HVS

Feasibility Study

Proposed Alton Hotel

Alton, Illinois

Property Location:

Downtown Alton
Alton, Illinois 62002

Prepared by:

HVS Consulting and Valuation Services
Division of TS Worldwide, LLC
2386 Clower Street, Suite C101
Snellville, Georgia 30078
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Submitted to:

Phil Roggio
The City of Alton, Illinois
101 East 3rd Street
Alton, Illinois 62002
(618) 463-3532
(618) 463-0972 FAX

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April 24, 2009

Phil Roggio
The City of Alton, Illinois
101 East 3rd Street
Alton, Illinois 62002
(618) 463-3532
(618) 463-0972 FAX

Re: Proposed Alton Hotel
Alton, Illinois
HVS Reference: 2009380010

Dear Mr. Roggio:

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

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

Sincerely,
TS Worldwide, LLC

Michael Brophy, Vice President
mbrophy@hvs.com, (678) 628-6577

Rod Clough, MAI, Managing Director
rclough@hvs.com, (214) 629-1136

Table of Contents

1. Executive Summary

Subject of the Feasibility Study

The subject of the feasibility study is a proposed hotel that will be constructed on a yet to be determined site in Downtown Alton, Illinois. We have considered two scenarios in this study; the first scenario includes a stand-alone hotel and the second scenario includes a hotel and adjacent conference center. The hotel is expected to be affiliated with a nationally recognized brand; we have suggested two possible franchises. We have assumed an opening date for the property of April 1, 2011 and have recommended that it include 110 rooms, a lounge, a breakfast dining area, an indoor pool, an indoor whirlpool, an exercise room, a business center, a market pantry, vending areas, and a guest laundry room. Under the hotel-only scenario, the facility would include 6,000 square feet of meeting space. The hotel and conference center would include 12,000 square feet of meeting space. The hotel should also feature all necessary back-of-the-house space.

The purpose of this report is to determine the market demand and feasibility of two separate development scenarios in the Downtown Alton neighborhood: a hotel or a hotel with an adjacent conference center. After researching and analyzing the market, we are recommending the optimal characteristics for these facilities, including guestroom count, food and beverage facilities, amount of meeting space, and recreational facilities. We have also recommended that the hotel be branded with a national franchise. We have suggested the SpringHill Suites by Marriott brand for the proposed property; however, our facility recommendations and performance projections are not contingent on this particular brand affiliation. In general, we suggest that the proposed subject property be located near the Mississippi River, which is a primary attraction for the area, and incorporate a river theme into the naming, marketing, design, and décor of the proposed property. Additionally, the design and exterior of the building(s) should complement the quaint, historic nature of many of the existing buildings in the neighborhood. The subject site will be located in Downtown Alton, Alton, Illinois, 62002.

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Pertinent Dates

The effective date of the report is April 24, 2009. The neighborhood for the proposed subject property was inspected by Dan McCoy on March 11, 2009. Michael Brophy and Rod Clough, MAI participated in the analysis and reviewed the findings, but did not personally inspect the area.

Ownership, Franchise, and Management Assumptions

A developer for the proposed subject property has not yet been determined. This report is being prepared for the City of Alton, Illinois, to determine the feasibility of developing a hotel or a hotel and conference center in Downtown Alton. A specific site for the proposed development has not been determined; however, for the purposes of this report, we have assumed that a site in the desired neighborhood, measuring between two and three acres, would be acquired for development of the proposed subject property.

Details pertaining to management terms were not yet determined at the time of this report; therefore, our forecast fees represent a blended average of what would be expected on a base-fee and incentive-fee basis. We have assumed a market-appropriate total management fee of 3.0% of total revenues in our study.

A specific franchise affiliation and/or brand for the proposed subject property has yet to be selected. We recommend that the proposed subject property operate as an upscale, select-service hotel. We have placed heavy consideration on the SpringHill Suites brand, which is affiliated with Marriott International. This brand's all-suite product offering is popular with group and leisure travelers, while its strong national reservation system helps attract commercial demand. Additionally, we note that Marriott-affiliated brands are currently under-represented in the market. Another possible brand for the proposed subject property is Hilton Garden Inn, which is affiliated with Hilton Hotels Corporation. Based on our review of the agreement's terms or expected terms, the SpringHill Suites by Marriott franchise is reflected in our forecasts with a royalty fee of 5% of rooms revenue, and a marketing assessment of 2.5% of rooms revenue. Reservations fees will also be due, and are included in the rooms expense line item of our forecast.

Summary of Hotel Market Trends

Lodging trends in this market have been relatively stable for most of the illustrated period with local employers, tourists, and weekend visitors serving as consistent sources of demand. New supply entered the market in 2007, which caused a temporary drop in occupancy levels. This new supply was quickly absorbed as market occupancy rebounded in 2008 and reached its highest level of the last ten years. This sharp rebound and unprecedented growth resulted from increased demand related to area construction projects.

These include the ongoing expansion of the ConocoPhillips refinery, the addition of a new wing at Alton Memorial Hospital, the construction of the Great Rivers Research Center, and the extension of Interstate 255 to Seminary Road. Additionally, in the fall of 2008, a Days Inn in Alton was closed because of building code violations, which diverted demand to other hotels in the area. Major area construction projects are expected to continue to positively impact demand through 2009, into 2010 and 2011.

The following table provides a long-term perspective on the supply and demand trends for a selected set of hotels, as provided by Smith Travel Research.

Table 1-1 Historical Supply and Demand Trends (STR)

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
1999	355	129,475	—	88,312	—	68.2 %	$59.12	—	$40.32	—
2000	398	145,270	12.2 %	97,483	10.4 %	67.1	63.21	6.9 %	42.41	5.2 %
2001	398	145,270	0.0	97,963	0.5	67.4	65.02	2.9	43.85	3.4
2002	398	145,270	0.0	96,278	(1.7)	66.3	66.78	2.7	44.26	0.9
2003	398	145,270	0.0	92,497	(3.9)	63.7	67.77	1.5	43.15	(2.5)
2004	398	145,270	0.0	96,639	4.5	66.5	67.31	(0.7)	44.77	3.8
2005	398	145,270	0.0	98,338	1.8	67.7	70.29	4.4	47.58	6.3
2006	398	145,270	0.0	97,306	(1.0)	67.0	72.95	3.8	48.86	2.7
2007	422	154,054	6.0	99,309	2.1	64.5	76.30	4.6	49.19	0.7
2008	470	171,550	11.4	118,023	18.8	68.8	81.58	6.9	56.13	14.1
Year-to-Date Through February										
2008	470	27,730	—	13,350	—	48.1 %	$77.02	—	$37.08	—
2009	470	27,730	0.0 %	16,687	25.0 %	60.2	78.72	2.2 %	47.37	27.8 %
Average Annual Compounded Change: 1999-2008			3.2 %		3.3 %			3.6 %		3.7 %

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
Holiday Inn Alton	137	Jul 1982	Jul 1982
Super 8 Alton	63	Sep 1989	Sep 1989
Comfort Inn & Conference Center St Louis	71	Oct 1994	Oct 1994
Comfort Inn Alton	62	Jun 1996	Jun 1996
Holiday Inn Express & Suites Pontoon Beach	65	Sep 1999	Sep 1999
Hampton Inn Suites St Louis Edwardsville	72	Sep 2007	Sep 2007
Total	**470**		

Source: Smith Travel Research

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

Table 1-2 Primary Competitors – Operating Performance

		Est. Segmentation			Estimated 2006				Estimated 2007				Estimated 2008					
Property	**Number of Rooms**	**Commercial**	**Meeting and Group**	**Leisure**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**Occupancy Penetration**	**Yield Penetration**
Holiday Inn	137	60 %	25 %	15 %	137	60 %	$93.00	$55.80	137	63 %	$93.00	$58.59	137	63 %	$105.00	$66.15	92. %	114. %
Comfort Inn	62	65	15	20	62	70	68.00	47.60	62	70	73.00	51.10	62	73	73.00	53.29	106.	92.
Sub-Totals/Averages	**199**	**62 %**	**22 %**	**17 %**	**199**	**63.1 %**	**$84.36**	**$53.25**	**199**	**65.2 %**	**$86.31**	**$56.26**	**199**	**66. %**	**$93.99**	**$62.14**	**96. %**	**108. %**
Secondary Competitors	261	68 %	18 %	15 %	133	71.3 %	$63.53	$45.28	148	64.3 %	$68.12	$43.78	179	70.9 %	$73.96	$52.46	103. %	91. %
Totals/Averages	**460**	**65 %**	**20 %**	**16 %**	**332**	**66.4 %**	**$75.41**	**$50.06**	**347**	**64.8 %**	**$78.61**	**$50.93**	**378**	**68.4 %**	**$84.15**	**$57.50**	**100. %**	**100. %**

Table 1-3 Secondary Competitors – Operating Performance

		Est. Segmentation				Estimated 2006				Estimated 2007				Estimated 2008			
Property	**Number of Rooms**	**Commercial**	**Meeting and Group**	**Leisure**	**Total Competitive Level**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**
Super 8	63	70 %	10 %	20 %	60 %	38	68 %	$55.00	$37.40	38	68 %	$58.00	$39.44	38	73 %	$58.00	$42.34
Holiday Inn Express	65	75	15	10	75	49	75	70.00	52.50	49	70	75.00	52.50	49	73	75.00	4.75
Hampton Inn & Suites	62	65	20	15	75	0	0	0.00	0.00	16	35	90.00	31.50	47	70	95.00	6.50
Comfort Inn Edwardsville	71	60	25	15	65	46	70	63.00	44.10	46	65	65.00	42.25	46	68	65.00	4.20
Totals/Averages	**261**	**68 %**	**18 %**	**15 %**	**69 %**	**133**	**71.3 %**	**$63.53**	**$45.28**	**148**	**64.3 %**	**$68.12**	**$43.78**	**79**	**70.9 %**	**$73.96**	**$52.46**

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Summary of Forecast Occupancy and Average Rate

Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, we have chosen to use a stabilized occupancy level of 67% and a base-year rate position of $110.00 for the proposed subject property in the first scenario. The following table reflects a summary of our market-wide and proposed subject property occupancy and average rate projections, for the first scenario.

Table 1-4 Market and Subject Property Occupancy and Average Rate Forecast – First Scenario

	Areawide (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	68.4 %	—	$84.15	—	—	$110.00	130.7 %
2009	68.0	1.5 %	85.41	—	1.5 %	111.65	130.7
2010	68.2	2.0	87.12	—	2.0	113.88	130.7
2011	64.7	3.5	90.17	57.0 %	3.5	117.87	130.7
2012	64.1	4.5	94.23	62.0	4.5	123.17	130.7
2013	64.7	3.5	97.52	67.0	3.5	127.48	130.7
2014	65.1	3.0	100.45	69.0	3.0	131.31	130.7

The following table summarizes the proposed subject property's first-scenario forecast, reflecting fiscalization and opening-year rate discounts as applicable.

Table 1-5 Fiscalized Forecast of Occupancy and Average Rate – First Scenario

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2011/12	58 %	$119.18	3.0 %	$115.60
2012/13	63	124.24	1.5	122.37
2013/14	67	128.43	0.0	128.43

We have chosen to use a stabilized occupancy level of 70% and a base-year rate position of $106.00 for the proposed subject property in the second scenario. The following table reflects a summary of our market-wide and proposed subject property occupancy and average rate projections, for the second scenario.

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Table 1-6 Market and Subject Property Occupancy and Average Rate Forecast – Second Scenario

	Areawide (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	68.4 %	—	$84.15	—	—	$106.00	126.0 %
2009	68.1	1.5 %	85.41	—	1.5 %	107.59	126.0
2010	68.3	2.0	87.12	—	2.0	109.74	126.0
2011	65.2	3.5	90.17	59.0 %	3.5	113.58	126.0
2012	64.5	4.5	94.23	64.0	4.5	118.69	126.0
2013	65.1	3.5	97.52	69.0	3.5	122.85	126.0
2014	65.6	3.0	100.45	72.0	3.0	126.53	126.0

The following table summarizes the proposed subject property's second-scenario forecast, reflecting fiscalization and opening-year rate discounts as applicable.

Table 1-7 Fiscalized Forecast of Occupancy and Average Rate – Second Scenario

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2011/12	60 %	$114.84	3.0 %	$111.40
2012/13	65	119.72	1.5	117.92
2013/14	70	123.76	0.0	123.76

Summary of Forecast Income and Expense Statement

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

Table 1-8 Detailed Forecast of Income and Expense – First Scenario

	2011/12	Begins April			2012/13				Stabilized				2014/15				2015/16			
Number of Rooms:	110				110				110				110				110			
Occupancy:	58%				63%				67%				67%				67%			
Average Rate:	$115.60				$122.37				$128.43				$132.28				$136.25			
RevPAR:	$67.05				$77.09				$86.05				$88.63				$91.29			
Days Open:	365				365				365				365				365			
Occupied Rooms:	23,287	%Gross	PAR	POR	25,295	%Gross	PAR	POR	26,901	%Gross	PAR	POR	26,901	%Gross	PAR	POR	26,901	%Gross	PAR	POR
REVENUE																				
Rooms	$2,692	79.6 %	$24,473	$115.60	$3,095	80.2 %	$28,136	$122.36	$3,455	80.7 %	$31,409	$128.44	$3,558	80.7 %	$32,345	$132.27	$3,665	80.7 %	$33,318	$136.24
Food	472	14.0	4,292	20.28	521	13.5	4,738	20.60	565	13.2	5,141	21.02	582	13.2	5,295	21.65	600	13.2	5,454	22.30
Beverage	144	4.3	1,312	6.20	159	4.1	1,448	6.30	173	4.0	1,571	6.42	178	4.0	1,618	6.62	183	4.0	1,666	6.81
Telephone	9	0.3	83	0.39	10	0.3	92	0.40	11	0.3	100	0.41	11	0.3	103	0.42	12	0.3	106	0.43
Other Income	65	1.9	592	2.79	72	1.9	656	2.85	79	1.8	714	2.92	81	1.8	735	3.01	83	1.8	757	3.10
Total Revenues	3,383	100.0	30,751	145.26	3,858	100.0	35,070	152.51	4,283	100.0	38,935	159.21	4,411	100.0	40,097	163.96	4,543	100.0	41,302	168.89
DEPARTMENTAL EXPENSES *																				
Rooms	663	24.6	6,023	28.45	704	22.7	6,399	27.83	743	21.5	6,752	27.61	765	21.5	6,955	28.44	788	21.5	7,164	29.29
Food & Beverage	462	75.0	4,201	19.84	490	72.1	4,457	19.38	517	70.0	4,698	19.21	532	70.0	4,839	19.79	548	70.0	4,984	20.38
Telephone	21	227.3	188	0.89	22	217.2	199	0.87	23	210.0	210	0.86	24	210.0	216	0.88	24	210.0	223	0.91
Other Expenses	29	43.9	259	1.23	30	41.6	273	1.19	31	40.0	286	1.17	32	40.0	294	1.20	33	40.0	303	1.24
Total	1,174	34.7	10,672	50.41	1,246	32.3	11,329	49.27	1,314	30.7	11,946	48.85	1,354	30.7	12,305	50.32	1,394	30.7	12,674	51.82
DEPARTMENTAL INCOME	2,209	65.3	20,080	94.85	2,612	67.7	23,741	103.24	2,969	69.3	26,989	110.36	3,057	69.3	27,792	113.65	3,149	69.3	28,628	117.07
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	308	9.1	2,801	13.23	322	8.3	2,924	12.71	334	7.8	3,037	12.42	344	7.8	3,127	12.79	354	7.8	3,221	13.17
Marketing	127	3.8	1,153	5.45	131	3.4	1,192	5.19	135	3.1	1,226	5.01	139	3.1	1,263	5.16	143	3.1	1,301	5.32
Franchise Fee	202	6.0	1,835	8.67	232	6.0	2,110	9.18	259	6.1	2,356	9.63	267	6.1	2,426	9.92	275	6.1	2,499	10.22
Prop. Operations & Maint.	138	4.1	1,254	5.92	149	3.9	1,357	5.90	161	3.7	1,460	5.97	165	3.7	1,504	6.15	170	3.7	1,549	6.33
Utilities	186	5.5	1,690	7.98	196	5.1	1,781	7.75	206	4.8	1,869	7.64	212	4.8	1,925	7.87	218	4.8	1,982	8.11
Total	961	28.5	8,734	41.26	1,030	26.7	9,365	40.73	1,094	25.5	9,947	40.67	1,127	25.5	10,245	41.89	1,161	25.5	10,552	43.15
HOUSE PROFIT	1,248	36.8	11,345	53.59	1,581	41.0	14,376	62.52	1,875	43.8	17,042	69.69	1,930	43.8	17,548	71.75	1,988	43.8	18,076	73.92
Management Fee	101	3.0	923	4.36	116	3.0	1,052	4.58	128	3.0	1,168	4.78	132	3.0	1,203	4.92	136	3.0	1,239	5.07
INCOME BEFORE FIXED CHARGES	1,147	33.8	10,423	49.23	1,466	38.0	13,324	57.94	1,746	40.8	15,874	64.91	1,798	40.8	16,345	66.84	1,852	40.8	16,837	68.85
FIXED EXPENSES																				
Property Taxes	173	5.1	1,575	7.44	176	4.6	1,599	6.95	179	4.2	1,631	6.67	185	4.2	1,680	6.87	190	4.2	1,730	7.07
Insurance	48	1.4	440	2.08	50	1.3	454	1.97	51	1.2	467	1.91	53	1.2	481	1.97	55	1.2	496	2.03
Reserve for Replacement	68	2.0	615	2.91	116	3.0	1,052	4.58	171	4.0	1,557	6.37	176	4.0	1,604	6.56	182	4.0	1,652	6.76
Total	289	8.5	2,631	12.43	341	8.9	3,104	13.50	402	9.4	3,655	14.95	414	9.4	3,765	15.39	427	9.4	3,878	15.86
NET INCOME	$857	25.3 %	$7,792	$36.81	$1,124	29.1 %	$10,220	$44.44	$1,344	31.4 %	$12,218	$49.96	$1,384	31.4 %	$12,580	$51.44	$1,426	31.4 %	$12,959	$52.99

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

Table 1-9 Ten-Year Forecast of Income and Expense - First Scenario

	2011/12		2012/13		2013/14		2014/15		2015/16	
Number of Rooms:	**110**		**110**		**110**		**110**		**110**	
Occupied Rooms:	**23,287**		**25,295**		**26,901**		**26,901**		**26,901**	
Occupancy:	**58%**		**63%**		**67%**		**67%**		**67%**	
Average Rate:	**$115.60**	**% of**	**$122.37**	**% of**	**$128.43**	**% of**	**$132.28**	**% of**	**$136.25**	**% of**
RevPAR:	**$67.05**	**Gross**	**$77.09**	**Gross**	**$86.05**	**Gross**	**$88.63**	**Gross**	**$91.29**	**Gross**
REVENUE										
Rooms	$2,692	79.6 %	$3,095	80.2 %	$3,455	80.7 %	$3,558	80.7 %	$3,665	80.7 %
Food	472	14.0	521	13.5	565	13.2	582	13.2	600	13.2
Beverage	144	4.3	159	4.1	173	4.0	178	4.0	183	4.0
Telephone	9	0.3	10	0.3	11	0.3	11	0.3	12	0.3
Other Income	65	1.9	72	1.9	79	1.8	81	1.8	83	1.8
Total	3,383	100.0	3,858	100.0	4,283	100.0	4,411	100.0	4,543	100.0
DEPARTMENTAL EXPENSES*										
Rooms	663	24.6	704	22.7	743	21.5	765	21.5	788	21.5
Food & Beverage	462	75.0	490	72.1	517	70.0	532	70.0	548	70.0
Telephone	21	227.3	22	217.2	23	210.0	24	210.0	24	210.0
Other Expenses	29	43.9	30	41.6	31	40.0	32	40.0	33	40.0
Total	1,174	34.7	1,246	32.3	1,314	30.7	1,354	30.7	1,394	30.7
DEPARTMENTAL INCOME	2,209	65.3	2,612	67.7	2,969	69.3	3,057	69.3	3,149	69.3
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	308	9.1	322	8.3	334	7.8	344	7.8	354	7.8
Marketing	127	3.8	131	3.4	135	3.1	139	3.1	143	3.1
Franchise Fee	202	6.0	232	6.0	259	6.1	267	6.1	275	6.1
Prop. Operations & Maint.	138	4.1	149	3.9	161	3.7	165	3.7	170	3.7
Utilities	186	5.5	196	5.1	206	4.8	212	4.8	218	4.8
Total	961	28.5	1,030	26.7	1,094	25.5	1,127	25.5	1,161	25.5
HOUSE PROFIT	1,248	36.8	1,581	41.0	1,875	43.8	1,930	43.8	1,988	43.8
Management Fee	101	3.0	116	3.0	128	3.0	132	3.0	136	3.0
INCOME BEFORE FIXED CHARGES	1,147	33.8	1,466	38.0	1,746	40.8	1,798	40.8	1,852	40.8
FIXED EXPENSES										
Property Taxes	173	5.1	176	4.6	179	4.2	185	4.2	190	4.2
Insurance	48	1.4	50	1.3	51	1.2	53	1.2	55	1.2
Reserve for Replacement	68	2.0	116	3.0	171	4.0	176	4.0	182	4.0
Total	289	8.5	341	8.9	402	9.4	414	9.4	427	9.4
NET INCOME	$857	25.3 %	$1,124	29.1 %	$1,344	31.4 %	$1,384	31.4 %	$1,426	31.4 %

	2016/17		2017/18		2018/19		2019/20		2020/21	
Number of Rooms:	**110**		**110**		**110**		**110**		**110**	
Occupied Rooms:	**26,901**		**26,901**		**26,901**		**26,901**		**26,901**	
Occupancy:	**67%**		**67%**		**67%**		**67%**		**67%**	
Average Rate:	**$140.34**	**% of**	**$144.55**	**% of**	**$148.88**	**% of**	**$153.35**	**% of**	**$157.95**	**% of**
RevPAR:	**$94.02**	**Gross**	**$96.85**	**Gross**	**$99.75**	**Gross**	**$102.74**	**Gross**	**$105.83**	**Gross**
REVENUE										
Rooms	$3,775	80.7 %	$3,888	80.7 %	$4,005	80.7 %	$4,125	80.7 %	$4,249	80.7 %
Food	618	13.2	636	13.2	656	13.2	675	13.2	695	13.2
Beverage	189	4.0	194	4.0	200	4.0	206	4.0	213	4.0
Telephone	12	0.3	12	0.3	13	0.3	13	0.3	14	0.3
Other Income	86	1.8	88	1.8	91	1.8	94	1.8	97	1.8
Total	4,680	100.0	4,820	100.0	4,965	100.0	5,113	100.0	5,267	100.0
DEPARTMENTAL EXPENSES*										
Rooms	812	21.5	836	21.5	861	21.5	887	21.5	914	21.5
Food & Beverage	565	70.0	582	70.0	599	70.0	617	70.0	636	70.0
Telephone	25	210.0	26	210.0	27	210.0	28	210.0	28	210.0
Other Expenses	34	40.0	35	40.0	36	40.0	38	40.0	39	40.0
Total	1,436	30.7	1,479	30.7	1,523	30.7	1,569	30.7	1,616	30.7
DEPARTMENTAL INCOME	3,244	69.3	3,341	69.3	3,441	69.3	3,544	69.3	3,651	69.3
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	365	7.8	376	7.8	387	7.8	399	7.8	411	7.8
Marketing	147	3.1	152	3.1	156	3.1	161	3.1	166	3.1
Franchise Fee	283	6.1	292	6.1	300	6.1	309	6.1	319	6.1
Prop. Operations & Maint.	175	3.7	181	3.7	186	3.7	192	3.7	197	3.7
Utilities	225	4.8	231	4.8	238	4.8	245	4.8	253	4.8
Total	1,196	25.5	1,231	25.5	1,268	25.5	1,306	25.5	1,346	25.5
HOUSE PROFIT	2,048	43.8	2,109	43.8	2,173	43.8	2,238	43.8	2,305	43.8
Management Fee	140	3.0	145	3.0	149	3.0	153	3.0	158	3.0
INCOME BEFORE FIXED CHARGES	1,908	40.8	1,965	40.8	2,024	40.8	2,085	40.8	2,147	40.8
FIXED EXPENSES										
Property Taxes	196	4.2	202	4.2	208	4.2	214	4.2	221	4.2
Insurance	56	1.2	58	1.2	60	1.2	61	1.2	63	1.2
Reserve for Replacement	187	4.0	193	4.0	199	4.0	205	4.0	211	4.0
Total	439	9.4	453	9.4	466	9.4	480	9.4	495	9.4
NET INCOME	$1,468	31.4 %	$1,512	31.4 %	$1,558	31.4 %	$1,604	31.4 %	$1,653	31.4 %

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

Our forecast of income and expense for the second scenario is presented in the following table.

Table 1-10 Detailed Forecast of Income and Expense – Second Scenario

	2011/12	Begins April			2012/13				Stabilized				2014/15				2015/16			
Number of Rooms:	110				110				110				110				110			
Occupancy:	60%				65%				70%				70%				70%			
Average Rate:	$111.40				$117.92				$123.76				$127.47				$131.29			
RevPAR:	$66.84				$76.65				$86.63				$89.23				$91.91			
Days Open:	365				365				365				365				365			
Occupied Rooms:	24,090	%Gross	PAR	POR	26,098	%Gross	PAR	POR	28,105	%Gross	PAR	POR	28,105	%Gross	PAR	POR	28,105	%Gross	PAR	POR
REVENUE																				
Rooms	$2,684	73.7 %	$24,400	$111.42	$3,077	74.4 %	$27,973	$117.90	$3,478	75.0 %	$31,618	$123.75	$3,583	75.0 %	$32,573	$127.49	$3,690	75.0 %	$33,545	$131.29
Food	680	18.6	6,178	28.21	748	18.1	6,803	28.67	821	17.7	7,460	29.20	845	17.7	7,684	30.07	871	17.7	7,914	30.97
Beverage	190	5.2	1,730	7.90	210	5.1	1,905	8.03	230	5.0	2,089	8.18	237	5.0	2,151	8.42	244	5.0	2,216	8.67
Telephone	9	0.3	86	0.39	10	0.3	95	0.40	11	0.2	104	0.41	12	0.2	108	0.42	12	0.2	111	0.43
Other Income	81	2.2	735	3.36	89	2.2	813	3.43	98	2.1	895	3.50	101	2.1	922	3.61	104	2.1	950	3.72
Total Revenues	3,644	100.0	33,129	151.27	4,135	100.0	37,588	158.43	4,638	100.0	42,166	165.03	4,778	100.0	43,437	170.01	4,921	100.0	44,736	175.09
DEPARTMENTAL EXPENSES *																				
Rooms	665	24.8	6,042	27.59	705	22.9	6,412	27.03	748	21.5	6,798	26.61	770	21.5	7,002	27.41	793	21.5	7,212	28.23
Food & Beverage	590	67.8	5,360	24.48	625	65.2	5,681	23.94	662	63.0	6,016	23.54	682	63.0	6,196	24.25	702	63.0	6,382	24.98
Telephone	22	228.6	196	0.90	23	218.7	207	0.87	24	210.0	219	0.86	25	210.0	226	0.88	26	210.0	233	0.91
Other Expenses	36	44.1	324	1.48	38	41.9	341	1.44	39	40.0	358	1.40	41	40.0	369	1.44	42	40.0	380	1.49
Total	1,312	36.0	11,923	54.44	1,390	33.6	12,641	53.28	1,473	31.8	13,391	52.41	1,517	31.8	13,793	53.98	1,563	31.8	14,207	55.60
DEPARTMENTAL INCOME	2,333	64.0	21,206	96.83	2,744	66.4	24,948	105.15	3,165	68.2	28,775	112.62	3,261	68.2	29,644	116.02	3,358	68.2	30,529	119.49
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	337	9.3	3,067	14.00	352	8.5	3,197	13.48	366	7.9	3,328	13.03	377	7.9	3,428	13.42	388	7.9	3,531	13.82
Marketing	157	4.3	1,426	6.51	162	3.9	1,473	6.21	167	3.6	1,518	5.94	172	3.6	1,564	6.12	177	3.6	1,611	6.30
Franchise Fee	201	5.5	1,830	8.36	231	5.6	2,098	8.84	261	5.6	2,371	9.28	269	5.6	2,443	9.56	277	5.6	2,516	9.85
Prop. Operations & Maint.	149	4.1	1,353	6.18	161	3.9	1,462	6.16	173	3.7	1,577	6.17	179	3.7	1,624	6.36	184	3.7	1,673	6.55
Utilities	203	5.6	1,846	8.43	214	5.2	1,944	8.19	225	4.8	2,044	8.00	232	4.8	2,105	8.24	239	4.8	2,168	8.49
Total	1,047	28.8	9,523	43.48	1,119	27.1	10,173	42.88	1,192	25.6	10,838	42.42	1,228	25.6	11,164	43.70	1,265	25.6	11,499	45.00
HOUSE PROFIT	1,285	35.2	11,683	53.35	1,625	39.3	14,774	62.27	1,973	42.6	17,937	70.20	2,033	42.6	18,480	72.33	2,093	42.6	19,031	74.48
Management Fee	109	3.0	994	4.54	124	3.0	1,128	4.75	139	3.0	1,265	4.95	143	3.0	1,303	5.10	148	3.0	1,342	5.25
INCOME BEFORE FIXED CHARGES	1,176	32.2	10,689	48.81	1,501	36.3	13,647	57.52	1,834	39.6	16,672	65.25	1,889	39.6	17,177	67.23	1,946	39.6	17,689	69.23
FIXED EXPENSES																				
Property Taxes	173	4.8	1,575	7.19	176	4.3	1,599	6.74	179	3.9	1,631	6.38	185	3.9	1,680	6.57	190	3.9	1,730	6.77
Insurance	61	1.7	550	2.51	62	1.5	567	2.39	64	1.4	584	2.29	66	1.4	601	2.35	68	1.4	619	2.42
Reserve for Replacement	73	2.0	663	3.03	124	3.0	1,128	4.75	186	4.0	1,687	6.60	191	4.0	1,737	6.80	197	4.0	1,789	7.00
Total	307	8.5	2,788	12.73	362	8.8	3,293	13.88	429	9.3	3,901	15.27	442	9.3	4,019	15.73	455	9.3	4,139	16.20
NET INCOME	$869	23.7 %	$7,901	$36.08	$1,139	27.5 %	$10,353	$43.64	$1,405	30.3 %	$12,770	$49.98	$1,447	30.3 %	$13,158	$51.50	$1,490	30.3 %	$13,549	$53.03

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

Table 1-11 Ten-Year Forecast of Income and Expense - Second Scenario

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
Number of Rooms:	**110**		**110**		**110**		**110**		**110**		**110**		**110**		**110**		**110**		**110**	
Occupied Rooms:	**24,090**		**26,098**		**28,105**		**28,105**		**28,105**		**28,105**		**28,105**		**28,105**		**28,105**		**28,105**	
Occupancy:	**60%**		**65%**		**70%**		**70%**		**70%**		**70%**		**70%**		**70%**		**70%**		**70%**	
Average Rate:	**$111.40**	**% of**	**$117.92**	**% of**	**$123.76**	**% of**	**$127.47**	**% of**	**$131.29**	**% of**	**$135.23**	**% of**	**$139.29**	**% of**	**$143.47**	**% of**	**$147.77**	**% of**	**$152.21**	**% of**
RevPAR:	**$66.84**	**Gross**	**$76.65**	**Gross**	**$86.63**	**Gross**	**$89.23**	**Gross**	**$91.91**	**Gross**	**$94.66**	**Gross**	**$97.50**	**Gross**	**$100.43**	**Gross**	**$103.44**	**Gross**	**$106.54**	**Gross**
REVENUE																				
Rooms	$2,684	73.7 %	$3,077	74.4 %	$3,478	75.0 %	$3,583	75.0 %	$3,690	75.0 %	$3,801	75.0 %	$3,915	75.0 %	$4,032	75.0 %	$4,153	75.0 %	$4,278	75.0 %
Food	680	18.6	748	18.1	821	17.7	845	17.7	871	17.7	897	17.7	924	17.7	951	17.7	980	17.7	1,009	17.7
Beverage	190	5.2	210	5.1	230	5.0	237	5.0	244	5.0	251	5.0	259	5.0	266	5.0	274	5.0	283	5.0
Telephone	9	0.3	10	0.3	11	0.2	12	0.2	12	0.2	13	0.2	13	0.2	13	0.2	14	0.2	14	0.2
Other Income	81	2.2	89	2.2	98	2.1	101	2.1	104	2.1	108	2.1	111	2.1	114	2.1	118	2.1	121	2.1
Total	3,644	100.0	4,135	100.0	4,638	100.0	4,778	100.0	4,921	100.0	5,069	100.0	5,221	100.0	5,377	100.0	5,538	100.0	5,705	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	665	24.8	705	22.9	748	21.5	770	21.5	793	21.5	817	21.5	842	21.5	867	21.5	893	21.5	920	21.5
Food & Beverage	590	67.8	625	65.2	662	63.0	682	63.0	702	63.0	723	63.0	745	63.0	767	63.0	790	63.0	814	63.0
Telephone	22	228.6	23	218.7	24	210.0	25	210.0	26	210.0	26	210.0	27	210.0	28	210.0	29	210.0	30	210.0
Other Expenses	36	44.1	38	41.9	39	40.0	41	40.0	42	40.0	43	40.0	44	40.0	46	40.0	47	40.0	48	40.0
Total	1,312	36.0	1,390	33.6	1,473	31.8	1,517	31.8	1,563	31.8	1,610	31.8	1,658	31.8	1,708	31.8	1,759	31.8	1,812	31.8
DEPARTMENTAL INCOME	2,333	64.0	2,744	66.4	3,165	68.2	3,261	68.2	3,358	68.2	3,459	68.2	3,563	68.2	3,669	68.2	3,780	68.2	3,893	68.2
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	337	9.3	352	8.5	366	7.9	377	7.9	388	7.9	400	7.9	412	7.9	424	7.9	437	7.9	450	7.9
Marketing	157	4.3	162	3.9	167	3.6	172	3.6	177	3.6	182	3.6	188	3.6	194	3.6	199	3.6	205	3.6
Franchise Fee	201	5.5	231	5.6	261	5.6	269	5.6	277	5.6	285	5.6	294	5.6	302	5.6	311	5.6	321	5.6
Prop. Operations & Maint.	149	4.1	161	3.9	173	3.7	179	3.7	184	3.7	190	3.7	195	3.7	201	3.7	207	3.7	213	3.7
Utilities	203	5.6	214	5.2	225	4.8	232	4.8	239	4.8	246	4.8	253	4.8	261	4.8	268	4.8	276	4.8
Total	1,047	28.8	1,119	27.1	1,192	25.6	1,228	25.6	1,265	25.6	1,303	25.6	1,342	25.6	1,382	25.6	1,424	25.6	1,466	25.6
HOUSE PROFIT	1,285	35.2	1,625	39.3	1,973	42.6	2,033	42.6	2,093	42.6	2,156	42.6	2,221	42.6	2,287	42.6	2,356	42.6	2,427	42.6
Management Fee	109	3.0	124	3.0	139	3.0	143	3.0	148	3.0	152	3.0	157	3.0	161	3.0	166	3.0	171	3.0
INCOME BEFORE FIXED CHARGES	1,176	32.2	1,501	36.3	1,834	39.6	1,889	39.6	1,946	39.6	2,004	39.6	2,064	39.6	2,126	39.6	2,190	39.6	2,256	39.6
FIXED EXPENSES																				
Property Taxes	173	4.8	176	4.3	179	3.9	185	3.9	190	3.9	196	3.9	202	3.9	208	3.9	214	3.9	221	3.9
Insurance	61	1.7	62	1.5	64	1.4	66	1.4	68	1.4	70	1.4	72	1.4	74	1.4	77	1.4	79	1.4
Reserve for Replacement	73	2.0	124	3.0	186	4.0	191	4.0	197	4.0	203	4.0	209	4.0	215	4.0	222	4.0	228	4.0
Total	307	8.5	362	8.8	429	9.3	442	9.3	455	9.3	469	9.3	483	9.3	498	9.3	512	9.3	528	9.3
NET INCOME	$869	23.7 %	$1,139	27.5 %	$1,405	30.3 %	$1,447	30.3 %	$1,490	30.3 %	$1,535	30.3 %	$1,581	30.3 %	$1,629	30.3 %	$1,677	30.3 %	$1,728	30.3 %

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

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

Feasibility Conclusion

Detailed construction budgets for the two scenarios were not prepared under the scope of this assignment. It is our general opinion that the total project cost of the first scenario should fall at or below the net present value result; thus, this confirms the feasibility of the hotel-only scenario. The total project cost would likely need to include the costs associated with the land, as well as a designated entrepreneurial profit. In contrast, it is our general opinion that the total project cost of the second scenario would fall somewhat above the net present value result; thus, the hotel-and-conference-center scenario is not considered feasible at this time.

Intended Use of the Feasbility Study

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

Identification of the Client and Intended User(s)

The client for this engagement is The City of Alton, Illinois. This report is intended for the addressee firm, and may not be distributed to or relied upon by other persons or entities.

Scope of Work

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels,*[1] *Hotels, Motels and Restaurants: Valuations and Market Studies,*[2] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[3] *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations,*[4] and *Hotels and Motels – Valuations and Market Studies.*[5]

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[1] Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).
[2] Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).
[3] Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).
[4] Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations (*Chicago: Appraisal Institute, 1992).
[5] Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies.* (Chicago: Appraisal Institute, 2001).

