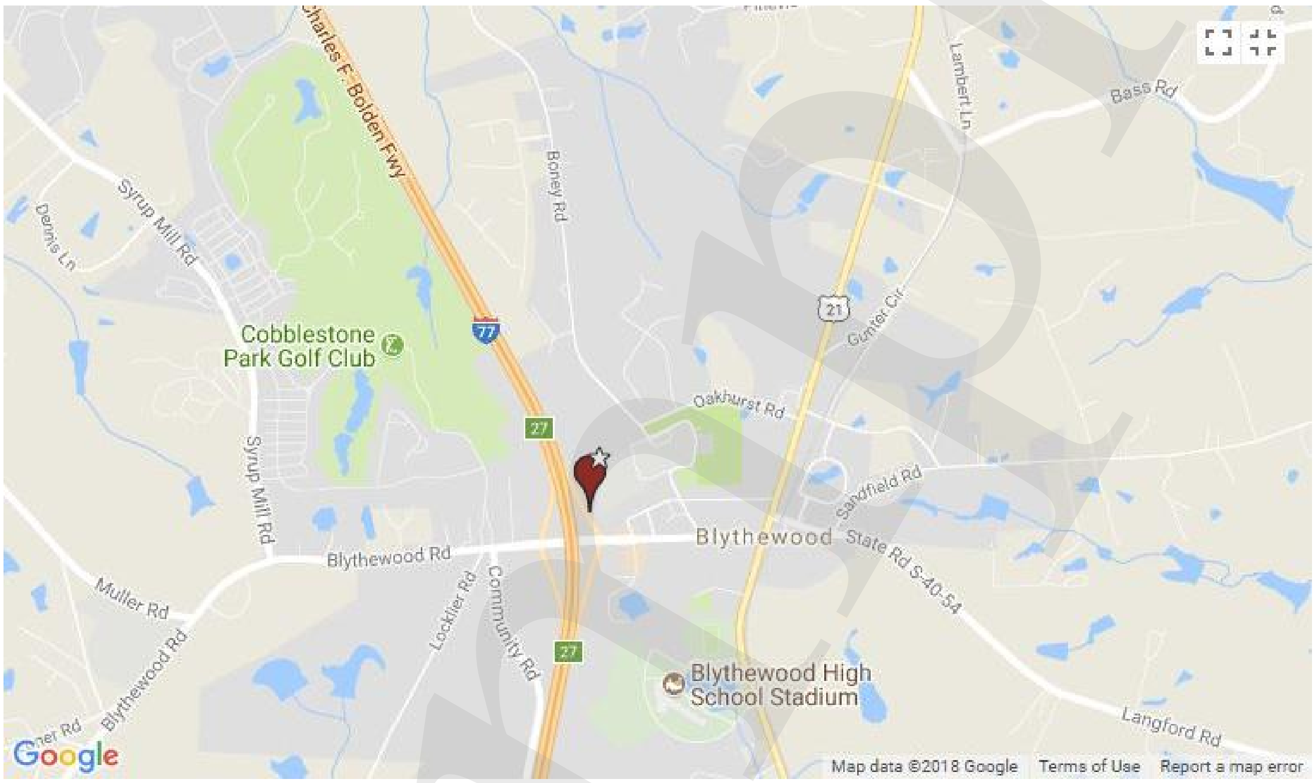
Neighborhood

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.

The subject property's neighborhood is generally defined as the Killian Road corridor bounded by Syrup Mill Road to the west and U.S. Route 21/Main Street to the east. The neighborhood is characterized by highway-related businesses such as hotels, restaurants, and gas service stations, as well as small-town support operations such as a post office, library, parks, golf club, and several schools. Some specific businesses and entities in the area include BP service station, Killian IGA Grocery Store, Food Lion, Killian Feed & Hardware, Cobblestone Park Golf Club, and Killian High School. Restaurants located near the subject property include McDonald's, Subway, Carolina Wings & Ribhouse, and Hardee's; the proximity of these restaurants is considered supportive of the operation of a limited-service lodging property. Hotels in the vicinity of the subject site include the Holiday Inn Express Killian and Days Inn Killian.

In general, this neighborhood is in the growth stage of its life cycle. The population of Killian has expanded from 170 residents in 1990 to 2,034 in 2010 to even more today. A comprehensive 10-year plan was adopted in 2010 to support the future growth, while maintaining a small-town feel. Several businesses are currently adding operations or expanding in the industrial park to the south of this neighborhood. The availability of large tracks of land, current utility infrastructure, and proximity to Interstate 77 and the Charlotte airport bode well for this area. Reportedly, the former PMSC campus is under contract, which should support for future office employment growth in the area. Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel.

MAP OF NEIGHBORHOOD

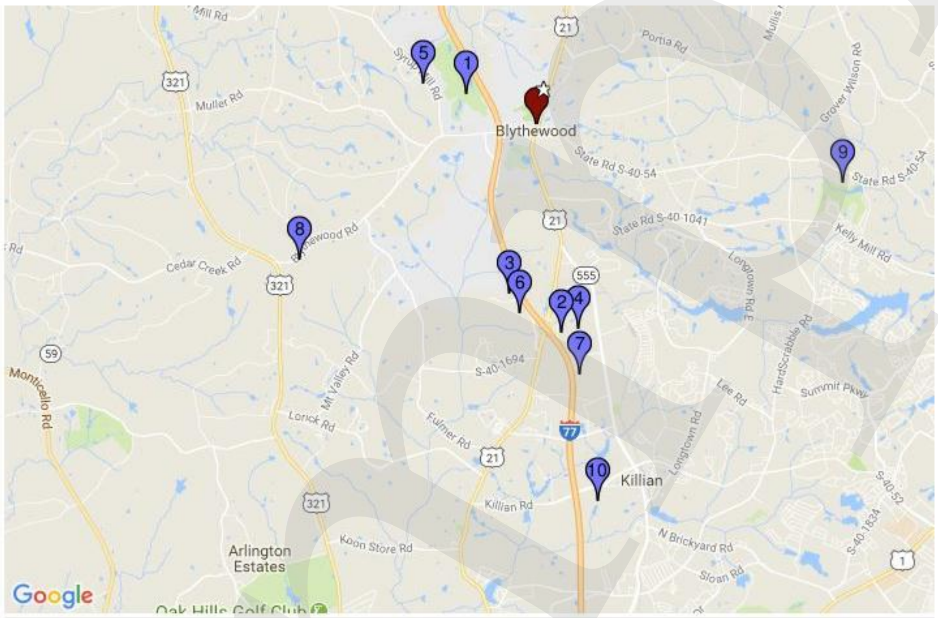


Approximately five miles to the south of the subject property's neighborhood a major mixed-used development along Killian Road is ongoing called Killian's Crossing. Killian's Crossing is a 400-acre project consisting of retail, restaurant, hotel, residential, and other commercial development, as well as central park space. Existing and under construction businesses include a Kroger Marketplace, numerous restaurants, a Hampton Inn, and several professional services. Two big-box opportunities remain, as well as 23 outparcel spaces according to the broker.

Proximity to Local Demand Generators and Attractions

The subject property is located near the area's primary generators of lodging demand. A sample of these demand generators is reflected on the following maps, including respective distances from and drive times to the subject property. As illustrated by the maps, the primary source of demand is from the leisure attractions and manufacturing or distribution companies in the area. However, additional hotel demand is created from events in Columbia, when compression reaches out from the city center, such as events associated with the University of South Carolina and Fort Jackson. Furthermore, according to local hoteliers, annual demand from the Masters Tournament in Augusta, Georgia (approximately 90 miles away) and demand from Charlotte reaches the market. Overall, the subject property is well situated with respect to demand generators.

ACCESS TO DEMAND GENERATORS AND ATTRACTIONS



Demand Generator	Approx. Driving Time/Distance from Subject Property		Description
Subject Property			
1 Cobblestone Park Golf Club	5 minutes	2 miles	
2 Carolina Pines Industrial Park	6 minutes	3 miles	
3 Koyo Corporation of USA	6 minutes	3 miles	
4 Belk Distribution Center	7 minutes	3 miles	
5 OneWood Farm	7 minutes	3 miles	
6 Pure Power Technologies Plant	7 minutes	4 miles	
7 LuLaRoe	8 minutes	4 miles	
8 Santee Cooper	8 minutes	5 miles	
9 The Golf Club of South Carolina	6 minutes	5 miles	
10 Trane Corp	11 minutes	6 miles	

Utilities

According to property ownership, the subject site is served by all necessary utilities.

Soil and Subsoil Conditions

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

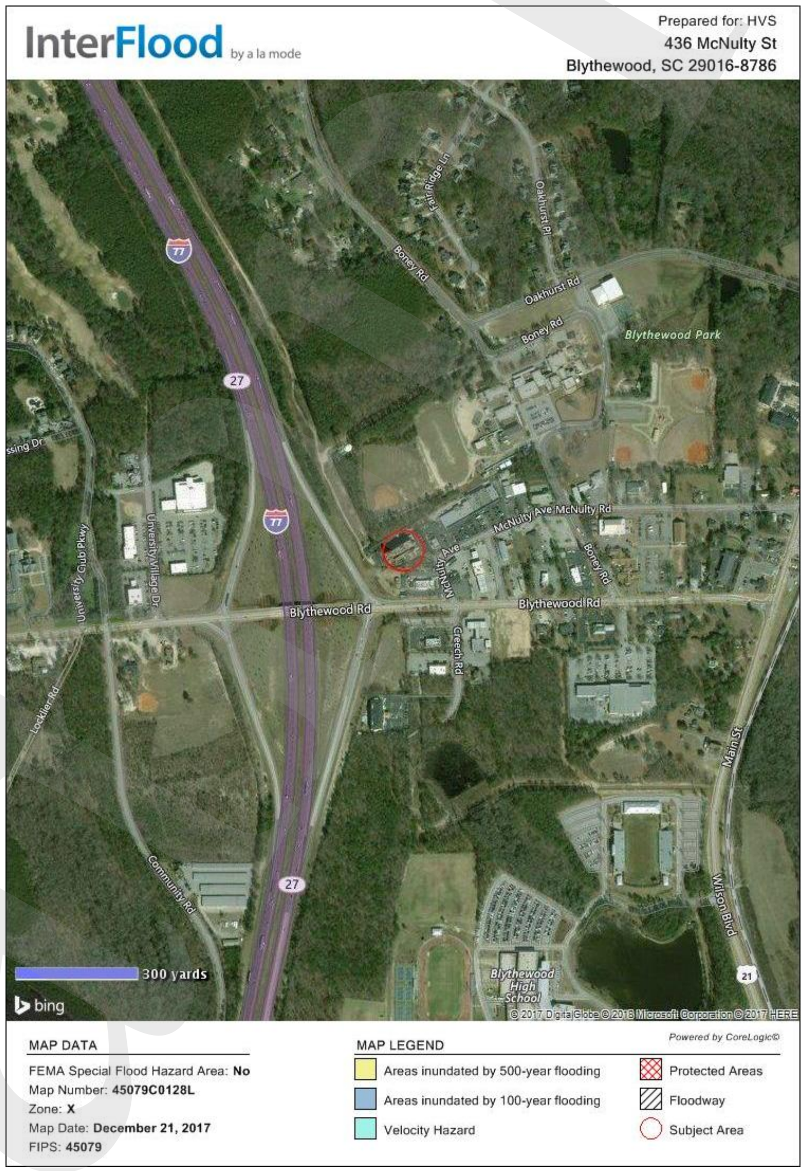
Nuisances and Hazards

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

Flood Zone

According to the Federal Emergency Management Agency map illustrated below, the subject site is located in Zone X.

COPY OF FLOOD MAP AND COVER



The flood zone definition for the Zone X designation is as follows: areas outside the 500-year flood plain; areas of the 500-year flood; areas of the 100-year flood with average depths of less than one foot or with drainage areas less than one square mile and areas protected by levees from the 100-year flood.

Zoning

According to the local planning office, the subject property is zoned as follows: TC - Town Center District. Additional details pertaining to the subject property's zoning regulations are summarized in the following table.

FIGURE 3-2 ZONING

Municipality Governing Zoning	Town of Blythewood
Current Zoning	Town Center District
Current Use	Hotel
Is Current Use Permitted?	Yes
Is Change in Zoning Likely?	No
Permitted Uses	Residential, Public Use, Schools, Professional Services, Retail, Restaurant, and Hotel or Motel
Hotel Allowed	Yes
Legally Non-Conforming	Not Applicable

Easements and Encroachments

We are not aware of any easements or encroachments encumbering the property that would significantly affect its utility or marketability.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site is favorably located adjacent to the interstate and major businesses in Killian. In general, the site is well suited for hotel use, with acceptable access, visibility, and topography for an effective operation.

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.

The descriptions and pictures presented in this section reflect the hotel as observed at the time of our inspection on January 5, 2018.

Property Overview

The Carolinas Inn is a limited-service lodging facility containing 75 rentable units. The hotel was designed and developed as a [Brand] and opened in 1999; the configuration and array of facilities and amenities are consistent with [Brand] standards for the [Brand] brand as of that date. The property has undergone some renovations since its opening, most recently a comprehensive renovation in 2014/15, and is in overall good condition. Based on our inspection of the property and understanding of current brand standards, we are of the opinion that a new owner would need to complete only minor upgrades and would anticipate funding these from the forecasted reserve for replacement. However, we note that we have not been provided a property improvement plan (PIP) and its associated cost. If the scope and related costs of the actual PIP exceed the annual reserve for replacement, then our value conclusion could be negatively affected.

SUBJECT PROPERTY - FRONT OF HOTEL

SUBJECT PROPERTY - BACK OF HOTEL

Summary of the Facilities

Based on our inspection and information provided by management representatives of the subject property, the following table summarizes the facilities available at the subject property.

HVS

FIGURE 3-3 FACILITIES SUMMARY

Guestroom Configuration	Number of Units
Queen/Queen	40
King	28
Cube Suite	3
Jacuzzi Suite	3
Presidential Suite	1
Total	75

Food & Beverage Facilities	Seating Capacity
Breakfast Dining Area	50

Meeting & Banquet Facilities	Square Footage
Meeting Room	750

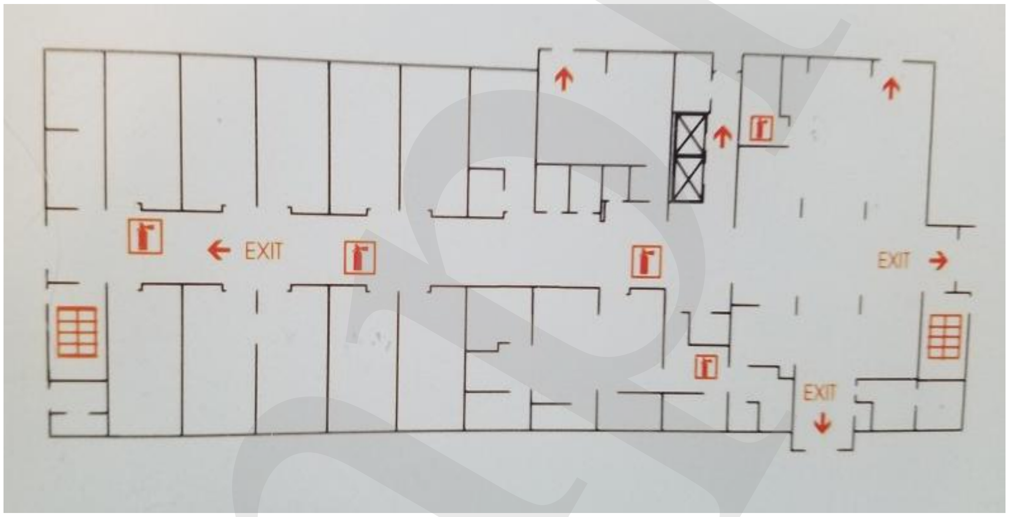
Amenities & Services

Outdoor Swimming Pool	Market Pantry
Fitness Room	Guest Laundry Area
Lobby Workstation	Outdoor Patio & Barbecue Area

FIGURE 3-4 BUILDING LAYOUT

Floor	Description
4th Floor	Guestrooms, Guest Laundry
3rd Floor	Guestrooms
2nd Floor	Guestrooms
Lobby Level	Lobby, Front Office, Front Desk, Breakfast Dining Area, Lobby Workstation, Fitness Center, Market Pantry, and Back-of-House Space (Laundry and Prep Kitchen)

PROPERTY LAYOUT



Site Improvements and Hotel Structure

Once guests enter the site, ample parking is available on the surface lot around the hotel building. Two electric vehicle charging stations are located at the eastern end of the parking lot. The parking area was in good condition. Signage is located at the entrance of the hotel property and facing Interstate 77; additional signage is located on the southwestern, northwestern, and southern faces of the building. The site's landscaping and sidewalks were in good condition upon our inspection. An outdoor pool area is situated to the northeast of the hotel structure; however, this facility was closed for the season at the time of our inspection. Additionally, an outdoor patio and barbecue area is located to the north of the hotel structure and was in very good condition.

FIGURE 3-5 INFRASTRUCTURE SUMMARY

Component		Description
Structure - Marshall & Swift Construction		C - Masonry bearing walls
Foundation		Poured concrete slab on grade
Roof		Concrete deck with EPDM covering and gravel
Exterior		Concrete block construction
Elevators	Guest	Two
	Service	None
HVAC	Guestrooms	Wall-mounted electric heater and through-the-wall cooling
	Public Areas	Wall-mounted electric heater and through-the-wall cooling
Fire Safety	Sprinklers	Fully sprinklered
	Detectors	Hard-wired smoke detectors
Subterranean/ Basement Level		None
Parking		80

The hotel comprises one four-story interior-corridor building. The hotel's exterior was in good condition; there were no major problems observed or reported pertaining to the hotel's exterior finish. The hotel's elevators and stairways are functional, appearing to be well kept upon inspection. According to hotel management, the roof is in good condition with no deficiencies. There were no problems reported with the hotel's foundation, structure, or windows; furthermore, we did not observe any deficiencies with these areas.

Public Areas

Overall, the entry to the hotel was in good condition upon inspection. The lobby is appropriately sized for a limited-service [Brand]. The furnishings and finishes in this space were in very good condition.

The hotel's breakfast dining area is located on the north side of the lobby. Its size and layout are appropriate for the food and beverage service offered by the hotel. The furnishings and finishes in this room were in very good condition.

LOBBY SEATING AREA

BREAKFAST DINING AREA

FRONT DESK

MEETING ROOM

The hotel offers one meeting room, located on the north side of the first level. The meeting space was in good condition upon inspection.

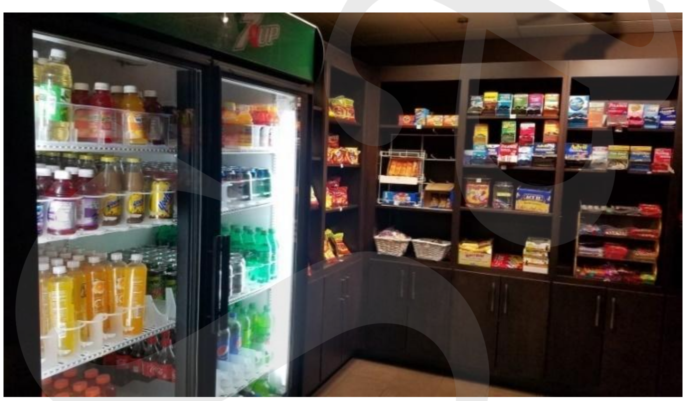
FITNESS ROOM

POOL

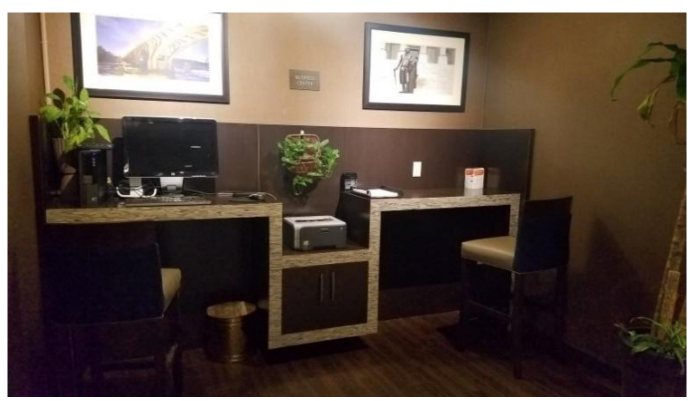
The hotel features an outdoor pool. There were no major problems reported with the pool operation, and the area was clean and attractive; however, this area was closed for the season and we were not able to inspect the pool. Adjacent to the pool area, an outdoor patio and barbeque area was in very good condition. The hotel offers a fitness room, located to the northwest of the lobby, was in good condition at the time of our inspection, albeit smaller than a typical fitness room at modern limited-service hotels.

The hotel offers a market pantry across from the front desk, operated by the front desk staff. The first, second, and fourth floors have an ice machine, while a guest laundry facility is located on the fourth floor. All areas were in good condition.

MARKET PANTRY



LOBBY WORKSTATION



The hotel does not have a dedicated business center; however, a computer workstation is located near the lobby. This space has one computer workstation, a second desk area, and an all-in-one printer, scanner, copier, and fax machine, as well as good quality furnishings. Overall, this space was in very good condition upon inspection.

Guestrooms

The hotel features standard and suite-style guestroom configurations, and guestrooms are found on all levels of the one building. The rooms are adequately sized and offer typical amenities for this hotel's asset class. Suites are available for a premium rate and feature a larger living space, as well as additional amenities such as a fireplace and/or whirlpool tub. Overall, the guestrooms were in very good condition upon inspection.

FIGURE 3-6 SUMMARY OF ROOM TYPES

Guestroom Configuration	Number of Units
Queen/Queen	40
King	28
Cube Suite	3
Jacuzzi Suite	3
Presidential Suite	1
Total	75

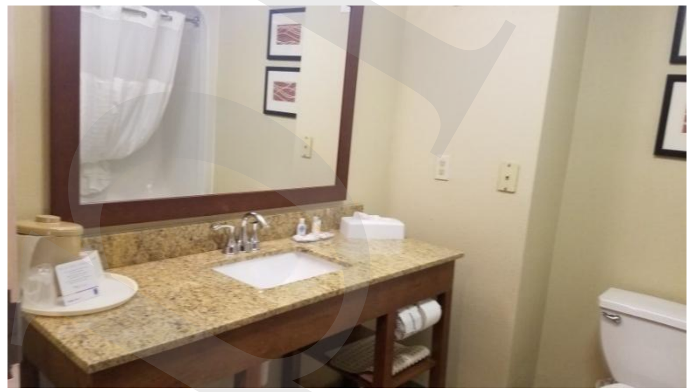
FIGURE 3-7 GUESTROOM AMENITIES

- Luggage rack
- Coffeemaker
- Microwave
- Hairdryer
- 37" Flat-Panel Television
- Select rooms have fireplace and whirlpool tubs

The guestroom bathrooms are of a standard size. The fixtures and finishes were in overall good to very good condition upon inspection.

TYPICAL GUESTROOM – SLEEPING AREA

TYPICAL GUESTROOM – LIVING AREA



TYPICAL GUESTROOM BATHROOM – SINK

TYPICAL GUESTROOM BATHROOM – BATH

The interior guestroom corridors are wide and functional, permitting the easy passage of housekeeping carts. Overall, the guestroom corridors were in good condition.

Back-of-the-House

The subject property is served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a prep kitchen. The modest kitchen is located adjacent to the breakfast dining area. The kitchen facilities are appropriate for the scope of service provided, appearing to be in good condition; no significant or persistent problems were reported by hotel management. The in-house laundry facility contains two large-capacity washers and two dryers. The hotel's back-of-the-house equipment and appliances were reported to be operational at the time of inspection, appearing to be in good condition.

LAUNDRY

BREAKFAST PREP AREA

ADA and Environmental

According to information provided by management representatives, there are no environmental hazards present in the subject property's improvements, nor did we observe any. The property reportedly complies with the Americans with Disabilities Act; furthermore, the ADA-mandated pool lift was originally added in 2013 and replaced in 2017.

Functional Obsolescence

Due to the age of the subject property, which was constructed roughly 19 years ago, some functional obsolescence is to be expected. However, upon our inspection, we found no major components or aspects of the property's design that significantly limit its profitability.

Effective Age and Remaining Economic Life

Our opinion of effective age and remaining economic life for the building is presented as follows.

FIGURE 3-8 EFFECTIVE AGE AND REMAINING ECONOMIC LIFE

Typical Economic Life	50	Years
Chronological Age	19	
Effective Age	15	
Remaining Economic Life	35	

Hotels are typically renewed on a regular basis. With good ongoing maintenance and regular upgrading, the remaining economic life can be periodically extended.

HVS

Capital Expenditures

The subject hotel underwent a comprehensive renovation between 2014 and 2015. Major expenditures during this time included a comprehensive renovation of the lobby, breakfast dining area, public spaces, and guestrooms. The lobby-adjacent business center was converted to a market pantry and the first floor vending area adjacent to the elevator lobby was replaced with a lobby workstation. Outside of replacing a dryer in the in-house laundry area, no major capital was spent in 2016 following the comprehensive renovations completed in 2014 and 2015. In 2017, capital has been spent on resurfacing the outdoor swimming pool, replacing the pool furniture and the ADA-mandated pool lift, adding parking lot lighting, resealing and restriping the parking lot, updating the exterior property signage, replacing 50 guestroom PTAC units, and painting the exterior sidewalks. No updates were reported thus far in 2018.

Our forecast of income and expense incorporates a reserve for replacement in recognition of the future renovation needs of the property. Our appraisal also assumes an ongoing preventive maintenance program and appropriate management and ownership oversight. The reserve for replacement is consistent with accepted industry norms for a property of this type. Investors also recognize that additional capital may be required over the holding period; this expectation is factored into their return requirements. Our selected discount and capitalization rates are based on market requirements, implicitly considering potential additional capital investments that may be required during the holding period.

Conclusion

Overall, the subject property offers a well-designed, functional layout of support areas and guestrooms. Virtually all aspects of the hotel were updated in 2014/15, and the hotel's improvements remain in good to very good condition, while the only significant weakness noted was the property's construction in 1999 and dated physical plant.

4. Market Area Analysis

The economic vitality of the market area and neighborhood 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 lodging 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 visitation by individual market segment (e.g., commercial, meeting and group, and leisure).

Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject property is located in the city of Killian, the county of Richland, and the state of South Carolina. Located in the approximate center of the state at the head of the Congaree River, Columbia is the capital of South Carolina and the seat of Richland County. The Town of Killian is located just north of Columbia along Interstate 77. The county has realized considerable growth, with the development of retail outlets and residential areas to the northeast. Columbia itself is dominated by the presence of the University of South Carolina. Columbia recently won an award from the International Downtown Association for its revitalization efforts in the heart of the city, including the preservation of a Confederate Printing Plant that made Confederate bills during the Civil War. Columbia city government anticipates nearly one-quarter million new residents by 2037, while the Killian population has grown from a town of 170 residents in 1990 to 2,034 in 2010 to even more today. Thus, both cities have undertaken a wide-ranging plan for restoration and new development to accommodate this influx.

COLUMBIA

The subject property's market area can be defined by its Combined Statistical Area (CSA): Columbia-Orangeburg-Newberry, SC. The CSA represents adjacent metropolitan and micropolitan statistical areas that have a moderate degree of employment interchange. Micropolitan statistical areas represent urban areas in the United States based around a core city or town with a population of 10,000 to 49,999; the MSA requires the presence of a core city of at least 50,000 people and a total population of at least 100,000 (75,000 in New England). The following exhibit illustrates the market area.

MAP OF MARKET AREA

Economic and Demographic Review

A primary source of economic and demographic statistics used in this analysis is the *Complete Economic and Demographic Data Source* published by Woods & Poole Economics, Inc.—a well-regarded forecasting service based in Washington, D.C. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, thus reflecting real change.

These data are summarized in the following table.

FIGURE 4-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2016	2020	Average Annual Compounded Change 2000-10	2010-16	2016-20
Resident Population (Thousands)							
Richland County	322.0	385.8	406.1	415.7	1.8 %	0.9 %	0.6 %
Columbia, SC MSA	649.6	769.7	817.5	853.8	1.7	1.0	1.1
Columbia-Orangeburg-Newberry, SC CSA	777.0	899.5	946.3	984.7	1.5	0.8	1.0
State of South Carolina	4,024.2	4,636.3	4,942.0	5,176.5	1.4	1.1	1.2
United States	282,162.4	309,347.1	324,506.9	336,690.4	0.9	0.8	0.9
Per-Capita Personal Income*							
Richland County	$33,786	$34,691	$36,836	$39,151	0.3	1.0	1.5
Columbia, SC MSA	33,363	34,094	36,384	38,622	0.2	1.1	1.5
Columbia-Orangeburg-Newberry, SC CSA	31,923	33,143	35,435	37,657	0.4	1.1	1.5
State of South Carolina	30,245	32,318	34,722	36,948	0.7	1.2	1.6
United States	36,812	39,622	43,613	46,375	0.7	1.6	1.5
W&P Wealth Index							
Richland County	93.7	88.7	85.8	85.7	(0.5)	(0.5)	(0.0)
Columbia, SC MSA	91.7	86.4	83.8	83.7	(0.6)	(0.5)	(0.0)
Columbia-Orangeburg-Newberry, SC CSA	87.5	83.8	81.4	81.4	(0.4)	(0.5)	(0.0)
State of South Carolina	83.5	82.1	80.3	80.4	(0.2)	(0.4)	0.0
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Richland County	$510	$636	$776	$816	2.2	3.4	1.3
Columbia, SC MSA	831	1,081	1,339	1,436	2.7	3.6	1.8
Columbia-Orangeburg-Newberry, SC CSA	932	1,229	1,520	1,625	2.8	3.6	1.7
State of South Carolina	5,266	6,552	8,437	9,125	2.2	4.3	2.0
United States	368,829	447,728	562,999	602,635	2.0	3.9	1.7
Total Retail Sales (Millions)*							
Richland County	$5,158	$4,801	$5,589	$5,880	(0.7)	2.6	1.3
Columbia, SC MSA	8,837	9,614	11,284	12,140	0.8	2.7	1.8
Columbia-Orangeburg-Newberry, SC CSA	10,172	11,041	12,863	13,789	0.8	2.6	1.8
State of South Carolina	52,962	57,516	67,948	73,324	0.8	2.8	1.9
United States	3,902,830	4,130,414	4,846,834	5,181,433	0.6	2.7	1.7

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The U.S. population grew at an average annual compounded rate of 0.8% from 2010 to 2016; the state's population changed by 1.1% during that period. The county's population grown more slowly than the nation's population; the average annual growth rate of 0.9% between 2010 and 2016 reflects a gradually expanding area. In 2016, the county's population was approximately 406,000; it is forecast to be roughly 416,000 by 2020.

Following this population trend, per-capita personal income increased slowly, at 1.0% on average annually for the county between 2010 and 2016. The county's annual per-capita personal income level was approximately $37,000 in 2016; it is expected to be $39,000 by 2020. This compares to respective state and U.S. levels of $35,000 and $44,000 in 2016, and $37,000 and $46,000 by 2020. The county's local wealth index in 2016 was a relatively modest 85.8, higher than the state's 2016 wealth index of 80.3. The county's wealth index is anticipated to be 85.7 by 2020, while the state's wealth index is forecast to be 80.4.

Food and beverage sales totaled $776 million in the county in 2016, versus $636 million in 2010. This reflects a 3.4% average annual change, which is stronger than the 2.2% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. The pace of growth is anticipated to moderate to a more sustainable level of 1.3% through 2020. The retail sales sector demonstrated an annual decline of -0.7% from 2000 to 2010, followed by an increase of 2.6% during the period from 2010 to 2016. An increase of 1.3% average annual change in county retail sales is forecast through 2020.

Workforce Characteristics

The characteristics of an area's workforce 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, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the county workforce distribution by business sector in 2000, 2010, and 2016, as well as a forecast for 2020.

