



**FEASIBILITY STUDY**

---

# Proposed SpringHill Suites

400 OCEAN AVENUE  
REVERE, MASSACHUSETTS



**SUBMITTED TO:**

**PREPARED BY:**

HVS Consulting & Valuation  
Division of TS Worldwide, LLC  
1400 Old Country Road, Suite 105N  
Westbury, New York 11590

+1 (516) 248-8828

April 20, 2018

HVS NEW YORK

1400 Old Country Road  
Suite 105N  
Westbury, New York 11590

+1 (516) 248-8828

[www.hvs.com](http://www.hvs.com)

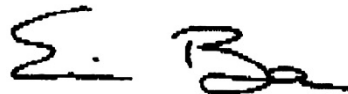
Re: SpringHill Suites  
Revere, Massachusetts  
HVS Reference: 2018020624

Dear \_\_\_\_\_

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 Revere, Massachusetts 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



Erich Baum, CRE, Senior Vice President  
EBaum@hvs.com, +1 (603) 502-6625  
State Appraiser License (MA) 103018

# Table of Contents

SECTION	TITLE	PAGE
1.	Executive Summary	1
	Ownership and Management	2
	Franchise	2
	Summary of Hotel Market Trends	3
	Summary of Forecast Occupancy and Average Rate	4
	Summary of Forecast Income and Expense Statement	4
	Feasibility Conclusion	7
2.	Real Estate Overview	10
	LAND DESCRIPTION	10
	Access and Visibility	16
	Neighborhood	17
	Flood Zone	22
	Zoning	23
	IMPROVEMENTS DESCRIPTION	24
	Market Area Analysis	34
3.	Economic and Demographic Review	35
	Workforce Characteristics	37
	Unemployment Statistics	41
	Major Business and Industry	42
	Convention Center	43
	Office Space Statistics	45
	Airport Traffic	49
	Tourist Attractions	51
	Conclusion	54
4.	Supply and Demand Analysis	56
	National Trends Overview	56
	Historical Performance – Competitive Set	60

	Secondary Competitors	75
	New Supply	75
5.	Projection of Occupancy and Average Rate	80
	Average Rate Forecast	81
6.	Projection of Income and Expense	86
	Comparable Operating Statements	86
	Forecast of Revenue and Expense	91
	Rooms Department	94
	Other Operated Departments	94
	Administrative and General Expense	95
	Marketing Expense	96
	Franchise Fee	97
	Property Operations and Maintenance	97
	Utilities Expense	98
	Management Fee	98
	Property Taxes	98
	Insurance Expense	100
	Reserve for Replacement	100
	Forecast of Revenue and Expense Conclusion	101
7.	Feasibility Analysis	104
	Construction Cost Estimate	104
	Mortgage Component	105
	Equity Yield	108
	Reversionary Proceeds	109
	Feasibility Conclusion	111
8.	Statement of Assumptions and Limiting Conditions	112
9.	Certification	115
	 Addenda	
	Qualifications	
	Appraiser License	

# 1. Executive Summary

## Subject of the Feasibility Study

The subject of the feasibility study is a 57,095-square-foot (1.31-acre) parcel to be improved with an upscale, 168-room, six-story hotel located immediately adjacent to the MBTA's Wonderland transit station, and across Ocean Avenue from Revere Beach and the Atlantic Ocean. The site address is 400 Ocean Avenue, Revere, Massachusetts, 02151.

The hotel will be affiliated with SpringHill Suites, Marriott's limited-service all-suites brand, but in addition to providing the brand-standard complimentary breakfast, the property will include an on-site leased restaurant ( $\pm 4,000$  square feet) as well as a Starbucks coffee store. Other public facilities will include  $\pm 4,115$  square feet of indoor meeting space,  $\pm 2,200$  square feet of outdoor event space, a plaza garden, an indoor swimming pool, a fitness room, and two enclosed levels of deck parking within the building structure, containing 127 spaces. Parking will be complimentary, and management will also offer a complimentary airport shuttle. The hotel is assumed to open on January 1, 2020.

## RENDERING – EXTERIOR VIEW



**Pertinent Dates**

Erich Baum, CRE inspected the subject site on April 5, 2018. Our forecast of income and expense begin on the hotel's assumed opening date, January 1, 2020. (The property is in fact expected to open on December 1, 2019, but we have adjusted the start date ahead one month for simplicity sake.) All forecasts are presented in future dollars.

**Ownership and Management**

Ownership of the subject site is currently vested in Lixi Hospitality Revere, Inc., an affiliate of Lixi Group, which acquired the property on September 11, 2017 from Eurovest Development, Inc. The subject land is part of a broader master-planned redevelopment that was conceived by Eurovest and advanced in partnership with various developers. The land was acquired for \$4,366,667. The proposed hotel property will be developed and managed by the Lixi Group. Our analysis does not assume a specific management company; rather, our forecasts reflect the anticipated economic results generated by a typical professional hotel management company, with management fees deducted consistent with market standards at 3.0% of total revenues.

**Franchise**

The subject property has been designed and will be constructed consistent with SpringHill Suites brand standards. The SpringHill Suites by Marriott brand targets corporate-transient demand during the midweek period; however, it is also popular with weekend leisure travelers given the mix of amenities and spacious modified-suite guestrooms, which are approximately 25% larger than traditional hotel rooms. Each SpringHill Suites by Marriott hotel offers a complimentary breakfast with healthy options, a market pantry, a business center, a swimming pool and whirlpool, and a fitness room. Guestrooms feature separate working and sleeping areas, and each room offers a kitchenette with mini-refrigerator, microwave, and coffeemaker. The brand is categorized within STR's "Upscale" chain scale; other brands in this category include AC by Marriott, Aloft, Courtyard by Marriott, Hilton Garden Inn, Homewood Suites, Hyatt Place, and Residence Inn, among others.

As of year-end 2017, there were 388 SpringHill Suites by Marriott properties (45,946 rooms) in operation across North America. The brand achieved an overall occupancy of 74.5% and an average daily rate of \$120.36, resulting in an average RevPAR level of \$89.63, for its North American properties in 2016. While individual brand statistics for 2017 were not available, Marriott reported an overall occupancy of 71.1% and an average daily rate of \$129.02 for its North American limited- and select-service hotels (as a composite), resulting in an average RevPAR level of \$91.73, for 2017.

The franchise agreement was signed in June 2016 and will extend for 20 years beginning as of the hotel's opening date. Brand standard fees include a royalty equal to 5.5% of rooms revenue and a marketing fund contribution equal to 2.5% of rooms revenue, for a total of 8.0% of rooms revenue. Assuming the hotel opens as currently

scheduled, Marriott has agreed to a partial reduction in the royalty rate during the first two years of operation, equal to 2.0% of rooms revenue in Year One and 4.0% of rooms revenue in Year Two. We have made our forecast consistent with these terms.

**Summary of Hotel  
Market Trends**

The following table details historical results for the 13 hotels that we have defined as the proposed hotel's competitive set. The data is presented in aggregate and includes total inventory and occupied rooms, and aggregate occupancy, average rate, and RevPAR (rooms revenue per available room). The data was provided by STR.

**FIGURE 1-1 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)**

Year	Average Daily	Available Room Nights		Occupied Room Nights		Occupancy	Average Rate		RevPAR	
	Room Count	Total	% Chg	Total	% Chg		Total	% Chg	Total	% Chg
2008	1,587	579,255	—	432,044	—	74.6 %	\$127.77	—	\$95.30	—
2009	1,587	579,255	0.0 %	437,977	1.4 %	75.6	111.64	(12.6) %	84.41	(11.4) %
2010	1,587	579,255	0.0	463,279	5.8	80.0	120.81	8.2	96.63	14.5
2011	1,575	574,875	(0.8)	469,037	1.2	81.6	128.43	6.3	104.78	8.4
2012	1,629	594,459	3.4	492,568	5.0	82.9	137.43	7.0	113.88	8.7
2013	1,703	621,595	4.6	525,111	6.6	84.5	143.71	4.6	121.41	6.6
2014	1,703	621,595	0.0	532,882	1.5	85.7	159.85	11.2	137.03	12.9
2015	1,901	694,023	11.7	594,462	11.6	85.7	173.02	8.2	148.20	8.2
2016	2,160	788,437	13.6	654,774	10.1	83.0	176.10	1.8	146.24	(1.3)
2017	2,406	878,137	11.4	700,089	6.9	79.7	180.03	2.2	143.53	(1.9)
<b>Year-to-Date Through February</b>										
2017	2,185	128,915	—	89,777	—	69.6 %	\$132.33	—	\$92.16	—
2018	2,461	145,199	12.6 %	101,718	13.3 %	70.1	124.08	(6.2) %	86.93	(5.7) %
Average Annual Compounded Change:										
2008 - 2017			4.7 %	5.5 %			3.9 %		4.7 %	
2012 - 2017			8.1	7.3			5.5		4.7	
<b>Hotels Included in Sample</b>		<b>Neighborhood</b>	<b>Competitive Status</b>		<b>Number of Rooms</b>	<b>Year Opened</b>				
Four Points by Sheraton		Revere	Secondary		180	1962				
Courtyard by Marriott		East Boston	Secondary		351	1973				
Comfort Inn & Suites		Revere	Secondary		208	2000				
DoubleTree Hotel		Chelsea	Secondary		180	2001				
Hampton Inn		Revere	Secondary		250	2001				
Embassy Suites		East Boston	Primary		273	2003				
Residence Inn Tudor Wharf		Charlestown	Primary		168	2003				
Residence Inn		Chelsea	Primary		128	Aug-2012				
TownePlace Suites		Chelsea	Secondary		140	Mar-2015				
Hilton Garden Inn		East Boston	Primary		178	Aug-2015				
AC Hotel by Marriott		Medford	Primary		152	Mar-2016				
Homewood Suites		Chelsea	Primary		152	Mar-2017				
enVision, Ascend Collection		Everett	Secondary		101	Apr-2017				
<b>Total</b>					<b>2,461</b>					

Source: STR



The following tables describe the historical operating results and physical characteristics of the six hotels that are expected to function as primary competition for the proposed subject hotel.

**FIGURE 1-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE**

Property	No. of Rooms	Estimated 2016			Estimated 2017			Penetration Factors		
		OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR
Embassy Suites - E. Boston	273	80 - 85 %	\$200 - \$210	\$170 - \$180	75 - 80 %	\$210 - \$220	\$170 - \$180	100 - 110 %	110 - 120 %	120 - 130 %
Hilton Garden Inn - E. Boston	178	85 - 90	180 - 190	160 - 170	85 - 90	190 - 200	170 - 180	110 - 120	100 - 110	120 - 130
Homewood Suites - Chelsea	152	—	—	—	80 - 85	180 - 190	150 - 160	100 - 110	100 - 110	100 - 110
Residence Inn - Chelsea	128	90 - 95	170 - 180	160 - 170	90 - 95	170 - 180	160 - 170	110 - 120	95 - 100	110 - 120
Residence Inn Tudor Wharf - Charlestown	168	80 - 85	250 - 260	210 - 220	85 - 90	240 - 250	210 - 220	100 - 110	130 - 140	140 - 150
AC Hotel by Marriott - Medford	152	85 - 90	190 - 200	170 - 180	85 - 90	190 - 200	170 - 180	110 - 120	100 - 110	120 - 130
<b>Sub-Totals/Averages</b>	<b>1,051</b>	<b>85.9 %</b>	<b>\$205.88</b>	<b>\$176.78</b>	<b>86.1 %</b>	<b>\$205.22</b>	<b>\$176.71</b>	<b>108.1 %</b>	<b>114.0 %</b>	<b>123.2 %</b>
Secondary Competitors	1,404	81.0 %	\$154.65	\$125.30	74.9 %	\$158.48	\$118.67	94.0 %	88.0 %	82.7 %
<b>Totals/Averages</b>	<b>2,455</b>	<b>83.0 %</b>	<b>\$176.10</b>	<b>\$146.13</b>	<b>79.7 %</b>	<b>\$180.03</b>	<b>\$143.44</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

\* Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.

**FIGURE 1-3 PRIMARY COMPETITORS – PHYSICAL CHARACTERISTICS**

Property	No. of Rooms	Year Opened	Last Major Renovation	Distance to Subject (mi)	Meeting Space (SF)		Facilities & Amenities
					Total	Per Room	
Embassy Suites - E. Boston 207 Porter Street	273	2003	2008	3.6	4,745	17	Restaurant/bar, free made-to-order breakfast, indoor pool/whirlpool, fitness room, business center, valet parking only (\$49/night), short walk to T, 24-hour airport shuttle
Hilton Garden Inn - E. Boston 100 Boardman Street	178	2015	N/A	1.9	3,450	19	Bar and grill, indoor pool, fitness room, business center, free surface parking, 24-hour shuttle to Logan and T
Homewood Suites - Chelsea 145 Beech Street	152	2017	N/A	2.6	4,648	31	Complimentary breakfast, lobby bar, indoor salt-water pool, fitness room, business center, free surface parking, 24-hour airport shuttle
Residence Inn - Chelsea 200 Maple Street	128	2012	N/A	2.7	1,350	11	Complimentary breakfast, lobby bar, indoor salt-water pool, fitness room, business center, free surface parking, 24-hour airport shuttle
Residence Inn Tudor Wharf - Charlestown 34-44 Charles River Avenue	168	2003	2008	4.6	450	3	Complimentary breakfast, indoor pool, fitness room, business center, valet parking only (\$45/night)
AC Hotel by Marriott - Medford 95 Station Landing	152	2016	N/A	4.7	1,686	11	Breakfast buffet (\$16+), AC Kitchen/Lounge, indoor pool, fitness room, business center, free surface parking

**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 80% and a base-year rate position of \$200.00 for the proposed subject hotel. The following table reflects a summary of our market-wide and proposed subject hotel occupancy and average rate projections.

**FIGURE 1-4 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST**

Calendar Year	Base Year						
	2017	2018	2019	2020	2021	2022	2023
Market ADR	\$180.03	\$176.43	\$176.43	\$180.84	\$185.36	\$190.00	\$194.75
Projected Market ADR Growth Rate	—	-2.0%	0.0%	2.5%	2.5%	2.5%	2.5%
Subject Property ADR - Unadjusted	<b>\$200.00</b>	\$196.00	\$196.00	\$200.90	\$205.92	\$211.07	\$216.35
ADR Growth Rate	—	-2.0%	0.0%	2.5%	2.5%	2.5%	2.5%
<b>Opening Discount Adjustment</b>							
Subject Property ADR - Unadjusted				\$200.90	\$205.92	\$211.07	\$216.35
Opening Discount				5.0%	2.5%	0.0%	0.0%
<b>Subject Property ADR - Adjusted</b>				<b>\$190.86</b>	<b>\$200.77</b>	<b>\$211.07</b>	<b>\$216.35</b>
Real Average Rate Growth				—	5.2%	5.1%	2.5%
Subject ADR Penetration Factor				106%	108%	111%	111%
Subject ADR - Expressed in 2017 Dollars				\$177.23	\$181.89	\$186.56	\$186.56

**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 is presented in the following table.

**FIGURE 1-5 DETAILED FORECAST OF INCOME AND EXPENSE THROUGH STABILIZED YEAR**

	2020 (Calendar Year)				2021				Stabilized			
Number of Rooms:	168				168				168			
Occupancy:	75%				78%				80%			
Average Rate:	\$190.86				\$200.77				\$211.07			
RevPAR:	\$143.14				\$156.60				\$168.86			
Days Open:	365				365				365			
Occupied Rooms:	45,990	%Gross	PAR	POR	47,830	%Gross	PAR	POR	49,056	%Gross	PAR	POR
<b>OPERATING REVENUE</b>												
Rooms	\$8,777	94.4 %	\$52,244	\$190.85	\$9,603	94.7 %	\$57,161	\$200.78	\$10,354	94.9 %	\$61,631	\$211.06
Other Operated Departments	518	5.6	3,086	11.27	537	5.3	3,199	11.24	555	5.1	3,304	11.31
<b>Total Operating Revenues</b>	<b>9,295</b>	<b>100.0</b>	<b>55,330</b>	<b>202.12</b>	<b>10,140</b>	<b>100.0</b>	<b>60,360</b>	<b>212.01</b>	<b>10,909</b>	<b>100.0</b>	<b>64,935</b>	<b>222.38</b>
<b>DEPARTMENTAL EXPENSES *</b>												
Rooms	2,060	23.5	12,264	44.80	2,144	22.3	12,764	44.83	2,220	21.4	13,215	45.26
Other Operated Departments	263	50.7	1,563	5.71	270	50.3	1,608	5.65	278	50.0	1,652	5.66
<b>Total Expenses</b>	<b>2,323</b>	<b>25.0</b>	<b>13,827</b>	<b>50.51</b>	<b>2,414</b>	<b>23.8</b>	<b>14,372</b>	<b>50.48</b>	<b>2,498</b>	<b>22.9</b>	<b>14,867</b>	<b>50.91</b>
<b>DEPARTMENTAL INCOME</b>	<b>6,972</b>	<b>75.0</b>	<b>41,503</b>	<b>151.61</b>	<b>7,726</b>	<b>76.2</b>	<b>45,988</b>	<b>161.53</b>	<b>8,411</b>	<b>77.1</b>	<b>50,068</b>	<b>171.47</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>												
Administrative & General	749	8.1	4,457	16.28	779	7.7	4,636	16.28	808	7.4	4,808	16.47
Marketing	396	4.3	2,360	8.62	412	4.1	2,454	8.62	428	3.9	2,546	8.72
Franchise Fee	395	4.2	2,351	8.59	624	6.2	3,715	13.05	828	7.6	4,930	16.89
Prop. Operations & Maint.	352	3.8	2,097	7.66	367	3.6	2,182	7.66	380	3.5	2,263	7.75
Utilities	317	3.4	1,888	6.90	330	3.3	1,963	6.90	342	3.1	2,037	6.97
<b>Total Expenses</b>	<b>2,210</b>	<b>23.8</b>	<b>13,152</b>	<b>48.05</b>	<b>2,512</b>	<b>24.9</b>	<b>14,950</b>	<b>52.51</b>	<b>2,786</b>	<b>25.5</b>	<b>16,584</b>	<b>56.79</b>
<b>GROSS HOUSE PROFIT</b>	<b>4,763</b>	<b>51.2</b>	<b>28,350</b>	<b>103.56</b>	<b>5,214</b>	<b>51.3</b>	<b>31,038</b>	<b>109.02</b>	<b>5,625</b>	<b>51.6</b>	<b>33,484</b>	<b>114.67</b>
Management Fee	279	3.0	1,660	6.06	304	3.0	1,811	6.36	327	3.0	1,948	6.67
<b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b>	<b>4,484</b>	<b>48.2</b>	<b>26,690</b>	<b>97.50</b>	<b>4,910</b>	<b>48.3</b>	<b>29,227</b>	<b>102.66</b>	<b>5,298</b>	<b>48.6</b>	<b>31,536</b>	<b>108.00</b>
<b>NON-OPERATING INCOME &amp; EXPENSE</b>												
Property Taxes	688	7.4	4,096	14.96	705	7.0	4,199	14.75	723	6.6	4,304	14.74
Insurance	90	1.0	538	1.97	93	0.9	552	1.94	95	0.9	566	1.94
Reserve for Replacement	186	2.0	1,107	4.04	304	3.0	1,811	6.36	436	4.0	2,597	8.90
<b>Total Expenses</b>	<b>965</b>	<b>10.4</b>	<b>5,742</b>	<b>20.97</b>	<b>1,102</b>	<b>10.9</b>	<b>6,562</b>	<b>23.05</b>	<b>1,254</b>	<b>11.5</b>	<b>7,467</b>	<b>25.57</b>
<b>EBITDA LESS RESERVE</b>	<b>\$3,519</b>	<b>37.8 %</b>	<b>\$20,949</b>	<b>\$76.53</b>	<b>\$3,808</b>	<b>37.4 %</b>	<b>\$22,665</b>	<b>\$79.61</b>	<b>\$4,044</b>	<b>37.1 %</b>	<b>\$24,069</b>	<b>\$82.43</b>

