FEASIBILITY STUDY

Proposed Inn & Suites

100 HOTEL DRIVE
STARS HALLOW, TEXAS

SUBMITTED TO:

Mr. Client Name
Client Hotel Company
1000 Client Street
City, State 10000

+1 (000) 000-0000

PREPARED BY:

HVS Consulting & Valuation
Division of TS Worldwide, LLC
HVS Street Address
HVS City, State Zip Code

+1 (000) 000-0000

February 20, 2017

Mr. Client Name
Client Hotel Company
1000 Client Street
City, State 10000

Re: Proposed Inn & Suites
Stars Hallow, Texas
HVS Reference: 201702000

HVS

HVS Street Address
HVS City, State Zip Code
+1 (000) 000-0000
+1 (000) 000-0000 FAX
www.hvs.com

Dear Mr. Client:

Pursuant to your request, we herewith submit our feasibility study pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in the Stars Hallow, Texas area. We have studied the proposed project, and the results of our fieldwork and analysis are presented in this report. We have also reviewed the proposed improvements for this site. Our report was prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation.

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

Sincerely,
TS Worldwide, LLC

DRAFT DOCUMENT

Associate Name, Associate Title
associate@hvs.com, +1 (000) 000-0000

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1. Executive Summary

Subject of the Feasibility Study

The subject of the feasibility study is a 90,000-square-foot (2.07-acre) parcel to be improved with a full-service lodging facility; the hotel will be affiliated with the [Proposed Brand] brand. The property, which is expected to open on October 1, 2018, will feature 140 rooms, a complimentary services area, a restaurant, and a lounge, 7,000 square feet of meeting space, an indoor pool, a fitness center, a business center, a market pantry, a guest laundry room, and vending areas. The hotel will also contain the appropriate parking capacity (tbd) and all necessary back-of-the-house space.

The Stars Hallow/Clear Lake market area currently comprises hotels spanning the limited- and select-service segments, with a relatively limited offering of full-service hotels. The proposed [Proposed Brand] is expected to be built on a 4.8-acre site near Baybrook Mall and 500 feet from Interstate 45. The hotel is anticipated to feature the latest design standards for the brand, known as Design Option III prototype. This prototype is reportedly more cost effective to build, features a more efficient layout of space, requires less land, and is scalable to smaller room counts than previous design standards developed by the brand. The subject site's location is 100 Hotel Drive, Stars Hallow, Texas, 77000.

Pertinent Dates

The effective date of the report is February 20, 2017. The subject site was inspected by Associate Name on January 15, 2017. In addition to the inspection, Associate Name participated in the research for this assignment and assisted in the report's preparation. Associate Name participated in the analysis and reviewed the findings, but did not personally inspect the property.

Ownership, Franchise, and Management Assumptions

The developer of the proposed subject hotel is Sample Hospitality LLC, which is based in Chicago, Illinois. The subject site was last sold in 2014; Sample Hospitality LLC has owned the site since that time, having purchased it from Local Owner LLC for a reported price of $570,000. The subject site is now reportedly under contract for purchase by Your Hotel Company LLC for $2,200,000.

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

The proposed subject hotel will reportedly operate under a franchise agreement with Hilton Worldwide as an [Proposed Brand]; the agreement is expected to span 20 years. Based on our review of the expected terms, our forecast reflects a royalty fee of 3.5% of rooms revenue in the first year, 4.5% in the second year, and 5.5% thereafter. A marketing assessment fee of 4.0% of rooms revenue is also anticipated throughout the duration of the agreement.

Summary of Hotel Market Trends

Both occupancy and average rate first peaked for this selected set of competitive hotels in 2008, when demand was bolstered by Hurricane Ike in September of that year. As a result, RevPAR reached approximately $89 that year before declining to a low point of roughly $57 by year-end 2010 because of the recession. A rapid recovery began in 2011 that extended through 2015; however, the prior RevPAR peak was never exceeded due to the peak year's strong, unsustainable demand, coupled with significant increases in new supply from 2008 through 2013. Primary factors contributing to this period of strengthening included the expansion of local businesses and the development of new demand generators such as Topgolf and popular retail stores by Baybrook Mall. The oil and gas industry began to decline in late 2014; however, the relative strength of this market and lack of new supply since 2013 delayed the market from being affected until 2016, when both occupancy and rate decreased.

The near-term outlook is cautionary due to the volatility of the energy industry; however, stabilizing crude oil prices and ongoing retail development in this submarket bode well for future lodging fundamentals. Additionally, Super Bowl LI, held in Houston in February 2017, is anticipated to have a positive effect on the region.

The following table provides a historical perspective on the supply and demand trends for a selected set of hotels, as provided by STR.

FIGURE 1-1 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
2005	1,143	417,195	—	284,168	—	68.1 %	$99.59	—	$67.83	—
2006	1,153	420,733	0.8	290,131	2.1	69.0	104.10	4.5	71.78	5.8
2007	1,201	438,365	4.2	301,231	3.8	68.7	112.43	8.0	77.26	7.6
2008	1,201	438,365	0.0	316,958	5.2	72.3	123.35	9.7	89.19	15.4
2009	1,396	509,699	16.3	309,204	(2.4)	60.7	112.30	(9.0)	68.13	(23.6)
2010	1,761	642,919	26.1	364,145	17.8	56.6	100.90	(10.2)	57.15	(16.1)
2011	1,770	646,050	0.5	392,932	7.9	60.8	99.81	(1.1)	60.70	6.2
2012	1,832	668,532	3.5	426,952	8.7	63.9	103.52	3.7	66.11	8.9
2013	1,893	690,945	3.4	463,872	8.6	67.1	106.30	2.7	71.36	7.9
2014	1,893	690,945	0.0	498,356	7.4	72.1	114.64	7.9	82.69	15.9
2015	1,893	690,945	0.0	518,119	4.0	75.0	115.65	0.9	86.72	4.9
2016	1,893	690,945	0.0	492,318	(5.0)	71.3	114.32	(1.2)	81.46	(6.1)
Average Annual Compounded Change:										
2005 - 2016			4.7 %		5.1 %			1.3 %		1.7 %
2005 - 2008			1.7		3.7			7.4		9.6
2008 - 2011			13.8		7.4			(6.8)		(12.0)
2011 - 2016			1.4		4.6			2.8		6.1

Hotels Included in Sample	Competitive Status	Number of Rooms	Year Affiliated	Year Opened
DoubleTree by Hilton Hobby Airport	*Secondary*	303	Oct 2012	Nov 1982
Hilton Clear Lake	*Primary*	242	Jan 1983	Jan 1983
Marriott Houston South @ Hobby Airport	*Secondary*	287	Jul 2002	Jan 1986
Residence Inn by Marriott NASA Clear Lake	*Secondary*	110	Mar 1990	Mar 1990
Homewood Suites by Hilton Clearlake	*Secondary*	92	Sep 1995	Sep 1995
Hampton Inn Suites by Hilton Clear Lake	*Secondary*	108	Nov 2000	Nov 2000
Comfort Suites Near NASA Clear Lake	*Secondary*	58	Nov 2006	Nov 2006
Staybridge Suites Houston NASA Clear Lake	*Secondary*	112	Apr 2009	Apr 2009
Springhill Suites by Marriott Webster	*Secondary*	121	Aug 2009	Aug 2009
Hilton Garden Inn Houston Clear Lake NASA	*Primary*	126	Sep 2009	Sep 2009
Holiday Inn Houston Webster	*Primary*	109	Nov 2009	Nov 2009
Holiday Inn Express & Suites Space Center	*Secondary*	101	Feb 2010	Feb 2010
Courtyard by Marriott Clear Lake	*Primary*	124	Jul 2012	Jul 2012
	Total	**1,893**		

Source: STR

The following tables reflect our estimates of operating data for hotels on an individual basis. These trends are presented in detail in the Supply and Demand Analysis chapter of this report.

FIGURE 1-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2015				Estimated 2016					
Property	Number of Rooms	Commercial	Meeting and Group	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Hilton Houston NASA Clear Lake	242	55 %	35 %	10 %	242	70 - 75 %	$125 - $130	$90 - $95	242	65 - 70 %	$125 - $130	$85 - $90	95 - 100 %	100 - 110 %
Holiday Inn Houston Webster	109	65	15	20	109	65 - 70	110 - 115	75 - 80	109	60 - 65	110 - 115	70 - 75	85 - 90	85 - 90
Hilton Garden Inn Houston Clear Lake NASA	126	70	15	15	126	70 - 75	120 - 125	85 - 90	126	65 - 70	115 - 120	80 - 85	95 - 100	100 - 110
Courtyard by Marriott Houston NASA Clear Lake	124	70	15	15	124	70 - 75	110 - 115	80 - 85	124	70 - 75	105 - 110	75 - 80	100 - 110	90 - 95
Sub-Totals/Averages	**601**	**63 %**	**23 %**	**14 %**	**601**	**72.3 %**	**$120.37**	**$87.03**	**601**	**69.1 %**	**$118.39**	**$81.83**	**97.4 %**	**100.5 %**
Secondary Competitors	1,292	63 %	21 %	16 %	891	76.5 %	$113.64	$86.88	891	72.2 %	$112.43	$81.16	101.7 %	99.7 %
Totals/Averages	**1,893**	**63 %**	**22 %**	**15 %**	**1,492**	**74.8 %**	**$116.26**	**$86.94**	**1,492**	**71.0 %**	**$114.77**	**$81.43**	**100.0 %**	**100.0 %**

** 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.*

FIGURE 1-3 SECONDARY COMPETITORS – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation: Commercial	Est. Segmentation: Meeting and Group	Est. Segmentation: Leisure	Total Competitive Level	Estimated 2015: Weighted Annual Room Count	Estimated 2015: Occ.	Estimated 2015: Average Rate	Estimated 2015: RevPAR	Estimated 2016: Weighted Annual Room Count	Estimated 2016: Occ.	Estimated 2016: Average Rate	Estimated 2016: RevPAR
Marriott Houston Hobby Airport Hotel	287	55 %	35 %	10 %	75 %	215	75 - 80 %	$120 - $125	$90 - $95	215	70 - 75 %	$115 - $120	$85 - $90
DoubleTree by Hilton Hotel Houston Hobby Airport	303	55	35	10	75	227	70 - 75	105 - 110	80 - 85	227	70 - 75	105 - 110	75 - 80
SpringHill Suites by Marriott Houston Clear Lake Webster	121	60	10	30	75	91	80 - 85	105 - 110	85 - 90	91	75 - 80	105 - 110	80 - 85
Holiday Inn Express & Suites Houston Space Center Clear Lake	101	70	5	25	75	76	70 - 75	100 - 105	75 - 80	76	70 - 75	100 - 105	70 - 75
Hampton Inn & Suites Houston Clear Lake NASA	108	70	5	25	75	81	70 - 75	120 - 125	85 - 90	81	65 - 70	115 - 120	80 - 85
Comfort Suites Webster	58	65	10	25	75	44	60 - 65	110 - 115	70 - 75	44	55 - 60	110 - 115	65 - 70
Residence Inn by Marriott Houston Clear Lake	110	80	10	10	50	55	75 - 80	120 - 125	95 - 100	55	70 - 75	120 - 125	90 - 95
Staybridge Suites Houston Clearlake	112	80	5	15	50	56	80 - 85	105 - 110	85 - 90	56	75 - 80	100 - 105	80 - 85
Homewood Suites by Hilton Houston Clear Lake	92	75	10	15	50	46	75 - 80	125 - 130	95 - 100	46	70 - 75	120 - 125	90 - 95
Totals/Averages	**1,292**	**63 %**	**21 %**	**16 %**	**69 %**	**891**	**76.5 %**	**$113.64**	**$86.88**	**891**	**72.2 %**	**$112.43**	**$81.16**

** 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.*

Summary of Forecast Occupancy and Average Rate

Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, we have chosen to use a stabilized occupancy level of 75% and a base-year rate position of $142.00 for the proposed subject hotel. The following table reflects a summary of our market-wide and proposed subject hotel occupancy and average rate projections.

FIGURE 1-4 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	71.0 %	—	$114.77	—	—	$142.00	123.7 %
2017	71.2	2.5 %	117.64	—	2.5 %	145.55	123.7
2018	70.4	3.5	121.76	59.0 %	3.5	150.64	123.7
2019	68.7	3.5	126.02	66.0	3.5	155.92	123.7
2020	69.6	3.0	129.80	73.0	3.0	160.59	123.7
2021	69.9	3.0	133.69	75.0	3.0	165.41	123.7
2022	69.9	3.0	137.70	75.0	3.0	170.37	123.7

The following table summarizes the proposed subject hotel's forecast, reflecting fiscal years and opening-year rate discounts as applicable.

FIGURE 1-5 FORECAST OF AVERAGE RATE

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2018/19	65 %	$154.59	3.0 %	$149.95
2019/20	72	159.42	1.5	157.02
2020/21	74	164.20	0.0	164.20
2021/22	75	169.12	0.0	169.12

Summary of Forecast Income and Expense Statement

Our positioning of each revenue and expense level is supported by comparable operations or trends specific to this market. Our forecast of income and expense is presented in the following table.

FIGURE 1-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2018/19	Begins October			2019/20				2020/21				Stabilized				2022/23			
Number of Rooms:	140				140				140				140				140			
Occupancy:	65%				72%				74%				75%				75%			
Average Rate:	$149.95				$157.02				$164.20				$169.12				$174.20			
RevPAR:	$97.47				$113.06				$121.51				$126.84				$130.65			
Days Open:	365				365				365				365				365			
Occupied Rooms:	33,215	%Gross	PAR	POR	36,792	%Gross	PAR	POR	37,814	%Gross	PAR	POR	38,325	%Gross	PAR	POR	38,325	%Gross	PAR	POR
OPERATING REVENUE																				
Rooms	$4,981	81.5 %	$35,579	$149.96	$5,777	81.2 %	$41,264	$157.02	$6,209	81.3 %	$44,350	$164.20	$6,482	81.3 %	$46,300	$169.13	$6,676	81.3 %	$47,686	$174.19
Food	678	11.1	4,846	20.42	802	11.3	5,730	21.80	861	11.3	6,147	22.76	895	11.2	6,395	23.36	922	11.2	6,587	24.06
Beverage	295	4.8	2,110	8.90	358	5.0	2,560	9.74	388	5.1	2,773	10.27	403	5.1	2,878	10.51	415	5.1	2,964	10.83
Other Operated Departments	90	1.5	646	2.72	102	1.4	730	2.78	108	1.4	773	2.86	112	1.4	799	2.92	115	1.4	823	3.01
Miscellaneous Income	63	1.0	452	1.91	71	1.0	511	1.94	76	1.0	541	2.00	78	1.0	560	2.04	81	1.0	576	2.11
Total Operating Revenues	6,109	100.0	43,633	183.91	7,111	100.0	50,795	193.28	7,642	100.0	54,584	202.09	7,970	100.0	56,932	207.97	8,209	100.0	58,637	214.20
DEPARTMENTAL EXPENSES *																				
Rooms	1,409	28.3	10,067	42.43	1,509	26.1	10,778	41.01	1,571	25.3	11,222	41.55	1,627	25.1	11,621	42.45	1,676	25.1	11,969	43.72
Food & Beverage	767	78.8	5,482	23.11	840	72.4	6,002	22.84	882	70.7	6,303	23.33	913	70.3	6,519	23.81	940	70.3	6,714	24.53
Other Operated Departments	54	60.1	388	1.64	57	56.3	410	1.56	60	55.2	426	1.58	62	55.0	440	1.61	63	55.0	453	1.65
Total Expenses	2,231	36.5	15,937	67.18	2,407	33.8	17,191	65.41	2,513	32.9	17,951	66.46	2,601	32.6	18,579	67.87	2,679	32.6	19,137	69.91
DEPARTMENTAL INCOME	3,877	63.5	27,696	116.74	4,705	66.2	33,604	127.87	5,129	67.1	36,633	135.63	5,369	67.4	38,353	140.10	5,530	67.4	39,500	144.29
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	467	7.6	3,333	14.05	494	7.0	3,530	13.43	514	6.7	3,674	13.60	531	6.7	3,796	13.87	547	6.7	3,910	14.28
Info & Telecom Systems	65	1.1	461	1.95	68	1.0	489	1.86	71	0.9	509	1.88	74	0.9	526	1.92	76	0.9	541	1.98
Marketing	359	5.9	2,564	10.81	380	5.3	2,716	10.33	396	5.2	2,826	10.46	409	5.1	2,920	10.67	421	5.1	3,008	10.99
Franchise Fee	374	6.1	2,668	11.25	491	6.9	3,507	13.35	590	7.7	4,213	15.60	616	7.7	4,399	16.07	634	7.7	4,530	16.55
Prop. Operations & Maint.	216	3.5	1,542	6.50	274	3.9	1,960	7.46	317	4.2	2,267	8.39	328	4.1	2,342	8.56	338	4.1	2,412	8.81
Utilities	281	4.6	2,005	8.45	297	4.2	2,124	8.08	309	4.0	2,210	8.18	320	4.0	2,284	8.34	329	4.0	2,352	8.59
Total Expenses	1,760	28.8	12,574	53.00	2,006	28.3	14,326	54.51	2,198	28.7	15,699	58.12	2,277	28.5	16,266	59.42	2,345	28.5	16,754	61.20
GROSS HOUSE PROFIT	2,117	34.7	15,122	63.74	2,699	37.9	19,277	73.35	2,931	38.4	20,934	77.50	3,092	38.9	22,087	80.68	3,184	38.9	22,746	83.09
Management Fee	183	3.0	1,309	5.52	213	3.0	1,524	5.80	229	3.0	1,638	6.06	239	3.0	1,708	6.24	246	3.0	1,759	6.43
INCOME BEFORE NON-OPR. INC. & EXP.	1,934	31.7	13,813	58.22	2,485	34.9	17,753	67.55	2,701	35.4	19,296	71.44	2,853	35.9	20,379	74.44	2,938	35.9	20,987	76.67
NON-OPERATING INCOME & EXPENSE																				
Property Taxes	309	5.1	2,207	9.30	317	4.5	2,262	8.61	326	4.3	2,330	8.63	336	4.2	2,400	8.77	346	4.2	2,472	9.03
Insurance	45	0.7	321	1.35	46	0.7	330	1.26	48	0.6	340	1.26	49	0.6	350	1.28	51	0.6	361	1.32
Reserve for Replacement	122	2.0	873	3.68	213	3.0	1,524	5.80	306	4.0	2,183	8.08	319	4.0	2,277	8.32	328	4.0	2,345	8.57
Total Expenses	476	7.8	3,400	14.33	576	8.2	4,116	15.66	680	8.9	4,854	17.97	704	8.8	5,028	18.37	725	8.8	5,178	18.92
EBITDA LESS RESERVE	$1,458	23.9 %	$10,413	$43.89	$1,909	26.7 %	$13,637	$51.89	$2,022	26.5 %	$14,442	$53.47	$2,149	27.1 %	$15,351	$56.08	$2,213	27.1 %	$15,809	$57.75

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

FIGURE 1-7 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2018/19		2019/20		2020/21		2021/22		2022/23	
Number of Rooms:	**140**		**140**		**140**		**140**		**140**	
Occupied Rooms:	**33,215**		**36,792**		**37,814**		**38,325**		**38,325**	
Occupancy:	**65%**		**72%**		**74%**		**75%**		**75%**	
Average Rate:	**$149.95**	**% of**	**$157.02**	**% of**	**$164.20**	**% of**	**$169.12**	**% of**	**$174.20**	**% of**
RevPAR:	**$97.47**	**Gross**	**$113.06**	**Gross**	**$121.51**	**Gross**	**$126.84**	**Gross**	**$130.65**	**Gross**
OPERATING REVENUE										
Rooms	$4,981	81.5 %	$5,777	81.2 %	$6,209	81.3 %	$6,482	81.3 %	$6,676	81.3 %
Food	678	11.1	802	11.3	861	11.3	895	11.2	922	11.2
Beverage	295	4.8	358	5.0	388	5.1	403	5.1	415	5.1
Other Operated Departments	90	1.5	102	1.4	108	1.4	112	1.4	115	1.4
Miscellaneous Income	63	1.0	71	1.0	76	1.0	78	1.0	81	1.0
Total Operating Revenues	6,109	100.0	7,111	100.0	7,642	100.0	7,970	100.0	8,209	100.0
DEPARTMENTAL EXPENSES *										
Rooms	1,409	28.3	1,509	26.1	1,571	25.3	1,627	25.1	1,676	25.1
Food & Beverage	767	78.8	840	72.4	882	70.7	913	70.3	940	70.3
Other Operated Departments	54	60.1	57	56.3	60	55.2	62	55.0	63	55.0
Total Expenses	2,231	36.5	2,407	33.8	2,513	32.9	2,601	32.6	2,679	32.6
DEPARTMENTAL INCOME	3,877	63.5	4,705	66.2	5,129	67.1	5,369	67.4	5,530	67.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	467	7.6	494	7.0	514	6.7	531	6.7	547	6.7
Info & Telecom Systems	65	1.1	68	1.0	71	0.9	74	0.9	76	0.9
Marketing	359	5.9	380	5.3	396	5.2	409	5.1	421	5.1
Franchise Fee	374	6.1	491	6.9	590	7.7	616	7.7	634	7.7
Prop. Operations & Maint.	216	3.5	274	3.9	317	4.2	328	4.1	338	4.1
Utilities	281	4.6	297	4.2	309	4.0	320	4.0	329	4.0
Total Expenses	1,760	28.8	2,006	28.3	2,198	28.7	2,277	28.5	2,345	28.5
GROSS HOUSE PROFIT	2,117	34.7	2,699	37.9	2,931	38.4	3,092	38.9	3,184	38.9
Management Fee	183	3.0	213	3.0	229	3.0	239	3.0	246	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	1,934	31.7	2,485	34.9	2,701	35.4	2,853	35.9	2,938	35.9
NON-OPERATING INCOME & EXPENSE										
Property Taxes	309	5.1	317	4.5	326	4.3	336	4.2	346	4.2
Insurance	45	0.7	46	0.7	48	0.6	49	0.6	51	0.6
Reserve for Replacement	122	2.0	213	3.0	306	4.0	319	4.0	328	4.0
Total Expenses	476	7.8	576	8.2	680	8.9	704	8.8	725	8.8
EBITDA LESS RESERVE	$1,458	23.9 %	$1,909	26.7 %	$2,022	26.5 %	$2,149	27.1 %	$2,213	27.1 %

	2023/24		2024/25		2025/26		2026/27		2027/28	
Number of Rooms:	**140**		**140**		**140**		**140**		**140**	
Occupied Rooms:	**38,325**		**38,325**		**38,325**		**38,325**		**38,325**	
Occupancy:	**75%**		**75%**		**75%**		**75%**		**75%**	
Average Rate:	**$179.42**	**% of**	**$184.81**	**% of**	**$190.35**	**% of**	**$196.06**	**% of**	**$201.94**	**% of**
RevPAR:	**$134.57**	**Gross**	**$138.60**	**Gross**	**$142.76**	**Gross**	**$147.05**	**Gross**	**$151.46**	**Gross**
OPERATING REVENUE										
Rooms	$6,876	81.3 %	$7,083	81.3 %	$7,295	81.3 %	$7,514	81.3 %	$7,739	81.3 %
Food	950	11.2	978	11.2	1,008	11.2	1,038	11.2	1,069	11.2
Beverage	427	5.1	440	5.1	453	5.1	467	5.1	481	5.1
Other Operated Departments	119	1.4	122	1.4	126	1.4	130	1.4	134	1.4
Miscellaneous Income	83	1.0	86	1.0	88	1.0	91	1.0	94	1.0
Total Operating Revenues	8,455	100.0	8,709	100.0	8,970	100.0	9,240	100.0	9,516	100.0
DEPARTMENTAL EXPENSES *										
Rooms	1,726	25.1	1,778	25.1	1,831	25.1	1,886	25.1	1,943	25.1
Food & Beverage	968	70.3	997	70.3	1,027	70.3	1,058	70.3	1,090	70.3
Other Operated Departments	65	55.0	67	55.0	69	55.0	71	55.0	73	55.0
Total Expenses	2,759	32.6	2,842	32.6	2,928	32.6	3,015	32.6	3,106	32.6
DEPARTMENTAL INCOME	5,696	67.4	5,867	67.4	6,043	67.4	6,224	67.4	6,410	67.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	564	6.7	581	6.7	598	6.7	616	6.7	635	6.7
Info & Telecom Systems	78	0.9	80	0.9	83	0.9	85	0.9	88	0.9
Marketing	434	5.1	447	5.1	460	5.1	474	5.1	488	5.1
Franchise Fee	653	7.7	673	7.7	693	7.7	714	7.7	735	7.7
Prop. Operations & Maint.	348	4.1	358	4.1	369	4.1	380	4.1	391	4.1
Utilities	339	4.0	349	4.0	360	4.0	371	4.0	382	4.0
Total Expenses	2,416	28.5	2,488	28.5	2,563	28.5	2,640	28.5	2,719	28.5
GROSS HOUSE PROFIT	3,280	38.9	3,379	38.9	3,480	38.9	3,584	38.9	3,691	38.9
Management Fee	254	3.0	261	3.0	269	3.0	277	3.0	285	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	3,026	35.9	3,118	35.9	3,211	35.9	3,307	35.9	3,406	35.9
NON-OPERATING INCOME & EXPENSE										
Property Taxes	356	4.2	367	4.2	378	4.2	390	4.2	401	4.2
Insurance	52	0.6	54	0.6	55	0.6	57	0.6	59	0.6
Reserve for Replacement	338	4.0	348	4.0	359	4.0	370	4.0	381	4.0
Total Expenses	747	8.8	769	8.8	792	8.8	816	8.8	840	8.8
EBITDA LESS RESERVE	$2,279	27.1 %	$2,348	27.1 %	$2,418	27.1 %	$2,491	27.1 %	$2,566	27.1 %

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

As illustrated, the hotel is expected to stabilize at a profitable level. Please refer to the Forecast of Income and Expense chapter of our report for a detailed explanation of the methodology used in deriving this forecast.

Feasibility Conclusion

The Feasibility Analysis chapter of this report converts these cash flows into a net present value indication assuming set-forth debt and equity requirements. The conclusion of this analysis indicates that an equity investor contributing $7,771,000 (roughly 30% of the $25,900,000 development cost) could expect to receive a 16.5% internal rate of return over a ten-year holding period, assuming that the investor obtains financing at the time of the project's completion at the loan-to-value ratio and interest rate set forth. The proposed subject hotel has an opportunity to serve an underserved niche in the market. Our conclusions are based primarily on the long-term strength of this hotel market. Our review of investor surveys indicates equity returns ranging from 10.3% to 22.7%, with an average of 17.7%. Based on these parameters, the calculated return to the equity investor, 16.5%, is below the average but within the range of market level returns assuming the reported construction cost of $25,900,000.

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.[1]

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

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

general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

Intended Use of the Feasibility Study

This feasibility report is being prepared for use in the development of the proposed subject hotel.

Identification of the Client and Intended User(s)

The client for this engagement is Client Hotel Company. This report is intended for the addressee firm, and may not be distributed to or relied upon by other persons or entities.

