MARKET ANALYSIS

Proposed Headquarters Hotel

BROWARD COUNTY, FLORIDA

SUBMITTED TO:

Mr. Carlos Puentes
Broward County Convention Center
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April 3, 2014

Mr. Carlos Puentes
Broward County Convention Center
1950 Eisenhower Boulevard
Fort Lauderdale, Florida, 33316
CPUENTES@broward.org
(954) 765-5908

Re: Proposed Headquarters Hotel
Ft. Lauderdale, Florida

Dear Mr. Puentes:

Pursuant to your request, we herewith submit our Market Analysis of the Proposed Headquarters Hotel in Ft. Lauderdale, Florida.

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.

It has been a pleasure working with you. Please let us know if we can provide any additional services.

Sincerely,
HVS Convention, Sports & Entertainment
Facilities Consulting

Thomas A Hazinski
Managing Director

Brian Harris
Director

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1. Proposed Headquarters Hotel Market Analysis

HVS performed a hotel market analysis for a proposed 750-room convention center headquarters hotel property ("Proposed Headquarters Hotel") that would be constructed concurrently with the proposed Broward County Convention Center ("BCCC") expansion. HVS assessed the current hotel room night demand and average daily room rates in a set of completive hotels properties. HVS incorporated its forecast of new hotel room night demand induced by the proposed expansion of the BCCC into the analysis of market occupancy and room rates and market growth in room night demand, assuming that the Proposed Headquarters Hotel would be added to the market. Through a penetration analysis, HVS projected the average daily room rate and occupancy of the Proposed Headquarters Hotel. Using data on the financial operations of comparable hotel properties, HVS generated a ten-year pro forma of hotel operations, which shows the amounts of net operating income that would be available to repay debt or provide a return on equity investment in the Proposed Headquarters Hotel.

Description of the Proposed Headquarters Hotel

The Proposed Headquarters Hotel project and the BCCC expansion should be connected to, and integrated with, the existing BCCC, the public spaces, and the waterfront. While the branding of the Proposed Headquarters Hotel is not determined, for the purposes of this report, HVS assumes that the hotel would conform to the brand standards of major nationally branded full-service products. We assume that all property management and guestroom technology would be appropriately installed for the effective management of hotel operation. The property would contain an appropriate mix of room types (king, double, suites, etc.) and should offer the highest quality hotel amenities available in this neighborhood.

Under a full-service, upscale scope, the Proposed Headquarters Hotel should offer a significant amount of modern and technologically-advanced meeting space. We have assumed the integration of a fully divisible 40,000 square-foot grand ballroom, a 15,000 square-foot junior ballroom, and 25,000 square feet of primary meeting space for a total of 80,000 square feet of meeting space. The Proposed Headquarters Hotel would also contain a 200 seat full-service restaurant, a 100 seat short-order food outlet, a 113 seat bar/lounge facility, and a 40 seat coffee outlet. Other amenities of a full-service branded hotel would include a pool, whirlpool, fitness center, business center, gift shop, and well-appointed lobby area. Valet parking would be available as well as dedicated self-parking spaces for hotel guests through an operating agreement that should make use of the existing parking structure and a limited number of parking spaces built adjacent to the Proposed Headquarters Hotel.

For the purposes of this analysis, we assume that the Proposed Headquarters Hotel would be financed sometime in 2014-15 and after a three-year design and construction period, the hotel would open in 2018.

Overall, the Proposed Headquarters Hotel 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 would be fully open and operational on the assumed opening date and would meet all local building codes and brand standards. Furthermore, we assume that the hotel staff would be adequately trained to allow for a successful opening and that pre-marketing efforts would have introduced the product to major local accounts at least six months in advance of the opening date.

We assume that the Proposed Headquarters Hotel would be built according to all pertinent codes and brand standards. Moreover, we assume its construction would not create any environmental hazards and that the property would fully comply with the Americans with Disabilities Act.

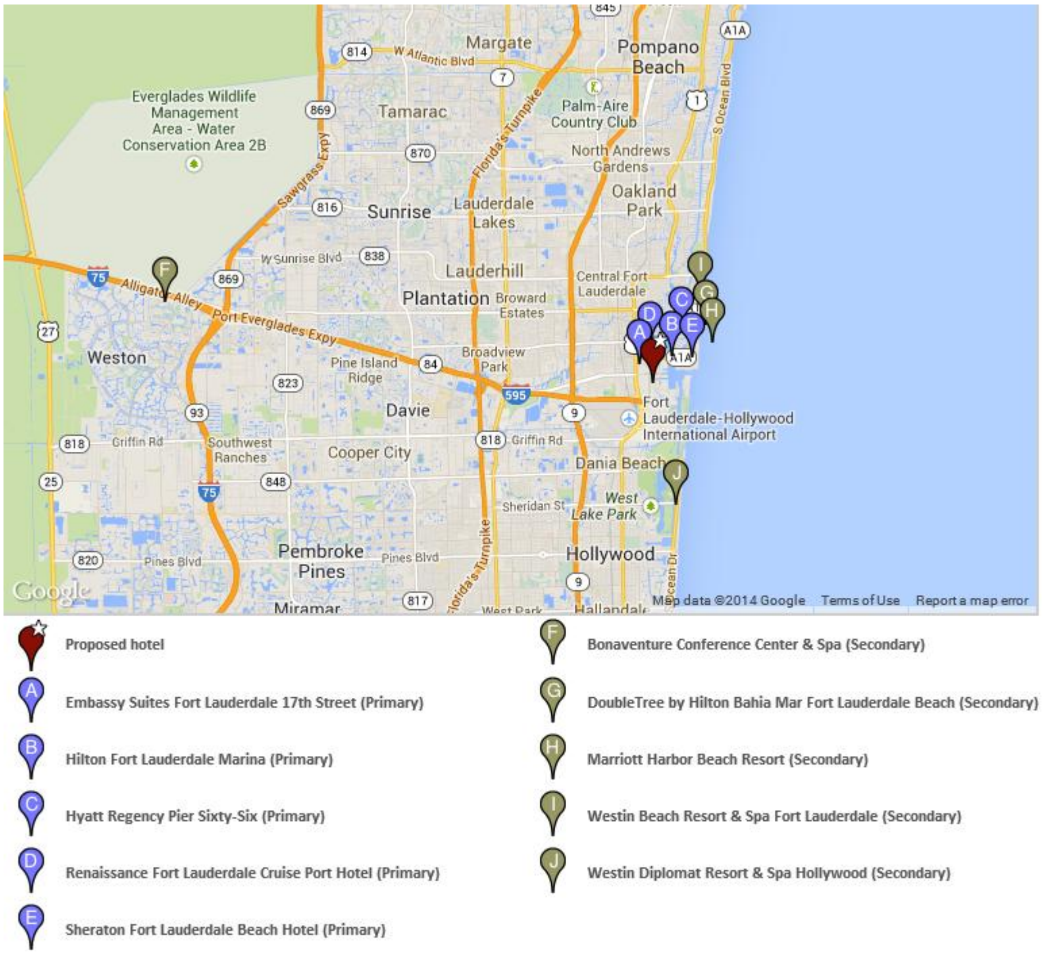
Capital Expenditures

After its opening, the Proposed Headquarters Hotel would 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 hotel's staff employs a successful, ongoing preventive-maintenance program.

Historical Supply and Demand Data

HVS obtained Smith Travel Research ("STR") data on the historical supply and demand for a set of hotel properties deemed to be competitive with the Proposed Headquarters Hotel. The following map illustrates the locations of the Proposed Headquarters Hotel and its future competitors.

MAP OF COMPETITION



The following figure shows market-wide occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

FIGURE 1 HISTORICAL SUPPLY AND DEMAND TRENDS

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2002	4,929	1,799,172	—	1,120,237	—	62.3 %	$145.70	—	$90.72	—
2003	5,014	1,830,110	1.7 %	1,218,919	8.8 %	66.6	147.04	0.9 %	97.94	8.0 %
2004	5,014	1,830,110	0.0	1,297,147	6.4	70.9	148.85	1.2	105.50	7.7
2005	5,014	1,830,110	0.0	1,234,239	(4.8)	67.4	161.73	8.7	109.07	3.4
2006	5,014	1,830,110	0.0	1,160,813	(5.9)	63.4	181.95	12.5	115.41	5.8
2007	4,675	1,706,514	(6.8)	1,184,285	2.0	69.4	188.57	3.6	130.86	13.4
2008	4,765	1,739,184	1.9	1,140,468	(3.7)	65.6	191.18	1.4	125.36	(4.2)
2009	4,645	1,695,373	(2.5)	1,016,860	(10.8)	60.0	169.07	(11.6)	101.41	(19.1)
2010	4,994	1,822,688	7.5	1,209,027	18.9	66.3	162.38	(4.0)	107.71	6.2
2011	4,994	1,822,810	0.0	1,289,922	6.7	70.8	162.35	(0.0)	114.89	6.7
2012	4,994	1,822,810	0.0	1,349,523	4.6	74.0	163.38	0.6	120.96	5.3
2013	4,934	1,800,910	(1.2)	1,383,228	2.5	76.8	165.65	1.4	127.23	5.2

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
Hyatt Regency Pier 66	384	Dec-94	Jun 1957
Sheraton Hotel Fort Lauderdale Beach Resort	487	Jan-10	Jun 1959
Westin Beach Resort & Spa Fort Lauderdale	432	Mar-09	Jun 1966
Doubletree Fort Lauderdale Bahia Mar Hotel	296	Dec-11	Jun 1966
Hilton Fort Lauderdale Marina	589	Mar-09	Dec 1980
Bonaventure Resort & Spa	501	Sep-12	Jan 1982
Marriott Harbor Beach Resort & Spa	650	Oct-84	Oct 1984
Embassy Suites Fort Lauderdale 17th Street	361	Dec-95	Dec 1986
Westin Diplomat Resort Golf & Spa	998	Feb-02	Mar 2000
Renaissance Fort Lauderdale Cruise Port Hotel	236	May-01	May 2001
Total	**4,934**		

Source: STR Global

STR data has some limitations. Hotels are occasionally added to or removed from the sample and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information 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.