FIGURE 4-2 HISTORICAL AND PROJECTED EMPLOYMENT (000s)

Industry	2000	Percent of Total	2010	Percent of Total	2016	Percent of Total	2020	Percent of Total	Average Annual Compounded Change 2000-2010	2010-2016	2016-2020
Farm	0.4	0.2 %	0.4	0.2 %	0.5	0.2 %	0.5	0.2 %	0.0 %	1.3 %	0.3 %
Forestry, Fishing, Related Activities And Other	0.4	0.2	0.7	0.3	0.9	0.3	1.0	0.3	5.8	3.5	1.7
Mining	0.2	0.1	0.2	0.1	0.3	0.1	0.3	0.1	(2.3)	10.5	0.8
Utilities	2.0	0.8	0.6	0.3	0.5	0.2	0.5	0.2	(10.8)	(2.7)	(1.4)
Construction	11.5	4.4	8.5	3.4	9.3	3.4	9.9	3.5	(2.9)	1.4	1.6
Manufacturing	13.4	5.1	10.2	4.0	10.3	3.8	10.2	3.6	(2.7)	0.1	(0.2)
Total Trade	33.6	12.8	31.1	12.2	32.0	11.7	33.0	11.5	(0.8)	0.5	0.8
Wholesale Trade	7.7	2.9	7.7	3.0	8.0	2.9	8.3	2.9	(0.1)	0.8	0.7
Retail Trade	25.9	9.8	23.5	9.2	24.0	8.8	24.8	8.6	(1.0)	0.4	0.8
Transportation And Warehousing	2.8	1.1	2.6	1.0	3.1	1.1	3.2	1.1	(0.7)	3.1	0.5
Information	6.7	2.6	5.2	2.1	4.3	1.6	4.3	1.5	(2.5)	(3.2)	(0.1)
Finance And Insurance	19.2	7.3	17.8	7.0	21.1	7.7	22.7	7.9	(0.8)	2.9	1.8
Real Estate And Rental And Lease	6.6	2.5	8.9	3.5	9.9	3.6	10.7	3.7	3.0	1.8	2.1
Total Services	91.7	34.9	102.3	40.2	114.5	41.9	121.7	42.5	1.1	1.9	1.5
Professional And Technical Services	12.7	4.8	15.7	6.2	16.7	6.1	17.9	6.2	2.1	1.0	1.8
Management Of Companies And Enterprises	2.2	0.8	2.9	1.1	1.8	0.7	1.8	0.6	2.8	(7.4)	(0.1)
Administrative And Waste Services	19.8	7.5	18.2	7.1	20.1	7.4	20.7	7.2	(0.9)	1.7	0.7
Educational Services	3.6	1.4	5.8	2.3	6.9	2.5	7.6	2.7	4.8	3.0	2.5
Health Care And Social Assistance	22.1	8.4	26.1	10.3	28.6	10.4	30.3	10.6	1.7	1.5	1.5
Arts, Entertainment, And Recreation	2.8	1.1	3.3	1.3	4.4	1.6	4.8	1.7	1.5	5.0	2.1
Accommodation And Food Services	17.2	6.5	17.9	7.0	21.1	7.7	22.5	7.9	0.4	2.8	1.6
Other Services, Except Public Administration	11.2	4.3	12.5	4.9	14.9	5.5	16.1	5.6	1.1	3.0	2.0
Total Government	74.3	28.2	65.8	25.9	66.7	24.4	68.5	23.9	(1.2)	0.2	0.7
Federal Civilian Government	7.8	3.0	9.9	3.9	9.3	3.4	9.5	3.3	2.4	(1.1)	0.6
Federal Military	13.4	5.1	11.9	4.7	10.5	3.8	10.5	3.7	(1.1)	(2.1)	0.1
State And Local Government	53.1	20.2	44.0	17.3	47.0	17.2	48.5	16.9	(1.9)	1.1	0.8
TOTAL	262.9	100.0 %	254.5	100.0 %	273.5	100.0 %	286.5	100.0 %	(0.3) %	1.2 %	1.2 %
MSA	421.8	—	440.0	—	491.9	—	523.5	—	0.4 %	1.9 %	1.6 %
U.S.	165,370.9	—	173,034.7	—	191,870.8	—	203,418.4	—	0.9	1.7	1.5

Source: Woods & Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county contracted at an average annual rate of -0.3%. This trend was below the growth rate recorded by the MSA and also lagged the national average, reflecting the contracting nature of the local economy throughout most of the decade until the recession in the latter years. More recently, the pace of total employment growth in the county accelerated to 1.2% on an annual average from 2010 to 2016, reflecting the initial years of the recovery.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2016, increasing by 12,208 people, or 11.9%, and transitioning from 40.2% to 41.9% of total employment. Of the various service sub-sectors, Health Care And Social Assistance and Accommodation And Food Services were the largest employers. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.2% on average annually through 2020. The trend is below the forecast rate of change for the U.S. as a whole during the same period.

Radial Demographic Snapshot

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

FIGURE 4-3 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2023 Projection	910	7,584	26,346
2018 Estimate	813	6,866	23,795
2010 Census	623	5,554	19,126
2000 Census	358	3,928	10,999
Percent Change: 2018 to 2023	11.9%	10.5%	10.7%
Percent Change: 2010 to 2018	30.5%	23.6%	24.4%
Percent Change: 2000 to 2010	74.0%	41.4%	73.9%
Households			
2023 Projection	355	2,807	9,308
2018 Estimate	314	2,531	8,412
2010 Census	235	2,026	6,771
2000 Census	132	1,372	3,818
Percent Change: 2018 to 2023	13.1%	10.9%	10.7%
Percent Change: 2010 to 2018	33.6%	24.9%	24.2%
Percent Change: 2000 to 2010	78.0%	47.7%	77.3%
Income			
2018 Est. Average Household Income	$105,917	$100,516	$97,500
2018 Est. Median Household Income	87,330	83,906	81,783
2018 Est. Civ. Employed Pop 16+ by Occupation			
Architecture/Engineering	11	82	230
Arts/Design/Entertainment/Sports/Media	2	38	104
Building/Grounds Cleaning/Maintenance	19	162	589
Business/Financial Operations	36	231	797
Community/Social Services	8	108	330
Computer/Mathematical	12	88	238
Construction/Extraction	6	80	237
Education/Training/Library	53	352	1,049
Farming/Fishing/Forestry	1	5	13
Food Preparation/Serving Related	13	168	605
Healthcare Practitioner/Technician	34	237	797
Healthcare Support	3	29	128
Installation/Maintenance/Repair	6	63	190
Legal	3	25	61
Life/Physical/Social Science	11	48	122
Management	64	513	1,551
Office/Administrative Support	47	462	1,588
Production	31	188	493
Protective Services	12	201	694
Sales/Related	48	434	1,439
Personal Care/Service	11	113	375
Transportation/Material Moving	22	228	803

Source: Environics Analytics

This source reports a population of 23,795 within a five-mile radius of the subject property, and 8,412 households within this same radius. Average household income within a five-mile radius of the subject property is currently reported at $97,500, while the median is $81,783.

Unemployment Statistics

The following table presents historical unemployment rates for the subject property's market area, the state, and the nation.

FIGURE 4-4 UNEMPLOYMENT STATISTICS

Year	County	MSA	State	U.S.
2007	5.2 %	5.0 %	5.7 %	4.6 %
2008	6.1	5.9	6.8	5.8
2009	9.2	9.1	11.2	9.3
2010	9.4	9.3	11.2	9.6
2011	9.2	9.1	10.6	8.9
2012	8.2	8.1	9.2	8.1
2013	6.9	6.7	7.6	7.4
2014	6.0	5.8	6.4	6.2
2015	5.7	5.5	6.0	5.3
2016	4.7	4.5	4.8	4.9
Recent Month - Nov				
2016	4.0 %	3.8 %	4.0 %	4.6 %
2017	4.1	4.0	4.0	4.1

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

Source: U.S. Bureau of Labor Statistics

Current U.S. unemployment levels are now firmly below the annual averages of the last economic cycle peak of 2006 and 2007, when annual averages were 4.6%. National unemployment registered 4.1% in the final three months of 2017, roughly six points below the October 2009 peak of 10.0%. Total nonfarm payroll employment increased by 252,000 and 148,000 jobs in November and December of 2017, respectively. The highest gains were made in the professional and healthcare, manufacturing, and construction sectors. Unemployment has remained under the 5.0% mark since May 2016, reflecting a trend of relative stability and the overall strength of the U.S. economy.

Locally, the unemployment rate was 4.7% in 2016; for this same area in 2017, the most recent month's unemployment rate was registered at 4.1%, versus 4.0% for the same month in 2016. Unemployment increased in 2008 and 2009, remaining elevated in 2010 and 2011, concurrent with the economic recession. Unemployment began to decline in 2012, and this positive trend continued through 2016. The most recent comparative period (November 2017) illustrates stability in the latest available data. Local employment has been strong at entities such as Palmetto Health and Amazon. Our interviews with economic development officials reflect a positive outlook, primarily attributed to new companies entering the market and expansions of existing companies and medical facilities. Over the past ten months investment into Richland County has exceeded $445 million and with 2,275 jobs created, supporting the growth of the local economy and low unemployment levels.

Major Business and Industry

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in the subject property's market.

FIGURE 4-5 MAJOR EMPLOYERS

Rank	Firm	Number of Employees
1	State of South Carolina	25,246
2	Palmetto Health	9,400
3	University of South Carolina	9,000
4	BlueCross BlueShield of South Carolina	6,422
5	Richland County School District One	4,229
6	Richland County School District Two	3,600
7	City of Columbia	2,438
8	AT&T	2,400
9	Palmetto GBA	2,100
10	Richland County	1,879

Source: Central SC Alliance - Richland County, 1st Quarter 2017

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

- Killian's suburban location makes it a popular choice for families looking to escape the urban center of Columbia, while maintaining strong connectivity to both Columbia and Charlotte, North Carolina, which is located approximately 75 miles north of Killian. The local economy features several mid-sized manufacturers, such as Koyo Corporation, and Pure Power Technologies. Due to the town's location along Interstate 77, logistics is also popular in the area and several firms have distribution centers in the area, including Belk and LuLaRoe. Additionally, Charter NEX Films has announced an $85-million, 140,000-square-foot plant in Killian expected to add 125 jobs by the second quarter of 2018. Throughout the greater Columbia area manufacturing is a major industry, with companies such as International Paper, Pepsi Bottling Co, and Navistar leading the way, as well as numerous energy companies. Since the 2012 opening of the Amazon Fulfillment Center in West Columbia, more than 2,000 jobs have been added with continued expansions. More recently, Trane announced a $96-million expansion at the Killian Road plant of 700 jobs in August 2017, Jushi (a Chinese fiberglass manufacture) announced a $300-million plant at Pineview Industrial Park in November 2017 to be followed by a second identical plant, Henhsi (a Chinese fiber-weaving producer) is expected to invest $11.1 million and create 48 jobs at a new 111,000-square foot plant, and RightDose plans to construct 140,000 square foot facility after closing on the site near Farrow Road in January 2018.

- Fort Jackson, a U.S. Army Base Combat Training Center of Excellence, remains a strong presence in the market, drawing new Army recruits year-round, as well as spurring the local economy with development projects on the base. Every year, over 100,000 families visit the area to attend basic training graduation activities. In January 2009, Fort Jackson announced a 50-year plan to improve post housing. The first phase was completed in May 2014, which encompassed the demolition of 916 units, the construction of 610 new units, and a renovation of the remaining units. Additionally, athletic facilities and a new community center and playground were added. Over the remaining term of the 50-year plan, homes will be renovated or rebuilt on a rotating schedule.
- The University of South Carolina (USC) has grown enrollment to almost 32,000 full-time students at the flagship campus over the last decade, increasing enrollment by approximately one-third; total statewide enrollment is over 46,000. USC currently has a $4.1-billion annual economic impact in South Carolina and is expanding west toward the Congaree River to support new research, as the state's only Carnegie top-tier research institution and one of only 32 universities nationwide. Since 2007 the innovation district called Innovista has been under development with initial plans calling for a $250-million investment encompassing over eight million square feet. Innovista promises to be an economic catalyst that will raise the state’s per-capita income and quality of life by attracting knowledge-based businesses and high-paying jobs. Although initially delayed due to the recession, completed projects include the Horizon Center and Discovery Plaza (2009), the South Carolina Research Authority (SCRA) USC Innovation Center (2011), the $106-million Darla Moore School of Business (2014), the $26.4-million Alumni Center (2015), and several

smaller projects. In addition to numerous available degrees and the extensive research program, USC has a well-known athletic program with over 1.34-million attendees for all home sporting events annually.

Columbia's economy is well balanced between the public sector and the private sector. As the state capital, the government is a major employer in the area supported by local, county, state, and federal entities including the state Senate, Fort Jackson, and McEntire Joint National Guard Base. Furthermore, the healthcare sector remains a cornerstone of the regional economy. Healthcare also remains a pillar of the economy as the largest private employer for the market is Palmetto Health. In 2016, Lexington Medical Center broke ground on a $425-million expansion, which will include an eight-story, 550,000-square-foot tower at its West Columbia Campus; the tower was topped out in late 2017 and is expected to open in 2019. In addition to major industry expansions, the new, $37-million Spirit Communications Park, home of the Columbia Fireflies, opened in 2016 season. Furthermore, contact centers and insurance companies also are major employers in the market. The addition of new facilities at the University of South Carolina, the expansion of the hospital, and the revitalization of the downtown area should support continued economic growth.

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.

Columbia Metropolitan Airport began as a small facility developed in the 1940s, known as the Lexington County Airport. The facility expanded significantly during World War II, and the current terminal building was built in 1965. The last major renovation of the terminal occurred in 1997. Today, the airport offers daily flights to over a dozen locations throughout the United States, with nonstop service to places such as Charlotte, Atlanta, Dallas/Fort Worth, Washington IAD, Philadelphia, Houston, New York City, and Chicago. Near one million passengers are served annually by American Airlines, Delta, and United Airlines. A series of capital improvement projects, collectively known as ECOproject, began in 2013. These projects, estimated to cost approximately $60 million, include upgrading the existing lighting with LED bulbs, modernizing the HVAC system, and installing energy-efficient fixtures and appliances, among other items; renovations are expected to continue through 2018.

The following table illustrates recent operating statistics for the Columbia Metropolitan Airport, which is the primary airport facility serving the subject property's submarket.

FIGURE 4-6 AIRPORT STATISTICS - COLUMBIA METROPOLITAN AIRPORT

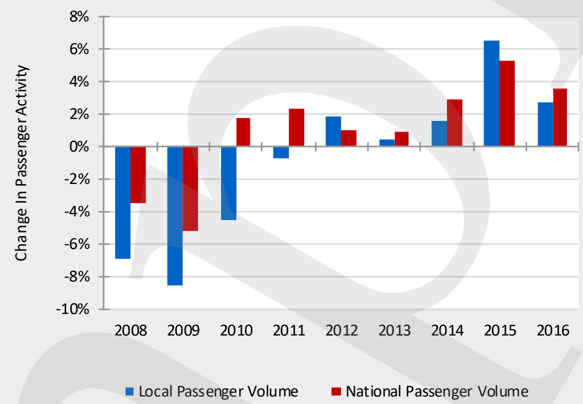
Year	Passenger Traffic	Percent Change*	Percent Change**
2007	1,234,547	—	—
2008	1,149,682	(6.9) %	(6.9) %
2009	1,051,348	(8.6)	(7.7)
2010	1,003,375	(4.6)	(6.7)
2011	996,158	(0.7)	(5.2)
2012	1,014,749	1.9	(3.8)
2013	1,018,883	0.4	(3.1)
2014	1,034,902	1.6	(2.5)
2015	1,102,011	6.5	(1.4)
2016	1,132,329	2.8	(1.0)
Year-to-date, Nov			
2016	1,048,061	—	—
2017	988,410	(5.7) %	—

*Annual average compounded percentage change from the previous year

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

Source: Columbia Metropolitan Airport

FIGURE 4-7 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND



Source: HVS, Local Airport Authority

This facility recorded 1,132,329 passengers in 2016. The change in passenger traffic between 2015 and 2016 was 2.8%. The average annual change during the period shown was -1.0%.

Charlotte Douglas International Airport (CLT) is owned and operated by the City of Charlotte. The airport is a major economic engine for the area, generating over $10 billion annually for the region's economy, and is served by various commercial airlines. Construction, expansion, and redevelopment projects comprising the CLT 2015 development program include a new intermodal facility (developed jointly with Norfolk Southern Corporation), a new high-speed baggage screening system, an additional 32,000 square feet of food court space in Concourse E, an expansion of the terminal curbside roadway, and the westside terminal expansion. Construction of the intermodal facility concluded in 2014, while the high-speed conveyor system was completed in August 2015. The new seven-level hourly parking deck opened in November 2014, and the new rental-car facility opened on levels one through three of that building in April 2015. In 2016, construction commenced on the new concourse, which is located on the site of the previous car-rental facility; completion is slated for summer 2018, offering nine additional gates for non-American Airlines flights. Additionally, the expansion of Terminal E began in 2016 as well and is expected to open in summer 2019. Moreover, plans have been announced to expand the terminal lobby in 2018 and to create additional gates at Concourses B and C in the 2020s.

The following table illustrates recent operating statistics for the Charlotte Douglas International Airport, which is the secondary airport facility serving the subject property's submarket.

FIGURE 4-8 AIRPORT STATISTICS – CHARLOTTE DOUGLAS INTERNATIONAL AIRPORT

Year	Passenger Traffic	Percent Change*	Percent Change**
2007	33,165,688	—	—
2008	34,739,020	4.7 %	4.7 %
2009	34,536,666	(0.6)	2.0
2010	38,254,207	10.8	4.9
2011	39,043,708	2.1	4.2
2012	41,228,372	5.6	4.4
2013	43,457,471	5.4	4.6
2014	44,272,432	1.9	4.2
2015	44,875,519	1.4	3.9
2016	44,422,022	(1.0)	3.3
Year-to-date, Sep			
2016	33,550,667	—	—
2017	34,385,140	2.5 %	—

*Annual average compounded percentage change from the previous year

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

Source: Charlotte Douglas International Airport

This facility registered 44,422,022 passengers in 2016. The change in passenger traffic between 2015 and 2016 was -1.0%.

Tourist Attractions

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

- Killian is home to the Cobblestone Park Golf Club, the Golf Club of South Carolina at Crickentree, and OneWood Farm, which is the home of the University of South Carolina's Equestrian Team.

- The Riverbanks Zoo is a sanctuary for more than 2,000 animals housed in natural habitat exhibits. Riverbank Zoo has been named one of America's top ten zoos and is the number one travel attraction in the Columbia area.
- The Riverbanks Botanical Garden comprises 70 acres of gardens, woodlands, plant collections, and historic ruins. The Botanical Garden also offers scenic river views, valley overlooks, mass plantings of seasonal bulbs, and a walled garden.
- The Colonial Life Arena is home to the University of South Carolina basketball team. It is the largest arena in the state of South Carolina and the tenth-largest on-campus basketball facility in the nation. The facility also hosts large concerts and shows throughout the year, with 18,000 seats and a full-service hospitality room. Carolina Stadium, the baseball stadium for the University of South Carolina Gamecocks, opened in 2009.

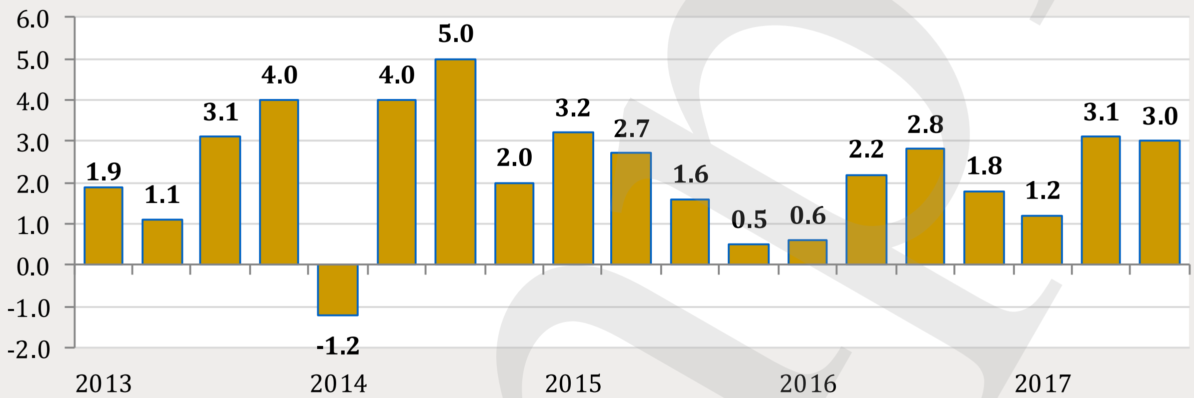
RIVERBANKS ZOO

Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. Columbia is experiencing a period of economic strength and expansion, primarily led by the manufacturing and distribution industries, as well as the government, military, healthcare, insurance, and education sectors. Our market interviews and research revealed that as the greater Columbia area continues to be a popular choice for corporate relocation and expansion. The outlook for the market area is positive.

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

FIGURE 4-9 UNITED STATES GDP GROWTH RATE



Source: tradingeconomics.com, Bureau of Economic Analysis

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

5. Supply and Demand Analysis

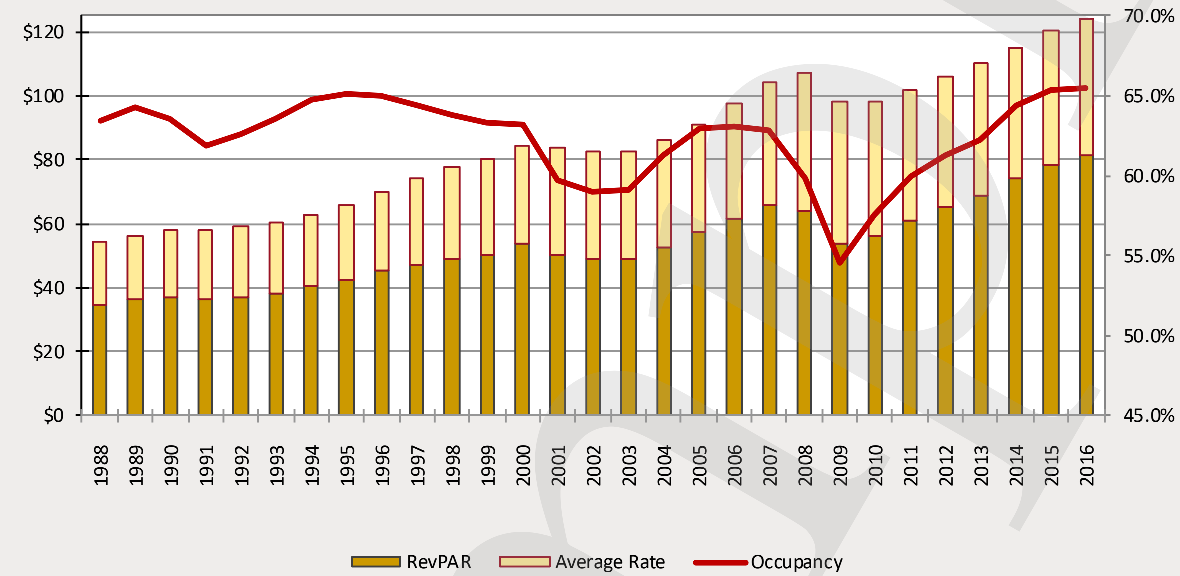
In the lodging industry, supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand toward equilibrium results in a prevailing price, or average rate. The purpose of this section is to investigate current supply and demand trends as indicated by the current competitive market, resulting in a forecast of market-wide occupancy.

National Trends Overview

The subject property and local lodging market are most directly affected by the supply and demand trends within the immediate area. However, individual markets are also influenced by conditions in the national lodging market. We have reviewed national lodging trends to provide a context for the forecast of the supply and demand for the subject property's competitive set.

STR is an independent research firm that compiles data on the lodging industry, and this information is routinely used by typical hotel buyers. The following STR diagram presents annual hotel occupancy and average rate data since 1987. The next two tables contain information that is more recent; the data are categorized by geographical region, price point, type of location, and chain scale, and the statistics include 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.

FIGURE 5-1 NATIONAL OCCUPANCY, AVERAGE RATE, AND REVPAR TRENDS



Source: STR

FIGURE 5-2 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – YEAR-TO-DATE DATA

	Occupancy - YTD November			Average Rate - YTD November			RevPAR - YTD November			Percent Change	
	2016	2017	% Change	2016	2017	% Change	2016	2017	% Change	Rms. Avail.	Rms. Sold
United States	66.5 %	67.1 %	0.8 %	$124.49	$127.07	2.1 %	$82.85	$85.22	2.9 %	1.8 %	2.6 %
Region											
New England	65.6 %	66.2 %	0.9 %	$152.85	$155.59	1.8 %	$100.30	$103.02	2.7 %	1.5 %	2.5 %
Middle Atlantic	68.1	68.7	0.7	162.14	161.49	(0.4)	110.49	110.87	0.3	2.9	3.6
South Atlantic	68.1	69.0	1.3	120.34	123.58	2.7	81.91	85.21	4.0	1.5	2.8
East North Central	62.5	62.8	0.4	109.22	110.48	1.2	68.29	69.38	1.6	1.9	2.3
East South Central	62.6	62.7	0.2	95.46	98.76	3.5	59.72	61.90	3.6	1.9	2.0
West North Central	60.4	59.4	(1.8)	96.65	98.01	1.4	58.40	58.18	(0.4)	1.4	(0.4)
West South Central	62.4	63.4	1.5	99.43	100.83	1.4	62.07	63.91	3.0	3.0	4.6
Mountain	66.6	67.7	1.7	114.44	119.01	4.0	76.17	80.55	5.8	1.1	2.8
Pacific	74.8	75.0	0.3	159.33	163.38	2.5	119.25	122.59	2.8	1.6	1.8
Class											
Luxury	71.8 %	72.0 %	0.3 %	$280.61	$284.35	1.3 %	$201.40	$204.60	1.6 %	2.2 %	2.4 %
Upper-Upscale	73.8	74.0	0.2	178.90	181.83	1.6	132.04	134.49	1.9	1.7	1.9
Upscale	73.2	73.6	0.5	139.62	141.78	1.5	102.17	104.31	2.1	4.3	4.8
Upper-Midscale	68.5	68.9	0.6	114.74	116.53	1.6	78.57	80.29	2.2	4.0	4.7
Midscale	60.9	61.6	1.2	92.65	94.81	2.3	56.44	58.45	3.6	0.3	1.4
Economy	59.3	59.8	0.8	70.15	72.29	3.1	41.63	43.24	3.9	(0.4)	0.4
Location											
Urban	74.3 %	74.7 %	0.5 %	$177.94	$179.60	0.9 %	$132.13	$134.09	1.5 %	3.1 %	3.6 %
Suburban	68.0	68.2	0.3	106.48	108.82	2.2	72.37	74.22	2.6	1.9	2.3
Airport	74.4	74.8	0.5	114.48	116.97	2.2	85.18	87.50	2.7	1.4	2.0
Interstate	57.6	58.4	1.3	83.53	85.39	2.2	48.15	49.85	3.5	1.5	2.8
Resort	69.3	70.5	1.7	168.08	172.54	2.7	116.41	121.59	4.4	0.9	2.7
Small Metro/Town	58.0	58.5	0.9	100.44	102.81	2.4	58.28	60.19	3.3	1.5	2.4
Chain Scale											
Luxury	74.7 %	74.7 %	0.1 %	$314.64	$320.99	2.0 %	$234.88	$239.93	2.2 %	1.6 %	1.7 %
Upper-Upscale	75.5	75.5	(0.1)	180.50	183.00	1.4	136.32	138.13	1.3	2.1	2.0
Upscale	75.0	74.9	(0.1)	138.99	140.87	1.4	104.31	105.58	1.2	6.0	5.9
Upper-Midscale	68.8	69.2	0.6	112.15	113.81	1.5	77.21	78.80	2.1	3.2	3.8
Midscale	60.5	61.1	1.1	85.73	87.45	2.0	51.84	53.47	3.2	1.3	2.4
Economy	58.7	59.0	0.5	61.20	62.77	2.6	35.92	37.04	3.1	0.1	0.7
Independents	63.1	64.0	1.4	123.06	126.63	2.9	77.64	81.00	4.3	0.0	1.4

Source: STR - November 2017 Lodging Review

HVS

FIGURE 5-3 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – CALENDAR YEAR DATA

	Occupancy			Average Rate			RevPAR			Percent Change	
	2015	2016	% Change	2015	2016	% Change	2015	2016	% Change	Rms. Avail.	Rms. Sold
United States	65.4 %	65.5 %	0.1 %	$120.30	$123.97	3.1 %	$78.68	$81.19	3.2 %	1.6 %	1.7 %
Region											
New England	64.5 %	64.3 %	(0.4) %	$146.41	$150.70	2.9 %	$94.49	$96.89	2.5 %	1.3 %	1.0 %
Middle Atlantic	67.3	67.3	0.0	162.29	163.41	0.7	109.22	109.99	0.7	2.8	2.8
South Atlantic	66.5	67.2	1.1	116.65	119.77	2.7	77.53	80.44	3.8	1.3	1.3
East North Central	61.3	61.2	(0.2)	105.20	108.09	2.7	64.45	66.10	2.6	1.6	1.4
East South Central	61.0	61.4	0.7	90.91	94.87	4.4	55.43	58.26	5.1	1.7	2.5
West North Central	59.6	59.1	(0.8)	93.28	95.91	2.8	55.58	56.68	2.0	1.5	0.7
West South Central	62.9	61.5	(2.3)	98.43	98.66	0.2	61.93	60.63	(2.1)	2.7	0.3
Mountain	65.0	65.5	0.7	108.77	114.24	5.0	70.68	74.79	5.8	0.8	1.5
Pacific	73.2	73.9	0.9	151.10	158.44	4.9	110.57	117.04	5.8	0.9	1.9
Class											
Luxury	70.8 %	71.0 %	0.3 %	$278.39	$283.05	1.7 %	$196.98	$200.95	2.0 %	2.8 %	3.1 %
Upper-Upscale	72.7	72.6	(0.1)	173.53	177.77	2.4	126.08	129.07	2.4	1.2	1.2
Upscale	72.0	72.0	0.1	135.70	139.47	2.8	97.72	100.49	2.8	3.9	3.9
Upper-Midscale	67.1	67.1	0.0	110.95	113.84	2.6	74.48	76.38	2.6	3.3	3.2
Midscale	59.9	59.9	0.1	90.13	92.61	2.7	53.96	55.50	2.9	0.4	0.6
Economy	58.6	58.6	0.0	67.60	70.17	3.8	39.63	41.13	3.8	(0.4)	(0.4)
Location											
Urban	73.0 %	73.1 %	0.1 %	$173.99	$177.37	1.9 %	$127.04	$129.69	2.1 %	2.9 %	3.0 %
Suburban	66.7	66.8	0.2	101.91	105.70	3.7	67.97	70.63	3.9	1.4	1.6
Airport	73.6	73.4	(0.2)	109.78	113.56	3.4	80.78	83.40	3.3	1.0	0.8
Interstate	57.2	56.6	(1.1)	81.35	83.04	2.1	46.53	46.97	0.9	1.5	0.4
Resort	67.9	68.6	0.9	164.10	168.76	2.8	111.51	115.76	3.8	0.9	1.8
Small Metro/Town	56.9	56.9	0.1	96.63	99.45	2.9	54.95	56.64	3.1	1.4	1.5
Chain Scale											
Luxury	75.2 %	74.9 %	(0.3) %	$317.58	$322.84	1.7 %	$238.70	$241.82	1.3 %	2.8 %	2.4 %
Upper-Upscale	74.3	74.2	(0.2)	174.98	178.82	2.2	130.08	132.63	2.0	1.6	1.4
Upscale	74.3	73.8	(0.6)	134.82	138.50	2.7	100.13	102.27	2.1	5.6	5.0
Upper-Midscale	67.5	67.4	(0.2)	108.75	111.43	2.5	73.46	75.14	2.3	2.1	1.9
Midscale	59.4	59.4	(0.1)	83.32	85.43	2.5	49.52	50.74	2.5	1.2	1.1
Economy	58.1	57.9	(0.4)	58.82	60.84	3.4	34.16	35.20	3.1	0.3	(0.1)
Independents	61.8	62.3	0.8	118.73	123.22	3.8	73.36	76.75	4.6	0.2	1.0

Source: STR - December 2016 Lodging Review

Following the significant RevPAR decline experienced during the last recession, demand growth resumed in 2010, led by select markets that had recorded growth trends in the fourth quarter of 2009. A return of business travel and some group activity contributed to these positive trends. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half of 2010. These discounting policies were largely phased out in the latter half of the year, balancing much of the early rate loss. Demand growth remained strong, but decelerated from 2011 through 2013, increasing at rates of 4.7%, 2.8%, and 2.0%, respectively. Demand growth then surged to 4.0% in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors. By 2014, occupancy had surpassed the 64% mark. Average rate rebounded similarly during this time, bracketing 4.0% annual gains from 2011 through 2014.

