

The Competitive Hotels contain three hotels with significant amounts of meeting space: The DoubleTree Houston Hobby Airport, the Hilton Houston NASA Clear Lake, and the Marriott Houston Hobby Airport Hotel, which are all older than 30 years. The Proposed Hotel will be the first full-service hotel with meeting space built in the local market in over three decades.

Our survey of the local market shows a range of lodging types and facilities. We inspected the primary competitors and evaluated all the Competitive Hotels.

Primary Competitors

The primary competitors consist of six hotels with 1,129 rooms. The figure below presents a summary of the operating performance of the primary competitors for the past two years.

FIGURE 4-4
2017 & 2018 PERFORMANCE OF THE PRIMARY COMPETITIVE SET

Property	Number of Rooms	Estimated 2017			Estimated 2018		
		Occ.	ADR	RevPAR	Occ.	ADR	RevPAR
DoubleTree by Hilton Hotel Houston Hobby Airport	303	70 - 75 %	\$110 - \$115	\$80 - \$85	65 - 70 %	\$110 - \$115	\$75 - \$80
Hilton Garden Inn Houston Baytown	125	70 - 75	130 - 140	100 - 105	60 - 65	130 - 140	80 - 85
Hilton Houston NASA Clear Lake	242	70 - 75	130 - 140	90 - 95	65 - 70	125 - 130	85 - 90
Holiday Inn Houston East Channelview	111	70 - 75	130 - 140	95 - 100	65 - 70	120 - 125	80 - 85
Marriott Houston Hobby Airport Hotel	290	65 - 70	115 - 120	80 - 85	70 - 75	110 - 115	80 - 85
Kemah Boardwalk Inn	58	70 - 75	180 - 190	125 - 130	65 - 70	170 - 180	120 - 125
Totals	1,129	72.2%	\$125	\$90	69.9%	\$120	\$84

Sources: STR and HVS

HVS ranked the primary competitors on four criteria related to the attractiveness of the property to potential customers.

1. Access – the ease with which customers can gain vehicular or pedestrian access to the property. Simple and direct access routes are rated higher than more complicated routes.
2. Visibility – is particularly important to hotels that attract walk-in customers who do not have prior reservations. Signage and building facades typically provide visibility.
3. Neighborhood – means the quality of the surrounding neighborhood, the compatibility of adjacent land uses, the perceived safety of the neighborhood.
4. Physical condition – refers to the overall physical condition of the hotel. Based on an inspection of each property, HVS rated the physical condition of each hotel in comparison to other hotels of a similar scale or class.

Each criterion was rated from one to five, with one indicating very poor compliance with the criteria and five meaning excellent compliance. The figure below



summarizes the results of the rankings for each criterion and shows an aggregate rating that is the average of all criteria.

FIGURE 4-5
RANK OF PRIMARY COMPETITORS ON CUSTOMER SELECTION CRITERIA*

	Access	Visibility	Neighborhood	Physical Condition	Aggregate Rating
Proposed Hotel	5	5	4	5	4.75
Kemah Boardwalk Inn	4	4	5	4	4.25
Hilton Garden Inn Houston Baytown	4	4	4	5	4.25
Marriott Houston Hobby Airport Hotel	5	4	4	3	4.00
Holiday Inn Houston East Channelview	4	4	4	4	4.00
DoubleTree by Hilton Hotel Houston Hobby Airport	5	4	4	3	4.00
Hilton Houston NASA Clear Lake	4	4	4	3	3.75

*Ranked on a Scale of 1 to 5 where: 1 = Very Poor, 2 = Poor, 3 = Average, 4 = Good, 5 = Excellent

The Proposed Hotel ranks superior or equal to all of the primary competitors on customer selection criteria. The Proposed Hotel ranks well on physical condition due to new construction.

The secondary competitors consist of six hotels with 640 rooms with a weighted room count of 444 rooms. The following figure sets forth the pertinent operating characteristics of the combined secondary competitors.

FIGURE 4-6
RECENT PERFORMANCE OF THE SECONDARY COMPETITIVE SET

Property	Number of Rooms	Competitive Weight	Weighted Rooms	Estimated 2018		
				% Occupancy	ADR	RevPAR
Courtyard by Marriott Houston NASA Clear Lake	124	70%	87	60 - 65	\$125 - \$130	\$80 - \$85
Hampton Inn Houston Baytown	70	70%	49	60 - 65	105 - 110	65 - 70
Hilton Garden Inn Houston Clear Lake NASA	126	65%	82	70 - 75	120 - 125	85 - 90
Holiday Inn Kemah Near Boardwalk	128	65%	83	65 - 70	120 - 125	85 - 90
Holiday Inn Express & Suites Houston East Baytown	91	80%	73	70 - 75	100 - 105	70 - 75
SpringHill Suites Houston Baytown	101	70%	71	70 - 75	100 - 105	70 - 75
Total	640		444	69.2%	\$114	\$79

Historical Market Performance

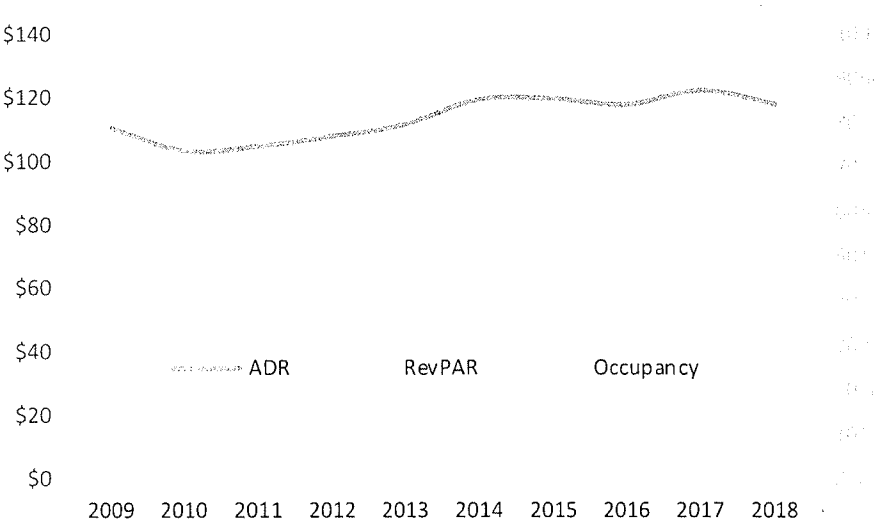
STR data have certain limitations. Hotels are occasionally added to or removed from the sample, and not every property reports data in a consistent and timely manner. These factors can influence the overall quality of the information. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate



growth or decline in existing supply and demand; thus, our analysis considers these trends.

The figure below shows the historical performance of the competitive set, including the occupancy rates, ADR, and RevPAR.

FIGURE 4-7
COMPETITIVE HOTELS
HISTORICAL ROOM NIGHT DEMAND, ADR, AND REVPAR



Source: STR

The competitive market occupancy decline to 70% in 2018, a decrease of 7.3% from 2017. The overall average occupancy level for the period shown in the above figure was 67%. The economic downturn of 2008 through 2011 resulted in lower demand and occupancy rates in Competitive Hotels. Occupancy increased in 2012 through 2015, then declined in 2016, increasing in 2017 primarily due to demand from displaced citizens due to Hurricane Harvey, and declining in 2018 as the hurricane-related demand began to leave the market.

