



SAMMARTINO, STOUT & LO PRESTI

REAL ESTATE ANALYSTS, APPRAISERS & CONSULTANTS

Commercial and Industrial Real Estate Review and Outlook

2016 Edition

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The addition of our new partner makes our firm the largest in northwest PA with three designated MAI members.



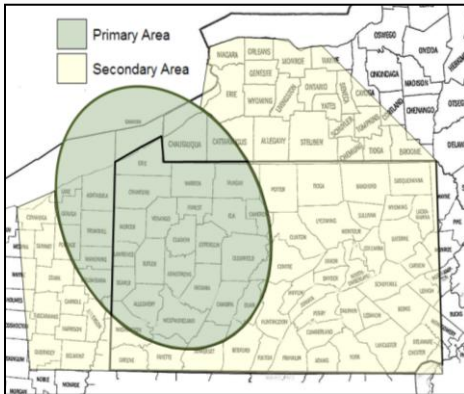
(L to R) Raymond J. Sammartino, MAI, SRA, Robert G. Stout, Jr., MAI, and Sergio S. Lo Presti, MAI formalize their new corporate entity.

2016 will be a year of change and growth for Sammartino & Stout as we introduce our newest partner, Sergio S. Lo Presti, MAI, to our firm, now Sammartino, Stout & Lo Presti, Inc. Mr. Lo Presti joined our firm of eight appraisers and staff in 2008 as a graduate of Clarion University of Pennsylvania earning a Bachelor of Science in Business Administration, with majors in Real Estate and Finance, and is a member of the Beta Gamma Sigma International Honor Society. His elevation to partner caps his attainment of the MAI, the pre-eminent designation in the field of real property appraisal granted by the Appraisal Institute. Sergio is our third MAI designated member, making Sammartino, Stout & Lo Presti, Inc. the largest appraisal company in northwest Pennsylvania with staff possessing this designation.

Mr. Lo Presti's experience includes participation in a wide variety of eminent domain (condemnation) appraisals throughout Pennsylvania and northeastern Ohio including complex assignments requiring state-wide



Sergio S. Lo Presti, MAI
Partner



Sammartino, Stout & Lo Presti, Inc.
Market Area

Continued from p. 1 - Sergio S. Lo Presti, newest partner

solicitation and collaboration with third-party specialists (e.g., machinery & equipment appraisers, architects, engineers, etc.). Other areas of focus include single and multi-tenant medical and professional offices, industrial properties, restaurants, net-leased investments, and special-use properties (e.g., school campuses, parking garages, rail yards, surgery centers, sports event centers, golf courses, recycling centers, and rail corridors). He has also conducted various impact studies to ascertain adverse affects of external factors (e.g., road exposure, airport exposure, proximity to elevated roadway or superstructure, reduced parking, restricted site functionality, diminished visibility, etc.). We look forward to a long and successful career for Sergio at Sammartino, Stout & Lo Presti, Inc.

Market Perspectives

Regional and National Hotel Demand

National trends point to continued growth as illustrated in the following table of historic and projected Occupancy, Average Daily Rate (ADR), and Revenue Per Available Room (RevPAR) trends:

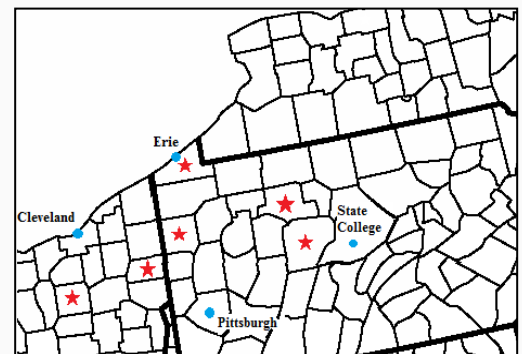
After a period of significant declines from the period 2008 and 2009, which saw RevPAR slippage of -13.0% and