In 2015, demand growth continued to outpace supply growth, a relationship that has been in place since 2010. With a 2.9% increase in room nights, the nation's occupancy level reached a record high of 65.4% in 2015. Supply growth intensified modestly in 2015 (at 1.1%), following annual supply growth levels of 0.7% and 0.9% in 2013 and 2014, respectively. Average rate posted another strong year of growth, at 4.4% in 2015, in pace with the annual growth of the last four years. Robust job growth, heightened group and leisure travel, and waning price-sensitivity all contributed to the gains. In 2016, occupancy increased minimally (by 0.1%) to 65.5%, as demand growth modestly exceeded supply growth. Average rate increased 3.1% for the year, and the net change in RevPAR was 3.2%, reflecting a healthy lodging market overall. Year-to-date November 2017 data show this trend continuing, with a 0.6-point occupancy increase to 67.1%, while average rate increased by just over $2.50 to roughly $127.00, resulting in a 2.9% upward change in RevPAR.

Definition of Subject Hotel Market

The subject property is located in the greater Columbia lodging market. This greater lodging market spans nearly 60 open and operating lodging facilities totaling roughly 5,400 guestrooms. Within this greater market, the direct submarket that encompasses the subject hotel is known as Killian/Northeast Columbia. The subject hotel competes with four hotels on a primary level based on similarities in product type and price point. We have considered an additional four hotels as being secondarily competitive due to differences in location or price point.

Historical Supply and Demand Data

STR is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. HVS has ordered and analyzed an STR Trend Report of historical supply and demand data for the subject property and its competitors. This information is presented in the following table, along with the market-wide 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.

FIGURE 5-4 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2007	616	224,840	—	148,991	—	66.3 %	$78.79	—	$52.21	—
2008	637	232,513	3.4 %	138,218	(7.2) %	59.4	79.55	1.0 %	47.29	(9.4) %
2009	789	287,985	23.9	159,124	15.1	55.3	75.35	(5.3)	41.63	(12.0)
2010	789	287,985	0.0	167,782	5.4	58.3	73.60	(2.3)	42.88	3.0
2011	789	287,985	0.0	178,866	6.6	62.1	73.64	0.1	45.74	6.7
2012	787	287,432	(0.2)	178,773	(0.1)	62.2	75.77	2.9	47.13	3.0
2013	784	286,250	(0.4)	176,857	(1.1)	61.8	77.89	2.8	48.12	2.1
2014	784	286,160	(0.0)	189,802	7.3	66.3	80.63	3.5	53.48	11.1
2015	784	286,160	0.0	186,993	(1.5)	65.3	85.92	6.6	56.14	5.0
2016	784	286,160	0.0	192,384	2.9	67.2	89.00	3.6	59.83	6.6
2016/17	784	286,221	0.0	184,769	(4.0)	64.6	89.66	0.7	57.88	(3.3)
Year-to-Date Through November										
2016	784	261,856	—	180,245	—	68.8 %	$89.62	—	$61.69	—
2017	784	261,917	0.0 %	172,630	(4.2) %	65.9	90.36	0.8 %	59.55	(3.5) %
Average Annual Compounded Change:										
2007 - 2010			8.6		4.0			(2.2)		(6.3)
2010 - 2016			(0.1)		2.3			3.2		5.7

Hotels Included in Sample	Class	Competitive Status	Number of Rooms	Year Affiliated	Year Opened	Comments
Best Western Plus Columbia North East	Upper Midscale Class	*Primary*	108	Aug 2012	Sep 1986	
La Quinta Inns & Suites Columbia Northeast Fort Jackson	Midscale Class	*Primary*	99	Mar 2006	Dec 1986	
Hampton Inn Columbia Northeast Fort Jackson	Upper Midscale Class	*Secondary*	110	Feb 1997	Feb 1997	
Days Inn North Columbia Fort Jackson	Economy Class	*Secondary*	49	Sep 1997	Sep 1997	
Holiday Inn Express Columbia Two Notch	Upper Midscale Class	*Secondary*	83	Jun 2017	Apr 1998	
[redacted]	**Upper Midscale Class**	***Subject Property***	**75**	**Jul 1999**	**Jul 1999**	
Holiday Inn Express & Suites Blythewood	Upper Midscale Class	*Primary*	88	Oct 1999	Oct 1999	
Comfort Suites Columbia	Upper Midscale Class	*Primary*	77	Nov 2008	Nov 2008	
Fairfield Inn & Suites Columbia Northeast	Upper Midscale Class	*Secondary*	96	Dec 2008	Dec 2008	Converted from Wingate Inn
		Total	**785**			

Source: STR

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample; furthermore, not every property reports data in a consistent and timely manner. These factors can influence the overall quality of the information by skewing the results, and these inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel in the previous table.

The STR data for the competitive set reflect a market-wide occupancy level of 67.2% in 2016, which compares to 65.3% for 2015. The STR data for the competitive set reflect a market-wide average rate level of $89.00 in 2016, which compares to $85.92 for 2015. These occupancy and average rate trends resulted in a RevPAR level of $59.83 in 2016.

Occupancy first peaked for this selected set of hotels in 2007 at approximately 66%, while average rate growth continued until mid-year 2008 prior to the full impact of the Great Recession. Despite average rate growth into 2008, RevPAR peaked in 2007 at approximately $52, before declining to a low point of roughly $42 by year-end 2009 because of the recession and entrance of new supply. A slow recovery began in 2010 that extended through 2014, at which time the prior RevPAR peak was exceeded. Although demand increased notably from 2009 through 2011 as the Comfort Suites and Fairfield Inn & Suites by Marriott were absorbed into the market, occupancy remained stable at 62% from 2011 through 2013 as hoteliers focused on increasing average rate. Additionally, the sequestration resulted in military budget cuts at Fort Jackson, which reduced military and government spending in 2013; however, this demand quickly returned in 2014. A slight decline in occupancy in 2015 was reportedly driven by a reduction in the number of basic training graduates; however, demand and occupancy recovered in 2016. Overall, RevPAR continued to rise in 2015 and 2016, with growth driven largely by average rate increases and demand growth driven by corporate expansions and increasing leisure travel.

Year-to-date 2017 data show a decline in occupancy and minimal increase in average rate. This trend is influenced by the rebranding of the Wingate by Wyndham, which has temporarily limited the amount of available rooms in the market and led to decreased occupancy for the competitive set. However, it is important to note that the ownership of the Wingate by Wyndham did not report the closure to STR; therefore, average occupancy and average rate information was filled in for the months the property was closed. Thus, we have used the STAR report and other market data to supplement the understanding of actual 2017 occupancy and average rate for the market. The rebranding and upgrading of the Wingate by Wyndham to a Holiday Inn Express is expected to contribute to the previous trend of increasing average rate and RevPAR for the market in 2018. Furthermore, occupancy was inflated in October 2016 due to Hurricane Matthew, as a significant number of people evacuated from the coastal cities to Columbia, as this one-time demand was not repeated in 2017. A continuing decline in occupancy levels driven by the entrance of new supply is expected in the near term, offset expected average rate growth given the strength of the regional economy and increasing commercial demand. Furthermore, Congress approved the recruitment of 7,500 soldiers in 2017, many of whom will go to Fort Jackson for basic training beginning in 2018, which is anticipated to contribute to military demand growth.

Seasonality

Monthly occupancy and average rate trends are presented in the following tables.

FIGURE 5-5 MONTHLY OCCUPANCY TRENDS

Month	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
January	57.4 %	47.1 %	36.6 %	41.5 %	45.1 %	40.9 %	42.2 %	46.8 %	49.3 %	57.0 %	52.7 %
February	59.0	65.4	51.4	57.9	73.4	65.8	58.0	64.9	61.1	68.8	59.7
March	76.0	71.9	58.9	67.8	74.1	74.6	67.8	71.6	69.4	74.8	72.6
April	81.2	68.7	67.7	69.7	81.1	73.6	75.6	77.7	71.6	76.2	73.3
May	70.5	65.8	51.6	56.1	61.5	62.1	60.3	71.2	62.7	62.1	61.5
June	73.1	66.2	65.0	66.5	67.7	72.9	64.7	78.8	66.8	67.7	66.0
July	66.4	70.1	64.3	71.1	69.4	68.6	67.8	72.7	65.6	70.2	69.8
August	67.0	65.4	63.4	65.3	68.1	70.3	63.4	69.7	62.0	64.6	65.3
September	59.3	50.2	46.0	57.0	55.9	55.7	61.6	66.3	58.8	64.3	65.1
October	70.2	59.4	61.7	58.4	57.6	69.0	66.8	71.8	84.7	83.2	70.7
November	68.6	51.9	54.6	47.0	53.8	54.3	66.4	58.6	74.2	68.4	67.8
December	46.2	38.5	41.8	40.9	39.0	39.1	47.0	46.2	57.8	49.9	—
Annual Occupancy	**66.3 %**	**59.4 %**	**55.3 %**	**58.3 %**	**62.1 %**	**62.2 %**	**61.8 %**	**66.3 %**	**65.3 %**	**67.2 %**	**—**
Year-to-Date	**68.1 %**	**61.9 %**	**56.5 %**	**59.9 %**	**64.3 %**	**64.3 %**	**63.2 %**	**68.2 %**	**66.0 %**	**68.8 %**	**65.9 %**

Source: STR

FIGURE 5-6 MONTHLY AVERAGE RATE TRENDS

Month	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
January	$75.48	$79.09	$73.72	$71.39	$71.04	$73.35	$72.69	$72.50	$75.97	$83.55	$82.95
February	77.26	77.80	76.10	71.72	72.32	70.37	76.43	76.40	80.90	86.78	85.17
March	79.51	78.77	75.89	72.92	73.92	74.01	79.72	80.76	85.84	88.65	90.16
April	82.21	83.41	78.98	74.50	76.27	76.97	84.80	86.84	92.57	97.13	98.53
May	80.82	77.59	76.95	74.62	75.14	73.77	79.58	79.81	84.73	88.03	89.29
June	80.26	78.38	77.54	73.17	73.66	74.43	78.21	81.27	83.82	86.33	86.77
July	79.37	80.27	76.90	74.18	75.57	75.00	78.61	81.00	84.02	86.57	87.60
August	78.99	80.90	75.81	74.87	74.08	81.46	77.58	81.28	85.06	86.88	95.43
September	77.19	80.45	74.10	75.11	75.08	80.11	73.92	83.83	87.20	89.61	94.17
October	78.79	80.67	73.82	75.81	71.74	79.20	77.79	81.65	91.15	98.97	92.47
November	77.01	78.52	72.46	73.60	71.06	75.94	77.67	80.37	92.32	89.15	88.39
December	75.77	78.24	68.35	69.01	70.76	72.31	73.04	76.94	81.14	79.78	—
Annual Average Rate	**$78.79**	**$79.55**	**$75.35**	**$73.60**	**$73.64**	**$75.77**	**$77.89**	**$80.63**	**$85.92**	**$89.00**	**—**
Year-to-Date	**$78.98**	**$79.64**	**$75.83**	**$73.90**	**$73.81**	**$75.97**	**$78.22**	**$80.87**	**$86.31**	**$89.62**	**$90.36**

Source: STR

FIGURE 5-7 SEASONALITY

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
High Season - March, April, June, July, October											
Occupancy	73.3 %	67.3 %	63.5 %	66.7 %	69.9 %	71.7 %	68.5 %	74.5 %	71.7 %	74.4 %	70.5 %
Average Rate	$80.08	$80.28	$76.67	$74.08	$74.38	$75.89	$79.93	$82.33	$87.72	$91.88	$91.20
RevPAR	58.73	54.01	48.68	49.40	52.02	54.43	54.77	61.29	62.86	68.40	64.30
Shoulder Season - February, May, August, September, November											
Occupancy	65.0 %	59.6 %	53.5 %	56.7 %	62.4 %	61.6 %	62.0 %	66.2 %	63.8 %	65.6 %	63.9 %
Average Rate	$78.36	$79.01	$75.11	$74.06	$73.57	$76.42	$77.07	$80.41	$86.33	$88.09	$90.67
RevPAR	50.96	47.07	40.17	42.01	45.91	47.11	47.80	53.25	55.07	57.75	57.98
Low Season - January, December											
Occupancy	51.8 %	42.2 %	39.2 %	41.2 %	42.1 %	40.0 %	44.6 %	46.5 %	53.6 %	53.5 %	52.7 %
Average Rate	$75.61	$78.65	$70.85	$70.21	$70.91	$72.84	$72.87	$74.71	$78.76	$81.79	$82.95
RevPAR	39.15	33.21	27.79	28.92	29.82	29.14	32.49	34.76	42.18	43.73	43.72

Source: Smith Travel Research

The illustrated monthly occupancy and average rates patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate. The competitive market is characterized by a moderate degree of seasonality, which is evident in the monthly occupancy statistics. The strongest occupancy levels are recorded in the March, April, June, July, and October, when demand from leisure travelers supplements the commercial segment. The weakest periods of demand in January and December are also supported by snowbirds traveling south, which helps to support occupancy levels; however, ADR is notably lower in the low season.

Patterns of Demand

A review of the trends in occupancy and average rate by day of the week provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by STR, are illustrated in the following table(s).

FIGURE 5-8 OCCUPANCY BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Dec - 16	33.3 %	48.7 %	54.8 %	58.5 %	51.4 %	49.0 %	52.9 %	49.9 %
Jan - 17	35.6	49.6	66.3	66.1	51.9	52.2	48.9	52.7
Feb - 17	35.0	48.9	68.9	75.9	60.3	66.3	62.7	59.7
Mar - 17	43.9	59.6	76.2	78.8	73.0	88.1	83.2	72.6
Apr - 17	48.5	68.0	81.5	85.7	70.5	83.1	80.4	73.3
May - 17	38.9	50.4	65.9	67.3	64.6	74.0	69.6	61.5
Jun - 17	42.2	55.6	70.8	70.7	65.4	78.3	76.3	66.0
Jul - 17	45.9	59.1	73.0	84.7	70.9	77.2	83.0	69.8
Aug - 17	49.3	60.6	76.6	77.3	57.2	65.9	66.7	65.3
Sep - 17	51.5	54.0	66.0	71.1	66.9	66.8	76.3	65.1
Oct - 17	42.1	56.5	80.8	85.6	75.0	78.6	84.6	70.7
Nov - 17	36.3	59.2	74.5	79.4	70.2	76.1	75.7	67.8
Average	**42.0 %**	**55.7 %**	**71.4 %**	**75.1 %**	**64.7 %**	**71.2 %**	**71.8 %**	**64.6 %**

Source: STR

FIGURE 5-9 AVERAGE RATE BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Dec - 16	$77.69	$78.91	$83.16	$82.39	$79.60	$77.39	$78.74	$79.78
Jan - 17	79.04	81.54	88.20	87.47	81.21	79.36	78.98	82.95
Feb - 17	80.46	82.25	90.68	91.48	82.88	82.34	81.56	85.17
Mar - 17	81.40	84.31	94.36	94.75	89.23	92.23	87.99	90.16
Apr - 17	87.45	95.83	103.16	101.20	97.24	102.89	98.32	98.53
May - 17	79.52	81.12	88.73	89.56	90.33	96.16	94.23	89.29
Jun - 17	78.11	84.44	91.23	89.39	83.31	88.76	87.82	86.77
Jul - 17	79.34	83.51	91.52	93.38	84.98	89.47	88.01	87.60
Aug - 17	113.73	103.48	95.08	94.73	85.77	88.95	92.89	95.43
Sep - 17	92.20	95.69	93.60	94.56	90.06	94.25	97.31	94.17
Oct - 17	77.62	81.79	92.89	95.07	88.24	100.40	103.85	92.47
Nov - 17	76.02	83.13	86.89	89.86	84.15	95.18	96.07	88.39
Average	**$84.21**	**$86.41**	**$91.95**	**$92.39**	**$86.57**	**$91.37**	**$91.39**	**$89.66**

Source: STR

FIGURE 5-10 OCCUPANCY, AVERAGE RATE, AND REVPAR BY DAY OF WEEK (MULTIPLE YEARS)

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Dec 14 - Nov 15	42.9 %	53.9 %	70.6 %	75.3 %	64.2 %	72.6 %	71.2 %	64.4 %
Dec 15 - Nov 16	45.0	58.8	76.6	79.3	67.4	73.5	74.2	67.9
Dec 16 - Nov 17	42.0	55.7	71.4	75.1	64.7	71.2	71.8	64.6
Change (Occupancy Points)								
FY 15 - FY 16	2.0	4.9	6.1	4.1	3.2	0.9	3.0	3.5
FY 16 - FY 17	(3.0)	(3.1)	(5.3)	(4.2)	(2.7)	(2.3)	(2.4)	(3.3)

ADR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Dec 14 - Nov 15	$80.84	$84.09	$87.38	$87.54	$84.45	$86.70	$86.57	$85.73
Dec 15 - Nov 16	82.85	85.54	91.12	91.50	87.83	90.70	89.92	89.01
Dec 16 - Nov 17	84.21	86.41	91.95	92.39	86.57	91.37	91.39	89.66
Change (Dollars)								
FY 15 - FY 16	$2.01	$1.45	$3.73	$3.96	$3.37	$4.00	$3.35	$3.27
FY 16 - FY 17	1.36	0.87	0.83	0.89	(1.26)	0.67	1.47	0.66
Change (Percent)								
FY 15 - FY 16	2.5 %	1.7 %	4.3 %	4.5 %	4.0 %	4.6 %	3.9 %	3.8 %
FY 16 - FY 17	1.6	1.0	0.9	1.0	(1.4)	0.7	1.6	0.7

RevPAR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Dec 14 - Nov 15	$34.71	$45.33	$61.67	$65.89	$54.23	$62.93	$61.68	$55.18
Dec 15 - Nov 16	37.24	50.32	69.83	72.60	59.17	66.67	66.77	60.43
Dec 16 - Nov 17	35.34	48.15	65.61	69.41	55.97	65.10	65.62	57.88
Change (Dollars)								
FY 15 - FY 16	$2.54	$4.98	$8.16	$6.70	$4.94	$3.74	$5.09	$5.25
FY 16 - FY 17	(1.90)	(2.17)	(4.22)	(3.18)	(3.20)	(1.57)	(1.14)	(2.55)
Change (Percent)								
FY 15 - FY 16	7.3 %	11.0 %	13.2 %	10.2 %	9.1 %	5.9 %	8.2 %	9.5 %
FY 16 - FY 17	(5.1)	(4.3)	(6.0)	(4.4)	(5.4)	(2.4)	(1.7)	(4.2)

Source: STR

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights.

SUPPLY

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are considered primarily competitive with the subject property. If applicable, additional lodging facilities may be judged only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primary competitive supply, they do compete with the subject property to some extent.

Primary Competitors

The following table summarizes the important operating characteristics of the primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, online resources, and our in-house database of operating and hotel facility data.

FIGURE 5-11 PRIMARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2016				Estimated 2017					
Property	Number of Rooms	Commercial	Leisure	Group	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
[redacted]	75	50 %	35 %	15 %	75	73.2 %	$97.63	$71.45	75	82.2 %	$86.08	$70.76	124.8 %	120.5 %
Holiday Inn Express Blythewood	88	55	30	15	88	70 - 75	95 - 100	65 - 70	88	70 - 75	95 - 100	65 - 70	100 - 110	110 - 120
Comfort Suites Columbia	77	50	35	15	77	70 - 75	85 - 90	60 - 65	77	65 - 70	90 - 95	65 - 70	100 - 110	110 - 120
Best Western Plus Columbia North East	108	65	25	10	108	60 - 65	85 - 90	50 - 55	108	60 - 65	85 - 90	50 - 55	90 - 95	85 - 90
La Quinta Inn & Suites Columbia Northeast Fort Jackson	99	65	30	5	99	55 - 60	75 - 80	45 - 50	99	55 - 60	75 - 80	40 - 45	85 - 90	70 - 75
Sub-Totals/Averages	**447**	**57 %**	**31 %**	**12 %**	**447**	**66.7 %**	**$88.63**	**$59.10**	**447**	**67.6 %**	**$88.01**	**$59.53**	**102.7 %**	**101.4 %**
Secondary Competitors	337	57 %	31 %	12 %	221	67.9 %	$90.31	$61.31	221	62.3 %	$91.52	$57.06	94.6 %	97.2 %
Totals/Averages	**784**	**57 %**	**31 %**	**12 %**	**668**	**67.1 %**	**$89.19**	**$59.83**	**668**	**65.9 %**	**$89.11**	**$58.71**	**100.0 %**	**100.0 %**

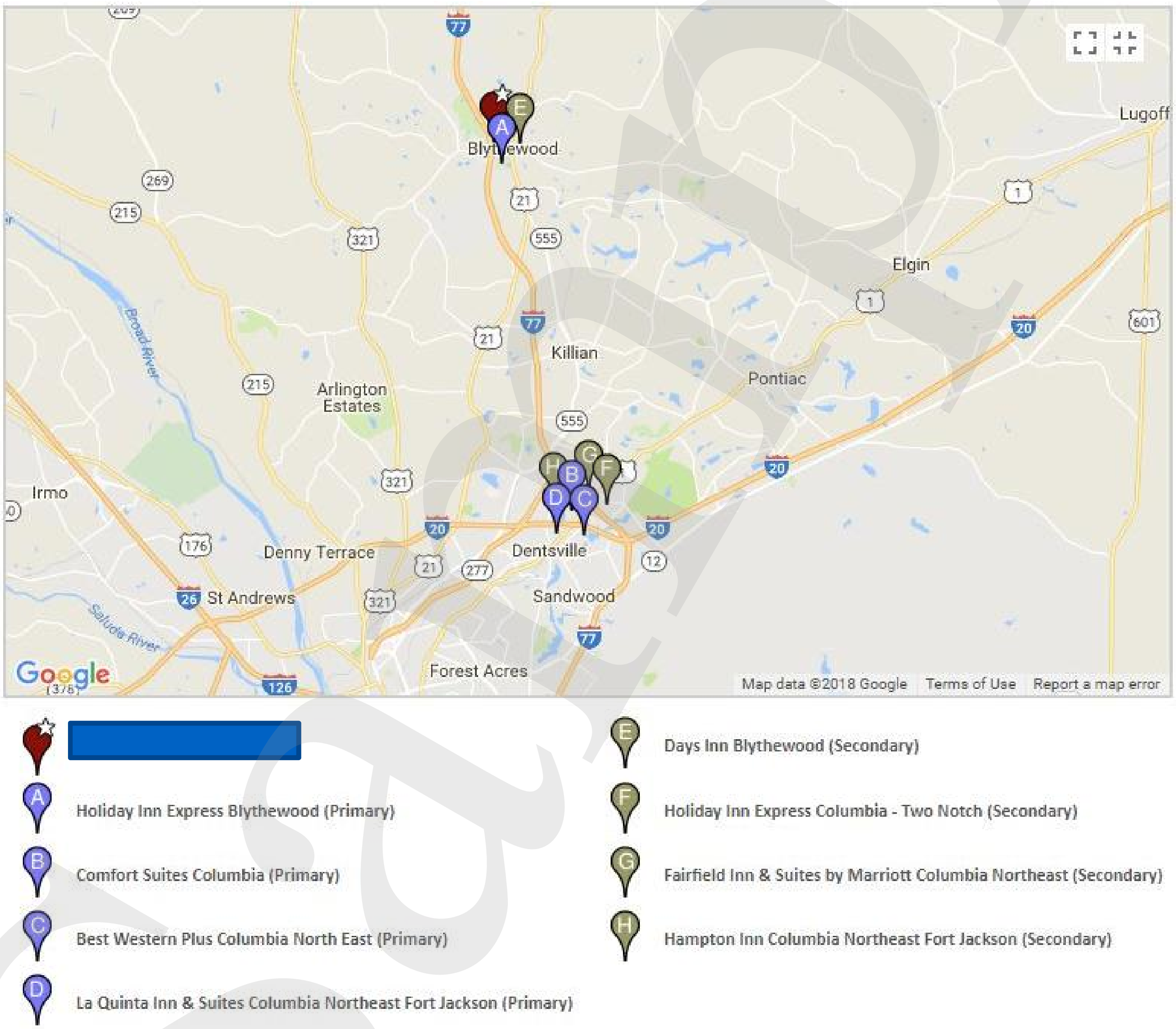
** Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.*

FIGURE 5-12 PRIMARY COMPETITORS – FACILITY SUMMARY

Property	Number of Rooms	Year Opened	Approx. Miles To Subject Property	Food and Beverage Outlets	Indoor Meeting Space (SF)	Meeting Space per Room	Facilities & Amenities
[redacted]	75	1999	—	Breakfast Dining Area	750	10.0	Outdoor Swimming Pool, Fitness Room, Lobby Workstation, Market Pantry, Guest Laundry Area, Outdoor Patio & Barbecue Area,
Holiday Inn Express Blythewood 120 Creech Road	88	1999	1.4	Breakfast Dining Area	850	9.7	Lobby Workstation; Guest Laundry Area; Outdoor Swimming Pool; Fitness Center
Comfort Suites Columbia 1540 Daulton Drive	77	2008	9.5	Breakfast Dining Area	360	4.7	Guest Laundry Area; Indoor Swimming Pool; Fitness Room; Lobby Workstation; Market Pantry
Best Western Plus Columbia North East 7525 Two Notch Road	108	1986	9.8	Breakfast Dining Area	1,000	9.3	Guest Laundry; Outdoor Swimming Pool; Fitness Center
La Quinta Inn & Suites Columbia Northeast Fort Jackson 1538 Horseshoe Drive	99	1986	9.8	Breakfast Dining Area	0	—	Outdoor Swimming Pool; Fitness Room; Lobby Workstation

The following map illustrates the locations of the subject property and its competitors.

MAP OF COMPETITION



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

HVS

PRIMARY COMPETITOR #1 - HOLIDAY INN EXPRESS KILLIAN

Holiday Inn Express Killian
120 Creech Road
Killian, SC

FIGURE 5-13 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2013	88	60 - 65 %	\$80 - \$85	\$50 - \$55	95 - 100 %	100 - 110 %
Est. 2014	88	65 - 70	85 - 90	55 - 60	100 - 110	110 - 120
Est. 2015	88	65 - 70	95 - 100	60 - 65	100 - 110	110 - 120
Est. 2016	88	70 - 75	95 - 100	65 - 70	100 - 110	110 - 120
Est. 2017	88	70 - 75	95 - 100	65 - 70	100 - 110	110 - 120

This hotel is somewhat disadvantaged by its set-back location and lack of recent renovations; however, a full "Formula Blue" renovation is expected to begin in March 2018. Overall, the property appeared to be in fair condition, inferior to the subject property's condition. Its accessibility is inferior to that of the subject hotel, and its visibility is inferior to the Carolinas Inn.

PRIMARY COMPETITOR #2 - COMFORT SUITES COLUMBIA

Comfort Suites Columbia
1540 Daulton Drive
Columbia, SC

FIGURE 5-14 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2013	77	60 - 65 %	\$80 - \$85	\$50 - \$55	95 - 100 %	100 - 110 %
Est. 2014	77	65 - 70	85 - 90	55 - 60	100 - 110	110 - 120
Est. 2015	77	70 - 75	85 - 90	60 - 65	110 - 120	110 - 120
Est. 2016	77	70 - 75	85 - 90	60 - 65	100 - 110	100 - 110
Est. 2017	77	65 - 70	90 - 95	65 - 70	100 - 110	110 - 120

This hotel benefits from its 2008 construction and suite product offering, but is not directly visible from an interstate. Overall, the property appeared to be in good condition, similar to the subject property's condition. Its accessibility is inferior to that of the subject hotel, and its visibility is inferior to the Carolinas Inn.

PRIMARY COMPETITOR #3 - BEST WESTERN PLUS COLUMBIA NORTH EAST

Best Western Plus Columbia North East
7525 Two Notch Road
Columbia, SC

FIGURE 5-15 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2013	108	50 - 55 %	\$75 - \$80	\$40 - \$45	85 - 90 %	85 - 90 %
Est. 2014	108	55 - 60	75 - 80	45 - 50	90 - 95	85 - 90
Est. 2015	108	55 - 60	85 - 90	45 - 50	85 - 90	85 - 90
Est. 2016	108	60 - 65	85 - 90	50 - 55	85 - 90	85 - 90
Est. 2017	108	60 - 65	85 - 90	50 - 55	90 - 95	85 - 90

This hotel benefits from its 2012 renovation and frontage along Two Notch Road, as well as available truck parking. Overall, the property appeared to be in very good condition, superior to the subject property's condition. Its accessibility is similar to that of the subject hotel, and its visibility is inferior to the Carolinas Inn.

PRIMARY COMPETITOR #4 - LA QUINTA INN & SUITES COLUMBIA NORTHEAST FORT JACKSON

La Quinta Inn & Suites Columbia Northeast Fort Jackson
1538 Horseshoe Drive
Columbia, SC

FIGURE 5-16 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2013	99	60 - 65 %	\$60 - \$65	\$35 - \$40	95 - 100 %	75 - 80 %
Est. 2014	99	60 - 65	65 - 70	40 - 45	95 - 100	75 - 80
Est. 2015	99	55 - 60	65 - 70	35 - 40	85 - 90	65 - 70
Est. 2016	99	55 - 60	75 - 80	45 - 50	85 - 90	70 - 75
Est. 2017	99	55 - 60	75 - 80	40 - 45	85 - 90	70 - 75

This hotel is somewhat disadvantaged by its dated exterior design and lack of recent renovations. However, the hotel benefits from its visibility from Interstate 26. Overall, the property appeared to be in fair condition, inferior to the subject property's condition. Its accessibility is similar to that of the subject hotel, and its visibility is similar to the Carolinas Inn.

Secondary Competitors

We have also reviewed other area lodging facilities to determine whether any may compete with the subject property on a secondary basis. The room count of each secondary competitor has been weighted based on its assumed degree of competitiveness with the subject property. By assigning degrees of competitiveness, we can assess how the subject property and its competitors may react to various changes in the market, including new supply, changes to demand generators, and renovations or franchise changes of existing supply. The following table sets forth the pertinent operating characteristics of the secondary competitors.

FIGURE 5-17 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation: Commercial	Leisure	Group	Total Competitive Level	Estimated 2016: Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Estimated 2017: Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Days Inn Blythewood	48	30 %	60 %	10 %	70 %	34	55 - 60 %	$75 - $80	$40 - $45	34	55 - 60 %	$75 - $80	$40 - $45
Holiday Inn Express Columbia - Two Notch	83	60	30	10	65	54	55 - 60	85 - 90	50 - 55	54	40 - 45	90 - 95	35 - 40
Fairfield Inn & Suites by Marriott Columbia Northeast	96	65	25	10	65	62	70 - 75	95 - 100	65 - 70	62	65 - 70	95 - 100	65 - 70
Hampton Inn Columbia Northeast Fort Jackson	110	60	25	15	65	72	75 - 80	90 - 95	70 - 75	72	70 - 75	90 - 95	65 - 70
Totals/Averages	**337**	**57 %**	**31 %**	**12 %**	**66 %**	**221**	**67.9 %**	**$90.31**	**$61.31**	**221**	**62.3 %**	**$91.52**	**$57.06**

** Specific occupancy and average rate data was utilized in our analysis, but is presented in ranges in the above table for the purposes of confidentiality.*

We have identified four hotels that compete with the subject property on a secondary level. The Days Inn Killian is competitive based on its proximity and location within Killian; however, this hotel is an exterior-corridor design that operates at a lower price point. The Holiday Inn Express Columbia - Two Notch, Fairfield Inn & Suites by Marriott Columbia Northeast, and Hampton Inn Columbia Northeast Fort Jackson are similar limited-service hotels, but are located outside the primary Killian area and operate at a higher price point.

Supply Changes

It is important to consider any new hotels that may have an impact on the subject property's operating performance. We have identified the following new supply that is expected to have some degree of competitive interaction with the subject hotel, based on their location, anticipated market orientation and price point, and/or operating profile.