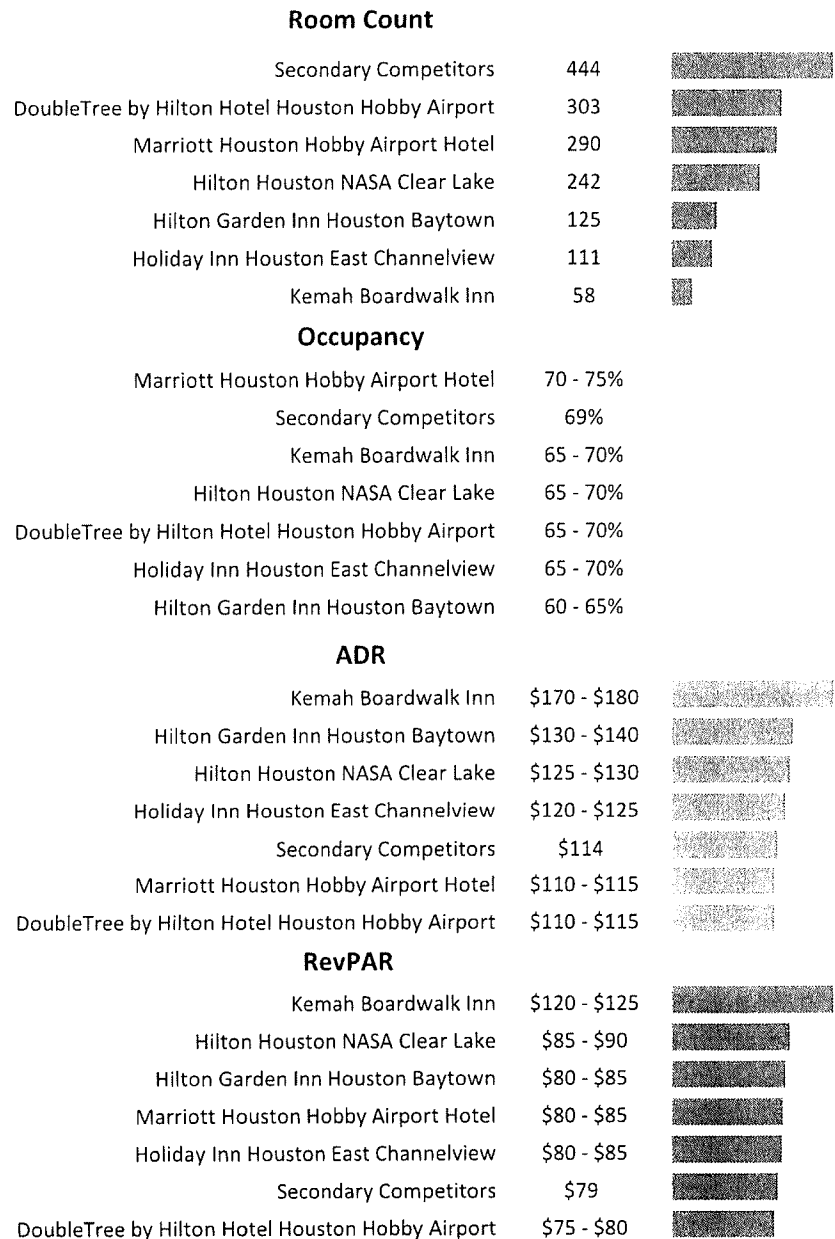
The overall competitive market average daily rate decreased to \$117.97 in 2018 from \$122.40 in 2017. The average rate across to the period has fluctuated from a low of \$103.37 to a high of \$122.40 from 2009 to 2018.

**Historical Supply
and Demand Data**

The figures below summarize aggregate competitive set performance in the base year. Since 2018 was the most recent complete year of available data at the time of this study, we used it as the base year of our analysis. Performance analyses include guest room count, occupancy rate, average daily room rate (“ADR”), and revenue

per available room ("RevPAR"). RevPAR, a common hotel industry performance metric, is the product of occupancy rate and ADR.

FIGURE 4-8
THE WEIGHTED COMPETITIVE SET HISTORICAL PERFORMANCE



Sources: STR and HVS



The figure below shows year-to-date through June occupancy and average daily room rates compared to the prior year for Competitive Hotels.

FIGURE 4-9
CURRENT YEAR DEMAND, OCCUPANCY, ADR, AND REVPAR
Year-to-Date Through October

	2018	2019	Percent Change	
Room Night Demand	391,275	391,454	0.0%	
Available Room Nights	537,776	557,280	3.6%	
Occupancy	72.8%	70.2%	-3.5%	
ADR	\$119.21	\$114.62	-3.8%	
RevPAR	\$86.73	\$80.51	-7.2%	

Source: STR

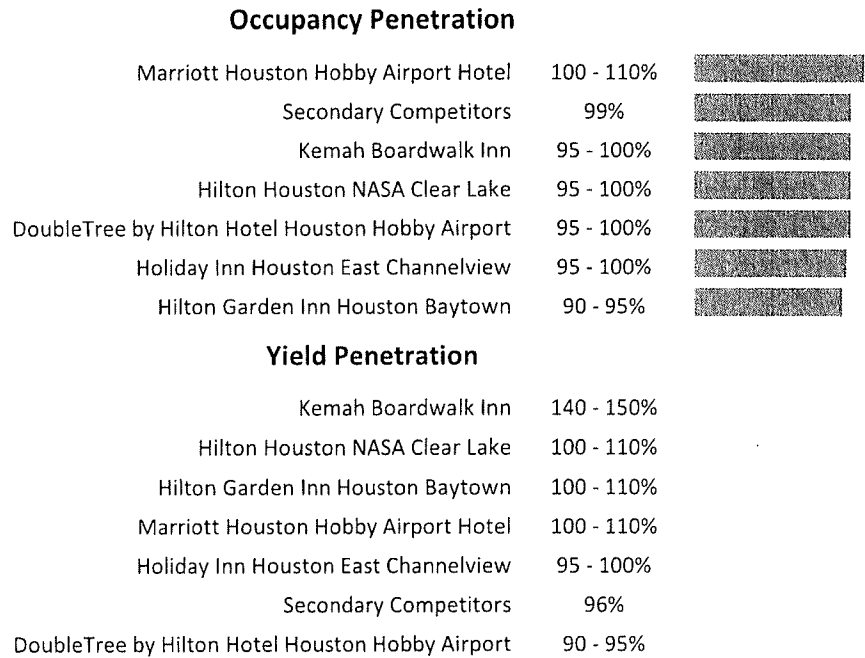
Demand did not materially change in 2019 from the same period in 2018. However, the available room nights increased due to the opening of the Staybridge Suites. The Competitive Hotel's occupancy declined, and ADR declined from 2018 levels for the same period, resulting in a lower RevPAR in 2019 year-to-date.

Occupancy and Yield Penetration

Market penetration measures how an individual hotel property performs in comparison to the market. Occupancy penetration is the occupancy of the hotel divided by the market occupancy. Yield penetration is the RevPAR of a hotel divided by the RevPAR of the market. A penetration factor of greater than one indicates a property is performing better than the market. A penetration factor of less than one indicates that a property is underperforming the market. The following figure shows the occupancy and yield penetrations of the hotels in the competitive set.



FIGURE 4-10
COMPETITIVE HOTEL'S OCCUPANCY AND YIELD PENETRATION



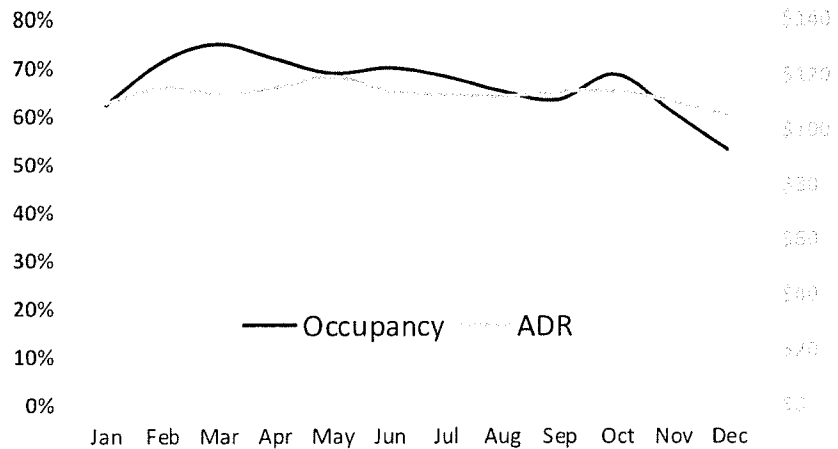
Sources: STR and HVS

Seasonality

The competitive hotel market shows significant seasonal variation, with May displaying the highest ADR, March the highest occupancy, December the lowest ADR and occupancy.



FIGURE 4-11
SEASONALITY GRAPH OF THE UNWEIGHTED COMPETITIVE SET

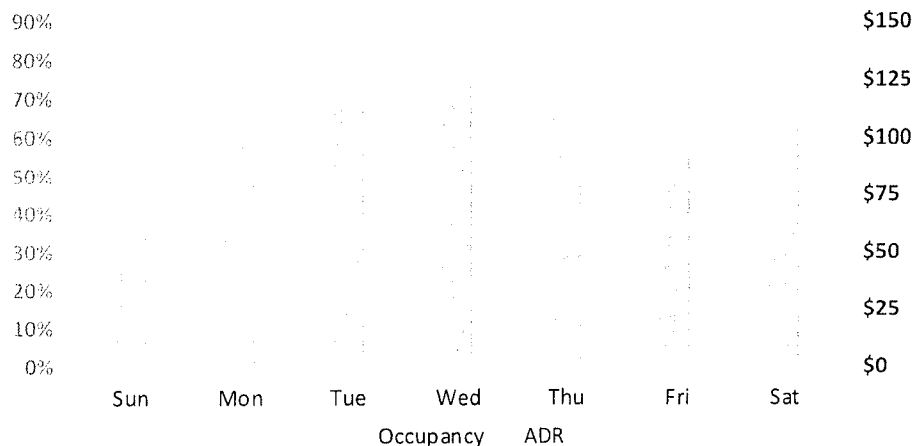


Source: STR

Weekly Patterns of Lodging Demand

A review of the trends in occupancy, average rate, and RevPAR by the night of the week over the past three years provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The figure below shows the data provided by Smith Travel Research.

FIGURE 4-12
OCCUPANCY AND AVERAGE RATE BY DAY OF WEEK



Source: STR

Commercial travel generates the highest demand on Tuesday and Wednesday nights and the peak rate. Leisure travelers and non-business-related groups

generate high occupancy on Saturday nights. The following figure shows the daily and monthly occupancy rates. Green shaded areas indicate above-average occupancy rates, and red shaded areas indicate below-average occupancy rates.