1. All information was collected and analyzed by the staff of TS Worldwide, LLC. Information was supplied by the client and/or the property's development team.
2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
3. The subject property's proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.
4. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.
7. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
8. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.
9. A feasibility analysis is performed that compares the net present value of the forecast cash flows to the development cost of the hotel.

HVS

2. Description of the Site and Neighborhood

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

The subject site will be located in the downtown district of Alton, Illinois; however, the specific site has yet to be determined. A potential site on Landmarks Boulevard is currently being considered and investigated by the City of Alton, but no land has been purchased and no plans have been finalized. As such, while we have inspected this potential site and considered it in our analysis, the recommendations and results of this report are not contingent upon that location. This site is in the city of Alton, Illinois.

Physical Characteristics

Considerations in selecting a subject site should include adequate vehicular access to and from adjacent roadways, as well as the site topography. We note that many parcels in Downtown Alton, including the potential site identified by the City, are significantly sloped. Development of a sloped site may incur additional costs related to grading or atypical design and construction.

Site Utility

Upon completion of construction, the subject site is not expected to contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. The site is expected to be fully developed with site or building improvements, which will contribute to the overall profitability of the hotel.

Access and Visibility

It is important to analyze the site in regard to ease of access with respect to regional and local transportation routes and demand generators. We anticipate that the subject site will be readily accessible to a variety of local, county, state, and interstate highways.

HVS

Map of Regional Access Routes

Primary regional access through the area is provided by east/west Interstate 70, which extends to such cities as Indianapolis, Indiana to the northeast and Kansas City, Missouri to the west. North/south Interstate 55 is another major Interstate, which provides access to such cities as Springfield, Illinois to the north and Memphis, Tennessee to the south. East/west Interstate 64 traverses the St. Louis area, providing access to cities such as Chesterfield to the west and Louisville, Kentucky to the east. Interstates 270 and 255 form a loop around the St. Louis metro area. We note that Interstate 255 has been extended north from its intersection with Interstate 270 during the last three years, and current plans call for extending it to U.S. Highway 67, just north of Alton. The subject market is served by a variety of additional local highways, which are illustrated on the map.

From Interstate 270, motorists exit onto northbound State Highway 367, which merges with and becomes U.S. Highway 67. Motorists proceed north on this thoroughfare approximately ten miles, traveling over the Lewis and Clark Bridges, which span the Missouri and Mississippi Rivers, respectively. U.S. Highway 67 leads directly into Downtown Alton, where it is locally known as Landmarks Boulevard. We note that Landmarks Boulevard is part of the Meeting of the Great Rivers National Scenic Byway. The subject site should be located proximate to Landmarks Boulevard, and direct access to and from the thoroughfare would be optimal. The proposed subject property is expected to have adequate signage at the street, as well as on its façade; thus, the proposed hotel should benefit from very good visibility and accessibility from within its local neighborhood. In terms of regional access, the proposed subject property's Alton location is considered fair in comparison to other municipalities in the St. Louis region that benefit from more central locations and/or superior interstate access. Following its anticipated completion in 2011, the planned extension of Interstate 255 should improve regional access to the Alton area.

Airport Access

The proposed subject property will be well served by the Lambert-St. Louis International Airport, which is located approximately 13 miles to the southwest of Downtown Alton. From the airport, motorists will follow signs to Interstate 270 and travel east on this thoroughfare to State Highway 367, continuing to the proposed subject property as previously noted.

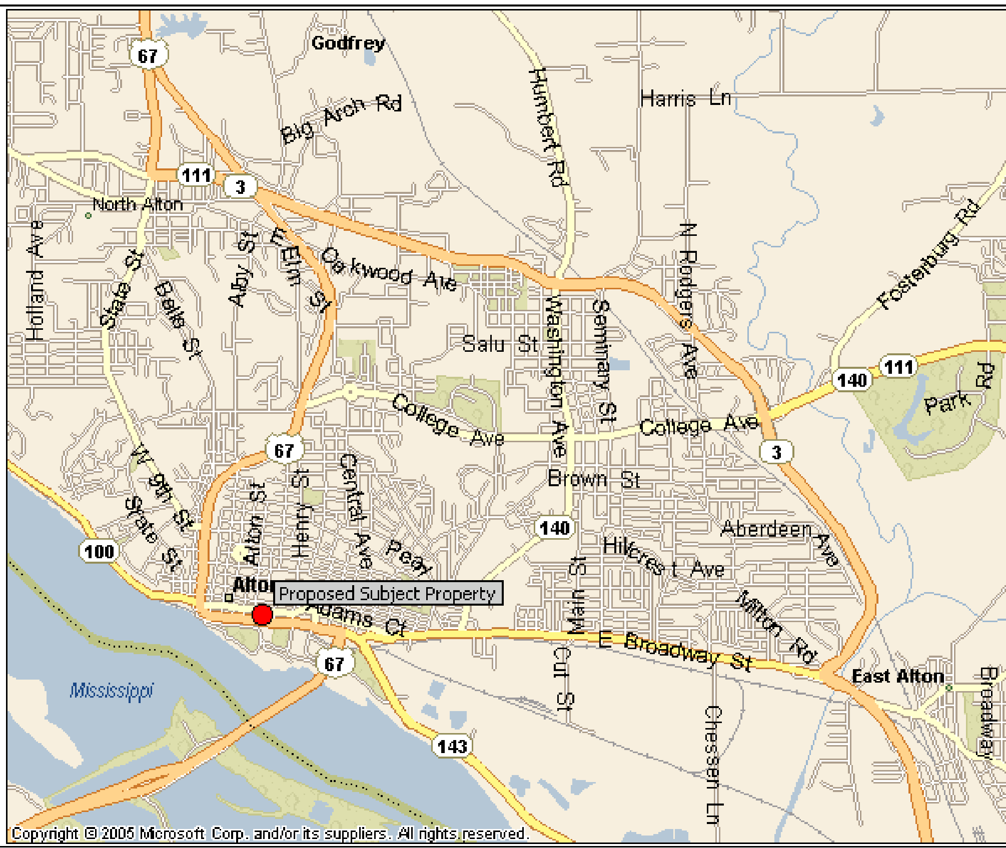
Neighborhood

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

The proposed subject property's neighborhood is generally defined by Union Street to the north, Washington Avenue to the west, the Mississippi River to the south, and Belle Street to the east. In general, this neighborhood is in the revitalization stage of its life cycle, with pockets of redevelopment occurring in the retail and residential sectors. Additionally, in 2008, a new open-air amphitheatre was constructed along the bank of the Mississippi River, in River Front Park. Within the downtown area, there is a mix of commercial and residential land uses. The neighborhood is characterized by restaurants, antique shops, boutiques, a casino, a marina, a business park, and a significant number of single-family homes.

Some specific businesses in the area include the Argosy Casino, Alton Marina, Imperial Manufacturing Group, and American Waterworks. During the last few years, redevelopment projects including Mississippi Landing, the Laura Lofts, and the Lincoln Lofts have transformed aging historic buildings into revitalized residential and retail spaces. Additional redevelopment projects for the area are reportedly in the planning stages. In general, we would characterize the neighborhood as 35% restaurant/retail/office use, 35% residential use, 5% vacant, 5% light industrial use, 10% parks and green space, and 10% other. The proposed subject property's opening should be a positive influence on the area; the hotel should be designed to complement the quaint, historic nature of many of the surrounding buildings.

Map of Neighborhood



Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel.

Utilities

The subject site will reportedly be served by all necessary utilities. We assume that these will be acquired from the most cost-effective providers within the local market.

Soil and Subsoil Conditions

Geological and soil reports for the site were not available, given that the location of the proposed subject property has not yet been determined. We have assumed that no extraordinary soil conditions will be present at the subject site.

Nuisances and Hazards

We have assumed that no extraordinary nuisances or hazards will be present at the subject site.

Zoning

We assume that all necessary permits and approvals will be secured (including an appropriate liquor license if applicable) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations.

Easements and Encroachments

We have assumed that the subject site will not be impacted be any extraordinary easements or encroachments that would affect the utility of the site or marketability of this project.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The area that has been selected for the subject site is located near many attractions on the Mississippi River, as well as the shops and restaurants of Downtown Alton. In general, a site in this area should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

3. Market Area Analysis

The economic vitality of the market area and neighborhood surrounding the subject site is an important consideration in forecasting lodging demand and future income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project lodging demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand, with the objective of forecasting the amount of growth or decline in visitation by individual market segment, i.e. commercial, meeting and group, and leisure.

Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The proposed subject property will be located in the city of Alton, the county of Madison, and the state of Illinois. Located near the confluence of the Illinois, Missouri, and Mississippi Rivers, the City of Alton is part of the greater St. Louis area, which has long been a regional center for commerce and transportation. The St. Louis area was originally settled by French fur traders in the mid 1700s, prior to being transferred into Spanish and then American possession. Throughout the 1800s, the area grew and thrived as a major port for steamboats plying the waterways of the Midwest. Today, the metropolitan area continues to serve as an economic hub for the Midwest and is home to 21 of the Fortune 1000 companies. Throughout the last few decades, the metro area has steadily expanded westward; however, development and expansion have recently increased toward the east and in Illinois. The City of Alton, located in the northeast section of the metro area, was established on the banks of the Mississippi as a center for river-based trade. In the 19th and 20th centuries, the Alton economy grew with the establishment of manufacturing industries in the area. During the last several decades, many of the area's manufacturing operations downsized or closed, negatively impacting the area. However, in the wake of this decline, the city's economic focus has shifted once again toward the river. The designation of a national scenic byway through the area and the development of a marina, a museum, and a network of bike and walking trials along the riverfront has helped revitalize the local economy through tourism.

The proposed subject property's market area can be defined by its Metropolitan Statistical Area (MSA): St. Louis, MO-IL MSA. The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus, which, together with adjacent counties, has a higher degree of social integration. The following exhibit illustrates the market area.

Map of Market Area

Illinois Overview

Illinois is located in the Midwest United States, spanning 55,593 square miles. It borders Wisconsin to the north, Indiana to the east, Kentucky to the southeast, Missouri and Iowa to the west, and Lake Michigan at the northeast corner. The Mississippi River forms a natural western boundary. Two additional rivers, the Wabash and the Ohio, border Illinois to the southeast and converge before merging with the Mississippi River at the southern tip of the state. Interstates 55 and 57 extend in a north/south direction through the state, while Interstates 70 and 80 are primary east/west thoroughfares.

The state capital of Illinois is Springfield, located in the central part of the state. Illinois is home to many of the nation's largest companies. Motorola, Sara Lee, and Amoco are just a few of the many companies represented throughout the state. Illinois is also home to Chicago, the third largest city in the United States.

Economic and Demographic Review

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

We note that the Woods & Poole forecasts have not been adjusted to take into consideration the current downturn in the national economy or the recent increases in unemployment. These factors will affect the economy and employment levels, and thus the lodging market, in the near term; however, given the cyclical nature of economic activity, the growth trends on which the forecasts are predicated are expected to be sustained over the long term. These data are summarized in the following table.

Table 3-1 Economic and Demographic Data Summary

	1990	2000	2008	2015	Average Annual Compounded Change 1990-00	2000-08	2008-15
Resident Population (Thousands)							
Madison County	249.7	259.1	267.5	269.5	0.4 %	0.4 %	0.1 %
St. Louis, MO-IL MSA	2,604.7	2,724.5	2,839.9	2,932.3	0.5	0.5	0.5
St. Louis-St. Charles-Farmington, MO-IL CSA	2,653.7	2,780.2	2,903.4	3,000.8	0.5	0.5	0.5
State of Illinois	11,453.3	12,439.2	12,919.1	13,418.9	0.8	0.5	0.5
United States	249,622.8	282,194.3	304,579.4	326,038.5	1.2	1.0	1.0
Per-Capita Personal Income*							
Madison County	$24,073	$28,615	$30,596	$33,506	1.7	0.8	1.3
St. Louis, MO-IL MSA	$27,248	$33,697	$35,887	$39,531	2.1	0.8	1.4
St. Louis-St. Charles-Farmington, MO-IL CSA	$27,047	$33,452	$35,587	$39,182	2.1	0.8	1.4
State of Illinois	$28,039	$34,887	$36,668	$40,194	2.2	0.6	1.3
United States	$26,226	$32,350	$35,005	$38,039	2.1	1.0	1.2
W&P Wealth Index							
Madison County	91.0	101.2	91.9	93.7	1.1	(1.2)	0.3
St. Louis, MO-IL MSA	104.4	104.7	103.6	104.6	0.0	(0.1)	0.1
St. Louis-St. Charles-Farmington, MO-IL CSA	103.7	103.9	102.7	103.7	0.0	(0.1)	0.1
State of Illinois	106.4	108.3	105.7	106.4	0.2	(0.3)	0.1
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Total Retail Sales (Millions)*							
Madison County	$2,082	$2,629	$2,912	$3,134	2.4	1.3	1.1
St. Louis, MO-IL MSA	$24,225	$31,663	$34,941	$38,595	2.7	1.2	1.4
St. Louis-St. Charles-Farmington, MO-IL CSA	$24,606	$32,219	$35,606	$39,365	2.7	1.3	1.4
State of Illinois	$104,265	$138,048	$152,320	$169,812	2.8	1.2	1.6
United States	$2,295,496	$3,184,392	$3,649,917	$4,196,092	3.3	1.7	2.0

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

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The U.S. population has grown at an average annual compounded rate of 1.0% from 2000 through 2008. The county's population has grown more slowly than the nation's population; the average annual growth rate of 0.4% between 2000 and 2008 reflects a gradually expanding area. Following this population trend, per-capita personal income increased slowly, at 0.8% on average annually for the county between 2000 and 2008. Local wealth indexes have remained stable in recent years, registering a relatively modest 91.9 level for the county in 2008.

Retail sales totaled $479.3 million in the county in 2008, versus $433.9 million in 2000. This represents an average annual change of 1.3%. A modestly slower 1.1% average annual change is expected in county retail sales through 2015.

Workforce Characteristics

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the county workforce distribution by business sector in 1990, 2000, and 2008, as well as a forecast for 2015.

Table 3-2 Historical and Projected Employment (000s)

Industry	1990	Percent of Total	2000	Percent of Total	2008	Percent of Total	2015	Percent of Total	Average Annual Compounded Change 1990-2000	2000-2008	2008-2015
Farm	1.9	1.6 %	1.6	1.3 %	1.5	1.1 %	1.5	1.1 %	(1.3) %	(1.2) %	0.5 %
Forestry, Fishing, Related Activities And Other	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.1	4.8	2.2	0.7
Mining	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.2	(0.8)	(3.0)	0.4
Utilities	0.4	0.3	0.4	0.3	0.4	0.3	0.4	0.3	0.8	(0.1)	0.6
Construction	7.7	6.8	8.5	6.8	10.0	7.7	10.9	7.9	1.1	2.1	1.1
Manufacturing	22.6	20.0	21.0	16.8	14.0	10.7	12.9	9.4	(0.7)	(4.9)	(1.2)
Total Trade	16.3	14.4	18.4	14.8	20.4	15.6	21.5	15.7	1.2	1.3	0.8
Wholesale Trade	3.4	3.0	3.3	2.6	3.7	2.8	3.7	2.7	(0.5)	1.5	0.1
Retail Trade	12.9	11.4	15.1	12.1	16.7	12.8	17.8	13.0	1.6	1.2	0.9
Transportation And Warehousing	4.3	3.8	4.7	3.7	5.6	4.3	6.2	4.5	0.8	2.2	1.4
Information	1.2	1.1	1.3	1.0	1.3	1.0	1.3	1.0	0.9	(0.2)	0.3
Finance And Insurance	4.2	3.7	4.9	3.9	5.5	4.2	5.8	4.2	1.5	1.4	0.9
Real Estate And Rental And Lease	2.6	2.3	3.1	2.5	4.8	3.7	5.5	4.0	1.5	5.6	2.0
Professional And Technical Services	3.9	3.5	4.8	3.9	6.4	4.9	7.3	5.3	2.0	3.6	2.0
Management Of Companies And Enterprises	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	2.0	3.4	(1.5)
Administrative And Waste Services	3.1	2.7	3.7	3.0	5.0	3.8	5.6	4.1	1.8	3.8	1.6
Educational Services	1.0	0.8	1.2	0.9	1.5	1.1	1.7	1.3	2.0	2.8	2.4
Health Care And Social Assistance	11.3	10.0	13.8	11.0	14.7	11.3	16.1	11.7	2.0	0.8	1.3
Arts, Entertainment, And Recreation	3.1	2.7	3.7	3.0	3.5	2.7	3.5	2.5	1.9	(0.8)	0.1
Accommodation And Food Services	7.1	6.3	8.6	6.9	9.6	7.4	10.4	7.5	1.9	1.5	1.0
Other Services, Except Public Administration	6.0	5.3	7.4	5.9	9.0	6.9	10.1	7.3	2.1	2.5	1.6
Total Government	16.0	14.1	17.0	13.6	16.6	12.7	15.9	11.6	0.6	(0.3)	(0.7)
Federal Civilian Government	0.7	0.6	0.8	0.6	0.6	0.5	0.7	0.5	1.0	(2.5)	0.3
Federal Military	0.9	0.8	0.6	0.5	0.5	0.4	0.5	0.4	(4.3)	(1.6)	0.1
State And Local Government	14.3	12.6	15.6	12.5	15.5	11.9	14.7	10.7	0.9	(0.1)	(0.7)
TOTAL	113.3	100.0 %	124.8	100.0 %	130.5	100.0 %	137.3	100.0 %	1.0 %	0.6 %	0.7 %
MSA	1,488.8	—	1,673.7	—	1,773.1	—	1,906.7	—	1.2 %	0.7 %	1.0 %
U.S.	139,380.8	—	166,758.7	—	182,657.7	—	198,640.3	—	1.5	1.1	1.2

Source: Woods & Poole Economics, Inc.

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Woods & Poole Economics, Inc. reports that the most significant employment sector in this area is the Total Trade industry. In 2008, this sector represented 15.6% of total employment. This source reports that between 2000 and 2008, the most significant employment growth occurred in the Total Trade sector. During this time frame, Total Trade employment increased by 1,200 persons. Woods & Poole forecasts indicate expected employment growth at a rate of 0.7% annually through 2015, while the rate of change for national employment is forecast at 1.2% during the same time period.

Major Business and Industry

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

Table 3-3 Major Employers

Rank	Firm	Number of Employees
1	Olin Corporation	1,800
2	Global Brass and Copper	1,500
3	Saint Anthony's Health Center	928
4	Alton Memorial Hospital	866
5	Conoco Phillips Refinery	809
6	Alton Community Unit School District	803
7	Argosy Casino	700
8	Lewis and Clark Community College	577
9	Beverly Farm	470
10	American Water	460

Source: River Bend Growth Association

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

- The Olin Corporation, a Fortune 1000 company that is based in St. Louis, is the largest employer for the Alton area. Its subsidiary, Winchester Ammunition, is headquartered in East Alton. The company produces cartridges and ammunition for the United States military, as well as for law enforcement, industrial use, and public sale. In January of 2009, Winchester reported fourth-quarter 2008 revenues of $121.4 million, up from $102.7 million for the same quarter in 2007. Formerly owned by the Olin Corporation, Global Brass and Copper is also located in East Alton; it

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was purchased by a private equity fund in 2007. The company is among the world's leading developers and producers of high-performance copper alloys for use in automotive, housing, electronics, coin, and ammunition applications. We note that since the change of ownership, and concurrent with the national economic slowdown, the company has reportedly reduced its labor force.

- BJC HealthCare is one of the largest non-profit healthcare organizations in the United States, delivering services to residents primarily in the greater St. Louis, southern Illinois and mid-Missouri regions. The organization, which is the largest employer in the greater St. Louis area, operates Alton Memorial Hospital. The hospital is currently undergoing a 78,000-square-foot, $45-million expansion. Scheduled for completion in 2010, the new wing will provide 78 additional patient rooms. Additionally, a new privately owned and operated, supportive-living facility opened on the hospital's campus in 2008. Glenhaven Gardens, which was constructed at a cost of approximately $9.2 million, includes 92 apartments and various community areas.
- ConocoPhillips operates a crude-oil refinery in nearby Roxana. In September of 2008, the company began work on a $2-billion expansion of the facility that will increase its daily processing capacity by an estimated 60,000 barrels of oil to a total of approximately 300,000 barrels. The project is expected to be completed in 2011 and, in the meantime, draw at least 1,500 temporary workers to the area from across the country. When complete, the expansion is expected to increase ConocoPhillips' local workforce by approximately 100 workers. Several area operations that work closely with ConocoPhillips, including Cope Plastics, Marathon Oil Company, and Fabritech, are expanding their facilities as well.

In contrast to recent national and regional economic trends, this market continues to benefit from growth and development. The previously mentioned expansions at Alton Memorial Hospital and the ConocoPhillips refinery have helped offset the impact of local downsizing in the manufacturing sector and weakened national and regional economies. Additionally, the recent extension of Interstate 255 to Seminary Road and the ongoing construction of the National Great Rivers Research Center are positively impacting the market. The further expansion of Interstate 255 through the Alton area was reportedly granted funding from the American Recovery and Reinvestment Act, and construction is expected to begin in 2009. Overall, the outlook for the market is positive, and growth is anticipated for the foreseeable future.

Unemployment Statistics

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

Table 3-4 Unemployment Statistics

Year	City of Alton	MSA	Illinois	U.S.
1999	6.0 %	3.5 %	4.5 %	4.2 %
2000	5.6	3.5	4.5	4.0
2001	6.6	4.6	5.4	4.7
2002	7.4	5.4	6.5	5.8
2003	8.4	5.8	6.7	6.0
2004	8.1	6.0	6.2(d)	5.5
2005	7.3	5.6	5.8(d)	5.1
2006	6.5	5.1	4.6(d)	4.6
2007	7.2	5.7	5.1(d)	4.6
2008	8.7	6.7	6.5(d)	5.8
Recent Month - January				
2008	8.1 %	6.4 %	6.3(d) %	4.9 %
2009	10.8(p)	9.1(p)	8.5	7.6

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

Source: U.S. Bureau of Labor Statistics

The national unemployment rate was 4.6% in 2007, reflecting no overall change from 2006. During the first half of 2007, the national unemployment rate was below that of the corresponding period in 2006; however, 2007 unemployment rates rose for the months of September through December to levels higher than those of the corresponding months in 2006. This trend continued into 2008, with the unemployment rate posting increases during most months, ending at 7.2% in December of 2008, compared to 4.9% in January of that year; nationwide, the average unemployment rate was 5.8% for 2008. In the year-to-date period, unemployment has continued to rise, with significant increases noted in select economic sectors. Most economists anticipate that the national unemployment rate will continue to rise through at least mid-year 2009 and remain heightened into 2010. Locally, the unemployment rate was 8.7% in 2008; for this same area in 2009, the most recent month's unemployment rate was registered at 10.8(p)%, versus 8.1% for the same month in 2008.

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Unemployment rates in the Alton area have fluctuated during the historical period shown but have remained relatively high in comparison to regional, state-wide, and national levels. These comparatively high levels are a direct result of the challenges witnessed within the local manufacturing industries. Despite this trend, employment has remained strong at such entities as Lewis and Clark Community College and American Water. Additionally, the ongoing expansions at ConocoPhillips and Alton Memorial hospital are expected to positively impact employment going forward. Our interviews with local economic development officials reflect a promising outlook for the area.

Convention Activity

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

America's Center, which includes the St. Louis Executive Conference Center and the Edward Jones Dome, is the region's primary conference and convention venue. Originally constructed in 1977 as the Cervantes Convention Center, the center was expanded in 1993 and now provides more than 500,000 square feet of prime exhibit space. The Edward Jones Dome, a convention facility and stadium that was formerly called the Trans World Dome, seats over 64,000 people and was constructed in 1995 following the demolition of a Sheraton Hotel, which had previously occupied the site. The St. Louis Executive Conference Center is located on the third floor of the America's Center. It is reportedly the only conference center in the U.S. that is located inside a convention center and that has also been certified by the International Association of Conference Centers.

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Convention Center

The following table illustrates recent use statistics for this facility.

Table 3-5 Convention Center Statistics

Year	Number of Conventions	Percent Change	Number of Delegates	Percent Change
2001	31	—	261,313	—
2002	28	(9.7) %	219,278	(16.1) %
2003	35	25.0	243,625	11.1
2004	34	(2.9)	207,599	(14.8)
2005	41	20.6	245,477	18.2
2006	56	36.6	277,038	12.9
2007	55	(1.8)	253,324	(8.6)
2008	45	(18.2)	274,935	8.5

Source: America's Center

We note that the subject market rarely captures demand from events held at America's Center; however, we have included usage statistics for the facility as a point of reference. Within the subject market, there are a number of small and mid-sized event facilities, most of which are affiliated with area restaurants, associations, or educational institutions. Usages statistics for these facilities were not available for our review; however, interviews with management revealed that these facilities are heavily used and in high demand.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

Lambert-St. Louis International Airport (STL) is the primary airport for St. Louis, Missouri and the surrounding area. STL is a hub for American Airlines, while Southwest Airlines notes the second-largest presence at the airport. Additional commercial airlines that service Lambert-St. Louis International Airport include Continental, Delta, Frontier, USA 3000, AirTran, United, and US Airways. In the fall of 2006, construction on a new runway was completed, and in February of 2007, airport officials announced plans for a $105-million terminal renovation. The three-phase project commenced construction in the spring of 2008 and is scheduled for completion in 2012. In February of 2009, Delta and AirTran both added to their offerings of daily, non-stop flights, and USA 3000 resumed service to Fort Meyers, Florida, which had previously been eliminated due to high fuel prices.

The following table illustrates recent operating statistics for the primary airport facility serving the subject property's submarket.

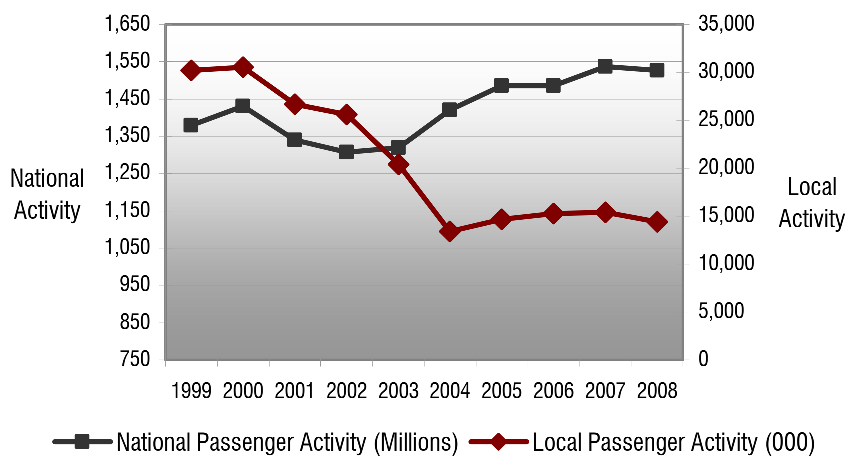
Table 3-6 Airport Statistics

Year	Passenger Traffic	Percent Change*	Percent Change**
1999	30,188,973	—	—
2000	30,558,991	1.2 %	1.2 %
2001	26,695,019	-12.6	-6.0
2002	25,626,114	-4.0	-5.3
2003	20,431,132	-20.3	-9.3
2004	13,405,988	-34.4	-15.0
2005	14,697,263	9.6	-11.3
2006	15,289,719	4.0	-9.3
2007	15,384,556	0.6	-8.1
2008	14,431,471	-6.2	-7.9

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

Source: Lambert-St. Louis International Airport

Chart 3-7 Local Passenger Traffic vs. National Trend



Source: HVS, Local Airport Authority

This facility recorded 14,431,471 passengers in 2008. The change in passenger traffic between 2007 and 2008 was -6.2%. The average annual change during the period shown was -7.9%. The decline in passenger traffic shown by the most recent year-end data can be attributed to two forces. The ongoing national economic downturn has decreased passenger demand throughout the country, while high fuel prices in the summer of 2008 also forced some airlines to decrease the number of flights offered to and from Lambert-St. Louis.

Tourist Attractions

This market benefits from a variety of tourist and leisure attractions in the area. Alton is a growing tourism destination for regional, national, and even international travelers. The area's scenic river vistas, quaint historic charm, and abundance of recreation activities have helped it attract visitors by car, boat, and bus year-round. In addition to tourism, weekend demand is also generated by amateur sports and family events that are held in the area. Primary attractions in the area include:

- The Meeting of the Great Rivers National Scenic Byway follows the eastern bank of the Mississippi River for 33 miles. Extending north from the village of Hartford, through Alton, and terminating at Pere Marquette State Park, the route includes natural wonders, historic sites, and cultural attractions. Among these are the Lewis and Clark State Historic Site; the National Great Rivers Museum; the confluence of the Missouri, Illinois, and Mississippi Rivers; and numerous shops, wineries, and restaurants. Audio tours of the byway, highlighting these and other attractions, are available at the Alton Regional Convention and Visitors Bureau.
- Alton's Riverfront Park is home to several attractions including Argosy Casino, the Alton Marina, and a new outdoor amphitheatre. The amphitheatre, which has a maximum attendance capacity of approximately 4,000, was completed in 2008. Talks are currently underway with national promotion companies to bring touring performers to the venue; additionally, the facility will be used for community performances and private social events. Argosy Casino offers slot machines, gaming tables, four restaurants, and a live entertainment venue. The Alton Marina provides boaters from throughout Missouri and Illinois with dock-side services, recreational amenities, and convenient access to the Missouri, Mississippi, and Illinois Rivers. Additionally, the marina hosts a large number of transient boaters that are traveling down these major waterways to the Gulf of Mexico.
- Alton and the surrounding area offer an abundance of outdoor recreation activities throughout the year. In the fall, visitors marvel at the beautiful foliage lining the riverside bluffs and can pick their own produce at area apple orchards and pumpkin patches. Winter offers visitors an

opportunity to watch the hundreds of American Bald Eagles that migrate to the area. Spring and summer offer hiking, biking, kayaking, golfing, and bird watching opportunities.

- The Alton area features a rich history with sites and landmarks devoted to a wide range of interests including President Lincoln and the Civil War; abolitionists and the Underground Railroad; Native American culture; and early explorers such as Lewis, Clark, Marquette, and Joliet. Additional historic attractions include haunted mansion tours and a monument to Alton's own Robert Wadlow, the tallest human on record at eight feet and eleven inches.

Meeting of the Great Rivers National Scenic Byway

Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. After a period of economic decline, concurrent with the deterioration of area manufacturing industries, the local economy has stabilized and begun to benefit from redevelopment projects and a growing tourism industry. Ongoing expansion projects at major area employers have helped shelter Alton from the full impact of the ongoing regional and national economic slowdowns. Going forward, the area is expected to benefit from continued development, including the extension of an interstate highway to the area. Given these circumstances, the outlook for the market is generally favorable, but cautious in light of broader economic trends and circumstances.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. According to a recent World Bank report, "The stresses in the financial markets in the United States that first emerged in the summer of 2007 transformed themselves into a full-blown global financial crisis in the fall of 2008." In the US, credit markets froze, the stock market crashed, and consumer spending dropped at the fastest rate since the 1930s. While the near-term outlook is problematic, this downturn must be considered in the context of the economic picture over the longer term. Economic activity is cyclical in nature, and past downturns in the national economy have been followed by periods of growth and recovery. Thus, over the longer term, the outlook includes a return to stable growth, with the potential for a period of strong growth as the economy rebounds from the current conditions.

4. Supply and Demand Analysis

In the economic principle of supply and demand, price varies directly, but not proportionately, with demand and inversely, but not proportionately, with supply. In the lodging industry, supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand towards equilibrium results in a prevailing price, or average rate. The purpose of this section is to investigate current supply and demand trends as indicated by the current competitive market, and set forth a basis for the projection of future supply and demand growth. We also provide an overview of national occupancy and average rate trends, both on an overall basis and by chain scale.

Definition of Subject Hotel Market

The Proposed Alton Hotel will be located in Alton, Illinois. The greater market surrounding the proposed subject property offers 356 hotels and motels, spanning 38,476 rooms. The two largest hotels are the 1,073-room Renaissance Grand & Suites and the 910-room Hyatt Regency.

Of this larger supply set, the proposed subject property is expected to compete with a smaller set of hotels based on various factors. These factors may include location, price point, product quality, length of stay (such as an extended-stay focus vs. non-extended-stay focus), room type (all-suite vs. standard), hotel age, or brand, among other factors. We have reviewed these pertinent attributes and established an expected competitive set based upon this review. Our review of the proposed subject's specific competitive set within the Alton area begins on page 4-5.

National Trends Overview

The U.S. lodging industry has entered a period of RevPAR decline, driven primarily by supply increases, weakening demand, and slowing average rate growth. While year-end results for 2007 reflected 1.2% growth in room nights sold, representing a slight gain on the 1.1% growth in 2006, the trends for 2008 reflected a decline of 1.6%, accelerating from the decline of 0.3% registered near the mid-point of 2008. The increase in available rooms also went from 2.4% mid-year to 2.7% by the conclusion of 2008, contributing to an occupancy decline of 4.2% for the year. The increase in supply for 2008 was

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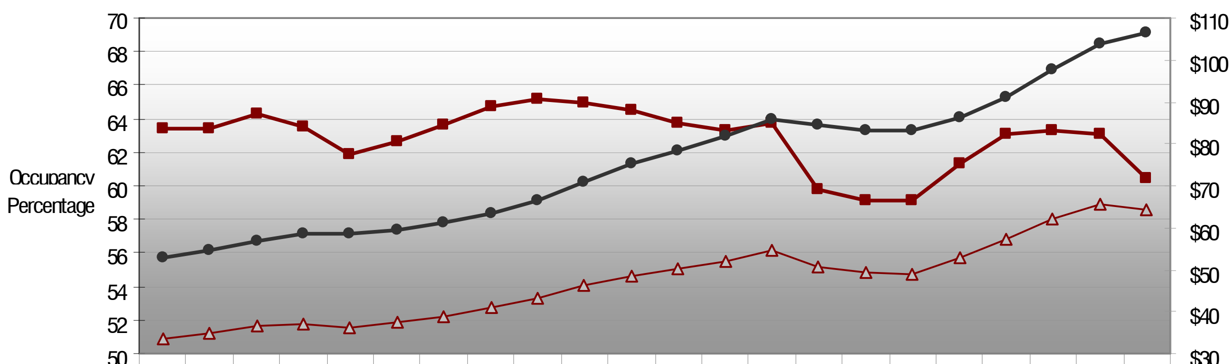
up from a 1.4% increase in 2007 and a 0.6% increase in 2006. Occupancy declined from 63.1% to 60.4% in 2008. This accelerated from the 0.3-point loss in national occupancy between 2007 and 2008.

Average rate growth continued to decelerate in 2008, with a nearly 4.0% gain registered mid-year diminishing to a 2.4% increase by year-end, compared with increases of 5.9% in 2007 and 7.0% in 2006. These trends contributed to a 1.9% RevPAR decline in 2008, down significantly from a 5.7% RevPAR gain in 2007 and a 7.5% gain in 2006.

Chart 6-1 National Occupancy and Average Rate Trends



	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Occupancy	63.4	63.4	64.3	63.5	61.9	62.7	63.6	64.8	65.1	65.0	64.5
Average Rate	53.01	54.81	56.83	58.55	58.66	59.51	61.11	63.52	66.57	70.96	75.11
RevPAR	33.58	34.78	36.56	37.19	36.30	37.28	38.86	41.14	43.35	46.10	48.41

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Occupancy	63.7	63.3	63.7	59.8	59.1	59.1	61.3	63.1	63.3	63.1	60.4
Average Rate	78.52	81.87	85.92	84.45	83.35	83.11	86.24	90.95	97.89	104.0	106.5
RevPAR	50.05	51.81	54.77	50.50	49.26	49.12	52.87	57.39	61.96	65.65	64.3

Source: STR

After experiencing years of strong pricing power, managers are now facing a much tougher economic climate where rate discounting is becoming more prevalent in order to keep primary accounts in place. Industry professionals are attempting to maintain rate integrity by offering more complimentary services to top accounts, including breakfast coupons or free Internet access. In some markets, this practice should contribute to better average rate stability than that seen in past cycles; however, this will have an adverse impact on profitability. Furthermore, a shift in market mix at full-service hotels from less price-sensitive corporate groups to more budget-conscious meeting-space users is negatively impacting the net overall average rates.

