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 March 2017, the new 265,000-square-foot Terminal C North opened, representing a $277-million investment from United Airlines and the Houston Airport System. The old Terminal C North is expected to be demolished to make room for a major redevelopment of the Mickey Leland International Terminal. The new terminal will feature twelve gates with the capacity to accommodate the Airbus A380 used for international travel. Construction on the program management offices and utilities began in 2017, while the full project is not anticipated to open until 2024.

**FIGURE 3-12**
**AIRPORT PASSENGERS**
**GEORGE BUSH INTERCONTINENTAL AIRPORT**

| Year | Passenger Traffic | Annual Percent Change |
|---|---|---|
| 2010 | 40,480,000 | |
| 2011 | 40,129,000 | -0.9% |
| 2012 | 39,891,000 | -0.6% |
| 2013 | 39,799,000 | -0.2% |
| 2014 | 41,254,000 | 3.7% |
| 2015 | 43,023,000 | 4.3% |
| 2016 | 41,692,000 | -3.1% |
| 2017 | 40,732,000 | -2.3% |
| 2018 | 43,808,000 | 7.6% |
| 2019 | 45,264,000 | 3.3% |
| | **YTD through Apr** | |
| 2019 | 10,875,000 | |
| 2020 | 9,218,000 | -15.2% |

Source: George Bush Intercontinental Airport

Passenger traffic has declined in 2016 and 2017 after growing the prior two years. The decline in the price of oil and the increased passenger traffic at Hobby Airport contributed to the decline. Growth returned in 2018 and 2019 as the price of oil recovered and travel to Houston increased. Through the most recent monthly data of 2020, passenger traffic has declined to 9,218,000 from 10,875,000, an decrease of 15.2% due to the negative impact on air travel from COVID-19.

**Tourist Attractions**

The greater Baytown market benefits from a variety of tourist and leisure attractions in the area. The peak season for tourism in this area is from March to September. During other times of the year, weekend demand comprises travelers passing through in route to other destinations, people visiting friends or relatives, and other similar weekend demand generators. Primary attractions in the area include the following:

- The San Jacinto Battleground State Historic Site is a 1,200-acre National Historic Landmark comprising the Battleship Texas and the San Jacinto Battleground, Monument, and Museum. The Battleship Texas will be relocated to a new site, and one of the sites under consideration is near the Proposed Hyatt Regency.

- 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.

- At the Space Center Houston, at NASA, visitors can see astronauts train for missions, touch moon rocks, and fly a mock shuttle landing. Space Center Houston is owned and operated by the Manned Space Flight Education Foundation, a 501(c)(3) nonprofit educational foundation which operates the facility and offers tours, exhibits, and hands-on activities daily.

- Big League Dreams sports complex houses replicas of four major league baseball parks that are scaled to little league baseball and softball configurations, In addition to batting cages, the facility has a 20,000-square-foot pavilion and a restaurant. This facility hosts adult softball leagues, little league and softball tournaments, and special events.

respectively. Demand growth then surged to 4.0% in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors. By 2014, occupancy had surpassed the 64% mark. Average rate rebounded similarly during this time, bracketing 4.0% annual gains from 2011 through 2014.

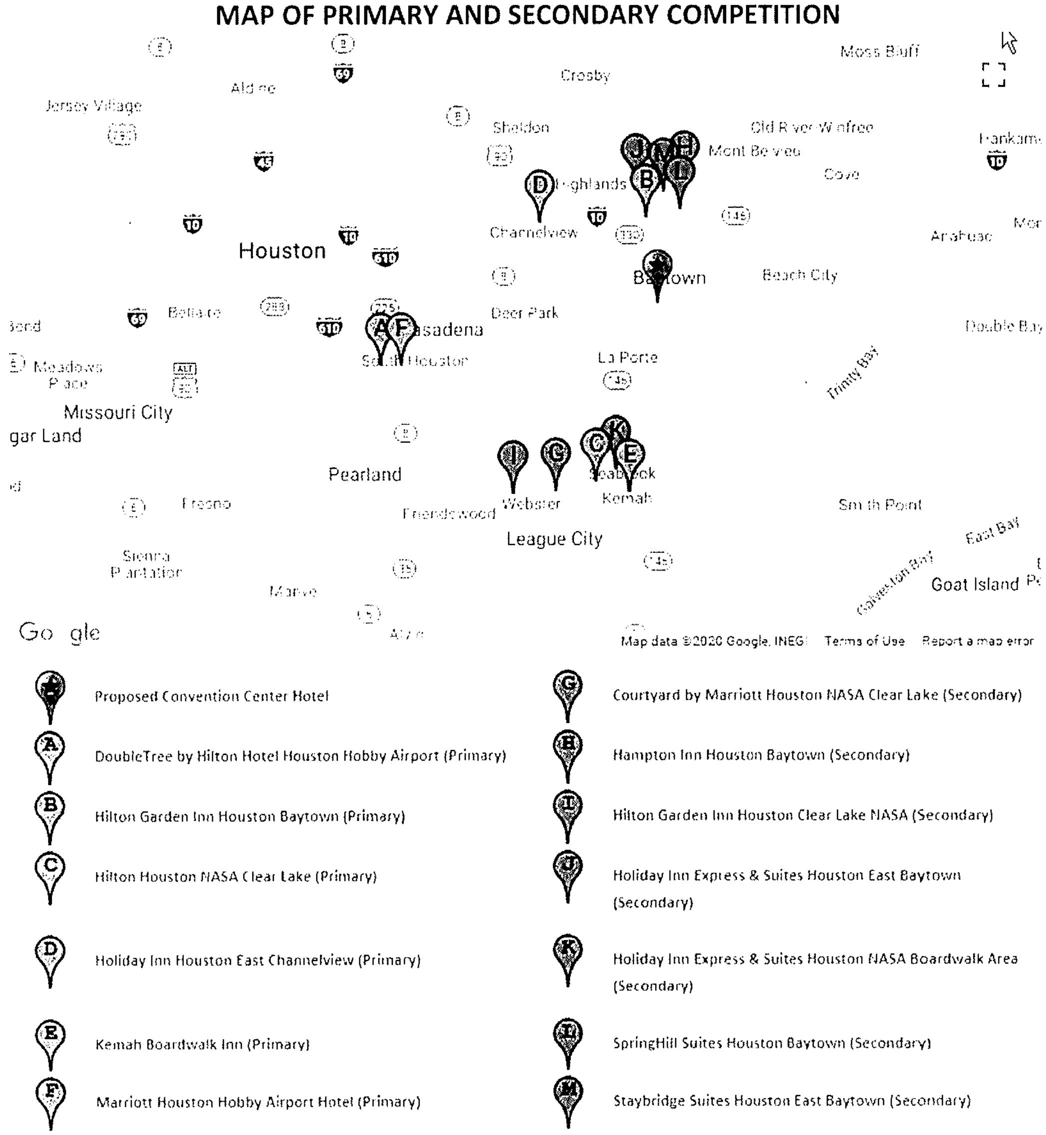
In 2015, demand growth continued to outpace supply growth, a relationship that has been in place since 2010. With a 2.9% increase in room nights, the nation's occupancy level reached a record high of 65.4% in 2015. Supply growth intensified modestly in 2015 (at 1.1%), following annual supply growth levels of 0.7% and 0.9% in 2013 and 2014, respectively. ADR posted another strong year of growth, at 4.7% in 2015, in pace with the annual growth of the last four years. Robust job growth, heightened group and leisure travel, and waning price sensitivity all contributed to the gains. In 2016, occupancy showed virtually no change, as demand growth kept pace with supply additions. Occupancy then moved even higher, reaching 65.9% in 2017 and surpassing 66% in 2018 and 2019. ADR increased 2.1%, 2.4%, and 1.0% in 2017, 2018, and 2019, respectively.

**Defining the Competitive Set**

HVS selected a set of competitive local hotels. Six properties would compete with the Proposed Hyatt Regency on a primary basis and seven properties on a secondary basis, for a total of 13 competitors ("Competitive Hotels"). We weighted the room count of each secondary competitor based on its projected competitiveness with the Proposed Hyatt Regency.