FIGURE 4-13
DAY-OF WEEK OCCUPANCY BY MONTH

Month	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Nov - 18	39.7%	62.8%	69.9%	70.7%	63.6%	58.0%	56.5%	60.2%
Dec - 18	39.0%	54.6%	59.3%	60.5%	53.4%	47.6%	50.6%	51.8%
Jan - 19	42.9%	70.8%	69.5%	72.5%	60.6%	49.4%	50.7%	60.2%
Feb - 19	51.5%	77.3%	89.9%	89.1%	74.4%	67.2%	69.0%	74.1%
Mar - 19	55.4%	78.1%	88.6%	89.0%	79.9%	76.7%	82.7%	78.0%
Apr - 19	55.8%	73.5%	86.4%	87.2%	74.6%	78.4%	81.0%	76.9%
May - 19	57.7%	72.9%	86.2%	86.8%	71.1%	67.1%	73.2%	73.7%
Jun - 19	45.9%	70.0%	77.6%	78.0%	67.2%	67.1%	69.7%	67.3%
Jul - 19	48.1%	66.5%	73.4%	72.4%	70.1%	72.5%	75.8%	68.6%
Aug - 19	46.2%	70.7%	77.3%	77.7%	65.8%	61.8%	68.1%	66.7%
Sep - 19	50.8%	64.0%	76.2%	76.1%	67.0%	59.2%	61.1%	64.4%
Oct - 19	58.7%	72.4%	80.5%	79.4%	68.4%	73.6%	78.0%	73.3%
Total Year	49.2%	69.1%	77.9%	78.3%	67.8%	65.0%	68.1%	67.9%
Minimum		39.0%	Average		68.0%	Maximum		89.9%

Source: STR

The Competitive Hotels show definite patterns of demand, with higher early spring and lower winter demand, high demand midweek, and lower demand on Sunday. The occupancy rate on Friday and Saturday exceeds 80%, approximately 8% of the time, and on Tuesday and Wednesday, it exceeds 80%, approximately 38% of the time.

High midweek demand allows properties to charge a premium during certain periods of high occupancy, as shown in the figure below.

FIGURE 4-14
DAY OF WEEK AVERAGE RATE BY MONTH

Month	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Nov - 18	\$104	\$117	\$121	\$121	\$114	\$101	\$104	\$112
Dec - 18	100	116	117	114	104	96	99	107
Jan - 19	105	117	118	119	112	95	97	111
Feb - 19	104	116	122	123	114	100	100	113
Mar - 19	107	121	124	125	118	107	110	116
Apr - 19	112	120	123	126	120	109	113	118
May - 19	113	122	129	125	117	105	111	118
Jun - 19	108	119	123	123	116	108	112	116
Jul - 19	107	113	118	119	116	111	115	115
Aug - 19	107	116	120	118	110	104	110	112
Sep - 19	106	114	116	117	110	100	104	110
Oct - 19	108	117	122	121	113	104	111	115
Average	107	117	121	121	114	104	108	114

Minimum \$95 Average \$113 Maximum \$129

Source: STR

Demand

The following figure presents data on the performance of the weighted competitive set. HVS estimated performance results and weighted data on secondary competitors. In this respect, this information differs from the previously presented STR data.

FIGURE 4-15
WEIGHTED COMPETITIVE SET RECENT MARKET PERFORMANCE

Year	Room Nights Available	Room Nights Sold	Competitive Hotels Occupancy	Competitive Hotels ADR	Competitive Hotels RevPAR
Amount					
2016	526,000	368,000	70.0%	\$119.02	\$83.27
2017	542,000	403,000	74.4%	\$123.57	\$91.88
2018	574,000	400,000	69.7%	\$118.30	\$82.44
Percent Change					
2017	3.0%	9.5%	6.3%	3.8%	10.3%
2018	5.9%	-0.7%	-6.3%	-4.3%	-10.3%

In 2018, demand declined by 0.7%, and available room nights increased by 5.9%, causing occupancy to decline to 69.7%. The increase in room night demand in 2017



**Demand Analysis
Using Market
Segmentation**

was partly related to demand caused by Hurricane Harvey. The NFL Super Bowl LII was held in Houston on February 4, 2018, resulting in higher ADR and occupancy for early 2018.

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. For the demand analysis, the overall market is divided into three segments based on the nature of travel. Based on our fieldwork and knowledge of the local lodging market, we estimate the 2018 distribution of accommodated room night demand, as shown in the figure below.

**FIGURE 4-16
WEIGHTED COMPETITIVE HOTELS
ACCOMMODATED ROOM NIGHT DEMAND**

Market Segment	Room Nights	Percent of Total Demand	
Commercial	207,869	52%	
Leisure	98,546	25%	
Meeting and Group	93,814	23%	
Total	400,229	100%	

Commercial demand is the largest market segment, generating 52% of total room night demand.

Commercial Demand

Commercial demand (52% of total demand) is mainly individual business people passing through the local 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 concerning businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as “preferred” accommodations in return for more favorable rates. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. In markets where the weekday occupancy often exceeds 90%, some unaccommodated commercial demand is likely to be present. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

The commercial market consists of individual business travelers visiting the numerous firms located in the Houston/Baytown area. Large firms that generate lodging demand include Shell, BellSouth Communications, First National Bank of Commerce, and Entergy. Industries with a significant presence in the city include oil and gas, transportation, and health care. In recent years, the city’s medical and

research institutions began to generate more commercial demand. Government travelers are also included in this market segment. Commercial demand in Baytown is strongest from Monday through Thursday nights, and the city's hotels typically accommodate a fair amount of commercial demand on these nights. The diversity and depth of companies in the area should provide stability over the long term as the U.S. economy continues to improve. Increases in demand should be bolstered by the openings of the University Medical Center and VA Medical Center beginning in 2015, as new corporate accounts and individual business travelers directly associated with each facility enter the market.

Leisure Demand

Leisure demand (25% of total demand) is from individuals and families spending time in an area or passing through in 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 on Friday and Saturday nights and all week during holiday periods and the spring months. 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.

The typical length of stay ranges from one to four days, depending on the destination and travel purpose, and the rate of double occupancy typically ranges from 1.8 to 2.5 people per room. Price sensitivity tends to vary with the product type. All-suite properties with inclusive food and beverage would tend to drive strong leisure room rates while highway properties with limited amenities typically offer more discounted leisure room rates.

Meeting and Group Demand

The meeting and group demand (23% of total demand) include meetings, seminars, conventions, trade 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, educational, religious, fraternal, and ethnic) groups. Corporate groups typically meet during the business week most commonly in the spring and fall months. These groups often are the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues, including food, beverage, and banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends or during the summer months or holiday season when greater discounts are usually available. They generate limited ancillary revenues.

The profile and revenue potential of associations varies depending on the group and the purpose of their meeting or event.

Factors related to group demand considered in our development of growth rates for this segment include the market's local corporate sources, which generate some group business. In the greater market area, the SMERFE sub-segment within the meeting and group segment is the strongest. The same companies that create commercial demand also generate meeting and group demand through training activities and corporate social events. High school and collegiate sports teams, SMERFE groups, and social events, such as weddings and family reunions, also contribute to this demand segment. We have also considered the Proposed Hotel's anticipated ability to market itself as a convention center hotel with the availability of ample meeting space.

Hurricane Harvey and NFL Super Bowl LII

Hurricane Harvey, which struck the Houston area on August 26, 2017, inflicting \$125 billion in damage, primarily from catastrophic rainfall-triggered flooding in the Houston metropolitan area and Southeast Texas. Citizens displaced by Hurricane Harvey increased hotel room night demand in the competitive set for several months afterward. NFL Super Bowl LII was held in Houston on February 4, 2018. These two one-time events increased room night demand by approximately 50,000 room nights from September 2017 to February 2018. The Hilton Garden Inn in Baytown opened in September of 2017, causing a portion of the increase in demand shown in the following figure, and the Staybridge Suites opened in June of 2019, causing a portion of the demand increase after that date.