Table 6-2 National Occupancy and Average Rate Trends

	Occupancy			Average Room Rate			RevPAR		
	2007	2008	% Change	2007	2008	% Change	2007	2008	% Change
United States	63.1 %	60.4 %	(4.3) %	$104.04	$106.55	2.4 %	$65.65	$64.36	(2.0) %
Region									
New England	61.1 %	59.4 %	(2.8) %	$118.62	$120.90	1.9 %	$72.48	$71.81	(0.9) %
Middle Atlantic	66.7	64.8	(2.8)	148.49	152.50	2.7	99.04	98.82	(0.2)
South Atlantic	62.2	58.7	(5.6)	104.44	106.08	1.6	64.96	62.27	(4.1)
East North Central	57.6	55.6	(3.5)	90.12	91.70	1.8	51.91	50.99	(1.8)
East South Central	59.3	56.1	(5.4)	74.88	77.94	4.1	44.40	43.72	(1.5)
West North Central	59.2	57.6	(2.7)	76.10	79.09	3.9	45.05	45.56	1.1
West South Central	62.1	62.4	0.5	83.54	87.77	5.1	51.88	54.77	5.6
Mountain	66.3	61.4	(7.4)	101.16	103.31	2.1	67.07	63.43	(5.4)
Pacific	68.5	65.4	(4.5)	122.07	125.12	2.5	83.62	81.83	(2.1)
Price									
Luxury	70.4 %	67.1 %	(4.7) %	$167.01	$168.43	0.9 %	$117.58	$113.02	(3.9) %
Upscale	64.7	62.0	(4.2)	113.81	115.96	1.9	73.64	71.90	(2.4)
Midprice	60.2	57.6	(4.3)	81.95	84.21	2.8	49.33	48.50	(1.7)
Economy	57.6	55.1	(4.3)	61.56	62.94	2.2	35.46	34.68	(2.2)
Budget	59.2	57.2	(3.4)	50.42	51.56	2.3	29.85	29.49	(1.2)
Location									
Urban	68.5 %	66.7 %	(2.6) %	$149.43	$154.26	3.2 %	$102.36	$102.89	0.5 %
Suburban	63.3	60.3	(4.7)	90.34	92.45	2.3	57.19	55.75	(2.5)
Airport	69.4	66.5	(4.2)	99.74	101.83	2.1	69.22	67.72	(2.2)
Interstate	57.9	55.3	(4.5)	67.08	70.04	4.4	38.84	38.73	(0.3)
Resort	65.9	62.2	(5.6)	144.04	145.28	0.9	94.92	90.36	(4.8)
Small Metro/Town	57.1	55.3	(3.2)	79.13	81.78	3.3	45.18	45.22	0.1

Source: STR - December 2008 Lodging Review

In this period of economic decline, both urban and small metro/town areas reported a minimal net gain in RevPAR, while all other categories contracted. The resort and suburban categories showed the greatest RevPAR declines. All price categories registered a RevPAR decline, with mid-price and budget hotels faring best with RevPAR declines under 2.0%. By region, West North Central and West South Central still registered RevPAR gains, with West South Central achieving a notably strong gain of 5.6%. Conversely, the South Atlantic and Mountain regions contracted at levels in excess of 4.0%.

Also pertinent to this analysis is a review of lodging statistics by chain scale, which provides a greater indication of differences between price segments

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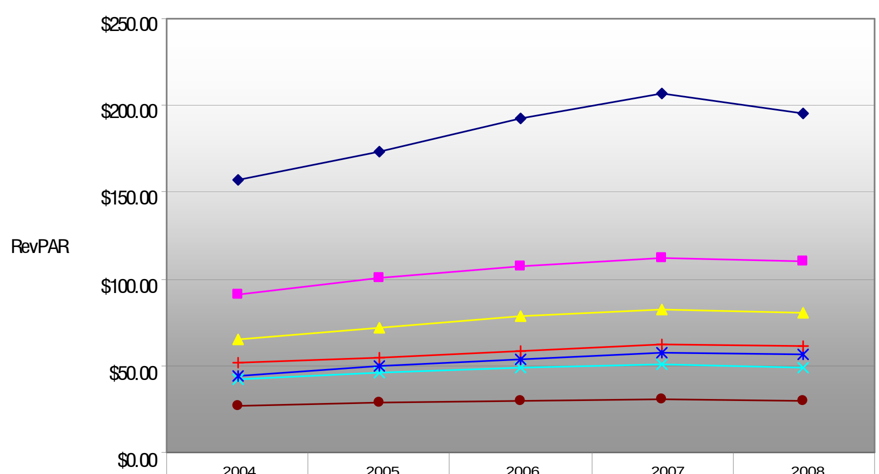
and occupancies based on product quality level. The following table illustrates these chain-scale statistics for 2007 and 2008.

Table 6-3 Operating Results by Chain Scale

	Occupancy			Average Room Rate			RevPAR		
	2007	2008	% Change	2007	2008	% Change	2007	2008	% Change
Luxury	71.5 %	67.9 %	(5.0) %	$288.63	$288.79	0.1 %	$206.54	$195.87	(5.2) %
Upper Upscale	71.2	68.7	(3.5)	159.85	157.81	(1.3)	112.36	109.75	(2.3)
Upscale	69.2	66.8	(3.5)	119.82	118.50	(1.1)	82.05	80.09	(2.4)
Mid-scale w/ F&B	59.0	55.8	(5.4)	88.26	85.63	(3.0)	50.52	49.23	(2.6)
Mid-scale w/o F&B	65.4	62.3	(4.7)	90.19	87.20	(3.3)	57.02	56.16	(1.5)
Economy	56.9	54.4	(4.4)	54.32	53.78	(1.0)	30.62	29.55	(3.5)
Independents	61.2	58.6	(4.2)	104.51	101.58	(2.8)	62.14	61.27	(1.4)

Source: STR - December 2008 Lodging Review

Chart 6-4 RevPAR Results by Chain Scale



	2004	2005	2006	2007	2008
Luxury	$157.53	$173.72	$193.00	$206.54	$195.87
Upper Upscale	$90.76	$100.12	$107.32	$112.36	$109.75
Upscale	$65.58	$72.13	$78.35	$82.05	$80.09
Mid-scale w/ F&B	$42.11	$45.85	$48.90	$50.52	$49.23
Mid-scale w/o F&B	$44.36	$49.60	$53.97	$57.02	$56.16
Economy	$26.45	$28.48	$29.89	$30.62	$29.55
Independents	$51.74	$54.19	$58.16	$62.14	$61.27

Source: STR - December 2008 Lodging Review

The RevPAR change among the luxury chains reflected a 5.2% decline in 2008, with the majority of the contraction occurring in the fourth quarter. This is a sharp contrast to the category's 7.0% gain in 2007 and the 10.0%+ gains seen in 2004 through 2006. While several categories showed RevPAR gains mid-year, no category was able to hold onto this gain by the end of 2008. RevPAR growth seen through mid-year 2008 decelerated then turned negative as occupancy cuts grew more significant in the third and fourth quarters. Although average rate growth in a few categories equaled or exceeded the rate of inflation, significant decreases in occupancy offset these increases, resulting in RevPAR contraction across most categories. Moreover, increases in supply accelerated slightly, which compounded the adverse affect on occupancy levels.

Indications for 2009 point to a continued deterioration of both occupancy and average rate levels, as recessionary conditions prevalent in the national economy are causing dramatic decreases in both corporate and consumer spending. Falling demand levels are putting pressure on average rates, as some hotel managers seek to support occupancy levels with rate discounts or shifts in market mix to more price-sensitive users. As a result, forecasts for year-end 2009 anticipate RevPAR growth to moderate from the 2008 decline of 1.9% to a further contraction of 8.0% to 10.0% on a national average. As is evident in the statistics by region and product type, some areas and hotel categories will fare better than others, but realizing RevPAR increases in 2009 will be challenging. The industry is expected to stabilize in 2010, with a period of recovery accelerating into 2011 and 2012.

Historical Supply and Demand Data

Smith Travel Research (STR) is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. STR has compiled historical supply and demand data for a group of hotels considered applicable to this analysis for the proposed subject property. This information is presented in the following table, along with the market-wide occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

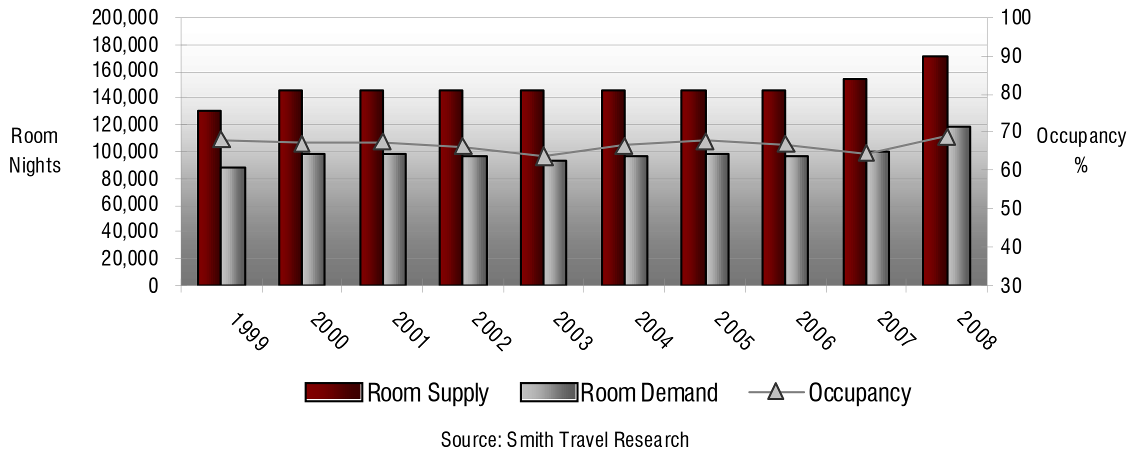
Table 4-5 Historical Supply and Demand Trends

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
1999	355	129,475	—	88,312	—	68.2 %	$59.12	—	$40.32	—
2000	398	145,270	12.2 %	97,483	10.4 %	67.1	63.21	6.9 %	42.41	5.2 %
2001	398	145,270	0.0	97,963	0.5	67.4	65.02	2.9	43.85	3.4
2002	398	145,270	0.0	96,278	(1.7)	66.3	66.78	2.7	44.26	0.9
2003	398	145,270	0.0	92,497	(3.9)	63.7	67.77	1.5	43.15	(2.5)
2004	398	145,270	0.0	96,639	4.5	66.5	67.31	(0.7)	44.77	3.8
2005	398	145,270	0.0	98,338	1.8	67.7	70.29	4.4	47.58	6.3
2006	398	145,270	0.0	97,306	(1.0)	67.0	72.95	3.8	48.86	2.7
2007	422	154,054	6.0	99,309	2.1	64.5	76.30	4.6	49.19	0.7
2008	470	171,550	11.4	118,023	18.8	68.8	81.58	6.9	56.13	14.1
Year-to-Date Through February										
2008	470	27,730	—	13,350	—	48.1 %	$77.02	—	$37.08	—
2009	470	27,730	0.0 %	16,687	25.0 %	60.2	78.72	2.2 %	47.37	27.8 %
Average Annual Compounded Change: 1999-2008			3.2 %		3.3 %			3.6 %		3.7 %

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
Holiday Inn Alton	137	Jul 1982	Jul 1982
Super 8 Alton	63	Sep 1989	Sep 1989
Comfort Inn & Conference Center St Louis	71	Oct 1994	Oct 1994
Comfort Inn Alton	62	Jun 1996	Jun 1996
Holiday Inn Express & Suites Pontoon Beach	65	Sep 1999	Sep 1999
Hampton Inn Suites St Louis Edwardsville	72	Sep 2007	Sep 2007
Total	**470**		

Source: Smith Travel Research

Chart 4-6 Historical Supply and Demand Graph



It is important to note some limitations of the STR data. 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 by skewing the results. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel in the previous table.

Monthly occupancy trends are presented in the following table.

Table 4-7 Monthly Occupancy Trends

Month	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
January	64.4 %	48.2 %	54.8 %	48.2 %	48.0 %	49.6 %	50.8 %	52.8 %	52.9 %	41.7 %	59.7 %
February	68.4	67.0	71.3	67.7	52.8	63.3	56.5	63.3	60.1	55.3	60.7
March	82.1	68.3	70.3	74.2	65.3	74.9	71.5	65.5	69.0	68.4	—
April	67.0	68.9	66.1	68.1	61.9	75.4	70.8	69.0	68.9	65.6	—
May	71.6	65.7	70.4	68.3	68.5	68.5	66.2	66.9	75.3	69.7	—
June	78.2	81.0	80.5	82.2	72.8	72.2	75.4	73.5	82.0	78.3	—
July	83.6	71.4	72.4	73.7	75.4	75.5	79.7	74.4	70.5	75.1	—
August	77.6	74.9	73.9	72.1	72.8	61.7	71.6	69.9	71.4	74.4	—
September	64.7	73.8	68.9	67.2	68.6	66.1	71.1	72.4	58.3	82.0	—
October	58.6	67.4	68.2	68.3	70.1	70.8	82.1	71.4	62.4	88.0	—
November	56.7	64.1	60.9	54.5	58.7	64.4	62.9	62.9	56.7	67.5	—
December	53.1	55.2	52.1	51.1	48.4	56.1	53.1	61.7	51.1	58.7	—
Annual Occupancy	**68.2 %**	**67.1 %**	**67.4 %**	**66.3 %**	**63.7 %**	**66.5 %**	**67.7 %**	**67.0 %**	**64.5 %**	**68.8 %**	—
Year-to-Date	**66.3 %**	**57.1 %**	**62.7 %**	**57.5 %**	**50.3 %**	**56.1 %**	**53.5 %**	**57.7 %**	**56.3 %**	**48.1 %**	**60.2 %**

Source: Smith Travel Research

These data reflect an overall market occupancy level of 68.8% in 2008, which compares to 64.5% for 2007. The overall average occupancy level for the calendar years presented equates to 66.4%. Lodging trends in this market have been relatively stable for most of the illustrated period with local employers, tourists, and weekend visitors serving as consistent sources of demand. New supply entered the market in 2007, which caused a temporary drop in occupancy levels. This new supply was quickly absorbed as market occupancy rebounded in 2008 and reached its highest level of the last ten years. This sharp rebound and unprecedented growth resulted from increased demand related to area construction projects. These include the ongoing expansion of the ConocoPhillips refinery, the addition of a new wing at Alton Memorial Hospital, the construction of the Great Rivers Research Center, and the extension of Interstate 255 to Seminary Road. Additionally, in the fall of 2008, a Days Inn in Alton was closed because of building code violations, which diverted demand to other hotels in the area. Major area construction projects are expected to continue to positively impact demand through 2009, into 2010 and 2011. Monthly average rate trends are presented in the following table.

Table 4-8 Monthly Average Rate Trends

Month	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
January	$59.29	$60.86	$59.67	$64.61	$66.80	$63.87	$65.38	$68.20	$73.72	$77.38	$78.95
February	55.82	59.57	54.50	64.57	65.64	63.74	67.07	70.91	72.20	76.71	78.46
March	55.66	59.71	63.87	63.89	63.93	64.66	69.30	69.43	73.58	81.57	—
April	58.32	60.23	66.31	64.58	67.04	67.97	72.56	71.15	76.18	82.11	—
May	58.91	65.84	66.60	69.48	68.12	68.70	72.16	73.80	73.60	83.07	—
June	61.17	65.81	68.02	69.65	69.60	68.88	72.14	76.05	76.15	84.36	—
July	62.55	64.34	68.86	69.02	70.95	70.48	72.91	76.53	78.60	84.33	—
August	59.87	65.65	69.20	69.43	70.69	70.37	70.73	74.55	79.95	83.32	—
September	58.88	64.21	64.85	67.07	67.18	68.87	71.19	73.68	78.65	83.08	—
October	60.78	65.27	66.41	68.20	68.85	68.44	69.73	73.82	77.61	81.66	—
November	57.85	63.11	64.25	63.63	65.81	65.92	69.54	72.58	77.57	78.97	—
December	59.54	61.83	65.04	64.47	65.93	63.69	67.70	72.47	76.50	77.89	—
Annual Average Rate	**$59.12**	**$63.21**	**$65.02**	**$66.78**	**$67.77**	**$67.31**	**$70.29**	**$72.95**	**$76.30**	**$81.58**	—
Year-to-Date	**$57.59**	**$60.14**	**$56.88**	**$64.59**	**$66.22**	**$63.80**	**$66.23**	**$69.60**	**$72.95**	**$77.02**	**$78.72**

Source: Smith Travel Research

These data reflect an overall market average rate level of $81.58 in 2008, which compares to $76.30 for 2007. The average across all calendar years presented for average rate equates to $73.06. This market has experienced steady average rate growth during the last ten years, with only one year of minimal decline. Relatively steady demand levels have given area hotels pricing power and allowed them to consistently increase rates year-over-year. In contrast to national trends, average rates in this market have continued to strengthen thus far in 2009, thanks to strengthening demand.

These occupancy and average rate trends resulted in a RevPAR level of $56.13 in 2008. We note that the national average for RevPAR was $64.36 for 2008, roughly 2.0% below the 2007 level of $65.65.

Seasonality and Demand Patterns

A review of the historical monthly and day of week occupancy and average rate performance shows the patterns of market-wide demand. The following table shows the occupancy and average rate performance by month and day of week for the subject market, as provided by Smith Travel Research.

Table 4-9 Seasonality: Occupancy By Month and Day of Week

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Mar - 08	48.6 %	67.5 %	77.5 %	73.9 %	71.0 %	74.4 %	70.9 %	68.4 %
Apr - 08	42.6	68.6	71.6	69.0	61.9	67.7	75.3	65.6
May - 08	47.1	57.4	75.0	79.4	72.5	73.1	79.5	69.7
Jun - 08	52.7	78.9	87.6	89.9	80.1	80.3	85.0	78.3
Jul - 08	52.6	71.1	81.0	74.5	73.7	85.8	86.1	75.1
Aug - 08	52.9	71.4	80.0	79.6	75.5	77.1	85.9	74.4
Sep - 08	66.6	77.6	88.1	85.8	78.3	84.6	93.0	82.0
Oct - 08	65.8	91.5	94.7	93.0	85.9	89.3	94.9	88.0
Nov - 08	44.5	73.7	77.0	77.2	72.3	66.8	67.2	67.5
Dec - 08	44.2	60.6	62.2	67.9	56.7	58.5	57.3	58.7
Jan - 09	41.2	66.4	75.6	75.2	59.2	53.2	51.1	59.7
Feb - 09	39.1	61.5	67.1	68.7	58.6	57.7	72.1	60.7
Average	**49.8 %**	**70.6 %**	**77.9 %**	**77.7 %**	**70.7 %**	**72.4 %**	**76.0 %**	**70.7 %**

Source: Smith Travel Research

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Table 4-10 Seasonality: Average Rate By Month and Day of Week

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Mar - 08	$74.86	$76.01	$78.84	$78.27	$101.39	$81.28	$80.96	$81.57
Apr - 08	79.42	81.18	80.79	82.45	79.63	83.98	86.00	82.11
May - 08	81.16	80.09	80.58	83.45	81.20	84.84	87.37	83.07
Jun - 08	81.11	82.22	84.34	84.25	83.42	86.69	88.14	84.36
Jul - 08	80.16	82.02	82.50	82.83	85.55	87.70	87.90	84.33
Aug - 08	84.37	82.00	81.04	82.53	81.75	84.31	86.05	83.32
Sep - 08	80.51	81.21	82.26	82.79	81.66	85.30	87.29	83.08
Oct - 08	77.07	79.51	79.83	79.83	80.03	86.10	87.57	81.66
Nov - 08	76.73	77.59	78.69	79.01	79.52	78.91	81.48	78.97
Dec - 08	76.41	76.66	77.76	78.26	77.39	79.54	79.06	77.89
Jan - 09	76.20	76.53	80.03	79.62	82.22	79.49	76.87	78.95
Feb - 09	74.35	78.08	79.63	77.98	77.69	77.44	81.85	78.46
Average	**$78.78**	**$79.51**	**$80.67**	**$81.02**	**$82.72**	**$83.47**	**$84.66**	**$81.69**

Source: Smith Travel Research

The peak demand periods suggest the timing and nature of unaccommodated demand and serve as a basis for our forthcoming estimate of this demand category presented later in this chapter (as applicable).

SUPPLY

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

The following table summarizes the important operating characteristics of the future primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table also sets forth each property's penetration factors; penetration is the ratio between a specific hotel's operating results and the corresponding data for the market. If the penetration factor is greater than 100%, the property is performing better than the market as a whole; conversely, if the penetration is less than 100%, the hotel is performing at a level below the market-wide average.

Table 4-11 Primary Competitors – Operating Performance

		Est. Segmentation			Estimated 2006				Estimated 2007				Estimated 2008					
Property	Number of Rooms	Commercial	Meeting and Group	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Holiday Inn	137	60 %	25 %	15 %	137	60 %	$93.00	$55.80	137	63 %	$93.00	$58.59	137	63 %	$105.00	$66.15	92.7 %	114.9 %
Comfort Inn	62	65	15	20	62	70	68.00	47.60	62	70	73.00	51.10	62	73	73.00	53.29	106.7	92.0
Sub-Totals/Averages	**199**	**62 %**	**22 %**	**17 %**	**199**	**63.1 %**	**$84.36**	**$53.25**	**199**	**65.2 %**	**$86.31**	**$56.26**	**199**	**66.7 %**	**$93.99**	**$62.14**	**96.7 %**	**108.0 %**
Secondary Competitors	261	68 %	18 %	15 %	133	71.3 %	$63.53	$45.28	148	64.3 %	$68.12	$43.78	179	70.9 %	$73.96	$52.40	103.7 %	91.2 %
Totals/Averages	**460**	**65 %**	**20 %**	**16 %**	**332**	**66.4 %**	**$75.41**	**$50.06**	**347**	**64.8 %**	**$78.61**	**$50.93**	**378**	**68.4 %**	**$84.15**	**$57.50**	**100.0 %**	**100.0 %**

Map of Competition

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

Holiday Inn

Holiday Inn
3800 Homer Adams Parkway
Alton, IL

Table 4-12 Estimated Historical Operating Statistics

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2006	137	60 %	$93	$56	90.4 %	111.5 %
Estimated 2007	137	63	93	59	97.2	115.0
Estimated 2008	137	63	105	66	92.1	114.9

The Holiday Inn is owned and operated by Albanese Development Corporation under the legal name of Alton Partnership. Facilities include a restaurant, a lounge, an atrium bar, an indoor pool and whirlpool, a sauna, a game room, an exercise room, a business center, a guest laundry facility, and 5,424 square feet of meeting space, including a 4,800-square-foot ballroom. The hotel, which was built in 1982, underwent a total renovation in various stages from 2002 through 2005. Additional upgrades are planned for 2009 as part of InterContinental Hotel Group's worldwide re-launch of the Holiday Inn brand. Planned upgrades include new guestroom carpet and bedding, as well as new exterior signage and paint. This hotel benefits from its status as the only full-service hotel in the market area. In contrast, this hotel suffers somewhat from its dated layout and design. Overall, the property appeared to be in good condition. Its accessibility is similar when compared to the subject neighborhood, and its visibility is similar when compared to the expected visibility of the Proposed Alton Hotel.

Comfort Inn

Comfort Inn
11 Crossroads Court
Alton, IL

Table 4-13 Estimated Historical Operating Statistics

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2006	62	70 %	$68	$48	105.5 %	95.1 %
Estimated 2007	62	70	73	51	108.0	100.3
Estimated 2008	62	73	73	53	106.7	92.6

The Comfort Inn Alton is owned and operated by Shivam Hotel LLC. Facilities include a breakfast dining area (a complimentary breakfast is served), an indoor pool, and a business center. The hotel, which was built in 1996, was in the process of completing a renovation at the time of our inspection; upgrades included new guestroom case goods. This hotel benefits from its status as the only mid-scale, limited-service hotel in the city of Alton. Overall, the property appeared to be in very good condition. Its accessibility is similar when compared to the subject neighborhood, and its visibility is similar when compared to the expected visibility of the Proposed Alton Hotel.

Secondary Competitors

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

Table 4-14 Secondary Competitor(s) – Operating Performance

		Est. Segmentation				Estimated 2006				Estimated 2007				Estimated 2008			
Property	**Number of Rooms**	**Commercial**	**Meeting and Group**	**Leisure**	**Total Competitive Level**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**
Super 8	63	70 %	10 %	20 %	60 %	38	68 %	$55.00	$37.40	38	68 %	$58.00	$39.44	38	73 %	$58.00	$42.34
Holiday Inn Express	65	75	15	10	75	49	75	70.00	52.50	49	70	75.00	52.50	49	73	75.00	54.75
Hampton Inn & Suites	62	65	20	15	75	0	0	0.00	0.00	16	35	90.00	31.50	47	70	95.00	66.50
Comfort Inn Edwardsville	71	60	25	15	65	46	70	63.00	44.10	46	65	65.00	42.25	46	68	65.00	44.20
Totals/Averages	**261**	**68 %**	**18 %**	**15 %**	**69 %**	**133**	**71.3 %**	**$63.53**	**$45.28**	**148**	**64.3 %**	**$68.12**	**$43.78**	**179**	**70.9 %**	**$73.90**	**$52.40**

We have identified several hotels that are expected to compete with the proposed subject property on a secondary level. The Super 8 is expected to be competitive on the basis of its location in Alton; however, this economy hotel offers a budget-oriented product. The Holiday Inn Express, Hampton Inn & Suites, and Comfort Inn Edwardsville are expected to be competitive on the basis of their mid-scale product offerings; however, these hotels are located outside the Alton area.

Supply Changes

It is important to consider any new hotels that may have an impact on the proposed subject property's operating performance. Based upon our research and inspection (as applicable), new supply considered in our analysis is presented in the following table.

Table 4-15 New Supply

Proposed Property	Number of Rooms	Total Competitive Level	Estimated Opening Date	Development Stage
Proposed Alton Hotel	110	100 %	April 1, 2011	Early Development
Sleep Inn & Suites	62	50	June 1, 2009	Under Construction
Totals/Averages	**172**			

The Sleep Inn & Suites will be competitive on the basis of its limited-service, mid-scale product offering; however, due to the ten-mile distance between it and the proposed downtown Alton location of the proposed subject property, this property has been weighted secondarily competitive. Furthermore, we note that the 54-room Spring Green Lodge and Conference Center was approved for construction approximately 13 miles from the proposed Downtown Alton location of the proposed subject property. However, according to the project's developer, it has encountered funding problems and has been put on hold indefinitely. Therefore, the possibility of this hotel entering the market has only been considered qualitatively in our positioning of the proposed subject property's stabilized occupancy level.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the future operating potential of the proposed subject property may be positively or negatively affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and average rate is intended to reflect such risk.

Supply Conclusion

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

DEMAND

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

Table 4-16 Historical Market Trends

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2006	80,363	—	121,071	—	66.4 %	$75.41	—	$50.06	—
Est. 2007	82,116	2.2 %	126,744	4.7 %	64.8	78.61	4.2 %	50.93	1.7 %
Est. 2008	94,419	15.0	138,043	8.9	68.4	84.15	7.1	57.56	13.0
Avg. Annual Compounded Chg., Est. 2006-Est. 2008:		8.4 %		6.8 %			5.6 %		7.2 %

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2008 distribution of accommodated room night demand as follows.

Table 4-17 Accommodated Room Night Demand

	Marketwide	
Market Segment	Accommodated Demand	Percentage of Total
Commercial	61,027	65 %
Meeting and Group	18,549	20
Leisure	14,843	16
Total	**94,419**	**100 %**

The market's demand mix comprises commercial demand, with this segment representing roughly 65% of the accommodated room nights in this Alton submarket. The remaining portion comprises meeting and group at 20%, with the final portion leisure in nature, reflecting 16%.

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

Commercial Segment

The commercial segment consists of individual businesspeople who are visiting various firms in the subject property's market. This demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday. In markets where the weekday occupancy often exceeds 90%, some unaccommodated commercial demand is likely to be present. The typical length of stay for commercial guests ranges from one to three days, and the rate of double occupancy is a low 1.2 to 1.3 people per room. Commercial demand is relatively constant throughout the year, although some declines are noticeable in late December and during other holiday periods.

The commercial segment includes numerous smaller classifications; however, the primary categories considered in this analysis are individual business travelers and high-volume corporate accounts. Most individual business travelers are visiting firms in the immediate area or passing through en route to other destinations. Their lodging choices are influenced by brand loyalty (and frequent traveler programs in particular), as well as location and convenience with respect to businesses and amenities. High-volume corporate accounts are generated by local companies; demand in this sub-segment may include employees of the firm or its affiliates, and often consists of training groups. These companies typically designate hotels as "preferred" accommodations; in return, the selected lodging facilities generally offer a significant discount from their published rates. Typically, these rates are negotiated on an annual basis, and the size of the discount is tied to the number of room nights produced.

Major factors considered in the development of our growth rates include several construction projects that are currently underway or are planned for the area. The recent extension of Interstate 255 to Seminary Road has contributed to demand growth for the area, and the interstate's further extension to U.S. Highway 67 is expected to serve as a catalyst for future economic development and demand growth. Likewise, the ongoing expansion of the ConocoPhillips refinery has generated increased demand and spurred expansions of other area businesses. This project should continue to positively impact demand levels going forward and, when complete, will contribute to growth of the market's employment base.

All of the economic and demographic data presented earlier have some influence on commercial lodging demand. The trends that have the most direct correlation are changes in FIRE, service, wholesale trade, and total employment; occupied office space; and air passenger counts. Considering these historical trends, we project demand change rates of 2.0% in 2009, 3.0% in 2010, and 3.5% in 2011. After these first three projection years, we have forecast demand change rates of 2.5% in 2012 and 1.5% in 2013.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Because of vacations, the summer months represent the slowest period for this market segment, while winter demand varies. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups.

Corporate groups are one of the most profitable components of this segment because they exhibit limited price sensitivity and often sponsor banquets and other events that generate revenue for the host hotel. This demand may take the form of training programs, sales meetings, division conferences, and similar events with a business purpose. Corporate groups generally meet during the work week, thus generating lodging demand on Monday through Thursday nights. Association demand is generally divided on a geographical

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basis: the most common categories are national, regional, and state associations. Depending on their nature, these associations may be more rate-sensitive than commercial groups. The scheduling pattern of associations also depends on the nature of the group. The SMERFE market consists of groups that are social, military, ethnic, religious, fraternal, or educational in nature. These groups are budget-conscious and have a strong preference for weekend and summer meeting times, when rates are generally lower.

Meeting and group demand in this market is generated by a variety of sources including area corporations, educational institutions, tour groups, and associations, as well as family-related social events. Our market research revealed that meeting and banquet space are in high demand, especially during weekends and the peak summer and fall seasons, when many weddings, reunions, and other social functions area held. Our interviews revealed that during these times, venues are often booked over a year in advance. Based on these reports, we have projected increased demand for this segment going forward, particularly after the proposed subject property's anticipated opening.

Future meeting and group demand is closely related to growth in the commercial segment. Because most meetings have either a direct or an indirect business purpose, the economic considerations that have an impact on commercial travel also affect meeting and group demand. The exception is non-commercial meetings, which are tied to the economic factors that influence leisure travel. It should be noted that meetings and similar events are booked in advance, and thus growth in this segment tends to lag slightly behind increases in commercial demand. Considering these historical trends, we project demand change rates of 1.0% in 2009 and 1.0% in 2010. After these first three projection years, we have forecast demand change rates of 3.0% in 2011, 2.5% in 2012, and 2.0% in 2013 for the first scenario. Considering the addition of a conference center in the second scenario, we have forecast demand change rates of 4.0% in 2011, 3.0% in 2012, and 2.5% in 2013.

Leisure Segment

The leisure market segment consists of individuals and families who are spending time in the area or passing through en route to other destinations. Their travel purposes may include sightseeing, recreation, visiting friends and relatives, or numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods are negatively correlated with commercial visitation, underscoring the stabilizing effect of capturing weekend and summer tourist travel.

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 product type. All-suite properties with inclusive food and beverage will tend to drive strong leisure room rates, while highway properties with limited amenities typically offer more discounted leisure room rates.

Leisure demand in the area is generated by a variety of attractions along the Mississippi River, including historical sites, outdoor activities, and numerous shops, restaurants, and wineries. These attractions reportedly draw a significant number of tourists to the area throughout the year. The opening of a new amphitheatre in Alton's River Front Park is expected to draw additional visitors to the area and provide a venue for touring performances. Additionally, we note that the ongoing national economic downturn is shifting leisure travel patterns in the United States. More travelers are choosing more cost-efficient domestic locations for vacations, making regional destinations, such as Alton, an increasingly attractive option. As such, we anticipate that this market will realize increased leisure demand going forward.

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 often have a strong correlation to non-commercial visitation. Of the economic and demographic data presented earlier in this report, trends in retail sales, retail sector employment, total employment, and air passenger counts tend to have the strongest influence on leisure demand. Considering these historical trends, we project demand change rates of 1.5% in 2009, 1.5% in 2010, and 2.5% in 2011. After these first three projection years, we have forecast demand change rates of 3.0% in 2012 and 2.0% in 2013.

Conclusion

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, three segments were defined as representing the subject property’s lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following average annual compounded market segment growth rates for the first scenario.

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Table 4-18 Average Annual Compounded Market Segment Growth Rates – First Scenario

Market Segment	2009	2010	2011	2012	2013	2014
	Annual Growth Rate					
Commercial	2.0 %	3.0 %	3.5 %	2.5 %	1.5 %	1.0 %
Meeting and Group	1.0	1.0	3.0	2.5	2.0	1.5
Leisure	1.5	1.5	2.5	3.0	2.0	1.0
Base Demand Growth	**1.7 %**	**2.4 %**	**3.2 %**	**2.6 %**	**1.7 %**	**1.1 %**

We forecast the following average annual compounded market segment growth rates for the second scenario.

Table 4-19 Average Annual Compounded Market Segment Growth Rates – Second Scenario

Market Segment	2009	2010	2011	2012	2013	2014
	Annual Growth Rate					
Commercial	2.0 %	3.0 %	3.5 %	2.5 %	1.5 %	1.0 %
Meeting and Group	1.0	1.0	4.0	3.0	2.5	1.5
Leisure	1.5	1.5	2.5	3.0	2.0	1.0
Base Demand Growth	**1.7 %**	**2.4 %**	**3.4 %**	**2.7 %**	**1.8 %**	**1.1 %**

While local economic conditions bear the greatest significance on the forecast of demand change presented in this section, our forecast also takes into consideration the currently sluggish economic climate on a national level. As previously discussed, the national economy is in a state of decline; the gross national product contracted by 0.5% in the third quarter of 2008, after posting a 2.8% increase in the second quarter. Moreover, unemployment remains on the rise, and the financial sector remains strained by the subprime crisis. Accordingly, we expect demand to continue its decline for most of 2009, following the similar trend of 2008 for the U.S. hotel industry overall. Together with the continued introduction of new supply, this decline in demand is expected to produce a compounded negative effect on the national average occupancy level.

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Latent Demand

A table presented earlier in this section illustrated the accommodated room night demand in the subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room night demand that has not been realized by the existing competitive supply; this type of demand can be divided into unaccommodated demand and induced demand.

Unaccommodated Demand

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

Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 70%, the market sells out many nights during the year.

The following table presents our estimate of unaccommodated demand in the subject market for the first scenario.

Table 4-20 Unaccommodated Demand Estimate – First Scenario

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Commercial	61,027	16.8 %	10,270
Meeting and Group	18,549	26.3	4,871
Leisure	14,843	30.2	4,479
Total	**94,419**	**20.8 %**	**19,620**

The following table presents our estimate of unaccommodated demand in the subject market for the second scenario.

Table 4-21 Unaccommodated Demand Estimate – Second Scenario

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Commercial	61,027	16.8 %	10,270
Meeting and Group	18,549	30.7	5,694
Leisure	14,843	30.2	4,479
Total	**94,419**	**21.7 %**	**20,443**

Our interviews with market participants found that the market frequently sells out. Mid-week sellouts are generated by strong commercial demand in the spring; in the summer and fall, increased demand relating to tourism and social events, coupled with healthy commercial demand levels, results in more frequent sellouts throughout the week and weekend. Additionally, market participants reported that a portion of demand in the area is currently being diverted to other markets in the region because of the lack of upscale accommodations. A portion of this demand, which is currently turned away, should return to the market concurrent with the supply increases.

We interviewed management at several area meeting and banquet facilities, as well as officials at the Alton Area Convention and Visitors Bureau, in order to gauge market demand for meeting facilities. These market participants revealed that meeting space is in high demand and that the market is currently under-supplied. In particular, they indicated that there is a significant amount of unfulfilled demand for facilities with the following characteristics: modern amenities, high-quality furnishings and finishes, attached or near hotel rooms, and proximate to riverfront attractions. These participants indicated that the most common uses for meeting space are family-related social events, group association events, and corporate meetings. Those interviewed reported that demand from events with 200 to 400 attendees is very strong, with these events occurring, on average, multiple times a week at each facility. Demand from events with over 400 attendees was reported to be less frequent and sporadic; however, the participants noted that groups of this size are not actively pursued due to capacity constraints. A market study of demand for area meeting space, which was performed by a third party in 2002, was provided for our review by the Alton Area Convention and Visitors Bureau. The study surveyed 88 meeting planners from corporations and associations throughout the region to gauge what type and size of facility would draw them to Alton. The study indicated that the amount of meeting space desired by these planners ranged from zero to 15,000 square feet, with 90% of responses falling between 500 and 6,000 square feet. Additionally, the planners indicated a need for nearby hotel rooms ranging in number from zero to 350 rooms, with 60% of responses falling between ten and 100 rooms.

Based upon an analysis of monthly and weekly peak demand and sell-out trends, as well as interviews with market participants, we have forecast 20.8% of the base-year demand to be classified as unaccommodated in the first scenario and 21.7% of the base-year demand to be classified as unaccommodated in the second scenario.

Accommodated Demand and Market-wide Occupancy

Based upon a review of the market dynamics in the subject property's competitive environment, we have forecast growth rates for each market segment. Using the calculated potential demand for the market, we have determined market-wide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projection of lodging demand growth for the subject market in the first scenario, including the total number of occupied room nights and any residual unaccommodated demand in the market.