FIGURE 5-18 NEW SUPPLY

Proposed Property	Number of Rooms	Property Type	Address/Location	Total Competitive Level	Weighted Room Count	Estimated Opening Date	Developer	Development Stage
Hampton Inn & Suites	108	Limited-Service	1310 Roberts Branch Pkwy, Columbia, SC 29203	100 %	108	July 1, 2018	SpringBridge Development LLC	Under Construction
Totals/Averages	108				108			

A Hampton Inn & Suites is under construction on a site located approximately five miles south of the subject property in a mixed-use development known as Killian's Crossing. This site is located between the subject property in Killian and the competitors located in northeast Columbia. Therefore, this hotel has been weighted as fully competitive new supply in our analysis. Additionally, a hotel is reportedly proposed of Killian; however, no application has been submitted to the Town of Killian. Therefore, it has only been considered qualitatively in our positioning of the subject hotel's stabilized occupancy level.

While we have taken reasonable steps to investigate proposed hotel projects and their status, because of 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 future operating potential of the subject property may be affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and average rate is intended to reflect such risk.

Supply Conclusion

We have identified various properties that are competitive to some degree with the subject property. We have also investigated potential increases in competitive supply in this Killian submarket. The Carolinas Inn will continue to operate in a dynamic market of varying product types and price points. Next, we will present our forecast for demand change, using the historical supply data presented as a starting point.

DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the subject and competitors discussed previously in this section; performance results are estimated, rounded for the competition, and in some cases weighted if there are secondary competitors present. In this respect, the information in the table differs from the previously presented STR data and is consistent with the supply and demand analysis developed for this appraisal.

FIGURE 5-19 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2013	150,404	—	244,222	—	61.6 %	$77.16	—	$47.52	—
Est. 2014	160,013	6.4 %	244,222	0.0 %	65.5	80.48	4.3 %	52.73	11.0 %
Est. 2015	158,460	(1.0)	243,984	(0.1)	64.9	84.59	5.1	54.94	4.2
Est. 2016	163,676	3.3	243,984	0.0	67.1	89.19	5.4	59.83	8.9
Est. 2017	160,741	(1.8)	243,984	0.0	65.9	89.11	(0.1)	58.71	(1.9)
Avg. Annual Compounded Chg., Est. 2013-Est. 2017:		1.7 %		(0.0) %			3.7 %		5.4 %

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. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2017 distribution of accommodated-room-night demand as follows.

FIGURE 5-20 ACCOMMODATED ROOM-NIGHT DEMAND

	Marketwide		Subject Property	
Market Segment	Accommodated Demand	Percentage of Total	Accommodated Demand	Percentage of Total
Commercial	92,092	57 %	11,252	50 %
Leisure	49,426	31	7,876	35
Group	19,223	12	3,375	15
Total	**160,741**	**100 %**	**22,503**	**100 %**

The market's demand mix comprises commercial demand, with this segment representing roughly 57% of the accommodated room nights in this Killian submarket. The remaining portion comprises leisure at 31%, with the final portion group in nature, reflecting 12%.

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

Commercial Segment

Commercial demand consists mainly of individual businesspeople passing through the subject market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as "preferred" accommodations in return for more favorable rates, which are discounted in proportion to the number of room nights produced by a commercial client. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

A significant factor considered in the development of our growth rates is the presence of major manufacturing, distribution, healthcare, contact center, and insurance companies throughout Northeast Columbia and Killian. The expansion and entrance of companies such as LuLaRoe, Charter NEX, Trane, and RightDose bode well for the immediate market area, while growth throughout Columbia will generate demand for the overall market and help to absorb the new supply in the greater area. The University of South Carolina, surrounding schools, and area medical complexes provide room nights, as well. In this market, the commercial segment also comprises some government demand. Government demand originates from Fort Jackson, largely associated with training, graduation, and other events, as well as the local and state government. Given the strengthening economic conditions and recent announcements, we forecast growth within this demand segment to continue throughout the projection period.

Leisure Segment

Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites such as Expedia, Hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest Friday and Saturday nights, and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. 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 correlate strongly with leisure travel levels.

Leisure demand in the area is generated in part by the University of South Carolina and the many events held at the local entertainment venues. Sporting events at the area high schools and at OneWood Farm generate demand in the immediate area. Furthermore, passing motorists along Interstate 77 generate significant demand, especially during the summer and when "snowbirds" travel south to Florida for the winter. Columbia is also popular within the region for its notable historic and cultural attractions such as the State Capitol Building, the South Carolina State Museum, the historic canal, the Congaree Historic Vista District, and the Columbia Museum of Art. Family friendly attractions such as the Riverbanks Zoo and Riverbanks Botanical Garden also generate demand. Finally, major events such as football and basketball games at University of South Carolina (USC), the Masters Tournament in Augusta, and other events in the regional generate overflow demand.

Group Segment

In the limited-service sector, group demand is most commonly generated by groups that require ten or more room nights, but need little to no meeting space within the hotel. Examples of these groups include family reunions, sports teams, and bus tours. In some markets, limited-service hotels may also accommodate demand from groups or individuals attending events at the local convention center or at one of the larger convention hotels in the area.

Group demand in this market is generated by numerous college and youth sporting events in the area. High school and sporting events generate demand year round, as well as larger college events at USC. Furthermore, demand is generated by associations, as well as locally and regionally based corporate entities. SMERFE groups and social events, such as weddings and family reunions, also contribute to this demand segment. We expect growth to occur within this segment through the stabilized year.

Base Demand Growth Rates

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, three 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 annual growth rates for each demand segment.

FIGURE 5-21 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

Market Segment	Annual Growth Rate				
	2018	2019	2020	2021	2022
Commercial	7.0 %	6.0 %	3.0 %	1.0 %	0.0 %
Leisure	4.0	3.5	1.5	0.5	0.0
Group	6.0	5.0	2.5	1.0	0.0
Base Demand Growth	**6.0 %**	**5.1 %**	**2.5 %**	**0.9 %**	**0.0 %**

Accommodated Demand and Market-wide Occupancy

Based upon a review of the market dynamics in the subject property's competitive environment, we have forecast growth rates for each market segment. Using the calculated potential demand for the market, we have determined market-wide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area. The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.

HVS

FIGURE 5-22 ACCOMMODATED DEMAND

	2017	2018	2019	2020	2021	2022
Commercial						
Total Demand		98,538	104,451	107,584	108,660	108,660
Growth Rate		7.0 %	6.0 %	3.0 %	1.0 %	0.0 %
Leisure						
Total Demand		51,404	53,203	54,001	54,271	54,271
Growth Rate		4.0 %	3.5 %	1.5 %	0.5 %	0.0 %
Group						
Total Demand		20,376	21,395	21,930	22,149	22,149
Growth Rate		6.0 %	5.0 %	2.5 %	1.0 %	0.0 %
Totals						
Base Demand	160,741	170,318	179,048	183,515	185,080	185,080
Overall Demand Growth		6.0 %	5.1 %	2.5 %	0.9 %	0.0 %
Market Mix						
Commercial	57.3 %	57.9 %	58.3 %	58.6 %	58.7 %	58.7 %
Leisure	30.7	30.2	29.7	29.4	29.3	29.3
Group	12.0	12.0	11.9	11.9	12.0	12.0
Existing Hotel Supply	668	668	668	668	668	668
Proposed Hotels						
Hampton Inn & Suites [1]		54	108	108	108	108
Available Room Nights per Year	243,984	263,856	283,404	283,404	283,404	283,404
Nights per Year	365	365	365	365	365	365
Total Supply	668	723	776	776	776	776
Rooms Supply Growth	—	8.1 %	7.4 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	**65.9 %**	**64.5 %**	**63.2 %**	**64.8 %**	**65.3 %**	**65.3 %**

[1] Opening in July 2018 of the 100% competitive, 108-room Hampton Inn & Suites

The defined competitive market of hotels should experience modest decline in occupancy over the next few years as the Hampton Inn is absorbed into the market. Significant corporate expansions and projects in the region should support a quick absorption of the additional room nights. Based on historical occupancy levels in this market, and taking into consideration typical supply and demand cyclicality, market occupancy is forecast to stabilize in the mid-60s.

6. Projection of Occupancy and Average Rate

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, other operated departments, and miscellaneous income) are driven by the number of guests, and many expense levels vary with occupancy. 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 typical, professional 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 results. For the purpose of comparison, we have presented corresponding data (as provided by STR) for the competitive hotels described in the previous section. In addition to the annual percent change calculations, we have determined the subject property's occupancy, average rate, and RevPAR penetration rates.

HVS

FIGURE 6-1 HISTORICAL TRENDS

	2012	2013	2014	2015	2016	November 2016	November 2017
Comfort Inn Blythewood							
Occupancy	68.2 %	68.4 %	58.6 %	68.5 %	73.2 %	73.0 %	83.0 %
Change	—	0.3 %	(14.3) %	16.8 %	6.8 %	—	13.7 %
Occupancy Penetration	109.6 %	110.7 %	88.4 %	104.8 %	108.9 %	106.1 %	125.9 %
Average Rate	$75.55	$74.75	$82.58	$85.82	$97.63	$94.98	$86.58
Change	—	(1.1) %	10.5 %	3.9 %	13.8 %	—	(8.8) %
Average Rate Penetration	99.7 %	96.0 %	102.4 %	99.9 %	109.7 %	106.0 %	95.8 %
RevPAR	$51.52	$51.13	$48.42	$58.79	$71.45	$69.34	$71.86
Change	—	(0.8) %	(5.3) %	21.4 %	21.5 %	—	3.6 %
RevPAR Penetration	109.3 %	106.2 %	90.5 %	104.7 %	119.4 %	112.4 %	120.7 %

	2012	2013	2014	2015	2016	Year-to-Date Through November 2016	Year-to-Date Through November 2017
Competitive Set							
Occupancy	62.2 %	61.8 %	66.3 %	65.3 %	67.2 %	68.8 %	65.9 %
Change	0.1 %	(0.7) %	7.4 %	(1.5) %	2.9 %	—	(4.2) %
Average Rate	$75.77	$77.89	$80.63	$85.92	$89.00	$89.62	$90.36
Change	2.9 %	2.8 %	3.5 %	6.6 %	3.6 %	—	0.8 %
RevPAR	$47.13	$48.12	$53.48	$56.14	$59.83	$61.69	$59.55
Change	3.0 %	2.1 %	11.1 %	5.0 %	6.6 %	—	(3.5) %

Source: STR

The Carolinas Inn experienced a 4.7-point occupancy change in 2016, increasing from 68.5% in 2015 to 73.2% in 2016. As a result of this change, occupancy penetration relative to the STR set of reporting hotels equaled 108.9% in 2016. Average rate penetration for the Carolinas Inn equated to 109.7% in 2016, contributing to the overall RevPAR penetration level of 119.4% in the same year. During the year-to-date period occupancy penetration increased further, while average rate penetration declined.

The subject hotel's occupancy remained relatively steady in 2012 and 2013, before falling in 2014. Occupancy then improved dramatically in 2015 and 2016 as the hotel's absentee owner increased their involvement in the daily operations of the property and removed the previous hotel manager. Additionally, the renovation of the hotel completed between 2014 and 2015 helped to increase management's ability to capture demand at the subject hotel. Recent data illustrate a continuation of this trend as occupancy continues to improve. Management has reportedly worked to fill rooms in the offseason at lower rates, which has supported significant increase in occupancy penetration during the 2017 year-to-date period. Overall, occupancy penetration has fluctuated from near 110% in 2012 and 2013 to a low of 88% during the renovation period in 2014. This penetration measure has increased year-over-year from 2015 through 2017.

Average rate at the subject hotel increased from 2014 through 2016, with penetration fluctuating from the mid-90s in 2013 to nearly 110% in 2016. The improving marketing conditions in and around Columbia, as well as the renovations of the subject property in 2014/15 have largely attributed to this positive trend. However, year-to-date data show a decline in average rate. According to management and ownership, this is part of the management strategy to improve occupancy at the subject hotel, especially during weaker periods of demand. Despite the average rate loss, RevPAR has increased at the subject property during the year-to-date comparative period.

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive position 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.

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competitors are set forth for each segment for the base year, 2017 .

FIGURE 6-2 HISTORICAL PENETRATION RATES

Property	Commercial	Leisure	Group	Overall
[redacted]	109 %	142 %	157 %	125 %
Holiday Inn Express Blythewood	103	105	135	108
Comfort Suites Columbia	93	121	133	106
Best Western Plus Columbia North East	105	75	77	93
La Quinta Inn & Suites Columbia Northeast Fort Jackson	102	87	37	90
Secondary Competition	95	94	94	95

As a result of its varying levels of penetration among the three market demand segments, the Carolinas Inn achieved an overall penetration rate of 125% in 2017 . Overall, the subject property's occupancy penetration level was ranked first among the illustrated averages. The subject property achieved its highest segment penetration rate in the group segment, at 157%, due to the hotel's popularity with groups requiring blocks of ten rooms or more. The subject property achieved the highest penetration rate among all segments.

Forecast of Subject Property's Occupancy

Because the supply and demand balance for the competitive market is dynamic, 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 a poorly maintained or 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 account for these types of adjustments 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 penetration factors delineated in the previous table.

The subject hotel is anticipated to maintain its current market mix, focusing on commercial users and highway travelers. The entrance of new supply, as well as an expected focus on regaining some of the lost average rate, is expected to result in a moderate decline in the subject property's occupancy penetration, particularly as discounted leisure rooms are reduced.

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.

FIGURE 6-3 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2017	2018	2019	2020	2021	2022
Commercial						
Demand	92,092	98,538	104,451	107,584	108,660	108,660
Market Share	12.2 %	11.1 %	10.0 %	10.0 %	10.0 %	10.0 %
Capture	11,252	10,924	10,469	10,727	10,834	10,834
Penetration	109 %	107 %	104 %	103 %	103 %	103 %
Leisure						
Demand	49,426	51,404	53,203	54,001	54,271	54,271
Market Share	15.9 %	14.4 %	13.0 %	12.4 %	12.4 %	12.4 %
Capture	7,876	7,410	6,907	6,704	6,738	6,738
Penetration	142 %	139 %	134 %	129 %	129 %	129 %
Group						
Demand	19,223	20,376	21,395	21,930	22,149	22,149
Market Share	17.6 %	16.1 %	14.7 %	14.2 %	14.2 %	14.2 %
Capture	3,375	3,283	3,153	3,122	3,154	3,154
Penetration	157 %	155 %	153 %	147 %	147 %	147 %
Total Room Nights Captured	**22,503**	**21,617**	**20,530**	**20,553**	**20,725**	**20,725**
Available Room Nights	27,375	27,375	27,375	27,375	27,375	27,375
Subject Occupancy	**82 %**	**79 %**	**75 %**	**75 %**	**76 %**	**76 %**
Market-wide Available Room Nights	243,984	263,856	283,404	283,404	283,404	283,404
Fair Share	**11 %**	**10 %**	**10 %**	**10 %**	**10 %**	**10 %**
Market-wide Occupied Room Nights	160,741	170,318	179,048	183,515	185,080	185,080
Market Share	**14 %**	**13 %**	**11 %**	**11 %**	**11 %**	**11 %**
Market-wide Occupancy	**66 %**	**65 %**	**63 %**	**65 %**	**65 %**	**65 %**
Total Penetration	**125 %**	**122 %**	**119 %**	**116 %**	**116 %**	**116 %**

The subject hotel's occupancy penetration in the first projection year is forecast to decline because of the entrance of new supply. Furthermore, we expect that prudent management would reduce discounted rooms in order to regain some of the lost average rate penetration from 2017. Thereafter, its occupancy penetration is forecast to stabilize near 116%, reflecting a decline over 2017 levels but remaining higher than levels achieved from 2012 through 2016.

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

FIGURE 6-4 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2017	2018	2019	2020	2021	2022
Commercial	50 %	51 %	51 %	52 %	52 %	52 %
Leisure	35	34	34	33	33	33
Group	15	15	15	15	15	15
Total	100 %	100 %	100 %	100 %	100 %	100 %

Based on our analysis of the subject property and market area, we have selected a stabilized occupancy level of 76% in 2021/22. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

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.

Competitive Position

Although the average rate analysis presented here follows the occupancy projection, 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 revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the historical average rate and the RevPAR of the subject property and its competitors.

FIGURE 6-5 BASE-YEAR AVERAGE RATE AND REVPAR OF THE SUBJECT AND ITS COMPETITORS

Property	Estimated 2017 Average Room Rate	Average Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
[redacted]	$86.08	96.6 %	$70.76	120.5 %
Holiday Inn Express Blythewood	95 - 100	100 - 110	65 - 70	110 - 120
Comfort Suites Columbia	90 - 95	100 - 110	65 - 70	110 - 120
Best Western Plus Columbia North East	85 - 90	95 - 100	50 - 55	85 - 90
La Quinta Inn & Suites Columbia Northeast Fort Jackson	75 - 80	80 - 85	40 - 45	70 - 75
Average - Subject & Primary Competitors	$88.01	98.8 %	$59.53	101.4 %
Average - Secondary Competitors	91.52	102.7	57.06	97.2
Overall Average	**$89.11**		**$58.71**	

The defined primarily competitive market realized an overall average rate of $88.01 in the 2017 base year, declining from the 2016 level of $88.63. The rate of change for this Killian area primary set was -0.7% between 2016 and 2017. The subject property's base-year rate position was $86.08. The Holiday Inn Express Killian achieved the highest estimated average rate in the local competitive market, by a modest margin, because of its upper-midscale product and IHG affiliation. The subject [Brand]'s historical rate reflects varying revenue management strategies. Going forward, we have increased the subject property's rate to a more appropriate level given the hotel's condition, upper-midscale product, and Choice Hotel affiliation.

Market-wide rates trend upward in 2012. We expect average rates to continue to increase because of major projects such as Killian Crossing, corporate expansions at LuLaRoe and Trane, strength of major entities including Fort Jackson and the University of South Carolina (USC), and growing base industries.

Based on these considerations, the following table illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied an underlying inflation rate of 2.5% in 2018/19, 2.5% in 2019/20, and 3.0% in 2020/21 and thereafter.

FIGURE 6-6 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Areawide (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	65.9 %	—	$89.11	82.0 %	—	$86.08	96.6 %
2018	64.5	3.5 %	92.23	79.0	4.5 %	89.95	97.5
2019	63.2	3.0	95.00	75.0	3.5	93.10	98.0
2020	64.8	3.0	97.85	75.0	3.5	96.36	98.5
2021	65.3	3.0	100.79	76.0	3.0	99.25	98.5
2022	65.3	3.0	103.81	76.0	3.0	102.23	98.5

As illustrated above, a 4.5% rate of change is expected for the subject property's room rate in 2018. As illustrated at the beginning of this chapter, the subject property's rate changed by -8.8% in the most recent historical period (through November 2017). This is followed by rates of 3.5% and 3.5% in 2019 and 2020, respectively. The subject hotel's room rate is anticipated to follow a trend similar to that of the market, increasing in the first projection year, albeit at a slightly faster pace as management is expected to focus on regaining lost average rate penetration. This trend is also expected to continue in 2019 and 2020. Overall, the average-rate penetration level is forecast to increase by the stabilized year, although still below 100% penetration. Anticipated future economic strength in this market should also support longer-term rate improvements for the subject hotel.

The following table provides a comparison of the historical performance and forecasts for the subject property and competitive set.

FIGURE 6-7 COMPARISON OF HISTORICAL AND PROJECTED OCCUPANCY, AVERAGE RATE, AND REVPAR – SUBJECT PROPERTY AND MARKET

	Historical					Projected					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Occupancy	68.4 %	58.6 %	68.5 %	73.2 %	82.2 %	79.0 %	75.0 %	75.1 %	75.7 %	75.7 %	75.7 %
Change in Points	—	(9.8)	9.9	4.7	9.0	(3.2)	(4.0)	0.1	0.6	0.0	0.0
Occupancy Penetration	111.1	89.5	105.5 %	109.1 %	124.8 %	122.3 %	118.7 %	115.9 %	115.9 %	115.9 %	115.9 %
Average Rate	$74.75	$82.58	$85.82	$97.63	$86.08	$89.95	$93.10	$96.36	$99.25	$102.23	$105.29
Change	—	10.5 %	3.9 %	13.8 %	(11.8) %	4.5 %	3.5 %	3.5 %	3.0 %	3.0 %	3.0 %
Average Rate Penetration	96.9	102.6	101.5 %	109.5 %	96.6 %	97.5 %	98.0 %	98.5 %	98.5 %	98.5 %	98.5 %
RevPAR	$51.13	$48.42	$58.79	$71.45	$70.76	$71.03	$69.82	$72.35	$75.14	$77.39	$79.72
Change	—	(5.3) %	21.4 %	21.5 %	(1.0) %	0.4 %	(1.7) %	3.6 %	3.9 %	3.0 %	3.0 %
RevPAR Penetration	107.6	91.8	107.0 %	119.4 %	120.5 %	119.3 %	116.3 %	114.2 %	114.2 %	114.2 %	114.2 %

	Historical (Estimated)					Projected					
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Occupancy	61.6 %	65.5 %	64.9 %	67.1 %	65.9 %	64.5 %	63.2 %	64.8 %	65.3 %	65.3 %	65.3 %
Change in Points	—	3.9	(0.6)	2.1	(1.2)	(1.3)	(1.4)	1.6	0.6	0.0	0.0
Average Rate	$77.16	$80.48	$84.59	$89.19	$89.11	$92.23	$95.00	$97.85	$100.79	$103.81	$106.92
Change	—	4.3 %	5.1 %	5.4 %	(0.1) %	3.5 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
RevPAR	$47.52	$52.73	$54.94	$59.83	$58.71	$59.54	$60.02	$63.36	$65.82	$67.79	$69.83
Change	—	11.0 %	4.2 %	8.9 %	(1.9) %	1.4 %	0.8 %	5.6 %	3.9 %	3.0 %	3.0 %

The following occupancies and average rates will be used to project the subject property's rooms revenue; this forecast begins on February 1, 2018, and corresponds with our financial projections.

FIGURE 6-8 FORECASTS OF OCCUPANCY, AVERAGE RATE, AND REVPAR

Year	Occupancy	Average Rate	RevPAR
2018/19	79 %	$90.22	$71.27
2019/20	75	93.38	70.03
2020/21	75	96.60	72.45
2021/22	76	99.50	75.62
2022/23	76	102.49	77.89

7. 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. USPAP requires that a property's highest and best use be analyzed. Only if the current improvements do not reflect the highest and best use of the property does the highest and best use of the site "as if" vacant need to be considered.

Highest and best use is defined as follows:

> The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.[11]

As If Vacant

The subject site enjoys a favorable location near a main arterial and is of an appropriate size to support any number of retail, office, or hospitality projects. Within the hotel sector, sustained demand and average rate growth have enhanced the potential for new development. Moreover, construction financing is available for select new projects, particularly those in healthy markets and with strong sponsorship. Similar trends have been exhibited within the office and mixed-use sectors. Therefore, commercial development such as a viable hotel product, office space, or a mixed-use project on the subject site would represent the highest and best use. Given the size of the site, the visibility from Interstate 77, the sloping topography, and set-back location from Killian Road, a limited-service hotel would likely represent the highest and best use of the land.

As Improved

The subject hotel represents a viable enterprise generating a positive EBITDA Less Replacement Reserve, which is improving in the current economic environment. Accordingly, the property is generating sufficient return to the land to continue to support its current use as a limited-service hotel. It is our opinion that the highest and best use of the subject property is its continued use as an operating hotel.

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[11] Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

8. Approaches to Value

In appraising real estate for market value, three approaches to value are considered: income capitalization, cost, and sales comparison. Basic summaries of each approach are provided as follows; please refer to the introduction of each respective chapter for additional description.

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, and the result is utilized in a direct capitalization technique and a discounted-cash-flow analysis. The income capitalization approach is often selected as the preferred valuation method for operating properties because it most closely reflects the investment rationale of knowledgeable buyers.

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 hotels, where the adjustments are numerous and more difficult to quantify, the sales comparison approach loses much of its reliability.

Cost Approach

The cost approach estimates market value by computing the cost of replacing the property and 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 for 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. Moreover, our experience with hotel investors shows that this group of buyers and sellers relies upon the methods of the income approach when making decisions; the cost approach generally does not play a significant role.

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.

9. Income Capitalization Approach

The income capitalization approach is based on the principle that the value of a property is indicated by its net return, 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 reversionary proceeds from a sale. These future benefits can be converted into an indication of market value through a capitalization process and discounted-cash-flow analysis.

Methodology

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 nonrecurring conditions that may result in unusual revenues or expenses. The stabilized year's net income is then extended into an eleven-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 eleven-year forecast of net income forms the basis of a mortgage-equity and discounted-cash-flow analysis, where ten years of net income and a reversion derived from the capitalized eleventh 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 period 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.

Because the value is unknown but the loan-to-value ratio and market rates of return can be estimated, the value is computed by way of a linear algebraic equation. 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, FRICS, ISHC, Senior Managing Director of the San Francisco office of HVS. A complete discussion of the technique is presented in her article entitled "Simultaneous Valuation: A New Technique."[12]

Review of Operating History

Because the subject property 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 current ownership. These statements were not prepared in accordance with the Uniform System of Accounts for the Lodging Industry (USALI). We have reclassified the individual line items to comply with the USALI, based on our interpretation of the individual line items, using the labels of each line item as guidance. However, the statements were not sufficiently detailed to permit us to determine the specific expenses included in each line item. Moreover, due to the absence of detail, items such as payroll and related expenses have been allocated among the various operating departments based on STR market data for comparable properties and information provided by ownership. Additionally, all fees to [Parent Brand] were lumped in franchise fees, including technology fees and reward program expenses. We were not able to allocate these expenses reliably historically, but have done so going forward. The 11th edition of the USALI, which was issued in 2014, became effective on January 1, 2015; however, the hospitality industry is still in the process of converting to the new reporting standards. We have made the reallocations to be consistent with the 11th edition of the USALI for all periods as possible.

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

FIGURE 9-1 HISTORICAL OPERATING PERFORMANCE

	2017	Calendar Year			2016	Calendar Year			2015	Calendar Year		
Number of Rooms:	75				75				75			
Paid Occupied Rooms:	22,503				20,033				18,752			
Complimentary Rooms:	66				44				54			
Days Open:	365				365				365			
Paid Occupancy:	82.2%				73.2%				68.5%			
Average Rate:	$86.08				$97.63				$85.82			
RevPAR:	$70.76	Percentage of Revenue	Available Room	Amount Occupied Room	$71.45	Percentage of Revenue	Available Room	Amount Occupied Room	$58.79	Percentage of Revenue	Available Room	Amount Occupied Room
OPERATING REVENUE												
Rooms	$1,937	95.8 %	$25,827	$86.08	$1,956	96.2 %	$26,078	$97.63	$1,609	96.7 %	$21,457	$85.82
Other Operated Departments	15	0.7	194	0.65	9	0.4	120	0.45	0	0.0	0	0.00
Miscellaneous Income	69	3.4	925	3.08	67	3.3	897	3.36	55	3.3	738	2.95
Total Operating Revenue	2,021	100.0	26,946	89.81	2,032	100.0	27,095	101.44	1,665	100.0	22,195	88.77
DEPARTMENTAL EXPENSES*												
Rooms	416	21.5	5,547	18.49	443	22.7	5,908	22.12	395	24.5	5,264	21.05
Total	416	20.6	5,547	18.49	443	21.8	5,908	22.12	395	23.7	5,264	21.05
DEPARTMENTAL INCOME	1,605	79.4	21,399	71.32	1,589	78.2	21,187	79.32	1,270	76.3	16,931	67.72
UNDISTRIBUTED OPERATING EXPENSES												
Administrative & General	151	7.5	2,018	6.73	149	7.3	1,989	7.45	119	7.2	1,588	6.35
Info. and Telecom. Systems	17	0.8	222	0.74	19	1.0	258	0.97	0	0.0	0	0.00
Marketing	4	0.2	56	0.19	12	0.6	155	0.58	5	0.3	69	0.28
Franchise Fee	257	12.7	3,423	11.41	246	12.1	3,275	12.26	209	12.6	2,792	11.17
Prop. Operations & Maint.	75	3.7	999	3.33	103	5.1	1,379	5.16	54	3.3	726	2.91
Utilities	123	6.1	1,634	5.45	135	6.7	1,806	6.76	116	7.0	1,545	6.18
Total	626	31.0	8,352	27.84	665	32.7	8,861	33.18	504	30.3	6,720	26.88
GROSS HOUSE PROFIT	978	48.4	13,047	43.48	924	45.5	12,326	46.15	766	46.0	10,211	40.84
Management Fee	0	0.0	0	0.00	0	0.0	0	0.00	0	0.0	0	0.00
INCOME BEFORE NON-OPER. INC. & EXP.	978	48.4	13,046	43.48	924	45.5	12,326	46.15	766	46.0	10,211	40.84
NON-OPERATING INCOME AND EXPENSE												
Property Taxes	92	4.5	1,220	4.07	82	4.0	1,087	4.07	106	6.4	1,410	5.64
Insurance	13	0.7	180	0.60	13	0.6	172	0.64	8	0.5	102	0.41
Total	105	5.2	1,400	4.67	94	4.6	1,259	4.71	113	6.8	1,512	6.05
EBITDA LESS RESERVE	$873	43.2 %	$11,646	$38.81	$830	40.8 %	$11,067	$41.44	$652	39.2 %	$8,699	$34.79
NOI adjusted to reflect a												
3.0% mgmt fee and a 4.0% reserve	$732	36.2 %			$688	33.8 %			$536	32.2 %		

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

FIGURE 9-2 HISTORICAL OPERATING PERFORMANCE (CONTINUED)

	2014	Calendar Year			2013	Calendar Year		
Number of Rooms:	75				75			
Paid Occupied Rooms:	16,053				18,724			
Complimentary Rooms:	486				30			
Days Open:	365				365			
Paid Occupancy:	58.6%			Amount	68.4%			Amount
Average Rate:	$82.58	Percentage	Available	Occupied	$74.75	Percentage	Available	Occupied
RevPAR:	$48.42	of Revenue	Room	Room	$51.13	of Revenue	Room	Room
OPERATING REVENUE								
Rooms	$1,326	97.3 %	$17,675	$82.58	$1,400	97.3 %	$18,661	$74.75
Other Operated Departments	0	0.0	0	0.00	0	0.0	0	0.00
Miscellaneous Income	37	2.7	488	2.28	38	2.7	511	2.05
Total Operating Revenue	1,362	100.0	18,163	84.86	1,438	100.0	19,172	76.79
DEPARTMENTAL EXPENSES*								
Rooms	316	23.9	4,217	19.70	452	32.3	6,024	24.13
Total	316	23.2	4,217	19.70	452	31.4	6,024	24.13
DEPARTMENTAL INCOME	1,046	76.8	13,947	65.16	986	68.6	13,148	52.66
UNDISTRIBUTED OPERATING EXPENSES								
Administrative & General	119	8.7	1,580	7.38	122	8.5	1,628	6.52
Info. and Telecom. Systems	0	0.0	0	0.00	2	0.2	29	0.12
Marketing	10	0.7	134	0.63	6	0.4	85	0.34
Franchise Fee	176	12.9	2,349	10.98	174	12.1	2,315	9.27
Prop. Operations & Maint.	107	7.9	1,432	6.69	101	7.0	1,351	5.41
Utilities	116	8.5	1,551	7.25	134	9.3	1,781	7.14
Total	529	38.8	7,047	32.93	539	37.5	7,190	28.80
GROSS HOUSE PROFIT	517	38.0	6,900	32.23	447	31.1	5,958	23.86
Management Fee	0	0.0	0	0.00	0	0.0	0	0.00
INCOME BEFORE NON-OPER. INC. & EXP.	517	38.0	6,899	32.23	447	31.1	5,958	23.86
NON-OPERATING INCOME AND EXPENSE								
Property Taxes	89	6.5	1,180	5.52	77	5.3	1,022	4.09
Insurance	14	1.1	191	0.89	17	1.2	227	0.91
Total	103	7.6	1,371	6.41	94	6.5	1,249	5.00
EBITDA LESS RESERVE	$415	30.4 %	$5,528	$25.82	$353	24.6 %	$4,709	$18.86
NOI adjusted to reflect a 3.0% mgmt fee and a 4.0% reserve	$319	23.4 %			$253	17.6 %		

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

In our review of the 2017 calendar profit and loss statement, the subject hotel's operating performance illustrates an overall positive trend in profitability, owing to increases in all revenue levels. Over the last several years, the trend in revenue and profitability has shown increases. Revenues associated with market pantry sales is included in the other operated departments line. Miscellaneous income sources include the hotel's pet fee charges, a green fee charge ($0.99 charge for plants in the room), copying charges, rollaway rentals, telephone usage, postage fees, package handling charges, meeting room rentals, guest laundry fees, and other minor miscellaneous charges. No major changes in expense levels and ratios were noted aside from general efficiencies gained from higher occupancy and revenue levels.