The following map illustrates the locations of the Proposed Hyatt Regency and its primary and secondary competitors.

## MAP OF PRIMARY AND SECONDARY COMPETITION




HVS relied on STR data and market research to determine the room count of each hotel. The weighted competitive set currently includes 1,129 rooms in primary competitors and 746 rooms in the secondary competitors with a weighted room count of 519. The total number of primary and weighted secondary competitors is 1,648 room, as shown in the figure below.

## FIGURE 4-2
## THE WEIGHTED COMPETITIVE SET

| Hotel | Number of Rooms | Competitive Level | Weighted Room Count |
|---|---|---|---|
| **Six Primary Competitors** | | | |
| DoubleTree by Hilton Hotel Houston Hobby Airport | 303 | 100% | 303 |
| Hilton Garden Inn Houston Baytown | 125 | 100% | 125 |
| Hilton Houston NASA Clear Lake | 242 | 100% | 242 |
| Holiday Inn Houston East Channelview | 111 | 100% | 111 |
| Kemah Boardwalk Inn | 58 | 100% | 58 |
| Marriott Houston Hobby Airport Hotel | 290 | 100% | 290 |
| **Total Rooms of the Primary Competitors** | **1,129** | **100%** | **1,129** |
| Courtyard by Marriott Houston NASA Clear Lake | 124 | 70% | 87 |
| Hampton Inn Houston Baytown | 70 | 70% | 49 |
| Hilton Garden Inn Houston Clear Lake NASA | 126 | 65% | 82 |
| Holiday Inn Express & Suites Houston East Baytown | 91 | 80% | 73 |
| Holiday Inn Express & Suites Houston NASA Boardwalk Area | 128 | 65% | 83 |
| SpringHill Suites Houston Baytown | 101 | 70% | 71 |
| Staybridge Suites Houston East Baytown | 106 | 70% | 74 |
| **Seven Secondary Competitors Rooms Total/Weighted** | 746 | 70% | 519 |
| **13 Primary & Secondary Competitors Rooms Total/Weighted** | **1,875** | **88%** | **1,648** |

Sources: STR and HVS

The following figure shows the age of Competitive Hotels.

## FIGURE 4-3
## THE AGE OF COMPETITIVE HOTELS

| Property | STR Classification | Years Old | Rooms |
|---|---|---|---|
| DoubleTree by Hilton Hotel Houston Hobby Airport | Upscale Class | 37.62 | 303 |
| Hilton Houston NASA Clear Lake | Upper Upscale Class | 37.45 | 242 |
| Marriott Houston South @ Hobby Airport | Upper Upscale Class | 34.45 | 290 |
| Hampton by Hilton Inn Houston/Baytown | Upper Midscale Class | 23.87 | 70 |
| Boardwalk Inn Kemah Boardwalk | Luxury Class | 22.04 | 58 |
| Hilton Garden Inn Houston Clear Lake NASA | Upscale Class | 10.79 | 126 |
| Holiday Inn Kemah Near Boardwalk | Upper Midscale Class | 9.96 | 128 |
| SpringHill Suites Houston Baytown | Upscale Class | 9.62 | 101 |
| Holiday Inn Houston East-Channelview | Upper Midscale Class | 9.29 | 111 |
| Courtyard Houston NASA Clear Lake | Upscale Class | 7.96 | 124 |
| Holiday Inn Express & Suites Houston East Baytown | Upper Midscale Class | 6.21 | 91 |
| Hilton Garden Inn Houston Baytown | Upscale Class | 2.79 | 125 |
| Staybridge Suites Houston East - Baytown | Upscale Class | 1.13 | 125 |
| | | 16.40 Average Age | |

Sources: STR

The Competitive Hotels contain three primary competitors with significant amounts of meeting space: The DoubleTree Houston Hobby Airport, the Hilton Houston NASA Clear Lake, and the Marriott Houston South @ Hobby Airport, which are all older than 30 years. The Proposed Hyatt Regency 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
## 2018 & 2019 PERFORMANCE OF THE PRIMARY COMPETITIVE SET

| Property | Number of Rooms | Estimated 2018 | | | Estimated 2019 | | |
|---|---|---|---|---|---|---|---|
| | | Occ. | ADR | RevPAR | Occ. | ADR | RevPAR |
| DoubleTree by Hilton Hotel Houston Hobby Airport | 303 | 70 - 75 % | $110 - $115 | $80 - $85 | 65 - 70 % | $105 - $110 | $70 - $75 |
| Hilton Garden Inn Houston Baytown | 125 | 60 - 65 | 130 - 140 | 80 - 85 | 60 - 65 | 125 - 130 | 75 - 80 |
| Hilton Houston NASA Clear Lake | 242 | 65 - 70 | 125 - 130 | 85 - 90 | 65 - 70 | 120 - 125 | 80 - 85 |
| Holiday Inn Houston East Channelview | 111 | 65 - 70 | 120 - 125 | 80 - 85 | 65 - 70 | 115 - 120 | 75 - 80 |
| Kemah Boardwalk Inn | 58 | 65 - 70 | 170 - 180 | 120 - 125 | 65 - 70 | 160 - 170 | 110 - 115 |
| Marriott Houston Hobby Airport Hotel | 290 | 70 - 75 | 110 - 115 | 80 - 85 | 70 - 75 | 105 - 110 | 75 - 80 |
| **Totals** | **1,129** | **70.8%** | **$121** | **$86** | **68.4%** | **$116** | **$79** |

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 | Access | Visibility | Neighbor-hood | Physical Condition | Aggregate Rating |
|---|---|---|---|---|---|
| **Proposed Hyatt Regency** | **5** | **5** | **4** | **5** | **4.75** |
| Marriott Houston Hobby Airport Hotel | 4 | 4 | 5 | 4 | 4.25 |
| Hilton Garden Inn Houston Baytown | 4 | 4 | 4 | 5 | 4.25 |
| Kemah Boardwalk Inn | 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 Hyatt Regency ranks superior or equal to all of the primary competitors on customer selection criteria. The Proposed Hyatt Regency ranks well on physical condition due to new construction.

The secondary competitors consist of seven hotels with 746 rooms with a weighted room count of 519 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**

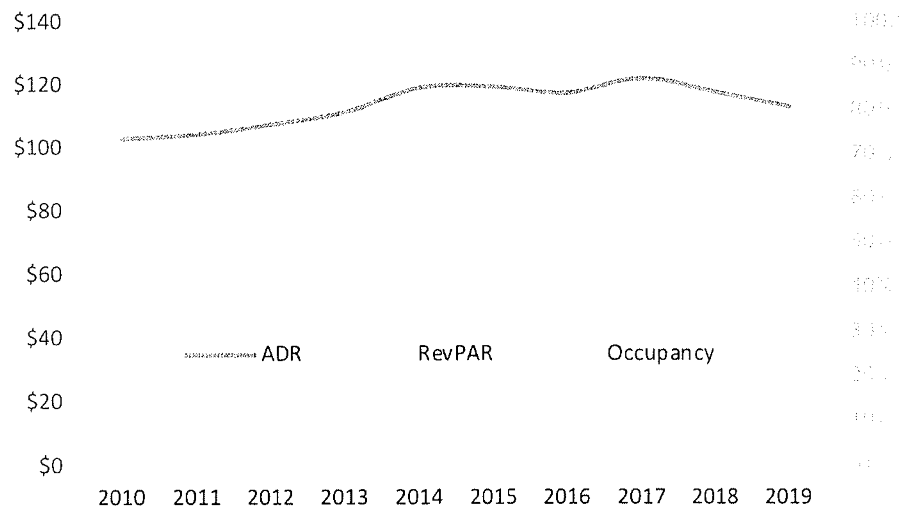
| Property | Number of Rooms | Competitive Weight | Weighted Rooms | Estimated 2019 % Occupancy | ADR | RevPAR |
|---|---|---|---|---|---|---|
| Courtyard by Marriott Houston NASA Clear Lake | 124 | 70% | 87 | 75 - 80 | $120 - $125 | $90 - $95 |
| Hampton Inn Houston Baytown | 70 | 70% | 49 | 55 - 60 | 100 - 105 | 60 - 65 |
| Hilton Garden Inn Houston Clear Lake NASA | 126 | 65% | 82 | 65 - 70 | 115 - 120 | 80 - 85 |
| Holiday Inn Express & Suites Houston East Baytown | 91 | 80% | 73 | 65 - 70 | 95 - 100 | 65 - 70 |
| Holiday Inn Express & Suites Houston NASA Boardwalk | 128 | 65% | 83 | 65 - 70 | 115 - 120 | 80 - 85 |
| SpringHill Suites Houston Baytown | 101 | 70% | 71 | 70 - 75 | 100 - 105 | 70 - 75 |
| Staybridge Suites Houston East Baytown | 106 | 70% | 74 | 45 - 50 | 100 - 105 | 50 - 55 |
| **Total** | **746** | | **519** | **68.2%** | **$110** | **$75** |

## 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 aggregate historical performance of the Competitive Hotels, including the occupancy rates, ADR, and RevPAR.