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

**FIGURE 1-6 TEN-YEAR FORECAST OF INCOME AND EXPENSE**

	2020		2021		2022		2023		2024		2025		2026		2027		2028		2029	
<b>Number of Rooms:</b>	<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>	
<b>Occupied Rooms:</b>	<b>45,990</b>		<b>47,830</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>	
<b>Occupancy:</b>	<b>75%</b>		<b>78%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>	
<b>Average Rate:</b>	<b>\$190.86</b>	<b>% of</b>	<b>\$200.77</b>	<b>% of</b>	<b>\$211.07</b>	<b>% of</b>	<b>\$216.35</b>	<b>% of</b>	<b>\$221.76</b>	<b>% of</b>	<b>\$227.30</b>	<b>% of</b>	<b>\$232.98</b>	<b>% of</b>	<b>\$238.81</b>	<b>% of</b>	<b>\$244.78</b>	<b>% of</b>	<b>\$250.90</b>	<b>% of</b>
<b>RevPAR:</b>	<b>\$143.14</b>	<b>Gross</b>	<b>\$156.60</b>	<b>Gross</b>	<b>\$168.86</b>	<b>Gross</b>	<b>\$173.08</b>	<b>Gross</b>	<b>\$177.40</b>	<b>Gross</b>	<b>\$181.84</b>	<b>Gross</b>	<b>\$186.39</b>	<b>Gross</b>	<b>\$191.05</b>	<b>Gross</b>	<b>\$195.82</b>	<b>Gross</b>	<b>\$200.72</b>	<b>Gross</b>
<b>OPERATING REVENUE</b>																				
Rooms	\$8,777	94.4 %	\$9,603	94.7 %	\$10,354	94.9 %	\$10,613	94.9 %	\$10,878	94.9 %	\$11,150	94.9 %	\$11,429	94.9 %	\$11,715	94.9 %	\$12,008	94.9 %	\$12,308	94.9 %
Other Operated Departments	518	5.6	537	5.3	555	5.1	569	5.1	583	5.1	598	5.1	613	5.1	628	5.1	644	5.1	660	5.1
<b>Total Operating Revenues</b>	<b>9,295</b>	<b>100.0</b>	<b>10,140</b>	<b>100.0</b>	<b>10,909</b>	<b>100.0</b>	<b>11,182</b>	<b>100.0</b>	<b>11,461</b>	<b>100.0</b>	<b>11,748</b>	<b>100.0</b>	<b>12,042</b>	<b>100.0</b>	<b>12,343</b>	<b>100.0</b>	<b>12,652</b>	<b>100.0</b>	<b>12,968</b>	<b>100.0</b>
<b>DEPARTMENTAL EXPENSES *</b>																				
Rooms	2,060	23.5	2,144	22.3	2,220	21.4	2,276	21.4	2,332	21.4	2,391	21.4	2,451	21.4	2,512	21.4	2,575	21.4	2,639	21.4
Other Operated Departments	263	50.7	270	50.3	278	50.0	284	50.0	292	50.0	299	50.0	306	50.0	314	50.0	322	50.0	330	50.0
<b>Total Expenses</b>	<b>2,323</b>	<b>25.0</b>	<b>2,414</b>	<b>23.8</b>	<b>2,498</b>	<b>22.9</b>	<b>2,560</b>	<b>22.9</b>	<b>2,624</b>	<b>22.9</b>	<b>2,690</b>	<b>22.9</b>	<b>2,757</b>	<b>22.9</b>	<b>2,826</b>	<b>22.9</b>	<b>2,896</b>	<b>22.9</b>	<b>2,969</b>	<b>22.9</b>
<b>DEPARTMENTAL INCOME</b>	<b>6,972</b>	<b>75.0</b>	<b>7,726</b>	<b>76.2</b>	<b>8,411</b>	<b>77.1</b>	<b>8,622</b>	<b>77.1</b>	<b>8,837</b>	<b>77.1</b>	<b>9,058</b>	<b>77.1</b>	<b>9,285</b>	<b>77.1</b>	<b>9,517</b>	<b>77.1</b>	<b>9,755</b>	<b>77.1</b>	<b>9,999</b>	<b>77.1</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>																				
Administrative & General	749	8.1	779	7.7	808	7.4	828	7.4	849	7.4	870	7.4	892	7.4	914	7.4	937	7.4	960	7.4
Marketing	396	4.3	412	4.1	428	3.9	438	3.9	449	3.9	461	3.9	472	3.9	484	3.9	496	3.9	508	3.9
Franchise Fee	395	4.2	624	6.2	828	7.6	849	7.6	870	7.6	892	7.6	914	7.6	937	7.6	961	7.6	985	7.6
Prop. Operations & Maint.	352	3.8	367	3.6	380	3.5	390	3.5	399	3.5	409	3.5	420	3.5	430	3.5	441	3.5	452	3.5
Utilities	317	3.4	330	3.3	342	3.1	351	3.1	359	3.1	368	3.1	378	3.1	387	3.1	397	3.1	407	3.1
<b>Total Expenses</b>	<b>2,210</b>	<b>23.8</b>	<b>2,512</b>	<b>24.9</b>	<b>2,786</b>	<b>25.5</b>	<b>2,856</b>	<b>25.5</b>	<b>2,927</b>	<b>25.5</b>	<b>3,000</b>	<b>25.5</b>	<b>3,075</b>	<b>25.5</b>	<b>3,152</b>	<b>25.5</b>	<b>3,231</b>	<b>25.5</b>	<b>3,312</b>	<b>25.5</b>
<b>GROSS HOUSE PROFIT</b>	<b>4,763</b>	<b>51.2</b>	<b>5,214</b>	<b>51.3</b>	<b>5,625</b>	<b>51.6</b>	<b>5,766</b>	<b>51.6</b>	<b>5,910</b>	<b>51.6</b>	<b>6,058</b>	<b>51.6</b>	<b>6,209</b>	<b>51.6</b>	<b>6,365</b>	<b>51.6</b>	<b>6,524</b>	<b>51.6</b>	<b>6,687</b>	<b>51.6</b>
Management Fee	279	3.0	304	3.0	327	3.0	335	3.0	344	3.0	352	3.0	361	3.0	370	3.0	380	3.0	389	3.0
<b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b>	<b>4,484</b>	<b>48.2</b>	<b>4,910</b>	<b>48.3</b>	<b>5,298</b>	<b>48.6</b>	<b>5,431</b>	<b>48.6</b>	<b>5,566</b>	<b>48.6</b>	<b>5,705</b>	<b>48.6</b>	<b>5,848</b>	<b>48.6</b>	<b>5,995</b>	<b>48.6</b>	<b>6,145</b>	<b>48.6</b>	<b>6,298</b>	<b>48.6</b>
<b>NON-OPERATING INCOME &amp; EXPENSE</b>																				
Property Taxes	688	7.4	705	7.0	723	6.6	741	6.6	760	6.6	779	6.6	798	6.6	818	6.6	839	6.6	859	6.6
Insurance	90	1.0	93	0.9	95	0.9	97	0.9	100	0.9	102	0.9	105	0.9	108	0.9	110	0.9	113	0.9
Reserve for Replacement	186	2.0	304	3.0	436	4.0	447	4.0	458	4.0	470	4.0	482	4.0	494	4.0	506	4.0	519	4.0
<b>Total Expenses</b>	<b>965</b>	<b>10.4</b>	<b>1,102</b>	<b>10.9</b>	<b>1,254</b>	<b>11.5</b>	<b>1,286</b>	<b>11.5</b>	<b>1,318</b>	<b>11.5</b>	<b>1,351</b>	<b>11.5</b>	<b>1,385</b>	<b>11.5</b>	<b>1,419</b>	<b>11.5</b>	<b>1,455</b>	<b>11.5</b>	<b>1,491</b>	<b>11.5</b>
<b>EBITDA LESS RESERVE</b>	<b>\$3,519</b>	<b>37.8 %</b>	<b>\$3,808</b>	<b>37.4 %</b>	<b>\$4,044</b>	<b>37.1 %</b>	<b>\$4,145</b>	<b>37.1 %</b>	<b>\$4,248</b>	<b>37.1 %</b>	<b>\$4,354</b>	<b>37.1 %</b>	<b>\$4,463</b>	<b>37.1 %</b>	<b>\$4,575</b>	<b>37.1 %</b>	<b>\$4,690</b>	<b>37.1 %</b>	<b>\$4,807</b>	<b>37.1 %</b>

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

As illustrated, the hotel is expected to stabilize at a profitable level. Please refer to the *Forecast of Income and Expense* chapter of our report for a detailed explanation of the methodology used in deriving this forecast.

### Feasibility Conclusion

The *Feasibility Analysis* chapter of this report converts these cash flows into a net present value indication assuming set-forth debt and equity requirements. The conclusion of this analysis indicates that an equity investor contributing \$14,370,000 (roughly 30% of the \$47,900,000 development cost) would receive a 21.12% internal rate of return over a ten-year holding period, assuming that the investor obtains financing at the time of the project's completion at the loan-to-value ratio and interest rate set forth. Whereas threshold equity yield rates are currently in the range of 16% to 18% for projects of this sort, the analysis indicates a strongly positive feasibility conclusion, with a premium to threshold yields of approximately 300 to 500 basis points.

### Assignment Conditions

"Extraordinary Assumption" is defined in USPAP as follows:

An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.<sup>1</sup>

The analysis is based on the extraordinary assumption that the described improvements will have been completed as of the assumed "when complete" date of value. In addition, our study does not address unforeseeable events that could alter the proposed project, and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, will take place between the inspection date and the projected opening date.

We have made no other extraordinary assumptions specific to this appraisal. Assumptions that apply to our evaluations of proposed hotels in general are detailed in the *Assumptions and Limiting Conditions* chapter of this report.

---

<sup>1</sup>The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice*, 2016–2017 ed.

## Intended Use and Users of the Study

This feasibility report was prepared for internal use by the Lixi Group in connection with its evaluation of the proposed subject hotel's economic potential and feasibility.

## 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*,<sup>2</sup> *Hotels, Motels and Restaurants: Valuations and Market Studies*,<sup>3</sup> *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,<sup>4</sup> *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,<sup>5</sup> and *Hotels and Motels – Valuations and Market Studies*.<sup>6</sup>

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 hospitality-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.

<sup>2</sup> Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

<sup>3</sup> Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

<sup>4</sup> Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

<sup>5</sup> Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

<sup>6</sup> Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies*. (Chicago: Appraisal Institute, 2001).



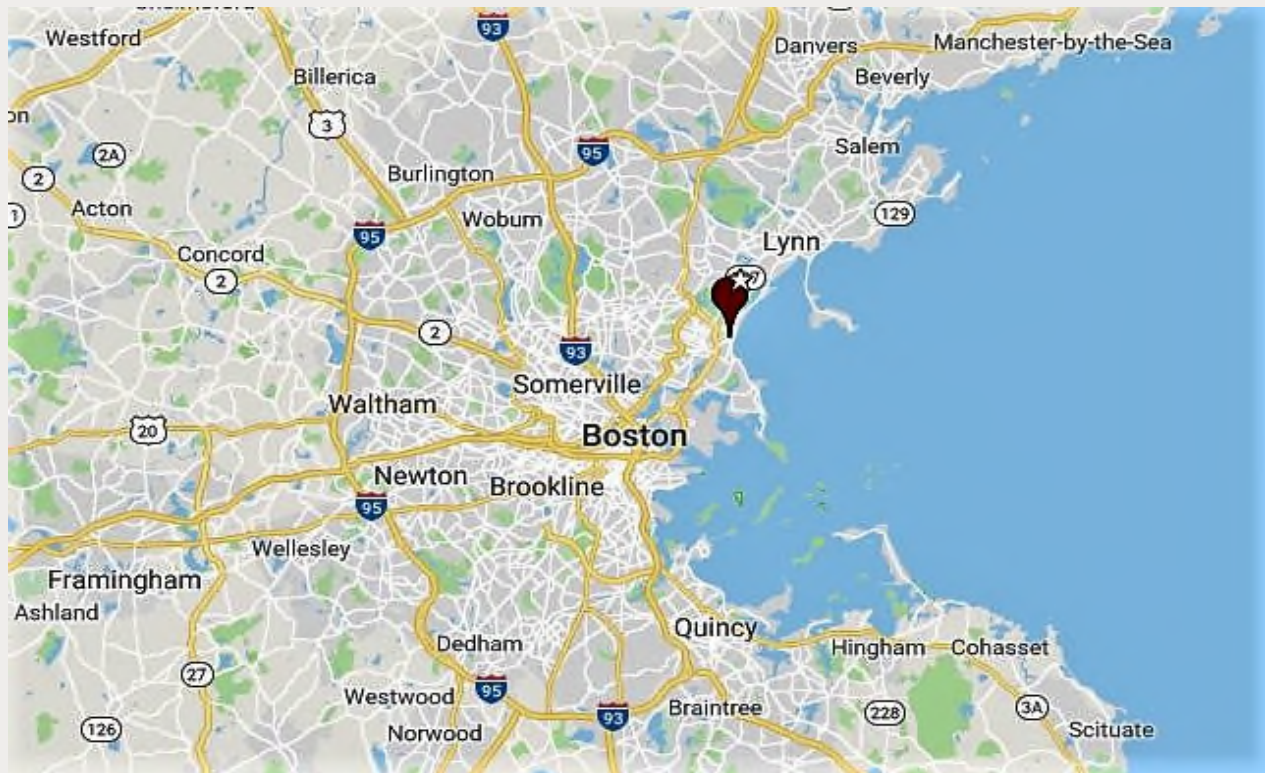
6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.
7. Documentation for 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, in which the market equity yield an investor would expect is compared to the equity yield an investor must accept.

## 2. Real Estate Overview

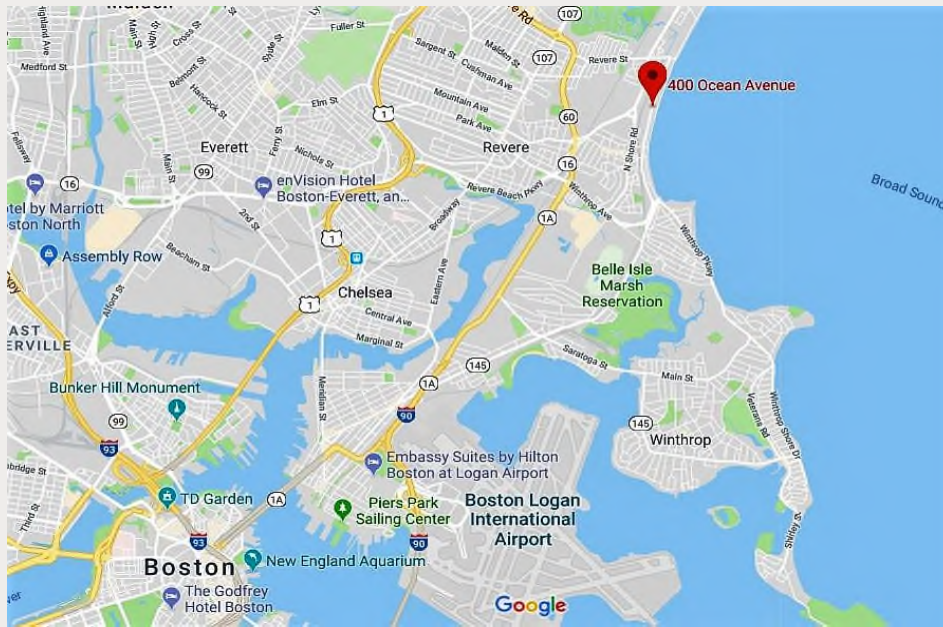
### LAND DESCRIPTION

The subject site's address is 400 Ocean Avenue and it is legally defined as Lot 6 of Parcel H in the Waterfront Square master-planned development. The parcel contains ±57,095 square feet (±1.31 acres) and is adjacent to the MBTA Wonderland transit station, on the west side of Ocean Avenue, across the street from Revere Beach and the Atlantic Ocean. The location is strategic in terms of the direct connections the MBTA station provides to the metropolitan Boston area and particularly the downtown district. In addition, the site is aesthetically advantageous because of its proximity to the beach and ocean views. The following series of maps depict the site's location.