Comparable Operating Statements

In order to gauge the subject property's profitability, we have reviewed the following individual income and expense statements from comparable hotels, derived from our database of hotel income and expense statements. The following data reflect the performance of five limited-service hotel properties, which were chosen based on similarities in product, market orientation, brand affiliation, size, and price positioning. The selected properties represent the [Brand], or [Brand] & Suites brand. All financial data are presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense. The subject property's 2017 operating history has been included to facilitate a comparison. The stabilized statement of income and expense, in 2017 dollars, is presented as well.

FIGURE 9-3 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	2017	2016/17	2015/16	2015	2015	2015	2017
Number of Rooms:	75	60 to 80	60 to 80	40 to 60	60 to 80	50 to 70	75
Days Open:	365	365	365	365	365	365	365
Occupancy:	82.2%	78%	73%	80%	73%	77%	76%
Average Rate:	$86.08	$85	$84	$87	$96	$84	$89
RevPAR:	$70.76	$67	$62	$70	$70	$65	$68
REVENUE							
Rooms	95.8 %	98.8 %	97.4 %	99.5 %	100.0 %	99.5 %	95.8 %
Other Operated Departments	0.7	0.0	2.6	0.5	0.0	0.5	0.7
Miscellaneous Income	3.4	1.2	0.0	0.0	0.0	0.0	3.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*							
Rooms	21.5	24.0	23.9	17.5	22.0	24.4	21.8
Other Operated Departments	0.0	0.0	14.0	40.8	0.0	0.0	50.8
Total	20.6	23.7	23.6	17.6	22.5	24.3	21.2
DEPARTMENTAL INCOME	79.4	76.3	76.4	82.4	77.5	75.7	78.8
OPERATING EXPENSES							
Administrative & General	7.5	9.0	8.1	8.0	8.6	7.6	7.7
Info. and Telecom. Systems	0.8	0.3	0.0	0.0	0.0	0.0	1.0
Marketing	0.2	5.5	5.0	2.2	5.1	3.4	3.5
Franchise Fee	12.7	5.7	9.3	10.9	9.5	9.5	9.1
Property Operations & Maintenance	3.7	4.9	5.2	2.9	6.4	4.1	4.6
Utilities	6.1	7.5	4.2	3.6	3.6	4.8	5.5
Total	31.0	32.8	31.8	27.7	33.3	29.4	31.4
HOUSE PROFIT	48.4	43.5	44.6	54.7	44.2	46.3	47.3
Management Fee	0.0	3.0	3.5	3.0	2.5	3.9	3.0
INCOME BEFORE FIXED CHARGES	48.4	40.5	41.1	51.7	41.7	42.5	44.3

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

FIGURE 9-4 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	2017	2016/17	2015/16	2015	2015	2015	2017
Number of Rooms:	75	60 to 80	60 to 80	40 to 60	60 to 80	50 to 70	75
Days Open:	365	365	365	365	365	365	365
Occupancy:	82.2%	78%	73%	80%	73%	77%	76%
Average Rate:	$86.08	$85	$84	$87	$96	$84	$89
RevPAR:	$70.76	$67	$62	$70	$70	$65	$68
REVENUE							
Rooms	$25,827	$24,433	$22,453	$25,642	$25,434	$23,762	$24,764
Other Operated Departments	194	0	592	116	0	108	190
Miscellaneous Income	925	290	0	0	0	0	906
Total	26,946	24,723	23,045	25,758	25,434	23,870	25,860
DEPARTMENTAL EXPENSES							
Rooms	5,547	5,867	5,365	4,497	5,598	5,793	5,391
Other Operated Departments	0	0	83	47	118	0	97
Total	5,547	5,867	5,447	4,544	5,715	5,793	5,487
DEPARTMENTAL INCOME	21,399	18,856	17,597	21,213	19,719	18,078	20,372
OPERATING EXPENSES							
Administrative & General	2,018	2,218	1,858	2,065	2,181	1,824	2,001
Info. and Telecom. Systems	222	74	0	0	0	0	270
Marketing	56	1,361	1,160	571	1,309	807	898
Franchise Fee	3,423	1,399	2,133	2,807	2,416	2,257	2,352
Property Operations & Maintenance	999	1,209	1,204	755	1,629	984	1,188
Utilities	1,634	1,849	964	926	925	1,135	1,422
Total	8,352	8,110	7,319	7,123	8,461	7,007	8,131
HOUSE PROFIT	13,047	10,746	10,278	14,090	11,258	11,071	12,241
Management Fee	0	733	804	769	643	932	776
INCOME BEFORE FIXED CHARGES	13,046	10,013	9,475	13,321	10,615	10,138	11,465

FIGURE 9-5 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	2017	2016/17	2015/16	2015	2015	2015	2017
Number of Rooms:	75	60 to 80	60 to 80	40 to 60	60 to 80	50 to 70	75
Days Open:	365	365	365	365	365	365	365
Occupancy:	82.2%	78%	73%	80%	73%	77%	76%
Average Rate:	$86.08	$85	$84	$87	$96	$84	$89
RevPAR:	$70.76	$67	$62	$70	$70	$65	$68
REVENUE							
Rooms	$85.83	$85.34	$84.39	$87.38	$95.71	$84.01	$89.27
Other Operated Departments	0.64	0.00	2.23	0.40	0.00	0.38	0.68
Miscellaneous Income	3.07	1.01	0.00	0.00	0.00	0.00	3.27
Total	89.55	86.35	86.62	87.78	95.71	84.39	93.22
DEPARTMENTAL EXPENSES							
Rooms	18.43	20.49	20.16	15.32	21.06	20.48	19.43
Other Operated Departments	0.00	0.00	0.31	0.16	0.44	0.00	0.35
Total	18.43	20.49	20.48	15.49	21.51	20.48	19.78
DEPARTMENTAL INCOME	71.11	65.86	66.14	72.29	74.20	63.91	73.44
OPERATING EXPENSES							
Administrative & General	6.71	7.75	6.98	7.04	8.21	6.45	7.21
Info. and Telecom. Systems	0.74	0.26	0.00	0.00	0.00	0.00	0.97
Marketing	0.19	4.75	4.36	1.94	4.93	2.85	3.24
Franchise Fee	11.38	4.88	8.02	9.56	9.09	7.98	8.48
Property Operations & Maintenance	3.32	4.22	4.53	2.57	6.13	3.48	4.28
Utilities	5.43	6.46	3.62	3.16	3.48	4.01	5.13
Total	27.76	28.33	27.51	24.28	31.84	24.77	29.31
HOUSE PROFIT	43.36	37.53	38.64	48.02	42.37	39.14	44.13
Management Fee	0.00	2.56	3.02	2.62	2.42	3.30	2.80
INCOME BEFORE FIXED CHARGES	43.36	34.97	35.62	45.39	39.95	35.84	41.33

The departmental income for the comparable statements ranged from 75.7% to 82.4% of total revenue. The 2017 departmental income ratio of 79.4% for the subject property is within this range. The comparable properties achieved a house profit ranging from 43.5% to 54.7% of total revenue. The 2017 house profit percentage of 48.4% of total revenue for the subject property is within this range. We will refer to the comparable operating data in our discussion of each line item, which follows later in this section of the report.

Fixed and Variable Component Analysis

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

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a systematic approach, following the format of the USALI. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied an underlying inflation rate of 2.5% in 2018, 2.5% in 2019, and 3.0% in 2020 and thereafter. 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 Revenue and Expense

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of revenue and expense. The following table presents a forecast through the first several projection years, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on February 1, 2018, expressed in inflated dollars for each year.

FIGURE 9-6 FORECAST OF REVENUE AND EXPENSE AND TRAILING-12-MONTH OPERATING HISTORY

	Historical Operating Results																							
	2017 Calendar Year				2018/19				2019/20				2020/21				Stabilized				2022/23			
Number of Rooms:	75				75				75				75				75				75			
Occupancy (Paid Rooms):	82%				79%				75%				75%				76%				76%			
Average Rate:	$86.08				$90.22				$93.38				$96.60				$99.50				$102.49			
RevPAR:	$70.76				$71.27				$70.03				$72.45				$75.62				$77.89			
Days Open:	365				365				365				365				365				365			
Occupied Rooms (Paid):	22,503	%Gross	PAR	POR	21,626	%Gross	PAR	POR	20,531	%Gross	PAR	POR	20,531	%Gross	PAR	POR	20,805	%Gross	PAR	POR	20,805	%Gross	PAR	POR
OPERATING REVENUE																								
Rooms	$1,937	95.8 %	$25,827	$86.08	$1,951	95.8 %	$26,013	$90.21	$1,917	95.7 %	$25,560	$93.37	$1,983	95.7 %	$26,440	$96.58	$2,070	95.8 %	$27,600	$99.50	$2,132	95.8 %	$28,427	$102.48
Other Operated Departments	15	0.7	194	0.65	15	0.7	197	0.68	15	0.7	199	0.73	15	0.7	205	0.75	16	0.7	212	0.76	16	0.7	218	0.79
Miscellaneous Income	69	3.4	925	3.08	70	3.5	939	3.26	71	3.6	948	3.46	73	3.5	977	3.57	76	3.5	1,010	3.64	78	3.5	1,040	3.75
Total Operating Revenues	2,021	100.0	26,946	89.81	2,036	100.0	27,149	94.15	2,003	100.0	26,707	97.56	2,072	100.0	27,621	100.90	2,162	100.0	28,821	103.90	2,226	100.0	29,685	107.01
DEPARTMENTAL EXPENSES *																								
Rooms	416	21.5	5,547	18.49	421	21.6	5,609	19.45	423	22.0	5,635	20.59	435	22.0	5,804	21.20	451	21.8	6,009	21.66	464	21.8	6,189	22.31
Other Operated Departments	0	0.0	0	0.00	7	50.4	99	0.34	8	50.9	101	0.37	8	50.9	104	0.38	8	50.8	108	0.39	8	50.8	111	0.40
Total	416	20.6	5,547	18.49	428	21.0	5,708	19.80	430	21.5	5,737	20.96	443	21.4	5,909	21.58	459	21.2	6,116	22.05	472	21.2	6,300	22.71
DEPARTMENTAL INCOME	1,605	79.4	21,399	71.32	1,608	79.0	21,441	74.36	1,573	78.5	20,970	76.60	1,628	78.6	21,713	79.32	1,703	78.8	22,705	81.85	1,754	78.8	23,385	84.30
UNDISTRIBUTED OPERATING EXPENSES																								
Administrative & General	151	7.5	2,018	6.73	155	7.6	2,063	7.15	157	7.8	2,094	7.65	162	7.8	2,159	7.89	167	7.7	2,230	8.04	172	7.7	2,297	8.28
Info. and Telecom. Systems	17	0.8	222	0.74	21	1.0	278	0.96	21	1.1	282	1.03	22	1.1	291	1.06	23	1.0	300	1.08	23	1.0	309	1.12
Marketing	4	0.2	56	0.19	69	3.4	926	3.21	70	3.5	940	3.43	73	3.5	969	3.54	75	3.5	1,001	3.61	77	3.5	1,031	3.72
Franchise Fee	257	12.7	3,423	11.41	185	9.1	2,471	8.57	182	9.1	2,428	8.87	188	9.1	2,512	9.18	197	9.1	2,622	9.45	203	9.1	2,701	9.74
Prop. Operations & Maint.	75	3.7	999	3.33	92	4.5	1,225	4.25	93	4.7	1,243	4.54	96	4.6	1,282	4.68	99	4.6	1,325	4.77	102	4.6	1,364	4.92
Utilities	123	6.1	1,634	5.45	110	5.4	1,466	5.08	112	5.6	1,488	5.44	115	5.6	1,534	5.60	119	5.5	1,585	5.71	122	5.5	1,632	5.88
Total	626	31.0	8,352	27.84	632	31.0	8,430	29.23	636	31.8	8,475	30.96	656	31.7	8,746	31.95	680	31.4	9,063	32.67	700	31.4	9,335	33.65
GROSS HOUSE PROFIT	978	48.4	13,046	43.48	976	48.0	13,011	45.12	937	46.7	12,495	45.65	972	46.9	12,967	47.37	1,023	47.4	13,642	49.18	1,054	47.4	14,050	50.65
Management Fee	0	0.0	0	0.00	61	3.0	814	2.82	60	3.0	801	2.93	62	3.0	829	3.03	65	3.0	865	3.12	67	3.0	891	3.21
INCOME BEFORE NON-OPER. INC. & EXP.	978	48.4	13,046	43.48	915	45.0	12,197	42.30	877	43.7	11,694	42.72	910	43.9	12,138	44.34	958	44.4	12,777	46.06	987	44.4	13,159	47.44
NON-OPERATING INCOME AND EXPENSE																								
Property Taxes	92	4.5	1,220	4.07	93	4.6	1,243	4.31	108	5.4	1,444	5.27	112	5.4	1,487	5.43	115	5.3	1,532	5.52	118	5.3	1,578	5.69
Insurance	13	0.7	180	0.60	19	0.9	257	0.89	20	1.0	263	0.96	20	1.0	271	0.99	21	1.0	279	1.01	22	1.0	287	1.04
Reserve for Replacement	0	0.0	0	0.00	81	4.0	1,086	3.77	80	4.0	1,068	3.90	83	4.0	1,105	4.04	86	4.0	1,153	4.16	89	4.0	1,187	4.28
Total	105	5.2	1,400	4.67	194	9.5	2,585	8.97	208	10.4	2,775	10.14	215	10.4	2,863	10.46	222	10.3	2,963	10.68	229	10.3	3,052	11.00
EBITDA LESS RESERVE	$873	43.2 %	$11,647	$38.82	$721	35.5 %	$9,612	$33.33	$669	33.3 %	$8,919	$32.58	$696	33.5 %	$9,275	$33.88	$736	34.1 %	$9,814	$35.38	$758	34.1 %	$10,107	$36.44

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

NOI adjusted to reflect a
3.0% mgmt fee and a 4.0% reserve $732 36.2 %

FIGURE 9-7 TEN-YEAR FORECAST OF REVENUE AND EXPENSE

	2018/19		2019/20		2020/21		2021/22		2022/23	
Number of Rooms:	**75**		**75**		**75**		**75**		**75**	
Occupied Rooms:	**21,626**		**20,531**		**20,531**		**20,805**		**20,805**	
Occupancy:	**79%**		**75%**		**75%**		**76%**		**76%**	
Average Rate:	**$90.22**	**% of**	**$93.38**	**% of**	**$96.60**	**% of**	**$99.50**	**% of**	**$102.49**	**% of**
RevPAR:	**$71.27**	**Gross**	**$70.03**	**Gross**	**$72.45**	**Gross**	**$75.62**	**Gross**	**$77.89**	**Gross**
OPERATING REVENUE										
Rooms	$1,951	95.8 %	$1,917	95.7 %	$1,983	95.7 %	$2,070	95.8 %	$2,132	95.8 %
Other Operated Departments	15	0.7	15	0.7	15	0.7	16	0.7	16	0.7
Miscellaneous Income	70	3.5	71	3.6	73	3.5	76	3.5	78	3.5
Total Operating Revenue	2,036	100.0	2,003	100.0	2,072	100.0	2,162	100.0	2,226	100.0
DEPARTMENTAL EXPENSES*										
Rooms	421	21.6	423	22.0	435	22.0	451	21.8	464	21.8
Other Operated Departments	7	50.4	8	50.9	8	50.9	8	50.8	8	50.8
Total	428	21.0	430	21.5	443	21.4	459	21.2	472	21.2
DEPARTMENTAL INCOME	1,608	79.0	1,573	78.5	1,628	78.6	1,703	78.8	1,754	78.8
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	155	7.6	157	7.8	162	7.8	167	7.7	172	7.7
Info. and Telecom. Systems	21	1.0	21	1.1	22	1.1	23	1.0	23	1.0
Marketing	69	3.4	70	3.5	73	3.5	75	3.5	77	3.5
Franchise Fee	185	9.1	182	9.1	188	9.1	197	9.1	203	9.1
Prop. Operations & Maint.	92	4.5	93	4.7	96	4.6	99	4.6	102	4.6
Utilities	110	5.4	112	5.6	115	5.6	119	5.5	122	5.5
Total	632	31.0	636	31.8	656	31.7	680	31.4	700	31.4
GROSS HOUSE PROFIT	976	48.0	937	46.7	972	46.9	1,023	47.4	1,054	47.4
Management Fee	61	3.0	60	3.0	62	3.0	65	3.0	67	3.0
INCOME BEFORE NON-OPER. INC. & EXP.	915	45.0	877	43.7	910	43.9	958	44.4	987	44.4
NON-OPERATING INCOME AND EXPENSE										
Property Taxes	93	4.6	108	5.4	112	5.4	115	5.3	118	5.3
Insurance	19	0.9	20	1.0	20	1.0	21	1.0	22	1.0
Reserve for Replacement	81	4.0	80	4.0	83	4.0	86	4.0	89	4.0
Total	194	9.5	208	10.4	215	10.4	222	10.3	229	10.3
EBITDA LESS RESERVE	$721	35.5 %	$669	33.3 %	$696	33.5 %	$736	34.1 %	$758	34.1 %

	2023/24		2024/25		2025/26		2026/27		2027/28	
Number of Rooms:	**75**		**75**		**75**		**75**		**75**	
Occupied Rooms:	**20,805**		**20,805**		**20,805**		**20,805**		**20,805**	
Occupancy:	**76%**		**76%**		**76%**		**76%**		**76%**	
Average Rate:	**$105.56**	**% of**	**$108.73**	**% of**	**$111.99**	**% of**	**$115.35**	**% of**	**$118.81**	**% of**
RevPAR:	**$80.23**	**Gross**	**$82.63**	**Gross**	**$85.11**	**Gross**	**$87.67**	**Gross**	**$90.30**	**Gross**
OPERATING REVENUE										
Rooms	$2,196	95.8 %	$2,262	95.8 %	$2,330	95.8 %	$2,400	95.8 %	$2,472	95.8 %
Other Operated Departments	17	0.7	17	0.7	18	0.7	18	0.7	19	0.7
Miscellaneous Income	80	3.5	83	3.5	85	3.5	88	3.5	90	3.5
Total Operating Revenue	2,293	100.0	2,362	100.0	2,433	100.0	2,506	100.0	2,581	100.0
DEPARTMENTAL EXPENSES*										
Rooms	478	21.8	492	21.8	507	21.8	522	21.8	538	21.8
Other Operated Departments	9	50.8	9	50.8	9	50.8	9	50.8	10	50.8
Total	487	21.2	501	21.2	516	21.2	532	21.2	548	21.2
DEPARTMENTAL INCOME	1,807	78.8	1,861	78.8	1,917	78.8	1,974	78.8	2,034	78.8
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	177	7.7	183	7.7	188	7.7	194	7.7	200	7.7
Info. and Telecom. Systems	24	1.0	25	1.0	25	1.0	26	1.0	27	1.0
Marketing	80	3.5	82	3.5	85	3.5	87	3.5	90	3.5
Franchise Fee	209	9.1	215	9.1	221	9.1	228	9.1	235	9.1
Prop. Operations & Maint.	105	4.6	109	4.6	112	4.6	115	4.6	119	4.6
Utilities	126	5.5	130	5.5	134	5.5	138	5.5	142	5.5
Total	721	31.4	743	31.4	765	31.4	788	31.4	812	31.4
GROSS HOUSE PROFIT	1,085	47.4	1,118	47.4	1,152	47.4	1,186	47.4	1,222	47.4
Management Fee	69	3.0	71	3.0	73	3.0	75	3.0	77	3.0
INCOME BEFORE NON-OPER. INC. & EXP.	1,017	44.4	1,047	44.4	1,079	44.4	1,111	44.4	1,144	44.4
NON-OPERATING INCOME AND EXPENSE										
Property Taxes	122	5.3	126	5.3	129	5.3	133	5.3	137	5.3
Insurance	22	1.0	23	1.0	24	1.0	24	1.0	25	1.0
Reserve for Replacement	92	4.0	94	4.0	97	4.0	100	4.0	103	4.0
Total	236	10.3	243	10.3	250	10.3	258	10.3	265	10.3
EBITDA LESS RESERVE	$781	34.1 %	$804	34.1 %	$829	34.1 %	$854	34.1 %	$879	34.1 %

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

The following description sets forth the basis for the forecast of revenue and expense. We anticipate that it will take four years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the subject property's operating history, operating budget, and comparable revenue and expense statements. The forecast begins on February 1, 2018, expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. The subject property is expected to stabilize at 76.0% with an average rate of $99.50 in 2021/22. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

Other Operated Departments Revenue

According to the USALI, other operated departments include any major or minor operated department other than rooms and food and beverage. Revenues that are collected from the market pantry are reflected in this line item.

FIGURE 9-8 OTHER OPERATED DEPARTMENTS REVENUE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2017	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	0.7 %	0.0 %	2.6 %	0.5 %	0.0 %	0.5 %	0.7 %	0.7 %
Per Available Room	$194	$0	$592	$116	$0	$108	$197	$190
Per Occupied Room	$0.65	$0.00	$2.23	$0.40	$0.00	$0.38	$0.68	$0.68

Miscellaneous Income

According to the USALI, miscellaneous income includes attrition fees, cancellation fees, outside agreement commissions, and interest income, among other items. Revenues that are collected from pet fees, a green fee charge ($0.99 charge for plants in the room), minor hotel services, rollaway rentals, meeting room rentals, and other minor miscellaneous charges are reflected in this line item.

FIGURE 9-9 MISCELLANEOUS INCOME

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2017	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	3.4 %	1.2 %	0.0 %	0.0 %	0.0 %	0.0 %	3.5 %	3.5 %
Per Available Room	$925	$290	$0	$0	$0	$0	$939	$906
Per Occupied Room	$3.08	$1.01	$0.00	$0.00	$0.00	$0.00	$3.26	$3.27

HVS

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 and managers can generally scale the level of service staff on hand to meet an expected occupancy level, a base level of front desk personnel, housekeepers, and supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are 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, linens and other operating expenses are only slightly affected by volume.

FIGURE 9-10 ROOMS EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2017	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	21.5 %	24.0 %	23.9 %	17.5 %	22.0 %	24.4 %	21.6 %	21.8 %
Per Available Room	$5,547	$5,867	$5,365	$4,497	$5,598	$5,793	$5,609	$5,391
Per Occupied Room	$18.49	$20.49	$20.16	$15.32	$21.06	$20.48	$19.45	$19.43

Other Operated Departments Expense

Other operated departments expense comprises expenses associated with the hotel's various other and minor operated departments. The subject hotel did not historically report any expenses in the other operated departments category. We have forecast a modest amount of expense going forward in order to conform to the latest edition of the USALI and to reflect charges that new ownership would be expected to pay for operating the market pantry.

FIGURE 9-11 OTHER OPERATED DEPARTMENTS EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2017	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	0.0 %	0.0 %	14.0 %	40.8 %	0.0 %	0.0 %	50.4 %	50.8 %
Per Available Room	$0	$0	$83	$47	$118	$0	$99	$97
Per Occupied Room	$0.00	$0.00	$0.31	$0.16	$0.44	$0.00	$0.34	$0.35

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.

FIGURE 9-12 ADMINISTRATIVE AND GENERAL EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2017	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	7.5 %	9.0 %	8.1 %	8.0 %	8.6 %	7.6 %	7.6 %	7.7 %
Per Available Room	$2,018	$2,218	$1,858	$2,065	$2,181	$1,824	$2,063	$2,001
Per Occupied Room	$6.73	$7.75	$6.98	$7.04	$8.21	$6.45	$7.15	$7.21

Information and Telecommunications Systems Expense

Information and telecommunications systems expense consists of all costs associated with a hotel's technology infrastructure. This includes the costs of cell phones, administrative call and Internet services, and complimentary call and Internet services. Expenses in this category are typically organized by type of technology, or the area benefitting from the technology solution. We expect the subject hotel's information and telecommunications systems to be well managed. However, a portion of this expenses was previously included in the franchise fee line and has been reallocated going forward. Expense levels should stabilize at a typical level for a property of this type. Per the 11th edition of the USALI, information and telecommunications systems' expenses are required to be reported within the undistributed operating expenses. Some of the comparable operating statements reviewed, however, are consistent with the 10th edition of the USALI, with these expenses allocated to the other operated departments, room expense, and undistributed operating expense line items.

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 reviewed the provided operating history of the subject hotel, as well as the comparable operating data. The subject hotel's marketing expense has been adjusted upward in order to account for franchise-related expenses that were previously allocated to the franchise-fee line item in the base year.

FIGURE 9-13 MARKETING EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2017	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	0.2 %	5.5 %	5.0 %	2.2 %	5.1 %	3.4 %	3.4 %	3.5 %
Per Available Room	$56	$1,361	$1,160	$571	$1,309	$807	$926	$898
Per Occupied Room	$0.19	$4.75	$4.36	$1.94	$4.93	$2.85	$3.21	$3.24

Franchise Fee

The costs of the [Brand] affiliation, which are reflected in our forecast, comprise a 6% royalty fee and a 3.5% advertising assessment (percentage of rooms revenue). Other charges related to the affiliation, such as frequent guest programs, are reflected in the appropriate departmental expenses going forward, consistent with the Uniform System of Accounts for the Lodging Industry (USALI). However, it is important to note we were not able to allocate these expenses historically.

Marketing expense and franchise fees are often analyzed in total because hotels may account for some components of franchise expense in the marketing expense category. The subject property’s total marketing and franchise expense has been forecast at 12.6% of total revenue on a stabilized basis, which compares with a total for the comparables ranging from 11.2% to 14.6% of total revenue.

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.

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 construction 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.

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. Based upon our review of comparable operating statements and the operating history of the subject hotel, we have adjusted the property operations and maintenance line item upward. Specifically, we note that this expense is lower than typical and does not seem to include waste management expense; accordingly, we have adjusted this line item higher to account for this expense going forward, while decreasing utilities going forward were this expense is likely accounted for.

FIGURE 9-14 PROPERTY OPERATIONS AND MAINTENANCE EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2017	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	3.7 %	4.9 %	5.2 %	2.9 %	6.4 %	4.1 %	4.5 %	4.6 %
Per Available Room	$999	$1,209	$1,204	$755	$1,629	$984	$1,225	$1,188
Per Occupied Room	$3.33	$4.22	$4.53	$2.57	$6.13	$3.48	$4.25	$4.28

Utilities Expense

The utilities 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 utilities 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 utility requirements with less expensive sources, such as gas and oil, for heating and cooking. Utility expenses are highly tied to local utility rates in the Killian market; therefore, we have given primary consideration to the hotel's operating history. As noted above, the utilities expense has been adjusted downward to reflect the reallocation of expenses such as property waste to property operations and maintenance going forward.

FIGURE 9-15 UTILITIES EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2017	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	6.1 %	7.5 %	4.2 %	3.6 %	3.6 %	4.8 %	5.4 %	5.5 %
Per Available Room	$1,634	$1,849	$964	$926	$925	$1,135	$1,466	$1,422
Per Occupied Room	$5.45	$6.46	$3.62	$3.16	$3.48	$4.01	$5.08	$5.13

Management Fee

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand-name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are often based on a percentage of total revenue, which means they have no fixed component. While base fees typically range from 2% to 4% of total revenue, incentive fees are deal-specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity. Total management fees for the subject property have been forecast at a market rate fee of 3.0% of total revenue.

Property 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; thus, 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 municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property. We have based our estimate of the subject property's market value (for tax purposes) on an analysis of assessments of both the subject property and comparable hotel properties in the local municipality. The following table details the subject property's assessment history. We note that real property in South Carolina is assessed at 6% of the appraised value. Personal property is assessed at 10% of the value as reported by the owner.

FIGURE 9-16 SUBJECT PROPERTY'S ASSESSMENT HISTORY – REAL PROPERTY

	Real Property					
	Appraised Value				Taxable Value	
Year	Land	Improvements	Real Property Total	Percent Change	Real Property Total	Percent Change
2015	500,100	2,108,000	2,608,100	—	154,430	—
2016	500,100	2,108,000	2,608,100	0.0 %	154,430	0.0 %
2017	500,100	2,108,000	2,608,100	0.0	154,430	0.0

Source: Richard County

FIGURE 9-17 SUBJECT PROPERTY'S ASSESSMENT HISTORY – PERSONAL PROPERTY REBATES/ADJUSTMENT

	Personal Property				Rebates/Adjustment	
	Appraised		Assessed			
Year	Value	Percent Change	Value	Percent Change	Assessment	Percent Change
2015	136,095	—	14,290	—	-3,631	—
2016	149,715	10.0	15,720	10.0 %	-3,804	4.8 %
2017	149,715	0.0	15,720	0.0	-3,970	4.4

Source: Richard County

Tax rates are based on the city and county budgets, which change annually. The following table shows changes in the tax rate during the last several years.

FIGURE 9-18 PROPERTY TAX RATES

Year	Millage Rate
2015	552.7
2016	568.4
2017	571.2

Source: Richard County

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 assessed value of the subject property appears reasonable in this context. A review of the assessed values of several comparable hotels located in the local county jurisdiction reveals the following information.

FIGURE 9-19 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Year Open	Land	Improvements	Total
Subject Property	1999	$30,006	$126,480	$156,486
Holiday Inn Express Blythewood	1999	$35,334	$165,354	$200,688
Comfort Suites Columbia	2008	35,334	100,986	136,320
Best Western Plus Columbia North East	1986	37,662	148,830	186,492
La Quinta Inn & Suites Columbia Northeast Fort Jackson	1986	23,112	107,154	130,266
Days Inn Blythewood	1997	28,464	24,978	53,442
Fairfield Inn & Suites by Marriott Columbia Northeast	2008	45,582	308,394	353,976
Hampton Inn Columbia Northeast Fort Jackson	1997	39,648	325,194	364,842

		Amounts Per Room		
Hotel	Number of Rooms	Land	Improvements	Total
Subject Property	75	$400	$1,686	$2,086
Holiday Inn Express Blythewood	88	$402	$1,879	$2,281
Comfort Suites Columbia	77	459	1,312	1,770
Best Western Plus Columbia North East	112	336	1,329	1,665
La Quinta Inn & Suites Columbia Northeast Fort Jackson	98	236	1,093	1,329
Days Inn Blythewood	50	569	500	1,069
Fairfield Inn & Suites by Marriott Columbia Northeast	96	475	3,212	3,687
Hampton Inn Columbia Northeast Fort Jackson	111	357	2,930	3,287

Source: Richard County

The data show that the subject property's assessment is within the range presented by the comparable data and appears reasonable in this context based upon the extent of the subject hotel's improvements, the current quality of the building, and the size of the site.

The subject hotel’s property tax burden for the first projection year has been forecast based on the assessed value, which is unchanged from the 2017 level. Real property is reassessed every five years in South Carolina; the next reassessment in Richland County is scheduled for 2019. By statute, the maximum increase in assessed value every five years is limited to 15%. Properties can also be reassessed following renovations, or upon a sale. In recognition of the pending reassessment and the potential for an increase in the assessed value following the hypothetical sale of the hotel, we have assumed that the assessed value of the subject property will increase by 15% as of 2019. Property in South Carolina is also eligible for a Local

Option Sales Tax (LOST) credit; this credit is equal to 0.001465 of the taxable value. We have assumed that the LOST program will continue to be available, and have therefore incorporated this credit in our forecast of property tax expense.

Based on comparable assessments and the tax rate information, the subject property's projected property tax expense levels are calculated as follows.