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Table 4-22 Forecast of Market Occupancy – First Scenario

	2009	2010	2011	2012	2013	2014
Commercial						
Base Demand	62,248	64,115	66,359	68,018	69,039	69,729
Unaccommodated Demand	10,475	10,790	11,167	11,446	11,618	11,734
Total Demand	72,723	74,905	77,527	79,465	80,657	81,463
Growth Rate	19.2 %	3.0 %	3.5 %	2.5 %	1.5 %	1.0 %
Meeting and Group						
Base Demand	18,735	18,922	19,490	19,977	20,376	20,682
Unaccommodated Demand	4,920	4,969	5,118	5,246	5,351	5,432
Total Demand	23,655	23,891	24,608	25,223	25,728	26,114
Growth Rate	27.5 %	1.0 %	3.0 %	2.5 %	2.0 %	1.5 %
Leisure						
Base Demand	15,066	15,292	15,674	16,144	16,467	16,632
Unaccommodated Demand	4,546	4,614	4,729	4,871	4,969	5,018
Total Demand	19,612	19,906	20,403	21,016	21,436	21,650
Growth Rate	32.1 %	1.5 %	2.5 %	3.0 %	2.0 %	1.0 %
Totals						
Base Demand	96,048	98,329	101,523	104,139	105,882	107,043
Unaccommodated Demand	19,941	20,373	21,015	21,564	21,938	22,184
Total Demand	115,989	118,702	122,538	125,703	127,820	129,227
less: Residual Demand	16,998	16,863	4,062	4,210	5,159	5,788
Total Accommodated Demand	98,991	101,839	118,476	121,493	122,661	123,439
Overall Demand Growth	4.8 %	2.9 %	16.3 %	2.5 %	1.0 %	0.6 %
Market Mix						
Commercial	62.7 %	63.1 %	63.3 %	63.2 %	63.1 %	63.0 %
Meeting and Group	20.4	20.1	20.1	20.1	20.1	20.2
Leisure	16.9	16.8	16.7	16.7	16.8	16.8
Existing Hotel Supply	381	378	387	378	378	378
Proposed Hotels						
Proposed Alton Hotel			83	110	110	110
Sleep Inn & Suites	18	31	31	31	31	31
Available Rooms per Night	145,638	149,358	183,018	189,508	189,508	189,508
Nights per Year	365	365	365	365	365	365
Total Supply	399	409	501	519	519	519
Rooms Supply Growth	5.5 %	2.6 %	22.5 %	3.5 %	0.0 %	0.0 %
Marketwide Occupancy	**68.0 %**	**68.2 %**	**64.7 %**	**64.1 %**	**64.7 %**	**65.1 %**

[1] Opening in April 2011 of the 100% competitive, 110-room Proposed Alton Hotel

[2] Opening in June 2009 of the 50% competitive, 62-room Sleep Inn & Suites

The following table details our projection of lodging demand growth for the subject market in the second scenario, including the total number of occupied room nights and any residual unaccommodated demand in the market.

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Table 4-23 Forecast of Market Occupancy – Second Scenario

	2009	2010	2011	2012	2013	2014
Commercial						
Base Demand	62,248	64,115	66,359	68,018	69,039	69,729
Unaccommodated Demand	10,475	10,790	11,167	11,446	11,618	11,734
Total Demand	72,723	74,905	77,527	79,465	80,657	81,463
Growth Rate	19.2 %	3.0 %	3.5 %	2.5 %	1.5 %	1.0 %
Meeting and Group						
Base Demand	18,735	18,922	19,679	20,269	20,776	21,088
Unaccommodated Demand	5,751	5,808	6,041	6,222	6,377	6,473
Total Demand	24,485	24,730	25,720	26,491	27,153	27,561
Growth Rate	32.0 %	1.0 %	4.0 %	3.0 %	2.5 %	1.5 %
Leisure						
Base Demand	15,066	15,292	15,674	16,144	16,467	16,632
Unaccommodated Demand	4,546	4,614	4,729	4,871	4,969	5,018
Total Demand	19,612	19,906	20,403	21,016	21,436	21,650
Growth Rate	32.1 %	1.5 %	2.5 %	3.0 %	2.0 %	1.0 %
Totals						
Base Demand	96,048	98,329	101,712	104,432	106,282	107,448
Unaccommodated Demand	20,772	21,212	21,937	22,540	22,964	23,226
Total Demand	116,820	119,541	123,649	126,971	129,246	130,674
less: Residual Demand	17,707	17,560	4,411	4,774	5,794	6,432
Total Accommodated Demand	99,114	101,981	119,238	122,198	123,452	124,242
Overall Demand Growth	5.0 %	2.9 %	16.9 %	2.5 %	1.0 %	0.6 %
Market Mix						
Commercial	62.3 %	62.7 %	62.7 %	62.6 %	62.4 %	62.3 %
Meeting and Group	21.0	20.7	20.8	20.9	21.0	21.1
Leisure	16.8	16.7	16.5	16.6	16.6	16.6
Existing Hotel Supply	381	378	387	378	378	378
Proposed Hotels						
Proposed Alton Hotel and Con [1]			83	110	110	110
Sleep Inn & Suites [2]	18	31	31	31	31	31
Available Rooms per Night	145,638	149,358	183,018	189,508	189,508	189,508
Nights per Year	365	365	365	365	365	365
Total Supply	399	409	501	519	519	519
Rooms Supply Growth	5.5 %	2.6 %	22.5 %	3.5 %	0.0 %	0.0 %
Marketwide Occupancy	**68.1 %**	**68.3 %**	**65.2 %**	**64.5 %**	**65.1 %**	**65.6 %**

[1] Opening in April 2011 of the 100% competitive, 110-room Proposed Alton Hotel and Conference Center

[2] Opening in June 2009 of the 50% competitive, 62-room Sleep Inn & Suites

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These room night projections for the market area will be used in forecasting the proposed subject property's occupancy and average rate in Chapter 6.

5. Description of the Proposed Project

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

Project Overview

The Proposed Alton Hotel should be a select-service lodging facility containing 110 rentable units. The property has been projected to open on April 1, 2011. The purpose of this report is to determine the market demand and feasibility of two separate development scenarios in the Downtown Alton neighborhood; a hotel or a hotel with an adjacent conference center. After researching and analyzing the market, we are recommending the optimal characteristics for these facilities, including guestroom count, food and beverage facilities, amount of meeting space, and recreational facilities. We have also recommended that the hotel be branded with a national franchise. We have suggested the SpringHill Suites by Marriott brand for the proposed property; however, our facility recommendations and performance projections are not contingent on this particular brand affiliation. In general, we suggest that the proposed subject property be located near the Mississippi River, which is a primary attraction for the area, and incorporate a river theme into the naming, marketing, design, and décor of the proposed property. Additionally, the design and exterior of the building(s) should complement the quaint, historic nature of many of the existing buildings in the neighborhood.

The SpringHill Suites by Marriott brand targets primarily corporate-transient demand during the mid-week period; however, it is also popular with weekend leisure travelers given the mix of amenities and spacious guestrooms, which are approximately 25% larger than traditional hotel rooms. SpringHill Suites offer complimentary continental breakfast, free local calls, same-day dry cleaning, guest laundry facilities, an indoor swimming pool, a whirlpool, and an exercise room. Guestrooms feature separate working, dining, and sleeping areas. Each room contains a mini-refrigerator and a microwave, along with a desk with phone and data ports. The main competitors of the SpringHill Suites by Marriott brand include Hilton Garden Inn, AmeriSuites, Country Inn & Suites, La Quinta, Sheraton Four Points, Wingate Inn, and DoubleTree Club, among others. As of year-end 2007, there were 177 SpringHill Suites by Marriott locations in the United States and Canada. In 2007, the SpringHill Suites by Marriott brand averaged a 73.2% occupancy level at a $106.49 average rate (6.5% higher than 2006).

Summary of the Facilities

The following table summarizes the facilities that we have recommended to be available at the proposed subject property under each scenario.

Table 5-1 Proposed Facilities Summary – First Scenario

Guestroom Configuration	Number of Units
King	35
Queen/Queen	75
Total	110
Food & Beverage Facilities	**Seating**
Breakfast Dining Area	TBD
Lounge	TBD
Meeting & Banquet Facilities	**Square Footage**
Ballroom	4,500
Breakout Room	1,000
Boardroom	500
Total	6,000
Amenities	
Indoor Pool	Exercise Room
Indoor Whirlpool	Business Center
Vending Areas	Market Pantry
Guest Laundry Facility	

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Table 5-2 Proposed Facilities Summary – Second Scenario

Guestroom Configuration	Number of Units
King	35
Queen/Queen	75
Total	110
Food & Beverage Facilities	**Seating**
Breakfast Dining Area	TBD
Lounge	TBD
Meeting & Banquet Facilities	**Square Footage**
Ballroom	7,500
Junior Ballroom	4,000
Boardroom	500
Total	12,000
Amenities	
Indoor Pool	Exercise Room
Indoor Whirlpool	Business Center
Vending Areas	Market Pantry
Guest Laundry Facility	

Site Improvements and Hotel Structure

Once guests enter the site, ample parking should be available on a surface lot or in a parking garage. Due to the sloped nature of many parcels in the downtown area, a parking garage located under the facility may be optimal. Site improvements should include free-standing monument signage; additional signage should also be placed on the exterior of the building. We assume that all signage will adequately identify the property and meet brand standards. Landscaping should provide a positive guest impression and competitive exterior appearance. Sidewalks should be present along the front entrance and around the perimeter of the hotel (and conference center if applicable). Overall, the recommended site improvements should allow the proposed subject property to be competitive in this market.

The structure will comprise either one single hotel building or two buildings containing the hotel and meeting spaces separately. The exterior of the hotel should be finished with brick, or with similar materials that will complement surrounding buildings. Stairways and elevators should provide internal vertical transportation within the main structure. The hotel's roof should be constructed to provide adequate protection from the weather and complement the style of surrounding buildings. Double-paned windows should reduce noise transmission into the rooms. Heating and cooling will likely be provided by through-the-wall units in the guestrooms and several large units for the public areas. Overall, the building components are expected to be normal for a hotel of this type and should meet the standards for this market and the selected brand. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that may impact the future operating potential of the hotel or delay its assumed opening date.

Lobby

Guests should enter the hotel through automatic doors, which should open to a vestibule, and then through a second set of automatic doors. The lobby should be spacious, appropriate for a SpringHill Suites or similar upscale, select-service brand. The lobby walls should be attractively finished with an upscale material that is in line with brand standards. The front desk should feature a high-quality countertop and is expected to be installed with appropriate property management and telephone systems. The furnishings and finishes in this space should offer an appropriate first impression, and the design of the space should lend itself to adequate efficiency. The specific design concept will be finalized with input from the pursued future brand for the proposed subject property. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

Food and Beverage Facilities

The hotel should offer a breakfast dining area and a lounge, which should be located on the first floor. The size and layout of each facility is expected to be appropriate for the hotel. The furnishings of these spaces are expected to be of a similar style and finish as lobby and guestroom furnishings.

Overall, the hotel is expected to provide a competitive offering of food and beverage facilities for an upscale, select-service property.

Meeting and Banquet Space

A select-service, upscale hotel in this location should offer a significant amount of modern and technologically advanced meeting space. We have considered two different scenarios regarding the recommended extent of these facilities. In the first, hotel-only scenario, we have recommended a mid-sized, fully divisible ballroom, as well as an additional breakout room and boardroom. Our market research revealed that these facilities should be adequate to compete in the market and capture a significant amount of existing meeting and group demand. In the second, hotel and conference center scenario, we have recommended a large, fully divisible ballroom; a mid-sized, fully divisible junior ballroom; and a boardroom. Our market research revealed that these facilities should be adequate to attract new regional meetings and events to the market, as well as capture existing meeting and group demand. In both scenarios, we would expect public restrooms to be integrated into this space, as well as additional reception and hallway areas.

Recreational Amenities

The hotel should offer standard recreational amenities for this market and select-service product type, including an exercise room, an indoor pool, and a whirlpool.

Additional Amenities

Additional amenities should include a business center, a market pantry, a guest laundry facility, and wireless Internet access in the public areas. Ice machines and vending areas should be located on each guestroom floor. Overall, these supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

Guestrooms

The hotel is expected to feature standard and/or suite-style guestroom configurations. Guestrooms are expected to be present on all levels of the property within the hotel building. The guestrooms should be large and offer standard amenities for an upscale product type, including a comfortable bed with quality linens, a work desk with chair, and a flat-panel television. In addition, rooms are expected to feature amenities such as an iron and ironing board, a coffeemaker, and high-speed Internet access. Overall, the recommended guestroom facilities should offer a competitive product for this neighborhood.

Guestroom bathrooms are expected to be of a standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a stone countertop. The floors should be finished with tile, and the walls should be finished with an upscale material that complies with brand standards. Bathrooms amenities should include a hairdryer and complimentary toiletries. Overall, the recommended bathroom facilities should be appropriate for a product of this type.

The interior guestroom corridors should be wide and functional, permitting the easy passage of housekeeping carts. Corridor carpet, wall vinyl, signage, and lighting should be in keeping with the overall look and design of the rest of the property and comply with the standards of the selected brand.

Back-of-the-House, ADA, and Environmental

The hotel should be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a full-service kitchen to serve the needs of the breakfast area, lounge, and meeting space. These spaces should be adequate for a hotel of this type and should allow for the efficient operation of the property under competent management.

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

Capital Expenditures

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

Conclusion

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

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6. Projection of Occupancy and Average Rate

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance and market value. Most of a lodging facility's other revenue sources (such as food, beverages, and telephone income) are driven by the number of guests, and many expense levels also vary with occupancy. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical, professional hotel management team to achieve an optimal mix of occupancy and average rate.

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive position within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share. A complete discussion of the concept of penetration is presented in the addenda.

Historical Penetration Rates by Market Segment

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

Table 6-1 Historical Penetration Rates

Property	Commercial	Meeting and Group	Leisure	Overall
Holiday Inn	86 %	117 %	88 %	92 %
Comfort Inn	107	81	136	107
Secondary Competition	109	93	97	104

The secondary competition achieved the highest penetration rate within the commercial segment. The highest penetration rate in the meeting and group segment was achieved by the Holiday Inn, while the Comfort Inn led the market with the highest leisure penetration rate.

Forecast of Subject Property's Occupancy – First Scenario

Because the supply and demand balance for the competitive market is dynamic, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market, and consequently upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (when a poorly maintained or marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply, or a change in the relative penetration performance of one or more hotels in the competitive market.

Our projections of penetration, demand capture and occupancy performance for the subject property account for these types of adjustments to market share within the defined competitive market. Consequently, the actual penetration factors applicable to the subject property and its competitors for each market segment in each projection year may vary somewhat from the penetration factors delineated in the previous tables.

The following tables set forth, by market segment, the projected adjusted penetration rates for the subject property and each hotel in the competitive set under the first scenario.

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Table 6-2 Commercial Segment Adjusted Penetration Rates – First Scenario

Hotel	2008	2009	2010	2011	2012	2013	2014
Holiday Inn	86 %	84 %	83 %	87 %	87 %	86 %	85 %
Comfort Inn	107	106	104	109	109	107	107
Secondary Competition	109	110	110	115	115	114	113
Proposed Alton Hotel	—	—	—	**76**	**84**	**88**	**90**
Sleep Inn & Suites	—	99	105	113	113	112	112

Within the commercial segment, the proposed subject hotel's penetration is positioned to be modestly below the market-average level by the stabilized period due to the proposed subject property's location in Downtown Alton. In comparison, other hotels in the competitive set benefit from superior access and proximity to major highways and commercial demand generators. Despite these factors, the proposed subject property is expected to capture a significant amount of commercial demand and outperform the nearby Holiday Inn in this market segment. The proposed subject property's national-brand affiliation, as well as its status as the only upscale product offering the market, should help it achieve the forecasted penetration levels for this segment.

Table 6-3 Meeting and Group Segment Adjusted Penetration Rates – First Scenario

Hotel	2008	2009	2010	2011	2012	2013	2014
Holiday Inn	117 %	119 %	120 %	118 %	114 %	111 %	109 %
Comfort Inn	81	83	83	82	79	77	76
Secondary Competition	93	95	95	94	91	89	87
Proposed Alton Hotel	—	—	—	**106**	**117**	**126**	**132**
Sleep Inn & Suites	—	66	72	74	71	69	68

Under our first, hotel-only scenario, the proposed subject property is expected to become the foremost choice for meeting and group demand in the market area. While the nearby Holiday Inn encompasses a similar amount of meeting space, the space is somewhat dated and does not feature upscale furnishings or finishes. Additionally, the proposed subject property's location near the Mississippi River and riverfront attractions should provide it with a significant advantage over the Holiday Inn and the rest of the competitive set. Therefore, we believe that the proposed subject property will become the leading choice for corporate meetings, association events, and social banquets. Furthermore, we anticipate that the opening of the proposed subject property will draw previously unaccommodated groups to the market that are seeking an upscale product with modern amenities in a desirable location.

Table 6-4 Leisure Segment Adjusted Penetration Rates – First Scenario

Hotel	2008	2009	2010	2011	2012	2013	2014
Holiday Inn	88 %	89 %	89 %	87 %	83 %	81 %	80 %
Comfort Inn	136	137	138	134	129	126	124
Secondary Competition	97	98	98	96	92	90	88
Proposed Alton Hotel	—	—	—	**113**	**123**	**132**	**137**
Sleep Inn & Suites	—	76	81	82	79	77	76

The proposed subject property's leisure penetration rate is positioned above the range of existing competitors, supported by the hotel's proposed downtown location in Alton. This location, which is proximate to the Mississippi River, National Great Rivers Scenic Byway, Alton Marina, and Argosy Casino, as well as shops and restaurants, is considered a focal point for tourism to the area. With the proposed subject property's location being so favorable to group bus tours, individual tourists, and other leisure visitors, we would expect the hotel to experience high levels of weekend demand, especially during peak travel seasons and special events. As such, the proposed subject property is expected to realize the highest leisure penetration level in the market by the stabilized year.

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

Table 6-5 Market Segmentation Forecast – Subject Property – First Scenario

	2011	2012	2013	2014
Commercial	55 %	55 %	54 %	53 %
Meeting and Group	24	24	25	25
Leisure	21	21	21	22
Total	100 %	100 %	100 %	100 %

The subject property's occupancy forecast for the first scenario is set forth as follows, with the adjusted projected penetration rates used as a basis for calculating the amount of captured market demand.

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Table 6-6 Forecast of Subject Property's Occupancy - First Scenario

Market Segment	2011	2012	2013	2014
Commercial				
Demand	75,236	76,854	77,465	77,886
Market Share	12.6 %	17.8 %	18.7 %	19.0 %
Capture	9,497	13,673	14,457	14,803
Penetration	76 %	84 %	88 %	90 %
Meeting and Group				
Demand	23,677	24,369	24,678	24,932
Market Share	17.6 %	24.8 %	26.6 %	28.0 %
Capture	4,164	6,037	6,562	6,991
Penetration	106 %	117 %	126 %	132 %
Leisure				
Demand	19,563	20,271	20,518	20,621
Market Share	18.8 %	26.1 %	27.9 %	29.0 %
Capture	3,681	5,300	5,722	5,980
Penetration	113 %	123 %	132 %	137 %
Total Room Nights Captured	**17,342**	**25,010**	**26,741**	**27,775**
Available Room Nights	30,360	40,150	40,150	40,150
Subject Occupancy	**57 %**	**62 %**	**67 %**	**69 %**
Marketwide Available Room Nights	183,018	189,508	189,508	189,508
Fair Share	**17 %**	**21 %**	**21 %**	**21 %**
Marketwide Occupied Room Nights	118,476	121,493	122,661	123,439
Market Share	**15 %**	**21 %**	**22 %**	**23 %**
Marketwide Occupancy	**65 %**	**64 %**	**65 %**	**65 %**
Total Penetration	**88 %**	**97 %**	**103 %**	**106 %**

We have chosen to use a stabilized occupancy level of 67%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition

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and temporary economic downturns to force the occupancy below this selected point of stability.

These projections reflect years beginning April 1, 2011, corresponding to the first projection year for the subject property's forecast of income and expense.

Table 6-7 Forecast of Occupancy - First Scenario

Year	Subject Property's Occupancy
2011/12	58 %
2012/13	63
2013/14	67

Forecast of Subject Property's Occupancy - Second Scenario

The following tables illustrate our forecasts for each segment under the second scenario.

Table 6-8 Commercial Segment Adjusted Penetration Rates – Second Scenario

Hotel	2008	2009	2010	2011	2012	2013	2014
Holiday Inn	86 %	84 %	83 %	87 %	87 %	86 %	85 %
Comfort Inn	107	106	104	109	109	107	107
Secondary Competition	109	110	110	115	115	114	113
Proposed Alton Hotel and (	**—**	**—**	**—**	**76**	**84**	**88**	**90**
Sleep Inn & Suites	—	99	105	113	113	112	112

Table 6-9 Meeting and Group Segment Adjusted Penetration Rates – Second Scenario

Hotel	2008	2009	2010	2011	2012	2013	2014
Holiday Inn	117 %	119 %	120 %	116 %	111 %	108 %	105 %
Comfort Inn	81	83	83	81	77	75	73
Secondary Competition	93	95	95	93	88	86	84
Proposed Alton Hotel and (	**—**	**—**	**—**	**114**	**128**	**138**	**145**
Sleep Inn & Suites	—	66	72	72	69	67	65

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Table 6-10 Leisure Segment Adjusted Penetration Rates – Second Scenario

Hotel	2008	2009	2010	2011	2012	2013	2014
Holiday Inn	88 %	89 %	89 %	87 %	83 %	81 %	80 %
Comfort Inn	136	137	138	134	129	126	124
Secondary Competition	97	98	98	96	92	90	88
Proposed Alton Hotel and (	**—**	**—**	**—**	**113**	**123**	**132**	**137**
Sleep Inn & Suites	—	76	81	82	79	77	76

Penetration rates in the commercial and leisure segments for the second, hotel-and-conference-center scenario mirror those of the first scenario. In contrast, we anticipate that the additional meeting space included in the second scenario would allow the proposed subject property to over-penetrate the market in the meeting and group segment to an even greater degree. Under the second scenario, we have thus projected the proposed subject property to achieve somewhat higher penetration rates in the meeting and group segment than in the first scenario. These increased penetration levels translate into modestly higher occupancy levels throughout the projection period. We note that the addition of a conference center would allow the proposed subject property to attract larger groups from a broader region, as well as accommodate multiple groups at the same time; however, the ability to attract this demand would be somewhat limited by the availability of hotel rooms in the immediate vicinity of the facility. These positioned segment penetration rates result in the following market segmentation forecast.

Table 6-11 Market Segmentation Forecast – Subject Property – Second Scenario

	2011	2012	2013	2014
Commercial	53 %	53 %	52 %	51 %
Meeting and Group	26	27	27	28
Leisure	21	20	21	21
Total	100 %	100 %	100 %	100 %

The proposed subject property's occupancy forecast is set forth as follows for the second scenario.

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Table 6-12 Forecast of Subject Property's Occupancy - Second Scenario

Market Segment	2011	2012	2013	2014
Commercial				
Demand	75,099	76,534	77,112	77,533
Market Share	12.6 %	17.8 %	18.7 %	19.0 %
Capture	9,479	13,616	14,391	14,736
Penetration	76 %	84 %	88 %	90 %
Meeting and Group				
Demand	24,614	25,485	25,924	26,191
Market Share	18.9 %	27.0 %	29.2 %	30.8 %
Capture	4,663	6,889	7,560	8,060
Penetration	114 %	128 %	138 %	145 %
Leisure				
Demand	19,525	20,178	20,416	20,518
Market Share	18.8 %	26.1 %	27.9 %	29.0 %
Capture	3,674	5,276	5,693	5,951
Penetration	113 %	123 %	132 %	137 %
Total Room Nights Captured	**17,817**	**25,781**	**27,644**	**28,747**
Available Room Nights	30,360	40,150	40,150	40,150
Subject Occupancy	**59 %**	**64 %**	**69 %**	**72 %**
Marketwide Available Room Nights	183,018	189,508	189,508	189,508
Fair Share	**17 %**	**21 %**	**21 %**	**21 %**
Marketwide Occupied Room Nights	119,238	122,198	123,452	124,242
Market Share	**15 %**	**21 %**	**22 %**	**23 %**
Marketwide Occupancy	**65 %**	**64 %**	**65 %**	**66 %**
Total Penetration	**90 %**	**100 %**	**106 %**	**109 %**

The following table presents the summary of forecast occupancy levels for this scenario.

Table 6-13 Forecast of Occupancy - Second Scenario

Year	Subject Property's Occupancy
2011/12	60 %
2012/13	65
2013/14	70

Average Rate Analysis

One of the most important considerations in estimating the value of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

Competitive Position

Although the average rate analysis presented here follows the occupancy projection, these two statistics are highly correlated; in reality, one cannot project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the historical average rate and the RevPAR of the subject's future primary competitors.

Table 6-14 Base Year Average Rate and RevPAR of the Competitors

Property	Estimated 2008 Average Room Rate	Rooms Revenue Per Available Room
Holiday Inn	$105.00	$66.15
Comfort Inn	73.00	53.29
Average - Primary Competitors	$93.99	$62.14
Average - Secondary Competitors	73.96	52.46
Overall Average	**$84.15**	**$57.56**

The defined primarily competitive market realized an overall average rate of $93.99 in the 2008 base year, improving from the 2007 level of $86.31. The Holiday Inn achieved the highest estimated average rate in the local competitive market, by a measurable margin, because of its well-established position as the only full-service product in the area. Our market research revealed that competitive hotels outside of Alton experience higher levels of commercial demand, providing them with mid-week pricing power. In contrast, Alton hotels experience very strong weekend demand during peak travel seasons, which allows them to command a significant rate premium at those times. In respect to the first scenario, the selected rate position for the proposed subject property, in base-year dollars, takes into consideration factors such as its desirable location, upscale product offering, and anticipated meeting space component. We have selected the rate position of $110.00, in base-year dollars, for the proposed subject under the first scenario.

As illustrated previously, the average rate for the primarily competitive market averaged $86.31 in 2007, before reaching $93.99 in 2008. Based upon our research and analysis, we would expect a positive trend for average rate growth in the future for the subject market. The projected increases are somewhat conservative and balance the ongoing demand growth in the subject market with the currently retracting national and regional economies. Contrary to national trends, hotels in this market have maintained their rate integrity in the face of the current recession, in large part due to strengthened demand from area development projects.

Based on these considerations, the following table illustrates the projected average rate and the growth rates assumed for the first scenario. As a context for the average rate growth factors, note that we have applied a base underlying inflation rate of 3.0% annually throughout our projection period.

Table 6-15 Market and Subject Property Average Rate Forecast – First Scenario

	Areawide (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	68.4 %	—	$84.15	—	—	$110.00	130.7 %
2009	68.0	1.5 %	85.41	—	1.5 %	111.65	130.7
2010	68.2	2.0	87.12	—	2.0	113.88	130.7
2011	64.7	3.5	90.17	57.0 %	3.5	117.87	130.7
2012	64.1	4.5	94.23	62.0	4.5	123.17	130.7
2013	64.7	3.5	97.52	67.0	3.5	127.48	130.7
2014	65.1	3.0	100.45	69.0	3.0	131.31	130.7

As illustrated above, a 1.5% rate of change is expected for the subject property's positioned 2008 room rate in 2009. This is followed by growth rates of 2.0% and 3.5% in 2010 and 2011, respectively. This market should enjoy positive, albeit conservative, rate growth through the near term. The proposed subject property's rate position should reflect growth similar to market trends because of its new facility, anticipated national-brand affiliation, and upscale product offering. The proposed subject property’s penetration rate is forecast to reach 130.7% by the stabilized period under the first scenario.

Under the second scenario, the proposed subject property is expected to capture additional meeting and group demand. As a result, this segment is expected to represent a greater percentage of the proposed subject property's overall occupancy. Meeting and group demand is generally lower rated than transient demand, as hotels are more willing to negotiate rates in order to guarantee large blocks of room nights. In respect to the second scenario, the selected rate position for the proposed subject property's, in base-year dollars, is modestly below the first-scenario position. However, it is still positioned at the top of the market, reflecting the proposed subject property's desirable location and upscale product offering. Our forecast of future average rate change for the market and proposed subject property under the second scenario is presented in the following table.

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Table 6-16 Market and Subject Property Average Rate Forecast – Second Scenario

	Areawide (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	68.4 %	—	$84.15	—	—	$106.00	126.0 %
2009	68.1	1.5 %	85.41	—	1.5 %	107.59	126.0
2010	68.3	2.0	87.12	—	2.0	109.74	126.0
2011	65.2	3.5	90.17	59.0 %	3.5	113.58	126.0
2012	64.5	4.5	94.23	64.0	4.5	118.69	126.0
2013	65.1	3.5	97.52	69.0	3.5	122.85	126.0
2014	65.6	3.0	100.45	72.0	3.0	126.53	126.0

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

The following average rates will be used to project the subject property's rooms revenue in the first scenario; this forecast reflects years which begin April 1, 2011 and correspond with our financial projections.

Table 6-17 Forecast of Average Rate – First Scenario

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2011/12	58 %	$119.18	3.0 %	$115.60
2012/13	63	124.24	1.5	122.37
2013/14	67	128.43	0.0	128.43

The following average rates will be used to project the subject property's rooms revenue in the second scenario; this forecast reflects years which begin April 1, 2011 and correspond with our financial projections.

Table 6-18 Forecast of Average Rate – Second Scenario

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2011/12	60 %	$114.84	3.0 %	$111.40
2012/13	65	119.72	1.5	117.92
2013/14	70	123.76	0.0	123.76

7. Projection of Income and Expense

In this chapter of our report, we have compiled forecasts of income and expense for the proposed subject property's two scenarios. This forecast is based on the facilities programs set forth previously, as well as the occupancy and average rate forecasts discussed previously.

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The ten-year period reflects the typical holding period of large real estate assets such as hotels. In addition, the ten-year time frame provides for the stabilization of income streams and comparison of yields with alternate types of real estate. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.

Comparable Operating Statements

In order to project future income and expense for the proposed subject property, we have included a sample of individual comparable operating statements from our database of hotel statistics. All financial data is presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). A composite statement is also illustrated. We have selected a set of comparable operating statements from mid- and upscale hotels containing significant meeting space. The selected statements represent a range of meeting facilities and their capacities, encompassing both of our scenarios. Therefore, these statements have been used to project operating performances for both scenarios. These historical income and expense statements will be used as benchmarks in our forthcoming forecasts of income and expense.

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Table 7-1 Comparable Operating Statements: Ratio to Sales

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Year:	**2007**	**2006/07**	**2006/07**	**2006**	**2007**	**2006**
Number of Rooms:	**170 to 220**	**150 to 190**	**110 to 150**	**100 to 140**	**130 to 170**	**70 to 90**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**66%**	**68%**	**75%**	**69%**	**63%**	**65%**
Average Rate:	**$102**	**$113**	**$116**	**$101**	**$101**	**$110**
RevPAR:	**$67**	**$77**	**$87**	**$70**	**$63**	**$72**
REVENUE						
Rooms	77.0 %	91.6 %	90.4 %	84.0 %	80.4 %	91.7 %
Food & Beverage	19.6	7.3	7.3	13.4	18.0	5.8
Telephone	0.2	0.2	0.5	0.7	0.1	0.7
Other Income	3.2	0.9	1.9	2.0	1.5	1.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	18.8	21.0	23.5	23.0	22.4	19.2
Food & Beverage	72.8	75.8	82.9	69.7	61.5	70.0
Telephone	369.2	208.3	122.7	195.8	366.7	162.5
Other Expenses	29.2	52.3	0.0	70.8	29.7	94.7
Total	30.5	25.7	27.9	31.3	30.0	24.5
DEPARTMENTAL INCOME	69.5	74.3	72.1	68.7	70.0	75.5
OPERATING EXPENSES						
Administrative & General	5.4	7.4	9.2	6.7	9.4	10.5
Marketing	4.8	4.5	4.1	5.0	2.1	3.9
Franchise Fee	5.8	7.1	7.7	6.9	6.0	6.4
Property Operations & Maintenance	2.7	4.8	3.8	5.4	6.7	4.4
Utilities	6.1	5.5	4.0	4.8	5.9	2.3
Total	24.8	29.3	28.9	28.8	30.1	27.6
HOUSE PROFIT	44.7	45.0	43.2	39.9	39.9	47.9
Management Fee	3.8	4.4	4.5	2.6	3.0	3.8
INCOME BEFORE FIXED CHARGES	41.0	40.6	38.7	37.3	36.9	44.2
FIXED EXPENSES						
Property Taxes	3.8	3.4	2.4	4.8	6.0	5.7
Insurance	0.5	1.0	0.5	1.2	0.5	0.5
Miscellaneous Fixed Expenses	0.0	0.0	0.0	0.0	0.8	0.0
Reserve for Replacement	0.0	4.0	0.0	0.0	4.0	4.0
Total	4.3	8.4	2.9	6.0	11.3	10.2
NET INCOME	36.7 %	32.2 %	35.8 %	31.3 %	25.6 %	34.0 %

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

Table 7-2 Comparable Operating Statements: Amounts Per Available Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Year:	**2007**	**2006/07**	**2006/07**	**2006**	**2007**	**2006**
Number of Rooms:	**170 to 220**	**150 to 190**	**110 to 150**	**100 to 140**	**130 to 170**	**70 to 90**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**66%**	**68%**	**75%**	**69%**	**63%**	**65%**
Average Rate:	**$102**	**$113**	**$116**	**$101**	**$101**	**$110**
RevPAR:	**$67**	**$77**	**$87**	**$70**	**$63**	**$72**
REVENUE						
Rooms	$24,546	$28,108	$31,774	$25,612	$23,067	$26,205
Food & Beverage	6,263	2,251	2,556	4,091	5,160	1,667
Telephone	67	72	165	198	40	205
Other Income	1,005	263	669	595	427	487
Total	31,881	30,695	35,165	30,496	28,693	28,564
DEPARTMENTAL EXPENSES						
Rooms	4,619	5,898	7,481	5,884	5,173	5,026
Food & Beverage	4,557	1,707	2,120	2,851	3,173	1,167
Telephone	247	150	203	388	147	333
Other Expenses	294	138	0	421	127	462
Total	9,716	7,892	9,805	9,545	8,620	6,987
DEPARTMENTAL INCOME	22,165	22,802	25,361	20,950	20,073	21,577
OPERATING EXPENSES						
Administrative & General	1,732	2,257	3,248	2,041	2,707	3,000
Marketing	1,541	1,383	1,451	1,537	593	1,128
Franchise Fee	1,840	2,174	2,699	2,099	1,727	1,833
Property Operations & Maintenance	866	1,473	1,353	1,653	1,920	1,244
Utilities	1,933	1,701	1,414	1,455	1,680	667
Total	7,912	8,988	10,165	8,785	8,627	7,872
HOUSE PROFIT	14,253	13,814	15,196	12,165	11,446	13,705
Management Fee	1,196	1,353	1,586	793	860	1,077
INCOME BEFORE FIXED CHARGES	13,057	12,461	13,609	11,372	10,587	12,628
FIXED EXPENSES						
Property Taxes	1,222	1,036	835	1,455	1,720	1,615
Insurance	165	299	188	372	153	141
Miscellaneous Fixed Expenses	0	0	0	0	233	0
Reserve for Replacement	0	1,228	0	0	1,147	1,141
Total	1,387	2,563	1,023	1,826	3,253	2,897
NET INCOME	$11,670	$9,898	$12,586	$9,546	$7,334	$9,731

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Table 7-3 Comparable Operating Statements: Amounts Per Occupied Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6
Year:	**2007**	**2006/07**	**2006/07**	**2006**	**2007**	**2006**
Number of Rooms:	**170 to 220**	**150 to 190**	**110 to 150**	**100 to 140**	**130 to 170**	**70 to 90**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**66%**	**68%**	**75%**	**69%**	**63%**	**65%**
Average Rate:	**$102**	**$113**	**$116**	**$101**	**$101**	**$110**
RevPAR:	**$67**	**$77**	**$87**	**$70**	**$63**	**$72**
REVENUE						
Rooms	$102.17	$113.25	$116.32	$101.41	$100.79	$110.46
Food & Beverage	26.07	9.07	9.36	16.20	22.55	7.03
Telephone	0.28	0.29	0.61	0.79	0.17	0.86
Other Income	4.18	1.06	2.45	2.36	1.86	2.05
Total	132.71	123.67	128.73	120.75	125.38	120.40
DEPARTMENTAL EXPENSES						
Rooms	19.22	23.76	27.39	23.30	22.61	21.18
Food & Beverage	18.97	6.88	7.76	11.29	13.87	4.92
Telephone	1.03	0.60	0.74	1.54	0.64	1.41
Other Expenses	1.22	0.55	0.00	1.67	0.55	1.95
Total	40.44	31.80	35.89	37.80	37.67	29.45
DEPARTMENTAL INCOME	92.26	91.87	92.84	82.95	87.71	90.95
OPERATING EXPENSES						
Administrative & General	7.21	9.10	11.89	8.08	11.83	12.65
Marketing	6.42	5.57	5.31	6.09	2.59	4.76
Franchise Fee	7.66	8.76	9.88	8.31	7.54	7.73
Property Operations & Maintenance	3.60	5.94	4.95	6.54	8.39	5.24
Utilities	8.05	6.85	5.17	5.76	7.34	2.81
Total	32.94	36.21	37.21	34.79	37.70	33.18
HOUSE PROFIT	59.33	55.66	55.63	48.17	50.02	57.77
Management Fee	4.98	5.45	5.81	3.14	3.76	4.54
INCOME BEFORE FIXED CHARGES	54.35	50.21	49.82	45.03	46.26	53.23
FIXED EXPENSES						
Property Taxes	5.09	4.17	3.06	5.76	7.52	6.81
Insurance	0.69	1.21	0.69	1.47	0.67	0.59
Miscellaneous Fixed Expenses	0.00	0.00	0.00	0.00	1.02	0.00
Reserve for Replacement	0.00	4.95	0.00	0.00	5.01	4.81
Total	5.77	10.33	3.74	7.23	14.22	12.21
NET INCOME	$48.58	$39.88	$46.08	$37.80	$32.04	$41.02

Table 7-4 Comparable Operating Statements: Composite Statement

Number of Rooms:	843			
Days Open:	365			
Occupancy:	67.5%		Amount per	Amount per
Average Rate:	$107.25	Percentage	Available	Occupied
RevPAR:	$72.43	of Revenue	Room	Room
REVENUE				
Rooms	$22,285	85.0 %	$26,435	$107.25
Food & Beverage	3,330	12.7	3,950	16.03
Telephone	93	0.4	110	0.45
Other Income	502	1.9	595	2.42
Total	26,210	100.0	31,091	126.14
DEPARTMENTAL EXPENSES				
Rooms	4,756	21.3	5,642	22.89
Food & Beverage	2,363	71.0	2,803	11.37
Telephone	195	209.7	231	0.94
Other Expenses	186	37.1	221	0.90
Total	7,500	28.6	8,897	36.10
DEPARTMENTAL INCOME	18,710	71.4	22,195	90.05
OPERATING EXPENSES				
Administrative & General	2,032	7.8	2,410	9.78
Marketing	1,086	4.1	1,288	5.23
Franchise Fee	1,735	6.6	2,058	8.35
Property Operations & Maintenance	1,179	4.5	1,399	5.67
Utilities	1,327	5.1	1,574	6.39
Total	7,359	28.1	8,730	35.42
HOUSE PROFIT	11,351	43.3	13,465	54.63
Management Fee	978	3.7	1,160	4.71
INCOME BEFORE FIXED CHARGES	10,373	39.6	12,305	49.92
FIXED EXPENSES				
Property Taxes	1,081	4.1	1,282	5.20
Insurance	186	0.7	221	0.90
Miscellaneous Fixed Expenses	35	0.1	42	0.17
Reserve for Replacement	466	1.8	553	2.24
Total	1,768	6.7	2,097	8.51
NET INCOME	$8,605	32.8 %	$10,208	$41.41

The comparables' departmental income ranged from 68.7% to 75.5% of total revenue, averaging 71.4%. The comparable properties achieved a house profit ranging from 39.9% to 47.9% of total revenue, averaging 43.3%. We will refer to the comparable operating data in our discussion of each line item, which follows later in this section of the report.