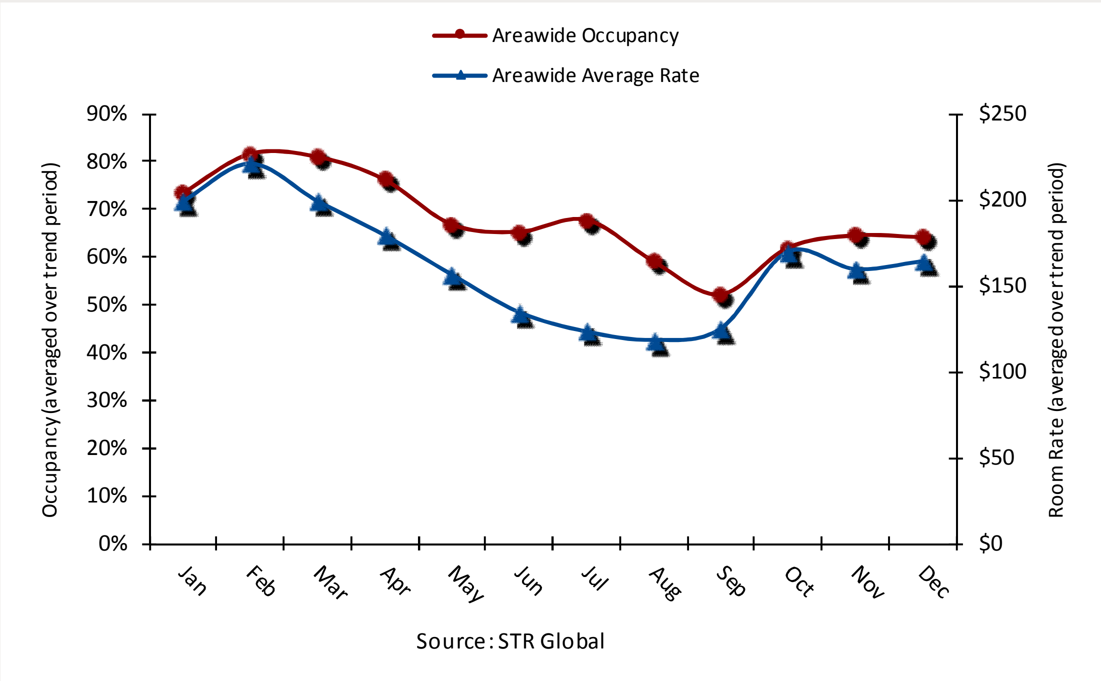
These data reflect an overall market occupancy level of 76.8% in 2013, which compares to 74.0% for 2012. The overall average occupancy level for the calendar years presented equates to 69.0%. The economic downturn of 2008 and 2009 resulted in lower demand and occupancy rates in the market. Occupancy has steadily increased since 2009 and this trend is expected to continue as the area grows, assuming that the economy continues to improve.

An overall market average rate level of $165.65 in 2013 compares to $163.38 for 2012. The average rate across all calendar years presented for average rate equates to $168.53 and has fluctuated over the past decade from the mid-$140s to the low $190s, with 2008 being the strongest year. Renovations to existing hotels allowed local hotel operators to increase average rates through 2007. In 2009, average rate growth concluded the year on a negative note, and this downward trend continued through 2011. The greater market area experienced a significant amount of new limited-service supply, mostly located just south of the airport. Consequently, this new supply offered deeply discounted rates in order to attract demand during the shoulder seasons and slower months, impacting the competitive set's average rates. Information obtained from local hotel managers indicates that average daily rates bottomed out in 2011. Rates have been modestly increasing from the beginning of 2012. These occupancy and average rate trends resulted in a RevPAR level of $127.23 in 2013.

Seasonality

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

FIGURE 2 SEASONALITY GRAPH

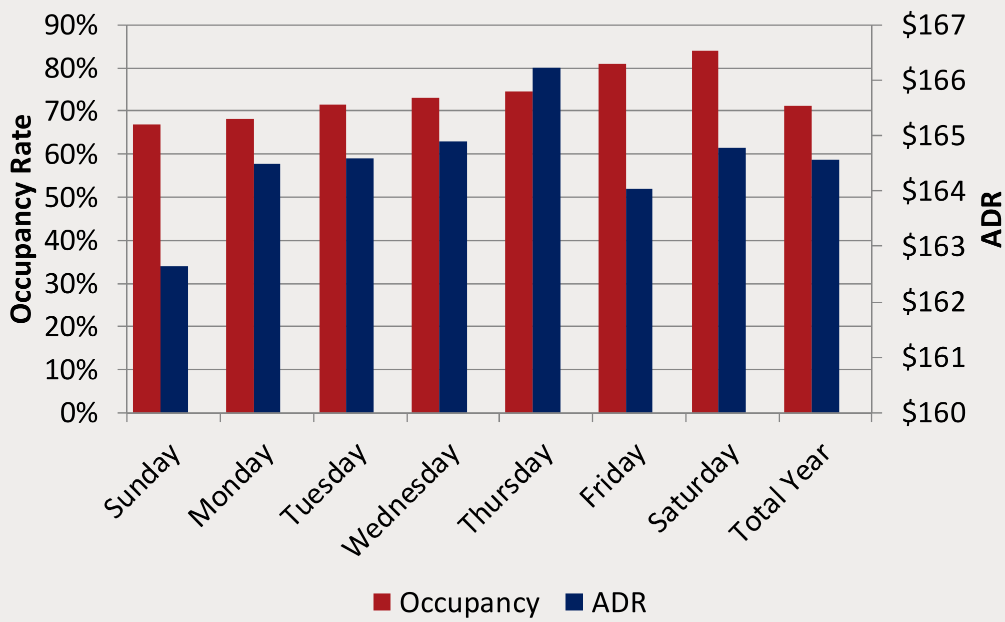


Leisure travel drives the highest rates and occupancies during the winter months, with the peak month of February.

Patterns of Demand

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

FIGURE 3 OCCUPANCY, AVERAGE RATE, AND REVPAR BY DAY OF WEEK



The nearby location of the cruise ships in the Port Everglades are an important contributor to the high levels of leisure travel from Thursday to Sunday. Leisure travelers and non-business-related groups generate peak occupancy on Friday and Saturday nights. Peak rate is not generated on Friday and Saturday nights, which is typical for hotel markets.

Supply

HVS compiled information on the primary and secondary competitors based on personal interviews, site inspections, lodging directories, and our in-house library of operating data. We estimated each property's penetration factors—the ratio between a specific hotel's operating results and the corresponding data for the market. Occupancy penetration is the ratio of a hotel's occupancy to the market occupancy. Yield penetration is the ratio of a hotel's RevPAR to market RevPAR. 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.

Competitors

Five properties will compete with the Proposed Headquarters Hotel on a primary basis and five properties on a secondary basis. We weighted the room count of each secondary competitor based on its future competitiveness with the Proposed Headquarters Hotel.

The only significant recent change in room supply involves the Westin Diplomat Resort & Spa, which reduced its room count by 60 on January 1, 2013.

The following figures set forth the pertinent operating characteristics of the primary and secondary competitors.