FIGURE 9-20 PROJECTED PROPERTY TAX EXPENSE

	Assessed Value (Taxable Historical)			Forecast Rate of	Base Rate of Tax		Tax		Total Tax
Year	Improvements	Personal	Total	Value Change	Burden Increase	Millage Rate	Forecast	LOST Credit	Payable
Historical	$154,430	$15,720	$170,150	—	—	568.4	$96,713	-$3,970	$92,743
2018/19	$154,430	$15,720	$170,150	0.0 %	2.5 %	571.2	$97,190	-$3,970	$93,219
2019/20	177,595	15,720	193,315	13.6	2.5	—	112,851	-4,578	108,273
2020/21	177,595	15,720	193,315	0.0	3.0	—	116,237	-4,715	111,521
2021/22	177,595	15,720	193,315	0.0	3.0	—	119,724	-4,857	114,867
2022/23	177,595	15,720	193,315	0.0	3.0	—	123,315	-5,003	118,313

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, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy. However, the insurance line item has been adjusted upwards to reflect a more typical expense, as reflected by comparable operated statements.

FIGURE 9-21 INSURANCE EXPENSE

	Subject Property	Comparable Operating Statements					Subject Property Forecast	
	2017	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	0.7 %	0.9 %	1.1 %	1.2 %	1.6 %	1.0 %	0.9 %	1.0 %
Per Available Room	$180	$215	$262	$304	$400	$242	$257	$250
Per Occupied Room	$0.60	$0.75	$0.99	$1.04	$1.50	$0.86	$0.89	$0.90

Other Fixed Items

The subject hotel does not report any additional significant fixed expenses.

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.

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 affect an owner's cash flow, a forecast of income and expense should reflect these expenses in the form of an appropriate reserve for replacement.

The International Society of Hospitality Consultants (ISHC) oversees a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent study was published in 2014.[13] 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 performed 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 to year and depend upon both the actual and effective ages of a property. The results of this study showed that hotel lenders and investors are requiring reserves for replacement ranging from 4% to 5% of total revenue.

Based on the results of our analysis and on our review of the subject asset and comparable lodging facilities, as well as on our industry expertise, we estimate that a reserve for replacement of 4% of total revenues is sufficient to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment.

Forecast of Revenue and Expense Conclusion

Revenues and expenses have been forecast for the subject hotel over the projection period shown. Over the long term, occupancy is expected to return to more normalized levels given the entrance of new supply, while average rate is anticipated to achieve greater gains as the hotel regains lost penetration levels. Historical and projected total revenue and net operating income are set forth in the following chart.

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[13] The International Society of Hotel Consultants, *CapEx 2014, A Study of Capital Expenditure in the U.S. Hotel Industry*.

FIGURE 9-22 FORECAST OF REVENUE AND EXPENSE CONCLUSION

		Total Revenue		House Profit		House	EBITDA Less Replacement Reserve		
			%			Profit			As a % of
	Year	Total	Change	Total	% Change	Ratio	Total	% Change	Ttl Rev
Historical	2013	$1,438,000	—	$447,000	—	31.1 %	$253,000	—	17.6 %
	2014	1,362,000	(5.3) %	517,000	15.7 %	38.0	319,000	26.1 %	23.4
	2015	1,665,000	22.2	766,000	48.2	46.0	536,000	68.0	32.2
	2016	2,032,000	22.0	924,000	20.6	45.5	688,000	28.4	33.8
Calendar Year	2017	2,021,000	(0.5)	978,000	5.8	48.4	732,000	6.4	36.2
Projected	2018/19	$2,036,000	0.7 %	$976,000	(0.2) %	48.0 %	$721,000	(1.5) %	35.5 %
	2019/20	2,003,000	(1.6)	937,000	(4.0)	46.7	669,000	(7.2)	33.3
	2020/21	2,072,000	3.4	972,000	3.7	46.9	696,000	4.0	33.5
	2021/22	2,162,000	4.3	1,023,000	5.2	47.4	736,000	5.7	34.1
	2022/23	2,226,000	3.0	1,054,000	3.0	47.4	758,000	3.0	34.1

The forecast of revenue and expense anticipates the net operating income ratio to decline from 36.2% of gross revenues in the base year to 34.1% of gross revenues by the fifth projection year.

INCOME CAPITALIZATION – MORTGAGE-EQUITY TECHNIQUE

The subject property has been valued via the income approach through the application of a ten-year mortgage-equity technique and a discounted-cash-flow analysis. The conversion of the subject property's forecasted EBITDA Less Replacement Reserve into an estimate of value was based on the premise that investors typically leverage their real estate investments to enhance their equity yield. Typically, the majority of a transaction is capitalized with mortgage financing (50% to 70%), with equity comprising the balance (30% to 50%). The amounts and terms of available mortgage financing and the rates of return that are required to attract sufficient equity capital formed the basis for allocating the net income between the mortgage and equity components and deriving a value estimate.

The following table illustrates the valuation parameters used in the analysis.

FIGURE 9-23 VALUATION VARIABLES

Stabilized Year:	4	
Inflation:	3.0	%
Mortgage Component		
Loan to Value:	65	%
Amortization:	25	Years
Term:	10	Years
Interest Rate:	5.00	%
Mortgage Constant:	0.070151	
Equity Component		
Equity Yield:	18.0	%
Reversion		
Terminal Cap Rate:	9.0	%
Transaction Costs:	3.0	%
Income Value:	$8,100,000	
Derived Discount Rate:	10.6	%
Interest:	Monthly	

Mortgage Component

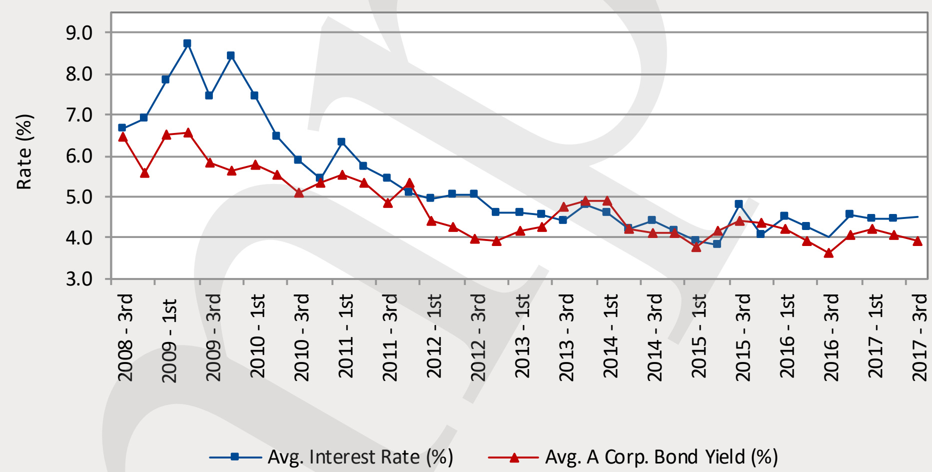
Hotel financing is available for most tiers of the lodging industry from a variety of lender types. The CMBS market is in a phase of strong activity, including lending in the hospitality sector. While many lenders remain active, underwriting standards are more stringent than ten years ago, and loan-to-value ratios remain in the 60% to 70% range. Lenders continue to be attracted to the lodging industry because of the higher yields generated by hotel financing relative to other commercial real estate, and the industry continues to perform strongly in most markets. Commercial banks, mortgage REITs, insurance companies, and CMBS and mezzanine lenders continue to pursue deals.

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 was 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 chart 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.

FIGURE 9-24 AVERAGE MORTGAGE INTEREST RATES AND AVERAGE-A CORPORATE BOND YIELDS



Sources: American Council of Life Insurance, Moody's Bond Record, HVS

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.

$$Y = 0.95702153\ X + 0.76102760$$

Where: Y = Estimated Hotel Mortgage Interest Rate
X = Current Average-A Corporate Bond Yield
(Coefficient of correlation is 95%)

The January 10, 2018, average yield on average-A corporate bonds, as reported by Moody's Investors Service, was 3.88%. When used in the previously presented equation, a factor of 3.88 produces an estimated hotel/motel interest rate of 4.47% (rounded).

Despite the recent interest-rate increases, hotel debt remains available at favorable interest rates from a variety of lender types as of early 2018 (e.g., CMBS, balance-sheet lenders, insurance companies, SBA lenders, and other sources). The most prevalent interest rates for single hotel assets are currently ranging from 5.0% to 7.0%, depending on the type of debt, loan-to-value ratio, and the quality of the asset and its market.

In addition to the mortgage interest rate estimate derived from this regression analysis, HVS constantly monitors the terms of hotel mortgage loans made by our institutional lending clients. Fixed-rate debt is being priced at roughly 250 to 500 basis points over the corresponding yield on treasury notes. As of January 10, 2018, the yield on the ten-year T-bill was 2.55%, indicating an interest rate range from 5.1% to 7.6%. The hotel investment market has been very active given the strong performance of this sector and low interest rates in recent years. The Federal Reserve, which raised the federal funds rate by 25 basis points in December 2016, March 2017, and June 2017, is anticipated to raise interest rates again in 2018. Hotel mortgage interest rates have only been slightly influenced by the recent rate increases by the Fed given the contraction in interest-rate spreads; however, future increases by the Fed raises the prospect of a higher cost of debt capital for hotel investors in 2018. Hotel values have not yet been affected by the rise in the Fed rate; furthermore, debt capital is expected to remain available at favorable interest rates in the near term. At present, we find that lenders that are active in the market are using loan-to-value ratios of 60% to 70%, and amortization periods of 20 to 30 years. Loan-to-value ratios in 2018 are not as robust as those from a couple of years ago, when ratios as high as 75% were available.

Based on our analysis of the current lodging industry mortgage market and adjustments for specific factors, such as the property's location and conditions in the Killian/Northeast Columbia hotel market, it is our opinion that a 5.00% interest, 25-year amortization mortgage with a 0.070151 constant is appropriate for the subject property. In the mortgage-equity analysis, we have applied a loan-to-value ratio of 65%, which is reasonable to expect based on this interest rate and current parameters.

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, we have used two sources of data: past appraisals and investor interviews.

Hotel Sales – Each appraisal performed by HVS uses a 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 near the date of our valuation, we were able to derive the equity yield rate and unlevered discount rate by inserting the ten-year projection, total investment (purchase price and estimated capital expenditure and/or PIP) and debt assumptions into a valuation model and solving for the equity yield. The overall capitalization rates for the historical income and projected first-year income are based on the sales price "as is." The following table shows a representative sample of hotels that were sold on or about the time that we appraised them, along with the derived equity return and discount rates based on the purchase price and our forecast.

FIGURE 9-25 SAMPLE OF HOTELS SOLD – LIMITED-SERVICE

Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Overall Rate Based on Sales Price: Historical Year	Overall Rate Based on Sales Price: Projected Year One	Gross Room Revenue Multiplier: Historical Year	Gross Room Revenue Multiplier: Projected Year One
Candlewood Suites	Bentonville, AR	130	Oct-17	13.1 %	22.6 %	9.4 %	10.5 %	3.8	3.8
La Quinta Inn & Suites	Waxahachie, TX	77	Oct-17	10.2	17.3	6.7	6.2	3.6	3.8
Holiday Inn Express & Suites	Charlotte, NC	97	Sep-17	12.2	21.2	10.6	10.5	3.5	3.4
La Dolce Vita Resort & Spa	Palm Springs, CA	18	Sep-17	15.2	24.2	9.3	11.8	4.6	3.8
Quality Inn Morgantown	Morgantown, WV	81	Sep-17	12.5	22.8	6.0	11.5	2.6	2.5
Civic Center Motel	Richmond, CA	48	Aug-17	13.0	22.2	7.3	8.5	5.4	5.2
Quality Inn	Pottstown, PA	98	Aug-17	14.0	24.1	6.7	9.6	3.1	2.8
Comfort Suites Airport	Greensboro, NC	113	Aug-17	12.1	21.4	5.3	5.9	3.2	3.0
Marina Bay Inn & Suites	Richmond, CA	106	Aug-17	12.4	20.6	—	—	—	5.6
EconoLodge Bellevue Square	Renton, WA	116	Jul-17	10.7	18.7	7.5	9.1	4.6	4.4
Red Roof Inn Palm Springs	Thousand Palms, CA	116	Jun-17	10.3	17.9	5.5	7.9	4.0	3.7
Quality Inn & Suites	Sneads Ferry, NC	68	Jun-17	11.5	20.2	11.2	11.1	2.5	2.6
Comfort Inn Fremont	Fremont, IN	64	Jun-17	13.4	23.2	10.4	10.7	2.8	2.8
Holiday Inn Express	Arlington Heights, IL	111	Jun-17	11.3	19.1	9.1	8.9	3.5	3.5
Days Inn Market Street	Wilmington, NC	150	May-17	13.3	23.0	7.7	12.2	2.6	2.5
Best Western Beachfront Inn	Brookings, OR	102	Apr-17	13.5	24.0	12.3	11.4	3.6	3.5
Comfort Inn Fort Myers	Fort Myers, FL	61	Apr-17	11.8	19.6	11.2	9.7	3.2	3.7
Baymont Inn & Suites	Baytown, TX	80	Mar-17	12.3	21.2	9.6	9.3	3.6	3.6
Days Inn Gilroy	Gilroy, CA	65	Mar-17	12.2	20.8	6.3	9.0	5.6	4.2
Super 8 Billings	Billings, MT	106	Mar-17	10.9	17.5	7.9	8.8	3.5	3.3
Quality Inn Baytown	Baytown, TX	62	Mar-17	12.0	20.5	8.7	9.7	3.5	3.5
Comfort Inn	New Castle, PA	79	Mar-17	12.3	21.2	10.9	8.8	2.0	2.1
Quality Inn & Suites	Miamisburg, OH	106	Mar-17	12.8	22.3	8.4	10.4	3.1	2.5
Seals Motel	Seattle, WA	40	Mar-17	11.8	20.2	9.1	9.7	5.1	4.8
Candlewood Suites	Fort Myers, FL	120	Mar-17	11.7	20.5	10.1	10.2	4.1	3.9
Holiday Inn Express Marina	Marina, CA	80	Mar-17	12.8	24.1	9.2	10.4	3.6	3.5
Rodeway Inn & Suites	Bakersfield, CA	74	Mar-17	9.7	16.3	5.4	7.5	4.5	4.4
Laguna Brisas Hotel	Laguna Beach, CA	66	Mar-17	11.9	18.4	5.5	8.8	2.9	2.8
Inn At The Finger Lakes	Auburn, NY	77	Feb-17	12.9	22.6	5.8	9.3	3.5	3.4
Best Western Gardens Hotel	29 Palms, CA	83	Feb-17	12.5	21.8	9.0	10.1	3.0	2.9
Comfort Inn & Suites Seattle	Seattle, WA	72	Feb-17	11.7	22.2	8.8	8.8	4.5	4.4
Red Roof Inn Arcata	Arcata, CA	78	Feb-17	11.3	19.1	8.9	8.5	2.8	2.7
Comfort Inn Nashville	Nashville, TN	55	Jan-17	12.1	20.8	9.4	10.1	2.5	2.5
River Edge Inn	Colonial Beach, VA	60	Jan-17	13.4	23.2	12.8	9.8	4.3	4.6
Holiday Inn Express	Williamsburg, VA	120	Jan-17	13.9	24.4	11.1	11.9	3.6	3.4
Holiday Inn Express Bremen	Bremen, GA	84	Dec-16	11.8	20.7	6.4	9.3	3.4	3.1
Historic Streetcar Inn	New Orleans	26	Dec-16	11.3	20.4	8.1	8.7	3.3	3.2
Holiday Inn Express & Suites	King of Prussia, PA	155	Dec-16	12.1	21.6	10.1	10.6	3.5	3.4

Source: HVS

FIGURE 9-26 SAMPLE OF HOTELS SOLD – SELECT-SERVICE/EXTENDED-STAY

Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Overall Rate Based on Sales Price: Historical Year	Overall Rate Based on Sales Price: Projected Year One
Hilton Garden Inn Allentown West	Breinigsvile, PA	111	Nov-17	10.8 %	18.9 %	8.1 %	8.6 %
Courtyard by Marriott Tucson Airport	Tucson, AZ	149	Nov-17	9.7	16.1	8.9	8.3
Hampton Inn Saint Augustine I-95	Saint Augustine, FL	67	Sep-17	11.9	21.0	11.3	10.8
Hampton Inn & Suites Palm Coast	Palm Coast, FL	94	Sep-17	12.5	21.2	10.2	10.6
Element Denver Park Meadows	Lone Tree, CO	123	Aug-17	10.3	18.7	5.9	8.1
SpringHill Suites by Marriott	Savannah, GA	79	Aug-17	12.1	20.8	4.0	9.3
TownePlace Suites by Marriott	Waco, TX	93	Aug-17	11.2	20.7	8.5	7.8
Courtyard SeaWorld Lackland	San Antonio, TX	96	Aug-17	11.0	18.9	7.9	7.8
Courtyard Kaua'i at Coconut Beach	Kapa'a, HI	311	Aug-17	11.5	19.4	6.4	4.1
Hampton Inn by Hilton Norfolk	Virginia Beach, VA	120	Jul-17	11.4	21.2	12.4	12.6
TownePlace Suites by Marriott	Tallahassee, FL	94	Jul-17	10.5	16.1	14.5	7.9
Hyatt Place US Capitol	Washington, D.C.	200	Jun-17	10.3	20.0	6.1	7.2
Hyatt Place San Jose Downtown	San Jose, CA	234	Jun-17	12.2	21.4	8.1	8.5
Courtyard by Marriott Boston	Cambridge, MA	207	Jun-17	9.0	14.9	5.5	6.0
Hilton Garden Inn Philadelphia	Fort Washington, PA	146	May-17	10.9	19.7	7.6	8.3
Hampton Inn Northlake	Atlanta, GA	121	May-17	11.5	20.0	9.4	9.6
Hyatt House Denver Airport	Denver, CO	123	May-17	11.5	21.9	7.0	8.7
Courtyard by Marriott Maui	Kahului, HI	138	May-17	8.1	12.7	6.0	6.0
Courtyard by Marriott	Rock Hill, SC	90	Apr-17	12.5	23.6	15.2	11.1
Hampton Inn	DeKalb, IL	80	Mar-17	10.7	19.1	6.9	8.1
Hampton Inn	Ridgefield Park, NJ	83	Mar-17	9.8	17.1	6.4	6.6
Courtyard by Marriott	Tulsa, OK	122	Mar-17	12.3	21.4	12.3	10.3
Hilton Garden Inn	Overland Park, KS	125	Feb-17	10.6	19.4	8.1	8.5
TownePlace Suites by Marriott	Mount Laurel, NJ	94	Feb-17	8.7	16.1	5.8	8.3
Hyatt Place Charlotte Downtown	Charlotte, NC	172	Jan-17	10.5	19.4	6.7	8.1
Hotel 43	Boise, ID	112	Jan-17	11.0	20.2	8.8	8.9
Hyatt Place Airport Valley View Mall	Roanoke, VA	126	Jan-17	11.7	21.7	7.8	9.2
Hyatt Place Greenville Haywood	Greenville, SC	126	Jan-17	11.5	21.5	8.7	10.2
Hyatt Place Dallas Park Central	Dallas, TX	126	Jan-17	10.2	18.3	7.9	8.9
Hyatt Place North Point Mall	Alpharetta, GA	124	Jan-17	12.4	23.8	10.8	11.0
Hyatt Place Charlotte Arrowood	Charlotte, NC	126	Jan-17	11.1	20.6	8.7	9.6
Hyatt Place Topeka	Topeka, KS	126	Jan-17	9.9	17.7	8.3	9.6
Courtyard by Marriott Midtown	Sacramento, CA	139	Dec-16	10.5	18.4	8.6	8.7
Hyatt House Colorado Springs	Colorado Springs, CO	125	Dec-16	13.1	23.3	9.9	11.3
Courtyard by Marriott Boise	Boise, ID	162	Dec-16	11.2	21.2	8.4	9.5
Hampton Inn Freeport	Freeport, IL	72	Nov-16	10.7	19.3	8.7	10.6
Residence Inn by Marriott Bozeman	Bozeman, MT	115	Nov-16	11.2	19.1	7.2	8.8
Hilton Garden Inn Downtown	Detroit, MI	198	Oct-16	12.0	22.3	8.7	10.0

Source: HVS

Investor Interviews - During the course of our work, we continuously monitor investor equity-yield requirements through discussions with hotel investors and brokers. We find that equity yield rates currently range from a low in the low-to-mid teens for high-barrier-to-entry "trophy assets"; the upper teens for high quality, institutional-grade assets in strong markets; and the upper teens to low 20s for quality assets in more typical markets. Equity yield rates tend to exceed 20% for aging assets with functional obsolescence and/or other challenging property- or market-related issues. Equity return requirements also vary with an investment's level of leverage.

The following table summarizes the range of equity yields indicated by hotel sales and investor interviews. We note that there tends to be a lag between the sales data and current market conditions, and thus, the full effect of the change in the economy and capital markets may not yet be reflected.

FIGURE 9-27 SUMMARY OF EQUITY YIELD OR INTERNAL RATE OF RETURN REQUIREMENTS

Source	Data Point Range	Average
HVS Hotel Sales - Full-Service & Luxury	12.7% - 22.9%	17.6%
HVS Hotel Sales - Select-Service & Extended-Stay	12.7% - 23.8%	19.7%
HVS Hotel Sales - Limited-Service	16.3% - 24.4%	21.1%
HVS Investor Interviews	13% - 25%	

Based on the assumed 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 18.0%. Equity yields have remained relatively stable over the past few years. Competition for quality assets in major metro areas and in strong secondary markets, coupled with loan-to-value ratios that remain in the 60% to 70% range, has sustained downward pressure on equity yields in these markets, thus pushing investors with higher yield expectations to pursue acquisitions with greater upside in secondary and tertiary markets, or to wait on the side lines.

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 sale price as of that date is calculated by capitalizing the projected eleventh-year net income by an overall terminal capitalization rate. An allocation for the selling expenses is deducted from this sale 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.

We have reviewed several recent investor surveys. The following chart summarizes the averages presented for terminal capitalization rates in various investor surveys during the past decade.

FIGURE 9-28 HISTORICAL TRENDS OF TERMINAL CAPITALIZATION RATES

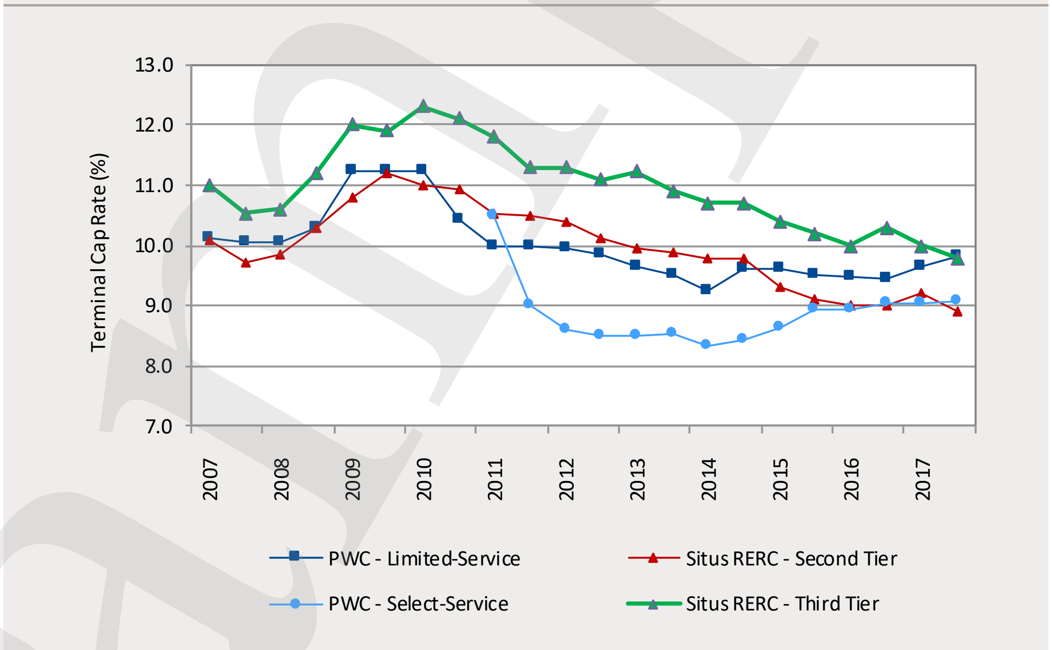


FIGURE 9-29 TERMINAL CAPITALIZATION RATES DERIVED FROM INVESTOR SURVEYS

Source	Data Point Range	Average
PWC Real Estate Investor Survey - 3rd Quarter 2017		
Limited-Service Hotels	7.75% - 11.0%	9.8%
Select-Service Hotels	7.0% - 10.75%	9.1%
USRC Hotel Investment Survey - Mid-Year 2017		
Limited-Service Hotels	8.75% - 10.25%	9.4%
Situs RERC Real Estate Report - 2nd Quarter 2017		
Second Tier Hotels	7.0% - 10.5%	8.9%
Third Tier Hotels	7.8% - 11.4%	9.8%

For purposes of this analysis, we have applied a terminal capitalization rate of 9.00%. Our final position for the terminal capitalization rate reflects the current market for hotel investments and also considers the subject property's attributes. Terminal capitalization rates, in general, have remained stable over the past few years. Terminal cap rates are at the low end of the range for quality hotel assets in markets with high barriers to entry and at the high end of the range for older assets or for those suffering from functional obsolescence and/or weak market conditions, reflecting the market's recognition that certain assets have less opportunity for significant appreciation.

Mortgage-Equity Method - Value Opinion

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). Thus, 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. Using this method of the income capitalization approach with the variables set forth, our opinion of value of the fee simple interest in the subject property is illustrated in the following table.

FIGURE 9-30 VALUE OPINION AND APPLICATION OF CAPITAL DEDUCTION, AS APPLICABLE

Value Indication Prior to Deduct:	$8,060,365
Capital Deduction, If Applicable:	0
Value Indication ("As Is") After Deduction:	$8,060,365
Rounded to:	$8,100,000
Per Room:	108,000

Mathematical Proof of Value

The value is mathematically proven by confirming that the market-derived yields are met for the lender and equity participant during the projection period. 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%)	$5,239,000
Equity Component (35%)	2,821,000
Total	$8,060,000

The annual debt service is calculated by multiplying the mortgage component by the mortgage constant.

Mortgage Component	$5,239,000
Mortgage Constant	0.070151
Annual Debt Service	$368,000

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

FIGURE 9-31 ELEVEN-YEAR FORECAST OF NET INCOME AND TEN-YEAR FORECAST OF NET INCOME TO EQUITY

Year	EBITDA Less Reserves - Before Debt Service	Less: Debt Service	EBITDA Less Reserves to Equity	Debt Coverage Ratio	Cash-on-Cash Return
2018/19	$721,000	$368,000	$353,000	1.96	12.5 %
2019/20	669,000	368,000	301,000	1.82	10.7
2020/21	696,000	368,000	328,000	1.89	11.6
2021/22	736,000	368,000	368,000	2.00	13.0
2022/23	758,000	368,000	390,000	2.06	13.8
2023/24	781,000	368,000	413,000	2.12	14.6
2024/25	804,000	368,000	436,000	2.18	15.5
2025/26	829,000	368,000	461,000	2.25	16.3
2026/27	854,000	368,000	486,000	2.32	17.2
2027/28	879,000	368,000	511,000	2.39	18.1
2028/29	905,000				

The net proceeds to equity upon sale of the property were 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 eleventh year's net income capitalized by the terminal capitalization rate. The calculation is shown as follows.

11th Year's EBITDA Less Reserves	$905,000
Capitalization Rate	9.0%
Reversionary Value	$10,061,000
Less:	
Brokerage and Legal Fees	302,000
Mortgage Balance	3,873,000
Net Sale Proceeds to Equity	$5,886,000

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.

HVS

FIGURE 9-32 TOTAL PROPERTY VALUE AND INTERNAL RATES OF RETURN

Position	Value	Projected Yield (Internal Rate of Return) Over Holding Period
Total Property	$8,060,000	10.6 %
Mortgage	5,239,000	4.9
Equity	2,821,000	18.0

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 position of the total property yield or unlevered discount rate reflects the current market conditions for both debt and equity capital. Debt remains available at favorable interest rates from a variety of lender types, though loan-to-value ratios remain in the 60% to 70% for most transactions. Equity and mezzanine financing is readily available due to the attractive yields being generated by hotels when compared with other forms of commercial real estate. We continue to interview hotel investors to assess the movement in yield rates and their impact on value.

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.

FIGURE 9-33 VALUE OF THE MORTGAGE COMPONENT

Year	Total Annual Debt Service		Present Worth of $1 Factor at 4.9%		Discounted Cash Flow
2018/19	$368,000	x	0.952877	=	$351,000
2019/20	368,000	x	0.907974	=	334,000
2020/21	368,000	x	0.865187	=	318,000
2021/22	368,000	x	0.824416	=	303,000
2022/23	368,000	x	0.785567	=	289,000
2023/24	368,000	x	0.748548	=	275,000
2024/25	368,000	x	0.713274	=	262,000
2025/26	368,000	x	0.679662	=	250,000
2026/27	368,000	x	0.647634	=	238,000
2027/28	4,241,000 *	x	0.617115	=	2,617,000
			Value of Mortgage Component		$5,237,000

*10th year debt service of $368,000 plus outstanding mortgage balance of $3,873,000

FIGURE 9-34 VALUE OF THE EQUITY COMPONENT

Year	Net Income to Equity			Present Worth of $1 Factor at 18.0%		Discounted Cash Flow
2018/19	$353,000		x	0.847550	=	$299,000
2019/20	301,000		x	0.718341	=	216,000
2020/21	328,000		x	0.608829	=	200,000
2021/22	368,000		x	0.516013	=	190,000
2022/23	390,000		x	0.437347	=	171,000
2023/24	413,000		x	0.370673	=	153,000
2024/25	436,000		x	0.314164	=	137,000
2025/26	461,000		x	0.266270	=	123,000
2026/27	486,000		x	0.225677	=	110,000
2027/28	6,397,000	*	x	0.191272	=	1,224,000
				Value of Equity Component		$2,823,000

*10th year net income to equity of $511,106 plus sales proceeds of $5,886,000

FIGURE 9-35 VALUE OF THE EQUITY, DEBT AND TOTAL PROPERTY

Year	EBITDA Less Reserves Available for Debt Service			Present Worth of $1 Factor at 10.6%		Discounted Cash Flow
2018/19	$721,000		x	0.903761	=	$652,000
2019/20	669,000		x	0.816784	=	546,000
2020/21	696,000		x	0.738177	=	514,000
2021/22	736,000		x	0.667136	=	491,000
2022/23	758,000		x	0.602931	=	457,000
2023/24	781,000		x	0.544905	=	426,000
2024/25	804,000		x	0.492464	=	396,000
2025/26	829,000		x	0.445070	=	369,000
2026/27	854,000		x	0.402237	=	344,000
2027/28	10,638,000	*	x	0.363526	=	3,867,000
				Total Property Value		$8,062,000

*10th year EBITDA Less Replacement Reserve of $879,106 plus sales proceeds of $9,759,00C

Direct Capitalization

The following table reflects the capitalization rates for the subject property that have been derived based on our estimate of market value via the discounted-cash-flow analysis. Note that the stabilized year's net income has been deflated to first-year dollars.

FIGURE 9-36 DERIVED CAPITALIZATION RATES

Year	EBITDA Less Replacement Reserves	Market Value "As Is"	Derived Capitalization Rate
2017 Historical*	$732,000	$8,100,000	9.0 %
Forecast 2018/19	721,000	$8,100,000	8.9

*2017 historical EBITDA Less Replacement Reserves has been adjusted to reflect a 3.0% management fee and a 4.0% reserve for replacement

The derived capitalization rates are considered appropriate for a lodging facility such as the Carolinas Inn. The capitalization rate based on the first year's projected EBITDA Less Replacement Reserve is in line with current rates of return for hotel investments with the subject property's operating profile.