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Premise of Forecast

The national and international economies are currently in a volatile state. With declines in stock markets across the world and government intervention in many forms, the economy of the United States in now officially in a state of recession. Although equity for hotel investments is available, the lack of ready debt has severely curtailed acquisitions and new construction. Market participants are unsure when solvency will be restored and active investment will return.

The economic turmoil and credit crisis are also affecting business and consumer spending throughout the United States. With problematic access to credit, businesses are cutting back on expenses and consumers have reduced spending. Hotel use is especially vulnerable to these trends. Travel for business and pleasure is often viewed as a discretionary expense and can be suspended without much forewarning. Hotels are already experiencing cancellations of or reductions in events such as meetings and trainings. Some companies are reviewing their travel policies quarterly and others have instigated travel freezes.

Many operators prepared their budgets for 2009 during the fourth quarter of 2008. With the continued deterioration of the economy and hotel performance since that time, some operators are revising their forecasts quarterly. While the eventual magnitude of the decline in individual hotel markets cannot be foreseen at this time, national RevPAR trends are forecast to notably lower than 2008. Hotel operators are expecting RevPAR declines across North America. Starwood Hotels is expecting 12% to 15% RevPAR declines, Marriott recently announced potential RevPAR decreases of 12% to 17%, and Choice Hotels expects a RevPAR decline of 10% for 2009. PricewaterhouseCoopers is projecting a RevPAR decline of approximately 11.2% for 2009, while other forecasts of RevPAR are similarly negative—Morgan Stanley is forecasting a 9.1% RevPAR decline, PKF Consulting is forecasting a decline of 7.8%, and Smith Travel Research is forecasting a decline of 5.9%. Operators typically respond with stronger expense controls during periods when revenues decline. Hotel budgets are expected to reflect moderating revenues, but with commensurate adjustments in expenses to minimize the impact on profitability.

The duration and outcome of the present economic situation are uncertain at this time. Our forecasts reflect operators' and investors' current outlook for the market, with the expectation of a bottoming-out of the recession in 2009, and a resumption of some growth in 2010 and a rebound thereafter.

Fixed and Variable Component Analysis

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

The following table illustrates the revenue and expense categories that can be projected using this fixed and variable component model. These percentages show the portion of each category that is typically fixed and variable; the middle column describes the basis for calculating the percentage of variability, while the last column sets forth the fixed percentage that has been utilized in this valuation.

Table 7-5 Range of Fixed and Variable Ratios

Category	Percent Fixed	Percent Variable	Index of Variability	Selected Fixed Ratio
Revenues				
Food & Beverage	25 - 50 %	50 - 75 %	Occupancy	25 %
Telephone	10 - 40	60 - 90	Occupancy	10
Other Income	30 - 70	30 - 70	Occupancy	10
Departmental Expenses				
Rooms	50 - 70	30 - 50	Occupancy	60
Food & Beverage	35 - 60	40 - 65	Food & Beverage Revenue	55
Telephone	40 - 60	40 - 60	Telephone Revenue	60
Other Expenses	30 - 70	30 - 70	Other Income	70
Undistributed Operating Expenses				
Administrative & General	65 - 85	15 - 35	Total Revenue	75
Marketing	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
Management Fee	0	100	Total Revenue	0
Fixed Expenses				
Property Taxes	100	0	Total Revenue	100
Insurance	100	0	Total Revenue	100
Reserve for Replacement	0	100	Total Revenue	0

Our fixed and variable projection model is based upon variables that we input for each revenue and expense item for a "base year," which in this case is the year 2008. The base-year forecast sets forth the ratios to revenue, amounts per available room, or amounts per occupied room that we believe can be achieved at the stated base-year average rate and occupancy. Our input variables are derived from the comparable hotel statements. The model then calculates a base-year forecast of income and expense in these base-year dollars.

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 step-by-step approach, following the format of the *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

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

Table 7-6 Inflation Estimates

Name	Firm	Previous Projections through December 2008	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier) June 2009	December 2009
Scott Anderson	Wells Fargo & Co.	4.4 %	(0.6) %	0.2 %
Paul Ashworth	Capital Economics	3.0	(2.0)	1.0
Nariman Behravesh	Global Insight	6.6	(3.6)	0.2
Richard Berner/David Greenlaw	Morgan Stanley	4.8	(1.8)	0.4
Ram Bhagavatula	Combinatorics Capital	3.2	(1.0)	1.0
Jay Brinkmann	Mortgage Bankers Association	4.3	(1.8)	0.6
Joseph Carson	AllianceBernstein	4.2	(1.0)	0.0
Mike Cosgrove	Econoclast	3.8	(0.5)	0.4
Lou Crandall	Wrightson ICAP	4.7	(1.8)	1.3
Joan Crary/Stanley Sedo	RSQE, U. of Michigan	3.7	(0.4)	1.8
J. Dewey Daane	Vanderbilt University	4.5	1.0	1.0
Richard DeKaser	National City Corporation	3.0	(2.0)	2.0
Douglas Duncan	Fannie Mae	4.0	(1.5)	0.1
Brian Fabbri	BNP Paribas	4.8	(1.9)	1.8
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	4.0	(1.1)	0.0
Stephen Gallagher	Societe Generale	4.6	(2.2)	1.6
Ethan S. Harris/Dean Maki	Barclays Capital	5.2	(1.8)	2.5
Ethan S. Harris	Lehman Brothers	3.3	—	—
Maury Harris	UBS	4.0	(0.2)	2.0
Jan Hatzius	Goldman Sachs & Co.	4.2	(1.0)	0.4
Tracy Herrick	The Private Bank	4.3	1.0	0.5
Stuart Hoffman	PNC Financial Services Group	3.9	0.2	1.2
Peter Hooper/Joseph A. LaVorgna	Deutsche Bank Securities Inc.	4.3	(0.5)	0.4
Gene Huang	FedEx Corp.	3.7	(0.5)	1.3
William B. Hummer	Wayne Hummer Investments LLC	3.4	(1.0)	0.9
Dana Johnson	Comerica Bank	2.8	(2.0)	1.1
Kurt Karl	Swiss Re	6.1	(2.4)	0.7
Bruce Kasman	JP Morgan Chase & Co.	4.2	(1.7)	0.8
Paul Kasriel	The Northern Trust	3.6	(2.2)	1.8
Daniel Laufenberg	Ameriprise Financial	3.3	1.3	2.2
Edward Leamer/David Shulman	UCLA Anderson Forecast	3.7	(1.2)	0.1
Mickey D. Levy	Bank of America	2.9	(1.8)	1.5
John Lonski	Moody's Investors Service	3.3	(1.5)	1.5
David Malpass	Encima Global LLC	—	0.3	1.8
Dean Maki	Barclays Capital	5.2	—	—
Jim Meil/Richard Kaglic	Eaton Corp.	3.8	(1.0)	0.8
Mark Nielson, Ph. D.	MacroEcon Global Advisors	4.2	4.5	4.8
Michael P. Niemira	International Council of Shopping Centers	3.0	0.4	2.1
Nicholas S. Perna	Perna Associates	3.5	(1.5)	1.1
Joel Prakken/Chris Varvares	Macroeconomic Advisers	4.5	1.4	(0.9)
Arun Raha	Economic and Revenue Forecast Council	—	(1.4)	3.4
David Resler	Nomura Securities International Inc.	4.5	—	—
John Ryding/Conrad DeQuadros	RDQ Economics	—	(1.0)	2.0
Ian Shepherdson	High Frequency Economics	4.4	(2.5)	1.5
John Silvia	Wachovia Corp.	3.2	(1.4)	2.5
Allen Sinai	Decision Economics Inc.	3.8	(0.8)	2.8
James F. Smith	Western Carolina Univ. and Parsec Financial Mgmt.	(0.4)	0.9	1.0
Sung Won Sohn	California State University	3.5	1.1	1.9
Neal Soss	Credit Suisse	4.8	(2.0)	2.2
Stephen Stanley	RBS Greenwich Capital	4.2	(1.8)	1.7
Susan M. Sterne	Economic Analysis	2.8	0.8	1.1
Diane Swonk	Mesirow Financial	4.7	(1.9)	0.0
Bart van Ark	The Conference Board	4.6	(2.1)	(0.2)
Brian S. Wesbury/Robert Stein	First Trust Advisors, L.P.	4.5	(1.4)	2.5
William T. Wilson	National Bank of Kuwait	3.8	0.9	(2.3)
David Wyss	Standard and Poor's	6.6	(2.2)	(2.3)
Lawrence Yun	National Association of Realtors	2.9	(0.8)	1.2
Averages		4.0 %	(0.9) %	1.1 %
Actual Inflation for the Period		3.8 %		

Source: wsj.com, January 15, 2009

HVS

As the preceding table indicates, the financial analysts who were surveyed in late-2008 anticipated inflation rates ranging from -3.6% to 4.5% (on an annualized basis) for the six-month period ending June 2009; the average estimate was -0.9%. The same group forecast 4.0 % inflation for the six-month period ending December 2008, and the actual inflation rate during this period was 3.8 %.

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

Table 7-7 National Consumer Price Index (All Urban Consumers)

Year	National Consumer Price Index	Percent Change from Previous Year
1999	166.6	—
2000	172.2	3.4 %
2001	177.1	2.8
2002	179.9	1.6
2003	184.0	2.3
2004	188.9	2.7
2005	195.3	3.4
2006	201.6	3.2
2007	207.3	2.8
2008	215.3	3.8
Average Annual Compounded Change,		
1999 - 2008:		2.9 %
2004 - 2008:		3.3

Source: Bureau of Labor Statistics

Between 1999 and 2008, the national CPI increased at an average annual compounded rate of 2.9%; from 2004 to 2008, the CPI rose by a modestly higher average annual compounded rate of 3.3%. In 2008, the CPI increased by 3.8%, a increase from the levels of 3.2% and 2.8% recorded in 2006 and 2007, respectively.

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied an underlying inflation rate of 3.0% annually. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Summary of Projections

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of income and expense for each of the two scenarios. The following tables present detailed forecasts through the fifth projection year, including amounts per available room and per occupied room. The second set of tables illustrate our ten-year forecasts of income and expense, presented with a lesser degree of detail. The forecasts pertain to years beginning April 1, 2011 and are expressed in inflated dollars for each year.

Table 7-8 Detailed Forecast of Income and Expense – First Scenario

	2011/12	Begins April			2012/13				Stabilized				2014/15				2015/16			
Number of Rooms:	**110**				**110**				**110**				**110**				**110**			
Occupancy:	**58%**				**63%**				**67%**				**67%**				**67%**			
Average Rate:	**$115.60**				**$122.37**				**$128.43**				**$132.28**				**$136.25**			
RevPAR:	**$67.05**				**$77.09**				**$86.05**				**$88.63**				**$91.29**			
Days Open:	**365**				**365**				**365**				**365**				**365**			
Occupied Rooms:	**23,287**	**%Gross**	**PAR**	**POR**	**25,295**	**%Gross**	**PAR**	**POR**	**26,901**	**%Gross**	**PAR**	**POR**	**26,901**	**%Gross**	**PAR**	**POR**	**26,901**	**%Gross**	**PAR**	**POR**
REVENUE																				
Rooms	$2,692	79.6 %	$24,473	$115.60	$3,095	80.2 %	$28,136	$122.36	$3,455	80.7 %	$31,409	$128.44	$3,558	80.7 %	$32,345	$132.27	$3,665	80.7 %	$33,318	$136.24
Food	472	14.0	4,292	20.28	521	13.5	4,738	20.60	565	13.2	5,141	21.02	582	13.2	5,295	21.65	600	13.2	5,454	22.30
Beverage	144	4.3	1,312	6.20	159	4.1	1,448	6.30	173	4.0	1,571	6.42	178	4.0	1,618	6.62	183	4.0	1,666	6.81
Telephone	9	0.3	83	0.39	10	0.3	92	0.40	11	0.3	100	0.41	11	0.3	103	0.42	12	0.3	106	0.43
Other Income	65	1.9	592	2.79	72	1.9	656	2.85	79	1.8	714	2.92	81	1.8	735	3.01	83	1.8	757	3.10
Total Revenues	3,383	100.0	30,751	145.26	3,858	100.0	35,070	152.51	4,283	100.0	38,935	159.21	4,411	100.0	40,097	163.96	4,543	100.0	41,302	168.89
DEPARTMENTAL EXPENSES *																				
Rooms	663	24.6	6,023	28.45	704	22.7	6,399	27.83	743	21.5	6,752	27.61	765	21.5	6,955	28.44	788	21.5	7,164	29.29
Food & Beverage	462	75.0	4,201	19.84	490	72.1	4,457	19.38	517	70.0	4,698	19.21	532	70.0	4,839	19.79	548	70.0	4,984	20.38
Telephone	21	227.3	188	0.89	22	217.2	199	0.87	23	210.0	210	0.86	24	210.0	216	0.88	24	210.0	223	0.91
Other Expenses	29	43.9	259	1.23	30	41.6	273	1.19	31	40.0	286	1.17	32	40.0	294	1.20	33	40.0	303	1.24
Total	1,174	34.7	10,672	50.41	1,246	32.3	11,329	49.27	1,314	30.7	11,946	48.85	1,354	30.7	12,305	50.32	1,394	30.7	12,674	51.82
DEPARTMENTAL INCOME	2,209	65.3	20,080	94.85	2,612	67.7	23,741	103.24	2,969	69.3	26,989	110.36	3,057	69.3	27,792	113.65	3,149	69.3	28,628	117.07
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	308	9.1	2,801	13.23	322	8.3	2,924	12.71	334	7.8	3,037	12.42	344	7.8	3,127	12.79	354	7.8	3,221	13.17
Marketing	127	3.8	1,153	5.45	131	3.4	1,192	5.19	135	3.1	1,226	5.01	139	3.1	1,263	5.16	143	3.1	1,301	5.32
Franchise Fee	202	6.0	1,835	8.67	232	6.0	2,110	9.18	259	6.1	2,356	9.63	267	6.1	2,426	9.92	275	6.1	2,499	10.22
Prop. Operations & Maint.	138	4.1	1,254	5.92	149	3.9	1,357	5.90	161	3.7	1,460	5.97	165	3.7	1,504	6.15	170	3.7	1,549	6.33
Utilities	186	5.5	1,690	7.98	196	5.1	1,781	7.75	206	4.8	1,869	7.64	212	4.8	1,925	7.87	218	4.8	1,982	8.11
Total	961	28.5	8,734	41.26	1,030	26.7	9,365	40.73	1,094	25.5	9,947	40.67	1,127	25.5	10,245	41.89	1,161	25.5	10,552	43.15
HOUSE PROFIT	1,248	36.8	11,345	53.59	1,581	41.0	14,376	62.52	1,875	43.8	17,042	69.69	1,930	43.8	17,548	71.75	1,988	43.8	18,076	73.92
Management Fee	101	3.0	923	4.36	116	3.0	1,052	4.58	128	3.0	1,168	4.78	132	3.0	1,203	4.92	136	3.0	1,239	5.07
INCOME BEFORE FIXED CHARGES	1,147	33.8	10,423	49.23	1,466	38.0	13,324	57.94	1,746	40.8	15,874	64.91	1,798	40.8	16,345	66.84	1,852	40.8	16,837	68.85
FIXED EXPENSES																				
Property Taxes	173	5.1	1,575	7.44	176	4.6	1,599	6.95	179	4.2	1,631	6.67	185	4.2	1,680	6.87	190	4.2	1,730	7.07
Insurance	48	1.4	440	2.08	50	1.3	454	1.97	51	1.2	467	1.91	53	1.2	481	1.97	55	1.2	496	2.03
Reserve for Replacement	68	2.0	615	2.91	116	3.0	1,052	4.58	171	4.0	1,557	6.37	176	4.0	1,604	6.56	182	4.0	1,652	6.76
Total	289	8.5	2,631	12.43	341	8.9	3,104	13.50	402	9.4	3,655	14.95	414	9.4	3,765	15.39	427	9.4	3,878	15.86
NET INCOME	$857	25.3 %	$7,792	$36.81	$1,124	29.1 %	$10,220	$44.44	$1,344	31.4 %	$12,218	$49.96	$1,384	31.4 %	$12,580	$51.44	$1,426	31.4 %	$12,959	$52.99

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

Table 7-9 Detailed Forecast of Income and Expense – Second Scenario

	2011/12	Begins April			2012/13				Stabilized				2014/15				2015/16			
Number of Rooms:	110				110				110				110				110			
Occupancy:	60%				65%				70%				70%				70%			
Average Rate:	$111.40				$117.92				$123.76				$127.47				$131.29			
RevPAR:	$66.84				$76.65				$86.63				$89.23				$91.91			
Days Open:	365				365				365				365				365			
Occupied Rooms:	24,090	%Gross	PAR	POR	26,098	%Gross	PAR	POR	28,105	%Gross	PAR	POR	28,105	%Gross	PAR	POR	28,105	%Gross	PAR	POR
REVENUE																				
Rooms	$2,684	73.7 %	$24,400	$111.42	$3,077	74.4 %	$27,973	$117.90	$3,478	75.0 %	$31,618	$123.75	$3,583	75.0 %	$32,573	$127.49	$3,690	75.0 %	$33,545	$131.29
Food	680	18.6	6,178	28.21	748	18.1	6,803	28.67	821	17.7	7,460	29.20	845	17.7	7,684	30.07	871	17.7	7,914	30.97
Beverage	190	5.2	1,730	7.90	210	5.1	1,905	8.03	230	5.0	2,089	8.18	237	5.0	2,151	8.42	244	5.0	2,216	8.67
Telephone	9	0.3	86	0.39	10	0.3	95	0.40	11	0.2	104	0.41	12	0.2	108	0.42	12	0.2	111	0.43
Other Income	81	2.2	735	3.36	89	2.2	813	3.43	98	2.1	895	3.50	101	2.1	922	3.61	104	2.1	950	3.72
Total Revenues	3,644	100.0	33,129	151.27	4,135	100.0	37,588	158.43	4,638	100.0	42,166	165.03	4,778	100.0	43,437	170.01	4,921	100.0	44,736	175.09
DEPARTMENTAL EXPENSES *																				
Rooms	665	24.8	6,042	27.59	705	22.9	6,412	27.03	748	21.5	6,798	26.61	770	21.5	7,002	27.41	793	21.5	7,212	28.23
Food & Beverage	590	67.8	5,360	24.48	625	65.2	5,681	23.94	662	63.0	6,016	23.54	682	63.0	6,196	24.25	702	63.0	6,382	24.98
Telephone	22	228.6	196	0.90	23	218.7	207	0.87	24	210.0	219	0.86	25	210.0	226	0.88	26	210.0	233	0.91
Other Expenses	36	44.1	324	1.48	38	41.9	341	1.44	39	40.0	358	1.40	41	40.0	369	1.44	42	40.0	380	1.49
Total	1,312	36.0	11,923	54.44	1,390	33.6	12,641	53.28	1,473	31.8	13,391	52.41	1,517	31.8	13,793	53.98	1,563	31.8	14,207	55.60
DEPARTMENTAL INCOME	2,333	64.0	21,206	96.83	2,744	66.4	24,948	105.15	3,165	68.2	28,775	112.62	3,261	68.2	29,644	116.02	3,358	68.2	30,529	119.49
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	337	9.3	3,067	14.00	352	8.5	3,197	13.48	366	7.9	3,328	13.03	377	7.9	3,428	13.42	388	7.9	3,531	13.82
Marketing	157	4.3	1,426	6.51	162	3.9	1,473	6.21	167	3.6	1,518	5.94	172	3.6	1,564	6.12	177	3.6	1,611	6.30
Franchise Fee	201	5.5	1,830	8.36	231	5.6	2,098	8.84	261	5.6	2,371	9.28	269	5.6	2,443	9.56	277	5.6	2,516	9.85
Prop. Operations & Maint.	149	4.1	1,353	6.18	161	3.9	1,462	6.16	173	3.7	1,577	6.17	179	3.7	1,624	6.36	184	3.7	1,673	6.55
Utilities	203	5.6	1,846	8.43	214	5.2	1,944	8.19	225	4.8	2,044	8.00	232	4.8	2,105	8.24	239	4.8	2,168	8.49
Total	1,047	28.8	9,523	43.48	1,119	27.1	10,173	42.88	1,192	25.6	10,838	42.42	1,228	25.6	11,164	43.70	1,265	25.6	11,499	45.00
HOUSE PROFIT	1,285	35.2	11,683	53.35	1,625	39.3	14,774	62.27	1,973	42.6	17,937	70.20	2,033	42.6	18,480	72.33	2,093	42.6	19,031	74.48
Management Fee	109	3.0	994	4.54	124	3.0	1,128	4.75	139	3.0	1,265	4.95	143	3.0	1,303	5.10	148	3.0	1,342	5.25
INCOME BEFORE FIXED CHARGES	1,176	32.2	10,689	48.81	1,501	36.3	13,647	57.52	1,834	39.6	16,672	65.25	1,889	39.6	17,177	67.23	1,946	39.6	17,689	69.23
FIXED EXPENSES																				
Property Taxes	173	4.8	1,575	7.19	176	4.3	1,599	6.74	179	3.9	1,631	6.38	185	3.9	1,680	6.57	190	3.9	1,730	6.77
Insurance	61	1.7	550	2.51	62	1.5	567	2.39	64	1.4	584	2.29	66	1.4	601	2.35	68	1.4	619	2.42
Reserve for Replacement	73	2.0	663	3.03	124	3.0	1,128	4.75	186	4.0	1,687	6.60	191	4.0	1,737	6.80	197	4.0	1,789	7.00
Total	307	8.5	2,788	12.73	362	8.8	3,293	13.88	429	9.3	3,901	15.27	442	9.3	4,019	15.73	455	9.3	4,139	16.20
NET INCOME	$869	23.7 %	$7,901	$36.08	$1,139	27.5 %	$10,353	$43.64	$1,405	30.3 %	$12,770	$49.98	$1,447	30.3 %	$13,158	$51.50	$1,490	30.3 %	$13,549	$53.03

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

Table 7-10 Ten-Year Forecast of Income and Expense – First Scenario

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
Number of Rooms:	**110**		**110**		**110**		**110**		**110**		**110**		**110**		**110**		**110**		**110**	
Occupied Rooms:	**23,287**		**25,295**		**26,901**		**26,901**		**26,901**		**26,901**		**26,901**		**26,901**		**26,901**		**26,901**	
Occupancy:	**58%**		**63%**		**67%**		**67%**		**67%**		**67%**		**67%**		**67%**		**67%**		**67%**	
Average Rate:	**$115.60**	**% of**	**$122.37**	**% of**	**$128.43**	**% of**	**$132.28**	**% of**	**$136.25**	**% of**	**$140.34**	**% of**	**$144.55**	**% of**	**$148.88**	**% of**	**$153.35**	**% of**	**$157.95**	**% of**
RevPAR:	**$67.05**	**Gross**	**$77.09**	**Gross**	**$86.05**	**Gross**	**$88.63**	**Gross**	**$91.29**	**Gross**	**$94.02**	**Gross**	**$96.85**	**Gross**	**$99.75**	**Gross**	**$102.74**	**Gross**	**$105.83**	**Gross**
REVENUE																				
Rooms	$2,692	79.6 %	$3,095	80.2 %	$3,455	80.7 %	$3,558	80.7 %	$3,665	80.7 %	$3,775	80.7 %	$3,888	80.7 %	$4,005	80.7 %	$4,125	80.7 %	$4,249	80.7 %
Food	472	14.0	521	13.5	565	13.2	582	13.2	600	13.2	618	13.2	636	13.2	656	13.2	675	13.2	695	13.2
Beverage	144	4.3	159	4.1	173	4.0	178	4.0	183	4.0	189	4.0	194	4.0	200	4.0	206	4.0	213	4.0
Telephone	9	0.3	10	0.3	11	0.3	11	0.3	12	0.3	12	0.3	12	0.3	13	0.3	13	0.3	14	0.3
Other Income	65	1.9	72	1.9	79	1.8	81	1.8	83	1.8	86	1.8	88	1.8	91	1.8	94	1.8	97	1.8
Total	3,383	100.0	3,858	100.0	4,283	100.0	4,411	100.0	4,543	100.0	4,680	100.0	4,820	100.0	4,965	100.0	5,113	100.0	5,267	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	663	24.6	704	22.7	743	21.5	765	21.5	788	21.5	812	21.5	836	21.5	861	21.5	887	21.5	914	21.5
Food & Beverage	462	75.0	490	72.1	517	70.0	532	70.0	548	70.0	565	70.0	582	70.0	599	70.0	617	70.0	636	70.0
Telephone	21	227.3	22	217.2	23	210.0	24	210.0	24	210.0	25	210.0	26	210.0	27	210.0	28	210.0	28	210.0
Other Expenses	29	43.9	30	41.6	31	40.0	32	40.0	33	40.0	34	40.0	35	40.0	36	40.0	38	40.0	39	40.0
Total	1,174	34.7	1,246	32.3	1,314	30.7	1,354	30.7	1,394	30.7	1,436	30.7	1,479	30.7	1,523	30.7	1,569	30.7	1,616	30.7
DEPARTMENTAL INCOME	2,209	65.3	2,612	67.7	2,969	69.3	3,057	69.3	3,149	69.3	3,244	69.3	3,341	69.3	3,441	69.3	3,544	69.3	3,651	69.3
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	308	9.1	322	8.3	334	7.8	344	7.8	354	7.8	365	7.8	376	7.8	387	7.8	399	7.8	411	7.8
Marketing	127	3.8	131	3.4	135	3.1	139	3.1	143	3.1	147	3.1	152	3.1	156	3.1	161	3.1	166	3.1
Franchise Fee	202	6.0	232	6.0	259	6.1	267	6.1	275	6.1	283	6.1	292	6.1	300	6.1	309	6.1	319	6.1
Prop. Operations & Maint.	138	4.1	149	3.9	161	3.7	165	3.7	170	3.7	175	3.7	181	3.7	186	3.7	192	3.7	197	3.7
Utilities	186	5.5	196	5.1	206	4.8	212	4.8	218	4.8	225	4.8	231	4.8	238	4.8	245	4.8	253	4.8
Total	961	28.5	1,030	26.7	1,094	25.5	1,127	25.5	1,161	25.5	1,196	25.5	1,231	25.5	1,268	25.5	1,306	25.5	1,346	25.5
HOUSE PROFIT	1,248	36.8	1,581	41.0	1,875	43.8	1,930	43.8	1,988	43.8	2,048	43.8	2,109	43.8	2,173	43.8	2,238	43.8	2,305	43.8
Management Fee	101	3.0	116	3.0	128	3.0	132	3.0	136	3.0	140	3.0	145	3.0	149	3.0	153	3.0	158	3.0
INCOME BEFORE FIXED CHARGES	1,147	33.8	1,466	38.0	1,746	40.8	1,798	40.8	1,852	40.8	1,908	40.8	1,965	40.8	2,024	40.8	2,085	40.8	2,147	40.8
FIXED EXPENSES																				
Property Taxes	173	5.1	176	4.6	179	4.2	185	4.2	190	4.2	196	4.2	202	4.2	208	4.2	214	4.2	221	4.2
Insurance	48	1.4	50	1.3	51	1.2	53	1.2	55	1.2	56	1.2	58	1.2	60	1.2	61	1.2	63	1.2
Reserve for Replacement	68	2.0	116	3.0	171	4.0	176	4.0	182	4.0	187	4.0	193	4.0	199	4.0	205	4.0	211	4.0
Total	289	8.5	341	8.9	402	9.4	414	9.4	427	9.4	439	9.4	453	9.4	466	9.4	480	9.4	495	9.4
NET INCOME	$857	25.3 %	$1,124	29.1 %	$1,344	31.4 %	$1,384	31.4 %	$1,426	31.4 %	$1,468	31.4 %	$1,512	31.4 %	$1,558	31.4 %	$1,604	31.4 %	$1,653	31.4 %

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

Table 7-11 Ten-Year Forecast of Income and Expense – Second Scenario

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
Number of Rooms:	**110**		**110**		**110**		**110**		**110**		**110**		**110**		**110**		**110**		**110**	
Occupied Rooms:	**24,090**		**26,098**		**28,105**		**28,105**		**28,105**		**28,105**		**28,105**		**28,105**		**28,105**		**28,105**	
Occupancy:	**60%**		**65%**		**70%**		**70%**		**70%**		**70%**		**70%**		**70%**		**70%**		**70%**	
Average Rate:	**$111.40**	**% of**	**$117.92**	**% of**	**$123.76**	**% of**	**$127.47**	**% of**	**$131.29**	**% of**	**$135.23**	**% of**	**$139.29**	**% of**	**$143.47**	**% of**	**$147.77**	**% of**	**$152.21**	**% of**
RevPAR:	**$66.84**	**Gross**	**$76.65**	**Gross**	**$86.63**	**Gross**	**$89.23**	**Gross**	**$91.91**	**Gross**	**$94.66**	**Gross**	**$97.50**	**Gross**	**$100.43**	**Gross**	**$103.44**	**Gross**	**$106.54**	**Gross**
REVENUE																				
Rooms	$2,684	73.7 %	$3,077	74.4 %	$3,478	75.0 %	$3,583	75.0 %	$3,690	75.0 %	$3,801	75.0 %	$3,915	75.0 %	$4,032	75.0 %	$4,153	75.0 %	$4,278	75.0 %
Food	680	18.6	748	18.1	821	17.7	845	17.7	871	17.7	897	17.7	924	17.7	951	17.7	980	17.7	1,009	17.7
Beverage	190	5.2	210	5.1	230	5.0	237	5.0	244	5.0	251	5.0	259	5.0	266	5.0	274	5.0	283	5.0
Telephone	9	0.3	10	0.3	11	0.2	12	0.2	12	0.2	13	0.2	13	0.2	13	0.2	14	0.2	14	0.2
Other Income	81	2.2	89	2.2	98	2.1	101	2.1	104	2.1	108	2.1	111	2.1	114	2.1	118	2.1	121	2.1
Total	3,644	100.0	4,135	100.0	4,638	100.0	4,778	100.0	4,921	100.0	5,069	100.0	5,221	100.0	5,377	100.0	5,538	100.0	5,705	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	665	24.8	705	22.9	748	21.5	770	21.5	793	21.5	817	21.5	842	21.5	867	21.5	893	21.5	920	21.5
Food & Beverage	590	67.8	625	65.2	662	63.0	682	63.0	702	63.0	723	63.0	745	63.0	767	63.0	790	63.0	814	63.0
Telephone	22	228.6	23	218.7	24	210.0	25	210.0	26	210.0	26	210.0	27	210.0	28	210.0	29	210.0	30	210.0
Other Expenses	36	44.1	38	41.9	39	40.0	41	40.0	42	40.0	43	40.0	44	40.0	46	40.0	47	40.0	48	40.0
Total	1,312	36.0	1,390	33.6	1,473	31.8	1,517	31.8	1,563	31.8	1,610	31.8	1,658	31.8	1,708	31.8	1,759	31.8	1,812	31.8
DEPARTMENTAL INCOME	2,333	64.0	2,744	66.4	3,165	68.2	3,261	68.2	3,358	68.2	3,459	68.2	3,563	68.2	3,669	68.2	3,780	68.2	3,893	68.2
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	337	9.3	352	8.5	366	7.9	377	7.9	388	7.9	400	7.9	412	7.9	424	7.9	437	7.9	450	7.9
Marketing	157	4.3	162	3.9	167	3.6	172	3.6	177	3.6	182	3.6	188	3.6	194	3.6	199	3.6	205	3.6
Franchise Fee	201	5.5	231	5.6	261	5.6	269	5.6	277	5.6	285	5.6	294	5.6	302	5.6	311	5.6	321	5.6
Prop. Operations & Maint.	149	4.1	161	3.9	173	3.7	179	3.7	184	3.7	190	3.7	195	3.7	201	3.7	207	3.7	213	3.7
Utilities	203	5.6	214	5.2	225	4.8	232	4.8	239	4.8	246	4.8	253	4.8	261	4.8	268	4.8	276	4.8
Total	1,047	28.8	1,119	27.1	1,192	25.6	1,228	25.6	1,265	25.6	1,303	25.6	1,342	25.6	1,382	25.6	1,424	25.6	1,466	25.6
HOUSE PROFIT	1,285	35.2	1,625	39.3	1,973	42.6	2,033	42.6	2,093	42.6	2,156	42.6	2,221	42.6	2,287	42.6	2,356	42.6	2,427	42.6
Management Fee	109	3.0	124	3.0	139	3.0	143	3.0	148	3.0	152	3.0	157	3.0	161	3.0	166	3.0	171	3.0
INCOME BEFORE FIXED CHARGES	1,176	32.2	1,501	36.3	1,834	39.6	1,889	39.6	1,946	39.6	2,004	39.6	2,064	39.6	2,126	39.6	2,190	39.6	2,256	39.6
FIXED EXPENSES																				
Property Taxes	173	4.8	176	4.3	179	3.9	185	3.9	190	3.9	196	3.9	202	3.9	208	3.9	214	3.9	221	3.9
Insurance	61	1.7	62	1.5	64	1.4	66	1.4	68	1.4	70	1.4	72	1.4	74	1.4	77	1.4	79	1.4
Reserve for Replacement	73	2.0	124	3.0	186	4.0	191	4.0	197	4.0	203	4.0	209	4.0	215	4.0	222	4.0	228	4.0
Total	307	8.5	362	8.8	429	9.3	442	9.3	455	9.3	469	9.3	483	9.3	498	9.3	512	9.3	528	9.3
NET INCOME	$869	23.7 %	$1,139	27.5 %	$1,405	30.3 %	$1,447	30.3 %	$1,490	30.3 %	$1,535	30.3 %	$1,581	30.3 %	$1,629	30.3 %	$1,677	30.3 %	$1,728	30.3 %

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

HVS

Forecast of Income and Expense

The following description sets forth the basis for the forecasts of income and expense. We anticipate that it will take three years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the subject's operating budget and comparable income and expense statements. Our forecasts are based upon fiscal years beginning April 1, 2011 and are expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. In the first scenario, the subject property is expected to stabilize at an occupancy level of 67% with an average rate of $128.43 in 2013/14. In the second scenario, the subject property is expected to stabilize at an occupancy level of 70% with an average rate of $123.76 in 2013/14. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

Food and Beverage Revenue

Food and beverage revenue is generated by a hotel's restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. With the exception of properties with active lounges or banquet facilities that draw local residents, in-house guests generally represent a substantial percentage of a hotel's food and beverage patrons. In the case of the Proposed Alton Hotel, food and beverage department will include a lounge, a breakfast dining area. Banquet and meeting space is expected to span 6,000 square feet in the first scenario and 12,000 square feet in the second scenario.

Although food and beverage revenue varies directly with changes in occupancy, the small portion generated by banquet sales and outside capture is relatively fixed. The comparable statements illustrated collections for food and beverage revenue between $7.03 and $26.07 per occupied room, or 6.4% to 25.5% of rooms revenue. The composite statement indicated an average food and beverage revenue collection of $16.03 per occupied room, or 14.9% of rooms revenue.