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




Source: STR

The Competitive Hotel's overall occupancy declined to 68% in 2019, a decrease of 2.6% from 2018. 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 and 2019 as the hurricane-related demand began to leave the market.

Overall the Competitive Hotel's average daily rate decreased to $113.44 in 2019 from $117.97 in 2018. The average rate across to the period has fluctuated from a low of $103.37 to a high of $122.40 from 2010 to 2019.

### Historical Supply and Demand Data

The figures below summarize aggregate competitive set performance in the base year. Since 2019 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.

HVS

**FIGURE 4-8**
**HISTORICAL PERFROMANCE**
**TPRIMARY COMPETITORS AND AGGREGATE WEIGHTED SECONDARY COMPETITORS**

**Room Count**

| | |
|---|---|
| Secondary Competitors | 488 |
| DoubleTree by Hilton Hotel Houston Hobby Airport | 303 |
| Marriott Houston Hobby Airport Hotel | 290 |
| Hilton Houston NASA Clear Lake | 242 |
| Hilton Garden Inn Houston Baytown | 125 |
| Holiday Inn Houston East Channelview | 111 |
| Kemah Boardwalk Inn | 58 |

**Occupancy**

| | |
|---|---|
| Marriott Houston Hobby Airport Hotel | 70 - 75% |
| Secondary Competitors | 68% |
| DoubleTree by Hilton Hotel Houston Hobby Airport | 65 - 70% |
| Kemah Boardwalk Inn | 65 - 70% |
| Holiday Inn Houston East Channelview | 65 - 70% |
| Hilton Houston NASA Clear Lake | 65 - 70% |
| Hilton Garden Inn Houston Baytown | 60 - 65% |

**ADR**

| | |
|---|---|
| Kemah Boardwalk Inn | $160 - $170 |
| Hilton Garden Inn Houston Baytown | $125 - $130 |
| Hilton Houston NASA Clear Lake | $120 - $125 |
| Holiday Inn Houston East Channelview | $115 - $120 |
| Secondary Competitors | $110 |
| DoubleTree by Hilton Hotel Houston Hobby Airport | $105 - $110 |
| Marriott Houston Hobby Airport Hotel | $105 - $110 |

**RevPAR**

| | |
|---|---|
| Kemah Boardwalk Inn | $110 - $115 |
| Hilton Houston NASA Clear Lake | $80 - $85 |
| Hilton Garden Inn Houston Baytown | $75 - $80 |
| Marriott Houston Hobby Airport Hotel | $75 - $80 |
| Holiday Inn Houston East Channelview | $75 - $80 |
| Secondary Competitors | $75 |
| DoubleTree by Hilton Hotel Houston Hobby Airport | $70 - $75 |

Sources: STR and HVS

The figure below shows year-to-date through April 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 April**

| | 2019 | 2020 | Percent Change |
|---|---|---|---|
| Room Night Demand | 153,298 | 108,356 | -29.3% |
| Available Room Nights | 212,280 | 225,000 | 6.0% |
| Occupancy | 72.2% | 48.2% | -33.3% |
| ADR | $114.63 | $106.85 | -6.8% |
| RevPAR | $82.78 | $51.46 | -37.8% |

Source: STR

Demand declined in 2020 from the same period in 2019. However, the available room nights increased due to the opening of the Staybridge Suites. The Competitive Hotel's occupancy declined, and ADR declined from 2019levels for the same period, resulting in a lower RevPAR in 2020 year-to-date. The decline in ADR and demand was due to the impact of COVID-19 and the decline in oil and gas production in the region.

**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**

**Occupancy Penetration**

| | |
|---|---|
| Marriott Houston Hobby Airport Hotel | 100 - 110% |
| Secondary Competitors | 100% |
| DoubleTree by Hilton Hotel Houston Hobby Airport | 95 - 100% |
| Kemah Boardwalk Inn | 95 - 100% |
| Holiday Inn Houston East Channelview | 95 - 100% |
| Hilton Houston NASA Clear Lake | 95 - 100% |
| Hilton Garden Inn Houston Baytown | 90 - 95% |

**Yield Penetration**

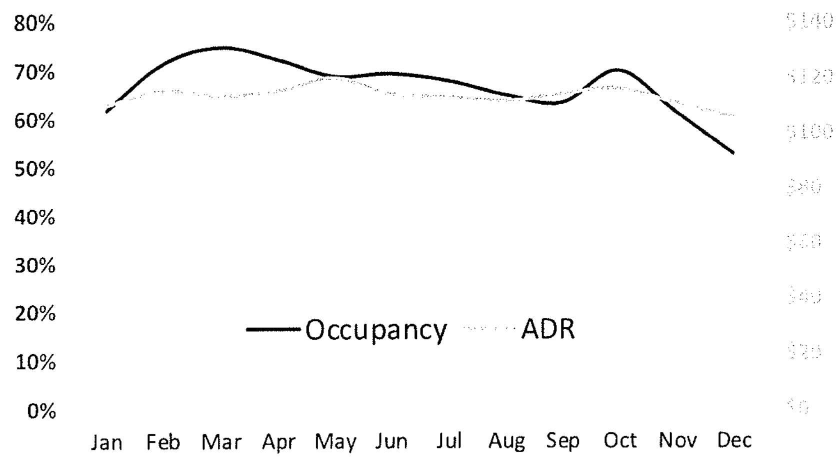
| | |
|---|---|
| Kemah Boardwalk Inn | 140 - 150% |
| Hilton Houston NASA Clear Lake | 100 - 110% |
| Hilton Garden Inn Houston Baytown | 100 - 110% |
| Marriott Houston Hobby Airport Hotel | 95 - 100% |
| Holiday Inn Houston East Channelview | 95 - 100% |
| Secondary Competitors | 97% |
| DoubleTree by Hilton Hotel Houston Hobby Airport | 90 - 95% |

Sources: STR and HVS

**Seasonality**

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

**FIGURE 4-11**
**SEASONALITY GRAPH OF THE UNWEIGHTED COMPETITIVE SET**

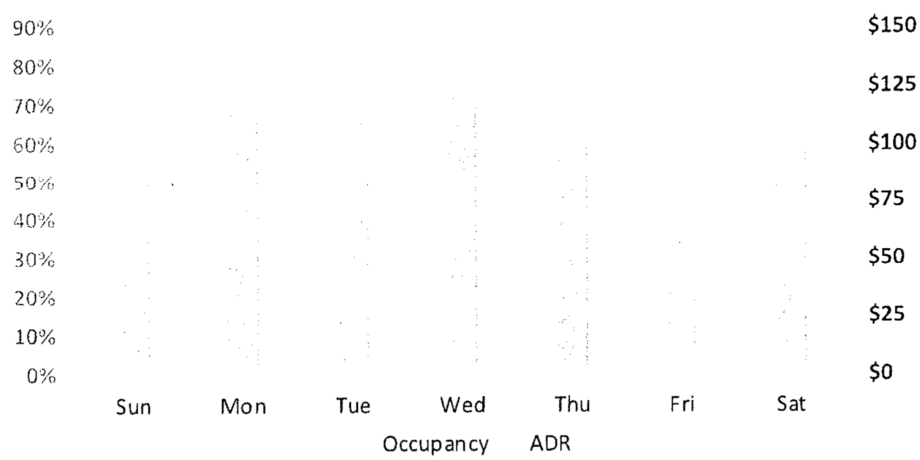



Source: STR

**Weekly Patterns of Lodging Demand**

A review of the trends in occupancy andaverage rate 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 STR.