FIGURE 4 COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation				Estimated 2011				Estimated 2012				Estimated 2013						
Property	Number of Rooms	Convention	Meeting and Group	Leisure	Commercial	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Embassy Suites Fort Lauderdale 17th Street	361	18 %	20 %	42 %	20 %	361	79 %	$135.00	$106.65	361	82 %	$135.00	$110.70	361	84 %	$136.00	$114.24	3.2 %	108.7 %	92.4 %
Hilton Fort Lauderdale Marina	589	20	30	40	10	589	72	128.00	92.16	589	78	128.00	99.84	589	81	129.00	104.64	4.8	105.0	84.6
Hyatt Regency Pier Sixty-Six	384	10	10	60	20	384	64	145.00	92.80	384	67	149.00	99.83	384	70	150.00	104.52	4.7	90.2	84.5
Renaissance Fort Lauderdale Cruise Port Hotel	236	15	15	50	20	236	89	116.00	103.24	236	92	118.00	108.56	236	92	119.00	109.48	0.8	119.1	88.5
Sheraton Fort Lauderdale Beach Hotel	487	7	20	50	23	487	67	129.00	86.43	488	72	136.00	97.92	488	75	137.00	102.59	4.8	96.9	83.0
Sub-Totals/Averages	**2,057**	**14 %**	**21 %**	**47 %**	**18 %**	**2,057**	**72.5 %**	**$130.67**	**$94.74**	**2,058**	**76.8 %**	**$133.13**	**$102.29**	**2,058**	**79.3 %**	**$134.21**	**$106.37**	**4.0 %**	**102.6 %**	**86.0 %**
Secondary Competitors	2,877	5 %	54 %	30 %	10 %	1,726	70.0 %	$192.50	$134.66	1,726	72.1 %	$192.05	$138.55	1,687	74.8 %	$193.42	$144.75	4.5 %	96.9 %	117.1 %
Totals/Averages	**4,934**	**10 %**	**35 %**	**40 %**	**14 %**	**3,783**	**71.3 %**	**$158.33**	**$112.95**	**3,785**	**74.7 %**	**$159.09**	**$118.83**	**3,746**	**77.3 %**	**$160.04**	**$123.66**	**4.1 %**	**100.0 %**	**100.0 %**

FIGURE 5 SECONDARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation					Estimated 2011				Estimated 2012				Estimated 2013			
Property	Number of Rooms	Convention	Meeting and Group	Leisure	Commercial	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
Bonaventure Conference Center & Spa	501	0 %	51 %	30 %	19 %	50 %	251	50 %	$130.00	$65.00	251	53 %	$133.00	$70.49	251	55 %	$134.00	$73.86
DoubleTree by Hilton Bahia Mar Fort Lauderdale Beach	296	5	20	70	5	65	192	48	143.00	68.64	192	57	128.00	72.96	192	59	129.00	76.47
Marriott Harbor Beach Resort	650	8	50	32	10	65	423	75	220.00	165.00	423	76	220.00	167.20	423	79	222.00	175.47
Westin Beach Resort & Spa Fort Lauderdale	432	5	15	55	25	40	173	71	162.00	115.02	173	76	166.00	126.16	173	79	168.00	132.79
Westin Diplomat Resort & Spa Hollywood	998	5	75	15	5	65	688	80	206.00	164.80	688	80	209.00	167.20	649	83	211.00	175.55
Totals/Averages	**2,877**	**5 %**	**54 %**	**30 %**	**10 %**	**59 %**	**1,726**	**70.0 %**	**$192.50**	**$134.66**	**1,726**	**72.1 %**	**$192.05**	**$138.55**	**1,687**	**74.8 %**	**$193.42**	**$144.75**

Supply Changes

Based on primary research, HVS assumes that 1,350 new hotel rooms will enter the market, including the Proposed Headquarters Hotel. See the figure below.

FIGURE 6 NEW SUPPLY

Proposed Property	Number of Rooms	Total Competitive Level	Weighted Room Count
Proposed Headquarters Hotel	750	100 %	750
Conrad	400	25	100
Full Service Hotel	200	75	150
Totals/Averages	**1,350**		**1,000**

Based on media accounts, we assume the former Trump International Hotel & Tower, at 551 North Fort Lauderdale Beach Boulevard, would open as a Conrad Hotel with Hilton management after a $34 million in upgrades. Due to the Fort Lauderdale Beach location and expected luxury product type, this property has been weighted as a secondary competitor.

HVS also assumed that a 200-room full-service hotel would open in January of 2019. Given the level of rate and occupancy in the market, some new hotel development is likely to occur after the opening of the Proposed Headquarters Hotel. This property has been weighted as a secondary competitor.

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

Demand

The following figure presents the most recent trends for the competitive set. HVS estimated performance results and in some cases weighted data on secondary competitors. In this respect, this information differs from the previously presented STR data.

FIGURE 7 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2011	985,020	—	1,380,759	—	71.3 %	$158.33	—	$112.95	—
Est. 2012	1,031,790	4.7 %	1,381,418	0.0 %	74.7	159.09	0.5 %	118.83	5.2 %
Est. 2013	1,056,361	2.4	1,367,183	(1.0)	77.3	160.04	0.6	123.66	4.1
Avg. Annual Compounded									

Demand Analysis Using Market Segmentation

For the purpose of the demand analysis, the overall market is divided into four segments based on the nature of travel. Based on our fieldwork and knowledge of the local lodging market, we estimate the 2013 distribution of accommodated room night demand as shown in the figure below.

FIGURE 8 ACCOMMODATED ROOM NIGHT DEMAND

Market Segment	Marketwide Accommodated Demand	Marketwide Percentage of Total
Convention	109,980	10 %
Meeting and Group	373,022	35
Leisure	421,510	40
Commercial	151,849	15
Total	**1,056,361**	**100 %**

Convention demand (10%) is generated by BCCC events. Meeting and group demand (35%) is from events that occur only within hotels and include group tours. Leisure demand (40%) consists of individual travelers and includes cruise ship passengers staying in hotels before and after cruises. Commercial demand (15%) includes individuals traveling for business purposes, which is a relatively weak source of demand in this market.

Based on historical growth rates and on interviews with hotel managers, HVS assumed growth rates in room night demand for each market segment as shown in the figure below.

FIGURE 9 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

	Annual Growth Rate							
Market Segment	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Convention	2.5 %	1.8 %	1.5 %	1.3 %	1.3 %	1.3 %	1.3 %	1.3 %
Meeting and Group	2.0	1.5	1.3	1.3	1.3	1.3	1.3	1.3
Leisure	2.5	1.8	1.5	1.3	1.3	1.3	1.3	1.3
Commercial	2.5	1.8	1.5	1.3	1.3	1.3	1.3	1.3
Base Demand Growth	**2.3 %**	**1.7 %**	**1.4 %**	**1.3 %**	**1.3 %**	**1.3 %**	**1.3 %**	**1.3 %**

The baseline growth in convention demand does not include the induced demand that could be generated by the BCCC expansion and the opening of the Proposed Headquarters Hotel (see below for a further discussion of induced demand).

Latent Demand

Latent demand reflects potential room night demand that has not been realized by the existing competitive supply; this type of demand is 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 primary source of unaccommodated demand is the popular winter season, which has historically had the highest occupancy rates. The following figure presents our estimate of unaccommodated demand in the subject market.

FIGURE 10 UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Convention	109,980	2.9 %	3,161
Meeting and Group	373,022	3.3	12,388
Leisure	421,510	5.8	24,541
Commercial	151,849	2.3	3,498
Total	**1,056,361**	**4.1 %**	**43,588**

Based upon an analysis of monthly and weekly peak demand and sell-out trends, we estimate that 4.1% of the base-year demand is unaccommodated.

Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

The expansion of the BCCC creates a larger demand generator, which will induce new demand into the local market. The creation of an integrated convention destination and construction of the ballroom and meeting space associated with the Proposed Headquarters Hotel will also induce new demand into the local market. The following figure summarizes our estimate of induced demand.

FIGURE 11 INDUCED DEMAND CALCULATION

Market Segment	2018	2019	2020	2021
Convention	17,100	29,100	46,900	58,900
Meeting and Group	4,200	5,100	6,000	6,000
Leisure	5,400	6,480	7,200	7,200
Commercial	1,800	2,160	2,400	2,400
Total	**28,500**	**42,840**	**62,500**	**74,500**

Accordingly, we have incorporated approximately 75,000 room nights into our analysis, phased-in over a four year ramp-up period.

Accommodated Demand and Market-wide Occupancy

The following figure details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market, provided that the BCCC undergoes expansion.

FIGURE 12 FORECAST OF MARKET OCCUPANCY

		2018	2019	2020	2021	2022
Convention						
Base Demand		119,411	120,963	122,536	124,129	124,129
Unaccommodated Demand		3,432	3,477	3,522	3,568	3,568
Induced Demand		17,100	29,100	46,900	58,900	58,900
Total Demand		139,943	153,540	172,958	186,597	186,597
Growth Rate		15.4 %	9.7 %	12.6 %	7.9 %	0.0 %
Meeting and Group						
Base Demand		401,052	406,265	411,547	416,897	416,897
Unaccommodated Demand		13,319	13,492	13,668	13,845	13,845
Induced Demand		4,200	5,100	6,000	6,000	6,000
Total Demand		418,571	424,858	431,214	436,742	436,742
Growth Rate		2.3 %	1.5 %	1.5 %	1.3 %	0.0 %
Leisure						
Base Demand		457,653	463,602	469,629	475,734	475,734
Unaccommodated Demand		26,645	26,992	27,343	27,698	27,698
Induced Demand		5,400	6,480	7,200	7,200	7,200
Total Demand		489,698	497,074	504,172	510,632	510,632
Growth Rate		2.4 %	1.5 %	1.4 %	1.3 %	0.0 %
Commercial						
Base Demand		164,870	167,013	169,184	171,384	171,384
Unaccommodated Demand		3,798	3,847	3,897	3,948	3,948
Induced Demand		1,800	2,160	2,400	2,400	2,400
Total Demand		170,467	173,020	175,481	177,731	177,731
Growth Rate		2.4 %	1.5 %	1.4 %	1.3 %	0.0 %
Totals						
Base Demand		1,142,985	1,157,844	1,172,896	1,188,144	1,188,144
Unaccommodated Demand		47,194	47,808	48,429	49,059	49,059
Induced Demand		28,500	42,840	62,500	74,500	74,500
Total Demand		1,218,680	1,248,492	1,283,826	1,311,703	1,311,703
less: Residual Demand		7,887	2,782	11,057	18,862	18,862
Total Accommodated Demand		1,210,793	1,245,710	1,272,768	1,292,841	1,292,841
Overall Demand Growth		11.0 %	2.9 %	2.2 %	1.6 %	0.0 %
Market Mix						
Convention		11.5 %	12.3 %	13.5 %	14.2 %	14.2 %
Meeting and Group		34.3	34.0	33.6	33.3	33.3
Leisure		40.2	39.8	39.3	38.9	38.9
Commercial		14.0	13.9	13.7	13.5	13.5
Existing Hotel Supply		3,744	3,744	3,744	3,744	3,744
Proposed Hotels						
Proposed Headquarters Hotel	1	750	750	750	750	750
Conrad	2	100	100	100	100	100
Full Service Hotel	3		150	150	150	150
Available Rooms per Night		1,676,774	1,731,524	1,731,524	1,731,524	1,731,524
Nights per Year		365	365	365	365	365
Total Supply		4,594	4,744	4,744	4,744	4,744
Rooms Supply Growth		19.5 %	3.3 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy		**72.2 %**	**71.9 %**	**73.5 %**	**74.7 %**	**74.7 %**