Under both scenarios, the proposed subject property's food and beverage operation is expected to be an important component of the hotel. Therefore, based upon our review of comparable operating statements, we have positioned this property at appropriate levels under each scenario given the extent of the recommended facilities and anticipated price points. We note

HVS

that food and beverage revenue under the second scenario is somewhat higher than the first, reflecting the additional business that would be generated by the more extensive meeting facilities. We would expect future moderate growth to occur within these categories, under both scenarios, after the hotel's opening.

In the first scenario, we project food and beverage revenue to be $20.28 and $6.20 per occupied room, respectively, in the first projection year, or respectively 17.5% and 5.4% of rooms revenue. These per-occupied-room amounts increase to $21.02 and $6.42 for respective food and beverage revenue categories by the stabilized year, or respectively and of rooms revenue. On a percentage of food revenue, beverage revenue is forecast at 30.6% in the first projection year, stabilizing at 30.6%.

In the second scenario, we project food and beverage revenue to be $28.21 and $7.90 per occupied room, respectively, in the first projection year, or respectively 25.3% and 7.1% of rooms revenue. These per-occupied-room amounts increase to $29.20 and $8.18 for respective food and beverage revenue categories by the stabilized year, or respectively and of rooms revenue. On a percentage of food revenue, beverage revenue is forecast at 28.0% in the first projection year, stabilizing at 28%.

Telephone Revenue

Telephone revenue is generated by hotel guests who charge local and long-distance calls to their rooms, and by individuals who use the property's public telephones. According to the comparable operating statements, telephone revenue ranged from $0.17 to $0.86 on a per-occupied-room basis. For both scenarios, we forecast the subject property's telephone revenue to stabilize at $0.41 per occupied room by the stabilized year, 2013/14.

Other Income

Other income is derived from sources other than guestrooms, food and beverage, and telephone services. Comparables in this category show revenue collections ranging from $1.06 to $4.18 on a per-occupied-room basis with $2.42 as an average. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. In the first scenario, we forecast the subject's property's other income to stabilize at $2.92 per occupied room by the stabilized year, 2013/14. In the second scenario, we forecast the subject's property's other income to stabilize at $3.50 per occupied room by the stabilized year, 2013/14. The proposed subject property's other income sources are expected to be generated primarily from the hotel's market pantry, guest laundry facility, in-room movie and game charges, and vending areas. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject property under each scenario. We note that other income revenue under the second scenario is modestly higher than the first, reflecting the impact of additional guests and meeting attendees associated with the more extensive meeting facilities

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy and managers can generally scale the level of service staff on hand to meet an expected occupancy level, much of a hotel's payroll is fixed. A base level of front desk personnel, housekeepers, and supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy.

Commissions and reservations are usually based on room sales and, thus, are highly sensitive to changes in occupancy and average rate. While guest supplies vary 100% with occupancy, linens and other operating expenses are only slightly affected by volume.

The comparables illustrated rooms expense ranging between 18.8% and 23.5% of rooms revenue; on a per-occupied-room basis, the range was between $19.22 and $27.39. Overall, rooms expense of the comparable properties equated to 21.3% of rooms revenue (or $22.89 per occupied room). In the first scenario, we have projected rooms expense for the subject at 24.6% in the first year (or $28.45 per occupied room), stabilizing at 21.5% in 2013/14 (or $27.61 per occupied room). In the second scenario, we have projected rooms expense for the subject at 24.8% in the first year (or $27.59 per occupied room), stabilizing at 21.5% in 2013/14 (or $26.61 per occupied room). The proposed subject property's rooms department expense has been positioned based upon our review of the comparable operating data and our understanding of the hotel's future service level and price point.

Food and Beverage Expense

Food expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. The costs associated with food sales and payroll are moderately to highly correlated to food revenues. Items such as china, linen and uniforms are less dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor. Beverage expenses consist of items necessary for the operation of a hotel's lounge and bar areas. The costs associated with beverage sales and payroll are moderately to highly correlated to beverage revenues.

The comparables illustrated food and beverage expense ranging between 61.5% and 82.9% of food and beverage revenue; overall, food and beverage expense of the comparable properties equated to 71.0% of food and beverage revenue. In the first scenario, we have projected a stabilized expense ratio of 70.0% in 2013/14. In the second scenario, we have projected a stabilized expense ratio of 63.0% in 2013/14. The proposed subject property's food and beverage operation is expected to be efficiently managed and operate at an expense level that is in line with other comparable operations. We note that food and beverage expenses are expected to be somewhat lower, as a percentage of revenue, in the second scenario, based on the efficiencies of scale that are present with the additional meeting space.

Telephone Expense

Telephone expense consists of all costs associated with this department. In the case of small hotels with automated systems, the operation of telephones may be an additional responsibility of front desk personnel; however, most large properties employ full-time operators. The bulk of the telephone expense consists of the cost of local and long-distance calls billed by the telephone companies that provide these services. With the decrease in telephone usage and revenues, the actual cost of calls has decreased. However, the labor costs associated with a dedicated switchboard staff remain in place, as the principal role of these individuals is to direct incoming calls, and respond to and/or direct calls from hotel guests. Consequently, in those hotels with a dedicated switchboard staff, the profitability of the telephone department has decreased, and in many instances these departments now operate at a loss. In properties where the calls are handled by the front desk staff, profit levels have decreased, but most continue to generate a modest profit margin.

The comparables illustrated telephone expense ranging between 122.7% and 369.2% of telephone revenue; overall, telephone expense of the comparable properties equated to 209.7% of telephone revenue. For both scenarios, we have projected a stabilized expense ratio of 210.0% in 2013/14.

Other Income Expense

Other income expense consists of costs associated with other income and is dependent on the nature of the revenue. For example, if a hotel leases its gift shop to an outside operator, the gift shop expenses are limited to items such as rental fees and commissions. If the property operates its own gift shop, both revenues and expenses will be higher, and the hotel is responsible for the cost of goods sold, payroll, and so forth.

The comparables illustrated other income expense ranging between 29.2% and 94.7% of other income. For both scenarios, we have projected a stabilized expense ratio of 40.0% in 2013/14. Expenses related to the proposed subject property's other income sources should be minimal and associated with the other revenue components discussed previously.

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume.

The composite result of administrative and general expense for the comparable operations equated to $2,410 per available room; comparable statements ranged from $1,732 to $3,248 per available room. On a percentage of total revenue basis, the comparable operations indicate an administrative and general expense range from 5.4% to 10.5% (averaging 7.8% overall). Based upon our review of the comparable operating data and the expected scope of facilities for the proposed subject property under each scenario, we have positioned the administrative and general expense levels at market- and property-supported levels. We note that administrative and general expenses are modestly higher, on a per-available-room basis, in the second scenario, reflecting the additional administrative costs associated with the more extensive meeting facilities.

In the first projection year of the first scenario, we have projected administrative and general expense for the proposed subject property to be $2,801 per available room, or 9.1% of total revenue. By the 2013/14 stabilized year, these amounts change to $3,037 per available room and 7.8% of total revenue.

In the first projection year of the second scenario, we have projected administrative and general expense for the proposed subject property to be

$3,067 per available room, or 9.3% of total revenue. By the 2013/14 stabilized year, these amounts change to $3,328 per available room and 7.9% of total revenue.

Marketing Expense

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities.

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be projected accurately.

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

The composite result of marketing expense for the comparable operations equated to $1,288 per available room; comparable statements ranged from $593 to $1,541 per available room. On a percentage of total revenue basis, the comparable operations indicate a marketing expense range from 2.1% to 5.0% (averaging 4.1% overall). Based upon our review of the comparable operating data and the expected scope of facilities for the proposed subject property under each scenario, we have positioned the marketing expense levels at market- and property-supported levels. We note that marketing expenses are modestly higher, on a per-available-room basis, in the second scenario, reflecting the additional marketing costs associated with the more extensive meeting facilities.

In the first projection year of the first scenario, we have projected marketing expense for the proposed subject property to be $1,153 per available room, or 3.8% of total revenue. By the 2013/14 stabilized year, these amounts change to $1,226 per available room and 3.1% of total revenue.

In the first projection year of the second scenario, we have projected marketing expense for the proposed subject property to be $1,426 per available room, or 4.3% of total revenue. By the 2013/14 stabilized year, these amounts change to $1,518 per available room and 3.6% of total revenue.

Franchise Fee

As previously discussed, we have recommended that the subject be franchised under the SpringHill Suites by Marriott brand. Costs associated with this franchise are summarized in Chapter Two.

Property Operations and Maintenance

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

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

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long term.

The composite result of property operations and maintenance expense for the comparable operations equated to $1,399 per available room; comparable statements ranged from $866 to $1,920 per available room. On a percentage of total revenue basis, the comparable operations indicate a property operations and maintenance expense range from 2.7% to 6.7% (averaging 4.5% overall). We expect the proposed subject property's maintenance operation to be well managed, and expense levels should stabilize at a typical level for a property of this type. We note that property operations and maintenance expenses are modestly higher, on a per-available-room basis, in the second scenario, reflecting the additional operational and maintenance costs associated with the more extensive meeting facilities. Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

In the first projection year of the first scenario, we have projected property operations and maintenance expense for the proposed subject property to be $1,254 per available room, or 4.1% of total revenue. By the 2013/14 stabilized year, these amounts change to $1,460 per available room and 3.7% of total revenue.

In the first projection year of the second scenario, we have projected property operations and maintenance expense for the proposed subject property to be $1,353 per available room, or 4.1% of total revenue. By the 2013/14 stabilized year, these amounts change to $1,577 per available room and 3.7% of total revenue.

Utilities Expense

The utilities consumption of a lodging facility takes several forms, including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel utilities are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their utility requirements with less expensive sources, such as gas and oil, for heating and cooking.

The composite result of utilities expense for the comparable operations equated to $1,574 per available room; comparable statements ranged from $667 to $1,933 per available room. On a percentage of total revenue basis, the comparable operations indicate a utilities expense range from 2.3% to 6.1% (averaging 5.1% overall). The changes in this utilities line item through the projection period are a result of the application of the underlying inflation rate and projected changes in occupancy.

In the first projection year of the first scenario, we have projected utilities expense for the proposed subject property to be $1,690 per available room, or 5.5% of total revenue. By the 2013/14 stabilized year, these amounts change to $1,869 per available room and 4.8% of total revenue.

In the first projection year of the second scenario, we have projected utilities expense for the proposed subject property to be $1,846 per available room, or 5.6% of total revenue. By the 2013/14 stabilized year, these amounts change to $2,044 per available room and 4.8% of total revenue.

Management Fee

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

Property Taxes

Property (or ad valorem) tax is one of the primary revenue sources of municipalities. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value, so properties with equal market values will have similar assessments and properties with higher and lower values will have proportionately larger and smaller assessments.

Depending on the taxing policy of the municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property. We have based our estimate of the proposed subject property's market value (for tax purposes) on an analysis of county assessments of comparable hotel properties in the local county.

Table 10-12 County-Assessed Value of Comparable Hotels

Hotel	Number of Rooms	Total Assessment Land	Improvements	Total
Comfort Inn	62	$107,020	$601,960	$708,980
Holiday Inn	137	261,040	1,454,610	1,715,650
Hampton Inn & Suites	72	243,910	1,457,000	1,700,910
Assessments per Room				
Comfort Inn		$1,726	$9,709	$11,435
Holiday Inn		1,905	10,618	12,523
Hampton Inn & Suites		3,388	20,236	23,624
Positioned Subject - Per Room	**110**	**$2,500**	**$18,000**	**$20,500**
Positioned Subject - Total		**$275,000**	**$1,980,000**	**$2,255,000**

Source: Madison County Assessor

We have positioned the proposed subject property's future assessment levels based upon the illustrated comparable data. We have positioned the assessment closest to the Hampton Inn & Suites because of its recent construction; overall, the positioned assessment is well supported by the market data.

Tax rates are based on the city and county budgets, which change annually. The most recent tax rate in this jurisdiction was reported at 7.60760%. The following table shows changes in the tax rate during the last several years.

Table 10-13 County Tax Rates

Year	Real Property Tax Rate
2006	7.56750
2007	7.62720
2008	7.60760

Source: Madison County Assessor

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

HVS

Table 7-14 Projected Property Tax Expense

Year	Assessed Value Land	Improvements	Total	Property Tax Rate	Tax Forecast
Positioned	$275,000	$1,980,000	$2,255,000	7.61	$171,551
2011/12	$275,000	$1,980,000	$2,255,000	7.68	$173,267
2012/13	275,000	1,980,000	2,255,000	7.80	175,866
2013/14	275,000	1,980,000	2,255,000	7.95	179,383

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage. Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

The comparable properties we identified indicated a range of $141 to $372 per available room, or 0.7% of total revenue.

Based on these levels and the structural attributes of the proposed project, in the first scenario we project the proposed subject property's insurance expense at $467 per available room by the stabilized year (positioned at $400 on a per-available-room basis in base-year dollars). This forecast equates to 1.2% of total revenue on a stabilized basis. In subsequent years, this amount is assumed to increase in tandem with inflation.

In the second scenario, we project the proposed subject property's insurance expense at $584 per available room by the stabilized year (positioned at $500 on a per-available-room basis in base-year dollars). This forecast equates to 1.4% of total revenue on a stabilized basis. In subsequent years, this amount is assumed to increase in tandem with inflation.

Reserve for Replacement

Furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but nevertheless affect an owner's cash flow, a forecast of income and expense should reflect these expenses in the form of an appropriate reserve for replacement.

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent findings of the study were published in a report in 2007[6]. Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year to year, and depend upon both the actual and effective age of a property. The results of this study showed that hotel lenders and investors are requiring reserves for replacement ranging from 4% to 5% of total revenue.

Based on the results of this study, our review of the subject asset and comparable lodging facilities, and our industry expertise, we estimate that a reserve for replacement of 4% of total revenues is sufficient to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment. This amount is ramped up during the initial projection period.

Conclusion

In conclusion, our analysis of the first scenario reflects a profitable operation, with net income expected to total 31.4% of total revenue by the stabilized year. The stabilized total revenue comprises primarily rooms and food and beverage revenue, with a secondary portion derived from other income

[6] The International Society of Hotel Consultants, *CapEx 2007, A Study of Capital Expenditure in the U.S. Hotel Industry.*

sources. On the cost side, departmental expenses total 30.7% of revenue by the stabilized year, while undistributed operating expenses total 25.5% of total revenues; this assumes that the property will be operated competently by a well-known hotel operator. After a 3.0% of total revenues management fee, and 9.4% of total revenues in fixed expenses, a net income ratio of 31.4% is forecast by the stabilized year.

Our analysis of the second scenario reflects a profitable operation, with net income expected to total 30.3% of total revenue by the stabilized year. The stabilized total revenue comprises primarily rooms and food and beverage revenue, with a secondary portion derived from other income sources. On the cost side, departmental expenses total 31.8% of revenue by the stabilized year, while undistributed operating expenses total 25.6% of total revenues; this assumes that the property will be operated competently by a well-known hotel operator. After a 3.0% of total revenues management fee, and 9.3% of total revenues in fixed expenses, a net income ratio of 30.3% is forecast by the stabilized year.

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8. Feasibility Analysis

The feasibility of the subject project hinges upon the net value added by the planned improvements. If the value added by the project results in a return that is in excess of the project's all-in cost, that project is deemed feasible. Therefore, the following steps are taken.

1. A net present value indication is developed for the property in its "when complete" state, assuming the planned improvements were to be made to the site. This is performed by taking the cash flow projections developed in the previous chapter and using discounted cash flow techniques to comprise a net present value estimate.
2. The all-in cost for the project is stated and reviewed to serve as the benchmark for feasibility.
3. The cost is then deducted from the net present value added by the improvements. If the net result is a positive number, the project is feasible and there is an adequate return on investment. If the net result is a negative number, the project is not feasible at the market return rates used in the analysis.

Net Present Value Indication – "When Complete" State

The first step is to provide an indication of the net present value of the subject property in its completed state, assuming all previously discussed future improvements were made to the site. This benchmark is best achieved by a utilizing a discounted cash flow approach, which appropriately considers all changes in income over the first ten years of operation.

We have developed a total property yield, or discount rate, through a mortgage-equity valuation method, which is presented in the addenda to this report. The variables utilized to establish this rate are set forth in the following discussion.

Mortgage Component

Data for the mortgage component may be developed from statistics of actual hotel mortgages made by long-term lenders. The American Council of Life Insurance, which represents 20 large life insurance companies, publishes

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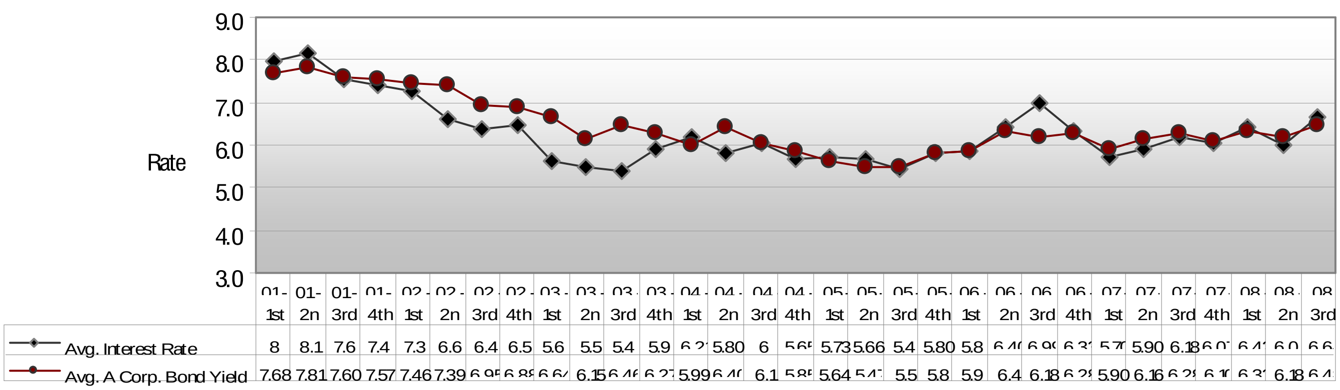
quarterly information pertaining to the hotel mortgages issued by its member companies.

Because of the six- to nine-month lag time in reporting and publishing hotel mortgage statistics, it was necessary to update this information to reflect current lending practices. Our research indicates that the greatest degree of correlation exists between the average interest rate of a hotel mortgage and the concurrent yield on an average A corporate bond.

The following chart summarizes the average mortgage interest rates of the hotel loans made by these lenders. For the purpose of comparison, the average A corporate bond yield (as reported by *Moody's Bond Record*) is also shown.

Chart 8-1 Average Mortgage Interest Rates and Average A Corporate Bond Yields



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

The relationship between hotel interest rates and the yields from the average A corporate bond can be detailed through a regression analysis, which is expressed as follows.

$$Y = 1.27067400\ X - 1.54707000$$

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

The December 19, 2008, average yield on average A corporate bonds, as

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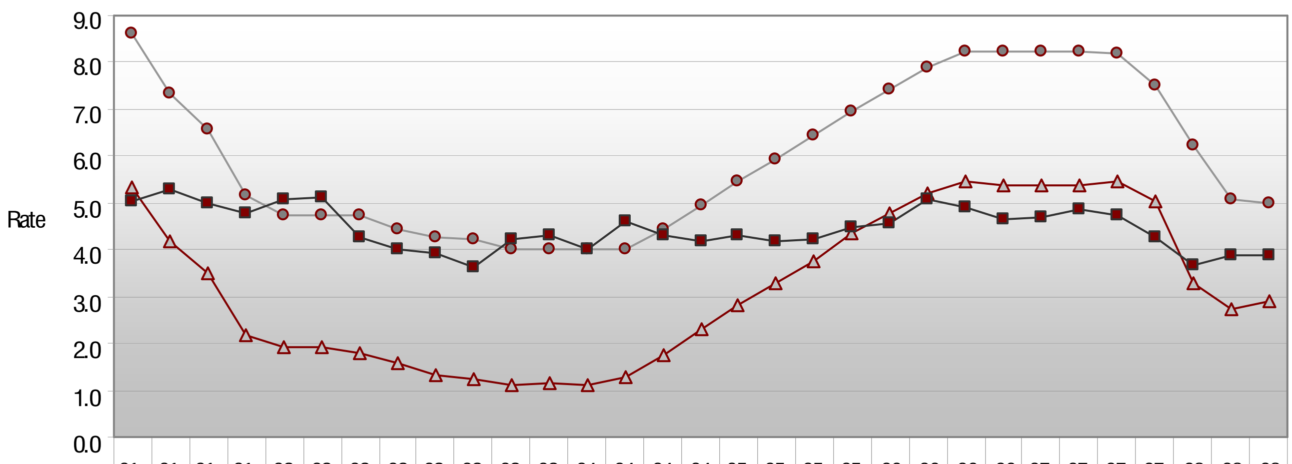
reported by Moody's Investors Service, was 6.32%. When used in the previously presented equation, a factor of 6.32 produces an estimated hotel/motel interest rate of 6.5% (rounded).

In addition to the mortgage interest rate estimate derived from this regression analysis, HVS constantly monitors the terms of hotel mortgage loans made by our institutional lending clients. Fixed-rate debt, while not readily available in today's more cautious lending environment, is being priced at roughly 450 to 600 basis points over the corresponding yield on treasury notes. As of February 25, 2009, the yield on the ten-year T-bill was 2.8%, indicating an interest rate range from 7.3% to 8.8%. In the current lending environment, floating-rate debt priced at a spread over LIBOR is more readily available and offers a more favorable interest rate to borrowers. Spreads are typically quoted at 600 to 750 basis points over the three-month LIBOR, which was yielding 1.3% as of February 25, 2009, resulting in an interest rate range of 7.3% to 8.8%.

Chart 8-2 Historical Trend of Three-Month LIBOR, Prime Rate, and Ten-Year Treasury Bill



	01-1st	01-2nd	01-3rd	01-4th	02-1st	02-2nd	02-3rd	02-4th	03-1st	03-2nd	03-3rd	03-4th	04-1st	04-2nd	04-3rd	04-4th
3-mo. LIBOR	5.3	4.2	3.5	2.2	19	19	18	16	13	12	11	12	11	13	17	2.3
Prime Rate	8.6	7.3	6.6	5.2	4.8	4.8	4.8	4.5	4.3	4.2	4	4	4	4	4.4	4.9
10-yr. T-Bill	5	5.3	5	4.8	5.1	5.1	4.3	4	3.9	3.6	4.2	4.3	4	4.6	4.3	4.2

	05-1st	05-2nd	05-3rd	05-4th	06-1st	06-2nd	06-3rd	06-4th	07-1st	07-2nd	07-3rd	07-4th	08-1st	08-2nd	08-3rd
3-mo. LIBOR	2.8	3.3	3.8	4.3	4.8	5.2	5.4	5.4	5.4	5.4	5.5	5	3.3	2.8	2.9
Prime Rate	5.4	5.9	6.4	7	7.4	7.9	8.3	8.3	8.3	8.3	8.2	7.5	6.2	5.1	5
10-yr. T-Bill	4.3	4.2	4.2	4.5	4.6	5.1	4.9	4.6	4.7	4.9	4.8	4.3	3.7	3.9	3.9

Sources: U.S. Treasury, Bankrate.com

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At present, we find that lenders who are active in the market are using loan-to-value ratios of 50% to 65% and amortization periods of 20 to 25 years; ratios of 55% to 60% are most prevalent. While loan-to-value ratios above 70% were available prior to the credit crisis, our loan-to-value selection reflects today's stricter lending environment. The exact terms offered depend on specific factors, such as the property's location, the expected quality of the proposed facility and salability of the concept within its target market, local hostelry market conditions, and (perhaps most significantly) the profile of the developer/borrower. The strongest projects typically command the highest loan-to-value ratios.

Based on our analysis of the current lodging industry mortgage market and adjustments for specific factors, such as the property's location, proposed facility, and conditions in the Alton hotel market, it is our opinion that a 7.50% interest, 25-year amortization mortgage with a 0.088679 constant is appropriate for the subject property. In the mortgage-equity analysis, we have applied a loan-to-value ratio of 60%, which is reasonable to expect based on this interest rate and current parameters.

Equity Component & Equity Yield Rate

The remaining capital required for a hotel investment generally comes from the equity investor. The rate of return that an equity investor expects over a ten-year holding period is known as the equity yield. Unlike the equity dividend, which is a short-term rate of return, the equity yield specifically considers a long-term holding period (generally ten years), annual inflation-adjusted cash flows, property appreciation, mortgage amortization, and proceeds from a sale at the end of the holding period. To establish an appropriate equity yield rate, we have used two sources of data: past appraisals and investor interviews.

Each appraisal performed by HVS uses a similar mortgage-equity approach in which income is projected and then discounted to a current value at rates reflecting the cost of debt and equity capital. In the case of hotels that were sold near the date of our valuation, we were able to determine an appropriate equity yield rate by inserting the projection into a valuation model, and adjusting the appraised value to reflect the actual sales price by modifying the return assumptions. The following table shows a representative sample of hotels that were sold shortly after we appraised them, along with the imputed equity return based on our valuation approach.

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Table 8-3 Sample of Hotels Sold

Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Overall Rate Based on Net Operating Income: Historical Year	Projected Year One	Stabilized Year	Equity Dividend
Hyatt Regency	Phoenix, AZ	696	Jul-08	12.5 %	19.5 %	10.3 %	9.0 %	9.6 %	9.0 %
Hilton Lincoln Center	Dallas, TX	500	Jun-08	11.0	17.3	6.9	4.4	9.4	4.4
Holiday Inn Sunspree Resort	Lake Buena Vista, FL	507	May-08	14.5	21.8	—	1.4	11.5	1.4
Sheraton Hotel	Iowa City, IA	234	Apr-08	11.0	19.5	3.0	5.6	8.8	5.6
Four Points Columbus Airport	Columbus, OH	177	Jan-08	12.9	24.7	8.4	8.7	9.9	8.7
Hotel 57	New York, NY	200	Jan-08	10.1	16.7	4.9	3.6	7.5	3.6
Hyatt Regency	Milwaukee, WI	483	Jan-08	11.9	20.7	6.1	8.5	8.7	10.8
JW Marriott	New Orleans, LA	494	Jan-08	11.0	19.8	—	1.5	8.1	—
Sheraton Hotel	Salt Lake City, UT	362	Dec-07	12.0	20.1	7.4	6.0	9.9	2.2
Hyatt Regency	New Orleans, LA	1184	Dec-07	16.3	26.4	8.1	6.8	13.4	3.8
Aberdeen Woods Conference Center	Peachtree City, GA	233	Nov-07	11.5	19.2	1.1	1.6	9.7	—
Marriott BWI Airport Hotel	Linthicum, MD	309	Nov-07	10.7	21.9	8.8	7.9	7.8	10.9
Crown Plaza	Phoenix, AZ	248	Oct-07	10.7	19.2	7.3	8.0	8.5	8.2
Westin Airport	Atlanta, GA	495	Aug-07	11.6	21.7	6.6	8.1	9.0	8.7
Holiday Inn LAX	Los Angeles, CA	405	Aug-07	13.8	26.8	6.9	7.7	10.2	7.6
Hilton Downtown	St. Louis, MO	195	Aug-07	11.3	20.8	6.8	7.8	8.6	7.8
Hotel Palomar	San Francisco, CA	195	Aug-07	11.1	21.0	5.0	7.6	8.8	8.7
Sheraton Hotel	Nashua, NH	336	Jun-07	13.2	25.2	5.5	8.0	10.4	7.9
Sheraton	Oklahoma City, OK	395	Apr-07	13.8	27.5	7.4	9.2	10.6	9.2
St. Louis Marriott West	St. Louis, MO	300	Mar-07	10.2	18.2	5.8	6.8	8.0	6.8
Renaissance Mayflower	Washington, DC	657	Feb-07	9.6	17.7	3.9	5.5	7.5	5.5
Villa Florence	San Francisco, CA	182	Feb-07	9.1	15.1	3.5	5.2	7.0	5.2
Hilton Westchase & Towers	Houston, TX	297	Feb-07	8.6	13.9	5.8	7.2	7.5	7.2
Sheraton Austin	Austin, TX	365	Jan-07	11.5	21.2	5.3	6.6	8.9	6.6
Stanford Court Hotel	San Francisco, CA	393	Dec-06	8.1	11.7	—	1.4	8.0	1.4
Sheraton Hotel	North Charleston, NC	289	Nov-06	11.0	20.4	4.9	8.1	8.3	8.1
Hyatt Regency	Lexington, KY	365	Nov-06	12.0	21.2	2.3	2.7	10.7	2.7
Sheraton	Danbury, CT	242	Oct-06	9.8	16.3	3.9	4.0	8.2	—
Hilton Arlington	Arlington, TX	308	Oct-06	10.0	17.5	4.8	7.2	8.3	4.9
Westin Southfield Detroit	Southfield, MI	388	Oct-06	9.7	17.4	8.6	8.8	7.9	13.1
Sheraton	College Park, MD	462	Oct-06	12.5	23.7	7.7	7.5	9.6	7.7
Westin Hotel	Stamford, CT	462	Oct-06	9.3	15.1	4.1	4.0	7.9	4.0

Source: HVS

The longer-term historical trend of equity yield rates (alternately known as "leveraged" yield rates), as tracked by HVS, is illustrated in the following chart.

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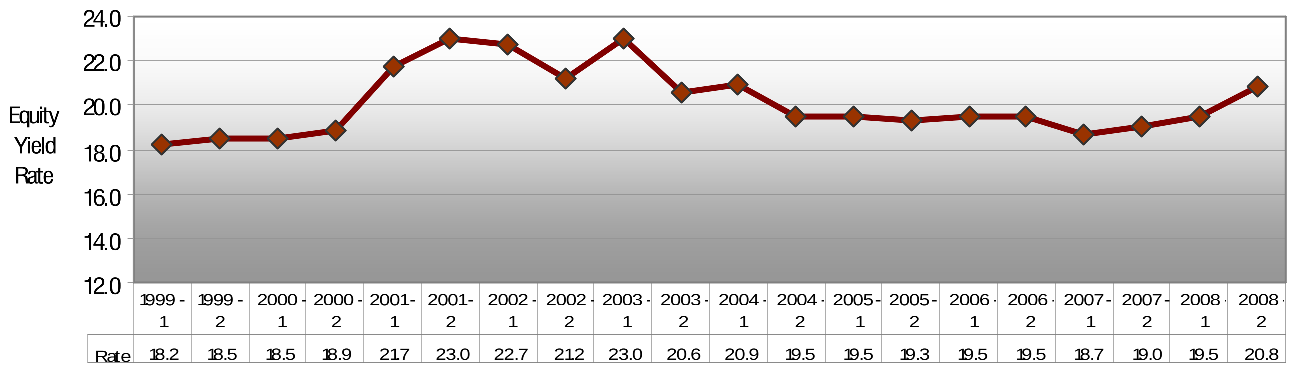
Chart 8-4 Historical Trend of Equity Yields



Source: HVS

We note that the averages illustrated in the previous table are derived from a wide array of data points and a range of reasonableness extends both lower and higher than the indicated data point. Based on the assumed 60% loan-to-value ratio, the risk inherent in achieving the projected income stream, and the age, condition, and anticipated market position of the subject property, it is our opinion that an equity investor is likely to require an equity yield rate of 17.0%. The widespread availability of equity sources, including capital from international sources that are currently benefiting from the weak dollar, has continued to put downward pressure on equity yield rates. With a limited number of assets currently available for sale, competition for high-quality assets remains healthy, despite a much stricter lending environment. These influences are keeping equity yields relatively low.

Terminal Capitalization Rate

Inherent in this valuation process is the assumption of a sale at the end of the ten-year holding period. The estimated reversionary sales price as of that date is calculated by capitalizing the projected eleventh-year net income by an overall terminal capitalization rate. An allocation for the selling expenses is deducted from this sales price, and the net proceeds to the equity interest (also known as the equity residual) are calculated by deducting the outstanding mortgage balance from the reversion.

As a point of reference, the terminal capitalization rate can be compared to the going-in rate implied by the subject property's estimated value. The

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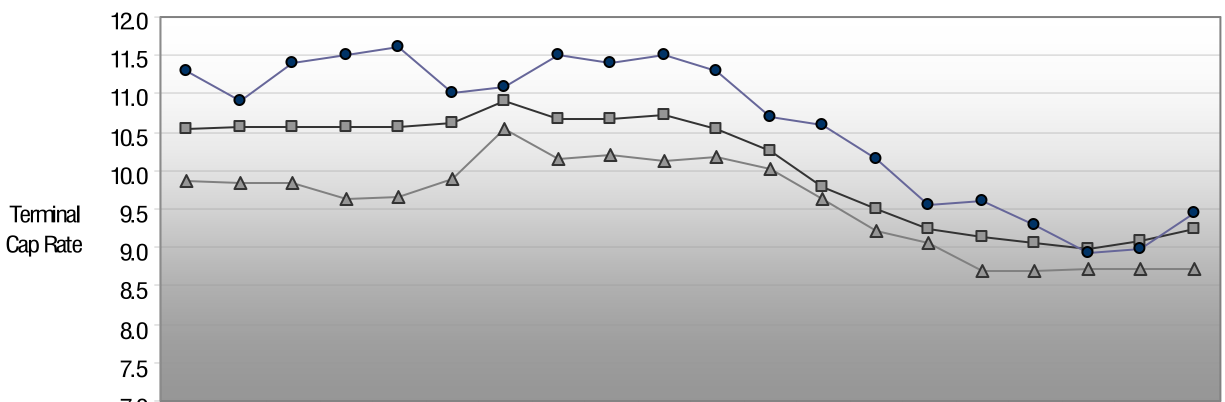
going-in rate reflects the capitalization rate that would be applicable if the hotel were operating at a stabilized level as of the date of value. This rate is calculated by dividing the stabilized net income (expressed in current dollars as of the date of value) by the value indicated by the income capitalization approach. Generally, the terminal capitalization rate is approximately 50 to 150 basis points above the stabilized going-in rate, depending on the characteristics of the property and market.

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

Chart 8-5 Historical Trend of Terminal Capitalization Rates



	1999 - 1	1999 - 2	2000 - 1	2000 - 2	2001 - 1	2001 - 2	2002 - 1	2002 - 2	2003 - 1	2003 - 2	2004 - 1	2004 - 2	2005 - 1	2005 - 2	2006 - 1	2006 - 2	2007 - 1	2007 - 2	2008 - 1	2008 - 2
Korpacz - Full-Service	10.54	10.58	10.57	10.56	10.56	10.62	10.91	10.67	10.67	10.73	10.53	10.25	9.78	9.50	9.24	9.13	9.06	8.98	9.08	9.24
Korpacz - Luxury	9.86	9.85	9.83	9.63	9.65	9.90	10.55	10.15	10.20	10.13	10.17	10.03	9.63	9.21	9.07	8.68	8.69	8.71	8.72	8.71
CRE/RERC - First Tier	11.30	10.90	11.40	11.50	11.60	11.00	11.08	11.50	11.40	11.50	11.30	10.70	10.60	10.15	9.55	9.60	9.28	8.94	8.98	9.45

We note that the averages illustrated in the previous table are derived from wide arrays of data points and a range of reasonableness extends both lower and higher than the indicated data points. For purposes of this analysis, we have applied a terminal capitalization rate of 10.5%. Our final position for the terminal capitalization rate reflects the current trends in hotel lending, which are resulting in rates higher than those seen prior to the onset of the credit crisis.

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Mortgage-Equity Method - Opinion of Net Present Value – First Scenario

The valuation of the mortgage and equity components is accomplished using an algebraic equation that calculates the exact amount of debt and equity that the hotel will be able to support based on the anticipated cash flow (as estimated by the forecast of income and expense) and the specific return requirements demanded by the mortgage lender (interest) and the equity investor (equity yield). Thus, the anticipated net income (before debt service and depreciation) is allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. The total of the mortgage component and the equity component equals the value of the property. Using this method of the income capitalization approach with the variables set forth, we estimate the net present value of the subject property's first sceanrio, as of April 1, 2011, to be $12,500,000.

The net present value is mathematically proven by confirming the market-derived yields are met for the lender and equity participant during the projection period. After applying the assumed loan-to-value ratio of 60%, the mortgage component equates to $7,473,000 and the equity component equates to $4,982,000. Annual debt service equates to $662,698 after the application of the mortgage constant of 0.088679 to the mortgage component. The value of the mortgage component is confirmed as follows.

Table 8-6 Value of the Mortgage Component – First Scenario

Year	Total Annual Debt Service		Present Worth of $1 Factor at 7.4%		Discounted Cash Flow
2011/12	$663,000	x	0.930811	=	$617,000
2012/13	663,000	x	0.866409	=	574,000
2013/14	663,000	x	0.806463	=	535,000
2014/15	663,000	x	0.750664	=	498,000
2015/16	663,000	x	0.698727	=	463,000
2016/17	663,000	x	0.650382	=	431,000
2017/18	663,000	x	0.605383	=	401,000
2018/19	663,000	x	0.563497	=	374,000
2019/20	663,000	x	0.524509	=	348,000
2020/21	6,620,000 *	x	0.488219	=	3,232,000
			Value of Mortgage Component		$7,473,000

*10th year debt service of $663,000 plus outstanding mortgage balance of $5,957,000

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

Table 8-7 Net Income to Equity – First Scenario

Year	Net Income Available for Debt Service		Total Annual Debt Service		Net Income to Equity
2011/12	$857,000	-	$663,000	=	$194,000
2012/13	1,124,000	-	663,000	=	461,000
2013/14	1,344,000	-	663,000	=	681,000
2014/15	1,384,000	-	663,000	=	721,000
2015/16	1,426,000	-	663,000	=	763,000
2016/17	1,468,000	-	663,000	=	805,000
2017/18	1,512,000	-	663,000	=	849,000
2018/19	1,558,000	-	663,000	=	895,000
2019/20	1,604,000	-	663,000	=	941,000
2020/21	1,653,000	-	663,000	=	990,000

The equity residual at the end of the tenth year is calculated by deducting brokerage and legal fees and the mortgage balance from the reversionary value. The reversionary value is calculated as the eleventh year's net income capitalized by the terminal capitalization rate. The calculation is shown as follows.