Scope of Work

The methodology used to develop this study 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,*[2] *Hotels, Motels and Restaurants: Valuations and Market Studies,*[3] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[4] *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations,*[5] and *Hotels and Motels – Valuations and Market Studies.*[6]

1. All information was collected and analyzed by the staff of TS Worldwide, LLC. Information was supplied by the client and/or the property's development team.
2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
3. The subject property's proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.
4. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related

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

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

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

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

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

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

5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.
7. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
8. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.
9. A feasibility analysis is performed, in which the market equity yield an investor would expect is compared to the equity yield an investor must accept.

2. Description of the Site and Neighborhood

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

The subject site is located southeast of Houston, in the southwest quadrant of the intersection formed by Interstate 45 and Bay Area Boulevard. This site is in the city of Stars Hallow, Texas.

Physical Characteristics

The subject site measures approximately 2.07 acres, or 90,000 square feet. The parcel's adjacent uses are set forth in the following table.

FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES

Direction	Adjacent Use
North	Rogers Court
South	Vacant Land
East	Rogers Court
West	Holiday Inn Express Hotel & Suites

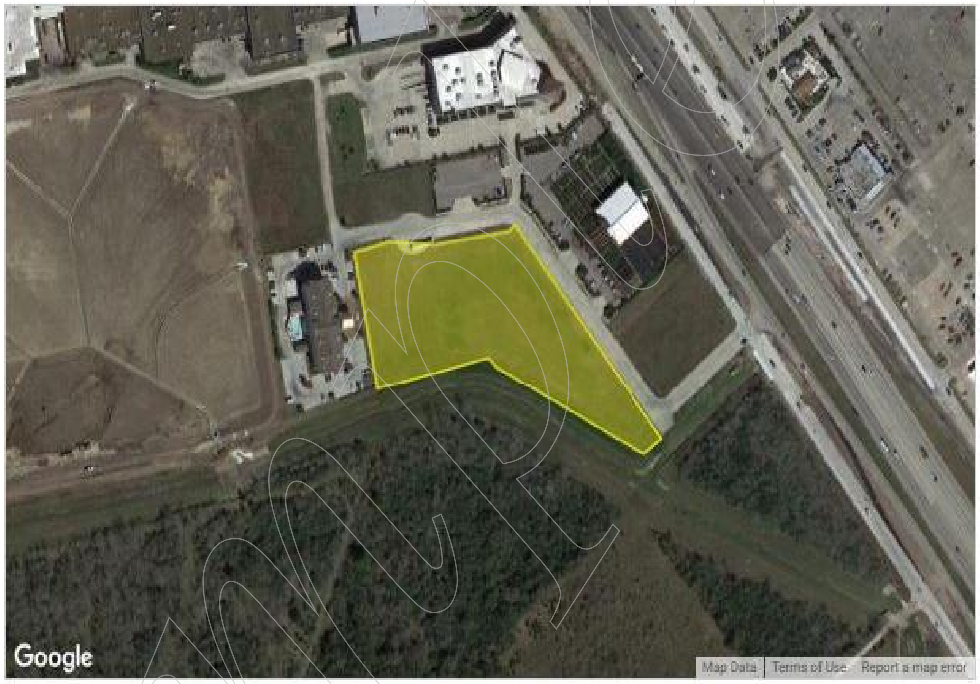
The subject site comprises two separate parcels. The main parcel, located on the south side of Rogers Court, measures 188,329 square feet and is expected to feature the hotel and a parking lot. The second parcel, which measures 22,651 square feet, is located on the north side of Rogers Court; this parcel is anticipated to be improved with an additional surface parking area.

VIEW OF SUBJECT SITE

Topography and Site Utility

The topography of the site is generally flat, and the shape should permit adequate use of the site for building and site improvements, including ingress and egress; however, the irregular configuration somewhat limits its overall utility. Upon completion of construction, the subject site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. It is expected that the site will be developed fully with building and site improvements, thus contributing to the overall profitability of the hotel.

AERIAL PHOTOGRAPH PARCEL 1



AERIAL PHOTOGRAPH PARCEL 2

VIEW FROM SITE TO THE NORTH

VIEW FROM SITE TO THE SOUTH

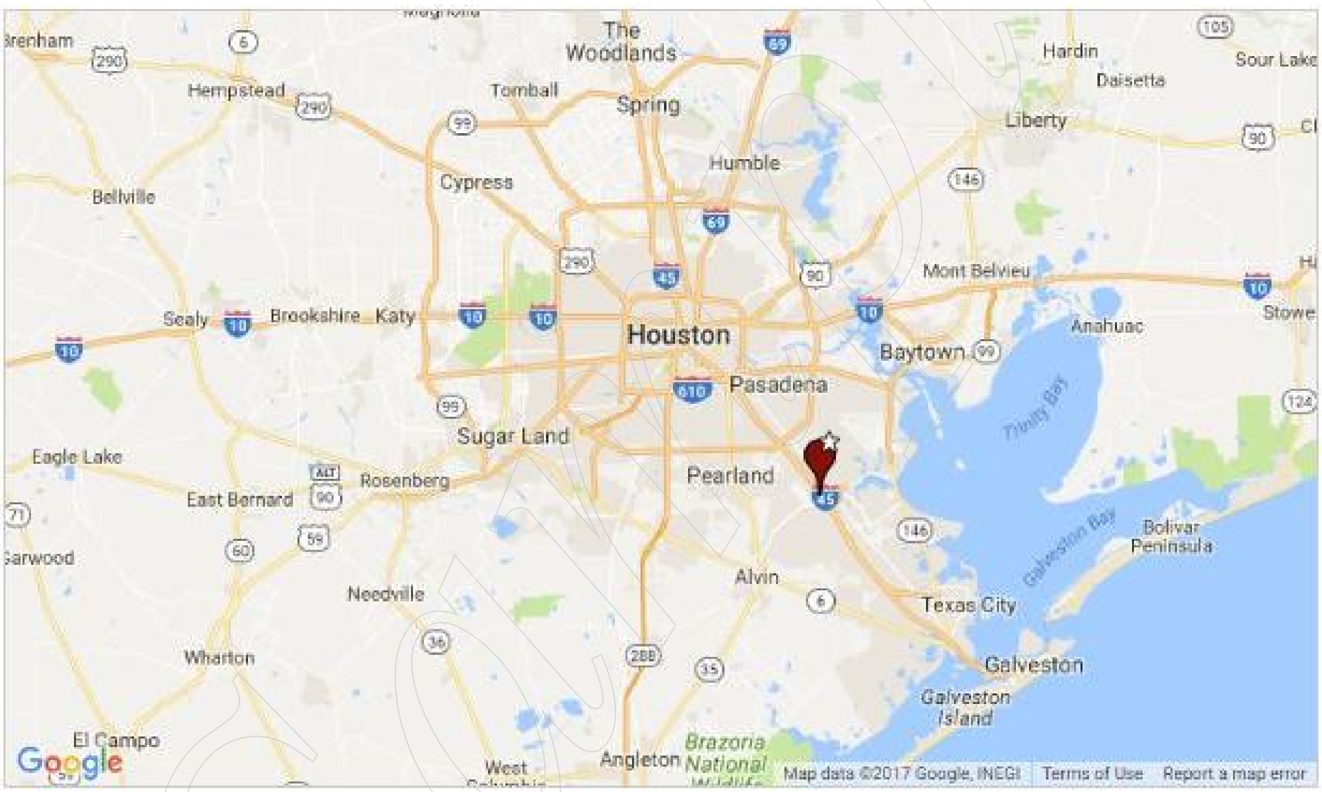
VIEW FROM SITE TO THE EAST

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



Primary regional access through the area is provided by east/west Interstate 10, which extends to such cities as New Orleans, Louisiana, to the east and San Antonio to the west. North/south Interstate 45 is another major highway, which provides access to such cities as Dallas to the north and Galveston to the south. Interstate 610, also known as Loop 610, is a freeway that circles around the inner-city portion of Houston, while Beltway 8, also known as the Sam Houston Tollway, forms a larger loop around the metropolitan area. Interstate 69/U.S. Highway 59, which divides into eastern and western sections as it traverses through the Houston metro area, provides access to Texarkana to the north and the Mexican border to the south. The subject market is served by a variety of additional local highways, which are illustrated on the map.

Vehicular access to the subject site will be provided by Rogers Court. The subject site is located near a busy intersection and is relatively simple to locate from Interstate 45, which is the nearest major highway. The proposed subject hotel is anticipated to have adequate signage at the street, as well as on its façade. Overall, the subject site benefits from good accessibility, and the proposed hotel is expected to enjoy very good visibility from within its local neighborhood.

Airport Access

The proposed subject hotel will be served by the Houston Hobby Airport, which is located approximately ten miles to the northwest of the subject site. The proposed subject hotel will also be served by the George Bush Intercontinental Airport, located roughly 30 miles to the north of the subject site.

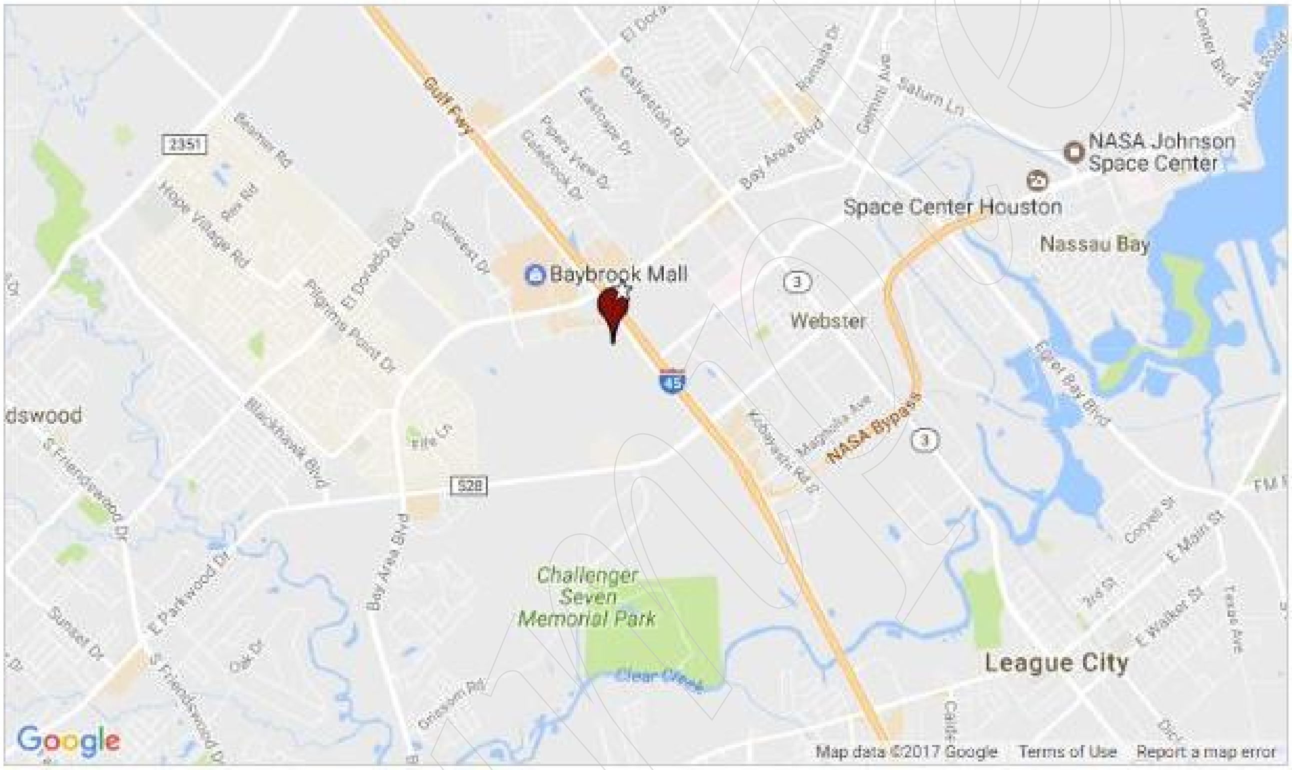
Neighborhood

The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment. This section of the report investigates the subject neighborhood and evaluates any pertinent location factors that could affect its future occupancy, average rate, and overall profitability.

The neighborhood surrounding the subject site is generally defined as the Interstate 45 corridor between El Dorado Avenue to the north and Clear Creek to the south. The neighborhood is characterized by restaurants, small office buildings, and retail shopping centers. Some specific businesses and entities in the area include Baybrook Mall, Houston Garden Centers, Star Furniture, and Nordstrom Rack. Hotels in the vicinity include the Holiday Inn Express Hotel & Suites, Hampton Inn & Suites by Hilton, and SpringHill Suites by Marriott, while restaurants located near the subject site include Pappas Seafood House, Saltgrass Steak House, The Cheesecake Factory, and Olive Garden.

In general, this neighborhood is in the growth stage of its life cycle, with development occurring in the commercial and retail sectors. Continued development at Edgewater, a new master-planned residential community, is supporting retail growth in the area. Within the immediate proximity of the site, land use is primarily commercial in nature. Notable changes in this neighborhood include the November 2015 opening of TopGolf Stars Hallow and the 555,000-square-foot expansion of the Baybrook Mall, which was completed in 2015.

MAP OF NEIGHBORHOOD

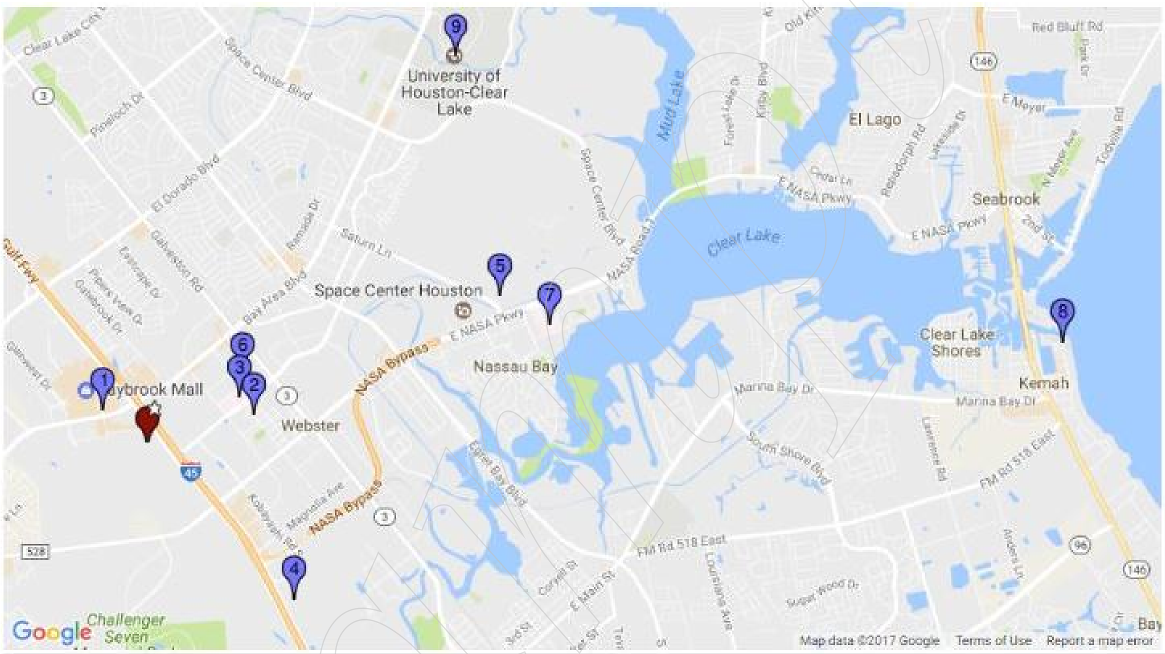


The proposed subject hotel's opening should be a positive influence on the area; the hotel will be in character with and will complement surrounding land uses. Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel.

Proximity to Local Demand Generators and Attractions

The subject site is located near the area's primary generators of lodging demand. A sample of these demand generators is reflected on the following map, including respective distances from and drive times to the subject site. Overall, the subject site 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	Baybrook Mall	3 minutes	1 mile	
2	Deke Slayton Cancer Center	4 minutes	2 miles	
3	Clear Lake Regional Medical Center	5 minutes	2 miles	
4	Topgolf	5 minutes	4 miles	
5	NASA Johnson Space Center	7 minutes	5 miles	
6	Kindred Hospital - Clear Lake	6 minutes	2 miles	
7	Houston Methodist St. John Hospital	7 minutes	5 miles	
8	Kemah Boardwalk	19 minutes	11 miles	
9	University of Houston-Clear Lake	13 minutes	5 miles	

Utilities

The subject site will reportedly be 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.

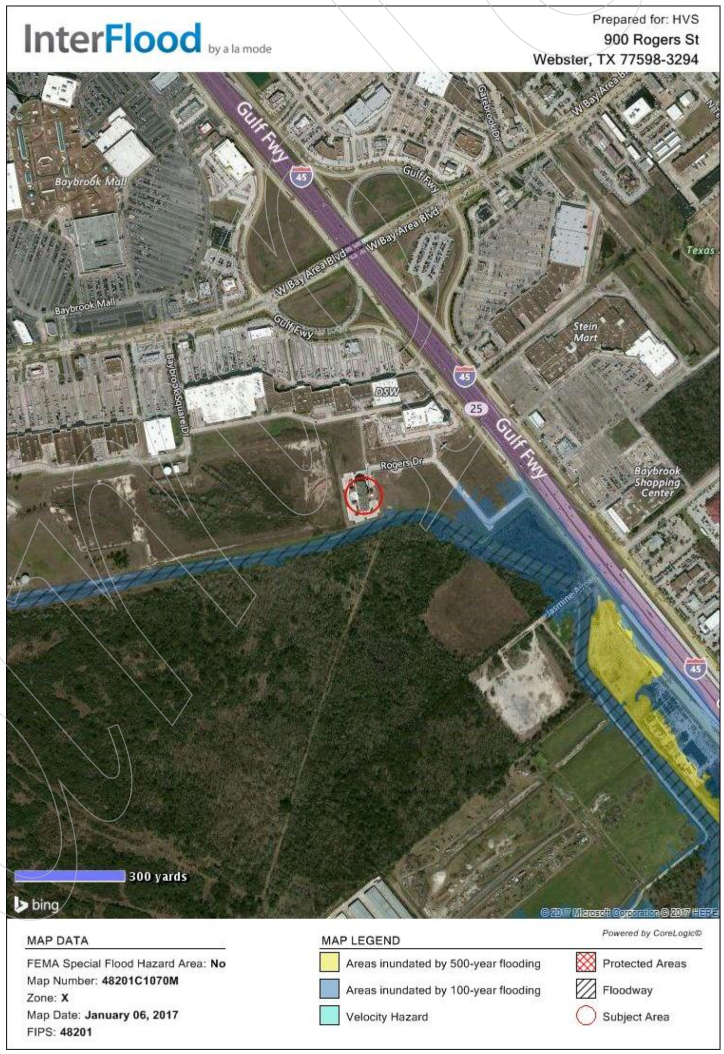
Nuisances and Hazards

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: HC - Highway Commercial. Additional details pertaining to the proposed subject property's zoning regulations are summarized in the following table.

ZONING

Municipality Governing Zoning	Zoning Ordinance of the City of Webster, Texas
Current Zoning	C-2 Second Commercial District
Current Use	Vacant Land
Is Current Use Permitted	Yes
Is Change in Zoning Likely	No
Permitted Uses	Amusement Center, Shopping Center, Medical Office, Hospital, General Office Building, Hotel, Motel, Restaurant
Hotel Allowed	Yes
Legally Non-Conforming	No

Easements and Encroachments

We are not aware of any easements attached to the property that would significantly affect the utility of the site or marketability of this project.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site is favorably located near the interstate and Baybrook Mall. In general, the site should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

HVS

3. Market Area Analysis

The economic vitality of the market area and neighborhood surrounding the subject site is an important consideration in forecasting lodging demand and future 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

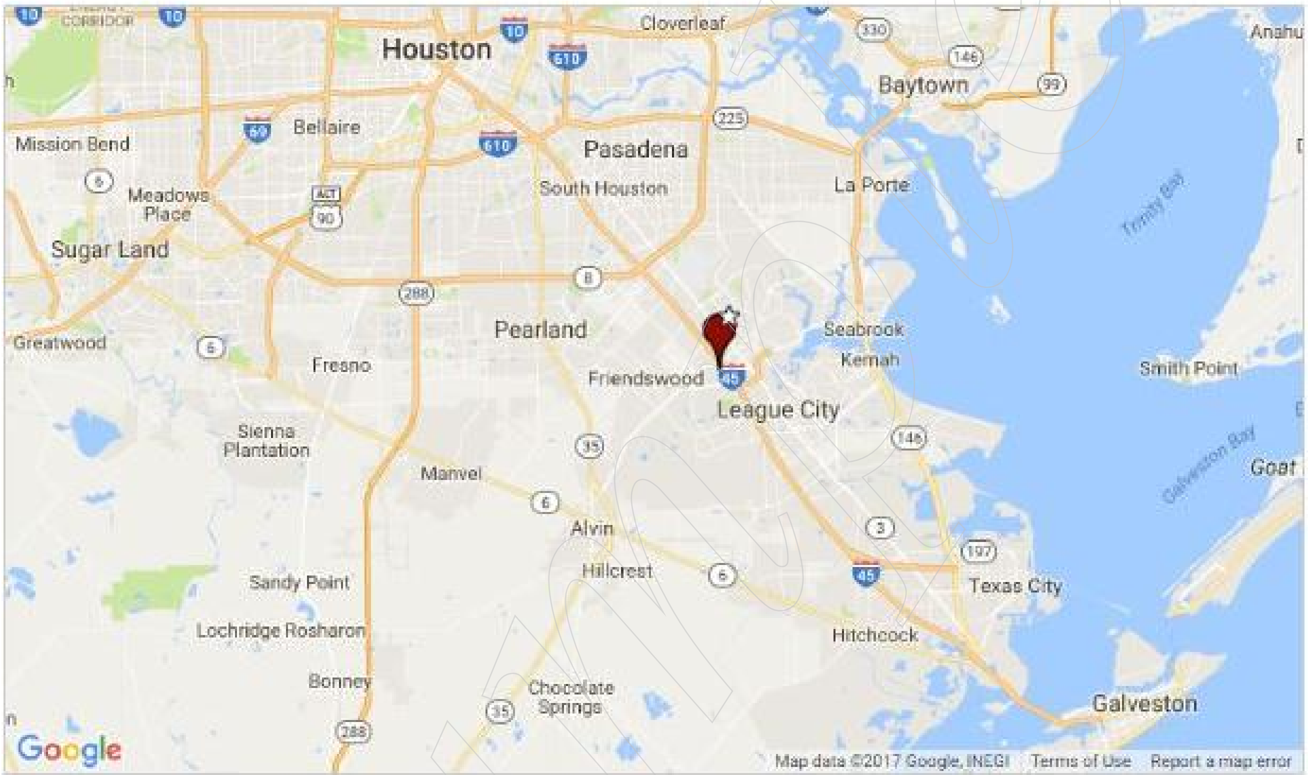
The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the city of Stars Hallow, the county of Harris, and the state of Texas. The city of Stars Hallow, originally founded by James W. Stars Hallow as "Gardentown" in 1879, is located midway between Houston and Galveston in Harris County; it is part of the Houston–Sugar Land–Baytown metropolitan area. In the 1900s, a group of Japanese settlers introduced rice farming to the area, and the 1930s brought petroleum exploration to East Texas. While agriculture and energy are still important to the city, Stars Hallow is best known for its aerospace presence, anchored by the Johnson Space Center, which was developed by NASA in the 1960s.

HVS

HOUSTON

The proposed subject property's market area can be defined by its Combined Statistical Area (CSA): Houston-The Woodlands, TX. 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 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2016	2020	Average Annual Compounded Change 2000-10	2010-16	2016-20
Resident Population (Thousands)							
Harris County	3,414.2	4,108.9	4,585.5	4,893.6	1.9 %	1.8 %	1.6 %
Houston-The Woodlands-Sugar Land, TX MSA	4,717.5	5,949.1	6,727.1	7,236.9	2.3	2.1	1.8
Houston-The Woodlands, TX CSA	4,902.6	6,143.8	6,925.9	7,441.5	2.3	2.0	1.8
State of Texas	20,944.5	25,245.7	27,811.3	29,649.5	1.9	1.6	1.6
United States	282,162.4	309,347.1	324,506.9	336,690.4	0.9	0.8	0.9
Per-Capita Personal Income*							
Harris County	$41,998	$45,526	$53,760	$56,963	0.8	2.8	1.5
Houston-The Woodlands-Sugar Land, TX MSA	40,386	44,238	52,059	55,045	0.9	2.8	1.4
Houston-The Woodlands, TX CSA	39,817	43,755	51,532	54,535	0.9	2.8	1.4
State of Texas	34,121	37,659	43,342	46,183	1.0	2.4	1.6
United States	36,812	39,622	43,613	46,375	0.7	1.6	1.5
W&P Wealth Index							
Harris County	115.2	116.4	124.1	123.5	0.1	1.1	(0.1)
Houston-The Woodlands-Sugar Land, TX MSA	110.9	113.0	120.0	119.2	0.2	1.0	(0.2)
Houston-The Woodlands, TX CSA	109.4	111.7	118.7	118.0	0.2	1.0	(0.1)
State of Texas	94.0	96.2	100.0	100.1	0.2	0.6	0.0
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Harris County	$5,192	$7,137	$9,564	$10,541	3.2	5.0	2.5
Houston-The Woodlands-Sugar Land, TX MSA	6,513	9,427	12,859	14,266	3.8	5.3	2.6
Houston-The Woodlands, TX CSA	6,674	9,623	13,109	14,533	3.7	5.3	2.6
State of Texas	27,748	37,635	50,564	55,656	3.1	5.0	2.4
United States	368,829	447,728	562,999	602,635	2.0	3.9	1.7
Total Retail Sales (Millions)*							
Harris County	$50,111	$59,036	$74,604	$81,961	1.7	4.0	2.4
Houston-The Woodlands-Sugar Land, TX MSA	65,479	79,957	102,233	113,105	2.0	4.2	2.6
Houston-The Woodlands, TX CSA	67,346	82,113	104,766	115,787	2.0	4.1	2.5
State of Texas	291,221	341,775	423,158	464,763	1.6	3.6	2.4
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 has grown at an average annual compounded rate of 0.8% from 2010 through 2016. The county's population has grown at a quicker pace than the nation's population; the average annual growth rate of 1.8% between 2010 and 2016 reflects a gradually expanding area. Following this population trend, per-capita personal income increased modestly, at 2.8% on average annually for the county between 2010 and 2016. Local wealth indexes have remained stable in recent years, registering a relatively high 124.1 level for the county in 2016.