[1] Opening in January 2018 of the 100% competitive, 750-room Proposed Headquarters Hotel
[2] Opening in July 2015 of the 25% competitive, 400-room Conrad
[3] Opening in January 2019 of the 75% competitive, 200-room Full Service Hotel

These room night projections for the market area will be used in forecasting the Proposed Headquarters Hotel's occupancy and average rate later in this report.

Projections 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, management can manipulate the level of occupancy. 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 Proposed Headquarters Hotel's forecasted market share and occupancy levels are based upon its anticipated competitive position within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share.

Historical Penetration Rates by Market Segment

In the following figure, shows the penetration rates attained by the primary competitors and the aggregate secondary competitors for each segment during the base year.

FIGURE 13 2013 HISTORICAL PENETRATION RATES

Property	Convention	Meeting and Group	Leisure	Commercial	Overall
Embassy Suites Fort Lauderdale 17th Street	188 %	62 %	114 %	151 %	109 %
Hilton Fort Lauderdale Marina	202	89	105	73	105
Hyatt Regency Pier Sixty-Six	87	26	136	125	90
Renaissance Fort Lauderdale Cruise Port Hotel	172	51	149	166	119
Sheraton Fort Lauderdale Beach Hotel	65	55	121	155	97
Secondary Competition	49	149	74	68	97

The Hilton Fort Lauderdale Marina achieved the highest penetration rate within the convention segment. The highest penetration rate in the meeting and group segment was achieved by the secondary competition, while the Renaissance Fort Lauderdale Cruise Port Hotel led the market with the highest leisure penetration rate.

Forecast of Proposed Headquarters Hotel's Occupancy

Because the supply and demand balance for the competitive market is dynamic, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market, and consequently upon the calculated penetration factor for each hotel in each market segment.

A hotel's penetration factor is calculated as its 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 Proposed Headquarters Hotel account for these types of adjustments to market share within the defined competitive market. Consequently, the actual penetration factors applicable to the Proposed Headquarters Hotel and its competitors for each market segment in each projection year may vary somewhat from the penetration factors delineated in the previous figures.

HVS forecast the following occupancy and average rates segment for the competitive set and the Proposed Headquarters Hotel.

FIGURE 14 OCCUPANCY AND AVERAGE RATE FORECASTS

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	77.3 %	—	$160.04	—	—	$150.00	93.7 %
2014	77.6	3.5 %	165.64	—	3.5 %	155.25	93.7
2015	77.4	3.0	170.61	—	3.0	159.91	93.7
2016	77.6	2.5	174.88	—	2.5	163.91	93.7
2017	77.7	2.5	179.25	—	2.5	168.00	93.7
2018	72.2	2.5	183.73	61.0 %	2.5	172.20	93.7
2019	71.9	2.5	188.33	64.0	2.5	176.51	93.7
2020	73.5	2.5	193.03	68.0	2.5	180.92	93.7
2021	74.7	2.5	197.86	70.0	2.5	185.44	93.7

Using the estimated penetration rates, HVS calculated the room night demand and occupancy of the Proposed Headquarters Hotel as shown in the figure below.

FIGURE 15 OCCUPANCY BY MARKET SEGMENT

Market Segment	2018	2019	2020	2021	2022
Convention					
Demand	139,339	153,214	171,555	184,084	184,084
Market Share	33.8 %	34.1 %	34.5 %	34.9 %	34.9 %
Capture	47,134	52,192	59,148	64,220	64,220
Penetration	207 %	215 %	218 %	221 %	221 %
Meeting and Group					
Demand	416,301	423,929	427,550	430,528	430,528
Market Share	16.4 %	16.4 %	16.7 %	16.7 %	16.7 %
Capture	68,331	69,504	71,232	71,728	71,728
Penetration	101 %	104 %	105 %	105 %	105 %
Leisure					
Demand	485,364	495,918	499,643	502,972	502,972
Market Share	8.8 %	9.0 %	9.3 %	9.3 %	9.3 %
Capture	42,940	44,688	46,564	46,874	46,874
Penetration	54 %	57 %	59 %	59 %	59 %
Commercial					
Demand	169,789	172,649	174,020	175,257	175,257
Market Share	5.6 %	5.4 %	5.4 %	5.4 %	5.4 %
Capture	9,460	9,275	9,349	9,415	9,415
Penetration	34 %	34 %	34 %	34 %	34 %
Total Room Nights Captured	**167,866**	**175,658**	**186,292**	**192,236**	**192,236**
Available Room Nights	273,749	273,750	273,750	273,750	273,750
Subject Occupancy	**61 %**	**64 %**	**68 %**	**70 %**	**70 %**
Marketwide Available Room Nights	1,676,774	1,731,524	1,731,524	1,731,524	1,731,524
Fair Share	**16 %**	**16 %**	**16 %**	**16 %**	**16 %**
Marketwide Occupied Room Nights	1,210,793	1,245,710	1,272,768	1,292,841	1,292,841
Market Share	**14 %**	**14 %**	**15 %**	**15 %**	**15 %**
Marketwide Occupancy	**72 %**	**72 %**	**74 %**	**75 %**	**75 %**
Total Penetration	**85 %**	**89 %**	**93 %**	**94 %**	**94 %**

The stabilized occupancy rate of 70% reflects 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. The Proposed Headquarters Hotel may operate at occupancies above or below this stabilized level in any given year.

Average Rate Analysis

Average rate is calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. 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 figure summarizes the historical average rate and the RevPAR of the Proposed Headquarters Hotel's future primary competitors.

FIGURE 16 BASE YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS

Property	Estimated 2013 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Embassy Suites Fort Lauderdale 17th Street	$136.00	85.0 %	$114.24	92.4 %
Hilton Fort Lauderdale Marina	129.00	80.6	104.64	84.6
Hyatt Regency Pier Sixty-Six	150.00	93.7	104.52	84.5
Renaissance Fort Lauderdale Cruise Port Hotel	119.00	74.4	109.48	88.5
Sheraton Fort Lauderdale Beach Hotel	137.00	85.6	102.59	83.0
Average - Primary Competitors	$134.21	83.9 %	$106.37	86.0 %
Average - Secondary Competitors	193.42	120.9	144.75	117.1
Overall Average	**$160.04**		**$123.66**	

The primary competitors realized an overall average rate of $134.21 in the 2013 base year, improving from the 2012 level of $133.13. The Hyatt Regency Pier Sixty-Six achieved the highest estimated average rate in the local competitive market, by a significant margin, because of its strong brand, extensive meeting space and waterfront location. Other important rate aspects of this market include strong winter season and the premium from beach front properties. The selected rate position for the Proposed Headquarters Hotel, in base-year dollars, takes into consideration factors such as the Port Everglades location, connection to the BCCC and expected brand affiliation. We have selected the rate position of $150.00, in base-year dollars, for the Proposed Headquarters Hotel, which is above the average of the primary competitors but below the top performer.

Based upon our research and analysis, rates fell to a low of approximately $130 during 2011 and then began a modest upward climb. We anticipate modest rate growth to continue as the economy continues to recover from the downturn.

Based on these considerations, the following figure illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied a base underlying inflation rate of 2.5% annually throughout our projection period.

FIGURE 17 AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	77.3 %	—	$160.04	—	—	$150.00	93.7 %
2014	77.6	3.5 %	165.64	—	3.5 %	155.25	93.7
2015	77.4	3.0	170.61	—	3.0	159.91	93.7
2016	77.6	2.5	174.88	—	2.5	163.91	93.7
2017	77.7	2.5	179.25	—	2.5	168.00	93.7
2018	72.2	2.5	183.73	61.0 %	2.5	172.20	93.7
2019	71.9	2.5	188.33	64.0	2.5	176.51	93.7
2020	73.5	2.5	193.03	68.0	2.5	180.92	93.7
2021	74.7	2.5	197.86	70.0	2.5	185.44	93.7

As illustrated above, a 3.5% growth in the average room rate is expected for the Proposed Headquarters Hotel's positioned base rate from 2013 to 2014. This is followed by growth rates of 3.0% and 2.5% in 2015 and 2016, respectively. The Proposed Headquarters Hotel's rate position should reflect growth similar to market trends because of the proposed hotel's new facility, strong brand affiliation, Port of Everglade location, and connection to the BCCC. The property's average penetration rate is forecast to reach 93.7% by the stabilized period.