**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 |
|---|---|---|---|---|---|---|---|---|
| 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% |
| Nov - 19 | 44.5% | 65.8% | 74.3% | 78.0% | 65.3% | 60.6% | 61.9% | 64.1% |
| Dec - 19 | 38.5% | 52.6% | 59.2% | 59.8% | 50.8% | 49.9% | 53.2% | 51.8% |
| Jan - 20 | 43.3% | 65.1% | 75.9% | 68.7% | 58.0% | 59.7% | 56.8% | 61.2% |
| Feb - 20 | 49.9% | 75.7% | 86.8% | 88.6% | 71.3% | 67.3% | 66.6% | 72.1% |
| Mar - 20 | 36.0% | 41.1% | 43.0% | 52.0% | 46.1% | 44.1% | 42.6% | 43.2% |
| Apr - 20 | 16.2% | 16.8% | 18.3% | 18.8% | 18.0% | 17.2% | 16.1% | 17.4% |
| Total Year | 44.5% | 60.7% | 68.6% | 69.2% | 59.5% | 58.6% | 60.7% | 60.3% |

Minimum 16.1% Average 60.4% Maximum 88.6%

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 does not exceed and on Tuesday and Wednesday, occupancy exceeds 80%, approximately 21% of the time. The impact of COVID-19 on demand can be seen starting March of 2020.

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 |
|---|---|---|---|---|---|---|---|---|
| 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 | 119 | 118 | 110 | 104 | 110 | 112 |
| Sep - 19 | 106 | 114 | 116 | 117 | 110 | 100 | 104 | 110 |
| Oct - 19 | 107 | 117 | 122 | 121 | 113 | 104 | 110 | 115 |
| Nov - 19 | 103 | 113 | 118 | 116 | 106 | 96 | 99 | 107 |
| Dec - 19 | 99 | 110 | 117 | 115 | 103 | 94 | 102 | 107 |
| Jan - 20 | 104 | 115 | 120 | 115 | 107 | 97 | 96 | 108 |
| Feb - 20 | 104 | 114 | 119 | 119 | 111 | 99 | 102 | 110 |
| Mar - 20 | 99 | 107 | 112 | 111 | 106 | 100 | 106 | 106 |
| Apr - 20 | 89 | 91 | 92 | 90 | 89 | 88 | 89 | 90 |
| Average | 105 | 114 | 119 | 118 | 111 | 102 | 106 | 111 |

Minimum $88 Average $109 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** | | | | | |
| 2017 | 542,000 | 405,000 | 74.7% | $124.05 | $92.69 |
| 2018 | 574,000 | 405,000 | 70.6% | $119.33 | $84.20 |
| 2019 | 590,000 | 403,000 | 68.3% | $114.14 | $77.96 |
| **Percent Change** | | | | | |
| 2018 | 5.9% | 0.0% | -5.6% | -3.8% | -9.2% |
| 2019 | 2.8% | -0.5% | -3.2% | -4.4% | -7.4% |

In 2019, demand declined by 0.5%, and available room nights increased by 2.8%, causing occupancy to decline to 68.3%. The NFL Super Bowl LII was held in Houston on February 4, 2018, resulting in higher ADR and occupancy for early 2018.

**Demand Analysis Using Market Segmentation**

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 2019 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 | 211,853 | 53% |
| Leisure | 98,692 | 24% |
| Meeting and Group | 92,793 | 23% |
| **Total** | **403,338** | **100%** |

Commercial demand is the largest market segment, generating 53% of total room night demand.

**Commercial Demand**

Commercial demand (53% 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 recovers from the impact of COVID-19. 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 (24% 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 Hyatt Regency's anticipated ability to market itself as a convention center hotel with the availability of ample meeting space.

### 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 4-17**
**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 |
|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | 424,278 | | 233,916 | | 55.1% | | $103 | | $57 | |
| 2011 | 512,116 | | 288,378 | | 56.3% | | $105 | | $59 | |
| 2012 | 541,147 | | 345,062 | | 63.8% | | $108 | | $69 | |
| 2011 | 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 | |
| 2019 | 671,655 | | 457,650 | | 68.1% | | $113 | | $77 | |
| Average from 2009 to 2018 | | | | | 80.4% | | $114 | | $77 | |

Source: STR

### 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 from September 2017 to February 2018.

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

**Projecting the Performance of the Local Market**

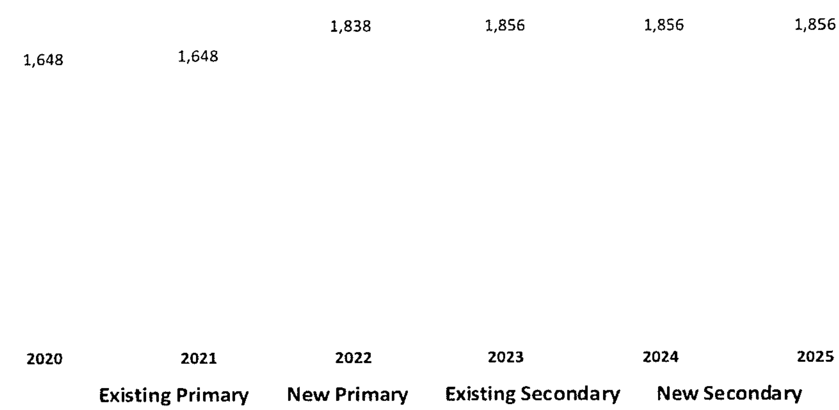
Historical data and market interviews provided an understanding of the condition and recent changes in Competitive Hotels and the overall market. Next, we project the market over the next ten years based on:

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

**Supply Changes**

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

**FIGURE 4-18**
**ROOM SUPPLY PROJECTIONS**
**(WEIGHTED DAILY ROOM COUNTS)**




The figure below summarizes our assumptions regarding new supply.

HVS

**FIGURE 4-19**
**NEW SUPPLY**

| Year | Proposed Property | Competitive Weight | Proposed Rooms | Weighted Room Count | Cumulative Weighted Room Count |
|---|---|---|---|---|---|
| 2022 | Proposed Hyatt Regency | 100% | 208 | 208 | |
| | **Totals** | | **208** | **208** | |

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.

Growth returned to the market in the second half of 2019 and continued into 2020 as construction continued or started on large petroleum refining and petrochemical processing projects in the Baytown Industrial Districts. The Permian region in western Texas continued to increase oil and gas production until early 2020, when the impact of supply increases by Saudi Arabia due to the price war with Russia and reduction in demand due to COVID-19 impacted demand and market price, which feeds the growing number of processing facilities in the Baytown area. The decrease in demand starting in March of 2020 is due to the impact of COVID-19 on all forms of travel and the resulting reduction in the demand for oil and gas. On April 9th of 2020, Saudi Arabia and Russia ended the price war and agreed to cut output with other members of the OPEC+. Demand will begin to return to the market in late 2020 and 2021 as the impact of COVID-19 is reduced and demand stabilizes in the oil markets. In 2022 demand will increase as the markets continue to recover and the growth continues in the Baytown Industrial Districts. By 2023 demand is expected to fully recover to the 2019 level.

**FIGURE 4-20**
**ESTIMATED ANNUAL BASE GROWTH RATES BY MARKET SEGMENTS**

| Segment | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| Commercial | -45.0% | 55.0% | 20.0% | 7.0% | 4.0% | 2.0% |
| Meeting and Group | -55.0% | 60.0% | 20.0% | 8.0% | 4.0% | 2.0% |
| Leisure | -50.0% | 60.0% | 20.0% | 7.0% | 4.0% | 2.0% |
| **Weighted Overall Change** | **-48.5%** | **57.2%** | **20.0%** | **7.2%** | **4.0%** | **2.0%** |

The impact of the COVID-19 pandemic and related travel restrictions and social distance protocols is reflected in the dramatic decreases in demand forecast for 2020. These forecasts generally anticipate that demand in the second quarter of 2020 will be dramatically lower than in the same period of 2019. The degree of the decline is expected to diminish in the third quarter and further in the fourth quarter, although demand levels in both quarters are expected to be well below 2019 levels. With restrictions expected to be fully lifted by 2021, demand levels are anticipated to register a strong recovery. The market would continue to recover for 2022 and 2023, as the market continues to rebound from the current downturn.