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

FIGURE 9-37 HISTORICAL TRENDS OF OVERALL CAPITALIZATION RATES

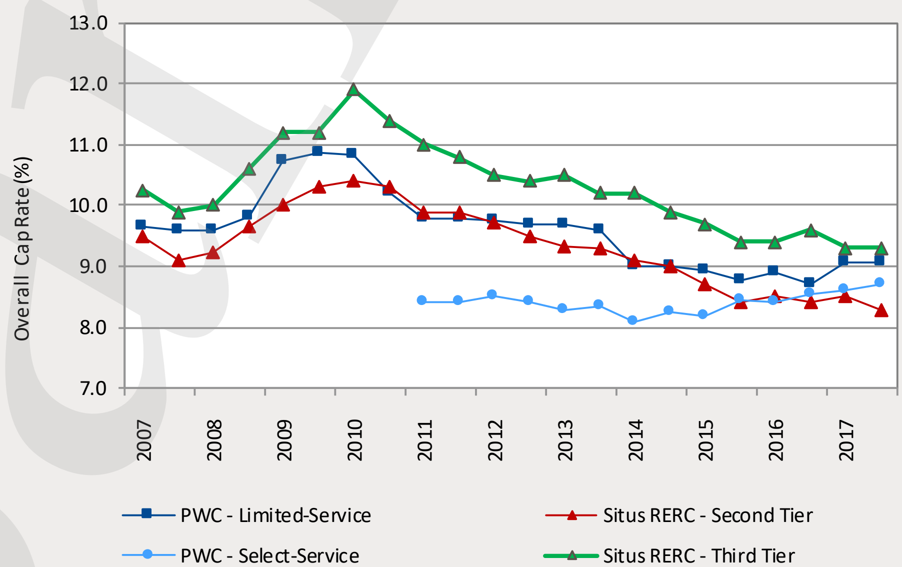


FIGURE 9-38 OVERALL CAPITALIZATION RATES DERIVED FROM SALES AND INVESTOR SURVEYS

Source	Data Point Range	Average
HVS Hotel Sales - Limited-Service	5.3% - 12.8%	8.6%
HVS Hotel Sales - Select-Service & Extended-Stay	4% - 15.2%	8.5%
PWC Real Estate Investor Survey - 3rd Quarter 2017		
Limited-Service Hotels	7.5% - 11.0%	9.1%
Select-Service Hotels	6.5% - 10.0%	8.7%
USRC Hotel Investment Survey - Mid-Year 2017		
Limited-Service Hotels	7.25% - 9.0%	8.6%
Situs RERC Real Estate Report - 2nd Quarter 2017		
Second Tier Hotels	6.6% - 9.5%	8.3%
Third Tier Hotels	7.5% - 11.0%	9.3%

We note that these results represent overall averages taken from a wide array of individual data points; accordingly, a range of reasonableness exists above and below the most recent figures. We have also reviewed capitalization rates from our extensive hotel transactions database; although not directly comparable, a selection of these rates is shown in the table titled *Sample of Hotels Sold*, which is presented previously in this chapter.

Discounted Cash Flow Analysis

The process of converting the projected income stream into an estimate of value via the discounted-cash-flow method 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, and rates of return on other investment alternatives, as well as the availability and cost of financing. The discount rate is chosen by reviewing sales transactions and investor surveys and interviewing market participants.
2. A reversionary value reflecting the sales price of the property at the end of the ten-year holding period is calculated by capitalizing the eleventh-year net income by the terminal capitalization rate and deducting typical brokerage and legal fees.

3. 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.

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

FIGURE 9-39 HISTORICAL TRENDS OF DISCOUNT RATES

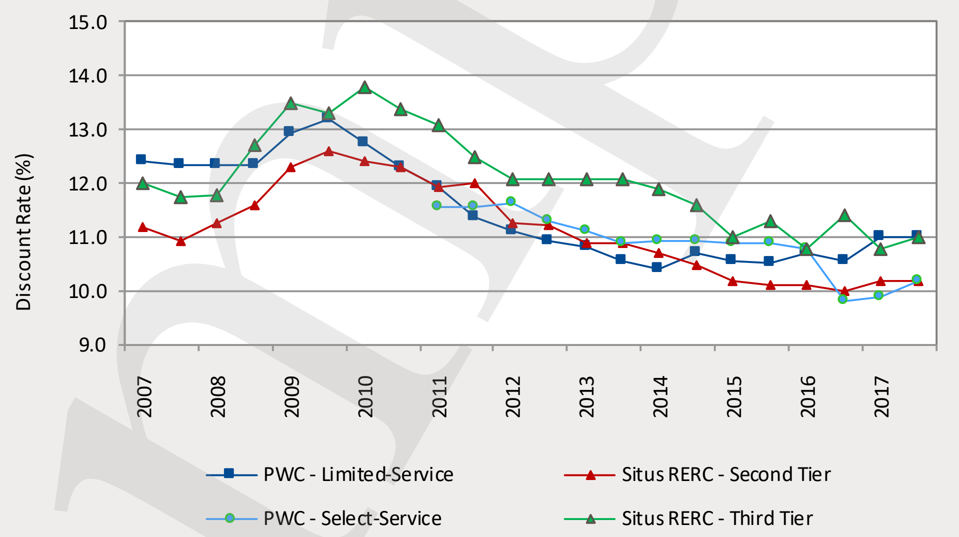


FIGURE 9-40 OVERALL DISCOUNT RATES DERIVED FROM SALES AND INVESTOR SURVEYS

Source	Data Point Range	Average
HVS Hotel Sales - Limited-Service	9.7% - 15.2%	12.2%
HVS Hotel Sales - Select-Service & Extended-Stay	8.1% - 13.1%	11.0%
PWC Real Estate Investor Survey - 3rd Quarter 2017		
Limited-Service Hotels	8.5% - 13.0%	11.0%
Select-Service Hotels	8.0% - 12.0%	10.2%
USRC Hotel Investment Survey - Mid-Year 2017		
Limited-Service Hotels	9.75% - 11.5%	10.8%
Situs RERC Real Estate Report - 2nd Quarter 2017		
Second Tier Hotels	8.8% - 12.0%	10.2%
Third Tier Hotels	8.8% - 13.0%	11.0%

We note that these results represent overall averages taken from a wide array of individual data points; accordingly, a range of reasonableness exists above and below the most recent figures. Based on our review of these surveys, sales transactions (see total property yields shown in the table titled *Sample of Hotels Sold*), and interviewing market participants, we have selected a discount rate of 10.75% for our analysis. Similar to the developed total property yield, our selected discount rate considers the current market for hotel investments, as well as the characteristics of the [Brand] brand and Killian lodging market.

Utilizing the discount rate set forth, the discounted-cash-flow procedure is summarized as follows. The capital deduction, if applicable, is applied in this analysis as shown.

FIGURE 9-41 DISCOUNTED CASH FLOW ANALYSIS

Year	EBITDA Less Reserves		Discount Factor @ 10.75%	Discounted Cash Flow
2018/19	$721,000		0.90293	$651,000
2019/20	669,000		0.81529	545,000
2020/21	696,000		0.73615	512,000
2021/22	736,000		0.66470	489,000
2022/23	758,000		0.60018	455,000
2023/24	781,000		0.54192	423,000
2024/25	804,000		0.48932	393,000
2025/26	829,000		0.44182	366,000
2026/27	854,000		0.39894	341,000
2027/28	10,633,000	*	0.36022	3,830,000
			Estimated Market Value, Prior to Deduct	$8,007,000
			Capital Deduction (If Applicable)	0
			Estimated Market Value, After Deduct	$8,007,000
			Rounded To	**$8,000,000**
			Per Room	**$107,000**

Reversion Analysis

11th Year's EBITDA Less Reserves	$905,000
Capitalization Rate	9.0%
Total Sales Proceeds	$10,056,000
Less: Transaction Costs @ 3.0%	302,000
Net Sales Proceeds	$9,754,000

*10th year EBITDA Less Replacement Reserve of $879,106 plus sales proceeds of $9,759,000

Discounted Cash Flow Analysis – "When Stabilized"

The preceding valuation process was repeated using the projected cash flows beginning as of the stabilized year. The remaining years' net income was projected through an eleven-year period. An adjustment, if applicable, is applied to the discount rate to reflect potential changes in the investment climate by the date of stabilization. The discounted-cash-flow procedure is summarized as follows.

FIGURE 9-42 DISCOUNTED CASH FLOW ANALYSIS— STABILIZED VALUE

Year	EBITDA Less Reserves		Discount Factor @ 10.75%	Discounted Cash Flow
2021/22	$736,000		0.90293	$665,000
2022/23	758,000		0.81529	618,000
2023/24	781,000		0.73615	575,000
2024/25	804,000		0.66470	534,000
2025/26	829,000		0.60018	498,000
2026/27	854,000		0.54192	463,000
2027/28	879,000		0.48932	430,000
2028/29	905,000		0.44182	400,000
2029/30	932,000		0.39894	372,000
2030/31	11,619,000	*	0.36022	4,185,000
			Estimated Market Value	$8,740,000
			Rounded To	**$8,700,000**
			Per Room	**$116,000**

Reversion Analysis

11th Year's EBITDA Less Reserves	$989,000
Capitalization Rate	9.0%
Total Sales Proceeds	$10,989,000
Less: Transaction Costs @ 3.0%	330,000
Net Sales Proceeds (Say)	$10,659,000

*10th year net income of $960,000 plus sales proceeds of $10,659,000

Based on this procedure, it is our opinion that the prospective market value, as of February 1, 2021, is $8,700,000, or $116,000 per room.

Conclusion

Using the income capitalization approach, the subject property was valued by a mortgage-equity valuation analysis and a straightforward discounted-cash-flow analysis. Based on our review of each method and their inherent strengths and weaknesses, as well as investor attitudes and methodologies, we have reconciled the value indication via the income capitalization approach to $8,100,000 or $108,000 per room. Furthermore, it is our opinion that the "when stabilized" value is $8,700,000, or $116,000 per room.

10. Sales Comparison Approach

The sales comparison approach is based on the principle of substitution, which defines a property's value as the cost of acquiring an equally desirable substitute (assuming that no costly delay is incurred in making the substitution). Thus, the sales comparison approach can be used to form an opinion of a property's market value from the price at which equally desirable properties have sold, or for which they can be purchased, on the open market.

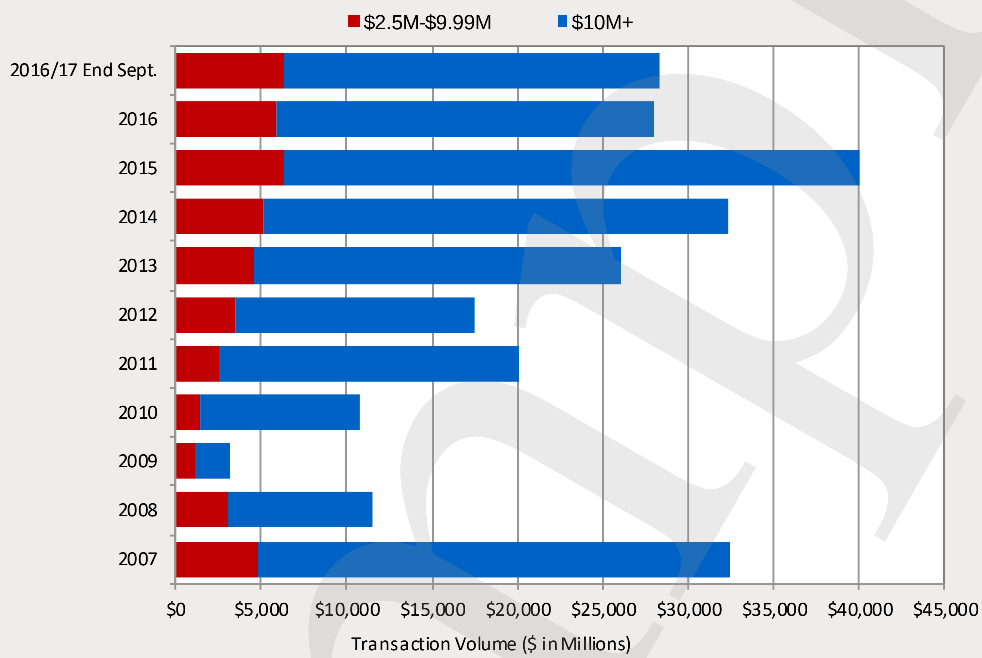
Hotel Investment Market Overview

The following overview of the hotel investment market during recent industry investment cycles provides a context for the sales comparison approach.

The volume of hotel transactions and the price paid for individual assets are influenced by two principal factors: the availability of capital and the performance of the lodging sector as a whole. When high levels of leverage are available on favorable terms and the industry is performing well, investors are attracted to the market, and both prices and the number of transactions increase. These market conditions often induce sellers to put their properties on the market, further fueling the pace of transaction activity. Conversely, when the availability of capital declines and interest rates increase, both the pace of activity and pricing levels decrease. When these capital conditions coincide with a downturn in industry performance, the transaction market drops off significantly. In these market conditions, sellers are typically unwilling to put their properties on the market, electing to wait until market conditions improve. The impact of these influences results in a cyclical investment market, recording peaks and valleys in response to changes in the capital markets and the economy.

The following chart sets forth the dollar volume of U.S. hotel transactions over the past decade, as reported by Real Capital Analytics. The blue portion of the bar chart represents the volume of transactions with a price in excess of $10 million, identified as Major Sales Transactions, while the red portion of the bar represents the volume of transactions with a price of $2.5 million to $10 million.

FIGURE 10-1 U.S. HOTEL TRANSACTION VOLUME BY YEAR (SALES ABOVE $2.5M)

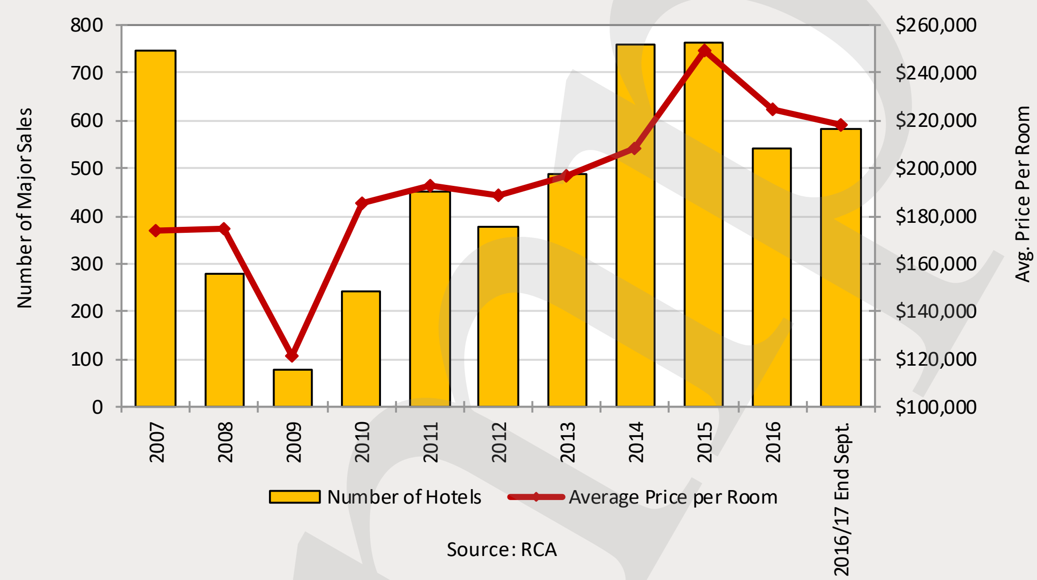


Source: RCA

The cyclical nature of the hospitality investment market is evident in the sales data. Following peak levels of activity in 2006 and 2007, hotel transaction activity slowed significantly in 2008 because of the weakening economy and reduction in CMBS lending. The market came to a virtual standstill in 2009 given the financial crisis, which negatively affected the hotel and real estate industries. Transaction activity began to recover in 2010 as the economic recovery gained momentum. Driven by strong industry fundamentals and favorable investment, transaction activity continued to increase, regaining 2007 levels in 2014 and reaching a new peak of almost $35 billion in transactions of over $10 million in 2015. Total sales volume declined by approximately 30% in 2016 given the slow first half of the year, when economic uncertainty and a pull-back by lenders and investors slowed transaction activity; however, the market resumed more normalized sales levels during the second half of the year.

The following graph sets forth the number of major hotel transactions (defined as those with a purchase price in excess of $10 million) and the average price per room during the last decade.[14]

FIGURE 10-2 U.S. HOTEL TRANSACTIONS BY YEAR (SALES ABOVE $10M)



Major sales transaction activity, defined as hotels that sell for more than $10 million, mirrors the total sales trend. Since its nadir in 2009, the market recovered to nearly 800 major sales transactions in 2015, considered the peak year of transaction activity for this current cycle. The average price per room for hotels selling at a minimum price of $10 million surpassed $250,000 in 2015, a 21% increase over the prior year, reflecting a significant increase in the number of higher-priced, full-service hotel transactions. Sales activity in 2016 declined by 30% over 2015, reflecting investor and lender concerns about the impact of softening economic conditions and increasing supply in the first two quarters of the year; however, activity picked up in the latter half of the year. The average sales price per key declined by 9% given the fewer sales of large, high-priced assets. Sellers are retaining their value expectations, while buyers are being more conservative when formulating their purchase price decisions, thus creating a gap between the two, which has moderated sales activity to a more normalized transaction level in contrast to a very robust 2015. Capitalization rates have increased modestly given

[14] Real Capital Analytics individual and portfolio hotel transactions data

the anticipation of slowing net income growth. Debt remains available at favorable interest rates, though some lenders have pulled out of the market, and underwriting standards have become more stringent. The combination of these factors has resulted in a more normalized pace of market activity.

Limited- and select-service hotels are anticipated to remain the most active product types. Competition for high-quality assets in gateway cities remains strong, driving many buyers to pursue assets in secondary markets. Investor interest has broadened outside the premier sectors and markets. While some aging assets and/or those in need of unfunded capital improvements may continue to be challenged, capital is selectively available for asset turnarounds.

The improvement in market conditions in recent years resulted in increased sales transaction activity reflective of investor expectations in a normalized market. Market conditions began to shift in the fall of 2015, as lodging REITs were affected by volatility in the stock market. CMBS financing has become less available for hotel assets as institutional investors look to reduce risk. The recent change in market conditions indicates that adjustments may be warranted for sales that occurred from 2012 to mid-year 2015, a period of more robust sales activity. Capitalization rates derived from the historical income of the sales vary widely, depending upon when the sale occurred and how a hotel was performing at the time of sale. Given these factors, we have researched and relied upon the most relevant comparable sales data in our appraisal, although adjustments for changes in capital market conditions may be warranted, depending on the date and attributes of the transaction.

Sales History of Subject

The subject property is currently owned by Current Owner LLC. The subject property was last sold in 2006; Current Owner LLC has owned the property since that time, having purchased it from Prior Owner LLC Inc for a reported price of $4,200,000. No transfers of the property have reportedly occurred since 2005. The hotel is neither listed nor under contract for sale, and we have no knowledge of any recent listings.

Review of Comparable Sales

To present our selection of comparable sales, we conducted a comprehensive search for recent transactions of hotels that bear comparison to the subject property in one or more key areas. When possible, we gave priority to transactions occurring in the same state or region as the subject property. We also considered factors such as operational and physical similarities to the subject property, including brand affiliation and revenue-generating characteristics. All of the data have been verified by HVS or obtained from a verifying source. The following transactions involved hotels that have some degree of geographic similitude with the subject property.

FIGURE 10-3 REVIEW OF PERTINENT TRANSACTIONS

Property	Location	Sale Date	Price	Rooms	Price/Rm	Overall Cap	Year Opened
Red Roof Inn Columbia West	Columbia, SC	Oct-17	$4,300,000	107	$39,815	12.8%	1982
Holiday Inn Express & Suites Charlotte Arrowood	Charlotte, NC	Sep-17	10,300,000	97	106,186	10.6%	2007
Hampton Inn Hilton Head	Hilton Head Island, SC	Aug-17	11,650,000	115	101,304	—	1988
Holiday Inn Express Blythewood	Blythewood, SC	Jul-17	4,100,000	88	46,591	—	1999
Four Points by Sheraton Charlotte	Charlotte, NC	Jun-17	13,000,000	132	98,485	15.6%	1988
Homewood Suites by Hilton Columbia	Columbia, SC	Jun-17	9,500,000	81	117,284	—	2004
Fairfield Inn by Marriott Myrtle Beach North	Myrtle Beach, SC	Jun-17	8,342,234	86	97,003	—	1997
Fairfield Inn by Marriott Charlotte Northlake	Charlotte, NC	Jun-17	10,113,482	93	108,747	—	1999
Residence Inn by Marriott Columbia Northeast	Columbia, SC	May-17	12,395,404	113	109,694	—	2005
Courtyard by Marriott Columbia Northeast	Columbia, SC	May-17	9,104,589	83	109,694	—	1998
SpringHill Suites by Marriott Charlotte Airport	Charlotte, NC	Apr-17	11,500,000	95	121,053	—	2002
Hampton Inn Clemson	Clemson, SC	Apr-17	9,175,000	90	101,944	—	1995
Comfort Suites Beaufort	Beaufort, SC	Mar-17	5,475,000	70	78,214	—	2007
Hyatt Place Greenville/Haywood	Greenville, SC	Jan-17	16,227,000	126	128,786	8.7%	1997
Comfort Inn Columbia	Columbia, SC	Dec-16	6,500,000	98	66,327	—	1986
Quality Inn Columbia Harbison Area	Columbia, SC	Nov-16	2,950,000	87	33,908	13.4%	1987
Wingate Columbia	Columbia, SC	Sep-16	6,750,000	100	66,832	9.4%	1999
Marriott Columbia	Columbia, SC	Sep-16	27,149,000	300	90,497	—	1983
Hyatt Place Columbia Downtown The Vista	Columbia, SC	Aug-16	24,100,000	130	185,385	8.9%	2015
DoubleTree by Hilton Columbia South Carolina	Columbia, SC	Aug-16	14,850,001	236	62,924	—	1985
Fairfield Inn by Marriott Orangeburg	Orangeburg, SC	Jul-16	5,250,000	65	80,769	—	1998
Comfort Suites Clinton	Clinton, SC	Jul-16	4,825,000	91	53,022	—	2009
Hampton Inn & Suites Columbia Southeast Fort Jackson	Columbia, SC	Jul-16	14,000,000	100	140,000	8.1%	2012
Comfort Inn North Myrtle Beach	North Myrtle Beach, SC	Jun-16	2,700,000	60	45,000	—	1996
Comfort Inn Executive Park	Charlotte, NC	Mar-16	5,600,000	140	40,000	—	1987
Comfort Suites Sumter	Sumter, SC	Dec-15	5,175,000	65	79,615	5.3%	1997
Holiday Inn Express Myrtle Beach Broadway@The Bch	Myrtle Beach, SC	Dec-15	7,400,000	114	64,912	7.0%	1999
Sleep Inn Charlotte	Charlotte, NC	Dec-15	6,000,000	120	50,000	19.8%	1997
Hampton Inn Columbia Northeast Fort Jackson	Columbia, SC	Nov-15	6,000,000	111	54,054	—	1997
Embassy Suites by Hilton Columbia Greystone	Columbia, SC	Sep-15	14,474,379	213	67,955	—	1988
Comfort Inn Columbia	Columbia, SC	Jul-15	4,000,000	96	41,667	16.5%	1986
Fairfield Inn & Suites by Marriott Charleston North Ashley Phosphate	North Charleston, SC	Jul-15	12,499,993	88	142,045	—	2005
Hampton Inn & Suites Greenville Spartanburg	Duncan, SC	Jul-15	11,325,000	133	85,150	—	2000
Fairfield Inn & Suites by Marriott Columbia Northeast	Columbia, SC	Jun-15	6,750,000	96	70,312	—	2008
Hampton Inn Charlotte University Place	Charlotte, NC	May-15	14,300,000	126	113,492	6.4%	1991
Holiday Inn Express Greenville Airport	Greer, SC	May-15	5,175,000	83	62,349	13.5%	1996
Ramada Columbia Fort Jackson Area	Columbia, SC	Mar-15	2,958,596	90	32,873	—	1980
Hampton Inn Columbia I 26 Airport	West Columbia, SC	Feb-15	6,000,000	120	50,000	8.2%	1985
Baymont Inn & Suites Columbia Northwest	Columbia, SC	Feb-15	3,200,000	149	21,477	—	1989
Quality Inn Fort Jackson Columbia	Columbia, SC	Jan-15	3,250,000	125	26,000	8.0%	1988

The following transactions involved hotels that have some degree of branding similitude with the subject property.

FIGURE 10-4 REVIEW OF PERTINENT TRANSACTIONS (CONTINUED)

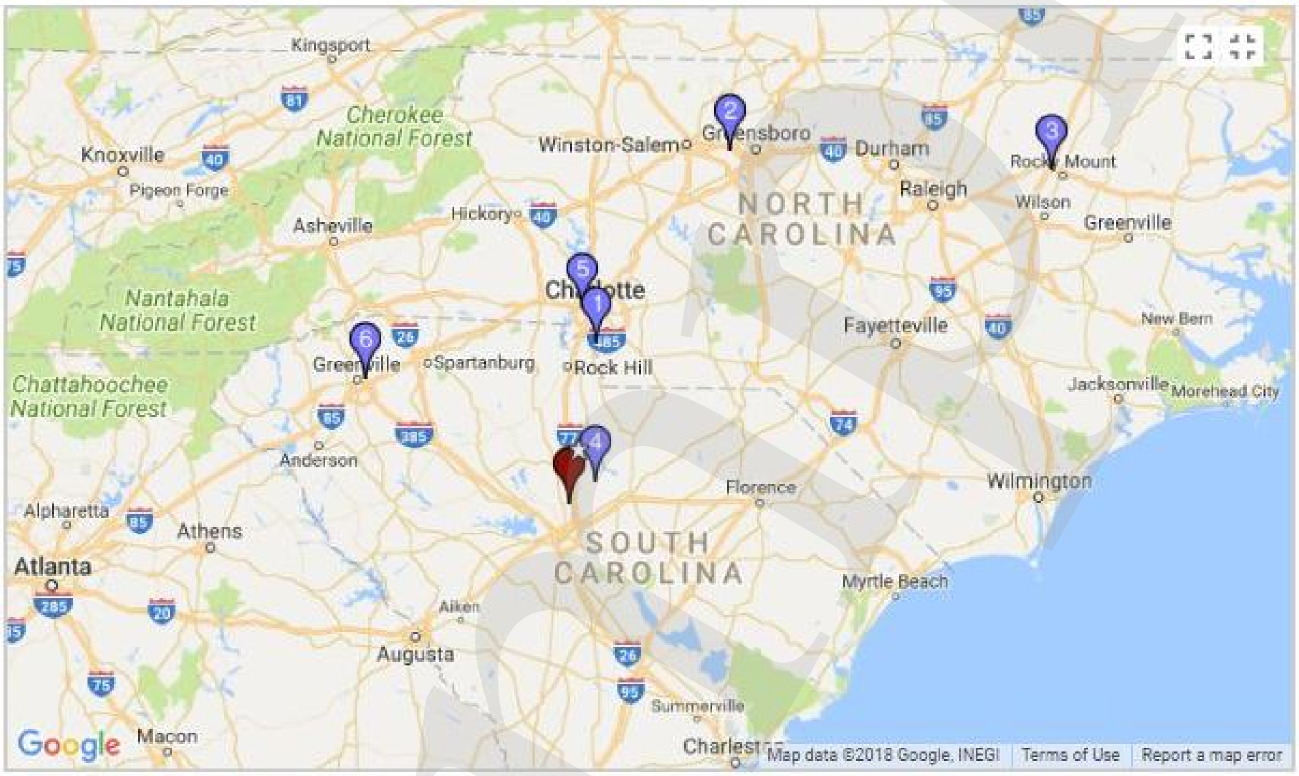
Property	Location	Sale Date	Price	Rooms	Price/Rm	Overall Cap	Year Opened
Comfort Inn Winterville	Greenville, NC	Dec-17	$3,150,000	60	$52,500	—	1997
Comfort Inn Gloucester	Gloucester, VA	Sep-17	2,650,000	79	33,544	5.2%	0
Comfort Inn Story City	Story City, IA	Aug-17	3,010,000	60	50,167	—	2003
Comfort Inn Hastings	Hastings, NE	Aug-17	3,200,000	61	52,459	—	1996
Comfort Suites Airport Greensboro	Greensboro, NC	Aug-17	6,200,000	113	54,867	5.3%	1997
Comfort Inn Rocky Mount	Rocky Mount, NC	Aug-17	7,700,000	125	61,600	11.4%	1990
Comfort Suites Gastonia	Gastonia, NC	Jun-17	12,456,218	109	114,277	—	1996
Comfort Inn Fremont	Fremont, IN	Jun-17	2,865,000	64	44,766	13.1%	1998
Comfort Suites Whitsett	Whitsett, NC	Jun-17	5,450,000	82	66,463	—	2009
Comfort Inn Fort Myers	Fort Myers, FL	Apr-17	5,490,000	61	90,000	11.2%	1999
Comfort Inn Forest Hill	Forest Hill, TX	Mar-17	3,150,000	59	53,390	—	1997
Comfort Inn New Castle	New Castle, PA	Mar-17	2,500,000	79	31,646	14.5%	1987
Comfort Suites Beaufort	Beaufort, SC	Mar-17	5,475,000	70	78,214	—	2007
Comfort Inn Fayetteville	Fayetteville, NC	Feb-17	3,400,000	61	55,738	—	2000
Comfort Inn Nashville	Nashville, IN	Jan-17	2,500,000	55	45,455	12.2%	1995
Comfort Inn Columbia	Columbia, SC	Dec-16	6,500,000	98	66,327	—	1986
Comfort Inn Shelby	Shelby, NC	Nov-16	4,100,000	77	53,247	—	1989
Comfort Inn & Suites Los Alamos	Los Alamos, NM	Nov-16	3,500,000	55	63,636	7.3%	1997
Comfort Suites Tallahassee	Tallahassee, FL	Aug-16	5,250,000	64	82,031	12.0%	1999
Comfort Inn International	Orlando, FL	Aug-16	8,050,000	112	71,875	6.7%	1999
Comfort Suites Hanes Mall Winston Salem	Winston-Salem, NC	Jul-16	6,000,000	80	75,000	—	1998
Comfort Inn North Myrtle Beach	North Myrtle Beach, SC	Jun-16	2,700,000	60	45,000	—	1996
Comfort Inn & Suites Oxford	Oxford, NC	Jun-16	2,747,000	60	45,783	—	2001
Comfort Inn Meadowlands	Washington, PA	Jun-16	3,832,500	70	54,750	—	1999
Comfort Inn Cedar Park	Cedar Park, TX	Apr-16	4,050,000	56	72,321	9.3%	1998
Comfort Inn Executive Park	Charlotte, NC	Mar-16	5,600,000	140	40,000	—	1987
Comfort Inn University	Wilmington, NC	Mar-16	5,200,000	148	35,135	—	1985
Comfort Suites Salisbury	Salisbury, NC	Feb-16	3,700,000	78	47,436	—	2000
Comfort Suites Sumter	Sumter, SC	Dec-15	5,175,000	65	79,615	5.3%	1997
Comfort Inn Lincolnton	Lincolnton, NC	Dec-15	3,425,000	77	44,481	—	1992
Comfort Inn and Suites	Dalton, GA	Oct-15	4,000,000	76	52,632	—	2000
Comfort Inn Ogallala	Ogallala, NE	Oct-15	2,050,000	49	41,837	6.8%	1992
Comfort Suites at Lake Worth Fort Worth	Fort Worth, TX	Aug-15	7,200,000	72	97,297	—	2012
Comfort Inn Kingsport South	Kingsport, TN	Aug-15	1,301,000	60	21,683	—	1995
Comfort Inn Burlington	Burlington, NC	Jul-15	9,050,000	116	78,017	—	1990
Comfort Inn & Suites Lafayette	Lafayette, LA	Jul-15	2,350,000	58	40,517	14.1%	1999
Comfort Inn Fayetteville Fort Bragg	Fayetteville, NC	May-15	12,500,000	176	71,023	3.6%	1987
Comfort Inn & Suites Peachtree Corners	Peachtree Corners, GA	Jan-15	2,411,111	62	38,889	—	1998

From these selected sales, we have chosen several primary transactions for further review and consideration in the development of an indication of value via this approach. These transactions are illustrated in the following table.