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the Proposed Headquarters Hotel's average rates in the initial operating period have been discounted to reflect this likelihood. We forecast 2.0% and 1.0% discounts to the Proposed Headquarters Hotel's forecast room rates in the first two operating years, which would be typical for a new operation of this type.

The following occupancies and average rates will be used to project the Proposed Headquarters Hotel's rooms revenue; this forecast reflects years which begin January 1, 2018 and correspond with our financial projections.

FIGURE 18 FORECAST OF OCCUPANCY, AVERAGE RATE, AND REVPAR

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount	RevPAR
2018	61 %	172.20	2.0 %	168.76	102.94
2019	64	176.51	1.0	174.74	111.84
2020	68	180.92	0.0	180.92	123.03
2021	70	185.44	0.0	185.44	129.81
2022	70	190.08	0.0	190.08	133.06

Impact on Competitive Set

The impact of the Proposed Headquarters Hotel's opening in January 1, 2018 on the competitive set without inclusion of the Proposed Headquarters Hotel ("Competitive Hotels") is shown in the following figure.

FIGURE 19 FORECAST OF ACCOMMODATED ROOM NIGHT DEMAND IN THE COMPETITIVE HOTELS

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Occupancy	78%	77%	78%	78%	72%	72%	74%	75%	75%
ADR	$155.3	$159.9	$163.9	$168.0	$172.2	$176.5	$180.9	$185.4	$190.1
Room Nights	1,059,796	1,071,488	1,089,174	1,090,627	1,042,927	1,070,052	1,086,476	1,100,604	1,100,604
Annual Change		11,692	17,685	1,454	-47,700	27,125	16,423	14,129	0
Change from Prior Year		1.1%	1.7%	0.1%	-4.4%	2.6%	1.5%	1.3%	0.0%

Projections of Income and Expense

HVS used its forecast of room night demand and average rates to calculate the Proposed Headquarters Hotel's room revenue. HVS forecast the income and expenses for the Proposed Headquarters Hotel. We assume operation would begin on January 1, 2018.

The forecast of income and expense is expressed in current dollars for each year. The stabilized year reflects 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.

Comparable Operating Statements

The projection of income and expense for the Proposed Headquarters Hotel rely on sample comparable operating statements from the HVS database of hotel statistics. The comparable financial statements were carefully selected based on similarities with the Proposed Headquarters Hotel including: room count, property type, location in resort markets, amounts of function space, occupancy rates, and average daily room rates.

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). These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense.

FIGURE 20 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	2010/11	2011/12	2012	2012	2013	2013
Number of Rooms:	730 to 910	550 to 680	550 to 680	570 to 710	600 to 750	750
Days Open:	365	366	365	365	365	365
Occupancy:	72%	69%	78%	81%	78%	70%
Average Rate:	$135	$170	$148	$165	$166	$152
RevPAR:	$97	$116	$116	$133	$130	$107
REVENUE						
Rooms	61.4 %	49.8 %	68.9 %	56.6 %	67.0 %	63.3 %
Food & Beverage	34.8	42.9	28.4	36.6	31.3	32.0
Other Operated Departments	1.3	6.3	2.6	6.8	1.8	3.0
Rentals & Other Income	2.3	1.0	0.0	0.0	0.0	1.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	23.6	19.5	25.8	29.0	21.3	25.0
Food & Beverage	54.2	60.6	72.6	63.7	70.0	68.0
Other Operated Departments	64.8	94.8	84.2	36.7	89.9	50.0
Total	34.4	41.7	40.7	42.2	37.8	39.1
DEPARTMENTAL INCOME	65.6	58.3	59.3	57.8	62.2	60.9
OPERATING EXPENSES						
Administrative & General	7.0	7.1	8.8	8.8	8.3	8.0
Marketing	7.9	8.7	6.6	7.2	8.7	7.1
Property Operations & Maintenance	4.0	3.4	4.5	4.7	3.4	4.5
Utilities	3.1	3.2	4.4	3.9	4.2	5.0
Total	22.1	22.4	24.3	24.6	24.6	24.6
HOUSE PROFIT	43.5	35.9	35.0	33.2	37.6	36.3
Management Fee	3.0	2.5	3.0	1.0	3.0	3.0
INCOME BEFORE FIXED CHARGES	40.5	33.4	32.1	32.2	34.6	33.3

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

FIGURE 21 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2010/11**	**2011/12**	**2012**	**2012**	**2013**	**2013**
Number of Rooms:	**730 to 910**	**550 to 680**	**550 to 680**	**570 to 710**	**600 to 750**	**750**
Days Open:	**365**	**366**	**365**	**365**	**365**	**365**
Occupancy:	**72%**	**69%**	**78%**	**81%**	**78%**	**70%**
Average Rate:	**$135**	**$170**	**$148**	**$165**	**$166**	**$152**
RevPAR:	**$97**	**$116**	**$116**	**$133**	**$130**	**$107**
REVENUE						
Rooms	$35,426	$42,624	$42,284	$48,559	$47,537	$38,888
Food & Beverage	20,100	36,713	17,427	31,366	22,184	19,674
Other Operated Departments	741	5,432	1,624	5,809	1,266	1,852
Rentals & Other Income	1,326	857	0	0	0	1,048
Total	57,694	85,626	61,336	85,734	70,986	61,461
DEPARTMENTAL EXPENSES						
Rooms	8,350	8,292	10,914	14,092	10,148	9,722
Food & Beverage	10,890	22,249	12,657	19,981	15,532	13,378
Other Operated Departments	480	5,150	1,369	2,129	1,138	926
Total	19,720	35,690	24,940	36,202	26,818	24,026
DEPARTMENTAL INCOME	37,974	49,935	36,396	49,532	44,168	37,435
OPERATING EXPENSES						
Administrative & General	4,029	6,094	5,374	7,518	5,905	4,900
Marketing	4,571	7,420	4,035	6,145	6,204	4,350
Property Operations & Maintenance	2,333	2,933	2,789	4,015	2,406	2,750
Utilities	1,816	2,739	2,694	3,381	2,966	3,100
Total	12,749	19,187	14,892	21,059	17,481	15,100
HOUSE PROFIT	25,225	30,748	21,504	28,473	26,687	22,335
Management Fee	1,730	2,176	1,840	834	2,129	1,844
INCOME BEFORE FIXED CHARGES	23,395	28,572	19,664	27,638	24,558	20,491

FIGURE 22 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2010/11**	**2011/12**	**2012**	**2012**	**2013**	**2013**
Number of Rooms:	**730 to 910**	**550 to 680**	**550 to 680**	**570 to 710**	**600 to 750**	**750**
Days Open:	**365**	**366**	**365**	**365**	**365**	**365**
Occupancy:	**72%**	**69%**	**78%**	**81%**	**78%**	**70%**
Average Rate:	**$135**	**$170**	**$148**	**$165**	**$166**	**$152**
RevPAR:	**$97**	**$116**	**$116**	**$133**	**$130**	**$107**
REVENUE						
Rooms	$135.36	$169.69	$147.58	$165.10	$166.33	$152.20
Food & Beverage	76.80	146.16	60.83	106.64	77.62	77.00
Other Operated Departments	2.83	21.62	5.67	19.75	4.43	7.25
Rentals & Other Income	5.07	3.41	0.00	0.00	0.00	4.10
Total	220.45	340.89	214.08	291.49	248.38	240.55
DEPARTMENTAL EXPENSES						
Rooms	31.90	33.01	38.09	47.91	35.51	38.05
Food & Beverage	41.61	88.58	44.18	67.93	54.35	52.36
Other Operated Departments	1.83	20.50	4.78	7.24	3.98	3.63
Total	75.35	142.09	87.05	123.08	93.84	94.04
DEPARTMENTAL INCOME	145.10	198.80	127.03	168.40	154.54	146.52
OPERATING EXPENSES						
Administrative & General	15.40	24.26	18.76	25.56	20.66	19.18
Marketing	17.47	29.54	14.08	20.89	21.71	17.03
Property Operations & Maintenance	8.91	11.68	9.73	13.65	8.42	10.76
Utilities	6.94	10.91	9.40	11.50	10.38	12.13
Total	48.71	76.39	51.98	71.60	61.17	59.10
HOUSE PROFIT	96.39	122.41	75.05	96.80	93.38	87.42
Management Fee	6.61	8.66	6.42	2.84	7.45	7.22
INCOME BEFORE FIXED CHARGES	89.39	113.75	68.63	93.97	85.93	80.20

We will refer to the comparable operating data in the following discussion of each line item.

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 figure 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.

FIGURE 23 RANGE OF FIXED AND VARIABLE RATIOS

Category	Percent Fixed	Percent Variable	Index of Variability	Selected Fixed Ratio
Revenues				
Food	25 - 50 %	50 - 75 %	Occupancy	15 %
Beverage	0 - 30	70 - 100	Occupancy	0
Other Operated Departments	10 - 40	60 - 90	Occupancy	10
Rentals & 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
Other Operated Departments	40 - 60	40 - 60	Other Operated Departments Revenue	70
Rentals & Other Expenses	30 - 70	30 - 70	Rentals & 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 2013. 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 figure shows inflation estimates made by economists at some noted institutions and corporations.