**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.

Due to the impact of COVID-19 on the market no unaccommodated demand exists in the market today.

**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 Hyatt Regency. The following figure shows the estimated induced demand for room nights that would enter the competitive set over a four-year ramp-up period.

**FIGURE 4-21**
**TIMING OF INDUCED DEMAND**

| Year | Commercial | Meeting and Group | Leisure | Total Induced |
|---|---|---|---|---|
| **2022** | 1,320 | 4,950 | 1,650 | 7,920 |
| **2023** | 2,040 | 8,100 | 3,060 | 13,200 |
| **2024** | 2,400 | 10,800 | 3,600 | 16,800 |
| **2025** | 2,400 | 10,800 | 3,600 | 16,800 |

The 17,890 square-feet of ballroom and meeting space in the Proposed Hyatt Regency 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 Hyatt Regency with independent leisure travelers as well as for social and corporate group activities. As the only full-service hotel in Baytown the property will attract new corporate demand.

### 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 4-22**
**ANNUAL ROOM NIGHT DEMAND BY SOURCE FOR THE COMPETITIVE HOTELS**

| Source | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| Base Accommodated | 403,000 | 208,000 | 326,000 | 392,000 | 420,000 | 437,000 | 445,000 |
| Previously Unaccommodated | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Induced | 0 | 0 | 0 | 8,000 | 13,000 | 17,000 | 17,000 |
| Total Available Demand | 403,000 | 208,000 | 326,000 | 400,000 | 433,000 | 454,000 | 462,000 |
| (Less Residual Demand) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Accommodated Demand | 403,000 | 208,000 | 326,000 | 400,000 | 433,000 | 454,000 | 462,000 |
| | | | | | | | |
| Accommodated Demand Change | -0.4% | -48.5% | 57.2% | 22.4% | 8.4% | 4.7% | 1.9% |
| Available Room Night Change | 2.8% | 1.9% | 0.0% | 11.6% | 1.0% | 0.0% | 0.0% |
| Marketwide Occupancy | 68% | 35% | 54% | 60% | 64% | 67% | 68% |

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 2.05%. HVS used these demand projections to forecast the Proposed Hyatt Regency'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. One new hotels, including the Proposed Hyatt Regency, will enter the competitive set. Market demand growth and supply growth are balanced, resulting in little change in occupancy rates after the Proposed Hyatt Regency has stabilized. In the next chapter, the Proposed Hyatt Regency will be positioned by market demand segment to determine the stabilized occupancy rate for the Proposed Hyatt Regency.

# 5. Projection of Occupancy and Average Rate

Along with average rate results, the occupancy levels achieved by the Proposed Hyatt Regency 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 Hyatt Regency'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 occupancy penetration of the primary competitors and the aggregate weighted secondary competitors by market segment.

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

**Commercial Penetration**

| | |
|---|---|
| Hilton Garden Inn Houston Baytown | 133% |
| Secondary Competition | 118% |
| Hilton Houston NASA Clear Lake | 110% |
| Holiday Inn Houston East Channelview | 110% |
| Marriott Houston Hobby Airport Hotel | 82% |
| DoubleTree by Hilton Hotel Houston Hobby Airport | 76% |
| Kemah Boardwalk Inn | 28% |

**Meeting and Group Penetration**

| | |
|---|---|
| Marriott Houston Hobby Airport Hotel | 165% |
| DoubleTree by Hilton Hotel Houston Hobby Airport | 151% |
| Hilton Houston NASA Clear Lake | 126% |
| Holiday Inn Houston East Channelview | 84% |
| Kemah Boardwalk Inn | 64% |
| Secondary Competition | 45% |
| Hilton Garden Inn Houston Baytown | 20% |

**Leisure Penetration**

| | |
|---|---|
| Kemah Boardwalk Inn | 283% |
| Secondary Competition | 112% |
| Marriott Houston Hobby Airport Hotel | 111% |
| DoubleTree by Hilton Hotel Houston Hobby Airport | 102% |
| Holiday Inn Houston East Channelview | 79% |
| Hilton Garden Inn Houston Baytown | 76% |
| Hilton Houston NASA Clear Lake | 39% |

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 boardwalk location and quality facilities.

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

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

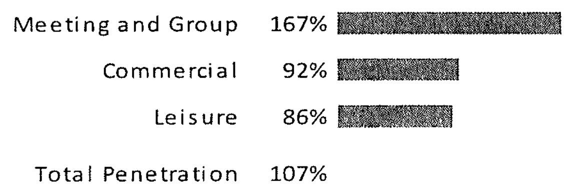
- Under penetrate the commercial segment due to the property being marketed for meeting and group activities and higher ADR.

- Under penetrate the leisure segment due to high ADR and focus on the meeting and group market., and

In total, the Proposed Hyatt Regency would over penetrate the competitive market.

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

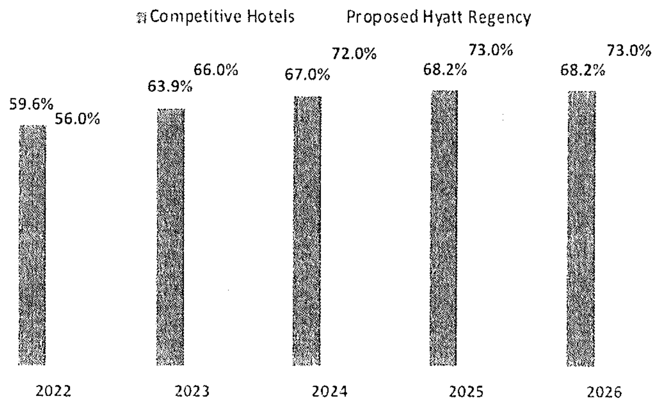
**FIGURE 5-2**
**OCCUPANCY PENETRATION OF THE PROPOSED HYATT REGENCY**




We estimate that the Proposed Hyatt Regency would achieve 107.0% overall occupancy penetration in a stabilized year of operation in 2025/26. As is typical of new hotels, it may take several years to ramp-up to its stabilized occupancy level. HVS assumes a four-year ramp up after the opening of the Proposed Hyatt Regency. At stabilization in 2025/26, the Proposed Hyatt Regency 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.

HVS

**FIGURE 5-3**
**PROPOSED HYATT REGENCY OCCUPANCY PROJECTION**




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

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

| **Calendar Year** | **2022** | **2023** | **2024** | **2025** | **2026** |
|---|---|---|---|---|---|
| Available Room Nights | 25,307 | 75,920 | 75,920 | 75,920 | 75,920 |
| Absorption by Segment | | | | | |
| Commercial | 19,400 | 23,300 | 25,000 | 25,500 | 25,500 |
| Meeting and Group | 11,600 | 16,500 | 18,800 | 19,200 | 19,200 |
| Leisure | 7,700 | 10,100 | 10,500 | 10,700 | 10,700 |
| Total Absorption | 38,700 | 49,900 | 54,300 | 55,400 | 55,400 |
| Projected Occupancy | 56% | 66% | 72% | 73% | 73% |
| Percent Segmentation | | | | | |
| Commercial | 50% | 47% | 46% | 46% | 46% |
| Meeting and Group | 30% | 33% | 35% | 35% | 35% |
| Leisure | 20% | 20% | 19% | 19% | 19% |
| **Fiscal Year Starting February** | **2021/22** | **2022/23** | **2023/24** | **2024/25** | **2025/26** |
| Occupancy Forecast | | 57% | 66% | 72% | 73% |

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 Hyatt Regency 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 |
|---|---|---|---|---|
| May-19 | $118.11 | $121.27 | ($3.16) | -2.6% |
| Jun-19* | 115.95 | 121.46 | (5.51) | -4.5% |
| Jul-19 | 114.82 | 117.42 | (2.60) | -2.2% |
| Aug-19 | 112.28 | 115.07 | (2.79) | -2.4% |
| Sep-19 | 110.27 | 115.12 | (4.85) | -4.2% |
| Oct-19 | 114.55 | 118.20 | (3.64) | -3.1% |
| Nov-19 | 107.49 | 112.29 | (4.80) | -4.3% |
| Dec-19 | 106.66 | 107.24 | (0.58) | -0.5% |
| Jan-20 | 108.38 | 111.04 | (2.66) | -2.4% |
| Feb-20 | 110.40 | 112.52 | (2.12) | -1.9% |
| Mar-20 | 106.04 | 115.86 | (9.83) | -8.5% |
| Apr-20 | 89.70 | 118.15 | (28.45) | -24.1% |
| **12 Month Average** | **$109.56** | **$115.47** | **($5.92)** | **-5.1%** |

* Staybridge Suites opens

ADR declines over the last twelve months was due a temporary lull in demand related to fewer new construction projects in the Baytown area. The negative impact of COVID-19 on ADR started in March of 2020.