U.S. RevPar Trend ⁽¹⁾							
Year	2010	2011	2012	2013	2014	2015	Proj. - 2016
Occupancy	54.6%	57.5%	61.4%	62.3%	64.4%	65.5%	66.0%
ADR	\$98.10	\$101.86	\$106.15	\$110.33	\$115.32	\$121.20	\$129.44
RevPar	\$53.56	\$58.57	\$65.18	\$68.74	\$74.27	\$79.39	\$85.43
% Change		9.3%	11.3%	5.5%	8.0%	6.9%	7.6%

¹ Source: Smith Travel Research, various Host Almanac Reports, Pw C Hospitality Directions, and HNN.

-8.7%, demand slowly recovered in 2009 and 2010. Afterwards, RevPAR experienced record growth in 2011 and 2012 and ended 2013, 2014 and 2015 with annual growth rates of 5.5%, 8.0%, and 6.9%, respectively. STR and PKF project current trends will continue with RevPAR expected to grow 7.6% in 2016. Over the next five years STR projects RevPAR to exceed \$96 owing to the projected growth in ADR which is expected to peak at \$150 by 2020. Regionally, demand has followed suit with the continued rise in RevPAR encouraging the construction of new hotels.

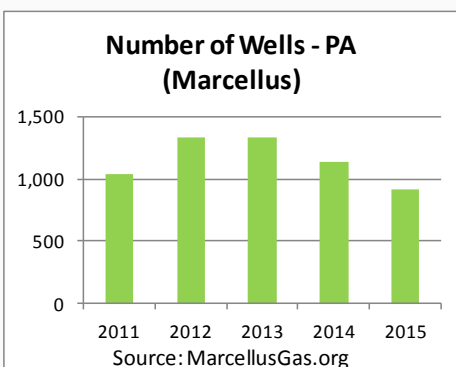
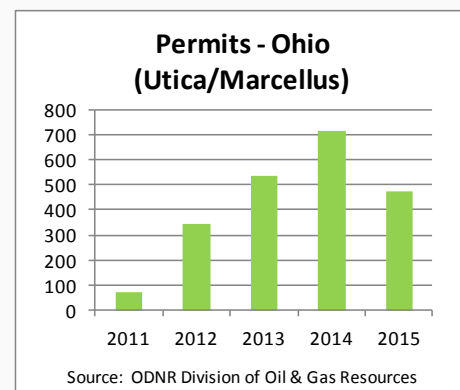
As illustrated on the map (right), our firm has recently completed numerous hotel valuation assignments. These were located in Mahoning and Wayne County, Ohio as well as Erie, Clearfield, Mercer and Elk County, Pennsylvania. All were new-build facilities. The development of these hotels supports the national and regional trend of increased financial feasibility for this sector.



Hotel Valuation Assignments

The Energy Sector and impact on Real Estate

Regional real estate has been positively impacted by growth in the oil and gas industry, especially in western Pennsylvania and eastern Ohio. This is due to the presence of Marcellus and Utica Shale formations. As an example, the hotel sector has seen an increase in occupancy by oil/gas industry employees and related contractors. Also, the industrial market was positively impacted via new industrial development and the re-use of existing facilities. However, the impact of declining oil and gas prices on the financial markets is causing concern as it relates to its influence on real estate.



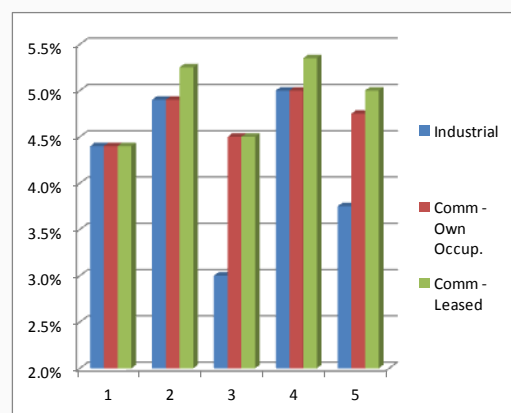
Pennsylvania activity began to decline in 2014 with a significant drop in 2015 for both Pennsylvania and Ohio. These trends are likely to continue given the extended slump in oil and gas prices. Regionally, businesses that are closely tied to the oil and gas industry are seeing layoffs. As an example, pipe manufacturer Vallourec Star and TMK IPSCO have announced significant layoffs in the Youngstown market, and Exterran announced that it will stop all operations at its Youngstown plant in March. In conclusion, over the short-term some negative