Reversionary Value ($ 1,703,000/0.105)	$16,219,000
Less:	
Brokerage and Legal Fees	487,000
Mortgage Balance	5,957,000
Net Sale Proceeds to Equity	$9,775,000

Based on these assumptions, the value of the equity component is confirmed as follows.

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Table 8-8 Value of the Equity Component – First Scenario

Year	Net Income to Equity		Present Worth of $1 Factor at 17.0%		Discounted Cash Flow
2011/12	$194,000	x	0.854731	=	$166,000
2012/13	461,000	x	0.730566	=	337,000
2013/14	681,000	x	0.624438	=	425,000
2014/15	721,000	x	0.533726	=	385,000
2015/16	763,000	x	0.456193	=	348,000
2016/17	805,000	x	0.389922	=	314,000
2017/18	849,000	x	0.333279	=	283,000
2018/19	895,000	x	0.284864	=	255,000
2019/20	941,000	x	0.243482	=	229,000
2020/21	10,765,000 *	x	0.208112	=	2,240,000
			Value of Equity Component		$4,982,000

*10th year net income to equity of $990,000 plus sales proceeds of $9,775,000

We have added the calculated value of the equity component to the assumed mortgage amount, which results in the calculated total property net present value. These totals and the associated yields are illustrated in the following table.

Table 8-9 Total Property Net Present Value and Internal Rates of Return

Position	Value	Projected Yield (Internal Rate of Return) Over Holding Period
Total Property	$12,455,000	12.1 %
Mortgage	$7,473,000	7.4
Equity	$4,982,000	17.0

Note: Whereas the mortgage constant and value are calculated on the basis of monthly mortgage payments, the mortgage yield in this proof assumes single annual payments. As a result, the proof's derived yield may be slightly less than that actually input.

The position of the total property yield reflects our full consideration of the current credit situation and change in lending climate that has rippled through the market. Prior to the onset of the credit crisis, total property

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yields for high-quality hotel assets would have been positioned below current levels.

Mortgage-Equity Method - Opinion of Net Present Value – Second Scenario

We estimate the net present value of the subject property's second sceanrio, as of April 1, 2011, to be $13,000,000.

The net present value is mathematically proven by confirming the market-derived yields are met for the lender and equity participant during the projection period. After applying the assumed loan-to-value ratio of 60%, the mortgage component equates to $7,772,000 and the equity component equates to $5,182,000 in the first scenario. Annual debt service equates to $689,213 after the application of the mortgage constant of 0.088679 to the mortgage component. The value of the mortgage component is confirmed as follows.

Table 8-10 Value of the Mortgage Component – Second Scenario

Year	Total Annual Debt Service		Present Worth of $1 Factor at 7.4%		Discounted Cash Flow
2011/12	$689,000	x	0.930873	=	$641,000
2012/13	689,000	x	0.866525	=	597,000
2013/14	689,000	x	0.806625	=	556,000
2014/15	689,000	x	0.750865	=	517,000
2015/16	689,000	x	0.698961	=	482,000
2016/17	689,000	x	0.650644	=	448,000
2017/18	689,000	x	0.605667	=	417,000
2018/19	689,000	x	0.563799	=	388,000
2019/20	689,000	x	0.524825	=	362,000
2020/21	6,885,000 *	x	0.488546	=	3,364,000
			Value of Mortgage Component		$7,772,000

*10th year debt service of $689,000 plus outstanding mortgage balance of $6,196,000

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

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Table 8-11 Net Income to Equity – Second Scenario

Year	Net Income Available for Debt Service		Total Annual Debt Service		Net Income to Equity
2011/12	$869,000	-	$689,000	=	$180,000
2012/13	1,139,000	-	689,000	=	450,000
2013/14	1,405,000	-	689,000	=	716,000
2014/15	1,447,000	-	689,000	=	758,000
2015/16	1,490,000	-	689,000	=	801,000
2016/17	1,535,000	-	689,000	=	846,000
2017/18	1,581,000	-	689,000	=	892,000
2018/19	1,629,000	-	689,000	=	940,000
2019/20	1,677,000	-	689,000	=	988,000
2020/21	1,728,000	-	689,000	=	1,039,000

The equity residual at the end of the tenth year is calculated by deducting brokerage and legal fees and the mortgage balance from the reversionary value. The reversionary value is calculated as the eleventh year's net income capitalized by the terminal capitalization rate. The calculation is shown as follows.

Reversionary Value	($ 1,780,000/0.105)	$16,952,000
Less:		
Brokerage and Legal Fees		509,000
Mortgage Balance		6,196,000
Net Sale Proceeds to Equity		$10,247,000

Based on these assumptions, the value of the equity component is confirmed as follows.

Table 8-12 Value of the Equity Component – Second Scenario

Year	Net Income to Equity		Present Worth of $1 Factor at 17.0%		Discounted Cash Flow
2011/12	$180,000	x	0.854675	=	$154,000
2012/13	450,000	x	0.730469	=	329,000
2013/14	716,000	x	0.624313	=	447,000
2014/15	758,000	x	0.533585	=	404,000
2015/16	801,000	x	0.456041	=	365,000
2016/17	846,000	x	0.389767	=	330,000
2017/18	892,000	x	0.333124	=	297,000
2018/19	940,000	x	0.284712	=	268,000
2019/20	988,000	x	0.243337	=	240,000
2020/21	11,287,000 *	x	0.207974	=	2,347,000
			Value of Equity Component		$5,181,000

*10th year net income to equity of $1,039,000 plus sales proceeds of $10,248,000

We have added the calculated value of the equity component to the assumed mortgage amount, which results in the calculated total property net present value. These totals and the associated yields are illustrated in the following table.

Table 8-13 Total Property Net Present Value and Internal Rates of Return

Position	Value	Projected Yield (Internal Rate of Return) Over Holding Period
Total Property	$12,954,000	12.1 %
Mortgage	$7,772,000	7.4
Equity	$5,182,000	17.0

Note: Whereas the mortgage constant and value are calculated on the basis of monthly mortgage payments, the mortgage yield in this proof assumes single annual payments. As a result, the proof's derived yield may be slightly less than that actually input.

The position of the total property yield reflects our full consideration of the current credit situation and change in lending climate that has rippled through the market. Prior to the onset of the credit crisis, total property yields for high-quality hotel assets would have been positioned below current levels.

Discounted Cash Flow Analysis

The process of converting the projected income stream into an estimate of net present value via the discounted cash flow method is described as follows.

1. The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The stabilized year's net income is then extended into an eleven-year forecast of income and expense by applying the assumed underlying inflation rate to each revenue and expense item from the stabilized year forward, unless otherwise noted. The eleven-year forecast of net income then forms the basis of a ten-year discounted cash flow analysis where ten years of net income and a reversion derived from the capitalized eleventh year's net income are discounted back to the date of value and summed to derive an estimate of market value. The ten-year period reflects the typical holding period of large real estate assets such as hotels. In addition, the ten-year time frame provides for the stabilization of income streams and comparison of yields with alternate types of real estate. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.
2. An appropriate discount rate is selected to apply to the projected net income before debt service. This rate reflects the "free and clear" internal rate of return to an all-cash purchaser or a blended rate of debt and equity return requirements. The discount rate takes into consideration the degree of perceived risk, anticipated inflation, market attitudes, rates of return on other investment alternatives, and availability and cost of financing. The discount rate is chosen by reviewing sales transactions and investor surveys and interviewing market participants.
3. A reversionary value reflecting the sales price of the property at the end of the ten-year holding period is calculated by capitalizing the eleventh-year

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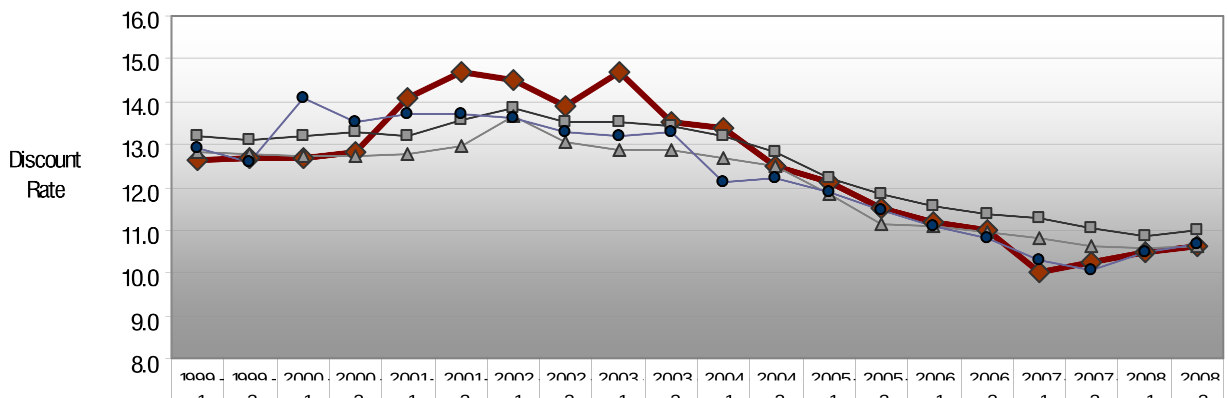
net income by the terminal capitalization rate and deducting typical brokerage and legal fees.

4. Each year's forecasted net income before debt service and depreciation and the reversionary sales proceeds at the end of the ten-year holding period are converted to a present value by multiplying the cash flow by the chosen discount rate for that year in the forecast. The sum of the discounted cash flows equates to the net present value of the subject property.

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

Table 8-14 Historical Trend of Discount Rates



	1999 - 1	1999 - 2	2000 - 1	2000 - 2	2001 - 1	2001 - 2	2002 - 1	2002 - 2	2003 - 1	2003 - 2	2004 - 1	2004 - 2	2005 - 1	2005 - 2	2006 - 1	2006 - 2	2007 - 1	2007 - 2	2008 - 1	2008 - 2
HVS	12.62	12.70	12.70	12.80	14.10	14.70	14.50	13.90	14.70	13.50	13.40	12.50	12.10	11.50	11.20	11.00	10.00	10.25	10.50	10.60
Korpacz - Full-Service	13.17	13.11	13.20	13.28	13.21	13.59	13.85	13.51	13.51	13.42	13.20	12.81	12.23	11.84	11.56	11.35	11.26	11.02	10.84	10.98
Korpacz - Luxury	12.81	12.77	12.73	12.73	12.76	12.94	13.68	13.05	12.85	12.85	12.67	12.47	11.84	11.14	11.11	10.93	10.83	10.64	10.56	10.64
CRE/RERC - First Tier	12.90	12.60	14.10	13.50	13.70	13.70	13.60	13.30	13.20	13.30	12.10	12.20	11.90	11.48	11.10	10.80	10.30	10.04	10.50	10.68

We note that the averages illustrated in the previous table are derived from wide arrays of data points and a range of reasonableness extends both lower and higher than the indicated data points. Based on our review of these surveys, sales transactions (see total property yields shown in the table titled *Sample of Hotels Sold*), and interviewing market participants, we have selected a discount rate of 12.00% for our analysis. Similar to the developed total property yield, our selected discount rate reflects consideration of the present credit situation. Prior to the current credit crisis, the developed total property yield for an asset of this quality and location would have been positioned below the current level reflected in our analysis.

Utilizing the discount rate set forth, the discounted cash flow procedure is summarized as follows.

Table 8-15 Discounted Cash Flow Analysis – First Scenario

Year	Net Income		Discount Factor @ 12.0%	Discounted Cash Flow
2011/12	$857,000		0.89286	$765,179
2012/13	1,124,000		0.79719	896,046
2013/14	1,344,000		0.71178	956,633
2014/15	1,384,000		0.63552	879,557
2015/16	1,426,000		0.56743	809,151
2016/17	1,468,000		0.50663	743,734
2017/18	1,512,000		0.45235	683,952
2018/19	1,558,000		0.40388	629,250
2019/20	1,604,000		0.36061	578,418
2020/21	17,385,000	*	0.32197	5,597,658
			Estimated Value	$12,539,578
			(SAY)	$12,500,000

Reversion Analysis	
11th Year's Net Income	$1,703,000
Capitalization Rate	10.5%
Total Sales Proceeds	$16,219,048
Less: Transaction Costs @ 3.0%	486,571
Net Sales Proceeds	$15,732,476

*10th year net income of $1,653,000 plus sales proceeds of $15,732,000

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Table 8-16 Discounted Cash Flow Analysis – Second Scenario

Year	Net Income		Discount Factor @ 12.0%	Discounted Cash Flow
2011/12	$869,000		0.89286	$775,893
2012/13	1,139,000		0.79719	908,004
2013/14	1,405,000		0.71178	1,000,051
2014/15	1,447,000		0.63552	919,595
2015/16	1,490,000		0.56743	845,466
2016/17	1,535,000		0.50663	777,679
2017/18	1,581,000		0.45235	715,164
2018/19	1,629,000		0.40388	657,926
2019/20	1,677,000		0.36061	604,743
2020/21	18,172,000	*	0.32197	5,850,836
			Estimated Value	$13,055,357
			(SAY)	$13,100,000

Reversion Analysis

11th Year's Net Income	$1,780,000
Capitalization Rate	10.5%
Total Sales Proceeds	$16,952,381
Less: Transaction Costs @ 3.0%	508,571
Net Sales Proceeds	$16,443,810

*10th year net income of $1,728,000 plus sales proceeds of $16,444,000

Feasibility Conclusion

Detailed construction budgets for the two scenarios were not prepared under the scope of this assignment. It is our general opinion that the total project cost of the first scenario should fall at or below the net present value result; thus, this confirms the feasibility of the hotel-only scenario. The total project cost would likely need to include the costs associated with the land, as well as a designated entrepreneurial profit. In contrast, it is our general opinion that the total project cost of the second scenario would fall somewhat above the net present value result; thus, the hotel-and-conference-center scenario is not considered feasible at this time.

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9. Statement of Assumptions and Limiting Conditions

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

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are assumed to be true and correct. We can assume no liability resulting from misinformation.

9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court 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.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
17. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account 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 rooms, 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

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prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of a typical hotel investor.

18. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.
19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
22. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide, LLC as employees, rather than as individuals.

10. Certification

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

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no (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 result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Dan McCoy personally inspected the property described in this report; Michael Brophy and Rod Clough, MAI participated in the analysis and reviewed the findings, but did not personally inspect the property;
9. Michael Brophy and Dan McCoy provided significant assistance to Rod Clough, MAI, and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report;

10. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;
11. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and
12. as of the date of this report, Rod Clough, MAI has completed the requirements of the continuing education program of the Appraisal Institute.

Michael Brophy
Vice President

Rod Clough, MAI
Managing Director
TS Worldwide, LLC

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

A market has three existing hotels with the following operating statistics:

Base-Year Occupancy and Penetration Levels

			Estimated Market Segmentation				
Property	**Number of Rooms**	**Fair Share**	**Commercial**	**Meeting**	**Leisure**	**Occupancy**	**Penetration**
Hotel A	100	23.5%	60%	20%	20%	75.0%	100.8%
Hotel B	125	29.4	70	10	20	65.0	87.4
Hotel C	200	47.1	30	60	10	80.0	107.5
Total/Average	**425**	**100.0%**	**47%**	**38%**	**15%**	**74.4%**	**100.0%**

Based upon each hotel's room count, market segmentation, and annual occupancy, the annual number of room nights accommodated in the market from each market segment can be quantified, as set forth below.

Market-wide Room Night Demand

Market Segment	Annual Room Night Demand	Percentage of Total
Commercial	54,704	47.4%
Meeting	43,481	37.7
Leisure	17,246	14.9
Total	**115,431**	**100.0%**

The following discussion will be based upon an analysis of the commercial market segment. The same methodology is applied for each market segment to derive an estimate of a hotel's overall occupancy. The chart below sets forth

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the commercial demand accommodated by each hotel. Each hotel's commercial penetration factor is computed by:

1) calculating the hotel's market share % of commercial demand (commercial room nights accommodated by subject hotel divided by total commercial room nights accommodated by all hotels) and

2) dividing the hotel's commercial market share % by the hotel's fair share %.

The following chart sets forth each hotel's fair share, commercial market share, and commercial penetration factor.

Commercial Segment Penetration Factors

Property	Number of Rooms	Fair Share	Commercial Capture	Commercial Market Share	Commercial Penetration
Hotel A	100	23.5%	12,973	30.0%	127.6%
Hotel B	125	29.4	14,054	37.9	129.0
Hotel C	200	47.1	27,677	32.0	68.1
Total/Average	**425**	**100.0%**	**54,704**	**100.0%**	**100.0%**

If a new 100-room hotel enters the market, the fair share of each hotel changes due to the new denominator, which has increased by the 100 rooms that have been added to the market.

Commercial Segment Fair Share

Property	Number of Rooms	Fair Share
Hotel A	100	19.0%
Hotel B	125	23.8
Hotel C	200	38.1
New Hotel	100	19.0
Total	**525**	**100.0%**

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The new hotel's penetration factor is projected for its first year of operation. It is estimated that the hotel will capture (penetrate) only 85% of its fair share as it establishes itself in the market. The new hotel's market share and room night capture can be calculated based upon the hotel's estimated penetration factor. When the market share of the existing hotels and that of the new hotel are added up, they no longer equal 100% because of the new hotel's entry into the market. The market share of each hotel must be adjusted to reflect the change in the denominator that comprises the sum of each hotel's market share.

This adjustment can be mathematically calculated by dividing each hotel's market share percentages by the new denominator of 97.1%. The resulting calculations reflect each hotel's new adjusted market share. The sum of the adjusted market shares equals 100%, indicating that the adjustment has been successfully completed. Once the market shares have been calculated, the penetration factors can be recalculated (adjusted market share divided by fair share) to derive the adjusted penetration factors based upon the new hotel's entry into the market. Note that each existing hotel's penetration factor actually increases because the new hotel is capturing (penetrating) less than its fair share of demand.

Commercial Segment Projections (Year 1)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0%	127.6%	24.3%	25.0%	131.4%	13,687
Hotel B	125	23.8	129.0	30.7	31.6	132.8	17,299
Hotel C	200	38.1	68.1	25.9	26.7	70.1	14,600
New Hotel	100	19.0	85.0	16.2	16.7	87.5	9,117
Total	**525**	**100.0%**		**97.1%**	**100.0%**		**54,704**

In its second year of operation, the new hotel is projected to penetrate above its fair share of demand. A penetration rate of 130% has been chosen, as the new hotel is expected to perform at a level commensurate with Hotel A and Hotel B in this market segment. The same calculations are performed to adjust market share and penetration factors. Note that now the penetration factors of the existing hotels decline below their original penetration rates because of the new hotel's above-market penetration. Also note that after the market share adjustment, the new hotel retains a penetration rate commensurate with Hotel A and Hotel B, though the penetration rates of all three hotels have declined by approximately nine percentage points due to the reapportionment of demand.

Once the market shares of each hotel have been adjusted to reflect the entry of the new hotel into the market, the commercial room nights captured by each hotel may be projected by multiplying the hotel's market share percentage by the total commercial room night demand. This calculation is shown below.

Commercial Segment Projections (Year 2)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0%	131.4%	25.0%	23.1%	121.5%	12,662
Hotel B	125	23.8	132.8	31.6	29.3	122.9	16,004
Hotel C	200	38.1	70.1	26.7	24.7	64.8	13,507
New Hotel	100	19.0	130.0	24.8	22.9	120.3	12,531
Total	**525**	**100.0%**		**97.1%**	**100.0%**		**54,704**

Explanation of the Simultaneous Valuation Formula

The algebraic equation known as the simultaneous valuation formula, which solves for the total property value using a ten-year mortgage and equity technique, was developed by Suzanne R. Mellen, CRE, MAI, and Managing Director of the San Francisco office of HVS. A complete discussion of the technique is presented in her article entitled "Simultaneous Valuation: A New Technique."[7]

The process of solving for the value of the mortgage and equity components begins by deducting the annual debt service from the projected income before debt service, leaving the net income to equity for each year. The net income as of the eleventh year is capitalized into a reversionary value using the terminal capitalization rate. The equity residual, which is the total reversionary value less the mortgage balance at that point in time and less any brokerage and legal costs associated with the sale, is discounted to the date of value at the equity yield rate. The net income to equity for each projection year is also discounted back to the date of value. The sum of these discounted values equals the value of the equity component. Because the equity component comprises a specific percentage of the total value, the value of the mortgage and the total property can be computed easily. This process can be expressed in two algebraic equations that set forth the mathematical relationships between the known and unknown variables using the following symbols.

[7]Suzanne R. Mellen. "Simultaneous Valuation: A New Technique," *Appraisal Journal*, April, 1983.

NI	=	Net income available for debt service
V	=	Value
M	=	Loan-to-value ratio
f	=	Annual debt service constant
n	=	Number of years in the projection period
d_e	=	Annual cash available to equity
d_r	=	Residual equity value
b	=	Brokerage and legal cost percentage
P	=	Fraction of the loan paid off during the projection period
f_p	=	Annual constant required to amortize the entire loan during the projection period
R_r	=	Overall terminal capitalization rate that is applied to net income to calculate the total property reversion (sales price at the end of the projection period)
$1/S^n$	=	Present worth of $1 factor (discount factor) at the equity yield rate

Using these symbols, the following formulas can be used to express some of the components of this mortgage and equity valuation process.

Debt Service – A property's debt service is calculated by first determining the mortgage amount that equals the total value (V) multiplied by the loan-to-value ratio (M). Debt service is derived by multiplying the mortgage amount by the annual debt service constant (f). The following formula represents debt service.

$$f \times M \times V = \text{Debt Service}$$

Net Income to Equity (Equity Dividend) – The net income to equity (d_e) is the property's net income before debt service (NI) less debt service. The following formula represents the net income to equity.

$$NI - (f \times M \times V) = d_e$$

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Reversionary Value – The value of the hotel at the end of the tenth year is calculated by dividing the eleventh-year net income before debt service (NI^{11}) by the terminal capitalization rate (R_r). The following formula represents the property's tenth-year reversionary value.

$$(NI^{11}/R_r) = \text{Reversionary Value}$$

Brokerage and Legal Costs – When a hotel is sold, certain costs are associated with the transaction. Normally, the broker is paid a commission and the attorney collects legal fees. In the case of hotel transactions, brokerage and legal costs typically range from 1% to 4% of the sales price. Because these expenses reduce the proceeds to the seller, they are usually deducted from the reversionary value in the mortgage and equity valuation process. Brokerage and legal costs (b), expressed as a percentage of reversionary value (NI^{11}/R_r), are calculated by application of the following formula.

$$b\ (NI^{11}/R_r) = \text{Brokerage and Legal Costs}$$

Ending Mortgage Balance – The mortgage balance at the end of the tenth year must be deducted from the total reversionary value (debt and equity) in order to determine the equity residual. The formula used to determine the fraction of the loan remaining (expressed as a percentage of the original loan balance) at any point in time (P) takes the annual debt service constant of the loan over the entire amortization period (f) less the mortgage interest rate (i), and divides it by the annual constant required to amortize the entire loan during the ten-year projection period (f_p) less the mortgage interest rate. The following formula represents the fraction of the loan paid off (P).

$$(f - i)/(f_p - i) = P$$

If the fraction of the loan paid off (expressed as a percentage of the initial loan balance) is P, then the remaining loan percentage is expressed as 1 - P. The ending mortgage balance is the fraction of the remaining loan (1 - P) multiplied by the initial loan amount (M x V). The following formula represents the ending mortgage balance.

$$(1 - P) \times M \times V$$

Equity Residual Value – The value of the equity upon the sale at the end of the projection period (d_r) is the reversionary value less the brokerage and

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legal costs and the ending mortgage balance. The following formula represents the equity residual value.

$$(NI^{11}/R_r) - (b\ (NI^{11}/R_r) - ((1 - P) \times M \times V) = d_r$$

Annual Cash Flow to Equity – The annual cash flow to equity consists of the equity dividend for each projection year plus the equity residual at the end of the tenth year. The following formula represents the annual cash flow to equity.

$$NI^1 - (f \times M \times V) = d_e^{\,1}$$

$$NI^2 - (f \times M \times V) = d_e^{\,2}$$

$$NI^{10} - (f \times M \times V) = d_e^{\,10}$$

$$(NI^{11}/R_r) - (b\ (NI^{11}/R_r) - ((1 - P) \times M \times V) = d_r$$

Value of the Equity – If the initial mortgage amount is calculated by multiplying the loan-to-value ratio (M) by the property value (V), then the equity value is one minus the loan-to-value ratio multiplied by the property value. The following formula represents the value of the equity.

$$(1 - M)\ V$$

Discounting the Cash Flow to Equity to the Present Value – The cash flow to equity in each projection year is discounted to the present value at the equity yield rate ($1/S^n$). The sum of these cash flows is the value of the equity (1 - M) V. The following formula represents the calculation of equity as the sum of the discounted cash flows.

$$(d_e^{\,1} \times 1/S^1) + (d_e^{\,2} \times 1/S^2) + \ldots + (d_e^{\,10} \times 1/S^{10}) + (d_r \times 1/S^{10}) = (1 - M)\ V$$

Combining the Equations: Annual Cash Flow to Equity and Discounting the Cash Flow to Equity to the Present Value – The last step is to arrive at one overall equation that shows that the annual cash flow to equity plus the yearly discounting to the present value equals the value of the equity.

$$((NI^1 - (f \times M \times V))\ 1/S^1) + ((NI^2 - (f \times M \times V))\ 1/S^2) + \ldots$$

$$((NI^{10} - (f \times M \times V))\ 1/S^{10}) +$$

$$(((NI^{11}/R_r) - (b\ (NI^{11}/R_r)) - ((1 - P) \times M \times V))\ 1/S^{10}) = (1 - M)\ V$$

Because the only unknown in this equation is the property's value (V), it can be solved readily.

Ten-Year Projection of Income and Expense – Because the fixed and variable forecast of income and expense is carried out only to the stabilized year, it is necessary to continue the projection to the eleventh year. In most cases, net income before debt service beyond the stabilized year is projected at an assumed inflation rate. By increasing a property's revenue and expenses at the same rate of inflation, net income remains constant as a percentage of total revenue, and the dollar amount escalates at the annual inflation rate. The ten-year forecast of income and expense illustrates the subject property's net income, which is assumed to increase by 3.0% annually subsequent to the hotel's stabilized year of operation.

The following values are assigned to the variable components for the purposes of this valuation. We note that these values represent our findings for the first scenario. This section is for informational purposes only; therefore, we have not included an additional aanlaysis for the second scenario in this section.

Summary of Known Variables

Annual Net Income	NI	See Ten-Year Forecast
Loan-To-Value Ratio	M	60 %
Interest Rate	*i*	7.50 %
Debt Service Constant	f	0.088679
Equity Yield	Ye	17.0 %
Transaction Costs	b	3.0 %
Annual Constant Required to Amortize the Loan in Ten Years	fp	0.142442
Terminal Capitalization Rate	Rr	10.5 %

The following table illustrates the present worth of a $1 factor at the 17.0% equity yield rate.

Present Worth of $1 Factor at the Equity Yield Rate

Year Ending	Present Worth of $1 Factor at 17.0%
2011/12	0.854731
2012/13	0.730566
2013/14	0.624438
2014/15	0.533726
2015/16	0.456193
2016/17	0.389922
2017/18	0.333279
2018/19	0.284864
2019/20	0.243482
2020/21	0.208112

Using these known variables, the following intermediary calculations must be made before applying the simultaneous valuation formula. The fraction of the loan paid off during the projection period is calculated as follows.

$$P = (0.088679 - 0.0750) / (0.142442 - 0.0750) = 0.202825$$

The annual debt service is calculated as f x M x V.

$$(f \times M \times V) = 0.088679 \times 0.60 \times V = (0.053207)V$$

Inserting the known variables into the hotel valuation formula produces the following.

(857,000 -	0.05321 V)	x	0.854701 +
(1,124,000 -	0.05321 V)	x	0.730514 +
(1,344,000 -	0.05321 V)	x	0.624371 +
(1,384,000 -	0.05321 V)	x	0.53365 +
(1,426,000 -	0.05321 V)	x	0.456111 +
(1,468,000 -	0.05321 V)	x	0.389839 +
(1,512,000 -	0.05321 V)	x	0.333195 +
(1,558,000 -	0.05321 V)	x	0.284782 +
(1,604,000 -	0.05321 V)	x	0.243404 +
(1,653,000 -	0.05321 V)	x	0.208037 +

$$(((\ 1{,}703{,}000\ /\ 0.105\ ) - (\ 0.030 \times (\ 1{,}703{,}000\ /\ 0.105\ )) -$$

$$((\ 1 - 0.202825\ ) \times 0.6 \times V)) \times 0.2080374\ ) = (\ 1 - 0.6\ )V$$

Like terms are combined as follows.

\$9,308,730 -	0.347377V	=	(1 - 0.60)V
	\$9,308,730	=	0.74738V
V		=	\$9,308,730 / 0.74738
V		=	\$12,455,194

Total Property Value as Indicated by the Income Capitalization Approach (Say)	=	\$12,500,000

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Snellville, GA, 30078
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Mike Brophy

Employment

2004 – Present	HVS CONSULTING AND VALUATION SERVICES Atlanta, Georgia
2001 – 2003	TWO RIVERS CONVENTION CENTER/AVALON THEATRE Grand Junction, Colorado
1998 – 2001	SOUTHFORK RANCH EVENT AND CONFERENCE CENTER Dallas, Texas
1995 – 1998	WYNDHAM INTERNATIONAL San Rafael, California; Commerce, California; Dallas, Texas

Education and Other Training

EAST STROUDSBURG STATE UNIVERSITY
Bachelor of Science

Certified General Appraiser Classes Completed:
Real Estate Appraisal – 60 hours
Uniform Residential Appraisal Report – 15 hours
Uniform Standards of Professional Appraisal Practice – 15 hours
Basic Income Capitalization – 39 hours
Apartment Appraisal – 15 hours
Residential Report Writing and Case Studies – 15 hours
General Appraiser Market Analysis and HBU – 30 hours
USPAP Update – 7 hours

Memberships & Affiliations

American Hotel & Lodging Association
Flower Mound Chamber of Commerce

Examples of Corporate and Institutional Clients Served

American Hotel Development Partners
American Property Management
Archon Hospitality
Ardmore Tourism Authority
Ascent Hospitality LLC
Assent Capital LLC
Avista
Aztec Group, Inc.
Baha Mar Development Company
Bankers Bank
Bank MidWest
Bank of America
Bank of Hampton Roads
Barclays
Bear Stearns
Behringer Harvard
Benchmark Development
Berkshire Hotels Group
Branch Banking & Trust Co.
Brotherhood Bank & Trust
Buena Vista Hospitality Group
Cabi Developers
Camden National Bank
Cava Construction
CB Richard Ellis
Cheeca Holdings, LLC
CIBC World Markets
CIT
Citigroup
City of Chattanooga
Columbus Bank & Trust
Column Financial
Commerce National Bank
Countrywide
Credit Suisse
CS First Boston
CU Business Capital
CWCapital
Delco Development
Dillon Read
Dimension Development
Eastdil Secured
Elm Street Center, LLC
Falor Companies
First Hartford Realty
Galleria Ventures
Ganesh Ventures LLC
GE Capital
Gencom
Goldman Sachs
Guy Mitchell
Hall Financial
Harrell Hospitality
Holloway Lodging REIT
HomePlace Developers
Impact Properties
ING Clarion Partners
Investcorp
Jackson State Bank & Trust
Jones Lang LaSalle
JP Morgan Chase
Kent State University
KMW Real Estate
Lake Real Estate
Latitude Hospitality, Inc.
Laureate Capital
Lehman Brothers
Lennar
LRP
MainSource Bank
Mellon Bank
Merrill Lynch
MetroFund Group
MMA Realty, Inc.
Mockingbird Properties
Moody National Companies
Morgan Stanley
Mutual Bank
Natixis Real Estate Capital
Neptune Hospitality
Nock Investments, Inc.
Nomura
North Ocean Management Group
Northview Hotel Group
NRF Capital
O'Connor Capital
Paragon Hotel Company
Park National Bank
Peoples Bank Biloxi
Principal Real Estate Investors
ProHomes, LLC
Quarterage Hotel
Quincy Investments
Ranger Properties
Remington
Rilea Group
River Hall Partnership
Rolarco
Sabra Enterprises
Silverton Bank
Site Realty
Somerock University Mall Holdings, LLC
Specialty Finance Group
State Bank of Texas
Steiner
Textron Financial
The Blackstone Group
TIB Bank
TJ, LLC
Torgerson Properties
Tramz Hotels
TransInns
TriState Bank
TVO North America
UBS Investment Bank
Upscale Companies
Vintage Companies
WG Yates and Sons Construction
Windmill Development
Winslow Homes, LLC
WPM Construction LLC

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Examples of Properties Appraised or Evaluated

ALABAMA

Hampton Inn, Bessemer
Proposed aloft, Birmingham
Residence Inn, Birmingham
Proposed Fairfield Inn by Marriott, Greenville
Baymont Inn & Suites, Oxford

ARIZONA

Phoenix Highland Hotel, Phoenix
Phoenix Inn, Phoenix
Phoenix Place Hotel and Suites (DoubleTree Conversion), Phoenix
Radisson, Phoenix
DoubleTree, Tuscon

ARKANSAS

Radisson, Fayetteville
Embassy Suites, Little Rock
La Quinta, Little Rock
Proposed Sheraton, Rogers
Hampton Inn & Suites, Springdale
Holiday Inn, Springdale

CALIFORNIA

Ventana Inn & Spa, Big Sur
DoubleTree, Commerce
Sheraton Four Points, Los Angeles
Westin Century Plaza, Los Angeles
Embassy Suites, Monterey Bay
Best Western, Poway
La Quinta, San Diego
Casa Madrona, Sausalito
Embassy Suites Monterey Bay, Seaside
Fairmont Mission Inn, Sonoma

COLORADO

Homewood Suites, Boulder
Sheraton, Colorado Springs

CONNECTICUT

Mayflower Inn & Spa, Washington
Courtyard by Marriott, Waterbury

DELAWARE

Courtyard by Marriott, Wilmington
McIntosh Hotel, Wilmington

FLORIDA

South Seas Resort, Captiva Island
Hilton, Clearwater Beach
Hilton, Cocoa Beach
Omni, Coral Gables
Hawk's Cay, Duck Key
Ramada Inn, Hialeah
Cheeca Lodge & Spa, Islamorada
Sheraton, Key Largo
Crowne Plaza, Key West
Inn at Key West, Key West
Proposed Hotel, Key West
Hilton, Melbourne
Quality Suites, Melbourne
Mayfair, Miami
Best Western, Ocala
Hilton Garden Inn, Orange Park
DoubleTree, Orlando
Proposed Condo Hotel, Orlando
Hilton, Palm Beach
Ocean Club Beach Resort, Palm Beach
Days Inn, Port Charlotte
Hampton Inn, Port Charlotte
Sanibel Inn, Sanibel Island
Sundial Beach Resort, Sanibel Island
Tradewinds Resort, St. Petersburg
Holiday Inn, Tallahassee
Proposed Element, Tampa

GEORGIA

The Glenn Hotel, Atlanta
Homewood Suites, Atlanta
Residence Inn, Atlanta
Proposed Candlewood Suites, Athens
Proposed Courtyard by Marriott, Buford
Residence Inn, Hapeville
Proposed Hotel, Lake Oconee
Proposed Hotel, Macon
Proposed Cambria Suites, Savannah
Proposed Extended-Stay, Savannah
Proposed Indigo Hotel, Savannah
Residence Inn, Torrence

ILLINOIS

Lenox Suites, Chicago
Proposed Renaissance, Chicago
Radisson, Chicago
Wyndham Downtown, Chicago
Residence Inn, Deerfield
Wyndham Northwest, Itasca
Crowne Plaza Chicago O'Hare, Rosemont

IOWA

Marriott (Collins Plaza), Cedar Rapids
Proposed Sheraton, Davenport

Radisson, Davenport

LOUISIANA

Proposed Candlewood Suites, Baton Rouge
Holiday Inn Westbank, Gretna
Proposed Candlewood Suites, Lafayette
Proposed Homewood Suites, Lafayette
Proposed Holiday Inn, New Orleans

MICHIGAN

Residence Inn, Kalamazoo

MINNESOTA

DoubleTree Park Place, Minneapolis
Proposed Homewood Suites, New Brighton
Proposed Homewood Suites, St. Louis Park

MISSOURI

Hotel President, Kansas City
Proposed Full-Service Hotel, Kansas City
Quarterage Hotel, Kansas City
Courtyard by Marriott, Springfield
Holiday Inn Airport West, St. Louis
Holiday Inn Riverport, St. Louis

MASSACHUSETS

Nine Zero, Boston
Proposed Courtyard, Pittsfield
Sierra Suites, Waltham
DoubleTree, Westborough
Sierra Suites, Westborough
Sierra Suites, Woburn

MAINE

Econo Lodge Inn & Suites, Augusta
Hilton Garden Inn, Portland

NEBRASKA

Country Inn & Suites, Omaha

NEW JERSEY

Fairfield Inn, East Rutherford
DoubleTree Newark Airport, Elizabeth
Four Points Newark Airport, Elizabeth
Proposed Hotel, Mt. Laurel
Courtyard by Marriott, Lyndhurst
Proposed Hotel, Millville
Proposed TownePlace Suites, Millville
Hilton, Newark
Renaissance, Rutherford
Hampton Inn, Woodbridge