**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 Hyatt Regency's future primary competitors.

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

| Property | 2019 Average Room Rate | ADR Penetration | RevPAR | RevPAR Penetration |
|---|---|---|---|---|
| DoubleTree by Hilton Hotel Houston Hobby Airport | $105 - $110 | 95% | $73.44 | 94% |
| Hilton Garden Inn Houston Baytown | $125 - $130 | 110% | 79.38 | 102% |
| Hilton Houston NASA Clear Lake | $120 - $125 | 107% | 80.52 | 103% |
| Holiday Inn Houston East Channelview | $115 - $120 | 103% | 77.22 | 99% |
| Kemah Boardwalk Inn | $160 - $170 | 148% | 114.08 | 146% |
| Marriott Houston Hobby Airport Hotel | $105 - $110 | 92% | 77.70 | 100% |
| Average - Primary Competitors | $115.76 | 101% | $79.17 | 101% |
| Average - Secondary Competitors | 110.39 | 97% | 75.32 | 97% |
| **Overall Average** | **$114.14** | | **$78.01** | |
| Proposed Hotel Positioned 2019 ADR | $150.00 | | | |

The primary competitors realized an overall average rate of $115.76 in the 2019 base year, declining from the 2018 level of $120.97.

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 2.0% in 2020, 2.5% in 2021,and 3.0% after that throughout our projection period.

## FIGURE 5-7
## COMPETITIVE HOTELS AND PROPOSED HYATT REGENCY AVERAGE RATE FORECAST

| | Competitive Hotels ADR | | Proposed Hotel ADR | | |
|---|---|---|---|---|---|
| Year | Average Rate Growth | Average Rate | Weighted Average Rate | Weighted Average Rate Growth | Weighted Average Rate Penetration |
| Base Year | — | $114.14 | | — | |
| 2020 | (14.0) % | 98.15 | | | |
| 2021 | 2.0 | 100.10 | | | |
| 2022 | 6.8 | 106.92 | $140.51 | | 131.4 % |
| 2023 | 5.6 | 112.88 | 148.35 | 5.6 % | 131.4 |
| 2024 | 4.4 | 117.87 | 154.90 | 4.4 | 131.4 |
| 2025 | 4.0 | 122.59 | 161.10 | 4.0 | 131.4 |
| 2026 | 3.0 | 126.26 | 165.93 | 3.0 | 131.4 |
| 2027 | 3.0 | 130.05 | 170.91 | 3.0 | 131.4 |
| 2028 | 3.0 | 133.95 | 176.04 | 3.0 | 131.4 |

The positioned ADR is discounted by 3.0% in 2022/23 and 1.0% in 2023/24 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 Hyatt Regency 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 Hyatt Regency, net of discount in 2022/23, and 2023/24, during the first ten years of operations. The Proposed Hyatt Regency would achieve an ADR penetration rate of 131.4% by stabilization.

HVS

## FIGURE 5-8
## PROPOSED HYATT REGENCY
## FORECAST OF OCCUPANCY, ADR, AND REVPAR

| Year | Occupancy | ADR | RevPAR | Annual Increase RevPAR |
|---|---|---|---|---|
| 2022/23 | 57% | $136.94 | $78.06 | |
| 2023/24 | 66% | 147.41 | 97.29 | 24.6% |
| 2024/25 | 72% | 155.43 | 111.91 | 15.0% |
| 2025/26 | 73% | 161.51 | 117.90 | 5.4% |
| 2026/27 | 73% | 166.36 | 121.44 | 3.0% |
| 2027/28 | 73% | 171.35 | 125.08 | 3.0% |
| 2028/29 | 73% | 176.49 | 128.84 | 3.0% |
| 2029/30 | 73% | 181.78 | 132.70 | 3.0% |
| 2030/31 | 73% | 187.24 | 136.68 | 3.0% |
| 2031/32 | 73% | 192.85 | 140.78 | 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 Hyatt Regency, such as food, beverages, and telephone income. Many expense levels also vary with occupancy.

We assume operation would begin on February 1, 2022. The forecast of income and expense is stated in current dollars for each operating year. We expect hotel operations to ramp up for four 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 Hyatt Regency rely on comparable hotel operating statements from the HVS database. We carefully selected comparable hotel operating statements based on similarities with the Proposed Hyatt Regency, 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 Hyatt Regency.

## 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 Meetng Space per Room:** | 116 | 41 | 79 | 71 | 43 | 86 |
| **Occupied Rooms:** | 73,223 | 58,981 | 106,525 | 134,347 | 92,163 | 55,422 |
| **Average Rate:** | $161 | $157 | $186 | $124 | $162 | $137 |
| **RevPAR:** | $107 | $115 | $134 | $91 | $117 | $100 |

*A stabilized year of operation. Dollar amounts shown in 2019 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 Hyatt Regency 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 | **63.9** | 60.8 | 57.4 | 57.2 |
| Food & Beverage | 38.4 | 37.5 | 35.8 | **32.7** | 17.9 | 9.9 |
| Other Operated Departments | 6.1 | 3.6 | 3.4 | **2.8** | 2.8 | 1.0 |
| Miscellaneous Income | 1.6 | 1.4 | 0.8 | **0.6** | 0.6 | 0.0 |
| **DEPARTMENTAL EXPENSES*** | | | | | | |
| Rooms | 26.5 | 25.2 | **23.0** | 21.1 | 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 | **36.1** | 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** | 1.3 | 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 | **3.9** | 3.8 | 3.6 |
| Utilities | 5.3 | 4.7 | **3.3** | 3.1 | 2.5 | 2.2 |
| Total Operating Expenses | 31.4 | 30.1 | 25.6 | **24.5** | 24.5 | 22.1 |
| | | | | | | |
| **HOUSE PROFIT** | 49.4 | 47.2 | 41.2 | **39.4** | 37.4 | 26.2 |