impacts will likely ripple through the real estate market. Nevertheless, long-term prospects are positive with several major investments proposed for the region, including: new gas fired power plants, ethane cracker plants, and pipelines.

Lenders Rate Survey

A survey of five regional and local lenders was conducted to understand the range of rates offered to borrowers for various property types. The following graph provides a summary of rates and terms reported via our survey. We focused the survey on Industrial (owner occupied properties), Commercial (owner occupied) and Commercial (tenant occupied). The reported rates were in the range of 3.0% to 5.0% for industrial loans, from 4.4% to 5.0% for commercial owner occupied properties and from 4.4% to 5.4% for commercial leased real estate. As would be

expected, the higher risk property type indicated the highest rates. Of course, there are always exceptions and lenders reported that leases to national or regional credit tenants would yield the lowest rates.



Continued from p. 3 - Lenders Rate Survey

Loan to Value ratios ranged from 50% (highest risk) to 85% (lowest risk) and Debt Coverage Ratios (DCR) ranged from 1.10 to 1.25. Additionally, we queried the lenders about their projections for the year in general, and, while most were hesitant to make a prediction, they did indicate that rates are expected to rise slightly or remain steady. The current action by the Federal Reserve indicates that a rise in rates is most likely; however, the weak economy and in particular the strong dollar and weak foreign economic conditions may forestall further tightening. Aside from general interest to our clients and to property owners, we utilize this information in the development of capitalization rates via mortgage-equity and debt coverage ratio formulas. Thus, rising interest rates may yield rising capitalization rates.

LTV	DCR
50%	1.10
80%	1.20
75%	1.10
85%	1.20
80%	1.20
60%	1.25
80%	1.25
75%	1.25
85%	1.25

Eminent Domain Projects

We were retained by PennDOT to assist in the “Freedom Road Upgrade



Project” in Beaver County. This project involves the municipalities of New Sewickley Township and Conway Borough. The purpose is to improve the safety and efficiency of the roadway between S.R. 0065 and S.R. 0989. It begins at the intersection of SR 65 with Crows Run Road and extends eastward along Crider Road and Park Quarry Road. This is a rural corridor developed with residential, commercial and light industrial properties. One of the impacted properties that we appraised was Crow’s Run Auto Recycling, a 30-acre, 1,500-car +/- auto salvage yard (above). Our research team was responsible for locating similar sales of this unique property type, which required a multi-state search including Ohio, Pennsylvania, New York and West Virginia. Since this is an eminent domain project, the report needed to be “court ready”, which meant a personal inspection and verification of each sale. Aside from this project, we have also been involved in eminent domain projects for PennDOT in western and central PA, Greater Pittsburgh, and the Philadelphia metro region.

Our Team

Sammartino, Stout & Lo Presti, Inc. comprises a staff of eight with the depth and breadth of experience to complete appraisal assignments that meet or exceed clients’ expectations. The three principals: Raymond J. Sammartino, MAI, SRA, Robert G. Stout, Jr., MAI and Sergio S. Lo Presti, MAI are Appraisal Institute designated members. The MAI designation far exceeds the requirements of state certification and provides us with knowledge that allows us to understand and resolve unique appraisal problems. This is evident in our completion of complex assignments in a concise and timely manner. **Contact us for any of your real property appraisal or consulting needs including: lending, eminent domain (condemnation), tax appeal, review, litigation support, highest and best use, or feasibility studies.**

Visit us at: www.ssl-rea.com for more information about our firm.