Food and beverage sales totaled $9,564 million in the county in 2016, versus $7,137 million in 2010. This reflects a 5.0% average annual change, which is stronger than the 3.2% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 2.5%, which is forecast through 2020. The retail sales sector demonstrated an annual increase of 1.7% registered in the decade 2000 to 2010, followed by an increase of 4.0% in the period 2010 to 2016. An increase of 2.4% average annual change is expected in county retail sales 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 3-2 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	2.9	0.1 %	2.4	0.1 %	2.5	0.1 %	2.6	0.1 %	(1.6) %	0.5 %	0.6 %
Forestry, Fishing, Related Activities And Other	2.4	0.1	2.1	0.1	2.3	0.1	2.4	0.1	(1.0)	0.9	1.6
Mining	70.1	3.1	99.5	3.7	130.0	4.1	135.3	3.9	3.6	4.6	1.0
Utilities	15.9	0.7	15.0	0.6	14.4	0.5	14.6	0.4	(0.6)	(0.6)	0.3
Construction	179.0	7.9	191.1	7.2	236.5	7.5	261.5	7.6	0.7	3.6	2.5
Manufacturing	195.4	8.6	178.5	6.7	215.7	6.8	222.0	6.5	(0.9)	3.2	0.7
Total Trade	346.0	15.2	365.6	13.8	441.1	13.9	478.8	13.9	0.6	3.2	2.1
Wholesale Trade	116.7	5.1	131.2	4.9	168.0	5.3	181.6	5.3	1.2	4.2	2.0
Retail Trade	229.3	10.1	234.5	8.8	273.1	8.6	297.2	8.7	0.2	2.6	2.1
Transportation And Warehousing	117.2	5.1	124.7	4.7	141.1	4.5	146.5	4.3	0.6	2.1	0.9
Information	48.0	2.1	35.0	1.3	36.1	1.1	37.0	1.1	(3.1)	0.5	0.6
Finance And Insurance	102.9	4.5	133.5	5.0	157.8	5.0	176.9	5.2	2.6	2.8	2.9
Real Estate And Rental And Lease	86.3	3.8	117.1	4.4	134.9	4.3	148.6	4.3	3.1	2.4	2.4
Total Services	872.9	38.3	1,116.6	42.0	1,363.6	43.1	1,502.5	43.7	2.5	3.4	2.5
Professional And Technical Services	185.1	8.1	227.8	8.6	269.7	8.5	288.9	8.4	2.1	2.9	1.7
Management Of Companies And Enterprises	9.1	0.4	26.8	1.0	42.6	1.3	49.5	1.4	11.4	8.0	3.9
Administrative And Waste Services	182.6	8.0	206.7	7.8	259.2	8.2	284.7	8.3	1.2	3.8	2.4
Educational Services	37.9	1.7	49.4	1.9	58.6	1.9	63.9	1.9	2.7	2.9	2.2
Health Care And Social Assistance	164.1	7.2	245.1	9.2	289.7	9.2	325.0	9.5	4.1	2.8	2.9
Arts, Entertainment, And Recreation	31.4	1.4	38.2	1.4	42.8	1.4	46.3	1.3	2.0	1.9	2.0
Accommodation And Food Services	135.9	6.0	172.1	6.5	215.6	6.8	239.8	7.0	2.4	3.8	2.7
Other Services, Except Public Administration	126.8	5.6	150.5	5.7	185.5	5.9	204.3	5.9	1.7	3.6	2.4
Total Government	237.8	10.4	275.8	10.4	286.0	9.0	307.0	8.9	1.5	0.6	1.8
Federal Civilian Government	25.5	1.1	26.1	1.0	24.8	0.8	25.0	0.7	0.2	(0.9)	0.2
Federal Military	9.9	0.4	10.6	0.4	10.1	0.3	10.1	0.3	0.7	(0.8)	0.1
State And Local Government	202.3	8.9	239.1	9.0	251.2	7.9	271.9	7.9	1.7	0.8	2.0
TOTAL	2,276.6	100.0 %	2,656.9	100.0 %	3,162.1	100.0 %	3,435.7	100.0 %	1.6 %	2.9 %	2.1 %
MSA	2,818.1	—	3,446.9	—	4,132.6	—	4,506.2	—	2.0 %	3.1 %	2.2 %
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 grew at an average annual rate of 1.6%. This trend was below the growth rate recorded by the MSA and also outpaced the national average. More recently, the pace of total employment growth in the county accelerated to 2.9% 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 247,016 people, or 22.1%, and rising from 42.0% to 43.1% of total employment. Of the various service sub-sectors, Health Care And Social Assistance and Professional And Technical Services were the largest employers. Strong growth was also recorded in the Total Trade sector, as well as the Construction sector, which expanded by 20.7% and 23.8%, respectively, in the period 2010 to 2016. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 2.1% on average annually through 2020. The trend is above the forecast rate of change for the U.S. as a whole during the same period.

Radial Demographic Snapshot

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

FIGURE 3-3 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2022 Projection	4,540	94,162	218,692
2017 Estimate	4,144	87,083	201,085
2010 Census	3,608	77,479	175,742
2000 Census	3,501	66,751	142,320
Growth 2017 - 2022	9.6%	8.1%	8.8%
Growth 2010 - 2017	14.9%	12.4%	14.4%
Growth 2000 - 2010	3.0%	16.1%	23.5%
Households			
2022 Projection	2,019	38,453	83,263
2017 Estimate	1,825	35,619	76,831
2010 Census	1,557	31,876	67,912
2000 Census	1,473	27,761	54,615
Growth 2017 - 2022	10.6%	8.0%	8.4%
Growth 2010 - 2017	17.2%	11.7%	13.1%
Growth 2000 - 2010	5.7%	14.8%	24.3%
Income			
2017 Est. Average Household Income	$79,544	$86,733	$107,612
2017 Est. Median Household Income	57,963	64,536	78,931
2017 Est. Civ. Employed Pop 16+ by Occupation	2,300	46,549	105,723
Architect/Engineer	149	2,371	5,938
Arts/Entertainment/Sports	12	735	1,702
Building Grounds Maintenance	106	1,898	2,615
Business/Financial Operations	127	2,483	5,883
Community/Social Services	32	569	1,393
Computer/Mathematical	111	1,752	3,917
Construction/Extraction	100	1,926	3,957
Education/Training/Library	121	3,369	8,420
Farming/Fishing/Forestry	0	70	107
Food Prep/Serving	178	3,377	5,865
Health Practitioner/Technician	146	3,040	8,645
Healthcare Support	63	964	1,594
Maintenance Repair	64	1,334	3,086
Legal	7	309	1,028
Life/Physical/Social Science	17	564	1,456
Management	182	4,320	12,040
Office/Admin. Support	224	5,080	11,836
Production	115	2,068	3,931
Protective Services	48	829	2,383
Sales/Related	253	5,823	12,633
Personal Care/Service	115	1,537	2,958
Transportation/Moving	131	2,132	4,336

Source: The Nielsen Company

This source reports a population of 201,085 within a five-mile radius of the subject site, and 76,831 households within this same radius. Average household income within a five-mile radius of the subject site is currently reported at $107,612, while the median is $78,931.

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

FIGURE 3-4 HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS

Year	Total Employment	% Chg	Office Employment	% Chg	Industrial Employment	% Chg	Households	% Chg	Population	% Chg	Household Avg. Income	% Chg
2003	2,285,770	—	685,399	—	360,305	—	1,795,700	—	5,086,150	—	$100,709	—
2004	2,321,900	1.6 %	703,201	2.6 %	361,450	0.3 %	1,830,410	1.9 %	5,174,760	1.7 %	106,182	5.4 %
2005	2,407,300	3.7	732,103	4.1	371,845	2.9	1,898,070	3.7	5,365,200	3.7	115,319	8.6
2006	2,510,970	4.3	760,300	3.9	391,557	5.3	1,945,060	2.5	5,488,250	2.3	122,655	6.4
2007	2,605,000	3.7	783,238	3.0	404,228	3.2	1,988,590	2.2	5,603,720	2.1	129,360	5.5
2008	2,636,200	1.2	791,973	1.1	414,288	2.5	2,033,500	2.3	5,752,860	2.7	135,948	5.1
2009	2,526,670	(4.2)	763,712	(3.6)	378,310	(8.7)	2,068,120	1.7	5,890,490	2.4	122,182	(10.1)
2010	2,573,100	1.8	780,273	2.2	383,441	1.4	2,086,560	0.9	6,003,410	1.9	132,557	8.5
2011	2,650,930	3.0	800,250	2.6	406,374	6.0	2,132,880	2.2	6,120,400	1.9	142,167	7.2
2012	2,769,100	4.5	834,418	4.3	428,484	5.4	2,189,490	2.7	6,256,600	2.2	153,345	7.9
2013	2,859,670	3.3	861,335	3.2	442,224	3.2	2,254,490	3.0	6,414,150	2.5	149,745	(2.3)
2014	2,972,530	3.9	890,820	3.4	462,140	4.5	2,318,560	2.8	6,580,060	2.6	157,173	5.0
2015	2,998,770	0.9	893,364	0.3	441,078	(4.6)	2,374,520	2.4	6,721,430	2.1	156,085	(0.7)
Forecasts												
2016	2,990,720	*(0.3) %*	890,689	*(0.3) %*	433,334	*(1.8) %*	2,420,280	*1.9 %*	6,853,600	*2.0 %*	$156,379	*0.2 %*
2017	3,005,820	*0.5*	899,880	*1.0*	432,987	*(0.1)*	2,471,730	*2.1*	6,986,790	*1.9*	160,942	*2.9*
2018	3,073,450	*2.2*	922,434	*2.5*	439,013	*1.4*	2,527,690	*2.3*	7,121,090	*1.9*	168,333	*4.6*
2019	3,146,680	*2.4*	943,499	*2.3*	447,124	*1.8*	2,584,100	*2.2*	7,253,510	*1.9*	175,191	*4.1*
2020	3,190,900	*1.4*	956,100	*1.3*	449,814	*0.6*	2,639,780	*2.2*	7,386,980	*1.8*	180,789	*3.2*
Average Annual Compound Change												
2003 - 2015		2.3 %		2.2 %		1.7 %		2.4 %		2.4 %		3.7 %
2003 - 2007		3.3		3.4		2.9		2.6		2.5		6.5
2007 - 2010		(0.4)		(0.1)		(1.7)		1.6		2.3		0.8
2010 - 2015		3.1		2.7		2.8		2.6		2.3		4.2
Forecast 2016 - 2020		*1.6 %*		*1.8 %*		*0.9 %*		*2.2 %*		*1.9 %*		*3.7 %*

Source: REIS Report, 3rd Quarter, 2016

For the Houston Office market, of the roughly 3,000,000 persons employed, 30% are categorized as office employees, while 15% are categorized as industrial employees. Total employment decreased by an average annual compound rate of -0.4% during the recession of 2008 to 2011, followed by an increase of 3.1% from 2011 to 2015. By comparison, office employment reflected compound change rates of -0.1% and 2.7%, during the same respective periods. Total employment is expected to contract by -0.3% in 2016, while office employment is forecast to contract by -0.3% in 2016. From 2015 through 2020, REIS anticipates that total employment will expand at an average annual compound rate of 1.6%, while office employment will expand by 1.8% on average annually during the same period.

The number of households is forecast to expand by 2.2% on average annually between 2015 and 2020. Population is forecast to expand during this same period, at an average annual compounded rate of 1.9%. Household average income is forecast to grow by 3.7% on average annually from 2015 through 2020.

Unemployment Statistics

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

FIGURE 3-5 UNEMPLOYMENT STATISTICS

Year	MSA	State	U.S.
2006	5.0 %	4.9 %	4.6 %
2007	4.2	4.3	4.6
2008	4.7	4.8	5.8
2009	7.6	7.6	9.3
2010	8.3	8.1	9.6
2011	7.8	7.8	8.9
2012	6.6	6.7	8.1
2013	6.0	6.2	7.4
2014	4.9	5.1	6.2
2015	4.6	4.5	5.3
Recent Month - Nov			
2015	4.8 %	4.4 %	5.0 %
2016	4.9	4.2	4.6

* 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

After the U.S. unemployment rate declined to an annual average of 4.6% in 2006 and 2007, the Great Recession, which spanned December 2007 through June 2009, resulted in heightened unemployment rates. The unemployment rate peaked at 10.0% in October 2009, after which job growth resumed; the national unemployment rate has steadily declined since 2010. Total nonfarm payroll employment increased by 164,000, 157,000, and 227,000 jobs in November, December, and January, respectively. The strongest gains in January were recorded in the retail trade, construction, and financial activities sectors. The national unemployment rate remains low, at 4.6% in November, 4.7% in December, and 4.8% in January; it has remained near the 5.0% mark since August 2015, reflecting a trend of relative stability and the overall strength of the U.S. economy.

Locally, the unemployment rate was % in 2015; for this same area in 2016, the most recent month's unemployment rate was registered at %, versus % for the same month in 2015. After showing year-over-year improvement, unemployment began to rise in 2008 as the region entered an economic slowdown, and this trend continued in 2010 as the height of the national recession took hold. However, unemployment declined in 2011 as the economy rebounded, a trend that continued through 2015. The most recent comparative period illustrates an increase in unemployment, largely attributed to layoffs within the oil and gas industry as the price of oil bottomed out around $30 a barrel in January 2016. According to the Greater Houston Partnership, job growth has been prevalent in the construction, healthcare, and leisure and hospitality fields. Furthermore, the recent increase in the price of oil, the strength of the hydrocarbon and technology industries, and an improvement in the real estate market should support Houston's economic fundamentals and allow for some job growth in 2017, despite layoffs at many Houston-based energy companies in 2016.

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 3-6 MAJOR EMPLOYERS

Rank	Firm	Number of Employees
1	Memorial Hermann Health System	24,000
2	The University of Texas MD Anderson Cancer Center	20,000
3	United Airlines	15,000
4	The Houston Methodist Hospital System	14,985
5	ExxonMobil Corporation	13,000
6	UTMB Health	12,448
7	Kroger Company	12,000
8	Shell Oil Company	11,892
9	Kroger Company	11,563
10	Cameron International	10,000

Source: City of Houston Comprehensive Annual Financial Report, 2016

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

- Houston's economy is diversified among a multitude of industries and sectors, including healthcare, government, transportation, aerospace, and petrochemical production. The city is home to 24 companies on the 2016 FORTUNE 500 list. According to the Greater Houston Partnership, 66 of the world's 100 largest non-U.S.-based corporations have operations in Houston. With over 280 project announcements, Houston ranked second in the country in Site Selection Magazine's "Top Metros for Corporate Investments Projects" in 2015. The Port of Houston is the busiest port in the U.S. in terms of foreign tonnage, second busiest in the U.S. in terms of overall tonnage, and thirteenth busiest in the world. Moreover, the Panama Canal expansion, which was completed in June 2016, is expected to bolster growth in Houston's trade activity. Additionally, the George Bush Intercontinental Airport has remained the largest U.S. hub for Chicago-based United Airlines, adding to the city's global connectivity. Over the past quarter of a century, international travel has increased substantially as a percentage of total travel. The city earned top marks in the Forbes Magazine list of "America's Fastest-Growing Cities" published in 2015; furthermore, with expansions in the technology, trade, and healthcare sectors, Houston has continued to grow and transform into a global city.

- Stars Hallow has long been known as a market with a strong aerospace industry. Since NASA's Johnson Space Center opened in 1963, leading aerospace engineering companies have been drawn to the region. Today, the Johnson Space Center is NASA's center for human spaceflight training, research, and flight control. The center consists of a complex of one hundred buildings constructed on 1,620 acres, employing over 3,200 civil servants and over 15,000 contractors. The center is also responsible for direction of operations at White Sands Test Facility in New Mexico, which serves as a backup shuttle-landing site. Within Stars Hallow, companies such as Ad Astra Rocket Company, United Space Alliance, Bastion Technologies, The Boeing Company, and Lockheed Martin all maintain large operations near NASA.
- With more than 120 hospitals within the metropolitan area, Houston is a world leader in medicine and boasts the world's largest medical complex, the Texas Medical Center. Approximately seven million patients are treated each year in the Texas Medical Center, a centralized facility created in 1943. Bay Area Regional Medical Center, a 232,000-square-foot, 104-bed, acute-care hospital in Stars Hallow, is currently expanding its emergency, diagnostic, and surgical services. According to hospital officials, the expansion will add over 140,000 square feet of medical space, and the project is slated for completion in early 2017. In addition, Medistar announced a 60,000-square-foot medical office building, which is expected to break ground in the third quarter of 2017.

A period of rapid growth during the last ten years brought an influx of new residents, housing communities, commercial developments, and employers to the region. Houston's economy is diversified among a multitude of industries and sectors, including healthcare, government, transportation, aerospace, and petrochemical production. From 2010 through 2015, Houston experienced the addition of 491,500 jobs, or roughly 98,000 jobs per year. During this period, the city's economy received numerous accolades; however, the decline of Houston's energy industry and weakening related employment has prompted some uncertainty in the market. According to the Texas Workforce Commission, job growth slowed to 0.8% in 2015 (23,200 new jobs), well below the pace of prior years; moreover, according to the Greater Houston Partnership, only 10,200 new jobs were added through November 2016. The Greater Houston Partnership projects metro Houston will create 22,700 new jobs in 2017, which is only a 1% growth rate. The City of Stars Hallow remains an important hub for the aerospace industry, and with the growth of employment and population levels in the community, the healthcare and retail sectors should continue to expand.

Office Space Statistics

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

FIGURE 3-7 OFFICE SPACE STATISTICS – MARKET OVERVIEW

	Submarket	Inventory		Occupied Office	Vacancy	Average Asking
		Buildings	Square Feet	Space	Rate	Lease Rate
1	**Gulf Freeway/Pasadena**	**114**	**6,353,000**	**5,450,900**	**14.2 %**	**$20.50**
2	Central Business District	69	36,794,000	32,636,300	11.3	39.04
3	West/Katy Freeway	204	27,416,000	21,411,900	21.9	27.67
4	Allen Parkway/Montrose	38	4,426,000	4,058,600	8.3	25.58
5	Richmnd/Buff Speedway	74	11,313,000	9,186,200	18.8	27.69
6	Galleria/West Loop North	138	27,104,000	22,631,800	16.5	30.13
7	Northwest	128	10,927,000	8,741,600	20.0	20.10
8	Galleria/West Loop South	23	2,619,000	2,404,200	8.2	23.89
9	North/Woodlands	118	6,686,000	5,081,400	24.0	25.66
10	Southwest	146	14,169,000	11,236,000	20.7	19.84
11	North/North Belt	81	10,101,000	6,919,200	31.5	21.24
12	Westheimer/Westchase	118	15,190,000	13,245,700	12.8	26.23
13	South Main/Medical Center	26	1,237,000	978,500	20.9	22.27
14	North/Farm to Market 1960	82	4,312,000	3,121,900	27.6	17.67
15	Northeast/East	40	1,683,000	1,346,400	20.0	18.71
	Totals and Averages	**1,399**	**180,330,000**	**148,450,600**	**17.7 %**	**$28.01**

Source: REIS Report, 3rd Quarter, 2016

The greater Houston Office market comprises a total of 180.3 million square feet of office space. For the 3rd Quarter of 2016, the market reported a vacancy rate of 17.7% and an average asking rent of $28.01. The subject property is located in the Gulf Freeway/Pasadena submarket, which houses 6,353,000 square feet of office space. The submarket's vacancy rate of 14.2% is below the overall market average. The average asking lease rate of $20.50 is below the average for the broader market.

The following table illustrates a trend of office space statistics for the overall Houston Office market and the Gulf Freeway/Pasadena submarket.

FIGURE 3-8 HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET VS. SUBMARKET

	Houston Office Market							Gulf Freeway/Pasadena Submarket						
Year	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2003	155,196,000	—	126,928,000	—	18.2 %	$18.50	—	6,835,000	—	5,782,000	—	15.4 %	$14.82	—
2004	154,338,000	(0.6) %	126,632,000	(0.2) %	18.0	18.02	(2.6) %	6,791,000	(0.6) %	5,623,000	(2.7) %	17.2	14.84	0.1 %
2005	153,697,000	(0.4)	128,273,000	1.3	16.5	18.24	1.2	6,373,000	(6.2)	5,360,000	(4.7)	15.9	14.76	(0.5)
2006	154,683,000	0.6	132,405,000	3.2	14.4	19.73	8.2	6,373,000	0.0	5,417,000	1.1	15.0	15.76	6.8
2007	155,403,000	0.5	137,703,000	4.0	11.4	22.19	12.5	5,963,000	(6.4)	5,379,000	(0.7)	9.8	17.01	7.9
2008	158,212,000	1.8	138,111,000	0.3	12.7	24.05	8.4	6,063,000	1.7	5,335,000	(0.8)	12.0	17.76	4.4
2009	161,755,000	2.2	137,579,000	(0.4)	14.9	24.05	0.0	5,970,000	(1.5)	5,206,000	(2.4)	12.8	17.95	1.1
2010	162,828,000	0.7	138,153,000	0.4	15.2	23.77	(1.2)	5,970,000	0.0	5,200,000	(0.1)	12.9	18.11	0.9
2011	163,550,000	0.4	139,094,000	0.7	15.0	24.23	1.9	6,177,000	3.5	5,380,000	3.5	12.9	18.61	2.8
2012	163,654,000	0.1	140,028,000	0.7	14.4	24.99	3.1	6,177,000	0.0	5,213,000	(3.1)	15.6	18.70	0.5
2013	167,423,000	2.3	143,387,000	2.4	14.4	25.90	3.6	6,177,000	0.0	5,454,000	4.6	11.7	18.79	0.5
2014	171,632,000	2.5	146,833,000	2.4	14.4	27.20	5.0	6,255,000	1.3	5,442,000	(0.2)	13.0	19.83	5.5
2015	175,972,000	2.5	148,563,000	1.2	15.6	27.83	2.3	6,255,000	0.0	5,554,000	2.1	11.2	20.34	2.6
Forecasts														
2016	181,983,000	*3.4 %*	149,926,000	*0.9 %*	17.6 %	$28.32	*1.8 %*	6,363,000	*1.7 %*	5,459,000	*(1.7) %*	14.2 %	$20.62	*1.4 %*
2017	183,406,000	*0.8*	151,625,000	*1.1*	17.3	29.26	*3.3*	6,445,000	*1.3*	5,575,000	*2.1*	13.5	21.12	*2.4*
2018	185,208,000	*1.0*	153,099,000	*1.0*	17.3	30.39	*3.9*	6,504,000	*0.9*	5,658,000	*1.5*	13.0	21.77	*3.1*
2019	186,506,000	*0.7*	154,747,000	*1.1*	17.0	31.67	*4.2*	6,577,000	*1.1*	5,761,000	*1.8*	12.4	22.60	*3.8*
2020	187,953,000	*0.8*	156,366,000	*1.0*	16.8	32.87	*3.8*	6,654,000	*1.2*	5,882,000	*2.1*	11.6	23.35	*3.3*
Average Annual Compound Change														
2003 - 2015		1.1 %		1.3 %			3.5 %		(0.7) %		(0.3) %			2.7 %
2003 - 2007		0.0		2.1			4.7		(3.4)		(1.8)			3.5
2007 - 2010		1.6		0.1			2.3		0.0		(1.1)			2.1
2010 - 2015		1.6		1.5			3.2		0.9		1.3			2.3
Forecast 2016 - 2020		*0.8 %*		*0.8 %*			*3.8 %*		*1.1 %*		*1.9 %*			*3.2 %*

Source: REIS Report, 3rd Quarter, 2016

The inventory of office space in the Houston Office market increased at an average annual compound rate of 1.1% from 2003 through 2015, while occupied office space expanded at an average annual rate of 1.3% over the same period. During the period of 2003 through 2008, occupied office space expanded at an average annual compound rate of 2.1%. From 2008 through 2011, occupied office space expanded at an average annual compound rate of 0.1%, reflecting the impact of the recession. The onset of the recovery is evident in the 1.5% average annual change in occupied office space from 2011 to 2015. From 2015 through 2020, the inventory of occupied office space is forecast to increase at an average annual compound rate of 0.8%, with available office space expected to increase 0.8%, thus resulting in an anticipated vacancy rate of 16.8% as of 2020.

Convention Activity

A convention center serves as a gauge of visitation trends to a particular market. Convention centers also generate significant levels of demand for area hotels and serve as a focal point for community activity. Typically, hotels within the closest proximity to a convention center—up to three miles away—will benefit the most. Hotels serving as headquarters for an event benefit the most by way of premium rates and hosting related banquet events. During the largest of conventions, peripheral hotels may benefit from compression within the city as a whole.

The George R. Brown Convention Center (GRB), which comprises 1,800,000 square feet and is one of the largest convention centers in the country, is located in Downtown Houston. In conjunction with the recent opening of the adjacent 1,008-room Marriot Marquis, the area around the convention center is being redeveloped. However, this facility is 20 miles northwest of the subject site and events rarely create compression to this submarket, which does not have a typical convention center. The area does offer mid-sized meeting facilities at several full-service hotels in the competitive set. The Hilton Houston NASA Clear Lake features 15,000 square feet of meeting space, while the Marriott Houston Hobby Airport Hotel and DoubleTree by Hilton Houston Hobby Airport feature meeting facilities that range from 16,000 to 17,000 square feet.

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.

Houston's William P. Hobby Airport (HOU), commonly referred to simply as Houston Hobby, is located seven miles south of Downtown Houston. The airport features one main terminal, consisting of three concourses with over twenty aircraft gates, and four runways. Several major commercial airlines service the airport. In 2010, the airport completed a $250-million renovation, which included the expansion of the airport's concourse and terminal, new ticket counters, a new entryway, a new baggage claim area, and general improvements to the décor of the facility. Construction is underway on a $130-million project that includes a new international terminal, a new parking garage, a new satellite central utility plant, and upgrades to the airport roadways, as well as a new Federal Inspection Services facility that will allow quicker processing of passengers through security during peak periods. The international terminal began operations on October 15, 2015, while an additional parking garage and roadway updates were completed in the fourth quarter of 2016.

The following table illustrates recent operating statistics for the Houston Hobby Airport, which is the primary airport facility serving the proposed subject hotel's submarket.

FIGURE 3-9 AIRPORT STATISTICS - HOUSTON HOBBY AIRPORT

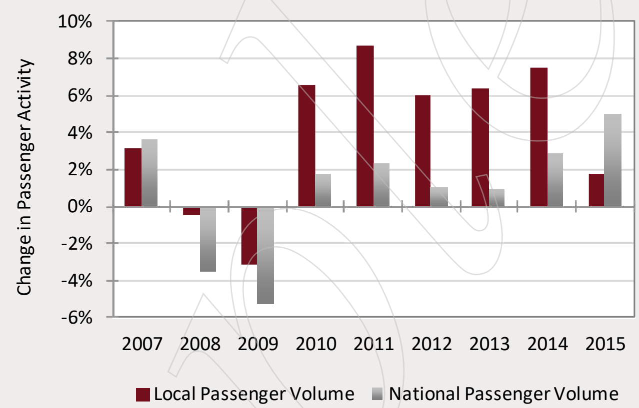
Year	Passenger Traffic	Percent Change*	Percent Change**
2006	8,549,289	—	—
2007	8,819,521	3.2 %	3.2 %
2008	8,775,798	(0.5)	1.3
2009	8,498,441	(3.2)	(0.2)
2010	9,054,001	6.5	1.4
2011	9,843,302	8.7	2.9
2012	10,437,648	6.0	3.4
2013	11,109,449	6.4	3.8
2014	11,947,924	7.5	4.3
2015	12,163,344	1.8	4.0
Year-to-date, Oct			
2015	9,937,945	—	—
2016	10,625,314	6.9 %	—

*Annual average compounded percentage change from the previous year

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

Source: Houston Hobby Airport

FIGURE 3-10 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND



Source: HVS, Local Airport Authority

This facility recorded 12,163,344 passengers in 2015. The change in passenger traffic between 2014 and 2015 was 1.8%. The average annual change during the period shown was %. The increase in passenger traffic is primarily attributed to increased service by Southwest Airlines to more domestic and international locations and in response to stronger economic conditions and a rise in demand.