FIGURE 24 INFLATION ESTIMATES

		Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier)				
Name	Firm	Dec. 2013	June 2014	Dec. 2014	June 2015	Dec. 2015
Lewis Alexander	Nomura Securities International	1.3 %	1.9 %	1.9 %	1.9 %	2.0 %
Paul Ashworth	Capital Economics	1.4	1.8	1.9	2.0	2.0
Beth Ann Bovino	Standard and Poor's	1.1	1.5	1.7	1.7	1.9
Jay Brinkmann	Mortgage Bankers Association	1.5	2.1	2.0	2.1	2.3
Michael Carey	Credit Agricole CIB	1.5	1.4	1.8	1.9	2.0
Joseph Carson	AllianceBernstein	1.8	2.0	2.0	2.2	2.4
Julia Coronado	BNP Paribas	1.5	1.3	1.7	1.8	1.8
Mike Cosgrove	Econoclast	1.8	2.0	2.0	2.3	2.4
Lou Crandall	Wrightson ICAP	1.4	1.5	2.2	2.4	2.5
J. Dewey Daane	Vanderbilt University	1.0	2.0	2.0	2.0	2.0
Douglas Duncan	Fannie Mae	1.1	1.5	1.6	1.7	1.8
Robert Dye	Comerica Bank	1.2	1.7	1.8	1.8	1.9
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	1.3	1.8	1.8	—	—
Doug Handler	IHS Global Insight	1.5	1.5	1.5	1.6	1.7
Ethan Harris	Bank of America Securities- Merrill Lynch	1.5	1.4	1.4	—	—
Maury Harris	UBS	1.2	1.8	2.4	2.5	2.5
Jan Hatzius	Goldman, Sachs & Co.	1.2	1.7	1.7	1.8	2.0
Tracy Herrick	Avidbank	2.6	2.7	2.9	3.4	3.9
Stuart Hoffman	PNC Financial Services Group	1.2	1.8	2.0	2.2	2.2
Joseph LaVorgna	Deutsche Bank Securities, Inc.	1.8	2.7	2.6	2.4	2.2
Edward Leamer/David Shulman	UCLA Anderson Forecast	1.4	1.6	2.0	2.4	2.3
Don Leavens/Tim Gill	NEMA Business Information Services	1.6	1.9	2.0	2.1	2.2
John Lonski	Moody's Investors Service	1.3	1.6	1.8	1.8	1.6
Dean Maki	Barclays Capital	1.7	1.7	2.2	—	—
Aneta Markowska	Societe Generale	1.3	1.4	2.0	2.0	2.4
Jim Meil/Arun Raha	Eaton Corp.	1.0	1.4	1.8	2.0	2.1
Robert Mellman	JP Morgan Chase & Co.	1.2	1.6	1.6	1.8	1.9
Michael P. Niemira	International Council of Shopping Centers	1.5	2.2	2.3	2.5	2.5
Jim O'Sullivan	High Frequency Economics	1.2	1.7	2.3	2.4	2.5
Dr. Joel Prakken/ Chris Varvares	Macroeconomic Advisers	1.1	1.7	1.7	1.7	1.8
Vincent Reinhart	Morgan Stanley	1.7	1.9	2.0	2.0	2.1
John Ryding/Conrad DeQuadros	RDQ Economics	1.3	1.8	2.3	—	—
Ian Shepherdson	Pantheon Macroeconomics	1.7	1.9	1.9	2.0	2.0
Allen Sinai	Decision Economics, Inc.	1.4	1.6	2.8	2.2	2.3
James F. Smith	Parsec Financial Management	1.0	1.0	1.1	1.2	1.3
Sean M. Snaith	University of Central Florida	1.0	1.9	1.6	1.6	1.7
Sung Won Sohn	California State University	1.8	1.9	1.7	1.6	1.9
Neal Soss	CSFB	1.5	1.4	1.7	—	—
Stephen Stanley	Pierpont Securities	1.6	2.0	2.4	2.6	2.9
Susan M. Sterne	Economic Analysis Associates Inc.	1.6	1.9	2.6	2.1	2.0
Diane Swonk	Mesirow Financial	1.2	1.3	1.4	1.5	1.6
Carl Tannenbaum	The Northern Trust	1.5	1.6	2.0	2.1	2.2
Bart van Ark	The Conference Board	1.2	1.8	2.0	2.1	2.2
Brian S. Wesbury/ Robert Stein	First Trust Advisors, L.P.	1.3	1.9	2.0	2.3	2.5
William T. Wilson	Skolkovo Institute for Emerging Market Studies	0.9	1.1	1.2	1.6	1.8
Lawrence Yun	National Association of Realtors	1.2	2.3	2.8	3.3	3.4
	Averages:	1.4 %	1.7 %	2.0 %	2.1 %	2.2 %

Source: wsj.com, January 15, 2014

As the preceding table indicates, the financial analysts who were surveyed in December of 2013 anticipated inflation rates ranging from 0.9% to 2.6% (on an annualized basis) for December 2013; the average of these data points was 1.4%. The same group expects a slightly higher annualized 1.7% inflation rate for June 2014. These rates are lower than the inflation rate averages for December 2014 and June 2015, shown at 2.0% and 2.1%, respectively.

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

FIGURE 25 NATIONAL CONSUMER PRICE INDEX (ALL URBAN CONSUMERS)

Year	National Consumer Price Index	Percent Change from Previous Year
2003	184.0	—
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
2009	214.5	-0.4
2010	218.1	1.6
2011	224.9	3.1
2012	229.6	2.1
2013	233.0	1.5
Average Annual Compounded Change		
	2003 - 2013:	2.4 %
	2008 - 2013:	1.6

Source: Bureau of Labor Statistics

Between 2003 and 2013, the national CPI increased at an average annual compounded rate of 2.4%; from 2008 to 2013, the CPI rose by a slightly lower average annual compounded rate of 1.6%. In 2013, the CPI noted a change of 1.5%, a decrease from the level of 2.1% recorded in 2012.

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 2.5% in 2018, 2.5% in 2019, and 2.5% in 2020 and thereafter. 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

The following figure presents a detailed forecast through the fifth projection year, including amounts per available room and per occupied room. The second figure illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years beginning January 1, 2018 and are expressed in inflated dollars for each year.