FIGURE 4-17

HURRICANE HARVEY AND NFL SUPER BOWL LII ROOM NIGHT DEMAND SPIKE – SEPTEMBER 2017 TO MARCH 2019

	January	February	March	April	May	June	July	August	September	October	November	December
Occupancy												
2016	67.5%	73.7%	77.6%	76.7%	73.4%	76.0%	73.9%	69.8%	69.1%	74.8%	63.5%	54.2%
2017	64.7%	77.7%	81.1%	75.6%	74.8%	73.5%	72.7%	66.1%	88.2%	90.0%	76.2%	64.2%
2018	71.5%	78.8%	80.6%	76.8%	74.0%	72.3%	71.5%	68.3%	62.0%	72.2%	60.2%	51.8%
2019	60.2%	74.1%	78.0%	76.9%	73.7%	67.3%	68.6%	66.7%	64.4%	73.3%		
Room Night Demand												
2016	34,214	33,724	39,338	37,617	37,182	37,268	37,452	35,390	33,879	37,899	31,129	27,491
2017	32,784	35,589	41,092	37,079	37,912	36,048	36,825	33,500	46,651	49,166	40,454	35,193
2018	39,225	39,026	44,192	40,771	40,592	38,361	39,194	37,438	32,877	39,599	31,948	28,390
2019	33,037	36,686	42,756	40,819	42,848	37,831	39,887	38,744	36,235	42,611		
Estimate Hurricane Harvey Room Night Demand Increase												
2017	(1,430)	1,865	1,754	(538)	730	(1,220)	(627)	(1,890)	12,772	11,267	9,325	7,702
2018	6,441	3,437	3,100	3,692	2,680	2,313	2,369	3,938	(13,774)	(9,567)	(8,506)	(6,803)
2019	(6,188)	(2,340)	(1,436)	48	2,256	(530)	693	1,306	3,358	3,012		

Source: STR



**Summary of the
Competitive Properties**

The following figure shows a summary of the historical performance of the competitive set. Although local demand has grown, supply has grown at a faster rate, causing a modest decline in occupancy.

FIGURE 4-18
UNWEIGHTED COMPETITIVE HOTELS HISTORICAL SUPPLY, DEMAND, OCCUPANCY, ADR, AND REVPAR

Year	Available Room Nights	Annual Change	Occupied Room Nights	Annual Change	% Occ	Annual Change	ADR	Annual Change	RevPAR	Annual Change
2009	363,947		215,203		59.1%		\$111		\$65	
2010	424,278		233,916		55.1%		\$103		\$57	
2011	512,116		288,378		56.3%		\$105		\$59	
2011	541,147		345,062		63.8%		\$108		\$69	
2013	563,560		386,697		68.6%		\$112		\$77	
2014	588,585		423,489		72.0%		\$119		\$86	
2015	596,775		445,684		74.7%		\$120		\$89	
2016	596,775		422,583		70.8%		\$118		\$83	
2017	612,757		462,293		75.4%		\$122		\$92	
2018	645,685		451,613		69.9%		\$118		\$83	
Average from 2009 to 2018					66.6%		\$114		\$76	

Source: STR

The historical market is the base upon which the projection of performance of the market and the Proposed Hotel is built. Next, we will discuss expected changes in the market and the Competitive Hotels.

**Projecting the
Performance of the
Local Market**

Historical data and market interviews provided an understanding of the condition and recent changes in Competitive Hotels and the overall market. Next, we project the market over the next ten years based on:

- Changes in supply,
- Base growth in room night demand,
- Unaccommodated demand, and
- Induced demand.

Supply Changes

New hotels may affect the Proposed Hotel’s operating performance. Based on our research and inspection (as applicable), new supply considered in our analysis is presented in the following figure.



FIGURE 4-19
ROOM SUPPLY PROJECTIONS
(WEIGHTED DAILY ROOM COUNTS)



The figure below summarizes our assumptions regarding new supply.

FIGURE 4-20
NEW SUPPLY

Year	Proposed Property	Competitive Weight	Proposed Rooms	Weighted Room Count	Cumulative Weighted Room Count
2019	Staybridge Suites	70%	106	74	
2021	Proposed Hyatt Regency	100%	208	208	
	Totals		314	282	

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 would open in the future. Future improvement in market conditions would raise the risk of increased competition. Our forecasts reflect this risk.

Estimated Demand Growth by Market Segment

HVS applies growth rates to each segment to determine the level of future demand. HVS based demand growth rate estimates on interviews with hotel managers, assessment of occupancy trends, economic and demographic data, and identification of demand generators.

The figure below shows estimated base growth rates by market segment through the stabilization of demand. The decrease in demand in 2019 is due to the recovery from Hurricane Harvey as citizens returned to their residences after repairs and construction worker demand declined. Demand related to NFL Super Bowl LII in

Houston on February 4, 2018, caused a one-time increase in demand, which was not available in 2019.

Offsetting these declines, the opening of the 106-room Staybridge Suites in Baytown in June of 2019 will increase demand in 2019 and 2020 due to new construction and upscale product. Growth returned to the market in the second half of 2019 and will continue into 2020 as construction continues or starts on large petroleum refining and petrochemical processing projects in the Baytown Industrial Districts. The Permian region in western Texas continues to increase oil and gas production, which feeds the growing number of processing facilities in the Baytown area. A portion of the growth in 2020 is due to the absorption of the Staybridge Suites. The growth in demand in 2021 and 2022 is due to the opening of the Proposed Hotel and the continued growth in the Baytown Industrial Districts.

FIGURE 4-21
ESTIMATED ANNUAL BASE GROWTH RATES BY MARKET SEGMENTS

Segment	2019	2020	2021	2022	2023	2024	Average
Commercial	1.5%	2.5%	2.5%	3.0%	2.0%	1.0%	2.1%
Meeting and Group	1.0%	1.5%	1.5%	1.5%	1.5%	1.0%	1.3%
Leisure	1.5%	2.5%	2.5%	3.0%	2.0%	1.0%	2.1%
Weighted Overall Change	1.4%	2.3%	2.3%	2.7%	1.9%	1.0%	1.9%

Latent Demand

Latent demand reflects potential room night demand that has not been realized by the existing competitive supply. Unaccommodated demand and induced demand make up latent 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 historically accommodated room night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests would be able to secure hotel rooms in the future, and it is, therefore, necessary to quantify this demand.

The seasonality of the market indicates that although year-end occupancy may not average more than 70%, the market sells out many nights during the year, indicating unaccommodated demand. The primary source of unaccommodated demand is the popular spring season, which has historically had the highest occupancy rates. The following figure presents our estimate of unaccommodated demand.



FIGURE 4-22
UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Total Room Nights	Unaccommodated Demand	
		% of Total	Room Nights
Commercial	207,869	0.8%	1,693
Leisure	98,546	0.6%	564
Meeting and Group	93,814	0.0%	0
Total	400,229	0.6%	2,258

Utilizing monthly and weekly peak demand and sell-out trends, we estimate that 0.6% of the base-year demand is unaccommodated.

Induced Demand

Induced demand represents the additional room nights 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 opening or expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

The superior accommodation will induce new meeting and group, commercial, and leisure demand into the Proposed Hotel. The following figure shows the estimated induced demand for room nights that would enter the competitive set over a three-year ramp-up period.

FIGURE 4-23
TIMING OF INDUCED DEMAND

Year	Commercial	Meeting and Group	Leisure	Total Induced
2021	480	1,800	600	2,880
2022	2,040	8,100	3,060	13,200
2023	2,400	9,720	3,600	15,720
2024	2,400	10,800	3,600	16,800

The 17,890 square-feet of ballroom and meeting space in the Proposed Hotel will induce demand in the meeting and group market segment. The new ballroom and meeting space will attract new corporate meetings and large social events such as weddings and family reunions. The waterfront location will add to the appeal of the Proposed Hotel with independent leisure travelers as well as for social and corporate group activities.

Accommodated Demand and Market-wide Projected Occupancy

Four variables make up accommodated demand: 1) base demand—sources currently generating room nights, 2) previously unaccommodated demand absorbed due to growth in room supply, and 3) induced demand that is new to the market. These estimates are adjusted by 4) residual demand—the estimated number of room nights not accommodated due to supply constraints. The figure below breaks down room night demand by these sources.

FIGURE 4-24
ANNUAL ROOM NIGHT DEMAND BY SOURCE FOR THE COMPETITIVE HOTELS

Source	2018	2019	2020	2021	2022	2023	2024
Base Accommodated	400,000	406,000	415,000	424,000	436,000	444,000	448,000
Previously Unaccommodated	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Induced	0	0	0	3,000	13,000	16,000	17,000
Total Available Demand	402,000	408,000	417,000	429,000	451,000	462,000	467,000
(Less Residual Demand)	(2,000)	(3,000)	(2,000)	(2,000)	0	0	0
Total Accommodated Demand	400,000	405,000	415,000	427,000	451,000	462,000	467,000
Accommodated Demand Change	-0.7%	1.2%	2.6%	2.8%	5.6%	2.4%	1.2%
Available Room Night Change	6.0%	2.8%	1.9%	4.2%	8.1%	0.0%	0.0%
Marketwide Occupancy	70%	69%	69%	68%	67%	68%	69%

Over the projection period for demand growth, which ends in the first stabilized year, room night demand is estimated to grow at a compound average annual rate of 2.2%. HVS used these demand projections to forecast the Proposed Hotel's occupancy and average rate.

Conclusion

The projected growth in room night demand within Competitive Hotels provides the foundation for the development of additional hotel rooms. Two new hotels, including the Proposed Hotel, will enter the competitive set. Market demand growth and supply growth are balanced, resulting in little change in occupancy rates after the Proposed Hotel has stabilized. In the next chapter, the Proposed Hotel will be positioned by market demand segment to determine the stabilized occupancy rate for the Proposed Hotel.