The following table illustrates recent operating statistics for the George Bush Intercontinental Airport, which is the secondary airport facility serving the proposed subject property's submarket.

FIGURE 3-11 AIRPORT STATISTICS – GEORGE BUSH INTERCONTINENTAL AIRPORT

Year	Passenger Traffic	Percent Change*	Percent Change**
2006	42,549,018	—	—
2007	42,979,207	1.0 %	1.0 %
2008	41,708,580	(3.0)	(1.0)
2009	40,007,354	(4.1)	(2.0)
2010	40,479,569	1.2	(1.2)
2011	40,128,741	(0.9)	(1.2)
2012	39,890,756	(0.6)	(1.1)
2013	39,799,414	(0.2)	(0.9)
2014	41,254,384	3.7	(0.4)
2015	42,984,304	4.2	0.1
Year-to-date, Oct			
2015	35,674,848	—	—
2016	34,772,449	(2.5) %	—

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

Source: George Bush Intercontinental Airport

George Bush Intercontinental Airport (IAH) is located approximately 16 miles north of Downtown Houston. The airport features five terminals and five runways. In addition to being the primary hub for United Airlines, IAH is served by most major domestic and international commercial airlines. The airport's strategic location in the south-central portion of the United States promises to keep it as one of the country's major gateways to the world. In May 2015, construction began on the new Terminal C North. The 265,000-square-foot facility will replace the existing Terminal C North and will offer eleven passenger boarding gates. Upon completion, the old Terminal C North will be demolished to make room for a major expansion to Terminal D. Preliminary plans for this new terminal include expanding it to 780,000 square feet; creating additional gates, including 15 wide-body gates necessary for larger international-bound airplanes; and adding more bathrooms, security checkpoints, and baggage systems. EcoPark II, a 2,200-space long-term covered parking lot, opened for business in May 2016. Air traffic registered 42,984,304 passengers in 2015. The change in passenger traffic between 2014 and 2015 was 4.2%.

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, and other similar weekend demand generators. Primary attractions in the area include the following:

- Space Center Houston at NASA is the only place on Earth where visitors can see astronauts train for missions, touch moon rocks, and fly a mock shuttle landing. This Disney-operated facility offers tours, exhibits, and hands-on activities daily. Space Center Houston, one of Houston’s top attractions, is considered the area’s number one attraction for international visitors and is the only Smithsonian Affiliate in the greater Houston area. The center features more than 250 space artifacts, permanent and traveling exhibits, attractions and theaters related to America’s human space-flight program. Since opening in 1992, Space Center Houston has welcomed more than 18 million visitors; reportedly, it hosts more than one million guests annually in its 183,000-square-foot educational entertainment complex. The Center has a $73-million economic impact on the greater Houston area, according to a 2016 study by a University of Houston-Clear Lake economist.
- The Kemah Boardwalk is the waterfront home to a multitude of restaurants, retail stores, shows, and games that can be enjoyed by the entire family. All types of recreational water activities can be found in the Bay Area. As one of the largest boating communities in the United States, with over 7,000 marina slips, visitors are able to sail, ski, or fish almost any day of the year.
- The Galleria is Houston's best-known shopping destination, attracting over 30 million visitors from around the world each year. The Galleria features approximately 2.4 million square feet of retail space, making it the largest shopping mall in Texas and the eighth largest in the country. The Galleria contains more than 375 retail stores and restaurants, including major retailers such as a Neiman Marcus, Nordstrom, Saks Fifth Avenue, and Macy's. In April 2016, Saks Fifth Avenue opened a new 200,000-square foot, two-story flagship store. The current Saks store will be converted into a two-level mall wing, which will include over 35 new luxury retailers and restaurants. The Galleria is also home to a 20,000-square-foot ice-skating facility, two Westin Hotels, three office towers, and The Galleria Tennis & Athletic Club.
- Minute Maid Park hosts the Houston Astros baseball team, and the Toyota Center is home to the Houston Rockets. NRG Stadium (formerly Reliant Stadium), the first retractable-roof, natural grass stadium in the NFL and host of the 2017 Super Bowl, is home to both the Houston Texans and the world-famous Houston Livestock Show and Rodeo. In May of 2012, BBVA Compass

Stadium opened near Downtown Houston; the stadium is home to Houston's professional soccer team, the Houston Dynamo.

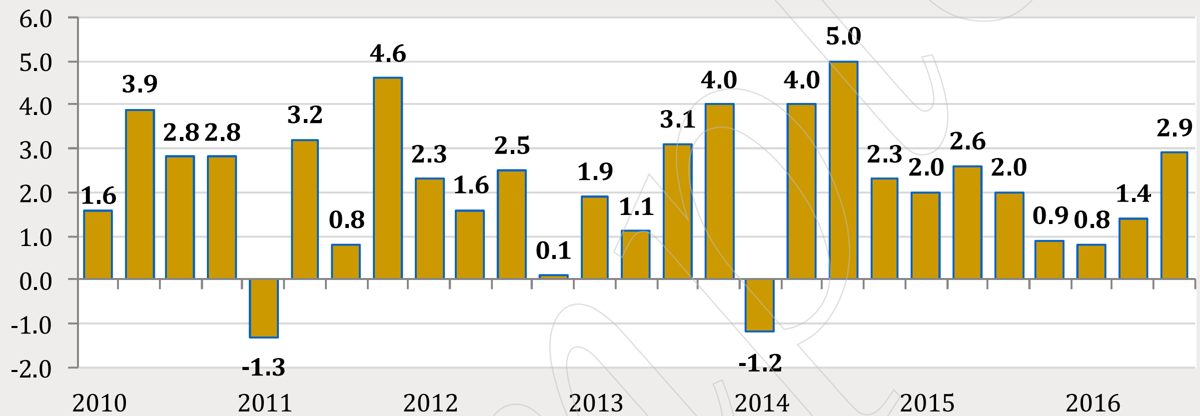
SPACE CENTER HOUSTON

Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. Stars Hallow is experiencing a period of economic strength and expansion, primarily led by the aerospace industry and the healthcare sector. Our market interviews and research revealed that multiple retail and commercial developments continue to spur employment growth in Stars Hallow. Additionally, planned expansions to the Bay Area Regional Medical Center and the widening of Interstate 45 are making Stars Hallow a more desirable community within Clear Lake, further fueling population growth. 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 ten quarters, with a relative low point in growth occurring during the fourth quarter of 2015 and the first quarter of 2016. During the following three quarters, the pace of growth slowed, falling to 1.8% during the first quarter of 2016. The economy then expanded by 1.4% and 2.9% in the third quarter of 2016. In recent months, increases in personal consumption expenditures, exports, private inventory investment, federal government spending, and nonresidential fixed investment were the primary factors in the net gain.

FIGURE 3-12 UNITED STATES GDP GROWTH RATE



Source: tradingeconomics.com, Bureau of Economic Analysis

U.S. economic growth continues to support expansion of lodging demand; however, demand growth was not as robust in 2016 as in the last several years. As will be reflected in the following chapter, nationwide demand growth just slightly surpassed supply growth in 2016. Nevertheless, the stability in the U.S. economy is maintaining strong interest in hotel investments by a diverse array of market participants.

4. Supply and Demand Analysis

In the lodging industry, price varies directly, but not proportionately, with demand and inversely, but not proportionately, with supply. 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, and to set forth a basis for the projection of future supply and demand growth.

Definition of Subject Hotel Market

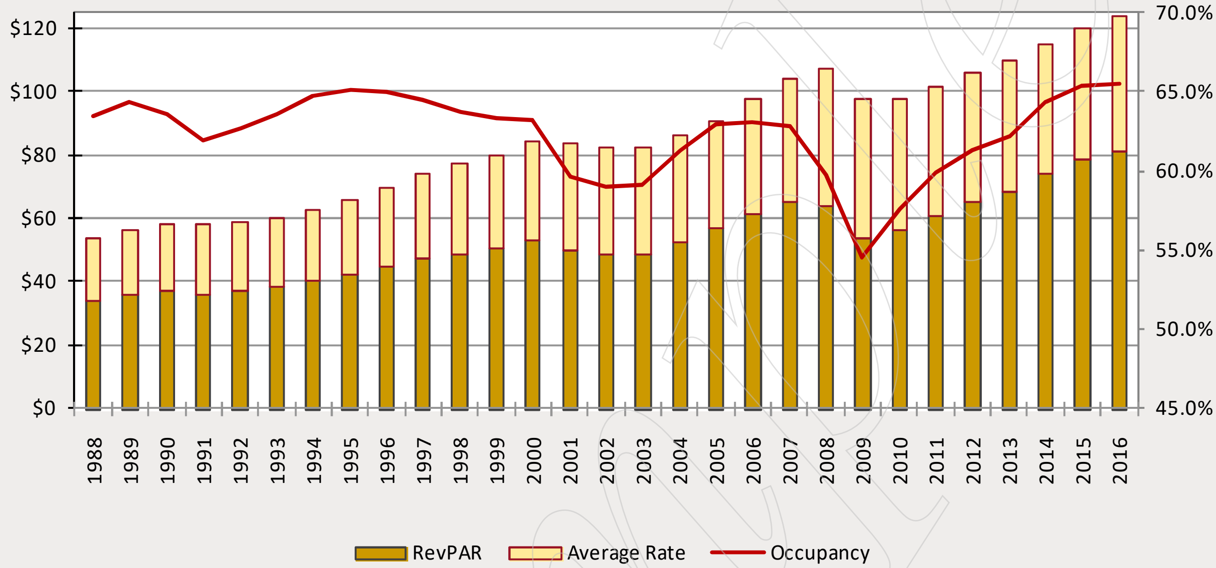
The subject site is located in the greater Houston lodging market. This greater lodging market spans nearly 960 open and operating lodging facilities totaling roughly 88,000 guestrooms. Within this greater market, the direct submarket that will encompass the proposed subject hotel is known as the Stars Hallow/Clear Lake submarket. The proposed subject hotel is expected to compete with four hotels on a primary level based on product type, proximity, price point, and age. Two full-service hotels that are located by Hobby Airport, four limited-service hotels, and three extended-stay hotels have been considered as future secondary competitors.

National Trends Overview

The subject property's local lodging market is 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 proposed subject hotel's competitive set.

STR is an independent research firm that compiles and publishes data on the lodging industry, and this information is routinely used by typical hotel buyers. 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 4-1 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS



Source: STR

FIGURE 4-2 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – YEAR-TO-DATE DATA

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

Source: STR - December 2016 Lodging Review

FIGURE 4-3 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – CALENDAR YEAR DATA

	Occupancy			Average Rate			RevPAR		
	2014	2015	% Change	2014	2015	% Change	2014	2015	% Change
United States	64.4 %	65.6 %	1.7 %	$114.92	$120.01	4.4 %	$74.04	$78.67	6.3 %
Region									
New England	63.5	64.8 %	2.0 %	$139.15	$145.84	4.8 %	$88.37	$94.48	6.9 %
Middle Atlantic	66.9	67.6	1.1	160.87	162.13	0.8	107.58	109.61	1.9
South Atlantic	64.9	66.6	2.6	110.77	116.36	5.0	71.91	77.49	7.8
East North Central	60.5	61.5	1.6	99.68	104.72	5.1	60.34	64.37	6.7
East South Central	59.2	61.1	3.1	85.96	90.62	5.4	50.92	55.34	8.7
West North Central	59.6	59.7	0.2	89.96	93.06	3.4	53.63	55.56	3.6
West South Central	63.9	63.1	(1.3)	96.05	98.21	2.2	61.36	61.94	0.9
Mountain	63.1	65.0	3.0	103.07	108.69	5.5	65.05	70.66	8.6
Pacific	71.4	73.3	2.7	141.90	150.79	6.3	101.32	110.54	9.1
Price									
Luxury	69.7 %	70.9 %	1.8 %	$270.22	$279.21	3.3 %	$188.27	$198.01	5.2 %
Upper upscale	72.0	72.6	1.0	166.79	173.45	4.0	120.01	125.99	5.0
Upscale	71.5	72.4	1.3	128.61	134.69	4.7	91.92	97.51	6.1
Upper midscale	65.8	67.0	1.9	105.86	110.41	4.3	69.61	73.99	6.3
Midscale	59.0	60.2	2.1	86.44	90.21	4.4	50.97	54.29	6.5
Economy	57.5	58.6	1.9	62.57	65.69	5.0	36.00	38.50	7.0
Location									
Urban	72.3 %	73.1 %	1.0 %	$168.19	$173.95	3.4 %	$121.67	$127.13	4.5 %
Suburban	65.5	66.8	2.0	96.70	101.77	5.2	63.29	67.96	7.4
Airport	72.4	73.7	1.7	102.69	109.36	6.5	74.40	80.61	8.3
Interstate	56.8	57.4	1.0	78.67	81.11	3.1	44.66	46.52	4.2
Resort	66.1	68.2	3.2	156.21	163.49	4.7	103.32	111.57	8.0
Small Metro/Town	56.4	57.1	1.2	92.65	95.91	3.5	52.27	54.77	4.8
Chain Scale									
Luxury	75.0 %	75.3 %	0.5 %	$304.72	$317.43	4.2 %	$228.44	$239.11	4.7 %
Upper Upscale	73.6	74.2	0.7	168.45	175.24	4.0	124.04	129.99	4.8
Upscale	73.8	74.3	0.7	127.55	133.79	4.9	94.15	99.46	5.6
Mid-scale w/ F&B	66.4	67.6	1.9	104.45	108.93	4.3	69.32	73.66	6.3
Mid-scale w/o F&B	58.3	59.5	2.1	79.84	83.18	4.2	46.55	49.50	6.3
Economy	57.5	58.3	1.4	56.14	58.97	5.0	32.26	34.37	6.5
Independents	60.7	62.2	2.5	113.21	118.25	4.4	68.70	73.55	7.1

Source: STR - December 2015 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 65.4% in 2015. Supply growth intensified, but remained at 1.1%, following annual supply growth levels of 0.7% and 0.9% of 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, intensified group and leisure travel, and waning price-sensitivity all contributed to the gains. In 2016, occupancy moved slightly higher (by 0.1 percentage point) to 65.5%, as demand growth slightly 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.

Houston, TX Lodging Market

According to STR Global, as of December 31, 2016, the greater Houston, TX area had 825 hotels with a total of 77,889 guestrooms. These totals represent a 1.5% change over the 2014 year-end inventory of 76,755 guestrooms. The following table presents the historical occupancy, average rate, and RevPAR data for the Houston metropolitan area for the years 2000 through 2016, as well as for the comparative year-to-date period ending in January 2016 and .

FIGURE 4-4 HOUSTON LODGING MARKET DATA – 2000 TO YTD JANUARY

Year	Occupancy	Percent Change	Average Rate	Percent Change	RevPAR	Percent Change
2000	62.5 %	—	$74.96	—	$46.85	—
2001	64.7	3.5 %	75.65	0.9 %	48.95	4.5 %
2002	59.3	(8.3)	75.44	(0.3)	44.74	(8.6)
2003	56.4	(4.9)	72.77	(3.5)	41.04	(8.3)
2004	56.2	(0.4)	76.05	4.5	42.74	4.1
2005	66.3	18.0	76.53	0.6	50.74	18.7
2006	65.4	(1.4)	84.50	10.4	55.26	8.9
2007	66.1	1.1	91.38	8.1	60.40	9.3
2008	67.4	2.0	100.17	9.6	67.51	11.8
2009	55.8	(17.2)	91.94	(8.2)	51.30	(24.0)
2010	55.1	(1.3)	88.57	(3.7)	48.80	(4.9)
2011	60.0	8.9	90.99	2.7	54.59	11.9
2012	65.4	9.0	94.22	3.5	61.62	12.9
2013	69.0	5.5	101.40	7.6	69.97	13.5
2014	71.7	3.9	106.91	5.4	76.65	9.6
2015	68.5	(4.5)	108.58	1.6	74.38	(3.0)
2016	62.3	(9.1)	104.65	(3.6)	65.20	(12.3)
Average Annual Compound Growth						
2000 to 2016		(0.0) %		2.1 %		2.1 %

Source: STR Global, STR Monthly Hotel Review

Energy firms, the Port of Houston, the Texas Medical Center, and the George R. Brown Convention Center (GRBCC) represent the primary sources of demand for the greater Houston area. Market-wide occupancy and average rate in Houston have fluctuated over the historical period shown. Occupancy remained relatively strong from 2005 through 2008, while average rate improved year-over-year during that same period, as the city not only benefited from a strong economy at that time, but also from a surge in demand related to Hurricane Katrina (2005) and Hurricane Ike (2008). However, the consequences of the economic downturn related to the Great Recession, such as lower energy prices and reduced corporate and leisure travel, negatively influenced market-wide occupancy levels and average rates in 2009 and 2010. Occupancy and average rate began to recover 2011 as economic conditions strengthened, resulting in increased corporate-transient demand and convention center business. Furthermore, the advent of new oil exploration technologies, such as hydraulic fracturing (fracking) and the discovery of the Eagle Ford Shale in South Texas, created a boom in the energy sector, ultimately prompting year-over-year occupancy and average-rate increases from 2011 through 2014. A global oversupply of oil resulted in weaker energy prices in late 2014, and this trend continued through 2015, resulting in lower demand and occupancy levels for area hotels in 2015. This trend worsened in 2016 with the entrance of a significant amount of new supply during a period of soft demand, resulting in steep occupancy declines. Furthermore, the volume of new supply created a wider distribution of demand and a more competitive pricing environment, with many hotels discounting rates in an attempt to maintain market share, which led to a decline in average rate. However, the worst appears to be over, as the price as of oil reached its nadir in the first quarter of 2016, and industry metrics, including active rig counts and energy sector employment numbers, have begun to rebound.

Historical Supply and Demand Data

As previously noted, 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 a group of hotels considered applicable to this analysis for the proposed subject hotel. 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 4-5 HISTORICAL SUPPLY AND DEMAND TRENDS

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2005	1,143	417,195	—	284,168	—	68.1 %	$99.59	—	$67.83	—
2006	1,153	420,733	0.8	290,131	2.1	69.0	104.10	4.5	71.78	5.8
2007	1,201	438,365	4.2	301,231	3.8	68.7	112.43	8.0	77.26	7.6
2008	1,201	438,365	0.0	316,958	5.2	72.3	123.35	9.7	89.19	15.4
2009	1,396	509,699	16.3	309,204	(2.4)	60.7	112.30	(9.0)	68.13	(23.6)
2010	1,761	642,919	26.1	364,145	17.8	56.6	100.90	(10.2)	57.15	(16.1)
2011	1,770	646,050	0.5	392,932	7.9	60.8	99.81	(1.1)	60.70	6.2
2012	1,832	668,532	3.5	426,952	8.7	63.9	103.52	3.7	66.11	8.9
2013	1,893	690,945	3.4	463,872	8.6	67.1	106.30	2.7	71.36	7.9
2014	1,893	690,945	0.0	498,356	7.4	72.1	114.64	7.9	82.69	15.9
2015	1,893	690,945	0.0	518,119	4.0	75.0	115.65	0.9	86.72	4.9
2016	1,893	690,945	0.0	492,318	(5.0)	71.3	114.32	(1.2)	81.46	(6.1)
Average Annual Compounded Change:										
2005 - 2016			4.7 %		5.1 %			1.3 %		1.7 %
2005 - 2008			1.7		3.7			7.4		9.6
2008 - 2011			13.8		7.4			(6.8)		(12.0)
2011 - 2016			1.4		4.6			2.8		6.1

Hotels Included in Sample	Competitive Status	Number of Rooms	Year Affiliated	Year Opened
DoubleTree by Hilton Hobby Airport	*Secondary*	303	Oct 2012	Nov 1982
Hilton Clear Lake	*Primary*	242	Jan 1983	Jan 1983
Marriott Houston South @ Hobby Airport	*Secondary*	287	Jul 2002	Jan 1986
Residence Inn by Marriott NASA Clear Lake	*Secondary*	110	Mar 1990	Mar 1990
Homewood Suites by Hilton Clearlake	*Secondary*	92	Sep 1995	Sep 1995
Hampton Inn Suites by Hilton Clear Lake	*Secondary*	108	Nov 2000	Nov 2000
Comfort Suites Near NASA Clear Lake	*Secondary*	58	Nov 2006	Nov 2006
Staybridge Suites Houston NASA Clear Lake	*Secondary*	112	Apr 2009	Apr 2009
Springhill Suites by Marriott Webster	*Secondary*	121	Aug 2009	Aug 2009
Hilton Garden Inn Houston Clear Lake NASA	*Primary*	126	Sep 2009	Sep 2009
Holiday Inn Houston Webster	*Primary*	109	Nov 2009	Nov 2009
Holiday Inn Express & Suites Space Center	*Secondary*	101	Feb 2010	Feb 2010
Courtyard by Marriott Clear Lake	*Primary*	124	Jul 2012	Jul 2012
	Total	**1,893**		

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 2016 in 71.3%, which compares to 75.0% for 2015. The overall average occupancy level for the calendar years presented equates to 68.5%. The STR data for the competitive set reflect a market-wide average rate level of $114.32 in 2016, which compares to $115.65 For 2015. The average across all calendar years presented for average rate equates to $109.60. These occupancy and average rate trends resulted in a RevPAR level of $81.46 in 2016.

Both occupancy and average rate first peaked for this selected set of competitive hotels in 2008, when demand was bolstered by Hurricane Ike in September of that year. As a result, RevPAR reached approximately $89 that year before declining to a low point of roughly $57 by year-end 2010 because of the recession. A rapid recovery began in 2011 that extended through 2015; however, the prior RevPAR peak was never exceeded due to the peak year's strong, unsustainable demand, coupled with significant increases in new supply from 2008 through 2013. Primary factors contributing to this period of strengthening included the expansion of local businesses and the development of new demand generators such as Topgolf and popular retail stores by Baybrook Mall. The oil and gas industry began to decline in late 2014; however, the relative strength of this market and lack of new supply since 2013 delayed the market from being affected until 2016, when both occupancy and rate decreased.

The near-term outlook is cautionary due to the volatility of the energy industry; however, stabilizing crude oil prices and ongoing retail development in this submarket bode well for future lodging fundamentals. Additionally, Super Bowl LI, held in Houston in February 2017, is anticipated to have a positive effect on the region.

Seasonality

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

FIGURE 4-6 MONTHLY OCCUPANCY TRENDS

Month	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
January	57.5 %	58.3 %	63.7 %	66.9 %	66.4 %	53.8 %	51.1 %	56.8 %	57.8 %	59.4 %	66.7 %	68.8 %
February	68.8	75.7	73.3	76.6	73.2	60.7	60.4	67.2	70.3	73.5	76.2	73.7
March	71.6	77.1	79.8	77.3	79.5	60.5	71.8	74.5	70.9	79.6	82.7	80.4
April	74.4	69.9	72.0	77.9	68.7	62.7	66.0	67.0	72.4	78.5	78.2	77.0
May	64.5	69.9	69.6	73.0	66.0	61.1	67.9	68.1	71.8	74.6	76.4	74.6
June	71.3	72.2	71.8	74.5	64.1	58.9	69.0	72.1	75.1	79.0	79.6	77.8
July	63.3	73.5	68.2	73.2	65.9	62.9	66.2	65.8	75.2	80.2	79.6	76.0
August	67.7	68.2	69.2	70.1	55.5	56.4	60.9	67.2	70.1	73.9	76.0	69.5
September	75.3	72.1	65.4	62.0	50.0	54.0	55.6	60.0	62.5	66.3	72.2	67.9
October	85.0	73.6	71.9	82.6	56.3	55.2	58.6	62.7	60.7	74.2	78.4	70.7
November	66.3	64.4	65.0	72.2	51.3	49.7	55.9	58.8	63.7	69.0	71.3	62.5
December	52.3	54.4	55.2	61.7	45.0	44.1	46.4	48.1	55.5	57.7	62.7	56.4
Annual Occupancy	**68.1 %**	**69.0 %**	**68.7 %**	**72.3 %**	**60.7 %**	**56.6 %**	**60.8 %**	**63.9 %**	**67.1 %**	**72.1 %**	**75.0 %**	**71.3 %**

Source: STR

FIGURE 4-7 MONTHLY AVERAGE RATE TRENDS

Month	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
January	$93.98	$102.85	$110.00	$116.00	$121.23	$105.97	$98.93	$98.80	$102.60	$108.23	$113.67	$112.80
February	94.75	106.15	111.43	120.11	121.86	105.62	99.06	103.53	106.00	114.53	118.95	117.47
March	97.00	102.95	112.54	119.22	116.85	100.32	97.00	103.46	102.43	114.27	117.79	119.48
April	97.09	102.66	116.37	117.40	114.63	102.06	99.41	108.35	104.60	114.88	115.99	120.98
May	99.83	106.13	116.03	128.27	113.14	105.22	103.96	110.21	115.53	131.60	127.36	119.66
June	96.22	103.99	112.43	118.01	111.03	99.90	99.53	104.59	104.85	115.49	116.45	115.24
July	96.23	102.71	111.46	115.55	111.25	96.33	98.47	102.66	107.35	114.24	115.78	114.02
August	100.20	105.04	112.26	110.47	111.57	100.31	101.24	104.23	106.44	111.67	113.23	112.85
September	103.06	101.52	111.72	132.48	110.24	100.64	100.33	103.69	108.23	112.60	112.88	110.63
October	110.36	106.66	113.42	148.64	107.24	100.11	100.61	103.57	108.78	116.23	114.46	112.98
November	104.69	106.48	111.92	130.84	105.99	98.54	101.41	100.19	105.61	112.14	113.02	109.00
December	97.28	101.60	108.32	120.56	101.57	94.79	97.43	96.27	101.83	106.01	105.88	101.89
Annual Average Rate	**$99.59**	**$104.10**	**$112.43**	**$123.35**	**$112.30**	**$100.90**	**$99.81**	**$103.52**	**$106.30**	**$114.64**	**$115.65**	**$114.32**

Source: STR

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 spring and summer months, when demand from leisure travelers supplements the commercial segment that is the principal source of demand in this submarket. Average rate levels reflect a similar pattern.