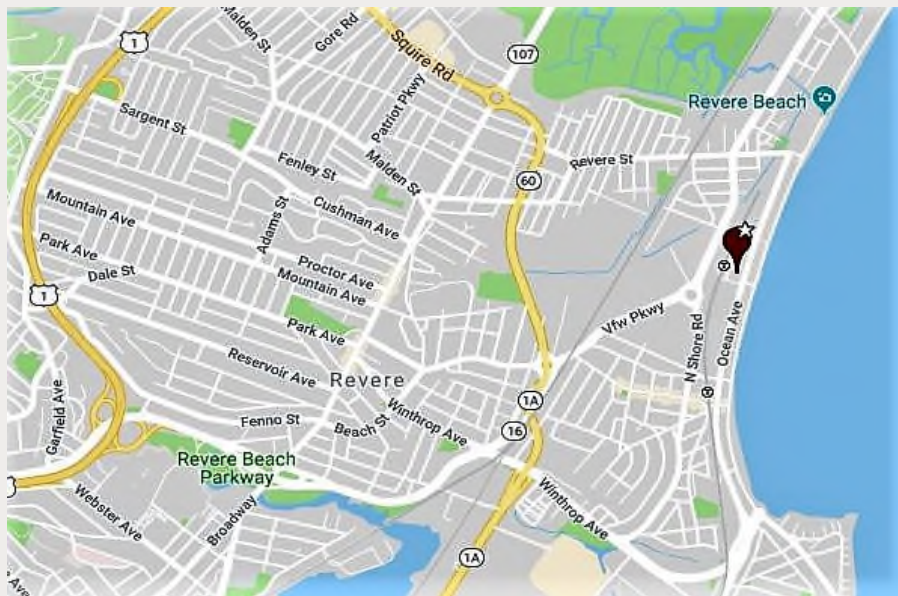
### LOCATION MAP 1



LOCATION MAP 2

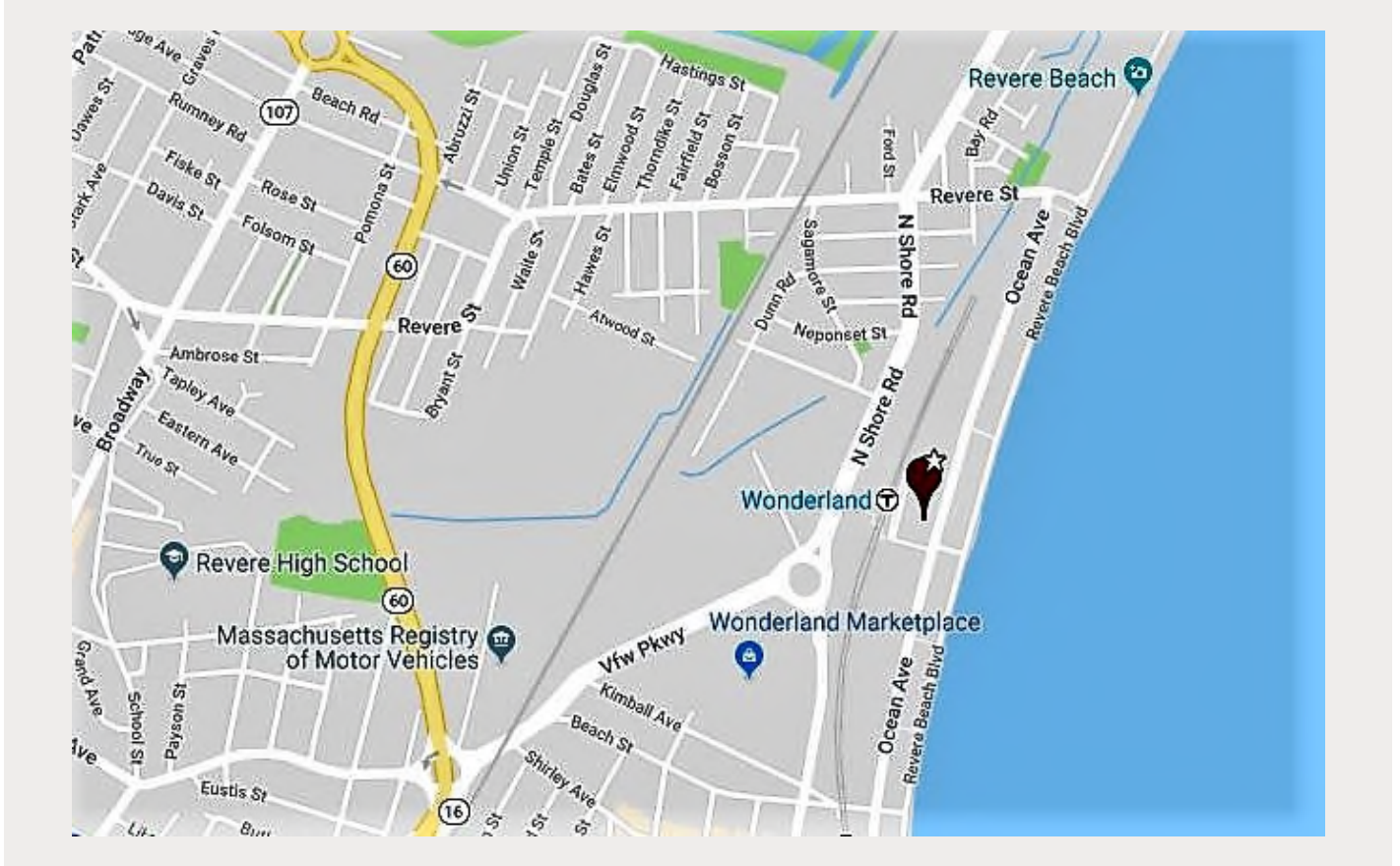


LOCATION MAP 3

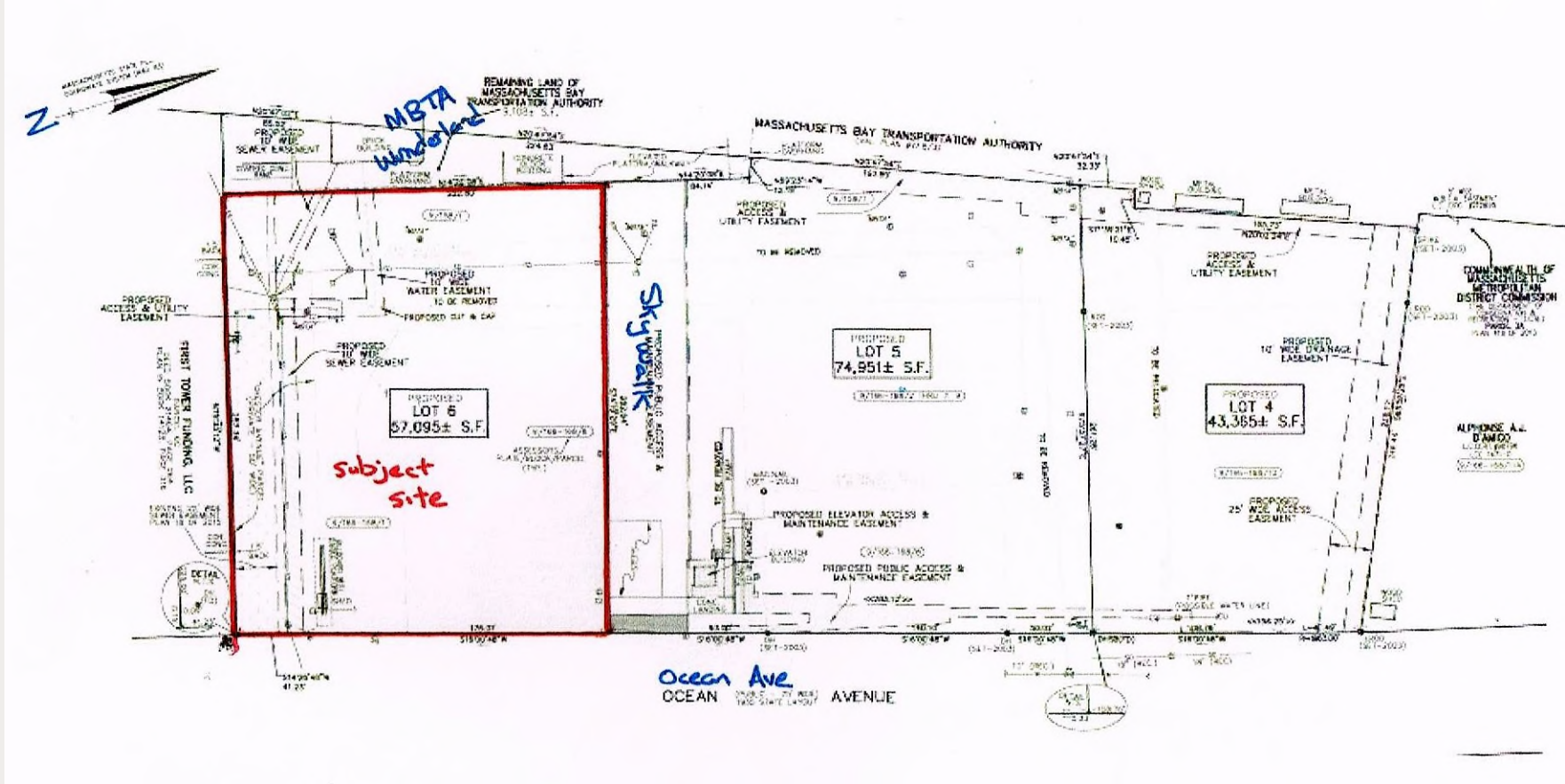




### LOCATION MAP 4



PARCEL MAP



**AERIAL PHOTO**



**FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES**

<u>Direction</u>	<u>Adjacent Use</u>
North	Skywalk
South	Ocean Place Tower / Chester Avenue
East	Ocean Avenue
West	Wonderland MBTA Station

The subject site is flat and at grade with Ocean Avenue. The parcel is rectangular. Because of the adjacent skywalk, the proposed hotel will basically have two pedestrian levels: one via the skywalk and one on Ocean Avenue. The following photographs depict views of and from the subject site.



**VIEW OF SITE LOOKING SOUTHWEST ACROSS OCEAN AVENUE**



**VIEW OF SITE LOOKING SOUTH FROM THE SKYWALK**



**VIEW FROM SITE TO THE EAST**



**VIEW FROM SITE TO THE WEST**



**VIEW FROM SITE TO THE NORTH**



**VIEW FROM SITE TO THE SOUTH**



**Access and Visibility**

Accessibility to the subject property is expected to function as its key strategic advantage, due to its adjacency to the Massachusetts Bay Transit Authority’s Wonderland transit station, which services the Blue Line. The subject site is approximately six miles north of downtown Boston, and the transit connection represents an ideal means of circumventing the traffic congestion and parking costs associated with traveling into the urban core in a personal car. In addition, Boston’s Logan International Airport is connected via the MBTA’s Airport station, also on the Blue Line, where the Massport Shuttle buses provide service to each of the airport’s



terminals. Whereas other hotels in the proposed subject property’s competitive set have varying degrees of convenience to T stations, none approach the convenience that the proposed subject hotel will have.

In terms of local roadways, most motorists will arrive from the south, via either US Highway 1 or State Route 1A. From either of these arterials, motorists connect onto the Revere Beach Parkway and continue eastbound to its terminus at Ocean Avenue northbound. The subject site is located one mile to the north, on the west side of Ocean Avenue. Access is basically comparable to that of the hotels that are expected to function as the subject property’s most direct competition. As for visibility, the six-story subject hotel will have a conspicuous presence in the subject neighborhood due to its height, distinctive architecture, and SpringHill Suites signage.

## Neighborhood

The subject property is in the portion of Revere known as “Revere Beach,” a three-mile strip that extends along the coast from Revere Beach Parkway (to the south) to Carey Circle (to the north). Revere Beach was the first public beach in the nation. In the 1800s, the coast was developed with summer resorts, hotels, a bandstand, amusements, piers, and bathhouses, and the city became famous as a resort area. The grandeur of the area gradually receded through the 1900s, and the last remaining amusements and attractions were destroyed in major storms in the 1950s and 1970s. During the 1980s, the beach was the focus of a major revitalization effort by the city, including new high-rise units, a remanded beach, restored pavilions, and a renovated boulevard. These efforts failed to cohere into a meaningful renaissance, but significant new investment has flowed into the neighborhood in the current decade. Because of the expense and low vacancy rate of downtown Boston’s housing market, Revere has emerged as a viable new construction market for developers of high-density residential buildings.

The subject property is part of Waterfront Square, which was master-planned by Eurovest Development in conjunction with the City of Revere and the Massachusetts Bay Transportation Authority (MBTA, or the “T”). The public-private project calls for a total of 1.3-million square feet and is defined as a “transit-oriented development.” The project essentially commenced in 2010 when construction on the Wonderland Intermodal Transit Center began; it opened in June 2012. The \$53.5-million project included the 1,465-space South Parking Garage, and was followed by completion of the \$20-million Christina and John Markey Memorial Pedestrian Bridge, which opened in July 2013. Also referred to here as the “skyway,” the bridge connects from the Wonderland T station’s plaza to Revere Beach, crossing over busy Ocean Avenue.

Waterfront Square’s first residential component broke ground in 2013, in the form of Vanguard Apartment Homes, a 194-unit mid-rise structure that opened for

occupancy in mid-2015. The second phase, Ocean 650, opened in mid-2016 with 230 units. A third tower, 500 Ocean, broke ground in early 2018 and will contain 300 units. The latter project is located directly to the north of the subject site, on the other side of the skywalk, and is slated for completion in 2020, approximately the same time the proposed subject hotel is scheduled to open. The project extends along Ocean Avenue, between Chester Avenue to the south and Revere Street to the north and represents Revere's largest and highest-quality redevelopment project. Its commercial component will be anchored by the proposed subject hotel, which will include a restaurant and a Starbucks coffee store on the skywalk pedestrian plaza and will link directly to the Wonderland T station. The following graphic illustrates the proposed hotel's relationship to South Garage, the T station, and the beach.

## SITE PLAN



The following images depict the South Garage, the Wonderland T station skywalk plaza, and Revere Beach

**SOUTH PARKING GARAGE**



**WONDERLAND STATION SKYWALK (SUBJECT SITE IN BACKGROUND)**



**REVERE BEACH**

Waterfront Square includes additional development sites, on the parking lots between the buildings outlined in red in the following graphic. In addition, the subject neighborhood includes substantial capacity and plans for further redevelopment, as depicted in the second graphic.



**WATERFRONT SQUARE**



**FUTURE DEVELOPMENT SITES**

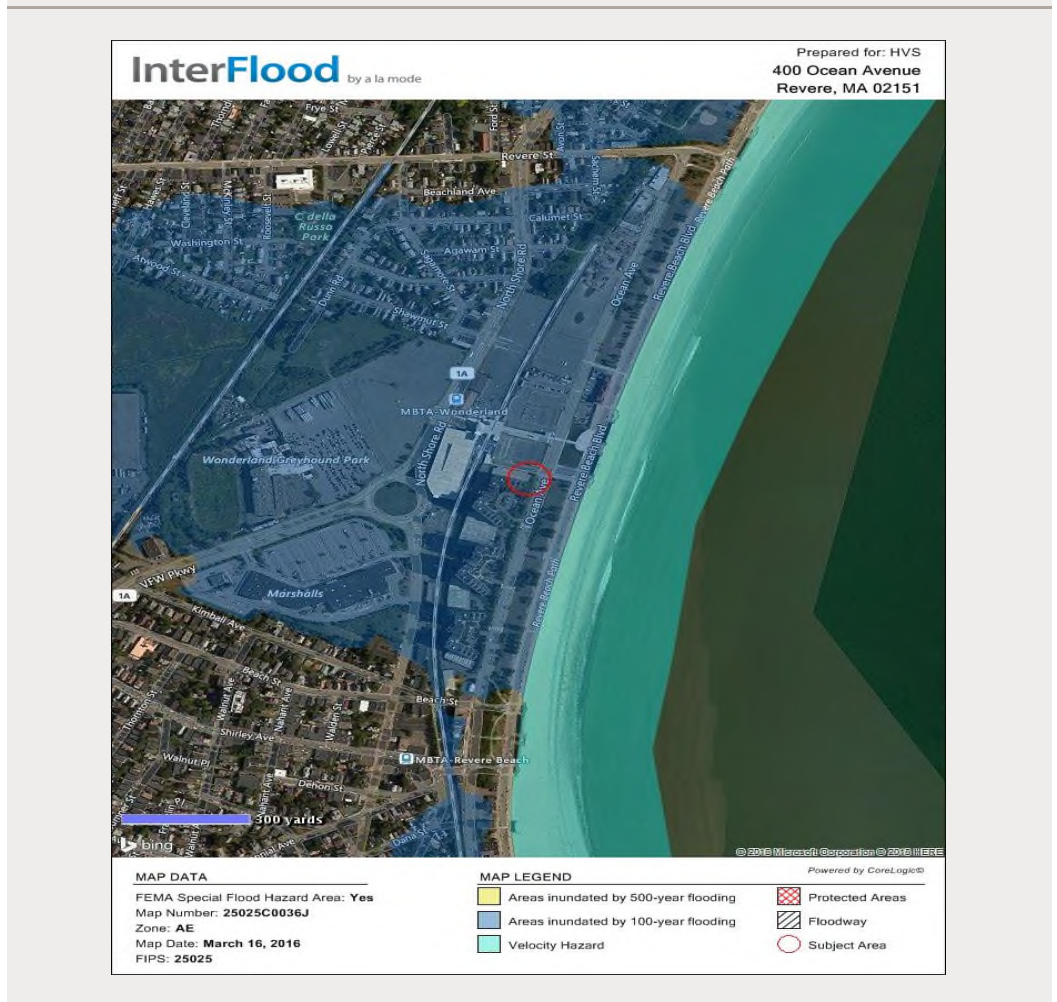


Beyond Waterfront Square, the subject neighborhood is primarily characterized by mid- and high-rise residential towers of varying quality levels, located along the west side of Ocean Avenue, with some small restaurants and single-family residential development mixed in. Restaurants along the beach strip include Antonia’s at the Beach, Figaro’s Revere, Kelly’s Roast Beef, Santorini, and Bianchi’s Pizza. Overall, the subject neighborhood is well suited to the proposed subject hotel, owing to its convenience to the Wonderland T stop, the aesthetic advantages of the beachfront setting, and its proximity to Boston’s Logan International Airport.

**Flood Zone**

According to the Federal Emergency Management Agency map illustrated below, the subject site is located in AE.

**FLOOD MAP AND COVER**





The flood zone definition for the AE designation is as follows: areas of 100-year flood; base flood elevations and flood hazard factors not determined (flood insurance required; refer to FEMA for more specific information on A codes).

## Zoning

The proposed hotel improvements are fully entitled under the “Wonderland Transit-Oriented Development Overlay District,” a master-planned district that encompasses the area surrounding the Massachusetts Bay Transit Authority (MBTA) Wonderland transit station. The purposes of Transit-Oriented Development (TOD) districts are to:

- encourage a mix of moderate and high-density development within walking distance of transit stations to increase transit ridership;
- create a pedestrian-friendly environment to encourage walking, bicycling and transit use;
- provide an alternative to traditional development by emphasizing mixed use, pedestrian oriented development;
- create a neighborhood identity that promotes pedestrian activity, human interactions, safety and livability;
- encourage building reuse and infill to create higher densities;
- reduce auto dependency and roadway congestion by locating multiple destinations and trip purposes within walking distance of one another; and
- provide a range of housing options for people of different income levels and at different stages of life.