5. Projection of Occupancy and Average Rate

Along with average rate results, the occupancy levels achieved by the Proposed Hotel would be the foundation of the property's financial performance. To a certain degree, management can manipulate the level of occupancy. For example, hotel operators may choose to lower rates 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 Proposed Hotel'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. A hotel achieves a fair share when its share of occupied room nights equals its share of available room nights.

Market Penetration

HVS analyzed the market penetration of each of the properties in the competitive set. The following figure ranks the market penetration of each hotel by market segment.

**FIGURE 5-1
HISTORICAL OCCUPANCY PENETRATION RATES**

Commercial Penetration		
Hilton Garden Inn Houston Baytown	135%	
Secondary Competition	116%	
Hilton Houston NASA Clear Lake	114%	
Holiday Inn Houston East Channelview	111%	
Marriott Houston Hobby Airport Hotel	83%	
DoubleTree by Hilton Hotel Houston Hobby Airport	76%	
Kemah Boardwalk Inn	29%	
Meeting and Group Penetration		
Marriott Houston Hobby Airport Hotel	161%	
DoubleTree by Hilton Hotel Houston Hobby Airport	148%	
Hilton Houston NASA Clear Lake	127%	
Holiday Inn Houston East Channelview	82%	
Kemah Boardwalk Inn	63%	
Secondary Competition	45%	
Hilton Garden Inn Houston Baytown	20%	
Leisure Penetration		
Kemah Boardwalk Inn	281%	
Secondary Competition	115%	
Marriott Houston Hobby Airport Hotel	109%	
DoubleTree by Hilton Hotel Houston Hobby Airport	101%	
Holiday Inn Houston East Channelview	78%	
Hilton Garden Inn Houston Baytown	76%	
Hilton Houston NASA Clear Lake	40%	

The Hilton Garden Inn Baytown had the highest commercial penetration due to a popular brand, large rooms, and new construction. The Marriott Houston Hobby Airport Hotel had the highest meeting and group penetration due to superior meeting facilities and popular brand. The Kemah Boardwalk Inn had the highest leisure penetration due to location and quality facilities.

HVS positioned the Proposed Hotel within each market segment. The Proposed Hotel would:

- Over penetrate the meeting and group segment due to extensive meeting facilities,

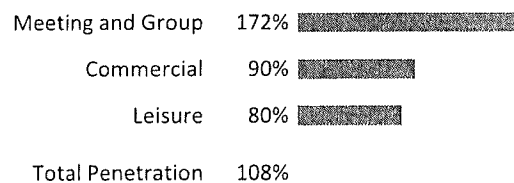


- Under penetrate the commercial segment due to the property being marketed for meeting and group activities and higher ADR.
- Under penetrate the leisure segment due to high ADR and focus on the meeting and group market., and

In total, the Proposed Hotel would over penetrate the competitive market.

The figure below shows our estimates of market penetration of the Proposed Hotel.

FIGURE 5-2
OCCUPANCY PENETRATION OF THE PROPOSED HOTEL



We estimate that the Proposed Hotel would achieve 107.5% overall occupancy penetration in a stabilized year of operation in 2023/24. As is typical of new hotels, it may take several years to ramp-up to its stabilized occupancy level. HVS assumes a three-year ramp up after the opening of the Proposed Hotel. At stabilization in 2023/24, the Proposed Hotel could achieve an occupancy rate, as shown in the figure below. The occupancy rate is rounded to the nearest percentage when projecting room revenues in the Pro Forma.



FIGURE 5-3
PROPOSED HOTEL OCCUPANCY PROJECTION



The following figure shows the segmented forecast of occupancy for the Proposed Hotel.

**FIGURE 5-4
PROPOSED HOTEL
ROOM NIGHT ABSORPTION AND OCCUPANCY ESTIMATES**

Calendar Year	2021	2022	2023	2024
Available Room Nights	25,307	75,920	75,920	75,920
Absorption by Segment				
Commercial	7,600	23,000	24,000	24,200
Meeting and Group	5,500	18,900	20,800	21,700
Leisure	3,000	10,100	10,300	10,400
Total Absorption	16,100	52,000	55,100	56,300
Projected Occupancy	63%	68%	73%	74%
Percent Segmentation				
Commercial	47%	44%	44%	43%
Meeting and Group	34%	36%	38%	39%
Leisure	19%	19%	19%	18%
Fiscal Year Starting September	2020/21	2021/22	2022/23	2023/24
Occupancy Forecast		67%	71%	74%




The stabilized occupancy reflects 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 Proposed Hotel may operate at occupancies above this stabilized level, new competition, and temporary economic downturns could force the occupancy below our stabilized projection.

Average Rate Analysis

The average rate is calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

The latest twelve months of ADR for the unweighted competitive set is shown in the following figure.

**FIGURE 5-5
UNWEIGHTED HISTORICAL ADR FOR THE COMPETITIVE HOTELS**

Month	ADR	Prior Year ADR	Difference	Change in ADR	
Nov-18	\$112.29	\$120.89	(\$8.59)	-7.1%	
Dec-18	\$107.24	\$112.19	(\$4.96)	-4.4%	
Jan-19	\$111.17	\$116.20	(\$5.03)	-4.3%	
Feb-19	\$112.70	\$120.32	(\$7.62)	-6.3%	
Mar-19	\$116.03	\$122.02	(\$5.99)	-4.9%	
Apr-19	\$118.28	\$123.60	(\$5.32)	-4.3%	
May-19	\$118.22	\$121.27	(\$3.05)	-2.5%	
Jun-19*	\$116.00	\$121.46	(\$5.46)	-4.5%	
Jul-19	\$114.87	\$117.42	(\$2.54)	-2.2%	
Aug-19	\$112.35	\$115.07	(\$2.72)	-2.4%	
Sep-19	\$110.33	\$115.12	(\$4.80)	-4.2%	
Oct-19	\$114.63	\$118.20	(\$3.57)	-3.0%	
12 Month Average	\$113.68	\$118.65	(\$4.97)	-4.2%	

* Staybridge Suites opens

ADR declines over the last twelve months was due to the decline in demand as citizens displaced by Hurricane Harvey in late August 2017 found long-term housing, the one-time demand from the NFL Super Bowl LII in Houston on February 4, 2018 left the market, and a temporary lull in demand related to fewer new construction projects in the Baytown area.

Competitive Position

Although average rate and occupancy are highly correlated, one cannot project occupancy without making specific assumptions regarding average rate. Revenue per available room ("RevPAR") reflects a property's ability to maximize rooms revenue with the optimal balance of rate and occupancy. The following figure summarizes the historical average rate and the RevPAR of the Proposed Hotel's future primary competitors.

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

Property	2018 Average Room Rate	ADR Penetration	RevPAR	RevPAR Penetration
DoubleTree by Hilton Hotel Houston Hobby Airport	\$110 - \$115	93%	\$75.90	92%
Hilton Garden Inn Houston Baytown	\$130 - \$140	110%	84.50	102%
Hilton Houston NASA Clear Lake	\$125 - \$130	107%	87.63	106%
Holiday Inn Houston East Channelview	\$120 - \$125	103%	81.74	99%
Marriott Houston Hobby Airport Hotel	\$110 - \$115	93%	82.50	100%
Kemah Boardwalk Inn	\$170 - \$180	147%	120.06	146%
Average - Primary Competitors	\$120.03	101%	\$83.90	102%
Average - Secondary Competitors	113.86	96%	78.74	96%
Overall Average	\$118.30		\$82.45	
Proposed Hotel Positioned 2018 ADR	\$155.00			

The primary competitors realized an overall average rate of \$120.03 in the 2018 base year, declining from the 2017 level of \$125.15.

The following figure illustrates the projected ADR in a calendar year. As a context for the average rate growth factors, note that we have applied a base underlying inflation rate of 2.5% in 2018, and 3.0% after that throughout our projection period.

**FIGURE 5-7
COMPETITIVE HOTELS AND PROPOSED HOTEL AVERAGE RATE FORECAST**

Year	Competitive Hotels ADR		Proposed Hotel ADR		
	Average Rate Growth	Average Rate	Weighted Average Rate	Weighted Average Rate Growth	Weighted Average Rate Penetration
Base Year	—	\$118.30		—	
2019	(3.0) %	114.75			
2020	1.0	115.90			
2021	2.0	118.22	154.89		131.0 %
2022	3.0	121.77	159.54	3.0 %	131.0
2023	3.0	125.42	164.32	3.0	131.0
2024	3.0	129.18	169.25	3.0	131.0
2025	3.0	133.06	174.33	3.0	131.0
2026	3.0	137.05	179.56	3.0	131.0
2027	3.0	141.16	184.95	3.0	131.0

The positioned ADR is discounted by 3.0% in 2021/22 and 1.0% in 2022/23 to reflect typical management practices during the years before the hotel stabilizes in the market, as shown in the following figure. The positioning of the ADR for the Proposed Hotel is supported by extensive features of the property, including:

- Ballroom and meeting space in the City Facilities,
- New construction,
- Strong brand,
- Convenient location, and
- Restaurant and lounge.