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 4-8 OCCUPANCY BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jan - 16	46.9 %	70.8 %	84.5 %	86.3 %	72.3 %	62.7 %	65.8 %	68.8 %
Feb - 16	48.4	72.5	84.5	86.2	75.3	72.5	76.9	73.7
Mar - 16	55.2	78.2	87.7	89.7	80.5	80.9	86.1	80.4
Apr - 16	56.4	75.1	82.3	81.7	74.5	80.5	85.7	77.0
May - 16	56.8	68.9	80.9	83.0	72.6	76.1	88.3	74.6
Jun - 16	58.2	76.5	88.1	82.4	72.5	79.8	87.4	77.8
Jul - 16	57.8	69.4	77.9	82.4	76.0	78.4	90.4	76.0
Aug - 16	46.9	68.9	78.4	77.6	66.5	69.9	74.5	69.5
Sep - 16	52.8	64.6	80.1	79.3	65.5	62.5	72.5	67.9
Oct - 16	48.6	67.7	84.1	83.1	70.7	70.4	75.3	70.7
Nov - 16	40.7	58.9	67.8	72.6	66.1	63.3	64.1	62.5
Dec - 16	45.1	57.8	65.6	62.5	54.9	50.8	59.2	56.4
Average	**51.3 %**	**69.1 %**	**80.0 %**	**80.5 %**	**70.4 %**	**70.3 %**	**77.0 %**	**71.3 %**

Source: STR

FIGURE 4-9 AVERAGE RATE BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jan - 16	$109.37	$120.27	$124.70	$124.46	$116.90	$96.57	$96.21	$112.80
Feb - 16	110.66	121.93	129.50	130.03	120.53	101.98	100.79	117.47
Mar - 16	111.64	123.84	128.88	128.40	121.01	107.31	106.60	119.48
Apr - 16	120.42	129.91	130.30	128.84	119.03	111.83	111.81	120.98
May - 16	111.17	129.63	133.78	136.60	117.33	99.87	103.62	119.66
Jun - 16	106.35	119.05	123.87	122.37	115.83	106.04	108.50	115.24
Jul - 16	109.89	116.56	121.49	123.16	114.96	105.67	109.90	114.02
Aug - 16	108.25	117.53	121.15	120.43	114.78	98.72	101.12	112.85
Sep - 16	105.58	116.16	121.06	119.38	113.78	97.53	98.85	110.63
Oct - 16	108.99	118.33	124.48	123.57	116.67	99.03	98.77	112.98
Nov - 16	104.63	113.38	117.51	118.26	108.72	96.97	95.53	109.00
Dec - 16	98.76	107.22	111.89	110.75	104.08	90.09	91.38	101.89
Average	**$109.15**	**$120.02**	**$124.51**	**$124.14**	**$115.57**	**$101.63**	**$102.67**	**$114.32**

Source: STR

HVS

FIGURE 4-10 OCCUPANCY, AVERAGE RATE, AND REVPAR BY DAY OF WEEK (MULTIPLE YEARS)

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Jan 14 - Dec 14	49.7 %	73.3 %	84.4 %	83.6 %	71.5 %	68.3 %	73.9 %	72.1 %
Jan 15 - Dec 15	52.3	75.8	86.7	86.2	73.7	72.0	78.3	75.0
Jan 16 - Dec 16	51.3	69.1	80.0	80.5	70.4	70.3	77.0	71.3
Change (Occupancy Points)								
FY 14 - FY 15	2.6	2.5	2.2	2.6	2.2	3.8	4.4	2.9
FY 15 - FY 16	(1.0)	(6.7)	(6.6)	(5.6)	(3.3)	(1.7)	(1.3)	(3.7)

ADR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Jan 14 - Dec 14	$108.50	$120.65	$126.14	$124.07	$114.53	$101.31	$101.23	$114.64
Jan 15 - Dec 15	109.63	121.12	126.81	125.61	115.69	102.47	103.12	115.65
Jan 16 - Dec 16	109.15	120.02	124.51	124.14	115.57	101.63	102.67	114.32
Change (Dollars)								
FY 14 - FY 15	$1.13	$0.48	$0.68	$1.54	$1.16	$1.16	$1.89	$1.01
FY 15 - FY 16	(0.48)	(1.10)	(2.30)	(1.48)	(0.12)	(0.85)	(0.45)	(1.33)
Change (Percent)								
FY 14 - FY 15	1.0 %	0.4 %	0.5 %	1.2 %	1.0 %	1.1 %	1.9 %	0.9 %
FY 15 - FY 16	(0.4)	(0.9)	(1.8)	(1.2)	(0.1)	(0.8)	(0.4)	(1.2)

RevPAR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Jan 14 - Dec 14	$53.90	$88.44	$106.47	$103.75	$81.88	$69.15	$74.82	$82.69
Jan 15 - Dec 15	57.29	91.81	109.89	108.27	85.30	73.80	80.71	86.72
Jan 16 - Dec 16	55.95	82.96	99.64	99.99	81.39	71.43	79.06	81.46
Change (Dollars)								
FY 14 - FY 15	$3.39	$3.37	$3.42	$4.52	$3.42	$4.65	$5.90	$4.03
FY 15 - FY 16	(1.34)	(8.84)	(10.25)	(8.28)	(3.91)	(2.38)	(1.65)	(5.27)
Change (Percent)								
FY 14 - FY 15	6.3 %	3.8 %	3.2 %	4.4 %	4.2 %	6.7 %	7.9 %	4.9 %
FY 15 - FY 16	(2.3)	(9.6)	(9.3)	(7.6)	(4.6)	(3.2)	(2.0)	(6.1)

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. The Stars Hallow/Clear Lake submarket of Houston is heavily dependent on NASA and the corporate entities that contract with the space agency, as well as the numerous medical centers in the area; accordingly, midweek demand is the strongest. Tuesday and Wednesday nights typically sell out in this market at higher room rates than those during other parts of the year. While demand tapers on Thursday and Friday nights, occupancy on Saturday nights is similar to the strong midweek levels due to the submarket's diverse leisure demand generators and proximity to Galveston Island.

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 expected to be primarily competitive with the proposed subject hotel. 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 are expected to compete with the proposed subject hotel to some extent.

The following table summarizes the important operating characteristics of the future 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 4-11 PRIMARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2015				Estimated 2016					
Property	Number of Rooms	Commercial	Meeting and Group	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Hilton Houston NASA Clear Lake	242	55 %	35 %	10 %	242	70 - 75 %	$125 - $130	$90 - $95	242	65 - 70 %	$125 - $130	$85 - $90	95 - 100 %	100 - 110 %
Holiday Inn Houston Webster	109	65	15	20	109	65 - 70	110 - 115	75 - 80	109	60 - 65	110 - 115	70 - 75	85 - 90	85 - 90
Hilton Garden Inn Houston Clear Lake NASA	126	70	15	15	126	70 - 75	120 - 125	85 - 90	126	65 - 70	115 - 120	80 - 85	95 - 100	100 - 110
Courtyard by Marriott Houston NASA Clear Lake	124	70	15	15	124	70 - 75	110 - 115	80 - 85	124	70 - 75	105 - 110	75 - 80	100 - 110	90 - 95
Sub-Totals/Averages	**601**	**63 %**	**23 %**	**14 %**	**601**	**72.3 %**	**$120.37**	**$87.03**	**601**	**69.1 %**	**$118.39**	**$81.83**	**97.4 %**	**100.5 %**
Secondary Competitors	1,292	63 %	21 %	16 %	891	76.5 %	$113.64	$86.88	891	72.2 %	$112.43	$81.16	101.7 %	99.7 %
Totals/Averages	**1,893**	**63 %**	**22 %**	**15 %**	**1,492**	**74.8 %**	**$116.26**	**$86.94**	**1,492**	**71.0 %**	**$114.77**	**$81.43**	**100.0 %**	**100.0 %**

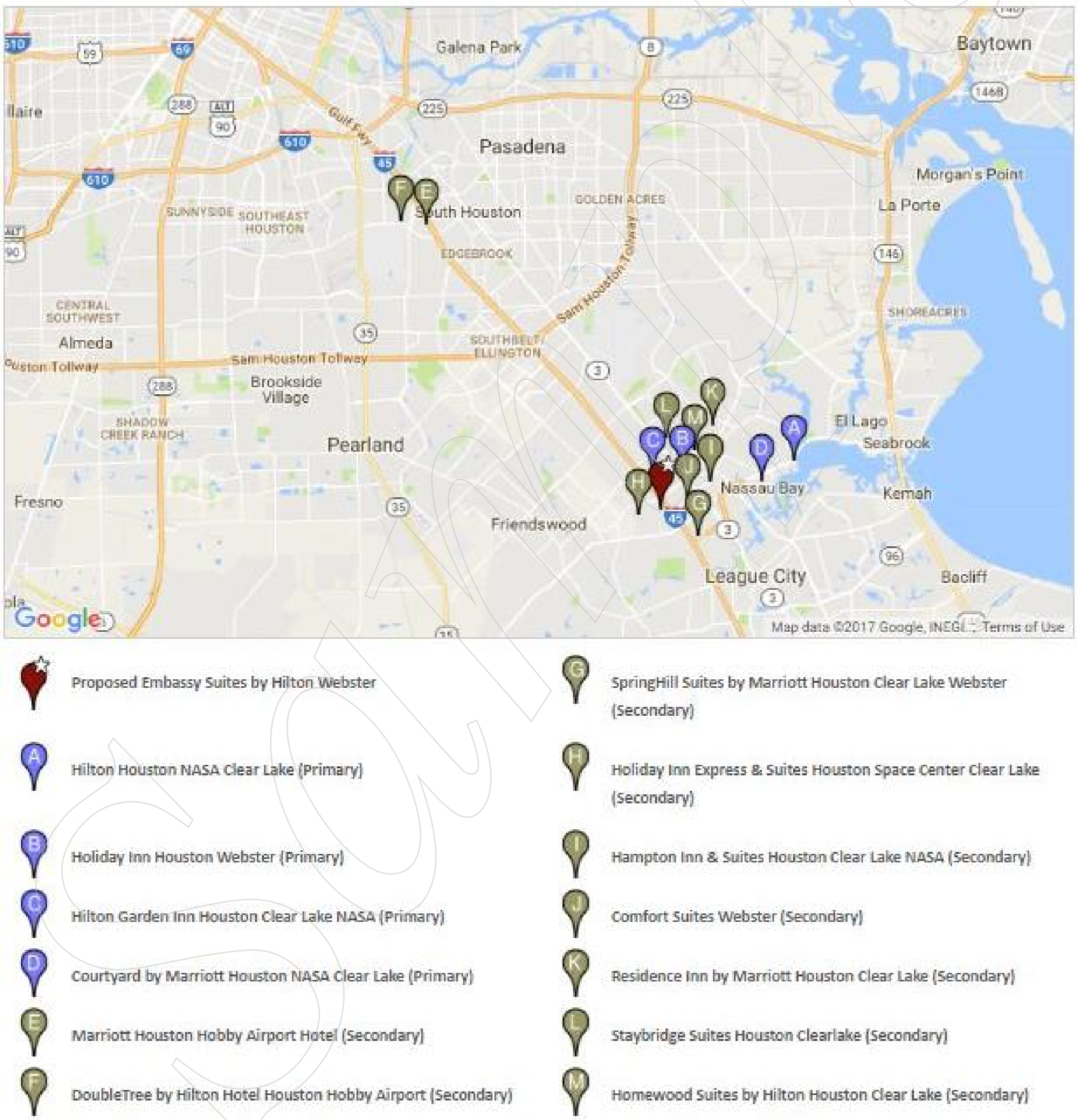
** Specific occupancy and average rate data was utilized in our analysis, but is presented in ranges in the above table for the purposes of confidentiality.*

FIGURE 4-12 PRIMARY COMPETITORS – FACILITY PROFILES

Property	Number of Rooms	Year Opened	Last Major Renovation(s)	Approx. Miles To Subject Property	Food and Beverage Outlets	Indoor Meeting Space (SF)	Meeting Space per Room	Facilities & Amenities
Hilton Houston NASA Clear Lake 3000 Nasa Road 1	242	1983	2008	6.3	Luna Restaurant & Bar	15,000	62.0	Business Center; Fishing; Guest Laundry Area; Concierge; Room Service; Gift Shop; Marina; Outdoor Swimming Pool; Fitness Center; Indoor Whirlpool; Sauna; Market Pantry
Holiday Inn Houston Webster 302 West Bay Area Boulevard	109	2009	2015/16	1.0	Kem's Restaurant & Bar	2,426	22.3	Guest Laundry Area; Room Service; Indoor Swimming Pool; Indoor Whirlpool; Fitness Room; Lobby Workstation; Market Pantry; Vending Area(s)
Hilton Garden Inn Houston Clear Lake NASA 750 West Texas Avenue	126	2010	2013	0.8	Great American Grill; Garden Grill & Bar	4,382	34.8	Business Center; Guest Laundry Area; Room Service; Outdoor Swimming Pool; Fitness Center; Market Pantry
Courtyard by Marriott Houston NASA Clear Lake 18100 Saturn Lane	124	2012		3.0	The Bistro	1,917	15.5	Business Center; Guest Laundry Area; Outdoor Swimming Pool; Fitness Center; Indoor Whirlpool

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

PRIMARY COMPETITOR #1 - HILTON HOUSTON NASA CLEAR LAKE

Hilton Houston NASA Clear Lake
3000 Nasa Road 1
Houston, TX

FIGURE 4-13 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	242	65 - 70 %	$125 - $130	$85 - $90	95 - 100 %	100 - 110 %
Est. 2015	242	70 - 75	125 - 130	90 - 95	95 - 100	100 - 110
Est. 2016	242	65 - 70	125 - 130	85 - 90	95 - 100	100 - 110

This hotel benefits from its favorable lakefront location across from NASA Johnson Space Center. Overall, the property appeared to be in very good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Inn & Suites.

PRIMARY COMPETITOR #2 - HOLIDAY INN HOUSTON STARS HALLOW

Holiday Inn Houston Stars Hallow
302 West Bay Area Boulevard
Stars Hallow, TX

FIGURE 4-14 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	109	65 - 70 %	\$95 - \$100	\$65 - \$70	95 - 100 %	80 - 85 %
Est. 2015	109	65 - 70	110 - 115	75 - 80	85 - 90	85 - 90
Est. 2016	109	60 - 65	110 - 115	70 - 75	85 - 90	85 - 90

This hotel is somewhat disadvantaged by its location behind a strip mall, which limits its visibility; however, the property benefits from its relatively recent renovations. Overall, the property appeared to be in very good condition. Its accessibility is inferior to that of the subject site, and its visibility is inferior to the expected visibility of the Proposed Inn & Suites.

PRIMARY COMPETITOR #3 - HILTON GARDEN INN HOUSTON CLEAR LAKE NASA

Hilton Garden Inn Houston Clear Lake NASA
750 West Texas Avenue
Stars Hallow, TX

FIGURE 4-15 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	126	65 - 70 %	$120 - $125	$80 - $85	95 - 100 %	100 - 110 %
Est. 2015	126	70 - 75	120 - 125	85 - 90	95 - 100	100 - 110
Est. 2016	126	65 - 70	115 - 120	80 - 85	95 - 100	100 - 110

This hotel benefits from its Hilton brand affiliation and relatively recent renovations. Overall, the property appeared to be in very good condition. Its accessibility is inferior to that of the subject site, and its visibility is inferior to the expected visibility of the Proposed Inn & Suites.

PRIMARY COMPETITOR #4 - COURTYARD BY MARRIOTT HOUSTON NASA CLEAR LAKE

Courtyard by Marriott Houston NASA Clear Lake
18100 Saturn Lane
Houston, TX

FIGURE 4-16 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	124	65 - 70 %	$110 - $115	$75 - $80	95 - 100 %	90 - 95 %
Est. 2015	124	70 - 75	110 - 115	80 - 85	95 - 100	90 - 95
Est. 2016	124	70 - 75	105 - 110	75 - 80	100 - 110	90 - 95

This hotel benefits from its Marriott brand affiliation and from being the newest hotel in the market. Overall, the property appeared to be in very good condition. Its accessibility is inferior to that of the subject site, and its visibility is inferior to the expected visibility of the Proposed Inn & Suites.

HVS

Secondary Competitors

We have also reviewed other area lodging facilities to determine whether any may compete with the proposed subject hotel on a secondary basis. The room count of each secondary competitor has been weighted based on its assumed degree of competitiveness in the future with the proposed subject hotel. By assigning degrees of competitiveness, we can assess how the proposed subject hotel and its future 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 4-17 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE

		Est. Segmentation				Estimated 2015				Estimated 2016			
Property	Number of Rooms	Commercial	Meeting and Group	Leisure	Total Competitive Level	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Marriott Houston Hobby Airport Hotel	287	55 %	35 %	10 %	75 %	215	75 - 80 %	$120 - $125	$90 - $95	215	70 - 75 %	$115 - $120	$85 - $90
DoubleTree by Hilton Hotel Houston Hobby Airport	303	55	35	10	75	227	70 - 75	105 - 110	80 - 85	227	70 - 75	105 - 110	75 - 80
SpringHill Suites by Marriott Houston Clear Lake Webster	121	60	10	30	75	91	80 - 85	105 - 110	85 - 90	91	75 - 80	105 - 110	80 - 85
Holiday Inn Express & Suites Houston Space Center Clear Lake	101	70	5	25	75	76	70 - 75	100 - 105	75 - 80	76	70 - 75	100 - 105	70 - 75
Hampton Inn & Suites Houston Clear Lake NASA	108	70	5	25	75	81	70 - 75	120 - 125	85 - 90	81	65 - 70	115 - 120	80 - 85
Comfort Suites Webster	58	65	10	25	75	44	60 - 65	110 - 115	70 - 75	44	55 - 60	110 - 115	65 - 70
Residence Inn by Marriott Houston Clear Lake	110	80	10	10	50	55	75 - 80	120 - 125	95 - 100	55	70 - 75	120 - 125	90 - 95
Staybridge Suites Houston Clearlake	112	80	5	15	50	56	80 - 85	105 - 110	85 - 90	56	75 - 80	100 - 105	80 - 85
Homewood Suites by Hilton Houston Clear Lake	92	75	10	15	50	46	75 - 80	125 - 130	95 - 100	46	70 - 75	120 - 125	90 - 95
Totals/Averages	**1,292**	**63 %**	**21 %**	**16 %**	**69 %**	**891**	**76.5 %**	**$113.64**	**$86.88**	**891**	**72.2 %**	**$112.43**	**$81.16**

** 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 nine hotels that are expected to compete with the proposed subject hotel on a secondary level. The Homewood Suites by Hilton, Residence Inn by Marriott, Staybridge Suites, Hampton Inn & Suites by Hilton, SpringHill Suites by Marriott, Comfort Suites, and the Holiday Inn Express are anticipated to be competitive based on their Clear Lake locations; however, these are all limited-service or extended-stay hotels with minimal amounts of meeting space. The DoubleTree by Hilton Houston Hobby Airport and the Marriott Houston Hobby Airport are similar full-service hotels with extensive meeting capabilities; however, these properties are located roughly fifteen miles north of the Stars Hallow market and draw from a demand base more closely associated with the airport.

Supply Changes

It is important to consider any new hotels that may have an impact on the proposed subject hotel's operating performance. The following chart sets forth the hotels that have recently opened, are under construction, or are in the stages of early development in the Stars Hallow area. The list is categorized by the principal submarkets within the city.

FIGURE 4-18 AREA DEVELOPMENT ACTIVITY

Proposed Hotel Name	Estimated Number of Rooms	Hotel Product Tier	Development Stage	Expected Qtr. & Year of Opening	Address
Proposed Home2 Suites by Hilton	90	Upper-Midscale	Under Construction	Q2 '17	600 West Texas Avenue, Webster
Proposed Hotel and Conference Center	250	Upscale	Early Development		Interstate 45 and Kobayashi Road
Proposed Embassy Suites	140	Upper-Upscale	Early Development	Q4' 18	900 Rogers Court

Of the hotels listed in the preceding chart, we have identified the following new supply that is expected to have some degree of competitive interaction with the proposed subject hotel, based on location, anticipated market orientation and price point, and/or operating profile.

FIGURE 4-19 NEW SUPPLY

Proposed Property	Number of Rooms	Total Competitive Level	Weighted Room Count	Estimated Opening Date	Developer	Development Stage
Proposed Embassy Suites	140	100 %	140	October 1, 2018	Nick & Pat Patel	Early Development
Proposed Home2 Suites by Hilton	90	20	18	June 1, 2017	Lodgic Hospitality	Under Construction
Totals/Averages	**230**		**158**			

Given the one-mile distance from the subject site and the extended-stay product type of the Home2 Suites by Hilton, this proposed hotel has been weighted secondarily competitive in our analysis.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the future operating potential of the proposed subject hotel 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 expected to be competitive to some degree with the proposed subject hotel. We have also investigated potential increases in competitive supply in this Stars Hallow submarket. The Proposed Inn & Suites should enter 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 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 report.

FIGURE 4-20 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2014	390,263	—	544,398	—	71.7 %	$113.97	—	$81.70	—
Est. 2015	407,104	4.3 %	544,398	0.0 %	74.8	116.26	2.0 %	86.94	6.4 %
Avg. Annual Compounded Chg., Est. 2014-Est. 2016:		(0.5) %		0.0 %			0.4 %		(0.2) %

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 2016 distribution of accommodated-room-night demand as follows.

FIGURE 4-21 ACCOMMODATED ROOM-NIGHT DEMAND

Market Segment	Marketwide Accommodated Demand	Marketwide Percentage of Total
Commercial	243,113	63 %
Meeting and Group	84,841	22
Leisure	58,308	15
Total	**386,261**	**100 %**

The market's demand mix comprises commercial demand, with this segment representing roughly 63% of the accommodated room nights in this Stars Hallow submarket. The remaining portion comprises meeting and group at 22%, with the final portion leisure in nature, reflecting 15%.

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 major factor considered in the development of our growth rates is the presence of NASA Johnson Space Center (JSC), as well as a multitude of technology and aerospace firms such as Boeing Company and Lockheed Martin. Furthermore, companies such as Ad Astra Rocket Company, United Space Alliance, and Bastion Technologies all provide significant room nights to the Stars Hallow/Clear Lake market. Additionally, medical centers such as Bay Area Regional Medical Center and Clear Lake Regional Medical Center provide demand for area hotels. The continued strength of the aerospace industry and planned expansions to healthcare facilities should support the expected growth within this segment.

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Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week, most commonly in the spring and fall months. These groups tend to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food and beverage and/or banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and during the summer months or holiday season, when greater discounts are usually available; these groups generate limited ancillary revenues. Association demand is generally divided on a geographical basis, with national, regional, and state associations representing the most common sources. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends. The profile and revenue potential of associations varies depending on the group and the purpose of the meeting or event.

Meeting and group demand in Stars Hallow/Clear Lake is generated by many sources, with corporate groups being the most prevalent. The same companies that create commercial demand also generate group demand through training activities and social corporate events. The corporate group segment was most affected by the recent recession. A minimal portion of meeting and group demand in the market is associated with SMERFE-related sources. A measurable percentage of the market make-up comprises first-class, residential neighborhoods; as such, the area is attractive for weddings and reunions. Based on the collective meeting and group demand circumstances, we expect modest growth to occur in this segment.

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 Clear Lake area of Houston is primarily generated by the NASA JSC, Space Center Houston, and compression from Kemah Boardwalk, as well as Galveston. Additionally, many hotels in the area benefit from "staycations" and from friends and family visiting the area. We expect modest 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 average annual compounded market-segment growth rates.

FIGURE 4-22 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

	Annual Growth Rate					
Market Segment	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Commercial	1.0 %	2.5 %	1.5 %	1.5 %	0.5 %	0.0 %
Meeting and Group	0.5	1.5	1.0	1.0	0.5	0.0
Leisure	2.0	1.5	1.0	1.0	0.5	0.0
Base Demand Growth	**1.0 %**	**2.1 %**	**1.3 %**	**1.3 %**	**0.5 %**	**0.0 %**

Latent Demand

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

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated-room-night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future, and it is therefore necessary to quantify this demand.

Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 70%, the market may sell out certain nights during the year. To evaluate the incidence of unaccommodated demand in the market, we have reviewed the average occupancy by the night of the week for the past twelve months for the competitive set, as reflected in the STR data. This is set forth in the following table.

FIGURE 4-23 OCCUPANCY BY NIGHT OF THE WEEK

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jan - 16	46.9 %	70.8 %	84.5 %	86.3 %	72.3 %	62.7 %	65.8 %	68.8 %
Feb - 16	48.4	72.5	84.5	86.2	75.3	72.5	76.9	73.7
Mar - 16	55.2	78.2	87.7	89.7	80.5	80.9	86.1	80.4
Apr - 16	56.4	75.1	82.3	81.7	74.5	80.5	85.7	77.0
May - 16	56.8	68.9	80.9	83.0	72.6	76.1	88.3	74.6
Jun - 16	58.2	76.5	88.1	82.4	72.5	79.8	87.4	77.8
Jul - 16	57.8	69.4	77.9	82.4	76.0	78.4	90.4	76.0
Aug - 16	46.9	68.9	78.4	77.6	66.5	69.9	74.5	69.5
Sep - 16	52.8	64.6	80.1	79.3	65.5	62.5	72.5	67.9
Oct - 16	48.6	67.7	84.1	83.1	70.7	70.4	75.3	70.7
Nov - 16	40.7	58.9	67.8	72.6	66.1	63.3	64.1	62.5
Dec - 16	45.1	57.8	65.6	62.5	54.9	50.8	59.2	56.4
Average	**51.3 %**	**69.1 %**	**80.0 %**	**80.5 %**	**70.4 %**	**70.3 %**	**77.0 %**	**71.3 %**

Source: STR

Our interviews with market participants found that the market generally sells out on Tuesday, Wednesday, and Saturday nights during the peak travel season, as well as sporadically within other periods throughout the year. A portion of this demand, which is currently turned away, should return to the market concurrent with the supply increase. The following table presents our estimate of unaccommodated demand in the subject market.

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FIGURE 4-24 UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Commercial	243,113	3.3 %	8,137
Meeting and Group	84,841	0.0	0
Leisure	58,308	1.8	1,051
Total	**386,261**	**2.4 %**	**9,189**

Accordingly, we have forecast unaccommodated demand equivalent to 2.4% of the base-year demand, resulting from our analysis of monthly and weekly peak demand and sell-out trends.

Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. Although increases in demand are expected in the local market, we have accounted for this growth in the determination of market-segment growth rates rather than induced demand.

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.

FIGURE 4-25 FORECAST OF MARKET OCCUPANCY

	2018	2019	2020	2021	2022
Commercial					
Base Demand	251,683	255,458	259,290	260,586	260,586
Total Demand	260,107	264,009	267,969	269,308	269,308
Growth Rate	2.5 %	1.5 %	1.5 %	0.5 %	0.0 %
Meeting and Group					
Base Demand	86,544	87,409	88,283	88,725	88,725
Total Demand	86,544	87,409	88,283	88,725	88,725
Growth Rate	1.5 %	1.0 %	1.0 %	0.5 %	0.0 %
Leisure					
Base Demand	60,366	60,970	61,579	61,887	61,887
Total Demand	61,454	62,069	62,690	63,003	63,003
Growth Rate	1.5 %	1.0 %	1.0 %	0.5 %	0.0 %
Totals					
Base Demand	398,592	403,837	409,152	411,198	411,198
Total Demand	408,105	413,487	418,942	421,036	421,036
Overall Demand Growth	2.3 %	3.5 %	1.3 %	0.5 %	0.0 %
Market Mix					
Commercial	63.7 %	63.8 %	64.0 %	64.0 %	64.0 %
Meeting and Group	21.2	21.1	21.1	21.1	21.1
Leisure	15.1	15.0	15.0	15.0	15.0
Existing Hotel Supply	1,503	1,492	1,492	1,492	1,492
Proposed Hotels					
Proposed Embassy Suites [1]	36	140	140	140	140
Proposed Home2 Suites by Hilton [2]	18	18	18	18	18
Available Room Nights per Year	568,048	602,068	602,068	602,068	602,068
Nights per Year	365	365	365	365	365
Total Supply	1,556	1,650	1,650	1,650	1,650
Rooms Supply Growth	3.5 %	6.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	**70.4 %**	**68.7 %**	**69.6 %**	**69.9 %**	**69.9 %**

[1] Opening in October 2018 of the 100% competitive, 140-room Proposed Embassy Suites

[2] Opening in June 2017 of the 20% competitive, 90-room Proposed Home2 Suites by Hilton

Occupancy for the defined competitive market of hotels should moderate over the next few years. Based on historical occupancy levels in this market, and taking into consideration typical supply and demand cyclicality, market occupancy is forecast to stabilize near the 70% mark.