Our analysis assumes that the proposed subject property will be constructed consistent with all binding legal standards and municipal requirements.

## Other Assumptions

Other land-related assumptions are summarized below.

**FIGURE 2-2 OTHER LAND-RELATED ASSUMPTIONS**

<b>Utilities</b>	According to property ownership, the subject site is served by all necessary utilities.
<b>Easements and Encroachments</b>	We are not aware of any easements or encroachments encumbering the property that would significantly affect its utility or marketability.
<b>Soil and Subsoil Conditions</b>	Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by a visual inspection of the surface; no extraordinary conditions were apparent.
<b>Nuisances and Hazards</b>	We were not informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.

**IMPROVEMENTS DESCRIPTION**

The proposed subject property is an upscale, 168-room, six-story hotel, to be affiliated with SpringHill Suites. SpringHill Suites is Marriott’s limited-service all-suites brand, but in addition to providing the brand-standard complimentary breakfast, the property will include an on-site leased restaurant (±4,000 square feet) as well as a Starbucks coffee store. Other public facilities will include ±4,115 square feet of indoor meeting space, ±2,200 square feet of outdoor event space, a plaza garden, an indoor swimming pool, a fitness room, and two enclosed levels of deck parking within the building structure, containing 127 spaces. Parking will be complimentary, and management will also offer a complimentary airport shuttle. The hotel is assumed to open on January 1, 2020. The following table summarizes the facilities that are expected to be available at the proposed subject hotel, based on information provided by the project developer.



**FIGURE 2-3 PROPOSED FACILITIES SUMMARY**

<b>Room Type</b>	<b>No. of Units</b>
Queen Queen	96
King	72
Total	168
Oceanside Balcony Units (inclusive)	6
<b>Food &amp; Beverage Facilities</b>	
Restaurant/Bar: 4,000 sq ft (Leased)	
Starbucks Coffee Store: 1,320 sq ft (Operated)	
Complimentary Breakfast Dining Area	
<b>Indoor Meeting &amp; Banquet Facilities</b>	
	<b>Size (sf)</b>
Meeting Rooms 1 & 2 (divisible)	3,645
Conference Room	470
Total	4,115
Outdoor Event Space	2,200
<b>Amenities &amp; Services</b>	
Fitness Room	
Indoor Swimming Pool	
Plaza Garden: 2,000 sq ft	
Lobby Workstation	
24-Hour Complimentary Airport Shuttle	
Complimentary Parking	

The proposed hotel’s construction and building systems are summarized in the following table.

**FIGURE 2-4 HOTEL CONSTRUCTION AND BUILDING SYSTEMS**

Address	400 Ocean Avenue
Parcel Number	Lot 6 of Parcel H - Waterfront Square
<u>Site Size</u>	
Square Footage	57,095
Acreage	1.31
<u>Building Size</u>	
Hotel	121,579 sf
Garage	<u>49,022</u>
Total	170,601 sf
No. of Stories	Six
Projected Opening Date	December 1, 2019
<u>Construction Materials</u>	
Frame	Structural light-gauge steel
Exterior	Ergon tile, granite stone, metal panels, glass, brushed titanium
Roof	Rubber membrane over concrete deck
<u>HVAC</u>	
Guestrooms	Heat pumps
Public Space	Rooftop units
Elevators	Three
Parking	127 spaces on two deck levels (ground and intermediate)

The construction budget for the 168-room subject hotel, as provided by the project developer, is illustrated in the following table.

**FIGURE 2-5 SUBJECT PROPERTY CONSTRUCTION BUDGET**

Component	Cost	
	Total	Per Room
<b>HARD COSTS &amp; SITE IMPROVEMENTS</b>		
New Construction	\$29,000,000	\$172,619
Site Work	400,000	2,381
Temporary Conditions	430,000	2,560
General Conditions and Requirement	2,525,000	15,030
Hoisting	280,000	1,667
GC Insurance	403,000	2,399
GC Fee	970,650	5,778
Hard Cost Contingency	882,000	5,250
Sub-Total	\$34,890,650	\$207,682
<b>FF&amp;E</b>	3,360,000	\$20,000
<b>PRE-OPENING &amp; WORKING CAPITAL</b>		
Pre-Opening	\$252,000	\$1,500
Working Capital	75,600	450
Sub-Total	\$327,600	\$1,950
<b>SOFT COSTS</b>		
Architect	\$898,000	\$5,345
Interior Design	80,000	476
Engineering	100,000	595
Construction MGT	400,000	2,381
Franchise Fee	100,000	595
Closing and Legal	200,000	1,190
Taxes	260,000	1,548
Builders Risk	436,133	2,596
Bond	294,000	1,750
Tap Fees/EDU/Permits	830,000	4,940
Soft Cost Contingency	107,944	643
Bank Interest and Carry Fees	1,228,000	7,310
Sub-Total	\$4,934,077	\$29,370
<b>TOTAL W/O LAND &amp; DEVELOPER'S PROFIT</b>	\$43,512,327	\$259,002
<b>LAND ACQUISITION</b>	\$4,366,667	\$25,992
<b>TOTAL W/O DEVELOPER'S PROFIT</b>	\$47,878,994	\$284,994
Rounded	<b>\$47,900,000</b>	<b>\$285,000</b>

Renderings of the proposed hotel's exterior and interiors follow, as well as floor plans.

**LOOKING NORTHWEST ACROSS OCEAN AVENUE**



**LOOKING SOUTHWEST ACROSS OCEAN AVENUE**



LOOKING SOUTHEAST FROM T STATION PLAZA



TYPICAL GUESTROOM

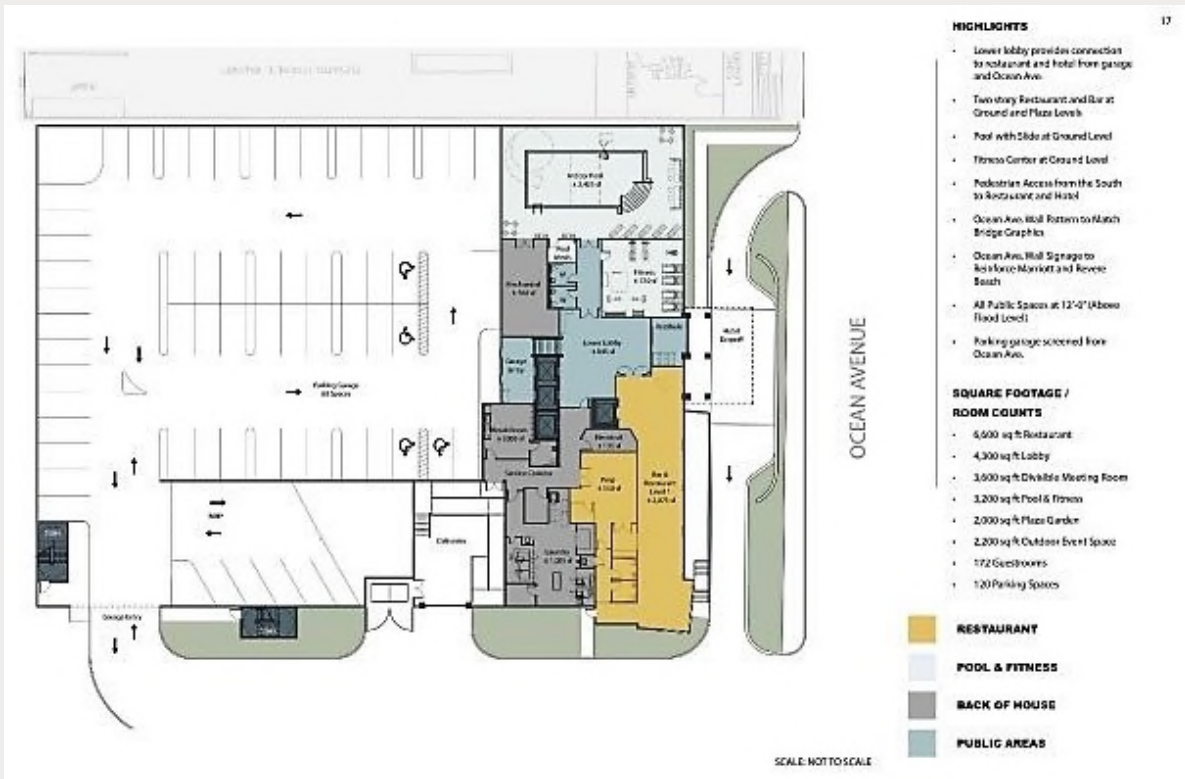




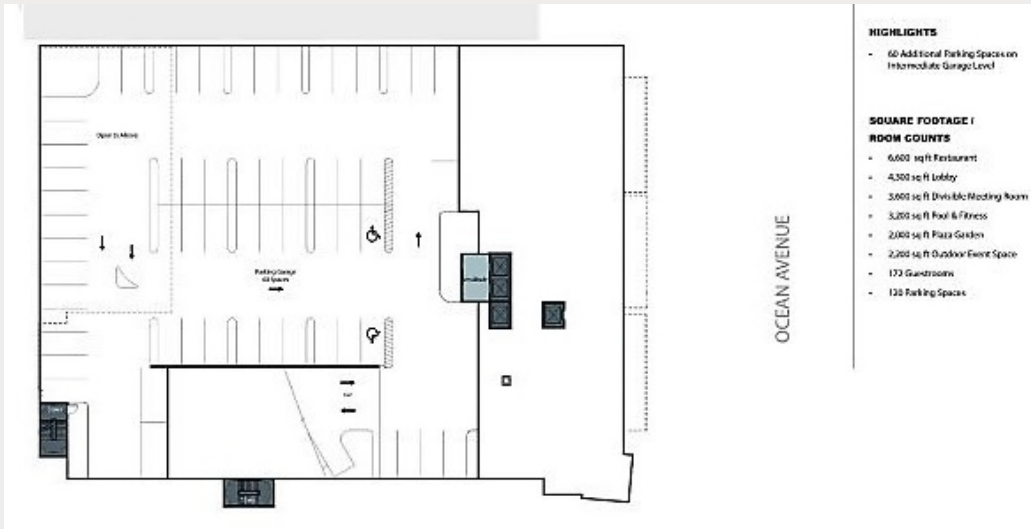
## CROSS SECTION VIEW LOOKING NORTH FROM OCEAN AVENUE



## GROUND LEVEL FLOOR PLAN



## INTERMEDIATE GARAGE LEVEL FLOOR PLAN



## PLAZA LEVEL FLOOR PLAN







- The property will be built according to all pertinent codes and brand standards, in full compliance with the Americans with Disabilities Act.
- We assume the property will be operated with an ongoing preventive-maintenance program consistent with current industry standards.
- After its opening, the hotel will require ongoing upgrades and periodic renovations to maintain its competitive level in this market and to remain compliant with brand standards. We assume that these costs will be adequately funded by the forecasted reserve for replacement.

### 3. Market Area Analysis

The economic vitality of the market area and neighborhood surrounding the subject property is an important consideration in forecasting lodging demand and 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 (e.g., commercial, meeting and group, and leisure).

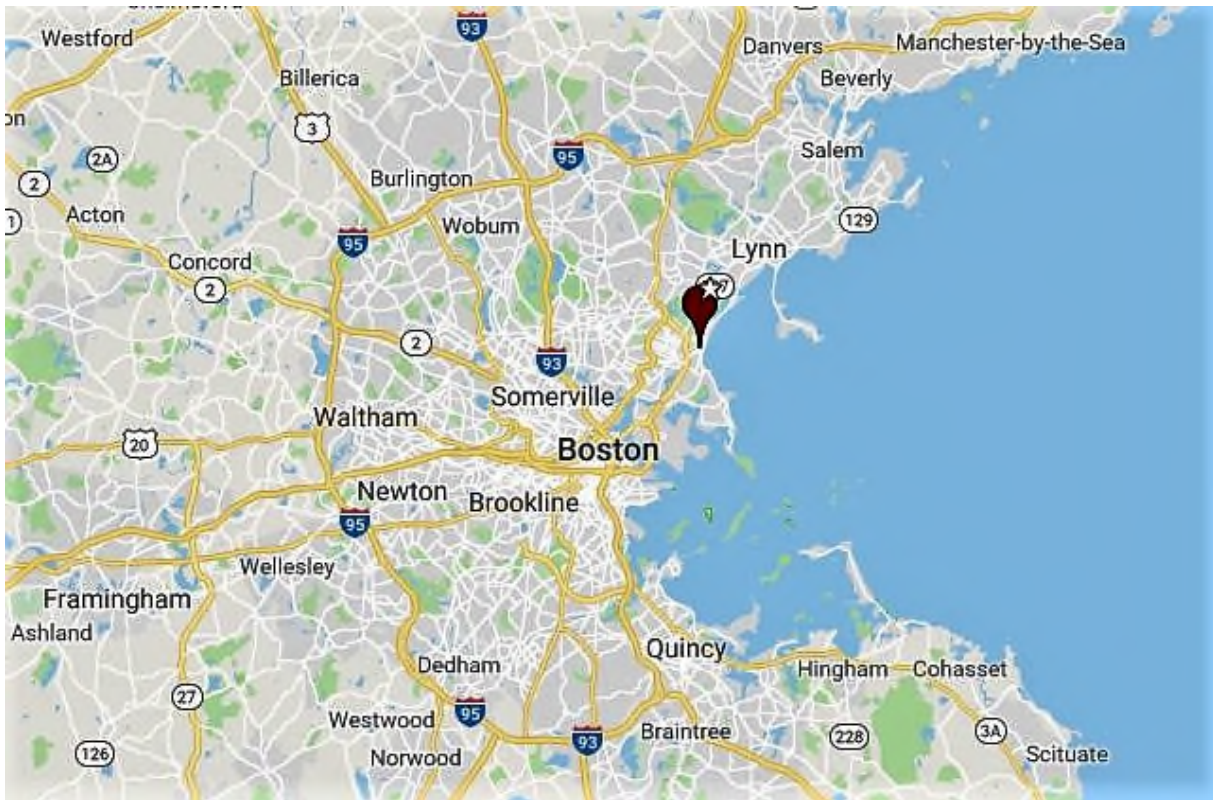
#### Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject property is located in the City of Revere, Suffolk County, and the Commonwealth of Massachusetts.

Economic activity in Revere is directly related to broader economic trends in Suffolk County and more particularly the City of Boston, Suffolk County's largest city. Boston has a rich history dating back to 1630; it was the site of many important American Revolution events, such as the Boston Massacre, the Boston Tea Party, and the Battle of Bunker Hill. Today, the city is a major center of higher education in the U.S., including institutes such as Harvard University, M.I.T., Boston University, and Northeastern University, among others. Healthcare, education, and research are paramount components of the regional economy; the medical schools of Harvard University, Boston University, and Tufts University are world renowned, as is Massachusetts General Hospital and Brigham and Women's Hospital. Boston is also considered one of the top places in which to do business in the United States. Major industries include education and health services, finance, government, information, leisure and hospitality, manufacturing, and professional and business services.

Despite its location in the slow-growth, densely-populated Northeast, Boston metro has recorded healthy population growth and its real estate markets are strong across all categories. In this section, we review economic and demographic data for the Boston metropolitan area, including Suffolk County, the Boston MSA, and the Boston CSA.

## MARKET AREA MAP



### 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. These data are summarized in the following table.

**FIGURE 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY**

	2000	2010	2017	2020	Average Annual Compounded Change		
					2000-10	2010-17	2017-20
<b>Resident Population (Thousands)</b>							
Suffolk County	692.7	725.3	771.6	776.4	0.5 %	0.9 %	0.2 %
Boston MSA	4,401.3	4,564.7	4,804.6	4,881.6	0.4	0.7	0.5
Boston CSA	7,647.3	7,909.0	8,229.4	8,367.0	0.3	0.6	0.6
Massachusetts	6,361.1	6,564.1	6,843.0	6,946.8	0.3	0.6	0.5
United States	282,162.4	309,347.1	327,505.1	336,690.4	0.9	0.8	0.9
<b>Per-Capita Personal Income*</b>							
Suffolk County	\$47,573	\$55,235	\$60,173	\$63,311	1.5	1.2	1.7
Boston MSA	50,889	55,587	61,857	64,798	0.9	1.5	1.6
Boston CSA	45,541	50,074	55,809	58,494	1.0	1.6	1.6
Massachusetts	46,238	50,803	56,584	59,347	0.9	1.6	1.6
United States	36,812	39,622	44,290	46,375	0.7	1.6	1.5
<b>W&amp;P Wealth Index</b>							
Suffolk County	129 %	139 %	136 %	137 %			
Boston MSA	138	140	140	140			
Boston CSA	124	126	126	126			
Massachusetts	126	128	128	128			
United States	100	100	100	100			
<b>Food and Beverage Sales (Millions)*</b>							
Suffolk County	\$2,079	\$2,534	\$3,218	\$3,322	2.0	3.5	1.1
Boston MSA	7,808	9,143	11,579	12,057	1.6	3.4	1.4
Boston CSA	12,587	14,407	17,998	18,763	1.4	3.2	1.4
Massachusetts	10,671	12,125	15,225	15,863	1.3	3.3	1.4
United States	368,829	447,728	571,731	602,635	2.0	3.6	1.8
<b>Total Retail Sales (Millions)*</b>							
Suffolk County	\$9,020	\$10,002	\$12,170	\$12,509	1.0	2.8	0.9
Boston MSA	69,368	67,917	80,460	83,531	(0.2)	2.5	1.3
Boston CSA	118,394	116,376	136,012	141,324	(0.2)	2.3	1.3
Massachusetts	95,698	93,725	109,855	113,938	(0.2)	2.3	1.2
United States	3,902,830	4,130,414	4,932,756	5,181,433	0.6	2.6	1.7

\* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

Between 2010 and 2017, Suffolk County's population grew at an average annual rate of 0.9%, exceeding the 0.8% population growth rate recorded nationwide over

the same period. Population is projected to slow to 0.2% per year between 2017 and 2020, however. The per-capita personal income statistics are notable chiefly in terms of the wealth index, which expresses each population's income level as a ratio to the national average. In 2017, income levels in Suffolk County, the MSA, and the CSA were all well above the national average, ranging from 126% to 140%. This variable tends to correlate with pricing levels in the population's hotel market. As for trends in the food and beverage and retail sectors, regional trends were basically in line with national trends since 2010, but are projected to decelerate through 2020.

### **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 Suffolk County's workforce distribution by business sector in 2000, 2010, and 2017, as well as a forecast for 2020.