The following figure presents the forecast for ADR and occupancy for the Proposed Hotel, net of discount in 2021/22, and 2022/23, during the first ten years of operations. The Proposed Hotel would achieve an ADR penetration rate of 131.0% by stabilization.

FIGURE 5-8
PROPOSED HOTEL
FORECAST OF OCCUPANCY, ADR, AND REVPAR

Year	Occupancy	ADR	RevPAR	Annual Increase RevPAR
2021/22	67%	\$153.24	\$102.67	
2022/23	71%	161.10	114.38	11.4%
2023/24	74%	167.61	124.03	8.4%
2024/25	74%	172.63	127.75	3.0%
2025/26	74%	177.81	131.58	3.0%
2026/27	74%	183.15	135.53	3.0%
2027/28	74%	188.64	139.59	3.0%
2028/29	74%	194.30	143.78	3.0%
2029/30	74%	200.13	148.10	3.0%
2030/31	74%	206.13	152.54	3.0%

6. Projection of Income and Expenses

Methodology

Estimates of average rate and occupancy allow the projection of room revenue, which forms the basis of income and expense projections. The number of guests drives other revenue sources of the Proposed Hotel, such as food, beverages, and telephone income. Many expense levels also vary with occupancy.

We assume operation would begin on September 1, 2021. The forecast of income and expense is stated in current dollars for each operating year. We expect hotel operations to ramp up for three years after opening. The stabilized year reflects the anticipated operating results of the property over its remaining economic life. 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 projections of revenue (other than room revenue) and expense for the Proposed Hotel rely on comparable hotel operating statements from the HVS database. We carefully selected comparable hotel operating statements based on similarities with the Proposed Hotel, including room count, property type, location in urban markets, amounts of function space, occupancy rates, and average daily room rates. A full year's data on each property is available within the last four years.

The following figure shows the room count, meeting space, occupancy, average rate, and RevPAR of the comparable hotels and compares them with the Proposed Hotel.

FIGURE 6-1
OVERVIEW OF COMPARABLE HOTEL OPERATING STATEMENTS

	Comp A	Comp B	Comp C	Comp D	Comp E	Subject Hotel
Year	2017/18	2017	2016/17	2016	2015/16	*
Number of Rooms:	270 to 340	190 to 250	360 to 450	450 to 550	310 to 390	208
Meeting Space:	35,000	9,005	32,000	35,503	15,000	17,890
Sq Ft Meeting Space per Room:	116	41	79	71	43	86
Occupied Rooms:	73,223	58,981	106,525	134,347	92,163	56,181
Average Rate:	\$161	\$157	\$186	\$124	\$162	\$142
RevPAR:	\$107	\$115	\$134	\$91	\$117	\$105

*A stabilized year of operation. Dollar amounts shown in 2018 dollars.

Sources: Respective Venues and HVS

Further analysis of the comparable hotels provides benchmarks used in our forecast of income and expense. The three most common measures of industry performance: ratio to sales ("RTS"), amounts per available room ("PAR"), and amounts per occupied room night ("POR") are used to present the financial data. The following figure compares our forecasts for the Proposed Hotel to the comparable properties on each of these metrics.

FIGURE 6-2
COMPARABLE HOTEL OPERATING STATEMENTS--RATIO TO SALES

RANK - PERCENTAGES	1	2	3	4	5	6
REVENUE						
Rooms	88.4	75.4	64.8	60.8	57.4	57.2
Food & Beverage	38.4	37.5	35.8	31.8	17.9	9.9
Other Operated Departments	6.1	3.6	3.4	2.8	2.7	1.0
Miscellaneous Income	1.6	1.4	0.8	0.6	0.6	0.0
DEPARTMENTAL EXPENSES*						
Rooms	26.5	25.2	21.1	21.0	18.8	18.7
Food & Beverage	72.5	65.8	60.1	60.0	55.5	52.4
Other Operated Departments	70.1	63.0	62.0	47.7	37.0	12.7
Total Department Expenses	42.4	37.0	34.4	30.7	28.7	26.1
OPERATING EXPENSES **						
Administrative & General	9.7	8.9	8.6	8.4	8.1	6.3
Info. and Telecom. Systems	2.4	2.4	1.3	1.2	1.1	0.9
Marketing	11.0	9.6	8.9	7.9	7.6	7.0
Property Operations & Maintenance	5.2	4.8	4.4	3.8	3.7	3.6
Utilities	5.3	4.7	3.2	3.1	2.5	2.2
Total Operating Expenses	31.4	30.1	25.6	24.5	24.1	22.1
HOUSE PROFIT	49.4	47.2	41.5	41.2	37.4	26.2

* Ratio to Department Revenue

indicates position of Proposed Hotel

** Ratio to Total Revenue

indicates position of comparable hotels

House profit ranged from 49.4% to 26.2% of operating revenues for the comparable properties. The department level expenses for the Proposed Hotel are higher than the comparable properties due to the higher levels of food and beverage sales.

FIGURE 6-3
COMPARABLE HOTEL OPERATING STATEMENTS - AMOUNTS PER AVAILABLE ROOM

RANK - INCOME PER ROOM	1	2	3	4	5	6
REVENUE						
Rooms	48,928	42,751	42,102	38,957	38,475	33,213
Food & Beverage	28,868	26,130	21,708	18,907	10,174	4,699
Other Operated Departments	3,443	2,729	2,094	1,883	1,621	465
Miscellaneous Income	1,101	834	372	365	355	0
Total	80,525	68,071	59,367	57,849	56,722	47,637
DEPARTMENTAL EXPENSES						
Rooms	10,337	9,214	8,874	8,359	8,080	8,001
Food & Beverage	17,201	15,134	12,046	11,344	6,119	3,406
Other Operated Departments	2,134	1,319	1,021	1,000	345	172
Total Department Expenses	28,857	24,693	21,406	20,445	16,254	12,453
OPERATING EXPENSES						
Administrative & General	6,601	5,070	4,900	4,845	4,809	4,219
Info. and Telecom. Systems	1,914	1,609	738	712	531	503
Marketing	6,244	6,096	6,056	5,541	4,690	3,358
Property Operations & Maintenance	3,516	2,915	2,714	2,212	2,197	2,096
Utilities	3,625	2,691	1,900	1,796	1,476	1,466
Total Operating Expenses	21,407	17,791	17,081	14,803	14,308	11,653
HOUSE PROFIT	38,041	24,615	23,531	23,387	21,641	17,807

indicates position of Proposed Hotel

indicates position of comparable hotels

House profit ranged from \$38,041 to \$17,807 per room for the comparable properties.

FIGURE 6-4
COMPARABLE HOTEL OPERATING STATEMENTS - AMOUNTS PER OCCUPIED ROOM NIGHT

RANK - PER OCCUPIED ROOM	1	2	3	4	5	6
REVENUE						
Rooms	186	162	161	157	142	124
Food & Beverage	109	108	81	70	39	18
Other Operated Departments	13	10	8	8	6	2
Miscellaneous Income	5	3	1	1	1	0
Total	305	281	220	215	215	178
DEPARTMENTAL EXPENSES						
Rooms	43	35	33	31	30	30
Food & Beverage	71	57	45	42	23	13
Other Operated Departments	8	5	4	4	1	1
Total Department Expenses	119	94	80	76	62	46
OPERATING EXPENSES						
Administrative & General	27	19	19	18	18	16
Info. and Telecom. Systems	7	7	3	3	2	2
Marketing	25	24	23	21	17	13
Property Operations & Maintenance	15	11	10	8	8	8
Utilities	15	10	7	7	6	5
Total Operating Expenses	88	67	65	55	53	43
HOUSE PROFIT	144	91	89	88	81	73

indicates position of Proposed Hotel

indicates position of comparable hotels

House profit ranged from \$144 to \$73 per occupied room for the comparable properties.

Fixed and Variable Component Analysis

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. The following figure illustrates the revenue and expense categories that can be projected using this fixed and variable component model.

FIGURE 6-5
PROPOSED HOTEL - RANGE OF FIXED AND VARIABLE RATIOS

Category	Percent Fixed	Percent Variable	Index of Variability	Fixed Ratio
Revenues				
Food	25 - 50 %	50 - 75 %	Occupancy	25 %
Beverage	0 - 30	70 - 100	Occupancy	25
Other Operated Departments	30 - 70	30 - 70	Occupancy	70
Rentals & Other Income	30 - 70	30 - 70	Occupancy	70
Departmental Expenses				
Rooms	50 - 70	30 - 50	Occupancy	60
Food & Beverage	35 - 60	40 - 65	Food & Beverage Revenue	60
Other	30 - 70	30 - 70	Other Operated Departments Revenue	70
Undistributed Operating Expenses				
Administrative & General	65 - 85	15 - 35	Total Revenue	75
Marketing	65 - 85	15 - 35	Total Revenue	75
Info & Telecom Systems	65 - 85	15 - 35	Total Revenue	75
Prop. Operations & Maint.	55 - 75	25 - 45	Total Revenue	75
Utilities	75 - 95	5 - 25	Total Revenue	75

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. 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 in the final statement of income and expense.