FIGURE 26 DETAILED FORECAST OF INCOME AND EXPENSE

	2018 (Calendar Year)				2019				2020				Stabilized				2022			
Number of Rooms:	**750**				**750**				**750**				**750**				**750**			
Occupancy:	**61%**				**64%**				**68%**				**70%**				**70%**			
Average Rate:	**$168.76**				**$174.74**				**$180.92**				**$185.44**				**$190.08**			
RevPAR:	**$102.94**				**$111.84**				**$123.03**				**$129.81**				**$133.06**			
Days Open:	**365**				**365**				**365**				**365**				**365**			
Occupied Rooms:	**166,988**	**%Gross**	**PAR**	**POR**	**175,200**	**%Gross**	**PAR**	**POR**	**186,150**	**%Gross**	**PAR**	**POR**	**191,625**	**%Gross**	**PAR**	**POR**	**191,625**	**%Gross**	**PAR**	**POR**
REVENUE																				
Rooms	$28,181	62.3 %	$37,575	$168.76	$30,615	62.7 %	$40,820	$174.74	$33,678	63.2 %	$44,904	$180.92	$35,536	63.3 %	$47,381	$185.45	$36,424	63.3 %	$48,565	$190.08
Food	12,552	27.8	16,736	75.17	13,392	27.4	17,856	76.44	14,446	27.1	19,262	77.61	15,176	27.0	20,235	79.20	15,555	27.0	20,740	81.18
Beverage	2,317	5.1	3,090	13.88	2,472	5.1	3,297	14.11	2,667	5.0	3,556	14.33	2,802	5.0	3,736	14.62	2,872	5.0	3,829	14.99
Other Operated Departments	1,390	3.1	1,853	8.32	1,487	3.0	1,982	8.49	1,609	3.0	2,145	8.64	1,693	3.0	2,257	8.83	1,735	3.0	2,313	9.05
Rentals & Other Income	786	1.7	1,048	4.71	841	1.7	1,121	4.80	910	1.7	1,213	4.89	957	1.7	1,276	5.00	981	1.7	1,308	5.12
Total Revenues	45,227	100.0	60,302	270.84	48,807	100.0	65,077	278.58	53,310	100.0	71,080	286.38	56,164	100.0	74,885	293.09	57,567	100.0	76,756	300.42
DEPARTMENTAL EXPENSES *																				
Rooms	7,825	27.8	10,434	46.86	8,166	26.7	10,888	46.61	8,568	25.4	11,424	46.03	8,884	25.0	11,845	46.36	9,106	25.0	12,141	47.52
Food & Beverage	10,794	72.6	14,392	64.64	11,254	70.9	15,006	64.24	11,796	68.9	15,728	63.37	12,225	68.0	16,300	63.80	12,530	68.0	16,707	65.39
Other Operated Departments	759	54.6	1,012	4.54	787	52.9	1,049	4.49	819	50.9	1,092	4.40	846	50.0	1,128	4.42	868	50.0	1,157	4.53
Total	19,378	42.8	25,837	116.04	20,207	41.4	26,943	115.34	21,184	39.7	28,245	113.80	21,955	39.1	29,273	114.57	22,504	39.1	30,005	117.44
DEPARTMENTAL INCOME	25,849	57.2	34,465	154.80	28,600	58.6	38,134	163.24	32,126	60.3	42,835	172.58	34,209	60.9	45,611	178.52	35,063	60.9	46,751	182.98
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	4,020	8.9	5,360	24.07	4,169	8.5	5,559	23.80	4,339	8.1	5,785	23.31	4,478	8.0	5,970	23.37	4,590	8.0	6,119	23.95
Marketing	3,569	7.9	4,758	21.37	3,701	7.6	4,935	21.13	3,852	7.2	5,136	20.69	3,975	7.1	5,300	20.74	4,074	7.1	5,433	21.26
Prop. Operations & Maint.	2,256	5.0	3,008	13.51	2,340	4.8	3,120	13.36	2,435	4.6	3,247	13.08	2,513	4.5	3,351	13.11	2,576	4.5	3,434	13.44
Utilities	2,543	5.6	3,391	15.23	2,638	5.4	3,517	15.06	2,745	5.1	3,660	14.75	2,833	5.0	3,777	14.78	2,904	5.0	3,871	15.15
Total	12,388	27.4	16,517	74.18	12,848	26.3	17,131	73.33	13,371	25.0	17,828	71.83	13,798	24.6	18,398	72.01	14,143	24.6	18,858	73.81
HOUSE PROFIT	13,461	29.8	17,948	80.61	15,752	32.3	21,003	89.91	18,756	35.3	25,007	100.75	20,410	36.3	27,213	106.51	20,920	36.3	27,893	109.17
Management Fee	1,357	3.0	1,809	8.13	1,464	3.0	1,952	8.36	1,599	3.0	2,132	8.59	1,685	3.0	2,247	8.79	1,727	3.0	2,303	9.01
INCOME BEFORE FIXED CHARGES	12,104	26.8	16,139	72.49	14,288	29.3	19,051	81.55	17,156	32.3	22,875	92.16	18,725	33.3	24,967	97.72	19,193	33.3	25,591	100.16
FIXED EXPENSES																				
Insurance	1,527	3.4	2,037	9.15	1,566	3.2	2,087	8.94	1,605	3.0	2,140	8.62	1,645	2.9	2,193	8.58	1,686	2.9	2,248	8.80
Reserve for Replacement	905	2.0	1,206	5.42	1,464	3.0	1,952	8.36	2,132	4.0	2,843	11.46	2,247	4.0	2,995	11.72	2,303	4.0	3,070	12.02
Total	2,432	5.4	3,243	14.56	3,030	6.2	4,040	17.29	3,737	7.0	4,983	20.08	3,891	6.9	5,189	20.31	3,989	6.9	5,318	20.81
NET INCOME	$9,672	21.4 %	$12,897	$57.92	$11,258	23.1 %	$15,011	$64.26	$13,419	25.3 %	$17,892	$72.09	$14,834	26.4 %	$19,778	$77.41	$15,204	26.4 %	$20,272	$79.34

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

FIGURE 27 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2018		2019		2020		2021		2022	
Number of Rooms:	**750**		**750**		**750**		**750**		**750**	
Occupied Rooms:	**166,988**		**175,200**		**186,150**		**191,625**		**191,625**	
Occupancy:	**61%**		**64%**		**68%**		**70%**		**70%**	
Average Rate:	**$168.76**	**% of**	**$174.74**	**% of**	**$180.92**	**% of**	**$185.44**	**% of**	**$190.08**	**% of**
RevPAR:	**$102.94**	**Gross**	**$111.84**	**Gross**	**$123.03**	**Gross**	**$129.81**	**Gross**	**$133.06**	**Gross**
REVENUE										
Rooms	$28,181	62.3 %	$30,615	62.7 %	$33,678	63.2 %	$35,536	63.3 %	$36,424	63.3 %
Food	12,552	27.8	13,392	27.4	14,446	27.1	15,176	27.0	15,555	27.0
Beverage	2,317	5.1	2,472	5.1	2,667	5.0	2,802	5.0	2,872	5.0
Other Operated Departments	1,390	3.1	1,487	3.0	1,609	3.0	1,693	3.0	1,735	3.0
Rentals & Other Income	786	1.7	841	1.7	910	1.7	957	1.7	981	1.7
Total	45,227	100.0	48,807	100.0	53,310	100.0	56,164	100.0	57,567	100.0
DEPARTMENTAL EXPENSES*										
Rooms	7,825	27.8	8,166	26.7	8,568	25.4	8,884	25.0	9,106	25.0
Food & Beverage	10,794	72.6	11,254	70.9	11,796	68.9	12,225	68.0	12,530	68.0
Other Operated Departments	759	54.6	787	52.9	819	50.9	846	50.0	868	50.0
Total	19,378	42.8	20,207	41.4	21,184	39.7	21,955	39.1	22,504	39.1
DEPARTMENTAL INCOME	25,849	57.2	28,600	58.6	32,126	60.3	34,209	60.9	35,063	60.9
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	4,020	8.9	4,169	8.5	4,339	8.1	4,478	8.0	4,590	8.0
Marketing	3,569	7.9	3,701	7.6	3,852	7.2	3,975	7.1	4,074	7.1
Prop. Operations & Maint.	2,256	5.0	2,340	4.8	2,435	4.6	2,513	4.5	2,576	4.5
Utilities	2,543	5.6	2,638	5.4	2,745	5.1	2,833	5.0	2,904	5.0
Total	12,388	27.4	12,848	26.3	13,371	25.0	13,798	24.6	14,143	24.6
HOUSE PROFIT	13,461	29.8	15,752	32.3	18,756	35.3	20,410	36.3	20,920	36.3
Management Fee	1,357	3.0	1,464	3.0	1,599	3.0	1,685	3.0	1,727	3.0
INCOME BEFORE FIXED CHARGES	12,104	26.8	14,288	29.3	17,156	32.3	18,725	33.3	19,193	33.3
FIXED EXPENSES										
Insurance	1,527	3.4	1,566	3.2	1,605	3.0	1,645	2.9	1,686	2.9
Reserve for Replacement	905	2.0	1,464	3.0	2,132	4.0	2,247	4.0	2,303	4.0
Total	2,432	5.4	3,030	6.2	3,737	7.0	3,891	6.9	3,989	6.9
NET INCOME	$9,672	21.4 %	$11,258	23.1 %	$13,419	25.3 %	$14,834	26.4 %	$15,204	26.4 %

	2023		2024		2025		2026		2027	
Number of Rooms:	**750**		**750**		**750**		**750**		**750**	
Occupied Rooms:	**191,625**		**191,625**		**191,625**		**191,625**		**191,625**	
Occupancy:	**70%**		**70%**		**70%**		**70%**		**70%**	
Average Rate:	**$194.83**	**% of**	**$199.70**	**% of**	**$204.70**	**% of**	**$209.81**	**% of**	**$215.06**	**% of**
RevPAR:	**$136.38**	**Gross**	**$139.79**	**Gross**	**$143.29**	**Gross**	**$146.87**	**Gross**	**$150.54**	**Gross**
REVENUE										
Rooms	$37,335	63.3 %	$38,268	63.3 %	$39,225	63.3 %	$40,205	63.3 %	$41,210	63.3 %
Food	15,944	27.0	16,343	27.0	16,751	27.0	17,170	27.0	17,599	27.0
Beverage	2,944	5.0	3,017	5.0	3,093	5.0	3,170	5.0	3,249	5.0
Other Operated Departments	1,778	3.0	1,823	3.0	1,868	3.0	1,915	3.0	1,963	3.0
Rentals & Other Income	1,006	1.7	1,031	1.7	1,057	1.7	1,083	1.7	1,110	1.7
Total	59,007	100.0	60,482	100.0	61,994	100.0	63,543	100.0	65,132	100.0
DEPARTMENTAL EXPENSES*										
Rooms	9,334	25.0	9,567	25.0	9,806	25.0	10,051	25.0	10,303	25.0
Food & Beverage	12,844	68.0	13,165	68.0	13,494	68.0	13,831	68.0	14,177	68.0
Other Operated Departments	889	50.0	911	50.0	934	50.0	958	50.0	982	50.0
Total	23,067	39.1	23,643	39.1	24,234	39.1	24,840	39.1	25,461	39.1
DEPARTMENTAL INCOME	35,940	60.9	36,838	60.9	37,760	60.9	38,703	60.9	39,671	60.9
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	4,704	8.0	4,822	8.0	4,942	8.0	5,066	8.0	5,193	8.0
Marketing	4,176	7.1	4,281	7.1	4,388	7.1	4,497	7.1	4,610	7.1
Prop. Operations & Maint.	2,640	4.5	2,706	4.5	2,774	4.5	2,843	4.5	2,914	4.5
Utilities	2,976	5.0	3,051	5.0	3,127	5.0	3,205	5.0	3,285	5.0
Total	14,497	24.6	14,859	24.6	15,231	24.6	15,612	24.6	16,002	24.6
HOUSE PROFIT	21,443	36.3	21,979	36.3	22,529	36.3	23,091	36.3	23,669	36.3
Management Fee	1,770	3.0	1,814	3.0	1,860	3.0	1,906	3.0	1,954	3.0
INCOME BEFORE FIXED CHARGES	19,673	33.3	20,165	33.3	20,669	33.3	21,185	33.3	21,715	33.3
FIXED EXPENSES										
Insurance	1,728	2.9	1,771	2.9	1,816	2.9	1,861	2.9	1,908	2.9
Reserve for Replacement	2,360	4.0	2,419	4.0	2,480	4.0	2,542	4.0	2,605	4.0
Total	4,088	6.9	4,191	6.9	4,295	6.9	4,403	6.9	4,513	6.9
NET INCOME	$15,585	26.4 %	$15,974	26.4 %	$16,374	26.4 %	$16,782	26.4 %	$17,202	26.4 %

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

Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take four years for the Proposed Headquarters Hotel to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the Proposed Headquarters Hotel's operating budget and comparable income and expense statements. Our forecast is based upon calendar years beginning January 1, 2018 and is expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. The Proposed Headquarters Hotel is expected to stabilize at an occupancy level of 70% with an average rate of $185.44 in 2021. Following the stabilized year, the property's average rate is projected to increase along with the underlying rate of inflation.