**FIGURE 3-2 HISTORICAL AND PROJECTED EMPLOYMENT (000S)**

Industry	2000	Percent of Total	2010	Percent of Total	2017	Percent of Total	2020	Percent of Total	Average Annual Compounded Change		
									2000- 2010	2010- 2017	2017- 2020
Farm	0.0	0.0 %	0.0	0.0 %	0.0	0.0 %	0.0	0.0 %	0.0 %	0.0 %	0.0 %
Forestry, Fishing, Related Activities And Other	0.2	0.0	0.2	0.0	0.2	0.0	0.2	0.0	(3.8)	2.1	0.7
Mining	0.1	0.0	0.2	0.0	0.2	0.0	0.3	0.0	3.4	6.5	0.9
Utilities	2.8	0.4	2.4	0.4	1.9	0.2	2.0	0.2	(1.4)	(3.0)	1.1
Construction	20.1	2.9	14.6	2.1	19.0	2.4	19.6	2.4	(3.1)	3.8	1.1
Manufacturing	21.2	3.0	10.7	1.6	9.6	1.2	9.4	1.2	(6.6)	(1.5)	(0.9)
Total Trade	47.8	6.8	44.9	6.6	50.7	6.5	52.0	6.5	(0.6)	1.7	0.8
Wholesale Trade	12.4	1.8	10.7	1.6	11.3	1.5	11.5	1.4	(1.5)	0.8	0.6
Retail Trade	35.3	5.0	34.2	5.0	39.4	5.1	40.5	5.0	(0.3)	2.0	0.9
Transportation And Warehousing	27.7	3.9	20.3	3.0	23.8	3.1	24.3	3.0	(3.1)	2.3	0.7
Information	22.4	3.2	16.2	2.4	16.7	2.1	17.0	2.1	(3.2)	0.4	0.7
Finance And Insurance	87.4	12.4	80.1	11.7	84.1	10.8	87.3	10.9	(0.9)	0.7	1.2
Real Estate And Rental And Lease	19.6	2.8	23.2	3.4	26.9	3.5	27.8	3.5	1.7	2.1	1.2
Total Services	354.3	50.5	388.8	56.7	457.3	58.9	474.2	59.2	0.9	2.3	1.2
Professional And Technical Services	70.5	10.0	72.3	10.5	91.1	11.7	93.0	11.6	0.3	3.3	0.7
Management Of Companies And Enterprises	10.3	1.5	6.5	1.0	8.3	1.1	8.5	1.1	(4.4)	3.6	0.4
Administrative And Waste Services	44.1	6.3	35.0	5.1	38.1	4.9	38.8	4.8	(2.3)	1.3	0.6
Educational Services	42.2	6.0	52.2	7.6	59.0	7.6	61.6	7.7	2.2	1.8	1.4
Health Care And Social Assistance	101.7	14.5	125.7	18.3	144.0	18.6	150.9	18.8	2.1	2.0	1.6
Arts, Entertainment, And Recreation	13.1	1.9	14.6	2.1	17.1	2.2	17.9	2.2	1.1	2.4	1.4
Accommodation And Food Services	44.8	6.4	51.7	7.5	64.1	8.3	66.9	8.3	1.5	3.1	1.4
Other Services, Except Public Administration	27.9	4.0	30.7	4.5	35.5	4.6	36.8	4.6	1.0	2.1	1.1
Total Government	98.2	14.0	84.4	12.3	85.5	11.0	87.5	10.9	(1.5)	0.2	0.8
Federal Civilian Government	17.1	2.4	15.3	2.2	14.4	1.9	14.7	1.8	(1.1)	(0.8)	0.7
Federal Military	3.2	0.5	3.1	0.5	3.0	0.4	3.0	0.4	(0.4)	(0.3)	0.1
State And Local Government	77.9	11.1	66.0	9.6	68.0	8.8	69.7	8.7	(1.6)	0.4	0.8
<b>TOTAL</b>	<b>701.8</b>	<b>100.0 %</b>	<b>686.0</b>	<b>100.0 %</b>	<b>775.9</b>	<b>100.0 %</b>	<b>801.5</b>	<b>100.0 %</b>	<b>(0.2) %</b>	<b>1.8 %</b>	<b>1.1 %</b>
MSA	3,032.0	—	3,078.2	—	3,457.7	—	3,584.9	—	0.2 %	1.7 %	1.2 %
U.S.	165,370.9	—	173,034.7	—	194,801.7	—	203,418.4	—	1.0	1.7	1.5

Source: Woods & Poole Economics, Inc.

Between 2010 and 2017, Suffolk County's total employment grew at an average annual rate of 1.8%, above the 1.7% annual growth rate realized by the MSA and the nation over the same period. Through 2020, employment growth is projected to slow to 1.1% per year, compared to 1.5% growth for the nation. Employment growth rates below national levels are characteristic of mature urban centers in the Northeastern United States, where percentage growth rates are limited by the large scale of the denominator.

In 2017, the county's largest employment sectors were Health Care and Social Assistance (18.6%), Professional and Technical Services (11.7%), and Finance and Insurance (10.8%). Growth in the services sector has paced the economy's growth in the current decade.

The following table illustrates historical and projected employment, households, population and average household income data as provided by REIS for the Boston MSA.

**FIGURE 3-3 HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS – BOSTON MSA**

Year	Total		Office		Industrial		Households	% Chg	Population	% Chg	Household	
	Employment	% Chg	Employment	% Chg	Employment	% Chg					Avg. Income	% Chg
2005	2,408,620	—	775,880	—	339,262	—	1,709,530	—	4,421,070	—	\$130,950	—
2006	2,444,280	1.5 %	789,823	1.8 %	340,385	0.3 %	1,719,480	0.6 %	4,435,600	0.3 %	139,915	6.8 %
2007	2,481,060	1.5	805,138	1.9	338,290	(0.6)	1,736,430	1.0	4,463,750	0.6	144,371	3.2
2008	2,474,800	(0.3)	805,711	0.1	328,688	(2.8)	1,750,740	0.8	4,505,420	0.9	146,652	1.6
2009	2,399,640	(3.0)	777,996	(3.4)	304,429	(7.4)	1,763,950	0.8	4,546,810	0.9	145,944	(0.5)
2010	2,430,360	1.3	787,219	1.2	302,668	(0.6)	1,774,170	0.6	4,586,660	0.9	152,316	4.4
2011	2,462,210	1.3	795,396	1.0	302,729	0.0	1,796,940	1.3	4,630,090	0.9	155,854	2.3
2012	2,509,490	1.9	810,113	1.9	306,611	1.3	1,813,570	0.9	4,674,440	1.0	165,015	5.9
2013	2,550,680	1.6	825,659	1.9	308,268	0.5	1,837,050	1.3	4,716,410	0.9	161,677	(2.0)
2014	2,613,660	2.5	844,410	2.3	310,311	0.7	1,857,230	1.1	4,751,410	0.7	169,632	4.9
2015	2,665,840	2.0	862,286	2.1	309,049	(0.4)	1,864,770	0.4	4,781,010	0.6	178,217	5.1
2016	2,713,470	1.8	879,883	2.0	307,970	(0.3)	1,879,770	0.8	4,805,830	0.5	178,540	0.2
2017	2,762,480	1.8	896,714	1.9	312,611	1.5	1,897,910	1.0	4,829,010	0.5	185,327	3.8
<b>Forecasts</b>												
2018	2,796,090	1.2 %	908,721	1.3 %	313,663	0.3 %	1,916,120	1.0 %	4,853,320	0.5 %	\$193,197	4.2 %
2019	2,808,730	0.5	913,259	0.5	312,141	(0.5)	1,933,330	0.9	4,877,660	0.5	201,077	4.1
2020	2,806,860	(0.1)	912,795	(0.1)	308,999	(1.0)	1,949,250	0.8	4,900,360	0.5	207,351	3.1
2021	2,829,220	0.8	922,955	1.1	308,090	(0.3)	1,964,380	0.8	4,924,150	0.5	214,461	3.4
2022	2,857,370	1.0	934,983	1.3	307,837	(0.1)	1,980,470	0.8	4,949,870	0.5	222,025	3.5
<b>Average Annual Compound Change</b>												
2005 - 2017		1.1 %		1.2 %		(0.7) %		0.9 %		0.7 %		2.9 %
2010 - 2017		1.8		1.9		0.5		1.0		0.7		2.8
Forecast 2017 - 2022		0.7 %		0.8 %		(0.3) %		0.9 %		0.5 %		3.7 %

Source: REIS Report, 4th Quarter, 2017

**Unemployment  
Statistics**

The preceding REIS data is essentially consistent with the Woods & Poole Economics data reviewed previously, showing average annual employment growth of 1.8% between 2010 and 2017, with the projection through 2022 slowing to 0.7% per year; healthy but slowing growth in households and population; and strong trends in average income.

The following table presents historical unemployment rates for the subject property’s market area, the state, and the nation.

**FIGURE 3-4 UNEMPLOYMENT STATISTICS**

<b>Year</b>	<b>Suffolk County</b>	<b>Boston MSA</b>	<b>Commonwealth of Massachusetts</b>	<b>U.S.</b>
2005	5.3 %	4.5 %	4.8 %	5.1 %
2006	5.1	4.5	4.9	4.6
2007	4.6	4.2	4.6	4.6
2008	5.4	5.0	5.5	5.8
2009	7.7	7.5	8.1	9.3
2010	7.7	7.6	8.3	9.6
2011	6.7	6.6	7.3	8.9
2012	6.2	6.1	6.7	8.1
2013	6.2	6.1	6.7	7.4
2014	5.3	5.2	5.8	6.2
2015	4.5	4.4	4.9	5.3
2016	3.4	3.4	3.7	4.9
<i>As of February</i>				
2017	3.5 %	3.7 %	4.4 %	4.9 %
2018	3.3	3.5	4.0	4.4

Source: U.S. Bureau of Labor Statistics

Current U.S. unemployment levels are now firmly below the annual averages of the last economic cycle peak of 2006 and 2007, when annual averages were 4.6%. National unemployment registered 4.1% in January and February of 2018 and in the final three months of 2017, roughly six points below the October 2009 peak of 10.0%. Total nonfarm payroll employment increased by 175,000, 239,000, and 313,000 jobs in the last month of 2017 and in January and February of 2018, respectively. Gains in February occurred in the construction, retail trade, professional and business services, manufacturing, financial activities, and mining sectors. Unemployment has remained under the 5.0% mark since May 2016, reflecting a trend of relative stability and the overall strength of the U.S. economy.

**Major Business and Industry**

Locally, the Boston MSA’s unemployment rate equated to 3.5% as of February 2018, 90 basis points below the national unemployment rate for the same period. The county and state unemployment rates are also below the national levels. Employment levels remain particularly strong in the education and healthcare sectors, as well as in the tourism and leisure industry; furthermore, construction-related employment has been stout. Boston benefits from strong fundamentals including an educated workforce and diverse employer base.

The following table identifies the largest employers in the City of Boston.

**FIGURE 3-5 MAJOR EMPLOYERS**

<b>Firm</b>	<b>Product/Service</b>	<b>No. of Employees</b>
Massachusetts General Hospital	Healthcare	14,752
Brigham & Women's Hospital	Healthcare	11,229
Boston University	Education	9,873
Boston Children's Hospital	Healthcare	7,903
State Street Corporation	Financial Services	7,800
Beth Israel Deaconess Medical Center	Healthcare	6,695
Fidelity Investments	Financial Services	5,500
Harvard University Graduate Schools	Education	5,132
Northeastern University	Education	4,484
Boston Medical Center	Healthcare	4,217

Boston is anchored by a high concentration of world-renowned and notable medical and research facilities including Massachusetts General Hospital, Brigham and Women's Hospital, Beth Israel Deaconess Medical Center, Tufts-New England Medical Center, and Boston Medical Center (BMC). Several of the city’s medical facilities are also associated with universities. The Longwood Medical and Academic Area (LMA) and Massachusetts General Hospital contain well-known research medical centers affiliated with Harvard Medical School; Tufts Medical Center, located in the Chinatown neighborhood, is affiliated with Tufts University School of Medicine; and Boston Medical Center, located in the South End neighborhood, is the primary teaching facility for the Boston University School of Medicine. BMC was formed by the merger of Boston University Hospital and Boston City Hospital, which was the first municipal hospital in the United States; it is the largest trauma center in the Boston area. Massachusetts General Hospital was ranked by U.S. News & World Report in July 2015 as one of the top five hospitals in the nation for the following departments: Cardiology & Heart Surgery; Diabetes & Endocrinology; Ear,



Nose, & Throat, Gastroenterology & GI Surgery, Geriatrics, Gynecology, Neurology & Neurosurgery, Ophthalmology, Orthopedics, Psychiatry, and Pulmonology. Brigham and Women's Hospital broke ground on the 360,000-square-foot "Building for the Future" facility in May 2013. The facility was completed in late 2016 and is expected to accelerate breakthroughs in biomedical research. In January 2015, the Dana-Farber Cancer Institute expanded its presence in the LMA by converting newly leased space into a 154,000-square-foot research facility.

Boston's colleges and universities have a major impact on the city and region's economy, with over 100 colleges and universities located in the metropolitan area. Boston University is the oldest institution in the city, located in the Back Bay, while Harvard University is located in nearby Cambridge. Other important institutions include Boston College, Emerson College, the Massachusetts Institute of Technology (MIT), Northeastern University, University of Massachusetts at Boston, and Suffolk University, among others. This concentration of higher education, and the powerful economic impact of the quality workforce it provides, assisted in the market's recovery following the economic downturn and should continue to provide a solid foundation for the region's strong and diverse economy. In recent years, Boston area colleges and universities have launched major renovation and expansion projects, such as Harvard University's \$1 billion renovation of its academic, residential, and social spaces.

The financial services and insurance sectors are important within Boston. Boston-based Fidelity Investments helped popularize the mutual fund in the 1980s, having contributed to Boston's reputation as one of the top financial centers in the United States. The city is also home to the headquarters of State Street and numerous venture capital and insurance firms. While the financial services and insurance sectors remain integral components of the local economy, the biotechnology, life sciences, and pharmaceuticals fields have grown substantially in recent years. This shift has been driven specifically by the presence of renowned academic and healthcare entities, many offering advanced degrees in life sciences and ranked among the top-funded National Institutes of Health (NIH) hospitals and non-profits in the nation.

Aside from the previously noted industries, Boston is a gateway city, which places it in an advantageous position for future economic development and growth. A well-developed transportation infrastructure including an international airport, a widespread metro rail system, and new major highway projects should contribute to this market's continued strength and expansion.

### Convention Center

The city currently contains two convention centers. The John B. Hynes Veterans Memorial Convention Center (the "Hynes"), named for a former mayor, was originally constructed in 1963 and is located at 900 Boylston Street, in the "Back

Bay” district. The Hynes contains ±193,000 square feet of exhibit space, a ±24,400-square-foot ballroom, and ±71,600 square feet of other meeting space, for a total allotment equal to ±289,000 square feet. The facility’s Back Bay location is advantageous due to the quality and maturity of the neighborhood. Furthermore, the Hynes is one component of the city’s largest mixed-use development, The Prudential Center, which includes a ±500,000-square-foot retail mall, office buildings, residential towers, and enclosed connections to four hotels. Three of the attached hotels feature inventory levels characteristic of convention headquarters hotels: the 1,220-room Sheraton; the 1,144-room Marriott; and the 803-room Westin.

Despite a major renovation and redesign in 1988, the Hynes was increasingly perceived as functionally obsolete through the 1990s, particularly in terms of its limited capacity for major citywide conventions. Boston’s emergence as a leader in the world’s technology and bio-science sectors served to highlight the Hynes’s deficiencies. When the Macworld trade show, previously held in Boston each summer, moved to New York City’s Javits Convention Center, the effort to create a modern, large Boston convention center was galvanized.

The Massachusetts legislature authorized the creation of the Boston Convention and Exhibition Center (BCEC) under chapter 152 of the Acts of 1997. Chapter 152 authorized the acquisition by eminent domain of approximately sixty (60) acres of land in the Seaport area. The project was a joint venture of the Boston Redevelopment Authority (now known as the Boston Planning & Development Agency) and the Massachusetts Convention Center Authority (MCCA). The convention center opened in June 2004 at a cost of \$850 million, featuring ±516,000 square feet of contiguous exhibit space, a ±41,000-square-foot ballroom, and 154,000 square feet of other meeting space, for a total allotment equal to ±711,000 square feet, more than twice the size of the Hynes, with state-of-the-art equipment and finishes, and supported by ample parking. What the property lacked upon opening was a convenient headquarters hotel, but the adjacent and connected 793-Westin was under construction, and opened two years later.

The Hynes and the BCEC are both managed and marketed by the MCCA. The following table details individual and aggregate usage statistics for both of Boston’s convention centers.

**FIGURE 3-6 HISTORICAL CONVENTION CENTER STATISTICS**

Fiscal Year Beg July 1	BCEC			Hynes			Total			
	Events	Delegates	Hotel Room Nights	Events	Delegates	Hotel Room Nights	Events	Delegates	Total	Hotel Room Nights % Chg
2006/07	28	256,450	342,599	36	142,020	210,656	64	398,470	553,255	---
2007/08	21	300,614	296,701	43	123,635	228,901	64	424,249	525,602	(5.0) %
2008/09	26	249,239	281,506	34	106,022	213,100	60	355,261	494,606	(5.9)
2009/10	26	246,480	383,150	35	140,150	174,654	61	386,630	557,804	12.8
2010/11	25	206,047	230,862	29	96,200	176,287	54	302,247	407,149	(27.0)
2011/12	24	255,684	330,888	36	129,500	237,595	60	385,184	568,483	39.6
2012/13	24	228,134	234,728	44	137,150	224,820	68	365,284	459,548	(19.2)
2013/14	30	290,037	380,170	37	118,000	220,648	67	408,037	600,818	30.7
2014/15	34	311,897	412,324	41	113,825	166,793	75	425,722	579,117	(3.6)
2015/16	31	311,760	363,057	42	140,950	218,603	73	452,710	581,660	0.4
2016/17	31	307,365	415,699	42	166,700	232,297	73	474,065	647,996	11.4

Source: Massachusetts Convention Center Authority

For purposes of this analysis, the key metric is the number of hotel room nights generated by convention center attendees. As noted above, this figure has been relatively consistent over time, ranging from a low of 407,149 in 2010/11 to a high of 647,996 in 2016/17. The booking window for conventions is variable depending on the size of the group and the time of year. Events requiring more than 2,000 rooms are typically reserved three to four years in advance, whereas smaller meetings are generally reserved one to two years in advance. The weakness in 2010/11 reflects the delayed impact of the 2008/09 recession. The preceding data also indicates an alternating pattern of growth and decline from 2009/10 through 2014/15. The pattern ended in 2015/16.