* Ratio to Department Revenue — indicates position of Proposed Hyatt Regency

** 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.

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 | **36,482** | 33,213 |
| Food & Beverage | 28,868 | 26,130 | 21,708 | **18,652** | 10,174 | 4,699 |
| Other Operated Departments | 3,443 | 2,729 | 2,094 | 1,883 | **1,599** | 465 |
| Miscellaneous Income | 1,101 | 834 | 372 | 360 | 355 | 0 |
| Total | 80,525 | 68,071 | 57,849 | **57,092** | 56,722 | 47,637 |
| **DEPARTMENTAL EXPENSES** | | | | | | |
| Rooms | 10,337 | 9,214 | 8,874 | **8,391** | 8,359 | 8,001 |
| Food & Beverage | 17,201 | 15,134 | 12,046 | **11,191** | 6,119 | 3,406 |
| Other Operated Departments | 2,134 | 1,319 | **1,007** | 1,000 | 345 | 172 |
| Total Department Expenses | 28,857 | 24,693 | 21,406 | **20,589** | 16,254 | 12,453 |
| **OPERATING EXPENSES** | | | | | | |
| Administrative & General | 6,601 | 5,070 | 4,900 | 4,845 | **4,624** | 4,219 |
| Info. and Telecom. Systems | 1,914 | 1,609 | **742** | 738 | 531 | 503 |
| Marketing | 6,244 | 6,096 | 6,056 | 5,541 | **4,510** | 3,358 |
| Property Operations & Maintenance | 3,516 | 2,915 | 2,714 | **2,227** | 2,212 | 2,096 |
| Utilities | 3,625 | 2,691 | **1,884** | 1,796 | 1,476 | 1,466 |
| Total Operating Expenses | 21,407 | 17,791 | 17,081 | 14,803 | **13,987** | 11,653 |
| **HOUSE PROFIT** | 38,041 | 23,531 | 23,387 | **22,515** | 21,641 | 17,807 |

indicates position of Proposed Hyatt Regency
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 | **137** | 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 | 215 | 215 | **214** | 178 |
| **DEPARTMENTAL EXPENSES** | | | | | | |
| Rooms | 43 | 35 | 33 | **31** | 31 | 30 |
| Food & Beverage | 71 | 57 | 45 | **42** | 23 | 13 |
| Other Operated Departments | 8 | 5 | **4** | 4 | 1 | 1 |
| Total Department Expenses | 119 | 94 | 80 | **77** | 62 | 46 |
| **OPERATING EXPENSES** | | | | | | |
| Administrative & General | 27 | 19 | 19 | 18 | **17** | 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 | **52** | 43 |
| **HOUSE PROFIT** | 144 | 89 | 88 | **85** | 81 | 73 |

indicates position of Proposed Hyatt Regency
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. 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 following figure illustrates the revenue and expense categories that can be projected using this fixed and variable component model.

**FIGURE 6-5**
**PROPOSED HYATT REGENCY - 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 |

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 Hyatt Regency would reach a stabilized level of operation in 2025/26. The forecast is based on fiscal years beginning February 1, 2022, 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 Hyatt Regency would stabilize at an occupancy level of 73%, with an average daily rate of $161.51 in

2025/26, the first stabilized year. Following the stabilized year, the Proposed Hyatt Regency'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 Hyatt Regency, the food and beverage department would include a restaurant with show kitchen and wood-burning oven and an outdoor terrace, and lounge.

Function space in the Proposed Hyatt Regency 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 Hyatt Regency, 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 2025/26 is shown in the following figures.

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

| | |
|---|---|
| Food Sales | $3,923 |
| Beveage Sales | 654 |
| **Total Food & Beverage Sales** | **$4,576** |
| Percentage of Total Sales | 32.7% |
| Average Comparable Hotels | 27.9% |

**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 Hyatt Regency at 2.8% of gross revenues by the first stabilized year of 2025/26.

**Miscellaneous Income**

According to the USALI, miscellaneous income includes attrition fees, cancelation fees, outside agreement commission, in-room movie and game charges, and interest income, among other items. Based on our review of operations with a similar extent of offerings, we determined an appropriate revenue level for the Proposed Hyatt Regency at 0.6% of gross revenues by the first stabilized year of 2025/26.

**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 expenses are projected to average 23.0% of department revenues by the first stabilized year of 2025/26.

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 Hyatt Regency's food & beverage by the first stabilized year of 2025/26.

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 2025/26.

In 2025/26, department-level expenses average 36.1% of gross revenues, which would generate a department income of $9.0 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 2025/26.

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 1.3% of gross revenues by the first stabilized year of 2025/26.

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 2025/26.

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 3.9% of gross revenues by the first stabilized year of 2025/26.

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 3.3% of gross revenues by the first stabilized year of 2025/26.

**FIGURE 6-8**
**UNDISTRIBUTED OPERATING EXPENSES**

| Undistributed Expenses* | Proposed Hotel | Comparable Hotel Statements | | |
|---|---|---|---|---|
| | | High | Low | Average |
| Administrative & General | 8.1% | 9.7% | 6.3% | 8.4% |
| Info. and Telecom. Systems | 1.3% | 2.4% | 1.1% | 1.6% |
| Marketing | 7.9% | 9.6% | 7.0% | 8.8% |
| Property Operations & Maintenance | 3.9% | 5.2% | 3.6% | 4.4% |
| Utilities | 3.3% | 5.3% | 2.2% | 3.6% |
| Total | 24.5% | | | 26.7% |

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

The Proposed Hyatt Regency 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 24.5% of gross revenues by the stabilized year of 2025/26, which generates a house profit of $5.52 million or 39.4% of gross revenues for the Proposed Hyatt Regency.

**Management Fees**

The Proposed Hyatt Regency will operate as a 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 Hyatt Regency) 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 Hyatt Regency 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 1.2% of gross revenues for the Proposed Hyatt Regency by the first stabilized year of 2025/26. 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 Hyatt Regency 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 Hyatt Regency.

The forecasts pertain to years beginning February 1, 2022, in inflated dollars for each year.

# FIGURE 6-9
## FIRST STABILIZED YEAR (2025/26)

| STATISTICS | |
|---|---|
| Number of Rooms | 208 |
| Occupied Room Nights | 55,422 |
| Occupancy | 73% |
| Average Rate | $161.51 |
| RevPAR | $117.90 |

| | $000 | % of Gross |
|---|---|---|
| **Operating Revenue** | | |
| Rooms | $8,951 | 63.9% |
| Food | 3,923 | 28.0% |
| Beverage | 654 | 4.7% |
| Other Operated Departments | 392 | 2.8% |
| Miscellaneous Income | 88 | 0.6% |
| **Total Operating Revenues** | $14,008 | 100% |
| **Departmental Expenses*** | | |
| Rooms | $2,059 | 23.0% |
| Food & Beverage | 2,746 | 60.0% |
| Other Operated Departments | 247 | 63.0% |
| **Total Expenses** | $5,052 | 36.1% |
| **Departmental Income** | $8,956 | 63.9% |
| **Undistributed Operating Expenses** | | |
| Administrative & General | $1,135 | 8.1% |
| Marketing | 1,107 | 7.9% |
| Prop. Operations & Maint. | 546 | 3.9% |
| Utilities | 462 | 3.3% |
| Info & Telecom Systems | 182 | 1.3% |
| **Total Expenses** | $3,432 | 24.5% |
| **Gross House Profit** | $5,524 | 39.4% |
| **Management Fee** | $700 | 5.0% |
| **Income Before Non-Opr. Inc. & Exp.** | $4,824 | 34.4% |
| **Non-Operating Income & Expenses** | | |
| Insurance | 168 | 1.2% |
| Reserve for Replacement | 560 | 4.0% |
| **Total Expenses** | $728 | 5.2% |
| **EBITDA Less Reserve Available for Debt Service** | $4,095 | 29.2% |

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

# FIGURE 6-10
## PROPOSED HYATT REGENCY 10 YEAR PRO FORMA (000'S)

| STATISTICS | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | 2029/30 | 2030/31 | 2031/32 |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of Rooms | 208 | 208 | 208 | 208 | 208 | 208 | 208 | 208 | 208 | 208 |
| Occupied Room Nights | 43,274 | 50,107 | 54,662 | 55,422 | 55,422 | 55,422 | 55,422 | 55,422 | 55,422 | 55,422 |
| Occupancy | 57% | 66% | 72% | 73% | 73% | 73% | 73% | 73% | 73% | 73% |
| Average Rate | $136.94 | $147.41 | $155.43 | $161.51 | $166.36 | $171.35 | $176.49 | $181.78 | $187.24 | $192.85 |
| RevPAR | $78.06 | $97.29 | $111.91 | $117.90 | $121.44 | $125.08 | $128.84 | $132.70 | $136.68 | $140.78 |