5. Description of the Proposed Improvements

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

Project Overview

The Proposed Inn & Suites will be a full-service lodging facility containing 140 rentable units. The property will open on October 1, 2018. The Stars Hallow/Clear Lake market area currently comprises hotels spanning the limited- and select-service segments, with a relatively limited offering of full-service hotels. The proposed [Proposed Brand] is expected to be built on a 4.8-acre site near Baybrook Mall and 500 feet from Interstate 45. The hotel is anticipated to feature the latest design standards for the brand, known as Design Option III prototype. This prototype is reportedly more cost effective to build, features a more efficient layout of space, requires less land, and is scalable to smaller room counts than previous design standards developed by the brand.

[Proposed Brand], a pioneer in the hospitality industry, was the first brand to offer upscale all-suite hotels, featuring two-room suites with separate living and sleeping areas. Today it is a market-share leader and one of the strongest brands offered under the Hilton umbrella of affiliations. Spacious accommodations, in conjunction with a complimentary cooked-to-order breakfast and evening Manager's Reception served in an inviting, landscaped atrium; high-speed Internet access in all hotels; and high customer satisfaction are just a few aspects of the brand that have led to its success. As of year-end 2015, there were 217 hotels (51,379 rooms) operating under the [Proposed Brand] brand in the U.S. In 2015, the brand operated at an average occupancy level of 78.9%, with an average daily rate of $155.63 and an average RevPAR of $122.73 (worldwide).

TYPICAL [PROPOSED BRAND] EXTERIOR

Summary of the Facilities

Based on information provided by the proposed subject hotel's development representatives, the following table summarizes the facilities that are expected to be available at the proposed subject hotel.

FIGURE 5-1 PROPOSED FACILITIES SUMMARY

Guestroom Configuration	Estimated Number of Units
Two-Room King Suite	56
Two-Room Queen/Queen Suite	56
One-Room King Suite	28
Total	140

Food & Beverage Facilities	Estimated Seating Capacity
Full-Service Restaurant	TBD
Bar and Lounge	TBD
Complimentary Services Area	TBD

Indoor Meeting & Banquet Facilities	Estimated Square Footage
Ballroom	5,000
Meeting Room I	700
Meeting Room II	700
Boardroom I	300
Boardroom II	300
Total	7,000

Amenities & Services	
Indoor Swimming Pool	Market Pantry
Fitness Center	Guest Laundry Room
Business Center	Vending Area(s)

Infrastructure	
Parking Spaces	TBD
Elevators	TBD
Life-Safety Systems	Sprinklers, Smoke Detectors
Construction Details	Concrete, Steel

Site Improvements and Hotel Structure

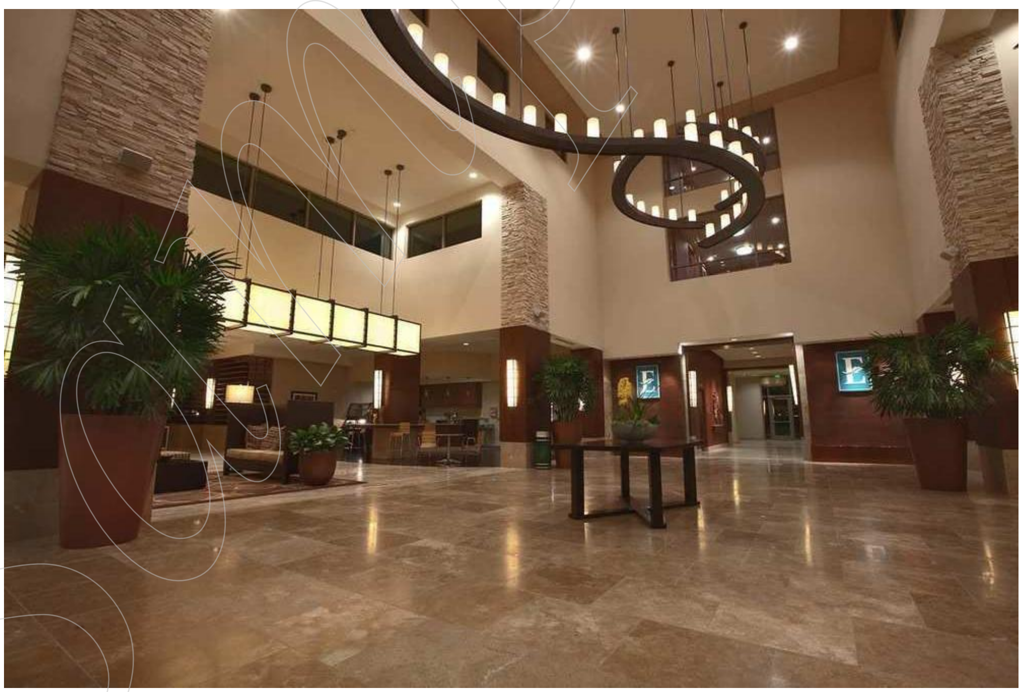
Once guests enter the site, parking is expected to be available around the hotel structure and on the parcel north of Rogers Court. Site improvements are expected to include freestanding signage at the entrance to the site (additional signage is also expected to be placed on the exterior of the building). We assume that all signage will adequately identify the property and meet brand standards. Planned landscaping should allow for a positive guest impression and competitive exterior appearance. Sidewalks should be present along the front entrance and around the perimeter of the hotel. The expected site improvements for the property should be adequate to provide for an upscale lodging experience. It is important to note that we have placed heavy consideration on the future development of a 140-unit [Proposed Brand] hotel facility; many aspects of the future facilities and potential design characteristics referenced throughout this report refer to the [Proposed Brand] prototype and development specifications set forth by Hilton Worldwide.

Construction details have not yet been determined at the time of our study. We anticipate that the hotel structure will be constructed of reinforced concrete and steel. Elevators and stairways are anticipated to provide internal vertical transportation within the main structure as needed. We assume that the building components will be normal for a hotel of its type and will meet the standards for this market. Furthermore, we assume that all structural components will meet local building codes and that no significant defaults will occur during construction that would affect the future operating potential of the hotel or delay its assumed opening date.

Lobby

Guests are anticipated to enter the hotel through a single set of automatic doors, which is expected to open to a vestibule, and then through a second set of automatic doors. The lobby should be large and appropriate for an [Proposed Brand], featuring a centrally located atrium. The lobby walls are expected be finished with wallcovering, and the floor is expected be finished with stone tiles; seating areas within the atrium area are anticipated to be carpeted. The front desk is expected to feature a granite countertop, installed with appropriate property management and telephone systems. The furnishings and finishes in this space should offer an appropriate first impression, and the design of the space should lend itself to adequate efficiency. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

TYPICAL [PROPOSED BRAND] LOBBY



Food and Beverage Facilities

The hotel should offer typical food and beverage areas for the [Proposed Brand] brand, including a complimentary services area, a lounge, and a restaurant. We expect the size and layout of each facility will be appropriate for the hotel. The furnishings of these spaces should be of a similar style and finish as lobby and guestroom furnishings.

TYPICAL [PROPOSED BRAND] DINING AREA

Overall, the hotel will provide a competitive offering of food and beverage facilities for an upper-upscale, full-service property. In addition to the restaurant and lounge, the hotel will offer a complimentary cooked-to-order breakfast and complimentary evening manager's reception in accordance with brand standards.

Meeting and Banquet Space

Under a full-service, upper-upscale scope, the proposed hotel should be developed with an appropriate amount of modern and technologically advanced space. We would expect the integration of a fully divisible grand ballroom and primary meeting space along with additional boardroom-type spaces. We anticipate that public restrooms and pre-function space will be conveniently located near the meeting rooms.

TYPICAL [PROPOSED BRAND] MEETING ROOM

Recreational Amenities

The hotel is expected to offer an indoor pool and a fitness center as recreational facilities. Restrooms should be present off of the pool area.

Additional Amenities

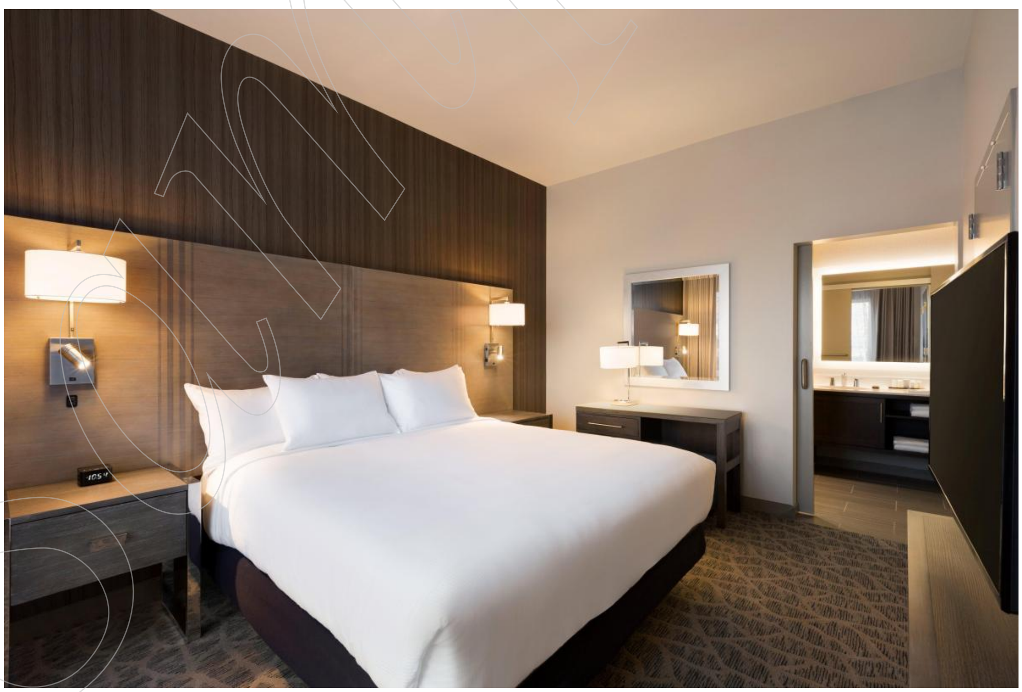
Other amenities should include a business center, a market pantry, vending areas, and a guest laundry room, as well as ice machines on each guestroom floor. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

Guestrooms

The hotel is expected to feature an all-suite guestroom configuration, with guestroom suites present on all floors above the lobby level within the single building. The guestrooms are anticipated to be of a standard size, offering typical amenities for this upper-upscale product type. In addition to the standard furnishings, guestroom suites should feature an iron and ironing board, a coffeemaker, a wet-bar area with sink, and high-speed Internet access. Overall, the guestroom suites should offer a competitive product for this market.

The guestroom bathrooms are anticipated to be of a standard size, with a shower-in-tub or separate shower, commode, and single sink with vanity area, featuring a granite countertop. The floors should be finished with tile, and the walls will be finished with knockdown texture or wallcovering. Bathroom amenities are expected to include a hairdryer and complimentary toiletries. Overall, the bathroom design is expected to be appropriate for a product of this type.

TYPICAL [PROPOSED BRAND] GUESTROOM



HVS

TYPICAL GUESTROOM FLOOR PLAN

The interior guestroom corridors are anticipated to be wide and functional, permitting the easy passage of housekeeping carts. Corridor carpet, wallcovering, signage, and lighting should be in keeping with the overall look and design of the rest of the property.

Back-of-the-House

The hotel is expected to be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, a full-service kitchen to serve the needs of the outlets and banquet operations, and a smaller kitchen and bar area for the complimentary breakfast and manager's reception. The back-of-the-house space should be adequate for a hotel of this type and should allow for the efficient operation of the property under competent management.

ADA and Environmental

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

Capital Expenditures

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

Conclusion

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

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 rentals and other 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.

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.

FIGURE 6-1 HISTORICAL PENETRATION RATES

Property	Commercial	Meeting and Group	Leisure	Overall
Hilton Houston NASA Clear Lake	86 %	157 %	65 %	99 %
Holiday Inn Houston Webster	93	62	120	90
Hilton Garden Inn Houston Clear Lake NASA	110	67	98	99
Courtyard by Marriott Houston NASA Clear Lake	111	68	99	100
Secondary Competition	102	98	107	102

The Courtyard by Marriott Houston NASA Clear Lake achieved the highest penetration rate within the commercial segment. The highest penetration rate in the meeting and group segment was achieved by the Hilton Houston NASA Clear Lake, while the Holiday Inn Houston Stars Hallow led the market with the highest leisure penetration rate.

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.

The proposed subject hotel'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 6-2 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2018	2019	2020	2021	2022
Commercial					
Demand	253,342	264,009	267,969	269,308	269,308
Market Share	2.0 %	8.5 %	9.2 %	9.3 %	9.3 %
Capture	5,110	22,546	24,531	25,064	25,064
Penetration	88 %	101 %	108 %	110 %	110 %
Meeting and Group					
Demand	85,939	87,409	88,283	88,725	88,725
Market Share	1.6 %	7.2 %	8.4 %	8.4 %	8.4 %
Capture	1,354	6,263	7,373	7,410	7,410
Penetration	69 %	84 %	98 %	98 %	98 %
Leisure					
Demand	60,386	62,069	62,690	63,003	63,003
Market Share	2.0 %	8.3 %	9.0 %	9.0 %	9.0 %
Capture	1,181	5,171	5,611	5,639	5,639
Penetration	85 %	98 %	105 %	105 %	105 %
Total Room Nights Captured	**7,645**	**33,980**	**37,515**	**38,113**	**38,113**
Available Room Nights	13,020	51,100	51,100	51,100	51,100
Subject Occupancy	**59 %**	**66 %**	**73 %**	**75 %**	**75 %**
Marketwide Available Room Nights	568,048	602,068	602,068	602,068	602,068
Fair Share	**2 %**	**8 %**	**8 %**	**8 %**	**8 %**
Marketwide Occupied Room Nights	399,666	413,487	418,942	421,036	421,036
Market Share	**2 %**	**8 %**	**9 %**	**9 %**	**9 %**
Marketwide Occupancy	**70 %**	**69 %**	**70 %**	**70 %**	**70 %**
Total Penetration	**83 %**	**97 %**	**106 %**	**107 %**	**107 %**

The proposed subject hotel is expected to stabilize with a strong penetration rate due to its new facility, its strong Hilton brand, and its favorable location by Baybrook Mall. Its very good visibility from Interstate 45 should also contribute to its ability to realize a higher-than-average occupancy level in this Stars Hallow/Clearlake submarket. Additional insights by segment are presented as follows:

- Within the commercial segment, the proposed subject hotel's occupancy penetration is positioned at an above-market-average level by the stabilized period due to its all-suite guestroom configuration, as well as the expected strength of the [Proposed Brand] brand in capturing corporate demand associated with travelers loyal to Hilton. The proposed subject hotel is anticipated to perform similarly to the nearby Hilton Garden Inn in the commercial market segment.

- The proposed subject hotel is expected to become a popular choice for meeting and group demand in this suburban market. While the nearby Hilton encompasses far more meeting space, the space is rather large and dated, including some signs of functional obsolescence. Therefore, the proposed subject [Proposed Brand] should become a leading choice for mid-sized corporate meetings and/or banquet events given the upscale nature of the proposed function space and its anticipated modern, technologically advanced capabilities.

- The proposed subject hotel's leisure penetration level is positioned appropriately within the range of existing competitors, supported by the hotel's proposed location by the Baybrook Mall. With the proposed subject hotel's location being favorable to weekend uses, we would anticipate the hotel to experience relatively high levels of peak weekends, with weekend-transient leisure supplemented by strong weekend group. Furthermore, the hotel's all-suite guestroom configuration and popular amenity offering will also be popular with families. The proposed [Proposed Brand] is expected to realize a leisure penetration level above fair share by the stabilized year.

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

FIGURE 6-3 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2018	2019	2020	2021	2022
Commercial	67 %	66 %	65 %	66 %	66 %
Meeting and Group	18	18	20	19	19
Leisure	15	15	15	15	15
Total	100 %	100 %	100 %	100 %	100 %

Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 75%. 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's future primary competitors.

FIGURE 6-4 BASE-YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS

Property	Estimated 2016 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Hilton Houston NASA Clear Lake	$125 - $130	100 - 110 %	$85 - $90	100 - 110 %
Holiday Inn Houston Webster	110 - 115	95 - 100	70 - 75	85 - 90
Hilton Garden Inn Houston Clear Lake NASA	115 - 120	100 - 110	80 - 85	100 - 110
Courtyard by Marriott Houston NASA Clear Lake	105 - 110	90 - 95	75 - 80	90 - 95
Average - Primary Competitors	$118.39	103.2 %	$81.83	100.5 %
Average - Secondary Competitors	112.43	98.0	81.16	99.7
Overall Average	**$114.77**		**$81.43**	

The defined primarily competitive market realized an overall average rate of $118.39 in the 2016 base year, declining from the 2015 level of $120.37. The Hilton Houston NASA Clear Lake achieved the highest estimated average rate in the local competitive market, by a modest margin, because of its brand, location proximate to Space Center Houston, and lakefront views. The selected rate position for the proposed subject hotel, in base-year dollars, takes into consideration factors such as its all-suite product, popular amenity offering, and full-service orientation. We have selected the rate position of $142.00, in base-year dollars, for the proposed subject hotel.

Market-wide rates faltered in 2015 and declined in 2016, as softening energy-related demand caused hoteliers to discount rates in an attempt to maintain market share. We expect average rates to rebound in 2017, bolstered by stabilizing energy prices and Super Bowl LI.

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 underlying inflation rates of 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2016.

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FIGURE 6-5 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	71.0 %	—	$114.77	—	—	$142.00	123.7 %
2017	71.2	2.5 %	117.64	—	2.5 %	145.55	123.7
2018	70.4	3.5	121.76	59.0 %	3.5	150.64	123.7
2019	68.7	3.5	126.02	66.0	3.5	155.92	123.7
2020	69.6	3.0	129.80	73.0	3.0	160.59	123.7
2021	69.9	3.0	133.69	75.0	3.0	165.41	123.7
2022	69.9	3.0	137.70	75.0	3.0	170.37	123.7

As illustrated above, a 2.5% rate of change is expected for the subject property's positioned 2016 room rate in 2017. This is followed by growth rates of 3.5% and 3.5% in 2018 and 2019, respectively. The Stars Hallow/Clear Lake market should experience rate growth through the near term. The proposed subject hotel's rate position should reflect growth similar to market trends because of the proposed hotel's new facility, strong brand affiliation, and all-suite product. The proposed subject hotel’s penetration rate is forecast to reach 123.7% by the stabilized period.

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

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

				Projected					
	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Proposed Embassy Suites									
Occupancy				—	58.7 %	66.5 %	73.4 %	74.6 %	74.6 %
Change in Points				—	—	7.8	6.9	1.2	0.0
Occupancy Penetration				—	83.5 %	96.8 %	105.5 %	106.7 %	106.7 %
Average Rate			$142.00	$145.55	$150.64	$155.92	$160.59	$165.41	$170.37
Change				—	3.5 %	3.5 %	3.0 %	3.0 %	3.0 %
Average Rate Penetration				123.7 %	123.7 %	123.7 %	123.7 %	123.7 %	123.7 %
RevPAR				—	$88.46	$103.68	$117.90	$123.37	$127.07
Change				—	—	17.2 %	13.7 %	4.6 %	3.0 %
RevPAR Penetration				—	103.3 %	119.8 %	130.5 %	132.0 %	132.0 %

	Historical (Estimated)			Projected					
	2015	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Webster Submarket									
Occupancy	71.7 %	74.8 %	71.0 %	71.2 %	70.4 %	68.7 %	69.6 %	69.9 %	69.9 %
Change in Points	—	3.1	(3.8)	0.2	(0.8)	(1.7)	0.9	0.3	0.0
Average Rate	$113.97	$116.26	$114.77	$117.64	$121.76	$126.02	$129.80	$133.69	$137.70
Change	—	2.0 %	(1.3) %	2.5 %	3.5 %	3.5 %	3.0 %	3.0 %	3.0 %
RevPAR	$81.70	$86.94	$81.43	$83.73	$85.66	$86.55	$90.32	$93.49	$96.30
Change	—	6.4 %	(6.3) %	2.8 %	2.3 %	1.0 %	4.4 %	3.5 %	3.0 %

** The forecast for the proposed subject property does not include rate discounts that are expected to occur during the initial year(s) of operation.*

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the proposed subject hotel's average rates in the initial operating period have been discounted to reflect this likelihood. We forecast 3.0% and 1.5% discounts to the proposed subject hotel's forecast room rates in the first two operating years, which would be typical for a new operation of this type.

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

FIGURE 6-7 FORECASTS OF OCCUPANCY, AVERAGE RATE, AND REVPAR

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount	RevPAR
2018/19	65 %	$154.59	3.0 %	$149.95	$97.47
2019/20	72	159.42	1.5	157.02	113.06
2020/21	74	164.20	0.0	164.20	121.51
2021/22	75	169.12	0.0	169.12	126.84

7. Projection of Income and Expense

In this chapter of our report, we have compiled a forecast of income and expense for the proposed subject hotel. This forecast is based on the facilities program set forth previously, as well as the occupancy and average rate forecast discussed previously.

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 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.

Comparable Operating Statements

In order to project future income and expense for the proposed subject hotel, we have included a sample of individual comparable operating statements from our database of hotel statistics. 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). The following data reflect the performance of five hotel properties, which were chosen based on similarities in product, market orientation, brand affiliation, size, and price positioning. The selected properties all represent the [Proposed Brand] brand. These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense.

FIGURE 7-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2014/15**	**2014/15**	**2014/15**	**2014/15**	**2014**	**2016**
Number of Rooms:	**130 to 170**	**130 to 170**	**180 to 230**	**200 to 260**	**220 to 280**	**140**
Days Open:	**365**	**365**	**365**	**365**	**364**	**365**
Occupancy:	**75%**	**79%**	**75%**	**79%**	**76%**	**75%**
Average Rate:	**$134**	**$129**	**$138**	**$142**	**$147**	**$146**
RevPAR:	**$100**	**$102**	**$103**	**$112**	**$112**	**$109**
REVENUE						
Rooms	90.5 %	91.0 %	79.2 %	84.2 %	66.7 %	81.3 %
Food	6.8	6.5	16.2	7.4	28.6	11.2
Beverage	1.3	0.0	0.0	2.1	2.8	5.1
Food & Beverage	8.1	6.5	16.2	9.5	31.3	16.3
Other Operated Departments	1.2	1.0	3.6	6.0	0.0	1.4
Rentals & Other Income	0.1	1.5	1.0	0.3	1.9	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	23.5	22.0	28.3	27.1	23.6	25.1
Food & Beverage	72.4	102.5	76.2	84.4	50.2	70.3
Other Operated Departments	115.1	100.7	26.1	38.8	0.0	55.0
Total	28.6	27.6	35.7	33.2	32.4	32.6
DEPARTMENTAL INCOME	71.4	72.4	64.3	66.8	67.6	67.4
OPERATING EXPENSES						
Administrative & General	10.1	9.8	8.5	6.7	7.6	6.7
Info. and Telecom. Systems	0.0	0.0	0.0	0.0	0.0	0.9
Marketing	10.8	2.8	6.9	6.7	10.0	5.1
Franchise Fee	3.6	8.6	7.7	6.4	2.7	7.7
Property Operations & Maintenance	8.1	4.1	4.1	4.2	4.6	4.1
Utilities	4.5	4.2	4.8	4.0	5.1	4.0
Total	37.1	29.4	32.1	28.1	29.9	28.6
HOUSE PROFIT	34.3	43.0	32.2	38.7	37.7	38.8
Management Fee	3.0	3.7	2.1	2.0	2.8	3.0
INCOME BEFORE FIXED CHARGES	31.3	39.2	30.1	36.7	34.9	35.8

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

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FIGURE 7-2 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	2014/15	2014/15	2014/15	2014/15	2014	2016
Number of Rooms:	130 to 170	130 to 170	180 to 230	200 to 260	220 to 280	140
Days Open:	365	365	365	365	364	365
Occupancy:	75%	79%	75%	79%	76%	75%
Average Rate:	$134	$129	$138	$142	$147	$146
RevPAR:	$100	$102	$103	$112	$112	$109
REVENUE						
Rooms	$36,656	$37,119	$37,677	$40,913	$40,773	$39,937
Food	2,771	2,644	7,718	3,580	17,462	5,516
Beverage	523	0	0	1,043	1,686	2,482
Food & Beverage	3,294	2,644	7,718	4,624	19,148	7,999
Other Operated Departments	501	393	1,694	2,896	0	690
Rentals & Other Income	54	626	465	145	1,190	483
Total	40,506	40,783	47,553	48,578	61,111	49,108
DEPARTMENTAL EXPENSES						
Rooms	8,612	8,165	10,679	11,091	9,633	10,024
Food & Beverage	2,386	2,711	5,879	3,902	9,616	5,623
Other Operated Departments	577	396	442	1,124	0	379
Total	11,575	11,272	17,000	16,116	19,769	16,027
DEPARTMENTAL INCOME	28,931	29,512	30,553	32,461	41,341	33,081
OPERATING EXPENSES						
Administrative & General	4,090	3,981	4,050	3,277	4,618	3,275
Info. and Telecom. Systems	(5)	0	0	0	0	453
Marketing	4,356	1,159	3,270	3,239	6,131	2,519
Franchise Fee	1,466	3,495	3,684	3,128	1,632	3,794
Property Operations & Maintenance	3,296	1,674	1,948	2,032	2,800	2,020
Utilities	1,840	1,695	2,291	1,962	3,089	1,970
Total	15,044	12,005	15,242	13,639	18,271	14,031
HOUSE PROFIT	13,887	17,507	15,311	18,822	23,070	19,050
Management Fee	1,224	1,529	989	971	1,737	1,473
INCOME BEFORE FIXED CHARGES	12,663	15,978	14,322	17,850	21,333	17,577