**Office Space Statistics**

Trends in occupied office space are typically among the most reliable indicators of lodging demand, as firms that occupy office space often exhibit a strong propensity to attract commercial visitors. Thus, trends that cause changes in vacancy rates or occupied office space may have a proportional impact on commercial lodging demand and a less direct effect on meeting demand. The following table details office space statistics for the pertinent market area.

**FIGURE 3-7 OFFICE SPACE STATISTICS – MARKET OVERVIEW**

Submarket	Inventory		Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
	Buildings	Square Feet			
1 Cambridge	117	14,805,000	13,220,900	10.7 %	\$50.25
2 West/MassPike	143	9,375,000	8,287,500	11.6	36.40
3 N Shore/Rt 128 N	242	22,449,000	18,071,400	19.5	25.56
4 S Shore/S Suburban	180	10,793,000	9,141,700	15.3	23.78
5 Framingham/W Subrn	100	5,494,000	4,598,500	16.3	24.94
6 Northwest/Rt 2	146	12,433,000	10,120,500	18.6	32.02
7 CBD	166	33,179,000	30,458,300	8.2	60.89
8 Back Bay/Fenway	50	14,044,000	12,499,200	11.0	56.27
9 South Station	51	9,101,000	8,345,600	8.3	44.86
<b>Totals and Averages</b>	<b>1,195</b>	<b>131,673,000</b>	<b>114,743,600</b>	<b>12.9 %</b>	<b>\$43.06</b>

Source: REIS Report, 4th Quarter, 2017

The subject site is in the North Shore/Route 128 North office market, the boundaries of which are depicted below.





**FIGURE 3-8 HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET VS. SUBMARKET**

Year	Greater Boston Market							N Shore/Rt 128 N Submarket						
	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2005	123,470,000	—	102,913,000	—	16.6 %	\$29.45	—	21,237,000	—	16,268,000	—	23.4 %	\$19.02	—
2006	122,412,000	(0.9) %	106,082,000	3.1 %	13.3	32.01	8.7 %	21,162,000	(0.4) %	16,781,000	3.2 %	20.7	20.60	8.3 %
2007	122,763,000	0.3	109,097,000	2.8	11.1	36.48	14.0	21,070,000	(0.4)	17,509,000	4.3	16.9	22.10	7.3
2008	123,325,000	0.5	107,495,000	(1.5)	12.8	39.25	7.6	21,682,000	2.9	17,736,000	1.3	18.2	23.05	4.3
2009	124,668,000	1.1	107,318,000	(0.2)	13.9	35.98	(8.3)	21,998,000	1.5	18,060,000	1.8	17.9	21.95	(4.8)
2010	125,496,000	0.7	107,442,000	0.1	14.4	34.91	(3.0)	22,204,000	0.9	17,408,000	(3.6)	21.6	20.88	(4.9)
2011	126,228,000	0.6	107,421,000	(0.0)	14.9	35.95	3.0	22,044,000	(0.7)	17,238,000	(1.0)	21.8	21.70	3.9
2012	126,364,000	0.1	108,238,000	0.8	14.3	36.58	1.8	22,180,000	0.6	17,278,000	0.2	22.1	22.57	4.0
2013	127,575,000	1.0	110,019,000	1.6	13.8	37.65	2.9	22,244,000	0.3	17,506,000	1.3	21.3	22.98	1.8
2014	127,956,000	0.3	110,518,000	0.5	13.6	39.09	3.8	22,145,000	(0.4)	17,317,000	(1.1)	21.8	24.11	4.9
2015	129,361,000	1.1	113,013,000	2.3	12.6	40.66	4.0	22,246,000	0.5	17,797,000	2.8	20.0	24.55	1.8
2016	131,053,000	1.3	114,679,000	1.5	12.5	41.59	2.3	22,465,000	1.0	18,084,000	1.6	19.5	25.43	3.6
2017	131,673,000	0.5	114,746,000	0.1	12.9	43.06	3.5	22,449,000	(0.1)	18,071,000	(0.1)	19.5	25.56	0.5
<b>Forecasts</b>														
2018	133,389,000	1.3 %	115,962,000	1.1 %	13.1 %	\$44.08	2.4 %	22,729,000	1.2 %	18,229,000	0.9 %	19.8 %	\$25.93	1.4 %
2019	134,058,000	0.5	116,524,000	0.5	13.1	45.25	2.7	22,778,000	0.2	18,268,000	0.2	19.8	26.59	2.5
2020	135,292,000	0.9	117,580,000	0.9	13.1	46.46	2.7	22,958,000	0.8	18,458,000	1.0	19.6	27.34	2.8
2021	136,215,000	0.7	118,707,000	1.0	12.9	47.81	2.9	23,184,000	1.0	18,756,000	1.6	19.1	28.19	3.1
2022	137,157,000	0.7	119,881,000	1.0	12.6	49.16	2.8	23,416,000	1.0	19,037,000	1.5	18.7	29.03	3.0
<b>Average Annual Compound Change</b>														
2005 - 2017	0.5 %		0.9 %		3.2 %			0.5 %		0.9 %		2.5 %		
2010 - 2017	0.7		0.9		3.0			0.2		0.5		2.9		
Forecast 2017 - 2022	0.8 %		0.9 %		2.7 %			0.8 %		1.0 %		2.6 %		

Source: REIS Report, 4th Quarter, 2017

Between 2010 and 2017, Boston Metro's inventory grew at an average annual rate of 0.7% while over the same period the North Shore's inventory grew by 0.2% per year. Inventory growth in the North Shore is expected to accelerate to 0.8% per year through 2022, comparable to the broader market's rate of growth.

### Airport Traffic

Boston Logan International Airport is New England's largest transportation center; the airport boundary encompasses approximately 2,400 acres in East Boston, Massachusetts. The airport is serviced by many major commercial airlines, such as AirTran Airways, American Airlines, JetBlue Airways, Delta Air Lines, and US Airways, among others. The Logan Modernization Project, a \$4.4-billion renovation and expansion project that began in 1994, was completed in 2007. The project has brought about new walkways to connect the central parking garage to the terminals, a new international arrival hall, a new MBTA station, an improved roadway system around the airport, and the environmentally friendly Terminal A.

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

**FIGURE 3-9 AIRPORT STATISTICS – LOGAN INTERNATIONAL AIRPORT**

<b>Year</b>	<b>Passenger Traffic</b>	<b>Percent Change</b>
2007	28,102,455	—
2008	26,102,651	(7.1) %
2009	25,512,086	(2.3)
2010	27,428,962	7.5
2011	28,909,267	5.4
2012	29,325,643	1.4
2013	30,218,631	3.0
2014	31,634,445	4.7
2015	33,449,580	5.7
2016	36,288,042	8.5
2017	38,412,419	5.9
<i><u>YTD February</u></i>		
2017	4,973,958	—
2018	5,181,468	4.2 %
Avg. Annual % Change:		
2007-2017:		3.2 %
2012-2017:		5.5

Source: Boston Logan International Airport

After significant recession-related declines through 2008 and 2009, Logan International Airport’s passenger volume has grown at healthy rates through the subsequent eight years. The airport served over 38.4 million passengers in 2017, more than 10 million passengers more than the pre-recession peak level. The airport’s increased volume is a function of healthy economic growth in the local and regional economies; substantial infrastructural investments completed in 2007; rapid growth in international travel to Boston, stimulated in part by the aforementioned infrastructural improvements; and the mutually beneficial relationship the airport and JetBlue share.

Boston is a key JetBlue hub; the airline is the airport’s largest airline, with 30% market share. As of 2017, the airline’s 17<sup>th</sup> year of operation, JetBlue is the sixth-largest carrier in the country. With the introduction and expansion of discount airline service by JetBlue and Southwest, Logan Airport has successfully recaptured

much of the demand it lost to the smaller airports located throughout New England (in Manchester, New Hampshire; Warwick, Rhode Island; and Windsor Locks, Connecticut).

### Tourist Attractions

Leisure travel is an important industry in the Boston area, and millions of people are attracted to the city's numerous historic and cultural activities. For cultural entertainment, Boston offers numerous museums, a planetarium, an aquarium, and a variety of historic attractions. Visitors also can enjoy symphony concerts, the opera, and the theater. The city offers a wide selection of restaurants, and is extremely pedestrian friendly. Key attractions in Downtown Boston include the following.

**Old South Church** – The “new” Old South Church was established in 1875. It is located on the north side of Copley Square, at the intersection of Dartmouth and Boylston Streets.

**Boston Tea Party Ship and Museum** – This authentic re-creation of a colonial environment is located just off Boston's Freedom Trail.

**Fanueil Hall** – Peter Fanueil donated this building to the City of Boston in the 17th Century for use as a meeting hall. Many crucial meetings prior to the Revolution were held here. Today, Fanueil Hall, in conjunction with Quincy Market, is used as an open marketplace.

**Quincy Market** – Built to house the booming trade in Boston in the 1800s, this building is one of the city's most popular attractions among both residents and tourists. Newly refurbished, Quincy Market is a prime example of adapting old structures to modern use. Restaurants, shops, exhibits, food markets, and entertainment make this venue a major attraction.

**Boston Massacre Site** – On March 5, 1770, “the shot heard around the world” was fired at this site, marking the beginning of the American Revolution. At present, a ring of cobblestones marks this site along the Old State House.

**Old South Meeting House** – A National Historic Site, this house has been a key gathering place for Bostonians since its construction in 1729 as a Puritan house of worship. It was from this building that a group of citizens proceeded to the waterfront to board British merchant vessels laden with tea, resulting in the famous “Boston Tea Party.”

**The First Public School Site** – Boston began its long history as a leader in education in 1630 with the opening of the first public school in America. This school later became known as the Boston Public Latin School.

**Granary Burying Ground** – In 1660, this land was reserved as a burial ground. It holds the graves of some of America's most famous patriots, including Paul Revere,

Samuel Adams, John Hancock, and James Otis. The cemetery lies adjacent to the site of Boston's first granary.

**New England Aquarium** – One of the first such facilities in the nation, the New England Aquarium, is located on the Central Wharf. Facilities include the Sea Theater, the Harbor Terrace, and the Discovery Center. Educational exhibits of more than 2,000 aquatic creatures are featured in this museum, and the facility is equipped with a four-story glass tank (the largest of its kind) that houses a coral reef display inhabited by sharks and sea turtles.

**Beacon Hill** – The very first Bostonians resided here, initiating the reputation of Beacon Hill as the most desirable residential location in the area.

**The Bostonian Society/Old State House**– This American Revolutionary War and maritime history museum is located the Downtown section of Boston, and is open year-round. Built in 1712, this structure served as the seat of the colonial government. In 1766, a gallery opened here, allowing the public to watch the government in action; this gallery was the first of its kind.

**The State House** – Designed by Charles Bulfinch, a famed 18th-Century architect, the State House was built on land that belonged to the John Hancock family, and Samuel Adams laid the cornerstone. The golden dome has become one of the city's chief landmarks. The building's archives contain many original documents, including the charter of the Massachusetts Bay Company, and the Massachusetts Constitution.

**Bunker Hill Pavilion** – The Battle of Bunker Hill (in reality, the location was Breed's Hill) is re-created through sight, sounds, and other theatrical effects. This attraction is located 200 yards from the U.S.S. Constitution.

**U.S.S. Constitution** – Nicknamed "Old Ironsides" for the strength of its oak construction, the U.S.S. Constitution was launched in 1797, and is now located at the Charlestown Navy Yard. Undefeated in a succession of battles with the British in the War of 1812, it is the oldest commissioned warship afloat in the world. The ship was restored between 1973 and 1975, and is now preserved as a symbolic monument of its historic past. Its history is illustrated in the nearby U.S.S. Constitution Museum.

**Christian Science Center** – The world headquarters complex of the Christian Science Church contains the original 19th-Century granite church building. *The Christian Science Monitor* is published here, and a non-denominational, multi-media bible exhibit is open daily.

**Trinity Church** – Trinity Church, which is located in Copley Square, was founded in 1733. The structure is considered to be a masterpiece of church architecture in America.



**Boston Public Library** – This Italian Renaissance building featuring a central courtyard and fountain was constructed in 1852, and is the nation’s oldest free library.

**The Boston Pops** – One of the most famous orchestras in the world, the Boston Pops performs at Symphony Hall from May through July.

**Museum of Fine Arts** – This museum offers almost 200 galleries filled with Asian and Egyptian art, European paintings, photography, decorative arts, and sculptures.

**Institute of Contemporary Art** – Located across from the Hynes Convention Center, the institute consists of two levels of gallery space, exhibits of contemporary art, and a 140-seat theatre.

**Prudential Center Skywalk** – The skywalk is an observation deck on the 50th floor that provides a 360-degree panoramic view, as well as a narrated account of the history of sites located throughout the City of Boston.

**Newbury Street** – Located two blocks north of Copley Square in the Back Bay area, Newbury Street is one of the most famous and exclusive shopping districts in the nation. Newbury Street is lined with elegant shops, art galleries, restaurants, and sidewalk cafés located in 19th-Century townhouses.

**Children’s Museum and Computer Museum** – These museums are situated on the waterfront, overlooking Fort Point Channel.

**Paul Revere House** – Built in 1676, this structure is the oldest surviving building in Boston. Paul Revere purchased it in 1770, and during the 30 years he lived here, Revere engraved his famous scene of the Boston Massacre, took part in the Boston Tea Party in 1773, and departed on his historic ride to warn the residents of Lexington and Concord of the approach of the British in 1775.

**Boston Common** – The town purchased this site in 1634 for use as a training ground for soldiers and a grazing pasture for cows. In doing so, it also created the first public park in America. On the flat west side, which faces the Public Garden, the Common is used as a venue for major outdoor events such as a papal mass and the Boston Symphony Orchestra’s 100th birthday celebration.

**Boston Center of the Arts** – This Victorian landmark building is located within walking distance of the Back Bay and Downtown hotels.

**Old North Church-Christ Church** – This church, which is located on Salem Street and dates back to 1723, is the city’s oldest church still in use.

**Museum of Science** – This facility is one of the finest and most modern science museums in the world, and it features a planetarium. Exhibits cover topics such as space exploration, anthropology, astronomy, and natural sciences.

**Isabella Stewart Gardner Museum** – Home of the great patron of the arts until her death in 1924, this turn-of-the-century home was modeled after a 15th-Century Venetian palace. It was built expressly to house Gardner’s art collection, which includes masterpieces by Rembrandt, Matisse, Whistler, and Vermeer. Antique furnishings and a tapestry collection are also on display.

**Theater District** – The City’s Theater District is located south of the Financial District and includes the Wang Center for the Performing Arts, the Colonial Theater, the Shubert Theater, the Wilbur Theater, the Opera House, the Lyric Stage, the Charles Playhouse, and the Stuart Street Playhouse.

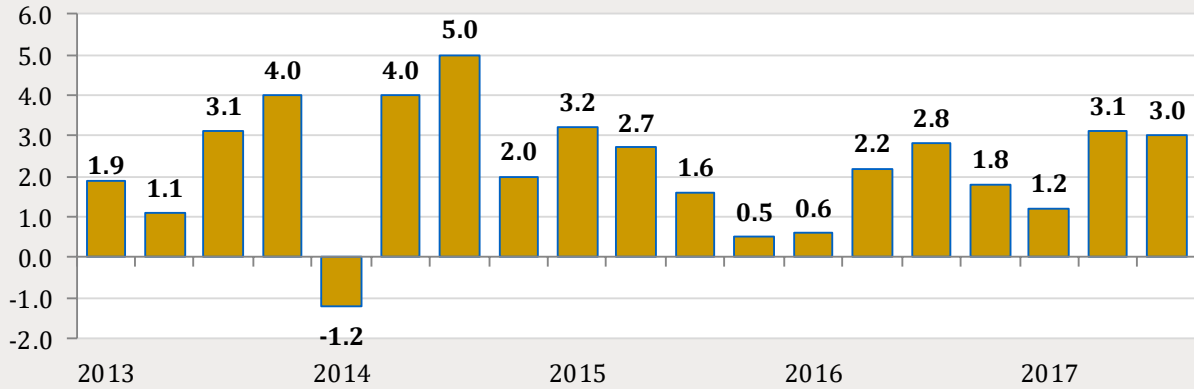
**Athletic Teams** – Boston has a professional franchise in every major sports league. The Red Sox, Bruins, and the Celtics all play in Downtown venues. Sports teams at the numerous colleges and universities throughout the region are also important sources of lodging demand, including those of Boston College, Harvard University, and Boston University.

## Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. The preceding data suggests that the Boston economy began to recover from the most recent national economic recession early in 2010, and that most major indicators and economic trends correlating with hotel demand are growing. The rapid expansion in the Seaport District is a particularly positive indicator for the subject property.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy expanded during the last three years, with a relatively low point in growth occurring during the fourth quarter of 2015 and the first quarter of 2016, as well as the first quarter of 2017. Most recently, the U.S. economy expanded by 3.1% and 3.0% in the second and third quarters of 2017, respectively. The recent acceleration reflected strong personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, exports, and federal government spending.

**FIGURE 3-10 UNITED STATES GDP GROWTH RATE**



Source: tradingeconomics.com, Bureau of Economic Analysis

U.S. economic growth continues to support expansion of lodging demand. In 2017, demand growth through November registered 2.7%, stronger than the 1.6% level recorded in 2016. The economic growth, low unemployment, higher levels of personal income, and stability in the U.S. economy as of early 2018 is helping to maintain strong interest in hotel investments by a diverse array of market participants.