Food and Beverage Revenue

A hotel's restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service generate food and beverage revenue. 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 Headquarters Hotel, the food and beverage department will include a 200 seat full-service restaurant, a 100 seat short-order food outlet, a 113 seat bar/lounge facility, and a 40 seat coffee outlet. Banquet space is expected to include a fully divisible 40,000 square-foot grand ballroom, a 15,000 square-foot junior ballroom, and 25,000 square feet of primary meeting space for a total of 80,000 square feet of meeting space.

Although food and beverage revenue varies directly with changes in occupancy, the portion generated by banquet sales and outside capture is relatively fixed. The comparable statements illustrated food and beverage revenue between 41.2% to 86.1% of rooms revenue, or $60.83 and $146.16 per occupied room.

The Proposed Headquarters Hotel's food and beverage operation is expected to be an important component of the property. Therefore, based upon our review of comparable operating statements, we have positioned an appropriate revenue level given the hotel's planned facility and price point. We would expect future moderate growth to occur within this category after the hotel's opening. We project food and beverage revenue to be $75.17 and $13.88 per occupied room, respectively, in the first projection year, or respectively 44.5% and 8.2% of the rooms revenue. These per-occupied-room amounts increase to $79.20 and $14.62 for hotel food service by the stabilized year, or respectively 42.7% and 7.9% of rooms revenue.

Other Operated Departments Revenue Including the Garage

According to the Uniform System of Accounts, Other Operated Departments include any major or minor operated department other than rooms, food, and beverage. These departmental revenues and expenses are presented in the Other Operated Department revenue and expense line items on a Summary Operating Statement, with sub-schedules setting forth the individual departmental revenues and expenses in more detail. An Other Operated Department revenue and expense may be presented in the summary statement if it is considered a significant factor in the hotel operation. Telephone revenue and expense is now considered a component of Other Operated Departments and is being reported as a separate line item more infrequently now that telephone revenue has become so inconsequential.

The Proposed Headquarters Hotel's other operated departments revenue sources are expected to be generated primarily from the hotel's telephone charges, parking operation, and gift shop. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the Proposed Headquarters Hotel. We forecast the Proposed Headquarters Hotel’s other operated departments revenue to stabilize at 3.0% of rooms revenue or $8.83 per occupied room by the stabilized year, 2021. The comparable operating statements illustrate Other Operated Departments Revenue ranging from 2.6 % to 6.8 % of revenue and $2.83 to $19.75 per occupied room.

Rentals & Other Income

Rentals & other income is derived from sources other than guestrooms, food and beverage, and the Other Operated Departments. Rentals & other income revenue for the comparables ranged 2.0% to 3.7% of rooms revenue or $3.41 to $5.07 on a per-occupied-room basis. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. We forecast the Proposed Headquarters Hotel’s rentals & other income to stabilize at $5.00 per occupied room by the stabilized year, 2021.

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 19.5% and 29.0% of rooms revenue; on a per-occupied-room basis, the range was between $31.90 and $47.91. We have projected rooms expense for the Proposed Headquarters Hotel at 27.8% in the first year (or $46.86 per occupied room), stabilizing at 25.0% in 2021 (or $46.36 per occupied room). The Proposed Headquarters Hotel's rooms department expense has been positioned based upon our review of the comparable operating data and our understanding of the hotel's future service level and price point.

Food and Beverage Expense

Food and beverage departmental expenses consist of items necessary for the primary operation of a Proposed Headquarters Hotel's food and banquet facilities. Most of the cost of food and beverage sales and related payroll vary with the level of food revenues; however, this departmental operation has a fixed component.

The comparables illustrate food and beverage expense ranging between 54.2% and 72.6% of food and beverage revenue. We have projected a stabilized expense ratio of 68.0% in 2021 for hotel food & beverage. The Proposed Headquarters Hotel'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.

Other Operated Departments Expense

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories previously discussed. The comparables illustrated other operated departments expense ranging between $1.83 and $20.50 per occupied room. The comparables illustrated other operated departments expense as a percentage of other operated departments revenue ranging between 94.8 % and 84.2 %. We have projected a stabilized expense ratio of 50.0% in 2021.

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.

On a percentage of total revenue basis, the comparable operations indicate an administrative and general expense range from 7.0% to 8.8%, or $4,029 to $7,518 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the Proposed Headquarters Hotel, we have positioned the administrative and general expense level at a market- and property-supported level. In the first projection year, we have projected administrative and general expense for the Proposed Headquarters Hotel to be $5,360 per available room, or 8.9% of total revenue. By the 2021 stabilized year, these amounts change to $5,970 per available room and 8.0% 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.

On a percentage of total revenue basis, the comparable operations indicate a marketing expense range from 6.6% to 8.7%, or $4,035 to $7,420 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the Proposed Headquarters Hotel, we have positioned the marketing expense level at a market- and property-supported level. In the first projection year, we have projected marketing expense for the Proposed Headquarters Hotel to be $4,758 per available room, or 7.9% of total revenue. By the 2021 stabilized year, these amounts change to $5,300 per available room and 7.1% of total revenue.

Franchise Fee

As previously discussed, the Proposed Headquarters Hotel is expected to be brand operated; as such, no franchise agreement will exist and no franchise fees are expected to be required throughout the ten-year forecast period.

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.

On a percentage of total revenue basis, the comparable operations indicate a property operations and maintenance expense range from 3.4% to 4.7%, or $2,333 to $4,015 per available room. We expect the Proposed Headquarters Hotel's maintenance operation to be well managed, and expense levels should stabilize at a typical level for a property of this type. Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, we have projected property operations and maintenance expense for the Proposed Headquarters Hotel to be $3,008 per available room, or 5.0% of total revenue. By the 2021 stabilized year, these amounts change to $3,351 per available room and 4.5% 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.

On a percentage of total revenue basis, the comparable operations indicate a utilities expense range from 3.1% to 4.4%, or $1,816 to $3,381 per available room.

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, we have projected utilities expense for the Proposed Headquarters Hotel to be $3,391 per available room, or 5.6% of total revenue. By the 2021 stabilized year, these amounts change to $3,777 per available room and 5.0% 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 contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are 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 Proposed Headquarters Hotel have been forecast at 3.0% of total revenue.

Property Taxes

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

For the purposes of this analysis, it has been assumed that property taxes will not be owed due to government ownership of the site.

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.

Based on comparable data and the structural attributes of the Proposed Headquarters Hotel project, we project the property's insurance expense at $2,193 per available room by the stabilized year (positioned at $1,800 on a per-available-room basis in base-year dollars). This forecast equates to 2.9% 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. 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 Proposed Headquarters Hotel 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 property's furniture, fixtures, and equipment. This amount is ramped up during the initial projection period.

Conclusion

In conclusion, our analysis reflects a profitable operation, with net income expected to total 26.4% 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 sources. On the cost side, departmental expenses total 39.1% of revenue by the stabilized year, while undistributed operating expenses total 24.6% 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 6.9% of total revenues in fixed expenses, a net income ratio of 26.4% is forecast by the stabilized year.

2. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. All information, financial operating statements, estimates, and opinions obtained from parties not employed by HVS are assumed to be true and correct. We can assume no liability resulting from misinformation.
3. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the proposed subject property.
4. The proposed facility is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
5. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
6. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
7. We take no responsibility for any events or circumstances that take place subsequent to the date of our report.
8. The quality of a facility's on-site management has a direct effect on a property's economic performance. The demand and financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
9. The impact analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease due to market volatility and economic forces outside the control of the venue’s management.

10. We do not warrant that our estimates will be attained, but they have been developed on the basis of information obtained during the course of our market research and are intended to reflect reasonable expectations.

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

12. 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.

13. Although this analysis employs various mathematical calculations, the final estimates are subjective and may be influenced by our experience and other factors not specifically set forth in this report.

14. This report was prepared by HVS Convention, Sports & Entertainment Facilities Consulting. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of this organization, as employees, rather than as individuals.

15. This report is set forth as an market study of the proposed subject project; this is not an appraisal report.

3. 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;
1. 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;
2. 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;
3. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
4. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
5. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
6. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
7. Thomas Hazinksi and Brian Harris participated in the analysis;
8. 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;
9. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and

Thomas Hazinski
Managing Director

Brian Harris
Director