NEW MEXICO

SpringHill Suites, Las Cruces
Hilton, Santa Fe

NEW YORK

DoubleTree, East Syracuse
Holiday Inn, Jamaica
Barton Hill, Lewiston
Proposed Hotel, New York City
Proposed Homewood Suites, Ronkonkoma
Staten Island Hotel, Staten Island

NORTH CAROLINA

Sheraton, Atlantic Beach
Proposed Tweetsie Railroad Hotel, Blowing Rock
Hampton Inn, Boone
Proposed SpringHill Suites, Charlotte
Proposed Hyatt Place, Concord

NORTH DAKOTA

Hilton Garden Inn, Grand Forks

OHIO

Residence Inn, Akron
Proposed Conference Center Hotel, Canton
Residence Inn, Cincinnati
Proposed Cambria Suites, Columbus
Proposed Hotel Developments, Rockside

OKLAHOMA

Proposed Lake Murray Resort, Ardmore
Holiday Inn Express, Jenks
Courtyard by Marriott, Oklahoma City
Four Points, Oklahoma City
Sheraton, Oklahoma City
Staybridge Suites, Tulsa

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OREGON

Embassy Suites, Portland

PENNSYLVANIA

Marriott Pittsburgh Airport, Caraopolis
Proposed Embassy Suites, Erie
Comfort Inn, Langhorne
Crowne Plaza Airport, Pittsburgh
Residence Inn by Marriott, Pittsburgh
SpringHill Suites, Pittsburgh
Proposed Staybridge Suites, Royersford
Shawnee Resort, Shawnee on the Delaware

SOUTH CAROLINA

Hilton Garden Inn, Columbia
Holiday Inn Express, Fort Mill
Quality Inn, Greenville
Wild Dunes, Isle of Palms
Holiday Inn Express, Murrells Inlet
Springmaid Beach Resort, Myrtle Beach

TENNESSEE

Embassy Suites, Franklin
Hilton Hotel, Knoxville

TEXAS

Crowne Plaza, Addison
Residence Inn, Addison
Summerfield Suites, Addison
Residence Inn, Arlington
Bradford Suites, Austin
DoubleTree Club, Austin
Holiday Inn Express, Austin
Park Plaza (old Hilton), Austin
Holiday Inn Express, Austin
Proposed Galleria Hotel, Dallas
Radisson Love Field, Dallas
Radisson, Dallas
The Stoneleigh, Dallas
Wyndham Market Center, Dallas
Proposed Hotel, Edinburg
Proposed Hilton Garden Inn, El Paso
Residence Inn, Fort Worth
Proposed Hilton Garden Inn, Frisco
Proposed Sheraton, Frisco
Westin Stonebriar, Frisco
Proposed Hotel, Georgetown
Hyatt Place, Grand Prairie
AmeriSuites, Grapevine
Embassy Suites, Grapevine
Courtyard by Marriott, Irving
Proposed Element, Irving
SpringHill Suites Las Colinas, Irving
Summerfield Suites Las Colinas, Irving
Holiday Inn Express, Plainview
Hawthorn Suites, San Antonio
Homewood Suites, San Antonio
Proposed Element, San Antonio
Proposed Embassy Suites, San Antonio
Proposed Four Points, San Antonio
Proposed Hilton Garden Inn, San Antonio
Proposed Omni, San Antonio
Proposed Starwood Luxury Collection, San Antonio
Sheraton Gunter, San Antonio
Wyndham St. Anthony, San Antonio
Proposed Hotel, Waco
Holiday Inn Express, Weatherford

UTAH

Homewood Suites, Midvale
Best Western Capitol Reef, Torrey

VIRGINIA

Proposed Beacon Hotel, Charlottesville
Best Western, Exmore
Homewood Suites, Glen Allen
Proposed Courtyard by Marriott, Newport News
Residence Inn by Marriott, Tysons Corner
Proposed Hotel, Virginia Beach
Lexington George Washington Inn, Williamsburg

WASHINGTON

Hilton Garden Inn, Seattle

DISTRICT OF COLUMBIA

Courtyard by Marriott Navy Yard
DoubleTree

INTERNATIONAL

MEXICO

Park Royal, Acapulco
Hyatt Cancun Caribe, Cancun
Park Royal Piramides, Cancun
Park Royal, Cozumel
Radisson Resort, Ixtapa
Park Royal, Los Cabos
Proposed Hotel, Playa del Carmen

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2601 Sagebrush Drive, Suite 101
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Fax (972) 899-1057

Rod Clough, MAI

Employment

2001 – Present	HVS INTERNATIONAL Dallas/Fort Worth, Texas Managing Director
2003 – Present	US HOTEL APPRAISALS Dallas/Fort Worth, Texas Managing Director
1995 – 2001	HVS INTERNATIONAL Mineola, New York; Boulder, Colorado
1994 – 1995	THE MIRAGE Las Vegas, Nevada (Rooms Division Management)
1993	HYATT REGENCY DENVER DOWNTOWN Denver, Colorado (Rooms Division Management)
1991 – 1994	THE STATLER HOTEL AND JW MARRIOTT EXECUTIVE EDUCATION CENTER Cornell University, Ithaca, New York (Rooms Division Management)
1988 – 1990	UNIVERSITY OF COLORADO CATERING Boulder, Colorado (Food and Beverage Management)

HVS

Professional Affiliations	Appraisal Institute – Designated Member (MAI) Cornell Hotel Society American Hotel and Motel Association
Education and Other Training	CORNELL UNIVERSITY Bachelor of Science - Hotel Administration *With Honors* *Appraisal Institute Classes Completed:* 410 – Standards of Professional Practice Part A 420 – Standards of Professional Practice Part B 510 – Advanced Income Capitalization 520 – Highest and Best Use and Market Analysis 530 – Adv. Sales Comparison and Cost Approach 540 – Report Writing and Valuation Analysis 550 – Advanced Applications *Other Specialized Training Classes Completed:* TALCB-ACE - Income Property Analysis - 2003 24-Hour Comprehensive Appraisal Workshop - 2002 Mandatory 8-Hour Broker Standards - 2001 Update Anatomy of a Mortgage, URAR – 2005 USPAP – 2001, 2003, 2004, 2005, 2006 Update Solutions Approach – Appraisal Institute, 2006 *Certified General Appraiser Classes Completed, through the University of Colorado Continuing Education Department:* NCRE-200 Registered Appraiser NCRE-201 Basic Appraisal Applications NCRE-203 Small Residential Income Properties NCRE-208 Standards and Ethics NCRE-211 Certified Residential NCRE-215 Appraisal Principles and Advanced Applications NCRE-216 Income Capitalization NCRE-219 Commercial Case Studies
State Certifications (Sample)	Alabama, Arkansas, Arizona, California, Colorado, Georgia, Kansas, Kentucky, Louisiana, Michigan, Missouri, Nebraska, New Mexico, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, Washington

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Speaking Engagements

University of Colorado – Resort Tourism, October 2000

Urban Land Institute Conference
"Developing Resorts in Mexico", Cancun, Mexico, April 2000

Default Loan Conference, Dallas/Fort Worth, Texas
"Hotel Trends Overview," Frisco, Texas, May 2002
"Appraisals and Valuations," Grapevine, Texas, March 2004

Pennsylvania State University – Hotel Management, October 2002

AAHOA National Convention and Tradeshow
"Hotel Investment Trends Overview," Grapevine, Texas, April 2004

FIABI World Conference
"Worldwide Trends in the Hotel Industry," Houston, Texas, May 2004

Published Articles

Mortgage Banking, "Have Hotels Reached Their Peak?" July 1997

Colorado Business Journal, "Tracking Denver's Hotel Projects," October 1998

HVS International Journal, "The Survival of the Full-Service Hotel," June 1999

Boulder County Business Report, "An Emerging Market," August 2000

HVS International Journal, "Evaluating an Emerging Hotel Market," September 2000

Colorado Real Estate Journal, "What Denver Submarkets Still Have Upside Hotel Potential?" September 2000

HVS International Journal, "Central America Insight: Hotel Branding." December 2000

Colorado Real Estate Journal, "Appraisal Hot Topics." January 2001

Published Articles (Continued)

HVS International Journal, "The Texas Hotel Industry: Stabilization on the Horizon." February 2002

Hotel News Resource & HVS International Lodging Report, "What does the bankruptcy of Enron mean for the downtown Houston hotel industry?" February 2002

Real Estate Finance Journal, "Apartment or hotel? Today's budget, extended-stay hotels blur the line between property types." Spring 2002

HVS International Journal, "The Upside: Potential Returns Can Be Big When Buying Hotels In The Down Cycle." June 2002

HVS International Global Hospitality Report, "U.S. Lodging Industry Update." March 2003

HVS International Global Hospitality Report, "Texas Convention Centers Overview." October 2003

HVS International Global Hospitality Report, "Houston's Hotels Get Ready For Superbowl Sunday." January 2004

HVS International Global Hospitality Report, "Lower Cost Hotels Hold RevPAR in 2003." February 2004

HVS International Global Hospitality Report, "U.S. Hotels Improve RevPAR in 2003." February 2004

HVS International Global Hospitality Report, "Transactions Activity Gains Momentum in 2004." June 2004

HVS Major and Mid-Market Transactions Reports, Annual Publications, 2004 - 2007

HVS Library (www.hvs.com), "HVS Market Intelligence Report: Dallas." August 25, 2007

Mentions

Real Estate Forum, "Las Vegas Update" September 2000
Business Travel Executive, "Home Style" September 2000

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Examples of Corporate and Institutional Clients Served

3D/International
Aereal Bank
AEW Capital Management
Amstar Group, Ltd.
Argones Properties
Aries Capital
Arlington Hospitality
Ashford Financial Corporation
Baltimore Development Corp.
Banc One
Bank of America
Bay County Planning Authority
Bear Stearns
Broadway Bank
CapEx Corporation
Capital Center Incorporated
Capital Company of America
Capitol Hotel Group
CapStar Hotels
CB Richard Ellis
CDC Mortgage Capital, Inc.
Chase Manhattan Bank
CIBC Commercial Mortgage
CIGNA Investment Management
Citicorp Real Estate, Inc.
Citizens Financial Services, FSB
City of Dallas, TX
City of Fort Worth, TX
City of Huntsville, AL
CNL Hospitality Corporation
Commercial Capital Initiatives, Inc.
Credit Lyonnais
Credit Suisse First Boston
CRIIMI Mae Services, Inc.
Crow Holdings
DAIWA Securities
Depfa Bank
Deutsche Bank Securities
Dresner Bank
Fairmont Hotel Management Co.
Faison, Inc.
FelCor Lodging Trust, Inc.
Finova Capital Corporation
First Financial Bancorp
First Midwest Bank
First Mortgage Corporation
First Source Bank
First Union Bank
Firstar Bank
FirsTier Bank
Fremont Investment and Loan
Frost National Bank
Gatehouse Capital
GE Capital
Gencom
GMAC
Golf Lodging, LLC
Griffin Group
Hamilton Properties Corp.
HEI Hotels
Heller Financial
Hodges Ward Elliott
Hospitality Properties Trust
Horizon Bank
Hyatt Corporation
IFGP Corporation (Insignia)
ITLA Funding Corporation
Jackson Creek Development Co.
Jefferson Banking Company
JER Partners
JP Morgan
Kimberly Clark
Landmark Organization
Leddy Ventures
Lehman Brothers, Inc.
Lennar Partners
Lincoln National Life
Magnolia Hotels
Marathon Bank
Marshall Investments
Mercantile National Bank
Mercury Capital
Merrill Lynch
Midland Loan
Miller & Schroeder
National Republic Bank of Chicago
Neptune Hospitality Advisors
Nomura
Norwest Financial
OCWEN Financial Group
Orix Capital Markets
Paine Webber
Pia Investments, Inc.
Peabody Hotels
PNC Bank
Premier Commercial Bank
President Casinos
President Development Group
Presidio Hotel Group
Prime Hospitality
Pullman Bank and Trust
Quorum Hotels and Resorts
Ryan Companies
Sage Hospitality Resources
Samantha Investments
Shaner Hotel Group
Signature Hospitality Resources
Simon DeBartolo Group
Simpson, Thacher, & Bartlett
Starwood Lodging Corporation
Stearns Bank
Stevens Holtze Corporation
Stonebridge Companies
Sumitomo Bank Ltd.
Temecula Bank
Terrabrook
The Blackstone Group
UBS Warburg
UBS Paine Webber
Unity Bank
US Bancorp Piper Jaffray
Washington Mutual
Waxahachie 37, LLC
Waypoint Bank
Weglarz Group
Wells Fargo Bank
Western Security Bank
White Lodging Services Corp.
Windmill Inns
Winegardner & Hammons, Inc.
Woodbine Development Corp.
WR Henderson Construction

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PARTIAL LIST OF HOTELS AND MOTELS APPRAISED OR EVALUATED BY RODNEY G. CLOUGH, MAI

PORTFOLIO ANALYSIS

Various Portfolios of Lodgian-Owned Hotels, Various Locations
Annual Portfolio of AEW-owned Hotels, Various Locations
Portfolio of 9 Boykin Hotels, Various Locations
Portfolio of 5 Blackacre Hotels, Various Locations
Portfolio of 36 Sunburst Hotels, Various Locations
Portfolio of 6 Innkeepers Hotels, Various Locations
Portfolio of 8 FelCor Hotels, Various Locations
Portfolio of 10 GF Management-Owned Hotels, Various Locations
Portfolio of 96 Hilton Hotels, Various Locations

ALABAMA

Holiday Inn Redmont, Birmingham
The Tutweiler, Birmingham
Proposed Marriott Hotel, Birmingham
Holiday Inn, Birmingham
Proposed Hotel, Huntsville
Adam's Mark, Mobile
Ramada, Montgomery
Residence Inn by Marriott, Montgomery

ALASKA

Hampton Inn, Searcy

ARIZONA

EconoLodge, Flagstaff
Holiday Inn, Flagstaff
Sleep Inn, Mesa
Proposed Residence Inn by Marriott, Mesa
Hampton Inn, Phoenix
Proposed Kierland Hotel, Phoenix
Holiday Inn Express, Sahuarita
Hyatt Regency, Scottsdale
Proposed Hilton Garden Inn, Scottsdale
MainStay Suites, Tempe
Proposed Suite Hotel, Tucson
Super 8, Tucson

ARKANSAS

Days Inn, Little Rock
Hilton, Little Rock
Hampton, Searcy
Holiday Inn, Springdale
Hampton Inn & Suites, Springdale

CALIFORNIA

Proposed Sheraton Resort, Aliso Viejo
Sheraton, Anaheim
Marriott's Laguna Cliffs Resort, Dana Point
Proposed AmeriHost, Fresno
Hilton Garden Inn, Calabasas
Chase Suites, Fullerton
Comfort Inn, Hanford
Chateau Marmont, Los Angeles
Le Parc Suites, Los Angeles
Super 8, Los Angeles
Hyatt Regency, Monterey
Hyatt Rickey's, Palo Alto
Proposed AmeriHost, Palmdale
Westin Mission Hills, Rancho Mirage
Hilton Garden Inn, Rancho Mirage
Best Western, Santa Barbara
Shutters on the Beach, Santa Monica
Comfort Suites, Stevenson Ranch

COLORADO

Fairfield Inn, Aurora
Proposed Fairfield Suites by Marriott, Aurora
Econo Lodge/Quality Inn, Boulder
Proposed Embassy Suites, Boulder
Sandy Point Inn, Boulder
Comfort Inn, Brighton
Hampton Inn, Colorado Springs
Holiday Inn, Colorado Springs
Embassy Suites, Colorado Springs
Comfort Inn, Colorado Springs
Eight Proposed TownePlace Suites, Denver Area
Adam's Mark, Denver
Best Western Landmark Hotel, Denver
Brown Palace, Denver
Comfort Inn Downtown, Denver
Courtyard by Marriott Downtown, Denver
DoubleTree Stapleton, Denver
Embassy Suites East, Denver
Embassy Suites Southeast, Denver
Executive Tower Inn, Denver
Fairfield Inn by Marriott Central, Denver
Glenarm Place, Denver
Hampton Inn DIA, Denver
Holiday Inn Downtown, Denver
Holtze Executive Place, Denver
Hotel Teatro, Denver
Hyatt Regency Denver Tech Center, Denver
Hyatt Regency Downtown, Denver
Proposed Marriott Convention Center Hotel, Denver
Westin Tabor Center, Denver
Comfort Suites, Dillon
Proposed Windmill Inn, Douglas County
Proposed Stonegate Hotel, Douglas County

Embassy Suites South, Englewood
Hampton Inn, Englewood
Proposed Conference Center Hotel, Fort Collins
Proposed Hampton Inn & Suites, Glendale
Proposed Courtyard and Residence Inn by Marriott, Golden
Proposed Hampton Inn, Golden
Proposed Homewood Suites, Golden
Comfort Suites, Littleton
Fairfield Inn by Marriott, Littleton
Proposed Marriott Hotel, Littleton
Proposed SpringHill Suites by Marriott, Littleton
Proposed Courtyard and Residence Inn by Marriott, Longmont
Hampton Inn, Loveland
Proposed Inn at Palmer Divide Resort & Conference Center, Palmer
Hampton Inn, Pueblo
Proposed Hotel, Thornton
Proposed Hotel, Trinidad
Comfort Suites I-25 North, Westminster
Proposed Fairfield Inn by Marriott I-25 North, Westminster

CONNECTICUT

Village Motel, Clinton
Comfort Inn, Cromwell
Radisson, Cromwell
Holiday Inn, East Hartford
Holiday Inn Express, East Windsor
Proposed Hilton Garden Inn, Fairfield
Residence Inn by Marriott, Meriden
Best Western, Mystic
Heritage Inn, Southbury
Westport Inn, Westport

DELAWARE

Proposed Courtyard by Marriott, Newark
Courtyard by Marriott, Wilmington
McIntosh Hotel, Wilmington
Wyndham, Wilmington

DISTRICT OF COLUMBIA

Best Western New Hampshire
DoubleTree
Embassy Row Hilton
Latham Hotel
Park Hyatt
Proposed Convention Hotel

FLORIDA

Ritz-Carlton, Amelia Island
Comfort Inn, Bradenton
Fairfield Inn by Marriott, Brandon
Courtyard by Marriott, Brandon
Howard Johnsons, Deerfield Beach
Marriott, Ft. Lauderdale
Grenelefe Gold and Tennis Resort, Haines City
Fairfield Inn (Proposed), Jacksonville
Holiday Inn Sunspree, Jacksonville Beach
Marriott, Jacksonville
Hyatt Regency, Key West
Ramada, Kissimmee
Econo Lodge, Kissimmee
Holiday Inn Select, Kissimmee
Ritz-Carlton, Manalapan
Summerfield Suites, Miami
Best Western, Miami Beach
Holiday Inn Express, Orlando
Peabody, Orlando
Residence Inn International Drive, Orlando
Residence Inn Seaworld, Orlando
Casa Monica Hotel, St. Augustine
Proposed Golf Lodge, Sarasota
DoubleTree, Tallahassee
Floridan Hotel, Tampa
Hilton Garden Inn North, Tampa
Hyatt Regency Downtown, Tampa
Hyatt Regency Westshore, Tampa
Sheraton (Proposed), Tampa
Marriott, West Palm Beach
Residence Inn, West Palm Beach

GEORGIA

Clubhouse Inn, Atlanta
Crowne Plaza Ravinia, Atlanta
Days Inn Merchandise Mart, Atlanta
Marriott Century City, Atlanta
Hyatt Regency, Atlanta
Wyndham Garden Midtown, Atlanta
Hampton Inn, Austell
Fairfield Inn, Augusta
Holiday Inn, Augusta
Sheraton, Augusta
Residence Inn by Marriott, Hapeville
Hyatt Regency, Savannah
Westin, Savannah

HAWAII

Kahala Resort, Honolulu
Kona Beach Hotel, Kailua-Kona
Embassy Suites, Maui
Marriott, Waikiki Beach

IDAHO

Red Lion Parkcenter Suites, Boise
Proposed Hotel, Sun Valley

ILLINOIS

Proposed Hilton Garden Inn, Aurora
Courtyard by Marriott, Bedford Park

HVS

Fairfield Inn by Marriott, Bedford Park
Hampton Inn, Bedford Park
Proposed Holiday Inn Express, Bedford Park
Sleep Inn, Bedford Park
Proposed Hotel, Carbondale
Carlton Inn, Chicago
Days Inn, Chicago
Hotel 71, Chicago
Hyatt at University Village, Chicago
Hyatt Regency O'Hare, Chicago
The Fairmont, Chicago
Hyatt Regency, Deerfield
Holiday Inn, Hillside
Hyatt Regency, Oak Brook
Proposed Residence Inn by Marriott, Schaumburg
Proposed SpringHill Suites by Marriott, Schaumburg
Crowne Plaza, Springfield
Holiday Inn Express, Springfield

INDIANA

Courtyard, Bloomington
Proposed Residence Inn by Marriott, Carmel
Proposed SpringHill Suites by Marriott, Carmel
Staybridge Suites, Fishers
Courtyard by Marriott, Goshen
American Inn, Hammond
AmeriSuites North, Indianapolis
Days Inn, Indianapolis
Proposed Hilton Hotel, Indianapolis
Radisson North, Indianapolis
Proposed Hilton Garden Inn, Indianapolis
New England Suites, Indianapolis
Fairfield Inn by Marriott, Indianapolis
Residence Inn by Marriott, Indianapolis
Super 8, Indianapolis
Courtyard by Marriott, Mishawaka
Proposed SpringHill Suites by Marriott, Mishawaka
Fairfield Inn, Noblesville
Super 8, Markle
Fairfield Inn, Princeton
Hampton Inn, Terre Haute

IOWA

Collins Plaza Marriott, Cedar Rapids
Embassy Suites, Des Moines
Ramada West, Des Moines
Savery, Des Moines

KANSAS

Proposed Lake Clinton Resort & Conference Center, Lawrence
Clubhouse Inn, Overland Park
Holtze Inn, Overland Park
Red Carpet Inn, Topeka
Broadview Hotel, Wichita
Clubhouse Inn, Wichita

KENTUCKY

Holiday Inn, Bowling Green
Clarion Hotel, Covington
Super 8, Florence
Hyatt Regency, Louisville
Proposed Residence Inn by Marriott, Louisville
Proposed SpringHill Suites by Marriott, Louisville

LOUISIANA

Holiday Inn, Alexandria
Best Western, Baton Rouge
Courtyard by Marriott, Lafayette
Best Western, Lake Charles
Quality Inn and Suites, Metairie
Best Western, New Orleans
Hyatt Regency, New Orleans
Le Meridien, New Orleans
Proposed Convention Headquarters Hotel, New Orleans
Best Western, Shreveport
Clarion, Shreveport
Holiday Inn, Shreveport
Proposed Convention Hotel, Shreveport

MAINE

TownePlace Suites, Scarborough

MARYLAND

Holiday Inn, Aberdeen
Convention Center Hotel (Proposed), Baltimore
Hyatt Regency, Baltimore
Paramount Hotel, Baltimore
Radisson, Baltimore
Proposed Broadway Hotel, Baltimore
Proposed Campus Hotel, Fairfax
Hilton, Gaithersburg
Residence Inn, Greenbelt
Comfort Inn, Frederick
Hilton Garden Inn, Linthicum
Holiday Inn, Linthicum
Woodfin Suites, Rockville

MASSACHUSETTS

Ramada Inn, Bedford
Wyndham, Billerica
Copley Plaza Hotel, Boston
Residence Inn by Marriott, Boston
Residence Inn, Dedham
Hampton Inn, Lawrence
Hampton Inn, Worcester

MICHIGAN

Grand Traverse Resort, Acme Township

Residence Inn, Ann Arbor
Proposed Conference Center, Bay City
Holiday Inn, Bay City
Courtyard by Marriott, Benton Harbor
Sleep Inn, Charlevoix
New England Suites, Grand Rapids
Courtyard by Marriott, Flint
Harley Hotel, Lansing
Drury Inn, Troy

MINNESOTA

Days Inn, Austin
Holiday Inn, Austin
Proposed Sheraton, Columbia Heights
Proposed Sheraton, Duluth
Staybridge Suites, Eagan
Hawthorn Suites, Edina
Super 8, Fairmont
Holiday Inn, Fairmont
Hyatt Regency, Minneapolis
Proposed Sheraton, Minneapolis
Best Western, Rochester
Colonial Inn, Rochester
Days Inn Downtown, Rochester
Days Inn South, Rochester
Econo Lodge, Rochester
Econo Lodge South, Rochester
Super 8, Rochester
Travelodge, Rochester
Comfort Inn, Wilmar
Days Inn, Wilmar
Holiday Inn, Wilmar

MISSISSIPPI

Broadwater Beach Hotel, Biloxi
Crystal Inn, Gulfport
Proposed Conference Center, Jackson
Proposed Hotel, Meridien
Ramada, Natchez
Annabelle Inn, Vicksburg
Proposed Staybridge Suites, Vicksburg

MISSOURI

Clayton Athletic Club, Clayton
MainStay Suites, Kansas City
Proposed Hotel President, Kansas City
Mayfair, St. Louis
St. Louis Athletic Club, St. Louis

NEBRASKA

Days Inn, Norfolk
Clubhouse Inn, Omaha
Country Inn & Suites, Omaha
Embassy Suites, Omaha

NEVADA

Hyatt Regency Lake Tahoe, Incline Village
Alexis Park, Las Vegas
Courtyard by Marriott, Las Vegas
Embassy Suites, Las Vegas
Holiday Inn Express, Las Vegas
Proposed Mountain Spa Resort, Las Vegas
Residence Inn by Marriott, Las Vegas

NEW HAMPSHIRE

Best Western, Keene
Residence Inn by Marriott, Merrimack
Crowne Plaza, Nashua

NEW JERSEY

Grand Hotel, Cape May
Marquis de Lafayette, Cape May
Holiday Inn Select, Clark
Hamilton Park Conference Center, Florham Park
TownePlace Suites, Mount Laurel
Howard Johnson Plaza, Saddle Brook

NEW MEXICO

DoubleTree, Albuquerque
Fairfield Inn by Marriott, Albuquerque
Hilton, Albuquerque
SpringHill Suites, Las Cruces
Comfort Inn, Santa Fe
Holiday Inn, Santa Fe

NEW YORK

Crowne Plaza, Albany
Ardsley Acres, Ardsley
Hotel Gregory, Brooklyn
Park Plaza, Cheektowaga
LaGuardia Ramada, East Elmhurst
Holiday Inn, Grand Island
Best Western, Holtsville
Grand Hyatt, New York City
Roosevelt Hotel, New York City
Four Points, Niagara Falls
Holiday Inn Select, Niagara Falls
Holiday Inn Express, Poughkeepsie
Staten Island Hotel, Staten Island
Radisson, Syracuse
Tarrytown House, Tarrytown

NORTH CAROLINA

Cricket Inn, Charlotte
Wyndham Garden, Charlotte
Hampton Inn, Concord
Proposed Currituck Hotel, Corolla
Marriott, Durham
Radisson, High Point
Hampton Inn, Matthews
Hampton Inn, Pineville
Super 8, Raleigh

Hampton Inn, Statesville
Holiday Inn, Statesville
Holiday Inn Express, Statesville
Econo Lodge, Wilson
Holiday Inn Select, Winston-Salem

NORTH DAKOTA

Hilton Garden Inn, Grand Forks

OHIO

Embassy Suites, Blue Ash
Residence Inn by Marriott, Blue Ash
Days Inn, Cambridge
Four Points, Cincinnati
Hyatt Regency, Columbus
Holiday Inn, Dayton
Hawthorn Suites, Dublin
Days Inn, Mason
Red Roof Inn, Mason
Hampton Inn, Streetsboro
Proposed Hotel, Youngstown

OKLAHOMA

Sheraton, Oklahoma City
Adam's Mark, Tulsa
Courtyard by Marriott, Tulsa
Holiday Inn Select, Tulsa
Holiday Inn Express, Weatherford

OREGON

Ramada, Corvallis
Proposed Downtown Hotel, Portland
Ramada Airport, Portland

PENNSYLVANIA

Hilton Garden Inn, Gettysburg
Holiday Inn Express, Harrisburg
Mainstay Suites, King of Prussia
Sleep Inn, King of Prussia
Sheraton, Langhorne
Hampton Inn, Manheim
Hampton Inn, Oaks
Park Hyatt at the Bellevue, Philadelphia
Sheraton Rittenhouse Square, Philadelphia
Wyndham, Philadelphia
Hawthorn Suites, Pittsburgh
Holiday Inn, Pittsburgh
Marriott, Pittsburgh
Proposed Renaissance, Pittsburgh
Comfort Inn, Stanton
Hampton Inn, State College
Comfort Inn, West Mifflin
Holiday Inn, York

RHODE ISLAND

Newport Harbor Hotel, Newport
Residence Inn, Warwick

SOUTH CAROLINA

Proposed Inn, Charleston
Fairfield Inn by Marriott, North Charleston
Super 8, North Charleston
Fairfield Inn by Marriott, Columbia
Ramada, Columbia
Holiday Inn Express, Fort Mill
Comfort Inn, Hardeeville
Proposed Golf Lodge, Myrtle Beach

TENNESSEE

Marriott, Chattanooga
River Terrace Hotel, Gatlinburg
Clubhouse Inn, Knoxville
Holiday Inn, Memphis
Proposed Marriott, Memphis
Hilton Garden Inn, Nashville
Holiday Inn Express, Nashville
Hotel Preston, Nashville

TEXAS

Metroplex Projects
Proposed SpringHill Suites by Marriott, Addison
Lexington Hotel Suites, Arlington
Proposed Hotel, Arlington
Suburban Lodge North, Arlington
Suburban Lodge South, Arlington
Hawthorn Suites, Arlington
Holiday Inn West, Bedford
Adam's Mark, Dallas
Convention Center Hotel (Proposed), Dallas
Davis Hotel (Proposed), Dallas
DoubleTree Lincoln Center, Dallas
DoubleTree Market Center, Dallas
DoubleTree Club, Dallas
Embassy Suites Galleria, Dallas
The Grand, Dallas
Fairmont Hotel, Dallas
Hawthorn Suites, Dallas
Holiday Inn Market Center, Dallas
Holiday Inn Select Central Expressway, Dallas
Hotel Sante Fe, Dallas
Magnolia Hotel, Dallas
Suburban Lodge, Dallas
W (Proposed), Dallas
Wilson World, Dallas
Wyndham Garden Park Central, Dallas
Hilton Garden Inn (Proposed), Duncanville
Best Western, Duncanville
Westin Stonebriar, Frisco
Convention Center Hotel and T&P (Proposed), Fort Worth
Courtyard by Marriott, Fort Worth
Green Oaks Hotel, Fort Worth
Hyatt Regency DFW Airport, Fort Worth
Ramada Plaza, Fort Worth
Renaissance, Fort Worth
Residence Inn, Fort Worth

TownePlace Suites, Fort Worth
Best Western, Haltom City
Country Inn & Suites, Irving
Holiday Inn Select DFW North, Irving
Holiday Inn Select DFW South, Irving
Marriott D/FW Airport, Irving
Wyndham Garden Las Colinas, Irving
Convention Hotel (Proposed), Plano
DoubleTree Legacy, Plano
Mainstay Suites, Plano
Hawthorn Suites, Richardson
Omni Hotel, Richardson
Radisson, Richardson
Hilton Garden Inn (Proposed), Rockwall
Proposed Hotel, Waxahachie
Proposed Full-Service Resort, Westlake

Austin Metro Projects
Embassy Suites (Proposed), Bee Caves
DoubleTree Club, Austin
Embassy Suites Arboretum, Austin
Four Points by Sheraton, Austin
Hawthorn Suites, Austin Central
Hawthorn Suites, Austin Northwest
Hawthorn Suites, Austin South
Hilton Downtown, Austin
Hilton Inn/Super 8, Austin
Holiday Inn South, Austin
Homewood Suites, Austin
Marriott at the Capitol, Austin
Residence Inn and Courtyard Downtown (Proposed), Austin
Residence Inn by Marriott South, Austin
SpringHill Suites, Austin
Residence Inn by Marriott, Round Rock

Houston Metro Projects
Homewood Suites, Clear Lake
Adam's Mark, Houston
Best Western, Houston
Courtyard and Residence Inn, (Proposed) Houston
Crowne Plaza, Houston
Days Inn Astrodome, Houston
Hawthorn Suites, Houston
Holiday Inn Astrodome, Houston
Homewood Suites (Proposed), Houston
Hyatt Regency Intercontinental, Houston
Embassy Suites South, Houston
Magnolia Hotel, Houston
NASA Hotel (Proposed), Houston
Radisson Town and Country, Houston
Renaissance (Proposed), Houston
Residence Inn by Marriott, Houston
Sheraton Astrodome, Houston
Sheraton Suites, Houston
Travelodge, Houston
Westin Galleria & Oaks, Houston
Wellesley Inn & Suites, Houston
Kingwood Athletic Club, Kingwood
Courtyard by Marriott, Sugarland

San Antonio Metro Projects
Holiday Inn, New Braunfels
Bandera Motel, San Antonio
Best Western, San Antonio
Concord Athletic Club, San Antonio
Courtyard by Marriott, San Antonio
Crossroads Inn, San Antonio
Days Inn, San Antonio
Hampton Inn, San Antonio
Hawthorn Suites, San Antonio
Hyatt Regency Hill Country, San Antonio
Holiday Inn Riverwalk North/Four Points by Sheraton, San Antonio
Holiday Inn Northeast, San Antonio
Holiday Inn Northwest, San Antonio
Fairfield Inn by Marriott, San Antonio
Proposed All-Suite Riverwalk Hotel, San Antonio
Proposed Sheraton, San Antonio
Concord Athletic Club, San Antonio
D&D Motel, Von Ormy

Other Texas Areas
Ambassador Suites, Abilene
Courtyard by Marriott, Abilene
Ambassador, Amarillo
Days Inn, Amarillo
Hampton Inn, Amarillo
Holiday Inn Express, Amarillo
Clarion, Corpus Christi
Convention Hotel (Proposed), Corpus Christi
Embassy Suites, El Paso
Hilton Garden Inn UTEP (Proposed), El Paso
Marriott, El Paso
Hampton Inn, Laredo
Best Western, Longview
Best Western, Marshall
Embassy Suites, McAllen
Days Inn, Orange
Best Western (Proposed), Riviera
Radisson, South Padre Island
Holiday Inn, Tyler
Residence Inn, Tyler
Clarion, Waco
Best Western, Weslaco
Hampton Inn, Wichita Falls

UTAH

Hilton Garden Inn, Layton
Crystal Inn, Murray
Peery Hotel, Salt Lake City
Proposed Embassy Suites, Sandy
Crystal Inn, West Valley City

VIRGINIA

Hilton Hotel and Towers, Arlington
DoubleTree Hotel, Crystal City
Hyatt Regency, Crystal City
Sheraton, Crystal City
Courtyard by Marriott, Dulles
Lansdowne Resort, Lansdowne
Marriott Norfolk
Ritz-Carlton, Pentagon City
Renaissance, Portsmouth
Days Inn, South Boston
Proposed Golf Lodge, Virginia Beach

WASHINGTON

Proposed Fairfield Suites by Marriott, Bothell
Best Western, Federal Way
Embassy Suites, Seattle
La Quinta, Seattle
Ramada, Seattle
Holiday Inn Express, Spokane
Quality Inn Valley Suites, Spokane
Embassy Suites, Tukwila

WEST VIRGINIA

Embassy Suites, Charleston
Marriott, Charleston

WISCONSIN

Hilton Garden Inn, Appleton
Embassy Suites, Brookfield
Residence Inn, Glendale
Hilton Garden Inn, Green Bay
Marriott, Madison
Hyatt Regency, Milwaukee
Hilton Garden Inn, Oshkosh

WYOMING

Hampton Inn, Cheyenne
Proposed Hampton Inn & Suites, Green River
AmeriHost Inn, Pinedale

INTERNATIONAL

Hyatt Regency, Aruba
Proposed Resort, Bahamas
Hyatt Regency, Dorado Beach, Puerto Rico
Hyatt Regency, Cerromar, Puerto Rico
Elbow Beach Hotel, Paget, Bermuda
Hyatt Regency, Vancouver, BC
Carambola Resort, St. Croix, US Virgin Islands
Proposed Hotel, St. Croix, US Virgin Islands
Hotel Parador del Sol, Acapulco, Mexico
Hotel Plaza Las Glorias, Acapulco, Mexico
Park Royal, Acapulco, Mexico
Sheraton, Acapulco, Mexico
El Pueblito, Cancun, Mexico
Park Royal Piramides, Cancun, Mexico
Sheraton, Cancun, Mexico
Westin Regina, Cancun, Mexico
Park Royal, Cozumel, Mexico
Radisson Resort, Ixtapa, Mexico
Hotel Plaza Las Glorias, Manzanillo, Mexico
Desire Resort, Los Cabos, Mexico
Esperanza, Los Cabos, Mexico
Park Royal, Los Cabos, Mexico
Proposed Luxury Resort, Los Cabos, Mexico
Sheraton, Mexico City, Mexico
Paraiso de la Bonita, Puerto Morelos, Mexico
Hotel Sierra Golf & Spa, Puerto Vallarta, Mexico
Westin Regina, Puerto Vallarta, Mexico
Hotel Plaza Las Glorias, San Carlos, Mexico
Hotel Plaza Las Glorias, Tijuana, Mexico
Continental Plaza Hotel, Zacatecas, Mexico