FIGURE 7-3 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	2014/15	2014/15	2014/15	2014/15	2014	2016
Number of Rooms:	130 to 170	130 to 170	180 to 230	200 to 260	220 to 280	140
Days Open:	365	365	365	365	364	365
Occupancy:	75%	79%	75%	79%	76%	75%
Average Rate:	$134	$129	$138	$142	$147	$146
RevPAR:	$100	$102	$103	$112	$112	$109
REVENUE						
Rooms	$134.32	$128.67	$137.69	$141.93	$147.26	$145.89
Food	10.16	9.17	28.20	12.42	63.07	20.15
Beverage	1.92	0.00	0.00	3.62	6.09	9.07
Food & Beverage	12.07	9.17	28.20	16.04	69.16	29.22
Other Operated Departments	1.84	1.36	6.19	10.05	0.00	2.52
Rentals & Other Income	0.20	2.17	1.70	0.50	4.30	1.76
Total	148.43	141.37	173.78	168.52	220.72	179.39
DEPARTMENTAL EXPENSES						
Rooms	31.56	28.30	39.03	38.47	34.79	36.62
Food & Beverage	8.74	9.40	21.48	13.54	34.73	20.54
Other Operated Departments	2.11	1.37	1.61	3.90	0.00	1.39
Total	42.42	39.07	62.12	55.91	71.40	58.54
DEPARTMENTAL INCOME	106.02	102.30	111.65	112.61	149.32	120.84
OPERATING EXPENSES						
Administrative & General	14.99	13.80	14.80	11.37	16.68	11.96
Info. and Telecom. Systems	(0.02)	0.00	0.00	0.00	0.00	1.66
Marketing	15.96	4.02	11.95	11.24	22.14	9.20
Franchise Fee	5.37	12.12	13.46	10.85	5.90	13.86
Property Operations & Maintenance	12.08	5.80	7.12	7.05	10.11	7.38
Utilities	6.74	5.88	8.37	6.81	11.16	7.20
Total	55.13	41.61	55.70	47.32	65.99	51.26
HOUSE PROFIT	50.89	60.69	55.95	65.30	83.33	69.59
Management Fee	4.48	5.30	3.62	3.37	6.27	5.38
INCOME BEFORE FIXED CHARGES	46.40	55.39	52.34	61.93	77.05	64.21

The comparables' departmental income ranged from 72.4 % to 66.8 % of total revenue. The comparable properties achieved a house profit ranging from 43.0 % to 38.7 % of total revenue. 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 *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

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

FIGURE 7-4 INFLATION ESTIMATES

Name (Sample from Survey)	Firm	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier) June 2017	Dec 2017	June 2018	Dec 2018	Dec 2016
Lewis Alexander	Nomura Securities International	2.6 %	2.4 %	2.1 %	2.2 %	2.2 %
Paul Ashworth	Capital Economics	2.8	3.0	3.2	3.3	3.3
Daniel Bachman	Deloitte LP	2.1	1.8	2.2	2.4	2.4
Bernard Baumohl	Economic Outlook Group	2.1	2.3	2.3	2.5	2.5
Nariman Behravesh	IHS Global Insight	2.5	2.2	2.4	2.4	2.4
David Berson	Nationwide Insurance	2.6	2.5	2.7	2.8	2.8
Brian Bethune	Tufts University	1.9	2.1	2.3	2.3	2.3
Steven Blitz	Pangea Market Advisory	2.2	1.9	2.5	3.0	3.0
Beth Ann Bovino	Standard and Poor's	2.5	2.1	2.2	2.3	2.3
Michael Carey	Credit Agricole CIB	2.3	2.2	2.4	2.6	2.6
Joseph Carson	AllianceBernstein	2.4	3.0	3.0	3.0	3.0
Mike Cosgrove	Econoclast	2.5	2.5	2.2	2.0	2.0
Lou Crandall	Wrightson ICAP	2.5	2.7	2.7	2.6	2.6
Amy Crews Cutts	Equifax	1.7	2.0	2.3	2.5	2.5
J. Dewey Daane	Vanderbilt University	1.8	2.0	2.3	2.5	2.5
Greg Daco	Oxford Economics	2.3	2.2	2.3	2.2	2.2
Rajeev Dhawan	Georgia State University	2.3	2.0	2.1	2.0	2.0
Robert Dietz	National Association of Home Builders	2.0	2.1	2.1	2.1	2.1
Douglas Duncan	Fannie Mae	2.5	2.3	2.2	2.1	2.1
Robert Dye	Comerica Bank	2.5	2.4	2.3	2.2	2.2
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	2.4	2.2	0.0	—	—
Mike Fratantoni	Mortgage Bankers Association	2.6	2.3	2.4	2.6	2.6
Michael Gregory	BMO Capital	2.2	2.3	2.3	2.3	2.3
Jan Hatzius	Goldman, Sachs & Co.	2.4	2.6	2.1	2.2	2.2
Stuart Hoffman	PNC Financial Services Group	2.3	2.3	2.4	2.4	2.4
Derek Holt	Scotiabank	2.0	2.3	2.3	2.3	2.3
Constance Hunter	KPMG	2.2	2.4	2.1	2.1	2.1
Nathaniel Karp	BBVA Compass	2.2	2.4	2.6	2.8	2.8
Jack Kleinhenz	National Retail Federation	2.4	2.5	2.6	2.5	2.5
Joseph LaVorgna	Deutsche Bank Securities, Inc.	1.8	2.1	2.2	2.3	2.3
Edward Leamer/David Shulman	UCLA Anderson Forecast	2.3	2.5	2.8	2.7	2.7
John Lonski	Moody's Investors Service	1.9	1.6	1.5	1.6	1.6
Aneta Markowska	Societe Generale	2.5	2.8	2.3	2.2	2.2
Jim Meil	ACT Research	1.8	2.7	3.0	2.5	2.5
Michael Moran	Daiwa Capital	2.4	2.3	2.4	2.5	2.5
Chad Moutray	National Association of Manufacturers	2.3	2.8	2.7	2.6	2.6
Joel Naroff	Naroff Economic Advisors	2.6	2.8	3.0	2.8	2.8
Mark Nielson	MacroEcon Global Advisors	1.9	2.2	2.5	2.7	2.7
Frank Nothaft	Corelogic	2.3	2.4	2.5	2.5	2.5
Jim O'Sullivan	High Frequency Economics	2.2	2.7	2.8	2.9	2.9
Lindsey Piegza	Stifel, Nicoulas and Company, Incorporated (forme	1.8	1.3	1.2	—	—
Dr. Joel Prakken/ Chris Varvares	Macroeconomic Advisers	2.5	2.3	2.0	2.1	2.1
Russell Price	Ameriprise Financial	2.3	2.2	2.2	2.2	2.2
Lynn Reaser	Point Loma Nazarene University	1.8	2.0	2.1	2.2	2.2
Martin Regalia	Chamber of Commerce	1.8	1.8	—	—	—
Ian Shepherdson	Pantheon Macroeconomics	2.7	3.0	2.7	2.5	2.5
John Silvia	Wells Fargo & Co.	2.4	2.5	2.7	2.5	2.5
Allen Sinai	Decision Economics, Inc.	2.4	2.5	2.4	2.3	2.3
James F. Smith	Parsec Financial Management	1.6	1.6	1.7	1.8	1.8
Sean M. Snaith	University of Central Florida	3.1	3.3	3.4	3.3	3.3
Sung Won Sohn	California State University	2.3	2.3	2.3	2.4	2.4
Stephen Stanley	Pierpont Securities	2.9	3.3	3.4	3.3	3.3
Susan M. Sterne	Economic Analysis Associates Inc.	2.5	2.2	2.3	2.5	2.5
James Sweeney	CSFB	2.0	2.1	0.0	—	—
Kevin Swift	American Chemisty Council	2.3	2.5	2.5	2.3	2.3
Diane Swonk	Diane Swonk & Associates LLC	2.7	2.4	2.4	2.5	2.5
Carl Tannenbaum	The Northern Trust	2.0	2.0	2.0	2.0	2.0
US Economics Team	BNP Paribas	2.2	2.3	2.5	2.6	2.6
Bart van Ark	The Conference Board	2.2	2.4	0.0	—	—
Brian S. Wesbury/ Robert Stein	First Trust Advisors, L.P.	2.7	2.8	2.9	3.0	3.0
Lawrence Yun	National Association of Realtors	3.0	3.1	3.0	2.8	2.8
	Averages:	2.3 %	2.4 %	1.8 %	2.5 %	2.5 %

Source: Wall Street Journal Economic Forecasting Survey, December 2016

As the preceding table indicates, the financial analysts who were surveyed in December 2016 anticipated inflation rates ranging from 1.6% to 3.1% (on an annualized basis) for June 2017; the average of these data points was 2.3%. The same group expects annualized inflation rates of 2.4% for both December 2017 and June 2018, slightly lower than the 2.5% average inflation rate forecast for December 2018.

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

FIGURE 7-5 NATIONAL CONSUMER PRICE INDEX (ALL URBAN CONSUMERS)

Year	National Consumer Price Index	Percent Change from Previous Year
2006	201.6	—
2007	207.3	2.8 %
2008	215.3	3.8
2009	214.5	-0.4
2010	218.1	1.6
2011	224.9	3.1
2012	229.6	2.1
2013	233.0	1.5
2014	234.8	0.8
2015	236.5	0.7
2016	241.5	2.1
Average Annual Compounded Change		
	2006 - 2016:	1.8 %
	2011 - 2016:	1.4

Source: Bureau of Labor Statistics

Between 2006 and 2016, the national CPI increased at an average annual compounded rate of 1.8%; from 2011 to 2016, the CPI rose by a slightly lower average annual compounded rate of 1.4%. In 2016, the CPI rose by 2.1%, an increase from the level of 0.7% recorded in 2015.

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied underlying inflation rates of 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2016. 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.

Summary of Projections

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

FIGURE 7-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2018/19	Begins October			2019/20				2020/21				Stabilized				2022/23			
Number of Rooms:	140				140				140				140				140			
Occupancy:	65%				72%				74%				75%				75%			
Average Rate:	$149.95				$157.02				$164.20				$169.12				$174.20			
RevPAR:	$97.47				$113.06				$121.51				$126.84				$130.65			
Days Open:	365				365				365				365				365			
Occupied Rooms:	33,215	%Gross	PAR	POR	36,792	%Gross	PAR	POR	37,814	%Gross	PAR	POR	38,325	%Gross	PAR	POR	38,325	%Gross	PAR	POR
OPERATING REVENUE																				
Rooms	$4,981	81.5 %	$35,579	$149.96	$5,777	81.2 %	$41,264	$157.02	$6,209	81.3 %	$44,350	$164.20	$6,482	81.3 %	$46,300	$169.13	$6,676	81.3 %	$47,686	$174.19
Food	678	11.1	4,846	20.42	802	11.3	5,730	21.80	861	11.3	6,147	22.76	895	11.2	6,395	23.36	922	11.2	6,587	24.06
Beverage	295	4.8	2,110	8.90	358	5.0	2,560	9.74	388	5.1	2,773	10.27	403	5.1	2,878	10.51	415	5.1	2,964	10.83
Other Operated Departments	90	1.5	646	2.72	102	1.4	730	2.78	108	1.4	773	2.86	112	1.4	799	2.92	115	1.4	823	3.01
Miscellaneous Income	63	1.0	452	1.91	71	1.0	511	1.94	76	1.0	541	2.00	78	1.0	560	2.04	81	1.0	576	2.11
Total Operating Revenues	6,109	100.0	43,633	183.91	7,111	100.0	50,795	193.28	7,642	100.0	54,584	202.09	7,970	100.0	56,932	207.97	8,209	100.0	58,637	214.20
DEPARTMENTAL EXPENSES *																				
Rooms	1,409	28.3	10,067	42.43	1,509	26.1	10,778	41.01	1,571	25.3	11,222	41.55	1,627	25.1	11,621	42.45	1,676	25.1	11,969	43.72
Food & Beverage	767	78.8	5,482	23.11	840	72.4	6,002	22.84	882	70.7	6,303	23.33	913	70.3	6,519	23.81	940	70.3	6,714	24.53
Other Operated Departments	54	60.1	388	1.64	57	56.3	410	1.56	60	55.2	426	1.58	62	55.0	440	1.61	63	55.0	453	1.65
Total Expenses	2,231	36.5	15,937	67.18	2,407	33.8	17,191	65.41	2,513	32.9	17,951	66.46	2,601	32.6	18,579	67.87	2,679	32.6	19,137	69.91
DEPARTMENTAL INCOME	3,877	63.5	27,696	116.74	4,705	66.2	33,604	127.87	5,129	67.1	36,633	135.63	5,369	67.4	38,353	140.10	5,530	67.4	39,500	144.29
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	467	7.6	3,333	14.05	494	7.0	3,530	13.43	514	6.7	3,674	13.60	531	6.7	3,796	13.87	547	6.7	3,910	14.28
Info & Telecom Systems	65	1.1	461	1.95	68	1.0	489	1.86	71	0.9	509	1.88	74	0.9	526	1.92	76	0.9	541	1.98
Marketing	359	5.9	2,564	10.81	380	5.3	2,716	10.33	396	5.2	2,826	10.46	409	5.1	2,920	10.67	421	5.1	3,008	10.99
Franchise Fee	374	6.1	2,668	11.25	491	6.9	3,507	13.35	590	7.7	4,213	15.60	616	7.7	4,399	16.07	634	7.7	4,530	16.55
Prop. Operations & Maint.	216	3.5	1,542	6.50	274	3.9	1,960	7.46	317	4.2	2,267	8.39	328	4.1	2,342	8.56	338	4.1	2,412	8.81
Utilities	281	4.6	2,005	8.45	297	4.2	2,124	8.08	309	4.0	2,210	8.18	320	4.0	2,284	8.34	329	4.0	2,352	8.59
Total Expenses	1,760	28.8	12,574	53.00	2,006	28.3	14,326	54.51	2,198	28.7	15,699	58.12	2,277	28.5	16,266	59.42	2,345	28.5	16,754	61.20
GROSS HOUSE PROFIT	2,117	34.7	15,122	63.74	2,699	37.9	19,277	73.35	2,931	38.4	20,934	77.50	3,092	38.9	22,087	80.68	3,184	38.9	22,746	83.09
Management Fee	183	3.0	1,309	5.52	213	3.0	1,524	5.80	229	3.0	1,638	6.06	239	3.0	1,708	6.24	246	3.0	1,759	6.43
INCOME BEFORE NON-OPR. INC. & EXP.	1,934	31.7	13,813	58.22	2,485	34.9	17,753	67.55	2,701	35.4	19,296	71.44	2,853	35.9	20,379	74.44	2,938	35.9	20,987	76.67
NON-OPERATING INCOME & EXPENSE																				
Property Taxes	309	5.1	2,207	9.30	317	4.5	2,262	8.61	326	4.3	2,330	8.63	336	4.2	2,400	8.77	346	4.2	2,472	9.03
Insurance	45	0.7	321	1.35	46	0.7	330	1.26	48	0.6	340	1.26	49	0.6	350	1.28	51	0.6	361	1.32
Reserve for Replacement	122	2.0	873	3.68	213	3.0	1,524	5.80	306	4.0	2,183	8.08	319	4.0	2,277	8.32	328	4.0	2,345	8.57
Total Expenses	476	7.8	3,400	14.33	576	8.2	4,116	15.66	680	8.9	4,854	17.97	704	8.8	5,028	18.37	725	8.8	5,178	18.92
EBITDA LESS RESERVE	$1,458	23.9 %	$10,413	$43.89	$1,909	26.7 %	$13,637	$51.89	$2,022	26.5 %	$14,442	$53.47	$2,149	27.1 %	$15,351	$56.08	$2,213	27.1 %	$15,809	$57.75

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

FIGURE 7-7 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2018/19		2019/20		2020/21		2021/22		2022/23	
Number of Rooms:	**140**		**140**		**140**		**140**		**140**	
Occupied Rooms:	**33,215**		**36,792**		**37,814**		**38,325**		**38,325**	
Occupancy:	**65%**		**72%**		**74%**		**75%**		**75%**	
Average Rate:	**$149.95**	**% of**	**$157.02**	**% of**	**$164.20**	**% of**	**$169.12**	**% of**	**$174.20**	**% of**
RevPAR:	**$97.47**	**Gross**	**$113.06**	**Gross**	**$121.51**	**Gross**	**$126.84**	**Gross**	**$130.65**	**Gross**
OPERATING REVENUE										
Rooms	$4,981	81.5 %	$5,777	81.2 %	$6,209	81.3 %	$6,482	81.3 %	$6,676	81.3 %
Food	678	11.1	802	11.3	861	11.3	895	11.2	922	11.2
Beverage	295	4.8	358	5.0	388	5.1	403	5.1	415	5.1
Other Operated Departments	90	1.5	102	1.4	108	1.4	112	1.4	115	1.4
Miscellaneous Income	63	1.0	71	1.0	76	1.0	78	1.0	81	1.0
Total Operating Revenues	6,109	100.0	7,111	100.0	7,642	100.0	7,970	100.0	8,209	100.0
DEPARTMENTAL EXPENSES *										
Rooms	1,409	28.3	1,509	26.1	1,571	25.3	1,627	25.1	1,676	25.1
Food & Beverage	767	78.8	840	72.4	882	70.7	913	70.3	940	70.3
Other Operated Departments	54	60.1	57	56.3	60	55.2	62	55.0	63	55.0
Total Expenses	2,231	36.5	2,407	33.8	2,513	32.9	2,601	32.6	2,679	32.6
DEPARTMENTAL INCOME	3,877	63.5	4,705	66.2	5,129	67.1	5,369	67.4	5,530	67.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	467	7.6	494	7.0	514	6.7	531	6.7	547	6.7
Info & Telecom Systems	65	1.1	68	1.0	71	0.9	74	0.9	76	0.9
Marketing	359	5.9	380	5.3	396	5.2	409	5.1	421	5.1
Franchise Fee	374	6.1	491	6.9	590	7.7	616	7.7	634	7.7
Prop. Operations & Maint.	216	3.5	274	3.9	317	4.2	328	4.1	338	4.1
Utilities	281	4.6	297	4.2	309	4.0	320	4.0	329	4.0
Total Expenses	1,760	28.8	2,006	28.3	2,198	28.7	2,277	28.5	2,345	28.5
GROSS HOUSE PROFIT	2,117	34.7	2,699	37.9	2,931	38.4	3,092	38.9	3,184	38.9
Management Fee	183	3.0	213	3.0	229	3.0	239	3.0	246	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	1,934	31.7	2,485	34.9	2,701	35.4	2,853	35.9	2,938	35.9
NON-OPERATING INCOME & EXPENSE										
Property Taxes	309	5.1	317	4.5	326	4.3	336	4.2	346	4.2
Insurance	45	0.7	46	0.7	48	0.6	49	0.6	51	0.6
Reserve for Replacement	122	2.0	213	3.0	306	4.0	319	4.0	328	4.0
Total Expenses	476	7.8	576	8.2	680	8.9	704	8.8	725	8.8
EBITDA LESS RESERVE	$1,458	23.9 %	$1,909	26.7 %	$2,022	26.5 %	$2,149	27.1 %	$2,213	27.1 %

	2023/24		2024/25		2025/26		2026/27		2027/28	
Number of Rooms:	**140**		**140**		**140**		**140**		**140**	
Occupied Rooms:	**38,325**		**38,325**		**38,325**		**38,325**		**38,325**	
Occupancy:	**75%**		**75%**		**75%**		**75%**		**75%**	
Average Rate:	**$179.42**	**% of**	**$184.81**	**% of**	**$190.35**	**% of**	**$196.06**	**% of**	**$201.94**	**% of**
RevPAR:	**$134.57**	**Gross**	**$138.60**	**Gross**	**$142.76**	**Gross**	**$147.05**	**Gross**	**$151.46**	**Gross**
OPERATING REVENUE										
Rooms	$6,876	81.3 %	$7,083	81.3 %	$7,295	81.3 %	$7,514	81.3 %	$7,739	81.3 %
Food	950	11.2	978	11.2	1,008	11.2	1,038	11.2	1,069	11.2
Beverage	427	5.1	440	5.1	453	5.1	467	5.1	481	5.1
Other Operated Departments	119	1.4	122	1.4	126	1.4	130	1.4	134	1.4
Miscellaneous Income	83	1.0	86	1.0	88	1.0	91	1.0	94	1.0
Total Operating Revenues	8,455	100.0	8,709	100.0	8,970	100.0	9,240	100.0	9,516	100.0
DEPARTMENTAL EXPENSES *										
Rooms	1,726	25.1	1,778	25.1	1,831	25.1	1,886	25.1	1,943	25.1
Food & Beverage	968	70.3	997	70.3	1,027	70.3	1,058	70.3	1,090	70.3
Other Operated Departments	65	55.0	67	55.0	69	55.0	71	55.0	73	55.0
Total Expenses	2,759	32.6	2,842	32.6	2,928	32.6	3,015	32.6	3,106	32.6
DEPARTMENTAL INCOME	5,696	67.4	5,867	67.4	6,043	67.4	6,224	67.4	6,410	67.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	564	6.7	581	6.7	598	6.7	616	6.7	635	6.7
Info & Telecom Systems	78	0.9	80	0.9	83	0.9	85	0.9	88	0.9
Marketing	434	5.1	447	5.1	460	5.1	474	5.1	488	5.1
Franchise Fee	653	7.7	673	7.7	693	7.7	714	7.7	735	7.7
Prop. Operations & Maint.	348	4.1	358	4.1	369	4.1	380	4.1	391	4.1
Utilities	339	4.0	349	4.0	360	4.0	371	4.0	382	4.0
Total Expenses	2,416	28.5	2,488	28.5	2,563	28.5	2,640	28.5	2,719	28.5
GROSS HOUSE PROFIT	3,280	38.9	3,379	38.9	3,480	38.9	3,584	38.9	3,691	38.9
Management Fee	254	3.0	261	3.0	269	3.0	277	3.0	285	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	3,026	35.9	3,118	35.9	3,211	35.9	3,307	35.9	3,406	35.9
NON-OPERATING INCOME & EXPENSE										
Property Taxes	356	4.2	367	4.2	378	4.2	390	4.2	401	4.2
Insurance	52	0.6	54	0.6	55	0.6	57	0.6	59	0.6
Reserve for Replacement	338	4.0	348	4.0	359	4.0	370	4.0	381	4.0
Total Expenses	747	8.8	769	8.8	792	8.8	816	8.8	840	8.8
EBITDA LESS RESERVE	$2,279	27.1 %	$2,348	27.1 %	$2,418	27.1 %	$2,491	27.1 %	$2,566	27.1 %

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

Forecast of Income and Expense

The following description sets forth the basis for the forecast of income 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 proposed subject hotel's operating budget and comparable income and expense statements. The forecast is based upon fiscal years beginning October 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 proposed subject hotel is expected to stabilize at an occupancy level of 75% with an average rate of $169.12 in 2021/22. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

Food and Beverage Revenue

Food and beverage revenue is generated by a hotel's restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. With the exception of properties with active lounges or banquet facilities that draw local residents, in-house guests generally represent a substantial percentage of a hotel's food and beverage patrons. In the case of the Proposed Inn & Suites, food and beverage department will include a complimentary services area, a restaurant, and a lounge; moreover, banquet space is expected to span 7,000 square feet.

Although food and beverage revenue varies directly with changes in occupancy, the small portion generated by banquet sales and outside capture is relatively fixed. The proposed subject hotel's food and beverage operation is expected to be an important component of the hotel. Therefore, based upon our review of comparable operating statements, we have positioned an appropriate revenue level given the hotel's planned facility and price point. We would anticipate future moderate growth to occur within this category after the hotel's opening.

FIGURE 7-8 FOOD AND BEVERAGE REVENUE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Food Revenue							
Percentage of Revenue	16.2 %	11.5 %	16.6 %	13.4 %	19.3 %	11.1 %	11.2 %
Per Available Room	$5,966	$3,757	$5,937	$4,294	$7,223	$4,846	$5,516
Per Occupied Room	$25.09	$15.05	$26.37	$17.68	$31.92	$20.42	$20.15
Beverage Revenue							
Percentage of Revenue	3.3 %	0.0 %	3.4 %	0.0 %	3.4 %	4.8 %	5.1 %
Per Available Room	$1,197	$0	$1,236	$0	$1,268	$2,110	$2,482
Per Occupied Room	$5.03	$0.00	$5.49	$0.00	$5.60	$8.90	$9.07
Food & Beverage Revenue							
Percentage of Revenue	19.5 %	11.5 %	20.0 %	13.4 %	22.7 %	15.9 %	16.3 %
Per Available Room	$7,163	$3,757	$7,173	$4,294	$8,491	$6,956	$7,999
Per Occupied Room	$30.12	$15.05	$31.86	$17.68	$37.52	$0.00	$29.22

Other Operated Departments Revenue

According to the Uniform System of Accounts, other operated departments include any major or minor operated department other than rooms and food and beverage. The proposed subject hotel's other operated departments revenue sources are expected to include the hotel's telephone charges, gift shop sales, guest laundry fees, and in-room movie charges. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel.

FIGURE 7-9 OTHER OPERATED DEPARTMENTS REVENUE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	1.7 %	0.7 %	0.1 %	1.1 %	1.5 %	1.5 %	1.4 %
Per Available Room	$607	$217	$22	$340	$568	$646	$690
Per Occupied Room	$2.55	$0.87	$0.10	$1.40	$2.51	$2.72	$2.52

Miscellaneous Income

The miscellaneous income sources comprise those other than guestrooms, food and beverage, and the other operated departments. The proposed subject hotel's miscellaneous income revenues are expected to be generated primarily by the commissions earned on the vending sales and other minor collections, such as cancelation fees. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

FIGURE 7-10 MISCELLANEOUS INCOME

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	0.0 %	0.7 %	2.1 %	0.0 %	0.1 %	1.0 %	1.0 %
Per Available Room	$0	$244	$766	$0	$45	$452	$483
Per Occupied Room	$0.00	$0.98	$3.40	$0.00	$0.20	$1.91	$1.76

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, much of a hotel's payroll is fixed. 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 only moderately sensitive to changes in occupancy.

Commissions and reservations are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. While guest supplies vary 100% with occupancy, linens and other operating expenses are only slightly affected by volume. The proposed subject hotel's rooms department expense has been positioned based upon our review of the comparable operating data and our understanding of the hotel's future service level and price point.

FIGURE 7-11 ROOMS EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	18.5 %	19.5 %	21.2 %	19.8 %	23.3 %	28.3 %	25.1 %
Per Available Room	$5,370	$5,549	$5,916	$5,403	$6,584	$10,067	$10,024
Per Occupied Room	$22.58	$22.23	$26.28	$22.25	$29.10	$42.43	$36.62

Food and Beverage Expense

Food expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. The costs associated with food sales and payroll are moderately to highly correlated to food revenues. Items such as china, linen and uniforms are less dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor. Beverage expenses consist of items necessary for the operation of a hotel's lounge and bar areas. The costs associated with beverage sales and payroll are moderately to highly correlated to beverage revenues. The proposed subject hotel's food and beverage operation is expected to be efficiently managed and operated at an expense level that is in line with other comparable operations.

FIGURE 7-12 FOOD AND BEVERAGE EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	83.8 %	96.8 %	74.2 %	85.1 %	72.3 %	78.8 %	70.3 %
Per Available Room	$6,006	$3,637	$5,324	$3,652	$6,138	$5,482	$5,623
Per Occupied Room	$25.26	$14.57	$23.65	$15.04	$27.12	$23.11	$20.54

Other Operated Departments Expense

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories. This was previously discussed in this chapter. The proposed subject hotel's other operated departments revenue sources are expected to include the hotel's telephone charges, gift shop sales, guest laundry fees, and in-room movie charges. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel.

FIGURE 7-13 OTHER OPERATED DEPARTMENTS EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	31.1 %	183.1 %	1329.1 %	89.6 %	94.8 %	60.1 %	55.0 %
Per Available Room	$189	$397	$290	$305	$538	$388	$379
Per Occupied Room	$0.79	$1.59	$1.29	$1.26	$2.38	$1.64	$1.39

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. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the administrative and general expense level at a market- and property-supported level.