## 4. Supply and Demand Analysis

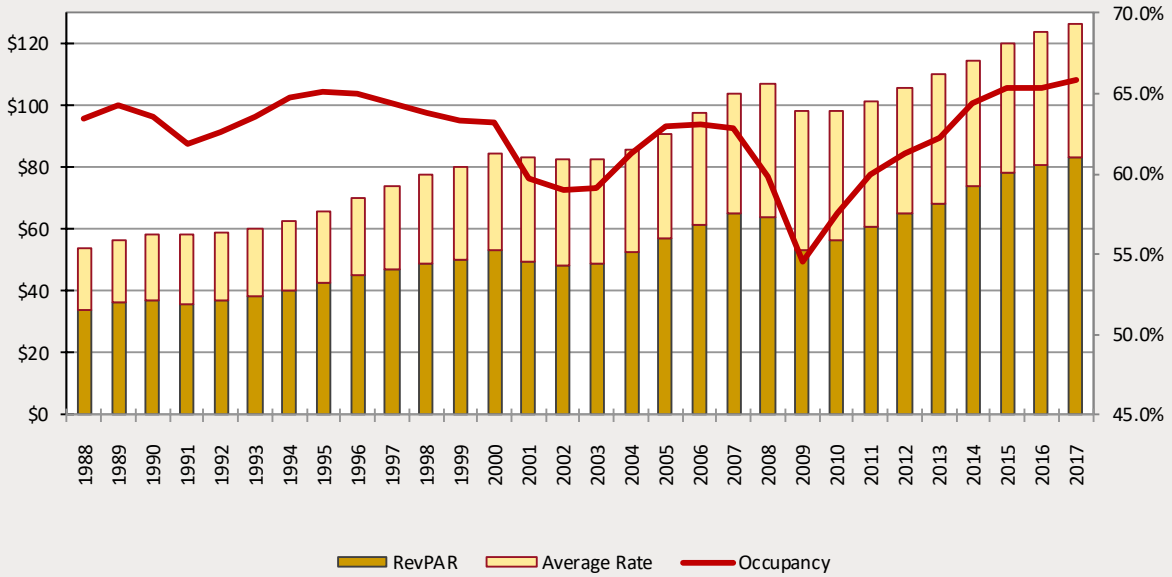
In the lodging industry, price varies directly, but not proportionately, with demand and inversely, but not proportionately, with supply. Supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand toward equilibrium results in a prevailing price, or average daily rate (ADR). The purpose of this section is to investigate current supply and demand trends, as indicated by the current competitive market, and to set forth a basis for the projection of future supply and demand growth.

### National Trends Overview

The subject property's local lodging market is most directly affected by the supply and demand trends within the immediate area. However, individual markets are also influenced by conditions in the national lodging market. We have reviewed national lodging trends to provide a context for the forecast of the supply and demand for the proposed subject hotel's competitive set.

STR is an independent research firm that compiles and publishes data on the lodging industry, and this information is routinely used by typical hotel buyers. The following STR diagram presents annual hotel occupancy and ADR data since 1987. The next two tables contain information that is more recent; the data are categorized by geographical region, price point, type of location, and chain scale, and the statistics include 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 4-1 NATIONAL OCCUPANCY, AVERAGE RATE, AND REVPAR TRENDS**



Source: STR



**FIGURE 4-2 NATIONAL OCCUPANCY AND ADR TRENDS – YEAR-TO-DATE DATA**

	Occupancy - YTD February			Average Rate - YTD February			RevPAR - YTD February			Percent Change	
	2017	2018	% Change	2017	2018	% Change	2017	2018	% Change	Rms. Avail.	Rms. Sold
United States	57.3 %	57.9 %	1.0 %	\$122.24	\$124.88	2.2 %	\$70.07	\$72.30	3.2 %	2.0 %	3.0 %
<b>Region</b>											
New England	49.7 %	51.2 %	3.1 %	\$124.68	\$125.35	0.5 %	\$62.00	\$64.23	3.6 %	1.7 %	4.8 %
Middle Atlantic	54.0	56.5	4.6	134.18	135.23	0.8	72.46	76.39	5.4	2.5	7.2
South Atlantic	62.2	62.3	0.2	125.93	129.48	2.8	78.31	80.65	3.0	1.6	1.7
East North Central	48.1	48.9	1.8	96.03	97.56	1.6	46.15	47.75	3.5	2.2	4.1
East South Central	51.1	50.7	(0.9)	89.57	91.62	2.3	45.81	46.41	1.3	1.9	1.0
West North Central	46.2	46.1	(0.1)	90.80	96.35	6.1	41.91	44.41	6.0	2.2	2.1
West South Central	57.3	59.1	3.0	102.34	102.31	0.0	58.67	60.43	3.0	2.6	5.7
Mountain	59.2	58.9	(0.5)	127.55	129.79	1.8	75.49	76.41	1.2	1.5	0.9
Pacific	67.2	67.3	0.1	157.46	162.62	3.3	105.87	109.48	3.4	2.3	2.4
<b>Class</b>											
Luxury	64.6 %	65.5 %	1.4 %	\$286.40	\$292.89	2.3 %	\$184.96	\$191.76	3.7 %	1.9 %	3.3 %
Upper-Upscale	65.7	65.7	(0.1)	176.60	178.29	1.0	116.03	117.07	0.9	2.0	2.0
Upscale	64.7	65.1	0.7	134.98	137.04	1.5	87.27	89.22	2.2	4.7	5.4
Upper-Midscale	57.8	58.5	1.2	108.15	109.99	1.7	62.53	64.36	2.9	3.9	5.2
Midscale	50.7	51.1	0.6	87.35	89.92	2.9	44.32	45.92	3.6	0.3	1.0
Economy	50.0	50.6	1.2	65.89	68.35	3.7	32.92	34.57	5.0	(0.2)	1.0
<b>Location</b>											
Urban	64.6 %	64.7 %	0.1 %	\$159.96	\$159.65	(0.2) %	\$103.33	\$103.25	(0.1) %	3.2 %	3.3 %
Suburban	58.8	59.3	0.9	104.14	106.82	2.6	61.20	63.35	3.5	2.4	3.3
Airport	68.1	68.9	1.1	114.49	116.75	2.0	77.96	80.39	3.1	1.4	2.6
Interstate	46.1	46.8	1.6	78.99	81.09	2.7	36.40	37.98	4.3	1.7	3.3
Resort	64.9	65.8	1.4	185.43	193.97	4.6	120.28	127.54	6.0	0.6	1.9
Small Metro/Town	46.0	46.7	1.4	92.28	94.39	2.3	42.48	44.08	3.8	1.6	3.1
<b>Chain Scale</b>											
Luxury	69.1 %	70.6 %	2.2 %	\$324.61	\$331.78	2.2 %	\$224.44	\$234.36	4.4 %	1.5 %	3.0 %
Upper-Upscale	67.8	67.8	0.0	177.79	179.49	1.0	120.55	121.66	0.9	2.2	2.1
Upscale	66.3	66.7	0.6	134.44	136.37	1.4	89.20	90.99	2.0	5.7	6.3
Upper-Midscale	57.8	58.6	1.3	105.60	107.37	1.7	61.08	62.88	2.9	3.8	5.1
Midscale	50.2	50.5	0.7	80.37	82.52	2.7	40.32	41.70	3.4	1.6	2.3
Economy	49.4	50.1	1.4	57.03	59.16	3.7	28.16	29.61	5.1	0.2	1.6
Independents	53.9	54.3	0.8	120.78	124.41	3.0	65.04	67.54	3.8	0.2	1.0

Source: STR - February 2018 Lodging Review

**FIGURE 4-3 NATIONAL OCCUPANCY AND ADR TRENDS – CALENDAR YEAR DATA**

	Occupancy			Average Rate			RevPAR			Percent Change	
	2016	2017	% Change	2016	2017	% Change	2016	2017	% Change	Rms. Avail.	Rms. Sold
United States	65.4 %	65.9 %	0.9 %	\$124.13	\$126.72	2.1 %	\$81.15	\$83.57	3.0 %	1.8 %	2.7 %
<b>Region</b>											
New England	64.1 %	64.8 %	1.1 %	\$151.20	\$153.78	1.7 %	\$96.96	\$99.67	2.8 %	1.5 %	2.6 %
Middle Atlantic	67.2	67.8	0.9	163.54	162.88	(0.4)	109.91	110.50	0.5	2.8	3.8
South Atlantic	67.1	68.0	1.4	119.92	123.40	2.9	80.45	83.91	4.3	1.5	2.9
East North Central	61.0	61.4	0.5	108.32	109.53	1.1	66.12	67.20	1.6	1.9	2.4
East South Central	61.3	61.5	0.3	94.88	98.23	3.5	58.15	60.37	3.8	1.9	2.2
West North Central	59.0	58.0	(1.7)	96.10	97.47	1.4	56.71	56.54	(0.3)	1.4	(0.3)
West South Central	61.4	62.5	1.9	98.73	100.32	1.6	60.57	62.70	3.5	3.0	4.9
Mountain	65.3	66.3	1.6	114.36	118.51	3.6	74.63	78.61	5.3	1.1	2.8
Pacific	73.8	73.9	0.3	158.63	162.60	2.5	116.99	120.23	2.8	1.6	1.9
<b>Class</b>											
Luxury	70.8 %	71.0 %	0.3 %	\$282.44	\$286.27	1.4 %	\$199.95	\$203.28	1.7 %	2.1 %	2.4 %
Upper-Upscale	72.5	72.7	0.3	178.13	181.00	1.6	129.17	131.67	1.9	1.7	2.0
Upscale	71.9	72.4	0.7	139.04	141.20	1.6	100.03	102.28	2.3	4.3	5.0
Upper-Midscale	67.1	67.6	0.8	114.07	115.86	1.6	76.54	78.34	2.3	4.0	4.8
Midscale	59.8	60.5	1.2	92.16	94.36	2.4	55.07	57.07	3.6	0.2	1.5
Economy	58.4	58.9	0.9	69.79	71.95	3.1	40.74	42.36	4.0	(0.4)	0.5
<b>Location</b>											
Urban	73.1 %	73.5 %	0.7 %	\$177.36	\$178.94	0.9 %	\$129.57	\$131.61	1.6 %	3.1 %	3.8 %
Suburban	66.7	67.0	0.4	105.74	108.10	2.2	70.57	72.47	2.7	1.9	2.4
Airport	73.3	73.7	0.6	113.60	116.17	2.3	83.27	85.67	2.9	1.4	2.0
Interstate	56.5	57.2	1.3	83.14	85.04	2.3	46.97	48.67	3.6	1.5	2.9
Resort	68.4	69.6	1.8	169.02	173.57	2.7	115.60	120.88	4.6	0.9	2.7
Small Metro/Town	56.7	57.3	1.0	99.91	102.23	2.3	56.70	58.59	3.3	1.5	2.5
<b>Chain Scale</b>											
Luxury	73.8 %	74.0 %	0.3 %	\$317.29	\$323.74	2.0 %	\$234.09	\$239.54	2.3 %	1.6 %	1.9 %
Upper-Upscale	74.2	74.2	0.0	179.54	182.04	1.4	133.25	135.15	1.4	2.1	2.1
Upscale	73.7	73.8	0.1	138.28	140.19	1.4	101.97	103.45	1.5	6.0	6.1
Upper-Midscale	67.5	67.9	0.7	111.43	113.09	1.5	75.18	76.84	2.2	3.3	4.0
Midscale	59.3	60.0	1.2	85.23	86.99	2.1	50.53	52.17	3.3	1.3	2.4
Economy	57.7	58.1	0.6	60.86	62.48	2.7	35.14	36.28	3.2	0.1	0.7
Independents	62.0	62.9	1.4	123.00	126.49	2.8	76.27	79.56	4.3	0.0	1.5

Source: STR - December 2017 Lodging Review

Following the significant RevPAR decline experienced during the last recession, demand growth resumed in 2010, led by select markets that had recorded growth trends in the fourth quarter of 2009. A return of business travel and some group activity contributed to these positive trends. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half of 2010. These discounting policies were largely phased out in the latter half of the year, balancing much of the early rate loss. Demand growth remained strong, but decelerated from 2011 through 2013, increasing at rates of 4.7%, 2.8%, and 2.0%, respectively. Demand growth then surged to 4.0% in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors. By 2014, occupancy had surpassed the 64% mark. Average rate rebounded similarly during this time, bracketing 4.0% annual gains from 2011 through 2014.

In 2015, demand growth continued to outpace supply growth, a relationship that has been in place since 2010. With a 2.9% increase in room nights, the nation's occupancy level reached a record high of 65.4% in 2015. Supply growth intensified modestly in 2015 (at 1.1%), following annual supply growth levels of 0.7% and 0.9% in 2013 and 2014, respectively. Average rate posted another strong year of growth, at 4.7% in 2015, in pace with the annual growth of the last four years. Robust job growth, heightened group and leisure travel, and waning price-sensitivity all contributed to the gains. In 2016, occupancy showed virtually no change, as demand growth kept pace with supply additions. Occupancy then moved even higher in 2017, to a new peak of 65.9%. Average rate increased roughly 3% and 2% in 2016 and 2017, respectively. By year-end 2017, the net change in RevPAR was 3.0%, reflecting a healthy lodging market overall. Year-to-date statistics through February 2018 show this trend continuing, with a 0.6-point occupancy increase, while average rate increased by just over \$2.00, resulting in a 3.2% upward change in RevPAR.

### Historical Performance – Competitive Set

As previously noted, STR is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. HVS has ordered and analyzed an STR Trend Report of historical supply and demand data for a group of hotels considered applicable to this analysis for the proposed subject hotel. This information is presented in the following table, along with the aggregate 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 4-4 HISTORICAL SUPPLY AND DEMAND TRENDS – COMPETITIVE SET**

Year	Average Daily	Available Room Nights		Occupied Room Nights		Occupancy	Average Rate		RevPAR	
	Room Count	Total	% Chg	Total	% Chg		Total	% Chg	Total	% Chg
2008	1,587	579,255	—	432,044	—	74.6 %	\$127.77	—	\$95.30	—
2009	1,587	579,255	0.0 %	437,977	1.4 %	75.6	111.64	(12.6) %	84.41	(11.4) %
2010	1,587	579,255	0.0	463,279	5.8	80.0	120.81	8.2	96.63	14.5
2011	1,575	574,875	(0.8)	469,037	1.2	81.6	128.43	6.3	104.78	8.4
2012	1,629	594,459	3.4	492,568	5.0	82.9	137.43	7.0	113.88	8.7
2013	1,703	621,595	4.6	525,111	6.6	84.5	143.71	4.6	121.41	6.6
2014	1,703	621,595	0.0	532,882	1.5	85.7	159.85	11.2	137.03	12.9
2015	1,901	694,023	11.7	594,462	11.6	85.7	173.02	8.2	148.20	8.2
2016	2,160	788,437	13.6	654,774	10.1	83.0	176.10	1.8	146.24	(1.3)
2017	2,406	878,137	11.4	700,089	6.9	79.7	180.03	2.2	143.53	(1.9)
<b>Year-to-Date Through February</b>										
2017	2,185	128,915	—	89,777	—	69.6 %	\$132.33	—	\$92.16	—
2018	2,461	145,199	12.6 %	101,718	13.3 %	70.1	124.08	(6.2) %	86.93	(5.7) %
Average Annual Compounded Change:										
2008 - 2017			4.7 %			5.5 %			3.9 %	4.7 %
2012 - 2017			8.1			7.3			5.5	4.7
Hotels Included in Sample	Neighborhood	Competitive Status	Number of Rooms	Year Opened						
Four Points by Sheraton	Revere	Secondary	180	1962						
Courtyard by Marriott	East Boston	Secondary	351	1973						
Comfort Inn & Suites	Revere	Secondary	208	2000						
DoubleTree Hotel	Chelsea	Secondary	180	2001						
Hampton Inn	Revere	Secondary	250	2001						
Embassy Suites	East Boston	Primary	273	2003						
Residence Inn Tudor Wharf	Charlestown	Primary	168	2003						
Residence Inn	Chelsea	Primary	128	Aug-2012						
TownePlace Suites	Chelsea	Secondary	140	Mar-2015						
Hilton Garden Inn	East Boston	Primary	178	Aug-2015						
AC Hotel by Marriott	Medford	Primary	152	Mar-2016						
Homewood Suites	Chelsea	Primary	152	Mar-2017						
enVision, Ascend Collection	Everett	Secondary	101	Apr-2017						
<b>Total</b>			<b>2,461</b>							

Source: STR

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample; furthermore, 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, and 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.

The competitive set has experienced dramatic increases in supply in the last six years, over which period 35% of the group's 2,461 rooms opened. Supply grew at an average annual rate of 8.1% between 2012 and 2017, very rapid growth that would ordinarily be expected to place downward pressure on the competitive set's occupancy rate. In fact, the market has responded well, with demand growing at an average annual rate of 7.3% over the same period. Although the competitive set's occupancy rate did decline, the drop-off was moderate in scale. The trends illustrate the depth of the market's latent demand, with the occupancy rate finishing 2017 at approximately 80%, despite the rapid inventory growth. Through February 2018, the market's inventory grew by another 12.6% as compared to the prior year-to-date levels, and demand grew by 13.3% over this period.

Average rate is the other meaningful measure of market performance. The new hotels have a higher quality level and price point than the existing inventory, generally speaking; thus, the new rooms have created upward pressure on the market's average rate. Between 2012 and 2017, the competitive set's average rate grew at an average annual rate of 5.5%, but the pace of the growth has decelerated in more recent years, suggesting that some of the latent demand that has been newly accommodated is somewhat less lucrative. This dynamic is particularly in evidence through February 2018, where market pricing fell off by 6.2%, even as demand grew by 13.3%.

RevPAR accounts for occupancy and average rate trends in a single metric and is therefore the single most relevant overall indicator. RevPAR grew at a healthy average annual rate of 4.7% between 2012 and 2017, but the metric declined moderately in 2016 and 2017, and has dropped off by 5.7% through February 2018. The data suggests that the market's capacity to absorb additions to supply is weakening. Such a conclusion does not necessarily preclude a positive feasibility conclusion for a new hotel, however. The macro performance of the competitive set is relevant but is considered in tandem with the proposed hotel's specific advantages and disadvantages.

The following table details the monthly occupancy, average rate, and RevPAR results for the competitive set since January 2016.