Forecast of Income and Expense

The Proposed Hotel would reach a stabilized level of operation in 2023/24. The forecast is based on fiscal years beginning September 1, 2021, for each year.

Rooms

The estimated number of occupied room nights and the average daily room rate determine room revenue in any given year. The Proposed Hotel would stabilize at an occupancy level of 74%, with an average daily rate of \$167.61 in 2023/24, the first stabilized year. Following the stabilized year, the Proposed Hotel's average rate would increase with the rate of inflation.

Food and Beverage Revenue

A hotel's restaurants, lounges, snack bars, banquet rooms, and room service generate food and beverage income. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. In the case of the Proposed Hotel, the food and beverage department will include a restaurant with show kitchen and wood-burning oven and an outdoor terrace, and lounge.

Function space in the Proposed Hotel includes 17,890 square feet of ballroom and meetings space, as shown in the figure below.

**FIGURE 6-6
MEETING SPACE**

Indoor Meeting & Banquet Facilities	Square Feet	Square Feet Per Room
Ballroom	12,000	58
Meeting Rooms	5,040	24
Boardroom	850	4
Total	17,890	86

Although a portion of food and beverage revenue varies directly with changes in occupancy, the portion generated by banquet sales from local social events does not depend on hotel room occupancy.

HVS projected the food and beverage sales based on the amount of ballroom and meeting space in the Proposed Hotel, our general knowledge of the Houston market, the meeting and group orientation of the Hyatt Regency brand, and the food and beverage sales of the comparable properties. Food and beverage sales in the first stabilized year of 2023/24 is shown in the following figures.



FIGURE 6-7
FOOD AND BEVERAGE SALES (000'S)

Food Sales	\$3,966
Beverage Sales	661
Total Food & Beverage Sales	\$4,627
Percentage of Total Sales	31.8%
Average Comparable Hotels	27.9%

The Proposed Hotel's average food and beverage sales will be higher than the comparable hotels due to sales related to the extensive meeting space.

**Other Operated
Departments Revenue**

Other operated departments include any major or minor operated department other than rooms and food and beverage. Telephone revenue and expense are now considered a component of other operated departments. Based on our review of operations with similar other department operations, we have determined an appropriate revenue level for the Proposed Hotel at 2.7% of gross revenues by the first stabilized year of 2023/24.

**Rentals & Other
Income**

The in-room movie and game charges will generate the Proposed Hotel's rentals and other income revenue. Based on our review of operations with a similar extent of offerings, we determined an appropriate revenue level for the Proposed Hotel at 0.6% of gross revenues by the first stabilized year of 2023/24.

Department Expenses

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 scale the level of service staff on hand to meet an expected occupancy level, much of a hotel's payroll is fixed. Hotel operations require a base level of front desk personnel, housekeepers, and supervisors always. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy. The rooms department is projected to average 21.0% of department revenues by the first stabilized year of 2023/24.

Food and beverage departmental expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. Most of the cost of food and beverage sales and related payroll vary with the level of food revenues; however, this departmental operation has a fixed component. We have projected a stabilized expense ratio of 60% in the Proposed Hotel's food & beverage by the first stabilized year of 2023/24.

Other operated departments expense includes all expenses for the divisions associated with these categories. The other operated department's expense would average 63% of department revenues in the first stabilized year of 2023/24.



In 2023/24, department-level expenses average 34.4% of gross revenues, which would generate a department income of \$9.5 million.

Undistributed Operating Expenses

Administrative and general expense includes the salaries and wages of all administrative personnel not directly associated with a department. Other costs include management and operation of the property. These expenses would average 8.1% of gross revenues in the first stabilized year of 2023/24 for the Proposed Hotel.

Information and telecommunications systems expense consists of all costs associated with a hotel's technology infrastructure. The costs include cell phones, telephone, and Internet services. Expenses in this category are typically organized by type of technology, or the area benefitting from the technology solution. These expenses would average 1.2% of gross revenues by the first stabilized year of 2023/24 for the Proposed Hotel.

Marketing expense consists of costs associated with advertising, sales, and promotion; these activities focus on attracting and retaining customers. Marketing creates an image, develops customer awareness, and stimulates patronage of a property's various facilities. Management controls the level of marketing expenditures. These expenses would average 7.9% of gross revenues by the first stabilized year of 2023/24 for the Proposed Hotel.

The Proposed Hotel will have a full-service hotel as a a Hyatt Regency.

Property operations and maintenance expenditures maintain the functionality and appearance of the property. Management has certain discretion over this expense category due to the ability to delay certain maintenance. These expenses would average 3.7% of gross revenues by the first stabilized year of 2023/24 for the Proposed Hotel.

The consumption of various utilities by 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. These expenses would average 3.2% of gross revenues by the first stabilized year of 2023/24 for the Proposed Hotel.

**FIGURE 6-8
UNDISTRIBUTED OPERATING EXPENSES**

Undistributed Expenses*	Proposed	Comparable Hotel Statements		
	Hotel	High	Low	Average
Administrative & General	8.1%	9.7%	6.3%	8.4%
Info. and Telecom. Systems	1.2%	2.4%	1.1%	1.6%
Marketing	7.9%	9.6%	7.0%	8.8%
Property Operations & Maintenance	3.7%	5.2%	3.6%	4.4%
Utilities	3.2%	5.3%	2.2%	3.6%
Total	24.1%			26.7%

*Undistributed expense ratios are calculated as a percentage of gross revenues.

The Proposed Hotel will experience lower administrative & general and property operations & maintenance expenses as compared to the comparable hotels due to the favorable labor market in the region. New construction and modern energy-efficient equipment will also reduce property operation & maintenance and utility expenses as compared to the comparable hotels.

Undistributed operating expenses are expected to average 24.1% of gross revenues by the stabilized year of 2023/24, which generates a house profit of \$6.02 million or 41.5% of gross revenues for the Proposed Hotel.

Management Fees

The Proposed Hotel will operate as a Hyatt Regency, full-service property. The term sheet with Hyatt Hotels Corporation ("Hyatt") calls for a basic management fee equal to 3.0% of gross receipts (all revenues from the operation of the Proposed Hotel) for the initial 12 months of operations, 4.0% of gross receipts for months 13 through 24, and 5.0% for months 25 and thereafter. The management agreement is for a term of 30 years.

In addition to the basic management fee, Hyatt may be paid an incentive management fee calculated as 1.0% of gross revenues, in accordance with the order of priority set forth on the indenture cash waterfall schedule, which was not established as of the date of this study. The Developer informed HVS that the incentive management fee would be paid after financing costs.

Property Taxes

The Hotel Owner and the Developer have informed HVS that the Proposed Hotel will not be subject to real estate taxes.

Insurance

The insurance expense covers 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 consider 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 and related expenses projected at 1.1% of gross revenues for the Proposed Hotel by the first stabilized year of 2023/24. The Developer provided the estimate for the cost of insurance used in this study.

**Reserve for
Replacement**

The reserve for replacement for furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. The furniture, fixtures, and equipment of a hotel experience heavy use and need replacement at regular intervals. The reserve for replacement expenses is projected at 2.0% of gross revenues for the Proposed Hotel in the first year of operation, 3.0% in the second year of operation, and 4.0% annually thereafter.

**Summary of
Projections**

The following figure presents a forecast for the first stabilized year, followed by a detailed forecast of the first ten years of operation for the Proposed Hotel, including amounts per available room and per occupied room. The forecasts pertain to years beginning September 1, 2021, in inflated dollars for each year.

**FIGURE 6-9
FIRST STABILIZED YEAR (2023/24)**

STATISTICS		
Number of Rooms	208	
Occupied Room Nights	56,181	
Occupancy	74%	
Average Rate	\$167.61	
RevPAR	\$124.03	

	\$000	% of Gross
Operating Revenue		
Rooms	\$9,416	64.8%
Food	3,966	27.3%
Beverage	661	4.5%
Other Operated Departments	397	2.7%
Miscellaneous Income	89	0.6%
Total Operating Revenues	\$14,529	100%
Departmental Expenses*		
Rooms	\$1,977	21.0%
Food & Beverage	2,776	60.0%
Other Operated Departments	250	63.0%
Total Expenses	\$5,004	34.4%
Departmental Income	\$9,525	65.6%
Undistributed Operating Expenses		
Administrative & General	\$1,177	8.1%
Marketing	1,148	7.9%
Prop. Operations & Maint.	538	3.7%
Utilities	465	3.2%
Info & Telecom Systems	174	1.2%
Total Expenses	\$3,502	24.1%
Gross House Profit	\$6,024	41.5%
Management Fee	\$726	5.0%
Income Before Non-Opr. Inc. & Exp.	\$5,297	36.5%
Non-Operating Income & Expenses		
Insurance	164	1.1%
Reserve for Replacement	581	4.0%
Total Expenses	\$745	5.1%
EBITDA Less Reserve Available for Debt Service	\$4,552	31.4%

*Departmental expense ratios are calculated as a percentage of departmental revenue.