FIGURE 7-14 ADMINISTRATIVE AND GENERAL EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	7.8 %	7.6 %	11.2 %	9.5 %	10.4 %	7.6 %	6.7 %
Per Available Room	$2,869	$2,489	$4,022	$3,036	$3,874	$3,333	$3,275
Per Occupied Room	$12.06	$9.97	$17.87	$12.50	$17.12	$14.05	$11.96

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 proposed subject hotel's information and telecommunications systems to be well managed. Expense levels should stabilize at a typical level for a property of this type.

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. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the marketing expense level at a market- and property-supported level.

FIGURE 7-15 MARKETING EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	5.1 %	8.9 %	7.3 %	5.8 %	10.3 %	5.9 %	5.1 %
Per Available Room	$1,871	$2,910	$2,626	$1,867	$3,859	$2,564	$2,519
Per Occupied Room	$7.87	$11.66	$11.66	$7.69	$17.05	$10.81	$9.20

Franchise Fee

As previously discussed, the proposed subject property is expected to be franchised under the [Proposed Brand] brand. Costs associated with this franchise are summarized in the introductory chapter in this report.

Property Operations and Maintenance

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

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

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial 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.

We expect the proposed subject hotel's maintenance operation to be well managed. Expense levels should stabilize at a typical level for a property of this type. Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

FIGURE 7-16 PROPERTY OPERATIONS AND MAINTENANCE EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	4.3 %	3.7 %	7.0 %	6.7 %	3.8 %	3.5 %	4.1 %
Per Available Room	$1,566	$1,226	$2,513	$2,145	$1,404	$1,542	$2,020
Per Occupied Room	$6.59	$4.91	$11.16	$8.83	$6.21	$6.50	$7.38

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. The changes in this utilities line item through the projection period are a result of the application of the underlying inflation rate and projected changes in occupancy.

FIGURE 7-17 UTILITIES EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	4.8 %	5.3 %	4.7 %	6.6 %	4.3 %	4.6 %	4.0 %
Per Available Room	$1,767	$1,739	$1,700	$2,117	$1,615	$2,005	$1,970
Per Occupied Room	$7.43	$6.97	$7.55	$8.72	$7.14	$8.45	$7.20

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. We have assumed the proposed subject hotel will be managed by a professional hotel-operating company, with fees deducted at rates consistent with current market standards. Total management fees for the proposed subject hotel have been forecast at 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, so properties with equal market values will have similar assessments and properties with higher and lower values will have proportionately larger and smaller assessments.

FIGURE 7-18 HISTORIC SUBJECT PROPERTY TAX BURDEN (BASE YEAR)

	Real Property			
	Appraised Value		Assessed Value	
Year	Real Property Total	Percent Change	Real Property Total	Percent Change
2014	1,687,840	— %	1,687,840	— %
2015	1,687,840	0.0	1,687,840	0.0
2016	1,687,840	0.0	1,687,840	0.0

Source: Harris County Appraisal District

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 proposed subject property's market value (for tax purposes) on an analysis of assessments of comparable hotel properties in the local municipality.

FIGURE 7-19 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Year Open	Land	Improvements	Total
Hilton Houston NASA Clear Lake	1983	$1,571,080	$17,734,073	$19,305,153
Holiday Inn Houston Webster	2009	802,896	6,678,796	7,481,692
Hilton Garden Inn Houston Clear Lake NASA	2010	1,177,336	9,922,664	11,100,000
Courtyard by Marriott Houston NASA Clear Lake	2012	2,200,284	9,929,272	12,129,556
Marriott Houston Hobby Airport Hotel	1985	1,744,205	17,206,942	18,951,147
DoubleTree by Hilton Hotel Houston Hobby Airport	1982	1,240,235	19,783,793	21,024,028
SpringHill Suites by Marriott Houston Clear Lake Webster	2009	522,786	9,922,539	10,445,325
Holiday Inn Express & Suites Houston Space Center Clear Lake	2010	724,448	6,594,065	7,318,513
Hampton Inn & Suites Houston Clear Lake NASA	2000	1,075,236	9,103,355	10,178,591
Comfort Suites Webster	2006	619,248	2,345,503	2,964,751
Residence Inn by Marriott Houston Clear Lake	1990	1,806,372	9,006,628	10,813,000
Staybridge Suites Houston Clearlake	2009	876,080	10,711,216	11,587,296
Homewood Suites by Hilton Houston Clear Lake	1995	1,391,688	8,508,312	9,900,000
Assessments per Room	*# of Rms*			
Hilton Houston NASA Clear Lake	243	$6,465	$72,980	$79,445
Holiday Inn Houston Webster	109	7,366	61,273	68,639
Hilton Garden Inn Houston Clear Lake NASA	126	9,344	78,751	88,095
Courtyard by Marriott Houston NASA Clear Lake	124	17,744	80,075	97,819
Marriott Houston Hobby Airport Hotel	287	6,077	59,955	66,032
DoubleTree by Hilton Hotel Houston Hobby Airport	303	4,093	65,293	69,386
SpringHill Suites by Marriott Houston Clear Lake Webster	121	4,321	82,004	86,325
Holiday Inn Express & Suites Houston Space Center Clear Lake	101	7,173	65,288	72,461
Hampton Inn & Suites Houston Clear Lake NASA	108	9,956	84,290	94,246
Comfort Suites Webster	58	10,677	40,440	51,116
Residence Inn by Marriott Houston Clear Lake	110	16,422	81,878	98,300
Staybridge Suites Houston Clearlake	112	7,822	95,636	103,458
Homewood Suites by Hilton Houston Clear Lake	92	15,127	92,482	107,609
Positioned Subject - Per Room	**140**	**$11,000**	**$80,000**	**$91,000**
Positioned Subject - Total		**$1,540,000**	**$11,200,000**	**$12,740,000**

Source: Harris County Appraisal District

We have positioned the future assessment levels of the subject site and proposed improvement based upon the illustrated comparable data. We have positioned these assessments closest to the Hilton Garden Inn because of the similarities, including location, size, and room count; overall, the positioned assessments are well supported by the market data.

Tax rates are based on the city and county budgets, which change annually. The most recent tax rate in this jurisdiction was reported at 2.31970%. The following table shows changes in the tax rate during the last several years.

FIGURE 7-20 COUNTY TAX RATES

Year	Real Property Tax Rate
2014	2.28470
2015	2.26990
2016	2.31970

Source: Harris County Appraisal District

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

FIGURE 7-21 PROJECTED PROPERTY TAX BURDEN (BASE YEAR)

	Real Property Total
Tax Rate	2.31970
Tax Burden as of Base Year	$295,530

FIGURE 7-22 PROJECTED PROPERTY TAX EXPENSE - REAL PROPERTY

	Real Property		
Year	Total Tax Burden (Positioned Prior to Increase)	Base Rate of Tax Burden Increase	Taxes Payable
Positioned	$295,530	—	$295,530
2018/19	$295,530	4.5 %	$308,976
2019/20	308,976	2.5	316,701
2020/21	316,701	3.0	326,202
2021/22	326,202	3.0	335,988

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.

FIGURE 7-23 INSURANCE EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2018/19	Deflated Stabilized
Percentage of Revenue	1.4 %	2.0 %	0.8 %	0.4 %	0.9 %	0.7 %	0.6 %
Per Available Room	$513	$648	$280	$140	$337	$321	$302
Per Occupied Room	$2.16	$2.60	$1.24	$0.58	$1.49	$1.35	$1.10

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.[7] 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.

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

Based on the results of our analysis and on our review of the proposed 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. This amount has been ramped up during the initial projection period.

Forecast of Revenue and Expense Conclusion

Projected total revenue. House profit, and EBITDA less replacement reserves are set forth in the following table.

FIGURE 7-24 FORECAST OF REVENUE AND EXPENSE CONCLUSION

		Total Revenue		House Profit		House Profit	EBITDA Less Replacement Reserve		
	Year	Total	% Change	Total	% Change	Ratio	Total	% Change	As a % of Ttl Rev
Projected	2018/19	$6,109,000	—	$2,117,000	—	34.7 %	$1,458,000	—	23.9 %
	2019/20	7,111,000	16.4 %	2,699,000	27.5 %	37.9	1,909,000	30.9 %	26.7
	2020/21	7,642,000	7.5	2,931,000	8.6	38.4	2,022,000	5.9	26.5
	2021/22	7,970,000	4.3	3,092,000	5.5	38.9	2,149,000	6.3	27.1
	2022/23	8,209,000	3.0	3,184,000	3.0	38.9	2,213,000	3.0	27.1

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8. Feasibility Analysis

Return on investment can be defined as the future benefits of an income-producing property relative to its acquisition or construction cost. The first step in performing a return on investment analysis is to determine the amount to be initially invested. For a proposed property, this amount is most likely to be the development cost of the hotel. Based on the total development cost, the individual investor will utilize a return on investment analysis to determine if the future cash flow from a current cash outlay meets his or her own investment criteria and at what level above or below this amount such an outlay exceeds or fails to meet these criteria.

As an individual or company considering investment in hotel real estate, the decision to use one's own cash, an equity partner's capital, or lender financing will be an internal one. Because hotels typically require a substantial investment, only the largest investors and hotel companies generally have the means to purchase properties with all cash. We would anticipate the involvement of some financing by a third party for the typical investor or for those who may be entering the market for hotel acquisitions at this time. In leveraged acquisitions and developments where investors typically purchase or build upon real estate with a small amount of equity cash (20% to 50%) and a large amount of mortgage financing (50% to 80%), it is important for the equity investor to acknowledge the return requirements of the debt participant (mortgagee), as well as his or her own return requirements. Therefore, we will begin our rate of return analysis by reviewing the debt requirements of typical hotel mortgagees.

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Construction Cost Estimate

Because the subject property is a proposed hotel, we have relied upon the actual development budget for the proposed subject hotel in performing a cost analysis. As this budget takes into consideration all of the physical, structural, and design elements specific to the property, it is believed to be the most accurate assessment of the actual cost of developing a hotel facility of this type. The details of this budget, prepared by the developers of the Proposed Inn & Suites, are presented in the following table.

FIGURE 8-1 SUBJECT PROPERTY CONSTRUCTION BUDGET

Component	Cost	Cost per Room
Hard Costs, Soft Costs, and Site Improvements	$18,900,000	$135,000
FF&E and OS&E	2,100,000	15,000
Pre-Opening Costs and Working Capital	1,960,000	14,000
Subtotal (without Land and Developer's Fee)	$22,960,000	$164,000
Site Cost	$2,200,000	$15,714
Subtotal (without Developer's Fee)	$25,160,000	$179,714
Developer's Fee (3%)	$750,000	$5,357
Total	$25,900,000	$185,000

Mortgage Component

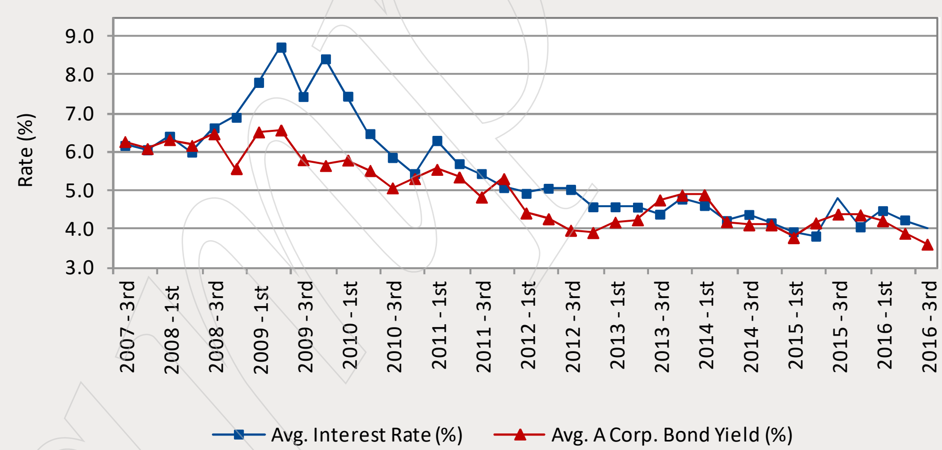
Hotel financing, while still available for most tiers of the lodging industry, has become more challenging to procure since mid-year 2015 given the concerns about rising levels of new supply and potential economic volatility. The CMBS market has been most affected because of this shifting environment. While many lenders remain active, underwriting standards are becoming more stringent. 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. To varying degrees and with some market selectivity, 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 8-2 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.

$$Y = 0.95520400\,X + 0.77974091$$

Where: Y = Estimated Hotel Mortgage Interest Rate
X = Current Average-A Corporate Bond Yield
(Coefficient of correlation is 94%)

The February 8, 2017, average yield on average-A corporate bonds, as reported by Moody’s Investors Service, was 4.12%. When used in the previously presented equation, a factor of 4.12 produces an estimated hotel/motel interest rate of 4.72% (rounded).

Despite the recent interest rate increases, hotel debt remains available at favorable interest rates, though some lenders have pulled out of the market, and underwriting standards have become more stringent. The most prevalent interest rates for single hotel assets are currently ranging from 4.5% 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 300 to 500 basis points over the corresponding yield on treasury notes. As of February 8, 2017, the yield on the ten-year T-bill was 2.41%, indicating an interest rate range from 5.4% to 7.4%. The hotel investment market remains active but has slowed because of the gap between buyer and seller expectations, as well as lender and investor caution regarding where we stand in the investment and development cycle. The Federal Reserve Bank increased the federal funds rate twice in 2016 and has indicated that it expects additional interest rate increases in 2017. The yield on the ten-year T-bill jumped 80 basis points following the election, and most experts anticipate the T-bill yield to reach or exceed 3.0% by the end of 2017. The cost of mortgage debt is expected to rise modestly, as spreads contract somewhat to offset the Federal Reserve Bank's actions. At present, we find that lenders that are active in the market are using loan-to-value ratios of 60% to 75% and amortization periods of 20 to 30 years.

Based on our analysis of the current lodging industry mortgage market and adjustments for specific factors, such as the proposed property's location and conditions in the Stars Hallow hotel market, it is our opinion that a 4.75% interest, 30-year amortization mortgage with a 0.062598 constant is appropriate for the proposed subject hotel. In the mortgage-equity analysis, we have applied a loan-to-cost ratio of 70%, 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 8-3 SAMPLE OF HOTELS SOLD – FULL-SERVICE & LUXURY

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
George Washington Univ. Inn	Washington, D.C.	95	Dec-16	11.2 %	18.3 %	4.5 %	4.6 %
Hilton Bellevue	Bellevue, WA	353	Dec-16	10.8	18.6	7.5	8.5
Hilton Phoenix Airport	Phoenix, AZ	259	Nov-16	9.9	17.5	7.9	8.2
Affinia Manhattan	New York, NY	618	Nov-16	8.8	14.8	5.1	4.8
Radisson	Whittier, CA	202	Oct-16	10.2	18.3	3.3	7.5
Holiday Inn Houston Webster	Webster, TX	109	Oct-16	11.3	22.1	7.0	8.0
Marriott San Francisco Airport	San Mateo, CA	476	Sep-16	10.3	16.9	8.6	8.0
Hilton Orange County Airport	Irvine, CA	306	Sep-16	10.3	18.9	7.3	7.7
Sheraton Salt Lake City Center	Salt Lake City, UT	362	Aug-16	12.6	21.8	9.4	9.5
Westin Harbour Island	Tampa, FL	299	Jul-16	8.5	14.3	5.9	6.7
Hilton	Melville, NY	305	Jul-16	10.5	18.5	8.6	8.4
Hyatt Regency Tech Center	Denver, CO	451	Jul-16	9.0	15.6	7.3	7.6
John Jeffries House	Boston, MA	46	Jul-16	7.2	10.5	3.4	—
Marriott	San Jose, CA	510	Jul-16	10.4	17.7	6.5	8.0
Hilton Suites	Phoenix, AZ	226	Jun-16	9.0	15.5	11.9	10.5
Rosewood Crescent Hotel	Dallas, TX	220	Jun-16	9.0	15.7	4.0	5.7
Hilton	Tampa, FL	521	Jun-16	9.5	17.2	6.5	7.3
NYLO	New York, NY	282	Jun-16	9.9	17.2	5.8	6.3
Marriott	Atlanta, GA	341	Jun-16	10.9	19.1	8.2	7.7
Holiday Inn Hotel & Suites	Lima, OH	116	Jun-16	12.3	22.0	13.6	12.4
DoubleTree by Hilton	Newark, NJ	504	Jun-16	9.9	15.8	5.7	6.1
Radisson Downtown	Austin, TX	413	May-16	10.5	17.2	3.9	4.3
DoubleTree by Hilton	Washington, D.C.	220	Apr-16	10.3	17.9	5.6	2.2
Wine Country Inn	Saint Helena, CA	29	Mar-16	10.9	19.2	5.9	6.3
Holiday Inn	Mobile, AL	97	Mar-16	10.2	18.4	7.9	8.0
Hilton Suites	Brentwood, TN	203	Mar-16	11.0	22.7	7.5	8.8
Hyatt Regency Rochester	Rochester, NY	338	Feb-16	10.9	17.1	10.7	5.2
Holiday Inn	Little Rock, AR	150	Feb-16	11.3	19.5	10.0	12.3
La Jolla Inn	La Jolla, CA	23	Feb-16	11.8	20.2	7.0	7.7
Sheraton	Saint Louis, MO	288	Feb-16	11.2	17.2	—	—
Equinox Golf Resort & Spa	Manchester Village, VT	195	Feb-16	10.1	19.1	7.0	7.2
Marriott	Salt Lake City, UT	217	Feb-16	11.1	19.2	8.9	10.3
Renaissance	Chicago, IL	332	Feb-16	10.3	16.7	5.8	7.0
Lambertville House	Lambertville, NJ	26	Jan-16	11.1	19.0	8.2	8.2
Strand Hotel	New York, NY	177	Jan-16	6.8	10.3	4.5	4.7
Hyatt Regency	Valencia, CA	244	Jan-16	10.7	19.8	7.2	8.6
Marriott Detroit Troy	Troy, MI	350	Jan-16	9.7	17.4	6.2	8.1
Crowne Plaza Orange County	Costa Mesa, CA	224	Jan-16	8.7	15.6	4.5	6.3

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. Higher loan-to-value ratios are becoming more prevalent, allowing for increased equity returns.

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 8-4 SUMMARY OF EQUITY YIELD OR INTERNAL RATE OF RETURN REQUIREMENTS

Source	Data Point Range	Average
HVS Hotel Sales - Full-Service & Luxury	10.3% - 22.7%	17.7%
HVS Hotel Sales - Select-Service & Extended-Stay	14.2% - 22.4%	19.1%
HVS Hotel Sales - Budget/Economy	15.6% - 25.3%	20.8%
HVS Investor Interviews	13% - 25%	

Based on the assumed 70% loan-to-cost ratio, the risk inherent in achieving the projected income stream, and the anticipated market position of the subject property, it is our opinion that an equity investor could expect to receive a 18.0% internal rate of return over a 10-year holding period, assuming that the investor obtains financing at the time of the project's completion at the loan-to-cost ratio and interest rate set forth.

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 8-5 HISTORICAL TRENDS OF TERMINAL CAPITALIZATION RATES

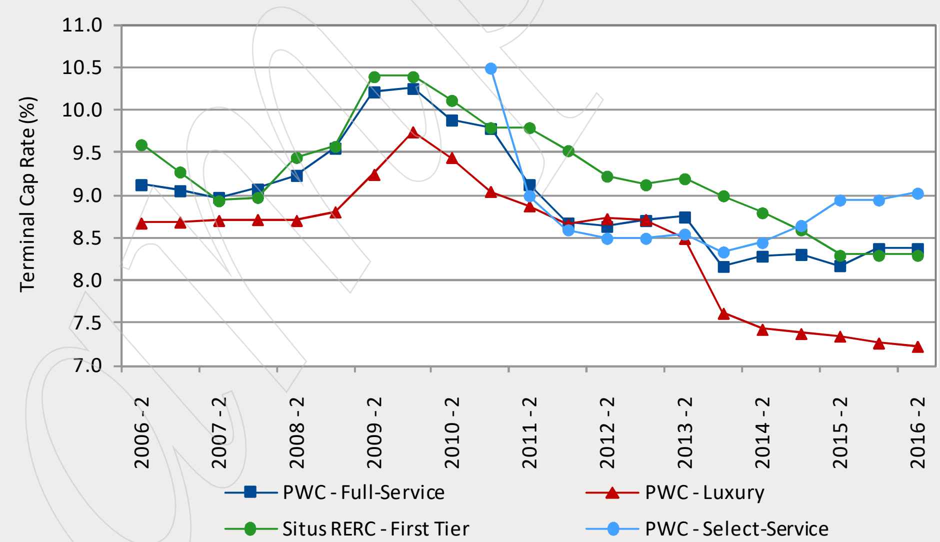


FIGURE 8-6 TERMINAL CAPITALIZATION RATES DERIVED FROM INVESTOR SURVEYS

Source	Data Point Range	Average
PWC Real Estate Investor Survey - 3rd Quarter 2016		
Select-Service Hotels	7.0% - 10.75%	9.0%
Full-Service Hotels	7.0% - 10.0%	8.4%
Luxury Hotels	5.5% - 9.5%	7.2%
USRC Hotel Investment Survey - Mid-Year 2016		
Full-Service Hotels	7.5% - 9.0%	8.0%
Situs RERC Real Estate Report - 3rd Quarter 2016		
First Tier Hotels	5.0% - 11.0%	8.3%

For purposes of this analysis, we have applied a terminal capitalization rate of 8.5%. Our final position for the terminal capitalization rate reflects the current market for hotel investments. Terminal capitalization rates, which have remained stable over the past few years, have yet to reflect any change in investor expectations. 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

As the two participants in a real estate investment, investors and lenders must evaluate their equity and debt contributions based on their particular return requirements. After carefully weighing the risk associated with the projected economic benefits of a lodging investment, the participants will typically make their decision whether or not to invest in a hotel or resort by determining if their investment will provide an adequate yield over an established period. For the lender, this yield will typically reflect the interest rate required for a hotel mortgage over a period of what can range from seven to ten years. The yield to the equity participant may consider not only the requirements of a particular investor, but also the potential payments to cooperative or ancillary entities such as limited partner payouts, stockholder dividends, and management company incentive fees.

The return on investment analysis in a hotel acquisition would not be complete without recognizing and reflecting the yield requirements of both the equity and debt participants. The analysis will now calculate the yields to the mortgage and equity participants during a ten-year projection period.

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

Mortgage Component	$18,132,000
Mortgage Constant	0.062598
Annual Debt Service	$1,135,021

The yield to the lender based on a 70% debt contribution equates to an interest rate of 4.75%, which is calculated as follows.

FIGURE 8-7 RETURN TO THE LENDER

Year	Total Annual Debt Service		Present Worth of $1 Factor at 4.7%		Discounted Cash Flow
2018/19	$1,135,000	x	0.955057	=	$1,084,000
2019/20	1,135,000	x	0.912134	=	1,035,000
2020/21	1,135,000	x	0.871140	=	989,000
2021/22	1,135,000	x	0.831989	=	944,000
2022/23	1,135,000	x	0.794597	=	902,000
2023/24	1,135,000	x	0.758885	=	861,000
2024/25	1,135,000	x	0.724779	=	823,000
2025/26	1,135,000	x	0.692205	=	786,000
2026/27	1,135,000	x	0.661096	=	750,000
2027/28	15,772,000 *	x	0.631384	=	9,958,000
			Value of Mortgage Component		$18,132,000

*10th year debt service of $1,135,000 plus outstanding mortgage balance of $14,637,000

The following table illustrates the cash flow available to the equity position, after deducting the debt service from the projected net income.

FIGURE 8-8 NET INCOME TO EQUITY

Year	Net Income Available for Debt Service		Total Annual Debt Service		Net Income to Equity
2018/19	$1,457,800	-	$1,135,000	=	$322,800
2019/20	1,909,190	-	1,135,000	=	774,190
2020/21	2,021,942	-	1,135,000	=	886,942
2021/22	2,149,142	-	1,135,000	=	1,014,142
2022/23	2,213,256	-	1,135,000	=	1,078,256
2023/24	2,279,435	-	1,135,000	=	1,144,435
2024/25	2,348,381	-	1,135,000	=	1,213,381
2025/26	2,418,449	-	1,135,000	=	1,283,449
2026/27	2,491,120	-	1,135,000	=	1,356,120
2027/28	2,565,525	-	1,135,000	=	1,430,525

In order for the present value of the equity investment to equate to the $7,771,000 capital outlay, the investor must accept a 16.5% return, as shown in the following table.

FIGURE 8-9 EQUITY COMPONENT YIELD

Year	Net Income to Equity		Present Worth of $1 Factor at 16.5%		Discounted Cash Flow
2018/19	$322,800	x	0.858367	=	$277,000
2019/20	774,190	x	0.736793	=	570,000
2020/21	886,942	x	0.632439	=	561,000
2021/22	1,014,142	x	0.542864	=	551,000
2022/23	1,078,256	x	0.465977	=	502,000
2023/24	1,144,435	x	0.399979	=	458,000
2024/25	1,213,381	x	0.343328	=	417,000
2025/26	1,283,449	x	0.294702	=	378,000
2026/27	1,356,120	x	0.252962	=	343,000
2027/28	17,104,525 *	x	0.217134	=	3,714,000
			Value of Equity Component		$7,771,000

*10th year net income to equity of $1,430,525 plus sales proceeds of $15,674,000

HVS

Conclusion

In determining the potential feasibility of the proposed Proposed Inn & Suites, we analyzed the lodging market, researched the area's economics, reviewed the estimated development cost, and prepared a ten-year forecast of income and expense, which was based on our review of the current and historical market conditions, as well as comparable income and expense statements.

The conclusion of this analysis indicates that an equity investor contributing $7,771,000 (roughly 30% of the $25,900,000 development cost) could expect to receive a 16.5% internal rate of return over a ten-year holding period, assuming that the investor obtains financing at the time of the project's completion at the loan-to-value ratio and interest rate set forth. The proposed subject hotel has an opportunity to serve an underserved niche in the market. Our conclusions are based primarily on the long-term strength of this hotel market. Our review of investor surveys indicates equity returns ranging from 10.3% to 22.7%, with an average of 17.7%. Based on these parameters, the calculated return to the equity investor, 16.5%, is below the average but within the range of market level returns assuming the reported construction cost of $25,900,000.

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

9. Statement of Assumptions and Limiting Conditions

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

11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.

12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.

13. We are not required to give testimony or attendance in court 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.

14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.

15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.

16. The quality of a lodging facility's onsite management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.

17. The 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 investor as of the stated date of the report.

18. 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.

19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.

20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.

21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.

22. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide, LLC as employees, rather than as individuals.

10. 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 result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Associate Name personally inspected the property described in this report; Associate Name participated in the analysis and reviewed the findings, but did not personally inspect the property;
9. Associate Name provided significant assistance to Associate Name, and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report; [Associate Name] has not performed services, as an appraiser or in any other capacity, on the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment;
10. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code

of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;

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

12. as of the date of this report, [Associate Name] has completed the continuing education program for Designated Members of the Appraisal Institute.

DRAFT REPORT

Associate Name
Associate Title
TS Worldwide, LLC