FIGURE 10-5 SUMMARY OF SELECTED COMPARABLE SALES

Property	Location	Sale Date	Price	Rooms	Price/Rm	Overall Cap	Year Opened
Holiday Inn Express & Suites Charlotte Arrowood	Charlotte, NC	Sep-17	$10,300,000	97	$106,186	10.6%	2007
Comfort Suites Airport Greensboro	Greensboro, NC	Aug-17	6,200,000	113	54,867	5.3%	1997
Comfort Inn Rocky Mount	Rocky Mount, NC	Aug-17	7,700,000	125	61,600	11.4%	1990
Holiday Inn Express Blythewood	Blythewood, SC	Jul-17	4,100,000	88	46,591	—	1999
SpringHill Suites by Marriott Charlotte Airport	Charlotte, NC	Apr-17	11,500,000	95	121,053	—	2002
Hyatt Place Greenville/Haywood	Greenville, SC	Jan-17	16,227,000	126	128,786	8.7%	1997

MAP OF PRIMARY COMPARABLE SALES



	Property	Location	Sale Date	Price	Rooms	Price/Rm
	Subject Property					
1	Holiday Inn Express & Suites Charlotte Arrowood	Charlotte, NC	Sep-2017	10,300,000 USD	97	106,186 USD
2	Comfort Suites Airport Greensboro	Greensboro, NC	Aug-2017	6,200,000 USD	113	54,867 USD
3	Comfort Inn Rocky Mount	Rocky Mount, NC	Aug-2017	7,700,000 USD	125	61,600 USD
4	Holiday Inn Express Blythewood	Blythewood, SC	Jul-2017	4,100,000 USD	88	46,591 USD
5	SpringHill Suites by Marriott Charlotte Airport	Charlotte, NC	Apr-2017	11,500,000 USD	95	121,053 USD
6	Hyatt Place Greenville/Haywood	Greenville, SC	Jan-2017	16,227,000 USD	126	128,786 USD

These sales are further detailed on the following pages.

Sale #1
Holiday Inn Express & Suites Charlotte Arrowood
Charlotte, NC
97 Rooms

TRANSACTION DATA

Date of Sale:	September-17
Interest Conveyed:	Fee Simple
Buyer:	The Kornegay Co
Seller:	Vinay Sawhney
Sales Price:	$10,300,000
Price per Room:	$106,186
Adjustments to the Sales Price:	N/A
Adjusted Sales Price:	$10,300,000
Adjusted Price per Room:	$106,186
Occupancy (Jan 1, 2016 - Dec 31, 2016):	73.0%
Average Rate (Jan 1, 2016 - Dec 31, 2016):	$115
RevPAR (Jan 1, 2016 - Dec 31, 2016):	$84
Rooms Revenue Multiplier:	3.5
Reported Capitalization Rate:	10.6%
Confirmation:	RCA Data Integration

PROPERTY DATA

Year Opened:	2007
Property Class:	Mid-Scale
Facilities:	# Stories: 4, # F&B Outlets: 1, Total SF Meeting Space: 836
Amenities:	Business Center, Guest Laundry Area, Indoor Swimming Pool, Fitness Room, Market Pantry
Condition at Sale:	Good
Type of Location:	Suburban

This limited-service hotel was in need of renovations at the time of sale. A $2.5-million renovation ($26,000 per room) was planned to begin in late 2017, to be completed in early 2018, and was expected to include upgrades to the guestrooms, public spaces, and exterior.

Sale #2
Comfort Suites Airport
Greensboro
Greensboro, NC
113 Rooms

TRANSACTION DATA

Date of Sale:	August-17
Interest Conveyed:	Fee Simple
Buyer:	Jai Amba Maa Hospitality GSO Airport LLC
Seller:	Greensboro Hospitality Associates LLC
Sales Price:	$6,200,000
Price per Room:	$54,867
Adjustments to the Sales Price:	N/A
Adjusted Sales Price:	$6,200,000
Adjusted Price per Room:	$54,867
Occupancy (Jan 1, 2016 - Dec 31, 2016):	54.0%
Average Rate (Jan 1, 2016 - Dec 31, 2016):	$87
RevPAR (Jan 1, 2016 - Dec 31, 2016):	$47
Rooms Revenue Multiplier:	3.2
Reported Capitalization Rate:	5.3%
Confirmation:	Guilford County Register of Deeds

PROPERTY DATA

Year Opened:	1997
Property Class:	Mid-Scale
Facilities:	# Stories: 5, # F&B Outlets: 1, Total SF Meeting Space: 1,337
Amenities:	Airport/Local Shuttle, Guest Laundry Area, Outdoor Swimming Pool, Fitness Room, Lobby Workstation, Market Pantry
Condition at Sale:	Fair to Good
Type of Location:	Highway

Although this property was not openly marketed the property was considered an arms-length transaction. The hotel was planned to be converted to a Four Points at the time of sale. Approximately $1,500,000 or $13,400 per room was planned to be spent on the renovation and conversion.

Sale #3
[Brand] Rocky Mount
Rocky Mount, NC
125 Rooms

TRANSACTION DATA

Date of Sale:	August-17
Interest Conveyed:	Fee Simple
Buyer:	US Hotels Inc
Seller:	Rockbridge Capital
Sales Price:	$7,700,000
Price per Room:	$61,600
Adjustments to the Sales Price:	N/A
Adjusted Sales Price:	$7,700,000
Adjusted Price per Room:	$61,600
Occupancy (Jan 1, 2016 - Dec 31, 2016):	67.0%
Average Rate (Jan 1, 2016 - Dec 31, 2016):	$84
RevPAR (Jan 1, 2016 - Dec 31, 2016):	$56
Rooms Revenue Multiplier:	3.0
Reported Capitalization Rate:	11.4%
Confirmation:	RCA Data Integration

PROPERTY DATA

Year Opened:	1990
Property Class:	Mid-Scale
Facilities:	N/A
Amenities:	Business Center, Guest Laundry Area, Outdoor Swimming Pool, Fitness Room, Market Pantry
Condition at Sale:	Good
Type of Location:	Highway

At the time of sale the property required approximately $900,000 in renovations or $7,200 per room. The hotel was expected to continue operations as a Comfort Inn.

Sale #4
Holiday Inn Express
Killian
Killian, SC
88 Rooms

TRANSACTION DATA

Date of Sale:	July-17
Interest Conveyed:	Fee Simple
Buyer:	Blythewood Inn LLC
Seller:	Harinder Mohan
Sales Price:	$4,100,000
Price per Room:	$46,591
Adjustments to the Sales Price:	N/A
Adjusted Sales Price:	$4,100,000
Adjusted Price per Room:	$46,591
Occupancy:	71.0%
Average Rate:	$97
RevPAR:	$69
Rooms Revenue Multiplier:	1.8
Reported Capitalization Rate:	Not Disclosed
Confirmation:	RCA Data Integration

PROPERTY DATA

Year Opened:	1999
Property Class:	Mid-Scale
Facilities:	# Stories: 4, Total SF Meeting Space: 850
Amenities:	Business Center, Guest Laundry Area, Outdoor Swimming Pool, Fitness Center, Indoor Whirlpool
Condition at Sale:	Fair
Type of Location:	Highway

After the sale the property was expected to undergo a complete "Formula Blue" renovation.

HVS

Sale #5
SpringHill Suites by Marriott Charlotte Airport
Charlotte, NC
95 Rooms

TRANSACTION DATA

Date of Sale:	April-17
Interest Conveyed:	Fee Simple
Buyer:	Everest Hotels Group
Seller:	Blackstone
Sales Price:	$11,500,000
Price per Room:	$121,053
Adjustments to the Sales Price:	N/A
Adjusted Sales Price:	$11,500,000
Adjusted Price per Room:	$121,053
Occupancy (Jan 1, 2016 - Dec 31, 2016):	73.8%
Average Rate (Jan 1, 2016 - Dec 31, 2016):	$118
RevPAR (Jan 1, 2016 - Dec 31, 2016):	$87
Rooms Revenue Multiplier:	3.8
Reported Capitalization Rate:	Not Disclosed
Confirmation:	RCA Data Integration

PROPERTY DATA

Year Opened:	2002
Property Class:	First Class
Facilities:	# Stories: 5, Total SF Meeting Space: 750
Amenities:	Business Center, Guest Laundry Area, Gift Shop, Indoor Swimming Pool, Fitness Center, Indoor Whirlpool
Condition at Sale:	Very Good
Type of Location:	Airport

This all-suite property underwent a multimillion-dollar renovation prior to the 2017 sale.

Sale #6
Hyatt Place
Greenville/Haywood
Greenville, SC
126 Rooms

TRANSACTION DATA

Date of Sale:	January-17
Interest Conveyed:	Fee Simple
Buyer:	Phoenix American Hospitality
Seller:	Noble Investment Group
Sales Price:	$16,227,000
Price per Room:	$128,786
Adjustments to the Sales Price:	N/A
Adjusted Sales Price:	$16,227,000
Adjusted Price per Room:	$128,786
Occupancy (Nov 1, 2015 - Oct 31, 2016):	76.0%
Average Rate (Nov 1, 2015 - Oct 31, 2016):	$106
RevPAR (Nov 1, 2015 - Oct 31, 2016):	$81
Rooms Revenue Multiplier:	4.4
Reported Capitalization Rate:	8.7%
Confirmation:	RCA Data

PROPERTY DATA

Year Opened:	1997
Property Class:	Mid-Scale
Facilities:	# Stories: 6, # F&B Outlets: 1, Total SF Meeting Space: 750
Amenities:	Business Center, Airport/Local Shuttle, Guest Laundry Area, Outdoor Swimming Pool, Fitness Room
Condition at Sale:	Good
Type of Location:	Suburban

This hotel was part of a six hotel portfolio and all prices were allocated. Although select renovations have occurred, the property was expected to undergo renovations following the sale.

HVS

Adjustment of Comparable Sales

The following table sets forth the adjustment grid used to account for differences between the transacted properties and the subject property.

FIGURE 10-6 COMPARABLE SALES ADJUSTMENT GRID

Elements of Comparison	Subject Property	Sale #1 Holiday Inn Express & Suites Charlotte Arrowood, Charlotte, NC	Sale #2 Comfort Suites Airport Greensboro, Greensboro, NC	Sale #3 Comfort Inn Rocky Mount, Rocky Mount, NC	Sale #4 Holiday Inn Express Blythewood, Blythewood, SC	Sale #5 SpringHill Suites by Marriott Charlotte Airport, Charlotte, NC	Sale #6 Hyatt Place Greenville/Haywood, Greenville, SC
Sale Price		$10,300,000	$6,200,000	$7,700,000	$4,100,000	$11,500,000	$16,227,000
Number of Rooms	75	97	113	125	88	95	126
Price per Room		$106,186	$54,867	$61,600	$46,591	$121,053	$128,786
Year Open	1999	2007	1997	1990	1999	2002	1997
Date of Sale		September-17	August-17	August-17	July-17	April-17	January-17
Adjustments for Transaction Characteristics (Per Room)							
Property Rights Conveyed	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		106,186	54,867	61,600	46,591	121,053	128,786
Financing Terms		Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		106,186	54,867	61,600	46,591	121,053	128,786
Conditions of Sale		Normal	Normal	Normal	Normal	Normal	Normal
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		106,186	54,867	61,600	46,591	121,053	128,786
Market Conditions		Similar	Similar	Similar	Similar	Similar	Similar
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		106,186	54,867	61,600	46,591	121,053	128,786
Adjusted Price		$106,186	$54,867	$61,600	$46,591	$121,053	$128,786
Adjustments for Property Characteristics							
Location/Market		Similar	Similar	Similar	Similar	Similar	Similar
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Physical Condition/Facilities		Inferior	Inferior	Inferior	Inferior	Similar	Inferior
Age and Building Configuration		(5.0) %	0.0 %	5.0 %	0.0 %	0.0 %	0.0 %
Renovation Needs		25.0	25.0	15.0	70.0	0.0	10.0
Total Adjustment		20.0	25.0	20.0	70.0	0.0 %	10.0
Other Revenue Sources		Similar	Similar	Similar	Similar	Similar	Superior
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	(10.0) %
Market Orientation (RevPAR)	$70.76	$84.20	$46.95	$56.22	$68.87	$86.81	$80.58
Adjustment		(16.0) %	50.7 %	25.9 %	2.7 %	(18.5) %	(12.2) %
Cumulative Percentage Adjustment		4.0 %	75.7 %	45.9 %	72.7 %	(18.5) %	(12.2) %
Net Adjust. for Property Characteristics		4,288	41,535	28,251	33,892	(22,383)	(15,690)
Final Adjusted Price Per Room		**$110,474**	**$96,403**	**$89,851**	**$80,482**	**$98,669**	**$113,096**

Given the complex nature of hotel assets, as well as the many variables within a hotel's operations, it is quite difficult to derive a specific numeric adjustment for an individual characteristic, and any adjustments extracted from sales are often distorted. As such, we have to rely partly on broader sets of data and our own experience when deriving adjustments. Comparable hotel sales are typically transacted less often and are spread over a wider geographical area than other commercial sectors, adding to the complexity of making quantitative adjustments.

Property Rights Conveyed

The purpose of this assignment is the valuation of the fee simple interest in the subject property. This adjustment accounts for differences between the interest transferred for each of the comparable sales and that of the subject of the appraisal. All comparable sales represented the fee simple interest; thus, no adjustments for property rights conveyed were deemed necessary.

Financing Terms

The transaction price of a sale may be affected by the financing structure. When necessary, this adjustment converts extraordinary financing to market terms. All comparable sales represented cash transactions. Therefore, no adjustments were made for financing terms.

Conditions of Sale

The motivations of the buyer and/or seller may affect the price paid for a property. This adjustment reconciles any atypical aspects of the transaction, in conformance with the definition of market value. All transactions were considered to have normal conditions of sale; as such, no adjustments were applied.

Market Conditions

Changes in market conditions principally refer to investment market conditions, including investor interest in the hospitality sector, the availability of debt and equity, and the cost of capital. From 2013 through 2015, the hospitality investment market was strong. Mortgage capital was widely available, with interest rates at historically low levels; loan-to-value ratios rose steadily through this period as lender interest in the hospitality sector increased. Beginning in early 2016, loan-to-value ratios declined slightly, although interest rates remain low. Given that the selected comparable sales all transacted under similar market conditions, no adjustments were deemed necessary.

Location/Market Adjustments

The adjustment for differences in location or market is intended to consider any specific locational attributes that would influence the value of the hotel over and above the influence reflected in the revenue levels achieved by the property. Typically, these influences are tied to the characteristics of the site and are most common when an asset is in a location or market that has high barriers to entry. We note the increments to which our location/market adjustments are made are primarily based upon our market experience, in consideration of barriers to entry, land value, investment potential, and any other factors that would notably influence the investment potential that is intrinsic to each asset's location. No adjustments for location or market characteristics were deemed necessary.

Physical Condition/ Facilities Adjustments

Adjustments for physical condition or facilities address differences in the condition of the property at the time of sale, the age of the property as of the date of sale, and/or the array of facilities available. Based upon the straight-line method of depreciation, the value of a typical hotel asset declines at a rate of approximately 2% per year; however, each property is uniquely influenced by its quality and type of construction, as well as its maintenance and renovation histories. We have made two sets of adjustments for these factors based upon the age and configuration of the property (i.e., the building) and the renovation needs of the hotel (principally the FF&E). A downward adjustment for age and configuration was applied to Sale #1 given its more recent date of construction and modern design, while an upward adjustment was applied to Sale #3 given the asset's earlier date of construction and older physical plant. We note that the subject property is considered to be in good to very good condition considering the comprehensive renovation completed in 2014/15. By contrast, all assets except Sale #5 were reported to be in need of renovation at the time of sale; thus, upward adjustments were applied to Sales #1, #2, #3, #4, and #6.

Other Revenue Adjustments

Adjustments for other revenue sources and additional facilities are necessary to account for significant differences in revenue sources, such as food and beverage outlets, meeting space, or other operating departments, aside from rooms. We note the increments to which our other revenue sources adjustments are made are generally based upon correlations observed in our regular review of comparable hotel operating statements and their associated sales. A downward adjustment for additional revenue sources was applied to Sale #6 given this asset's superior select-service product type and its revenue-generating restaurant. All other properties were deemed to have generally similar facilities and revenue sources; therefore, no adjustments were applied to the remaining sales.

RevPAR Adjustments

Hotels are purchased and sold on their ability to generate revenue and net income. Thus, we find that a reliable way to adjust hotel sales is by comparing RevPARs. Revenue per available room inherently reflects the relative revenue-producing ability of each of the comparable sales, the primary consideration of hotel purchasers. The best way to adjust comparable hotel sales is to calculate the difference between a comparable hotel's RevPAR at the time of sale with the subject property's RevPAR. RevPAR adjustments also inherently account for differences in physical condition and the passage of time. As such, we have adjusted the per-room sales price for each sale by the percentage differential between the subject hotel's base-year RevPAR and that of each property at the time of its sale.

Prior to adjustments, the comparable sales transacted for amounts ranging from $47,000 to $129,000 per room. Following quantitative and qualitative adjustments, the selected sales indicate a range of $80,000 to $113,000 per room.

Gross Rooms Revenue Multiplier

The gross rooms revenue multiplier (GRRM) is a common measure of sales transactions in the limited-service sector and is often used in lieu of capitalization rates. Given the widely different operating profiles that characterize the owner/operators that constitute the market for these assets, operating efficiencies and net income levels can vary significantly. Consequently, the market typically employs a standard of measurement that is tied to the location, facilities, and market conditions of the assets, rather than profitability; the GRRM fits these criteria.

We have identified several recent transactions involving limited-service hotels that bear some degree of comparability to the subject property and have obtained occupancy and average rate data for each hotel for the year immediately preceding the sale. The data have been used to calculate the gross rooms revenue generated by each hotel. From this information, we have extracted the GRRM indicated by the transaction, which is calculated by dividing the sales price by the gross rooms revenue. The resulting GRRM data are set forth in the table on the following page.

FIGURE 10-7 GROSS ROOMS REVENUE MULTIPLIER

Property	Location	Year Open	Number of Rooms	Date of Sale	Sale Price	Price Per Room	GRRM
Holiday Inn Express & Suites Charlotte Arrowood	Charlotte, NC	2007	97	Sep-17	$10,300,000	$106,186	3.46
Comfort Suites Airport Greensboro	Greensboro, NC	1997	113	Aug-17	6,200,000	54,867	3.22
Comfort Inn Rocky Mount	Rocky Mount, NC	1990	125	Aug-17	7,700,000	61,600	3.02
Courtyard by Marriott Columbia Northeast	Columbia, SC	1998	83	May-17	9,104,589	109,694	3.51
SpringHill Suites by Marriott Charlotte Airport	Charlotte, NC	2002	95	Apr-17	11,500,000	121,053	3.82
Wingate Columbia	Columbia, SC	1999	100	Sep-16	6,750,000	66,832	3.14
Comfort Inn Columbia	Columbia, SC	1986	96	Jul-15	4,000,000	41,667	2.53
Comfort Inn Fayetteville Fort Bragg	Fayetteville, NC	1987	176	May-15	12,500,000	71,023	4.78
Hampton Inn Charlotte University Place	Charlotte, NC	1991	126	May-15	14,300,000	113,492	4.14
Comfort Inn at Joint Base Andrews Clinton	Clinton, MD	1989	94	Feb-14	6,300,000	67,021	4.40
						Average	***3.60***

Gross Room Revenue Multipliers for the Subject Property, as indicated by the Income Approach	
Based on Trailing-Twelve-Month Period	4.18
Based on Year One Forecast	4.15
Based on Deflated Stabilized Forecast	4.36

The GRRMs indicated by the transactions surveyed ranged from 2.53 to 4.78; the average GRRM is 3.60. The value indicated by the income approach yields a GRRM of 4.18, based on the rooms revenue for the trailing twelve months prior to the date of value, and an "as is" market value of $8,100,000, which is consistent with the range indicated by the comparable sales.

Conclusion

Based on our review of the adjusted sales, we have selected a per key range of $90,000 to $110,000, which equates to a concluded value via the sales comparison approach of $6,800,000 to $8,300,000 for the 75-room subject property.

11. Cost Approach

Market value is determined via the cost approach by first estimating the market value of the subject land as if vacant and available for its highest and best use, and then adding the cost to construct the subject improvements. Market participants tend to take into consideration the cost to develop a new hotel or motel with optimal physical and functional utility when forming their purchase decisions regarding existing properties. The principle of substitution, which is basic to the cost approach, affirms that no prudent investor would pay more for a property than the cost to acquire the site and construct comparable improvements without undue delay.

As addressed in prior sections of this report, the cost approach has limited utility in the valuation of existing hotels. The quantification of external and incurable functional obsolescence is based on numerous adjustments. It is our experience that knowledgeable purchasers of complex hotel properties are more concerned with the economics of the investment. Therefore, the cost approach has little significance. In light of its minimal value and the difficulty in quantifying the varying sources of depreciation, we have not utilized the cost approach in estimating the value of the subject property. However, we have estimated the market value of the site and the replacement cost of the subject property's improvements for insurance purposes.

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. For the majority of hostelry properties, the two primary methods used are the sales comparison approach and the ground-lease capitalization approach. Given the lack of sales in the immediate area we have relied upon the ground lease approach. The most relevant sale in Killian is across the street and sold $12.17 per square foot; however, this sale is considered superior given its frontage along Killian Road.

Over the past several decades, 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. By using the forecasted revenues for the subject property and applying a typical ground-lease rental formula, an appraiser can determine the hotel's economic rental (i.e, 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.

A reasonable range of economic ground rents for hotels such as the subject property of 2.0% to 6.0% of rooms revenue. For the purpose of this analysis, we have selected 3.0% as a reasonable ground rental rate for the subject property.

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.

Forecast Year One Rooms Revenue	$1,951,000
Rental Percentage	3.0 %
Economic Ground Rent	**$58,530**

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 property owner 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 as indicated in the following table because of the aforementioned low level of risk. Based on these risk factors and the current cost of long-term capital, it is our opinion that the appropriate ground rent overall capitalization rate is 7.5%, as indicated in the following table.

$$\frac{\text{Economic Ground Rent}}{\text{Capitalization Rate}} = \frac{\$58{,}530}{7.5\ \%} = \mathbf{\$780{,}400}$$

Based on our review of pertinent land sales and the ground lease approach, we have concluded to a land value opinion of $800,000. This equates to $474,800 per acre ($10.90 per square foot), or $10,700 per room for the subject property. The estimated value of the land is 10% of the concluded value of the property as a whole, which is within the range considered reasonable for hotels of this type.

Personal Property

In a hotel, the personal property consists of the furniture, fixtures, and equipment (FF&E) and the inventories in place at the subject property as of the date of value. USPAP defines personal property as "identifiable tangible objects that are considered by the general public as being 'personal'—for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate."[15]

In accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), we have delineated the market value of the subject hotel's personal property. Most furnishings in a hotel can command little more than a salvage value substantially lower than the original cost when sold separately from the improvements. Personal property has been valued based on the depreciated replacement cost of the FF&E. Personal property is an integral part of a transient lodging facility.

The allocation of a portion of the overall hotel's value to the personal property is not explicitly considered by hotel investors in making their pricing decisions. Lodging facilities are usually sold with their personal property in place. In a transaction, any operating supplies or inventories are negotiated as part of the closing statement adjustments.

The following table sets forth a depreciation schedule developed by HVS for determining the market value, or "value in exchange," of a hotel's FF&E. The depreciation estimates represent the average depreciation applicable to the entirety of a hotel's personal property; these have been applied to the original cost of the FF&E.

[15] The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice*, 2016–2017 ed.

FIGURE 11-1 FURNITURE, FIXTURES, AND EQUIPMENT DEPRECIATION SCHEDULE

Average Age (Years)	Percent Depreciated
1	40 %
2	60
3	70
4	75
5	80
6	85
7	89
8	92
9	95
10	98

Source: HVS

We estimate the total replacement cost of the subject property's FF&E at $12,000 per available room, or a total of $900,000. Assuming an average economic life of ten years and an effective age of three, the value of the FF&E currently in place is approximately $4,000 per room, or a total of $270,000 (rounded). This is calculated using an accelerated depreciation schedule, which estimates total depreciation of a hotel’s furnishings after three years at 70.0%. At stabilization, the effective age, considering any replacements that are expected to occur prior to the stabilized year, is estimated to be six year(s). Using an adjusted replacement cost per room of $13,400 and a depreciation factor of 85%, the estimated value of the personal property is $150,000.

Replacement Cost for Insurance Purposes

At the client’s request, we have estimated the replacement cost for the subject property’s building and contents for insurance purposes. One of the nationally recognized authorities on replacement cost information is Marshall & Swift, and HVS uses the Commercial Estimator computer software program produced by Marshall & Swift. As defined by Marshall & Swift, the replacement cost of a building is the total cost of construction required to replace the subject building with a substitute of like or equal utility using current standards of materials and design. These costs include labor, materials, supervision, contractors’ profit and overhead, architects’ plans and specifications, sales taxes, and insurance. The Marshall & Swift costs also contain the normal interest on the actual building funds during period of construction; normal site preparation including the excavation and grading for foundation, as well as backfill for the structure only and the finish of foundation; and utilities from structure to lot line figured for typical setback. Although generally reliable, the data used to compile this estimate provide only a rough indication of what the replacement cost of the property may be.

For the purpose of developing a replacement cost estimate using the Marshall & Swift Commercial Estimator program, the building has been classified as a Class C, Rank 3 hotel structure. Based on information obtained from the subject property's ownership or management, the total area of the building is estimated to be 42,332 square feet. The following chart reflects the summary of the Marshall & Swift estimate.

FIGURE 11-2 MARSHALL & SWIFT ESTIMATE

Date of Query:	January 5, 2018
Occupancy:	limited-service
Class:	Class C
Height (Feet):	10
Rank:	3
Total Area (Square Feet):	42,332
Number of Stories (Section):	4
Number of Elevators:	2
Shape:	2
Number of Rooms:	75

Basic Structure	Unit	Cost Per SF	Total
Base Cost	42,332	$74.37	$3,148,231
Exterior Walls	42,332	22.55	954,587
Heating & Cooling	42,332	9.02	381,835
Elevator (s)	42,332	5.62	237,780
Sprinklers	42,332	3.25	137,579
		Total Cost:	**$4,860,012**
		Rounded to:	**$4,900,000**
		Per Room:	**$65,300**

As previously detailed, our estimate of the replacement cost of furniture, fixtures, and equipment is $900,000.

For the purpose of estimating replacement cost for insurance purposes, only hard or direct construction costs should be reflected; therefore, certain exclusions need to be taken into consideration. An adjustment for exclusions is made to account for the portion of the construction which is not covered by a policy but which is included in the Marshall & Swift replacement cost estimate. Exclusions typically constitute 5.0% to 10.0% of the replacement cost and include items such as landscaping, parking, other yard improvements, and the foundation or sub-structure. In this analysis, a 10.0% adjustment was made to the replacement cost of the hotel to account for these exclusions. The estimated replacement cost of the personal property is then added to the adjusted replacement cost of the building. Our opinion of the replacement cost for insurance purposes is presented in the following table.

FIGURE 11-3 ESTIMATE OF REPLACEMENT COST FOR INSURANCE PURPOSES

Replacement Cost of Building:	$4,900,000
Less Exclusions (10%)	490,000
Insurable Value of Structures	$4,410,000
Plus Furniture, Fixtures, & Equipment	$900,000
Total Insurable Value:	$5,310,000
Rounded to:	**$5,300,000**
Per Room:	**$70,700**

This analysis should not be relied upon to determine actual insurance coverage, which can be properly estimated only by consultants considered experts in cost estimation and insurance underwriting. It is provided to aid in the overall decision-making process of the client/reader/user, and no representations or warranties are made by HVS regarding the accuracy of this estimate. We strongly recommend that other sources be utilized when considering replacement costs and property insurance estimates.

12. 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 income capitalization and sales comparison 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.

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. We reconciled the value indication via the income capitalization approach to $8,100,000, or $108,000 per room.

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 $90,000 to $110,000 per available room. The income capitalization approach indicates a per room value of $108,000 (rounded). This information supports the value indicated by the income capitalization approach.

Cost Approach

As discussed in the Cost Approach section, due to the practices of typical hotel buyers and sellers in today's market, the cost approach was not employed in arriving at an "as is" market value estimate.

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.

Based on our analysis, it is our opinion that the "as is" market value of the fee simple interest in the real and personal property of the Carolinas Inn, as of January 5, 2018, is:

$8,100,000

EIGHT MILLION ONE HUNDRED THOUSAND DOLLARS

This value estimate equates to $108,000 per room. We have also estimated the prospective market value of the subject property as of its projected date of stabilization. Based on our analysis, it is our opinion that the "when stabilized" prospective market value of the fee simple interest in the real and personal property of the Carolinas Inn, as of February 1, 2021, will be:

$8,700,000

EIGHT MILLION SEVEN HUNDRED THOUSAND DOLLARS

This "when stabilized" value estimate equates to $116,000 per room. The estimates of market value include the land (if applicable), the improvements, and the furniture, fixtures, and equipment. The appraisal assumes that the hotel is open and operational.

We have made no extraordinary assumptions specific to the subject property. However, several important general assumptions have been made that apply to this report. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

In regard to the stabilized value, we assume that the subject property's operations have stabilized by the stated stabilization date and that all of the projections and assumptions used in this appraisal, such as the occupancy, average rate, inflation forecast, and our forecast of income and expense, hold true. As of the prospective date of stabilization, our opinion of the market value of the subject property assumes that the hotel will be maintained in good competitive condition and that no major changes will have occurred in the local market or the national economy that would have affected the performance of the property by that date.

Components of Value

USPAP requires the appraiser to "identify any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal" and "to analyze the effect on value of such non-real property items."[16] The estimates of market value include the land, improvements, and personal property. The appraisal assumes that the hotel is open and operational.

Hotels comprise three primary components: the real property (land and improvements), personal property, and intangible property. Real property is defined as "the interests, benefits, and rights inherent in the ownership of real estate (land and improvements."[17] Personal property is defined as "identifiable tangible objects that are considered by the general public as being 'personal'—for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate."[18]

The personal property consists of the furniture, fixtures, and equipment (FF&E) and the inventories in place at the subject property as of the date of value. Personal property is an integral part of a transient lodging facility. The allocation of a portion of the overall hotel's value to the personal property is not explicitly considered by hotel investors in making their pricing decisions. Lodging facilities are usually sold with their personal property in place. In accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), we have delineated the market value of the subject hotel's personal property. Most furnishings in a hotel can command little more than a salvage value substantially lower than the original cost when sold separately from the improvements. Personal property has been valued based on its depreciated replacement cost.

USPAP defines intangible property as "nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment."[19]

[16] Ibid.

[17] Ibid.

[18] Ibid.

[19] Ibid.

All value attributable to the intangible property has been removed with the assumed expense of a management fee and a franchise fee (if applicable) in the valuation process.

Our concluded opinions of the subject hotel's market value include the value of the real property (land and improvements) and the value of the personal property only.

Allocation of "As Is" Market Value

The allocations of value pertaining to the "as is "market value are set forth in the following chart.

FIGURE 12-1 ALLOCATION OF REAL PROPERTY VALUE – "AS IS"

"As Is" Market Value Opinion:	$8,100,000
Less Personal Property	270,000
Less Intangible Property	0
Real Property Value	**$7,830,000**

Allocation – Prospective Market Value upon Stabilization

The value allocation upon stabilization of the subject property, as of February 1, 2021, was also estimated. The "when stabilized" value opinion is allocated as follows:

FIGURE 12-2 ALLOCATION OF REAL PROPERTY VALUE – STABILIZED VALUE

"When Stabilized" Market Value Estimate:	$8,700,000
Less Personal Property	150,000
Less Intangible Property	0
Real Property Value	**$8,550,000**

13. 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 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, any form of toxic waste, polychlorinated biphenyls (PCBs), pesticides, mold, or lead-based paints. We are not qualified to detect hazardous substances and urge the client to retain an expert in this field if desired.
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 has been designed in accordance with the various detailed requirements of the ADA. It is possible that the design 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 described real estate 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 HVS Legal Entity Name are assumed 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 the appropriate liquor license if applicable), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.

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 because of this analysis without previous arrangements, and shall do so only when our standard per-diem fees and travel costs have been paid prior to the appearance.

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 onsite 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 financial analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease because of market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel buyer as of the stated date(s) of valuation.

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. Our report has been 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 Foundation.

23. This study was prepared by HVS Legal Entity Name. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of HVS Legal Entity Name as employees, rather than as individuals.

14. Certification

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

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Director Name personally inspected the property described in this report;
9. 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;
10. Director Name has not performed appraisal or consulting work on the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment;

11. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;

12. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and

13. as of the date of this report, Director Name has completed the continuing education program for Designated Members of the Appraisal Institute.

SAMPLE REPORT

Director Nam
Director State License Number