FIGURE 6-10
PROPOSED HOTEL 10 YEAR PRO FORMA (000'S)

STATISTICS		2021/22		2022/23		2023/24		2024/25		2025/26		2026/27		2027/28		2028/29		2029/30		2030/31	
		208	% of Gross	208	% of Gross	208	% of Gross	208	% of Gross	208	% of Gross	208	% of Gross	208	% of Gross	208	% of Gross	208	% of Gross	208	% of Gross
Number of Rooms Occupied Room Nights Occupancy Average Rate RevPAR	50,866	67%	\$153.24	\$102.67	53,903	71%	\$161.10	\$114.38	56,181	74%	\$172.63	\$127.75	56,181	74%	\$188.64	\$139.59	\$194.30	\$200.13	\$206.13	\$152.54	
Operating Revenue																					
Rooms	\$7,795	63.4	\$8,684	64.3	\$9,416	64.8	\$9,699	64.8	\$9,990	64.8	\$10,289	64.8	\$10,598	64.8	\$10,916	64.8	\$11,243	64.8	\$11,581	64.8	
Food	3,473	28.2	3,734	27.6	3,966	27.3	4,085	27.3	4,208	27.3	4,334	27.3	4,464	27.3	4,598	27.3	4,736	27.3	4,878	27.3	
Beverage	590	4.8	627	4.6	661	4.5	681	4.5	701	4.5	722	4.5	744	4.5	766	4.5	789	4.5	813	4.5	
Other Operated Departments	363	3.0	380	2.8	397	2.7	409	2.7	421	2.7	433	2.7	446	2.7	460	2.7	474	2.7	488	2.7	
Miscellaneous Income	82	0.7	86	0.6	89	0.6	92	0.6	95	0.6	98	0.6	100	0.6	103	0.6	107	0.6	110	0.6	
Total Operating Revenues	\$12,303	100.0	\$13,511	100.0	\$14,529	100.0	\$14,965	100.0	\$15,414	100.0	\$15,876	100.0	\$16,353	100.0	\$16,843	100.0	\$17,348	100.0	\$17,869	100.0	
Departmental Expenses*																					
Rooms	\$1,793	23.0	\$1,889	21.7	\$1,977	21.0	\$2,037	21.0	\$2,098	21.0	\$2,161	21.0	\$2,226	21.0	\$2,292	21.0	\$2,361	21.0	\$2,432	21.0	
Food & Beverage	2,536	62.4	2,660	61.0	2,776	60.0	2,860	60.0	2,945	60.0	3,034	60.0	3,125	60.0	3,219	60.0	3,315	60.0	3,415	60.0	
Other Operated Departments	234	64.3	242	63.5	250	63.0	257	63.0	265	63.0	273	63.0	281	63.0	290	63.0	298	63.0	307	63.0	
Total Expenses	\$4,563	37.1	\$4,790	35.5	\$5,004	34.4	\$5,154	34.4	\$5,308	34.4	\$5,468	34.4	\$5,632	34.4	\$5,801	34.4	\$5,975	34.4	\$6,154	34.4	
Departmental Income	\$7,740	62.9	\$8,720	64.5	\$9,525	65.6	\$9,812	65.6	\$10,106	65.6	\$10,409	65.6	\$10,721	65.6	\$11,043	65.6	\$11,374	65.6	\$11,716	65.6	
Undistributed Operating Expenses																					
Administrative & General	\$1,081	8.8	\$1,131	8.4	\$1,177	8.1	\$1,212	8.1	\$1,249	8.1	\$1,286	8.1	\$1,325	8.1	\$1,364	8.1	\$1,405	8.1	\$1,447	8.1	
Marketing	1,054	8.6	1,103	8.2	1,148	7.9	1,182	7.9	1,218	7.9	1,254	7.9	1,292	7.9	1,331	7.9	1,371	7.9	1,412	7.9	
Prop. Operations & Maint.	494	4.0	516	3.8	538	3.7	554	3.7	570	3.7	587	3.7	605	3.7	623	3.7	642	3.7	661	3.7	
Utilities	427	3.5	447	3.3	465	3.2	479	3.2	493	3.2	508	3.2	523	3.2	539	3.2	555	3.2	572	3.2	
Info & Telecom Systems	160	1.3	167	1.2	174	1.2	180	1.2	185	1.2	191	1.2	196	1.2	202	1.2	208	1.2	214	1.2	
Total Expenses	\$3,217	26.1	\$3,364	24.9	\$3,502	24.1	\$3,607	24.1	\$3,715	24.1	\$3,826	24.1	\$3,941	24.1	\$4,059	24.1	\$4,181	24.1	\$4,306	24.1	
Gross House Profit	\$4,523	36.8	\$5,357	39.6	\$6,024	41.5	\$6,205	41.5	\$6,391	41.5	\$6,582	41.5	\$6,780	41.5	\$6,984	41.5	\$7,193	41.5	\$7,409	41.5	
Management Fee	\$369	3.0	\$540	4.0	\$726	5.0	\$748	5.0	\$771	5.0	\$794	5.0	\$818	5.0	\$842	5.0	\$867	5.0	\$893	5.0	
Income Before Non-Oper. Inc. & Exp.	\$4,154	33.8	\$4,816	35.6	\$5,297	36.5	\$5,457	36.5	\$5,621	36.5	\$5,789	36.5	\$5,963	36.5	\$6,141	36.5	\$6,325	36.5	\$6,516	36.5	
Non-Operating Income & Expenses																					
Insurance	155	1.3	159	1.2	164	1.1	169	1.1	174	1.1	179	1.1	185	1.1	190	1.1	196	1.1	202	1.1	
Reserve for Replacement	246	2.0	405	3.0	581	4.0	599	4.0	617	4.0	635	4.0	654	4.0	674	4.0	694	4.0	715	4.0	
Total Expenses	\$401	3.3	\$565	4.2	\$745	5.1	\$768	5.1	\$791	5.1	\$814	5.1	\$839	5.1	\$864	5.1	\$890	5.1	\$917	5.1	
EBITDA Less Reserve Available for Debt Service	\$3,753	30.5	\$4,252	31.4	\$4,552	31.4	\$4,689	31.4	\$4,830	31.4	\$4,974	31.4	\$5,124	31.4	\$5,277	31.4	\$5,435	31.4	\$5,599	31.4	

* Departmental expense ratios are calculated as a percentage of departmental revenue.



Pro Forma Conclusion

Our analysis projects a profitable hotel operation. The stabilized total revenue comprises primarily of rooms and food and beverage revenue, with a relatively small portion derived from other income sources. On the cost side, departmental expenses total 34.4% of revenue in a stabilized year for the Proposed Hotel, while undistributed operating expenses total 24.1% of total revenues; this assumes that the property would be operated competently by a well-known hotel operator. After a 5.0% of total revenues management fee (excluding incentive management fee), and 5.1% of total revenues in fixed expenses with no allowance for property taxes, a net income ratio of 31.4% (\$4.55 million) is forecast by 2023/24 for the Proposed Hotel.



7. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. All information, financial operating statements, estimates, and opinions obtained from parties not employed by HVS are assumed to be true and correct. We can assume no liability resulting from misinformation.
3. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the Proposed Hotel.
4. The proposed facility is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate). We assume that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
5. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
6. 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.
7. We take no responsibility for any events or circumstances that take place subsequent to the date of our report.
8. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements.
9. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would render the proposed property no more or less valuable. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
10. We have not considered the presence of potentially hazardous materials such as asbestos, urea formaldehyde foam insulation, any form of toxic waste, polychlorinated biphenyls (PCB), pesticides, mold, or lead-based paints. The appraisers are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
11. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed that the proposed property will be designed in accordance with the various detailed requirements of the ADA.



12. We have made no survey of the subject site, and we assume no responsibility in connection with such matters.
13. The estimated operating results presented in this report are based on an evaluation of the overall economy and neither consider nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study.
14. The quality of a facility's on-site management has a direct effect on a property's economic performance. The demand and 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.
15. We do not warrant our estimates. We use information obtained during our market research and are intended to reflect reasonable expectations.
16. 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. Thus, these figures may be subject to small rounding errors.
17. 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 or third parties. The use of this report is also subject to the terms and conditions outlined in our engagement letter with the client.
18. Although this analysis employs various mathematical calculations, the final estimates are subjective and may be influenced by our experience and other factors not specifically outlined in this report.
19. HVS Convention, Sports & Entertainment Facilities Consulting prepared this report. All opinions, recommendations, and conclusions expressed during this assignment are rendered by the staff of this organization, as employees, rather than as individuals.
20. This report is set forth as a market study of the Proposed Hotel; this is not an appraisal report.



8. Certification

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

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this analysis; and
7. Tom Hazinski and Brian Harris participated in the analysis.

DRAFT

Tom Hazinski
Managing Director

DRAFT

Brian Harris
Senior Director