| | 2022/23 | | 2023/24 | | 2024/25 | | 2025/26 | | 2026/27 | | 2027/28 | | 2028/29 | | 2029/30 | | 2030/31 | | 2031/32 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $000 | % of Gross | $000 | % of Gross | $000 | % of Gross | $000 | % of Gross | $000 | % of Gross | $000 | % of Gross | $000 | % of Gross | $000 | % of Gross | $000 | % of Gross | $000 | % of Gross |
| **Operating Revenue** | | | | | | | | | | | | | | | | | | | | |
| Rooms | $5,926 | 60.1 | $7,387 | 62.4 | $8,496 | 63.6 | $8,951 | 63.9 | $9,220 | 63.9 | $9,496 | 63.9 | $9,781 | 63.9 | $10,075 | 63.9 | $10,377 | 63.9 | $10,688 | 63.9 |
| Food | 3,000 | 30.4 | 3,432 | 29.0 | 3,769 | 28.2 | 3,923 | 28.0 | 4,040 | 28.0 | 4,161 | 28.0 | 4,286 | 28.0 | 4,415 | 28.0 | 4,547 | 28.0 | 4,684 | 28.0 |
| Beverage | 525 | 5.3 | 583 | 4.9 | 630 | 4.7 | 654 | 4.7 | 673 | 4.7 | 694 | 4.7 | 714 | 4.7 | 736 | 4.7 | 758 | 4.7 | 781 | 4.7 |
| Other Operated Departments | 335 | 3.4 | 359 | 3.0 | 379 | 2.8 | 392 | 2.8 | 404 | 2.8 | 416 | 2.8 | 429 | 2.8 | 441 | 2.8 | 455 | 2.8 | 468 | 2.8 |
| Miscellaneous Income | 75 | 0.8 | 81 | 0.7 | 85 | 0.6 | 88 | 0.6 | 91 | 0.6 | 94 | 0.6 | 96 | 0.6 | 99 | 0.6 | 102 | 0.6 | 105 | 0.6 |
| **Total Operating Revenues** | $9,861 | 100.0 | $11,841 | 100.0 | $13,360 | 100.0 | $14,008 | 100.0 | $14,429 | 100.0 | $14,861 | 100.0 | $15,307 | 100.0 | $15,767 | 100.0 | $16,239 | 100.0 | $16,726 | 100.0 |
| **Departmental Expenses*** | | | | | | | | | | | | | | | | | | | | |
| Rooms | $1,719 | 29.0 | $1,866 | 25.3 | $1,988 | 23.4 | $2,059 | 23.0 | $2,121 | 23.0 | $2,184 | 23.0 | $2,250 | 23.0 | $2,317 | 23.0 | $2,387 | 23.0 | $2,458 | 23.0 |
| Food & Beverage | 2,334 | 66.2 | 2,507 | 62.5 | 2,654 | 60.3 | 2,746 | 60.0 | 2,828 | 60.0 | 2,913 | 60.0 | 3,000 | 60.0 | 3,090 | 60.0 | 3,183 | 60.0 | 3,279 | 60.0 |
| Other Operated Departments | 222 | 66.1 | 231 | 64.3 | 240 | 63.2 | 247 | 63.0 | 255 | 63.0 | 262 | 63.0 | 270 | 63.0 | 278 | 63.0 | 286 | 63.0 | 295 | 63.0 |
| **Total Expenses** | $4,274 | 43.3 | $4,605 | 38.9 | $4,881 | 36.5 | $5,052 | 36.1 | $5,203 | 36.1 | $5,359 | 36.1 | $5,520 | 36.1 | $5,686 | 36.1 | $5,856 | 36.1 | $6,032 | 36.1 |
| **Departmental Income** | $5,587 | 56.7 | $7,237 | 61.1 | $8,478 | 63.5 | $8,956 | 63.9 | $9,225 | 63.9 | $9,501 | 63.9 | $9,787 | 63.9 | $10,081 | 63.9 | $10,383 | 63.9 | $10,694 | 63.9 |
| **Undistributed Operating Expenses** | | | | | | | | | | | | | | | | | | | | |
| Administrative & General | $978 | 9.9 | $1,042 | 8.8 | $1,097 | 8.2 | $1,135 | 8.1 | $1,169 | 8.1 | $1,204 | 8.1 | $1,240 | 8.1 | $1,277 | 8.1 | $1,315 | 8.1 | $1,355 | 8.1 |
| Marketing | 954 | 9.7 | 1,016 | 8.6 | 1,070 | 8.0 | 1,107 | 7.9 | 1,140 | 7.9 | 1,174 | 7.9 | 1,209 | 7.9 | 1,246 | 7.9 | 1,283 | 7.9 | 1,321 | 7.9 |
| Prop. Operations & Maint. | 471 | 4.8 | 502 | 4.2 | 528 | 4.0 | 546 | 3.9 | 563 | 3.9 | 580 | 3.9 | 597 | 3.9 | 615 | 3.9 | 633 | 3.9 | 652 | 3.9 |
| Utilities | 399 | 4.0 | 424 | 3.6 | 447 | 3.3 | 462 | 3.3 | 476 | 3.3 | 490 | 3.3 | 505 | 3.3 | 520 | 3.3 | 536 | 3.3 | 552 | 3.3 |
| Info & Telecom Systems | 157 | 1.6 | 167 | 1.4 | 176 | 1.3 | 182 | 1.3 | 188 | 1.3 | 193 | 1.3 | 199 | 1.3 | 205 | 1.3 | 211 | 1.3 | 217 | 1.3 |
| **Total Expenses** | $2,960 | 30.0 | $3,152 | 26.6 | $3,317 | 24.8 | $3,432 | 24.5 | $3,535 | 24.5 | $3,641 | 24.5 | $3,750 | 24.5 | $3,863 | 24.5 | $3,979 | 24.5 | $4,098 | 24.5 |
| **Gross House Profit** | $2,627 | 26.7 | $4,085 | 34.5 | $5,161 | 38.7 | $5,524 | 39.5 | $5,690 | 39.4 | $5,861 | 39.4 | $6,036 | 39.4 | $6,218 | 39.4 | $6,404 | 39.4 | $6,596 | 39.4 |
| **Management Fee** | $296 | 3.0 | $474 | 4.0 | $668 | 5.0 | $700 | 5.0 | $721 | 5.0 | $743 | 5.0 | $765 | 5.0 | $788 | 5.0 | $812 | 5.0 | $836 | 5.0 |
| **Income Before Non-Opr. Inc. & Exp.** | $2,331 | 23.7 | $3,612 | 30.5 | $4,493 | 33.7 | $4,824 | 34.5 | $4,969 | 34.4 | $5,117 | 34.4 | $5,271 | 34.4 | $5,430 | 34.4 | $5,592 | 34.4 | $5,760 | 34.4 |
| **Non-Operating Income & Expenses** | | | | | | | | | | | | | | | | | | | | |
| Insurance | 154 | 1.6 | 158 | 1.3 | 163 | 1.2 | 168 | 1.2 | 173 | 1.2 | 178 | 1.2 | 184 | 1.2 | 189 | 1.2 | 195 | 1.2 | 201 | 1.2 |
| Reserve for Replacement | 197 | 2.0 | 355 | 3.0 | 534 | 4.0 | 560 | 4.0 | 577 | 4.0 | 594 | 4.0 | 612 | 4.0 | 631 | 4.0 | 650 | 4.0 | 669 | 4.0 |
| **Total Expenses** | $351 | 3.6 | $514 | 4.3 | $698 | 5.2 | $728 | 5.2 | $750 | 5.2 | $773 | 5.2 | $796 | 5.2 | $820 | 5.2 | $844 | 5.2 | $870 | 5.2 |
| **EBITDA Less Reserve Available for Debt Service** | $1,980 | 20.1 | $3,098 | 26.2 | $3,795 | 28.5 | $4,095 | 29.3 | $4,219 | 29.2 | $4,345 | 29.2 | $4,475 | 29.2 | $4,610 | 29.2 | $4,748 | 29.2 | $4,890 | 29.2 |

*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 36.1% of revenue in a stabilized year for the Proposed Hyatt Regency, while undistributed operating expenses total 24.5% 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 5.2% of total revenues in fixed expenses with no allowance for property taxes, a net income ratio of 29.2% ($4.10 million) is forecast by 2025/26 for the Proposed Hyatt Regency.

# 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 Hyatt Regency.
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 Hyatt Regency; 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.

Thomas Hazinski

Tom Hazinski
Managing Director

Brian Harris

Brian Harris
Senior Director