**FIGURE 4-5 MONTHLY OCCUPANCY, ADR, AND REVPAR TRENDS – COMPETITIVE SET**

Month	2016			2017			2018			RevPAR Change Rates	
	OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR	2016-2017	2017-2018
January	65.7 %	\$123.54	\$81.18	66.8 %	\$130.24	\$87.01	67.7 %	\$123.76	\$83.74	7.2 %	(3.8) %
February	73.2	131.61	96.39	72.8	134.46	97.85	72.7	124.41	90.45	1.5	(7.6)
March	75.0	153.91	115.43	74.6	162.38	121.15	—	—	—	5.0	—
April	85.6	183.63	157.18	78.5	194.03	152.27	—	—	—	(3.1)	—
May	87.8	186.32	163.66	84.5	203.57	172.03	—	—	—	5.1	—
June	95.3	194.35	185.27	90.0	197.31	177.51	—	—	—	(4.2)	—
July	94.5	189.28	178.96	85.0	198.11	168.48	—	—	—	(5.9)	—
August	92.8	192.04	178.15	85.3	189.64	161.81	—	—	—	(9.2)	—
September	90.4	206.02	186.31	86.8	200.15	173.70	—	—	—	(6.8)	—
October	88.3	209.80	185.20	89.8	214.50	192.53	—	—	—	4.0	—
November	77.3	166.38	128.55	75.0	161.66	121.24	—	—	—	(5.7)	—
December	68.3	129.46	88.44	64.9	126.15	81.90	—	—	—	(7.4)	—
<b>Annual</b>	<b>83.0 %</b>	<b>\$176.10</b>	<b>\$146.24</b>	<b>79.7 %</b>	<b>\$180.03</b>	<b>\$143.53</b>	—	—	—	<b>(1.9) %</b>	—
<b>YTD February</b>	<b>69.3 %</b>	<b>\$127.59</b>	<b>\$88.40</b>	<b>69.6 %</b>	<b>\$132.33</b>	<b>\$92.16</b>	<b>70.1 %</b>	<b>\$124.08</b>	<b>\$86.93</b>	<b>4.3 %</b>	<b>(5.7) %</b>

Source: STR



The preceding data illustrates both the competitive set’s seasonality of demand: comparing RevPAR levels throughout calendar-year 2017, the competitive set’s RevPAR peaked between May and October, with March, April, and November representing the shoulder season and December through February the off season. The data illustrates the length and depth of the peak season. With occupancy rates ranging from 85% to 90% between May and October, and exceeding 70% every month except January and December, excess demand continues to be in evidence. On the other hand, the data also illustrate the effects of increased competitiveness, with RevPAR declining in eight of the past nine months. With five hotels and 723 rooms entering the market in the last three years, the market is demonstrating some signs of stress. But as the rate of inventory growth slows, we expect the competitive set to stabilize and resume modest RevPAR growth.

The following table details trends in the competitive set’s RevPAR by day of the week, using data provided by STR..

**FIGURE 4-6 REVPAR BY DAY OF WEEK – COMPETITIVE SET**

<u>RevPAR (\$)</u>	<u>Sunday</u>	<u>Monday</u>	<u>Tuesday</u>	<u>Wednesday</u>	<u>Thursday</u>	<u>Friday</u>	<u>Saturday</u>	<u>Total Year</u>
Mar 15 - Feb 16	\$116.15	\$146.69	\$166.27	\$164.97	\$154.82	\$131.60	\$132.16	\$144.59
Mar 16 - Feb 17	117.97	144.34	161.15	166.40	156.07	136.41	140.73	146.20
Mar 17 - Feb 18	111.86	145.82	160.45	161.75	147.82	130.52	133.63	141.75
<b><u>Change (Dollars)</u></b>								
FY 15 - FY 16	\$1.83	(\$2.34)	(\$5.12)	\$1.43	\$1.25	\$4.81	\$8.58	\$1.61
FY 16 - FY 17	(6.11)	1.48	(0.70)	(4.65)	(8.25)	(5.90)	(7.10)	(4.45)
<b><u>Change (Percent)</u></b>								
FY 15 - FY 16	1.6 %	(1.6) %	(3.1) %	0.9 %	0.8 %	3.7 %	6.5 %	1.1 %
FY 16 - FY 17	(5.2)	1.0	(0.4)	(2.8)	(5.3)	(4.3)	(5.0)	(3.0)

Source: STR

RevPAR levels are relatively consistent throughout the week, with peak levels realized mid-week, when business and commercial group travel peaks. Results drop off on the weekend and bottom-out on Sunday nights. The data illustrates the competitive set’s primary reliance upon commercial-related demand, though the drop-off on the weekends is not severe. Leisure demand plays a secondary but still important role in the market’s demand composition.

**Competitor Overview**

The following tables summarize the historical operating results and physical characteristics of the six hotels that are expected to function as the subject property’s most direct competition.

**FIGURE 4-7 PRIMARY COMPETITORS – OPERATING PERFORMANCE**

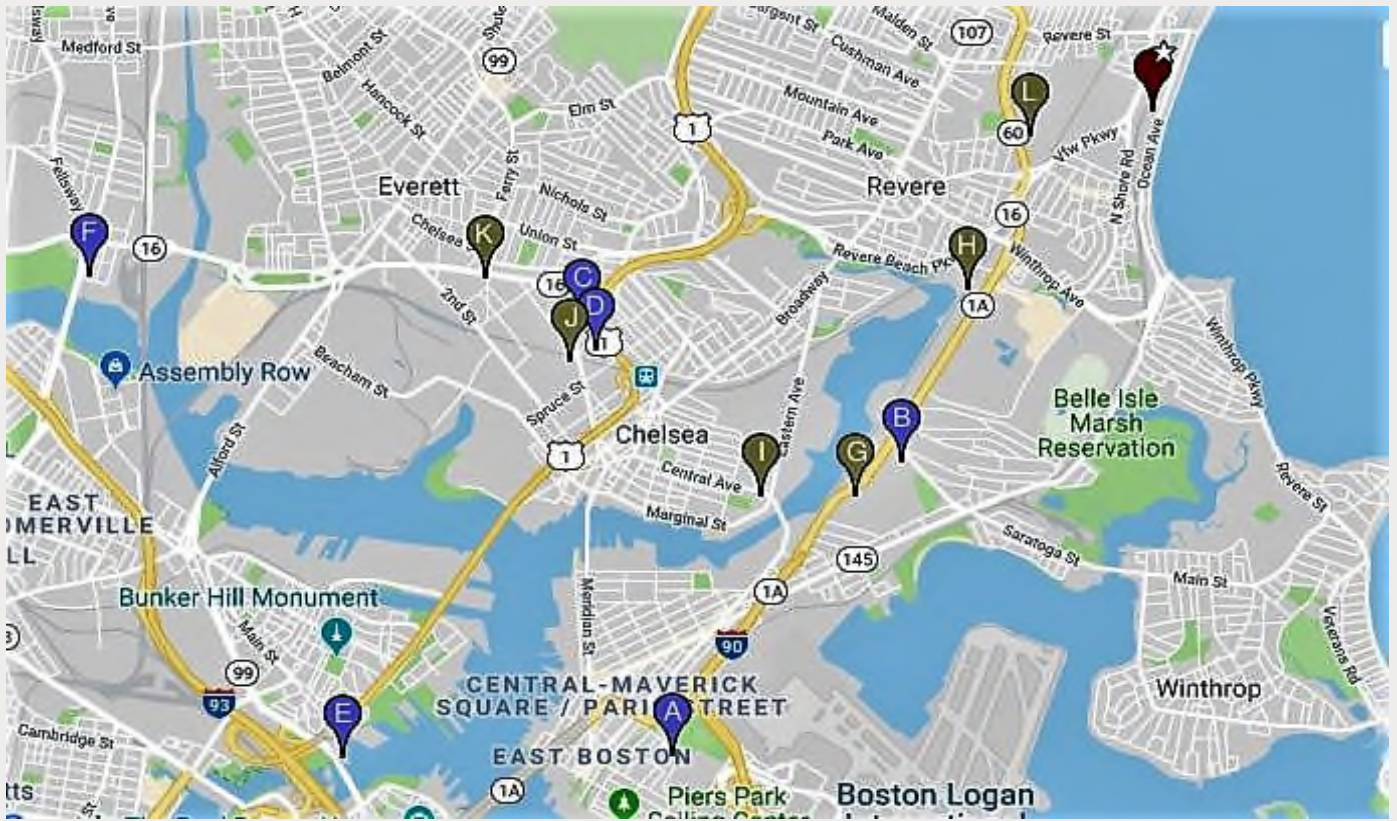
Property	No. of Rooms	Estimated 2016			Estimated 2017			Penetration Factors		
		OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR
Embassy Suites - E. Boston	273	80 - 85 %	\$200 - \$210	\$170 - \$180	75 - 80 %	\$210 - \$220	\$170 - \$180	100 - 110 %	110 - 120 %	120 - 130 %
Hilton Garden Inn - E. Boston	178	85 - 90	180 - 190	160 - 170	85 - 90	190 - 200	170 - 180	110 - 120	100 - 110	120 - 130
Homewood Suites - Chelsea	152	—	—	—	80 - 85	180 - 190	150 - 160	100 - 110	100 - 110	100 - 110
Residence Inn - Chelsea	128	90 - 95	170 - 180	160 - 170	90 - 95	170 - 180	160 - 170	110 - 120	95 - 100	110 - 120
Residence Inn Tudor Wharf - Charlestown	168	80 - 85	250 - 260	210 - 220	85 - 90	240 - 250	210 - 220	100 - 110	130 - 140	140 - 150
AC Hotel by Marriott - Medford	152	85 - 90	190 - 200	170 - 180	85 - 90	190 - 200	170 - 180	110 - 120	100 - 110	120 - 130
<b>Sub-Totals/Averages</b>	<b>1,051</b>	<b>85.9 %</b>	<b>\$205.88</b>	<b>\$176.78</b>	<b>86.1 %</b>	<b>\$205.22</b>	<b>\$176.71</b>	<b>108.1 %</b>	<b>114.0 %</b>	<b>123.2 %</b>
Secondary Competitors	1,404	81.0 %	\$154.65	\$125.30	74.9 %	\$158.48	\$118.67	94.0 %	88.0 %	82.7 %
<b>Totals/Averages</b>	<b>2,455</b>	<b>83.0 %</b>	<b>\$176.10</b>	<b>\$146.13</b>	<b>79.7 %</b>	<b>\$180.03</b>	<b>\$143.44</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>















\* Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.

**FIGURE 4-8 PRIMARY COMPETITORS – FACILITY PROFILES**

Property	No. of Rooms	Year Opened	Last Major Renovation	Distance to Subject (mi)	Meeting Space (SF)		Facilities & Amenities
					Total	Per Room	
Embassy Suites - E. Boston 207 Porter Street	273	2003	2008	3.6	4,745	17	Restaurant/bar, free made-to-order breakfast, indoor pool/whirlpool, fitness room, business center, valet parking only (\$49/night), short walk to T, 24-hour airport shuttle
Hilton Garden Inn - E. Boston 100 Boardman Street	178	2015	N/A	1.9	3,450	19	Bar and grill, indoor pool, fitness room, business center, free surface parking, 24-hour shuttle to Logan and T
Homewood Suites - Chelsea 145 Beech Street	152	2017	N/A	2.6	4,648	31	Complimentary breakfast, lobby bar, indoor salt-water pool, fitness room, business center, free surface parking, 24-hour airport shuttle
Residence Inn - Chelsea 200 Maple Street	128	2012	N/A	2.7	1,350	11	Complimentary breakfast, lobby bar, indoor salt-water pool, fitness room, business center, free surface parking, 24-hour airport shuttle
Residence Inn Tudor Wharf - Charlestown 34-44 Charles River Avenue	168	2003	2008	4.6	450	3	Complimentary breakfast, indoor pool, fitness room, business center, valet parking only (\$45/night)
AC Hotel by Marriott - Medford 95 Station Landing	152	2016	N/A	4.7	1,686	11	Breakfast buffet (\$16+), AC Kitchen/Lounge, indoor pool, fitness room, business center, free surface parking

COMPETITION MAP



- |   |  |   |  |
|---|--|---|--|
|  | Proposed SpringHill Suites                                       |  | Courtyard by Marriott Boston Logan Airport (Secondary)                       |
|  | Embassy Suites Hotel Boston at Logan Airport (Primary)           |  | Hampton Inn Boston Logan Airport (Secondary)                                 |
|  | Hilton Garden Inn Boston Logan Airport (Primary)                 |  | TownePlace Suites Boston Logan Airport/Chelsea (Secondary)                   |
|  | Homewood Suites by Hilton Boston Logan Airport Chelsea (Primary) |  | Wyndham Boston Chelsea (Secondary)   |
|  | Residence Inn by Marriott Boston Logan Airport Chelsea (Primary) |  | EnVision Hotel Boston-Everett, An Ascend Hotel Collection Member (Secondary) |
|  | Residence Inn by Marriott Boston Harbor on Tudor Wharf (Primary) |  | Comfort Inn & Suites Logan International Airport (Secondary)                 |
|  | AC Hotel by Marriott Boston North (Primary)                      |  | Four Points by Sheraton Boston Logan Airport (Secondary)                     |

The primary competitors represent the six highest-quality hotels in the Logan International Airport market area. Plans for the proposed subject hotel qualify it for inclusion in this category, based on its design, facilities and amenities, and location-related attributes. In 2017, the primary competitors posted an aggregate occupancy rate of 86.1% at an average rate of \$205.22, for a RevPAR of \$176.71. Compared to the aggregate results of the secondary competition, the primary competition generates substantial premiums in all three categories.

Each primary competitor was inspected and evaluated, and is described in detail as follows.



**PRIMARY COMPETITOR #1 - EMBASSY SUITES - E. BOSTON**



**Embassy Suites - E.  
Boston  
207 Porter Street  
Boston, MA**

**FIGURE 4-9 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2015	273	85 - 90 %	\$200 - \$210	\$170 - \$180	100 - 110 %	110 - 120 %
Est. 2016	273	80 - 85	200 - 210	170 - 180	100 - 110	110 - 120
Est. 2017	273	75 - 80	210 - 220	170 - 180	100 - 110	120 - 130

The 273-unit Embassy Suites opened in 2003 on a site located in the immediate vicinity of Logan International Airport. The hotel is owned by The Blackstone Group LP, which took the property back in 2012 from the prior owner, Eagle Hospitality Properties, after it defaulted on its mortgage payments. The property is managed by Ambridge Hospitality. Facilities and amenities include a breakfast dining area (a complimentary breakfast and evening reception are served), Porter Bar and Grill, an indoor pool and whirlpool, a fitness room, a gift shop, a guest laundry facility, a business center, and 4,745 square feet of meeting space. The hotel received its last comprehensive renovation in 2008, and the cosmetics are tired and in need of renewal. The property benefits from its proximity to Logan Airport, however, and the fact that all the rooms are suites, with distinct living room and bedroom areas.



**PRIMARY COMPETITOR #2 - HILTON GARDEN INN - E. BOSTON**



**Hilton Garden Inn - E. Boston**  
**100 Boardman Street**  
**Boston, MA**

**FIGURE 4-10 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual			RevPAR	Occupancy	Yield
	Room Count	Occupancy	Average Rate		Penetration	Penetration
Est. 2015	75	70 - 75 %	\$190 - \$200	\$140 - \$150	85 - 90 %	95 - 100 %
Est. 2016	178	85 - 90	180 - 190	160 - 170	100 - 110	110 - 120
Est. 2017	178	85 - 90	190 - 200	170 - 180	110 - 120	120 - 130

The 178-room Hilton Garden Inn opened in August 2015; it is owned and operated by First Bristol Corporation. The property is located approximately one mile north of Logan International Airport, off Route 1A. The property features brand-standard features, including a restaurant and bar with a limited menu, an indoor pool, a fitness room, and 3,450 square feet of meeting space. The property offers free surface parking. The hotel has quickly stabilized with an occupancy rate just below 90% and an average rate just below \$200.

**PRIMARY COMPETITOR #3 - HOMEWOOD SUITES - CHELSEA**



**Homewood Suites -  
Chelsea  
145 Beech Street  
Chelsea, MA**

**FIGURE 4-11 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2017	127	80 - 85 %	180 - 190	150 - 160	100 - 110 %	100 - 110 %

Developed and owned by XSS Hotels, and managed by Colwen Hotels, the 152-room Homewood Suites opened in March 2017. The room count noted above is weighted to reflect the partial year of operation. The property is situated in Chelsea, near a node of hotels that includes the Residence Inn Chelsea and the DoubleTree Chelsea. The Homewood Suites is the newest primarily-competitive hotel in the competitive set, and features brand-standard facilities, including a complimentary breakfast room, a lobby bar, an indoor pool, a fitness room, a business center, and free surface parking. The meeting space allotment is somewhat large for a hotel of this sort, at 4,648 square feet. The guestrooms are designed to accommodate guests requiring extended stays, with separate living room, kitchen, and bedroom areas in all units, in a mix of studios, one-bedroom, and two-bedroom suites. The property generated strong operating results in its first ten months of operation, with occupancy exceeding 80% and a strong average rate.

**PRIMARY COMPETITOR #4 - RESIDENCE INN - CHELSEA**



**Residence Inn - Chelsea  
200 Maple Street  
Chelsea, MA**

**FIGURE 4-12 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual			RevPAR	Occupancy	Yield
	Room Count	Occupancy	Average Rate		Penetration	Penetration
Est. 2015	128	95 - 100 %	\$170 - \$180	\$160 - \$170	110 - 120 %	110 - 120 %
Est. 2016	128	90 - 95	170 - 180	160 - 170	110 - 120	110 - 120
Est. 2017	128	90 - 95	170 - 180	160 - 170	110 - 120	110 - 120

The 128-room Residence Inn opened in August 2012. Like its immediate neighbor the Homewood Suites, the property is owned by XSS Hotels and operated by Colwen Hotels. Designed to accommodate extended-stays, the property’s facilities are basically identical to those of the Homewood Suites, except the meeting space allotment is smaller. Public facilities include a complimentary breakfast room, a lobby bar, an indoor pool, a fitness room, a business center, and free surface parking. The property’s occupancy rate has consistently exceeded 90%, with average rate levels in the range of \$170 to \$180.

**PRIMARY COMPETITOR #5 - RESIDENCE INN TUDOR WHARF - CHARLESTOWN**



**Residence Inn Tudor Wharf - Charlestown  
34-44 Charles River Avenue  
Boston, MA**

**FIGURE 4-13 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2015	168	80 - 85 %	\$260 - \$270	\$220 - \$230	95 - 100 %	140 - 150 %
Est. 2016	168	80 - 85	250 - 260	210 - 220	100 - 110	140 - 150
Est. 2017	168	85 - 90	240 - 250	210 - 220	100 - 110	140 - 150

The Residence Inn Tudor Wharf generates the strongest RevPAR levels among the primary competitors surveyed here, owing to its proximity to downtown Boston. The property is in Charlestown, connected to Boston’s North End via the Charlestown Bridge. The property opened in 2003 and is owned and operated by Pyramid Hotel Group. Its facilities are consistent with brand standards. Parking is valet only at a cost of \$45 per night. Cosmetic renewal of the property will be necessary in the near term for the hotel to maintain its current competitive position. The property’s average rate has decreased significantly in recent years, reflecting the impacts of new supply.



**PRIMARY COMPETITOR #6 - AC HOTEL BY MARRIOTT - MEDFORD**



**AC Hotel by Marriott -  
Medford  
95 Station Landing  
Medford, MA**

**FIGURE 4-14 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2016	127	85 - 90 %	190 - 200	170 - 180	100 - 110 %	110 - 120 %
Est. 2017	152	85 - 90	190 - 200	170 - 180	110 - 120	120 - 130

The 152-room AC Hotel by Marriott opened in Medford in March 2016, and rapidly stabilized, with occupancy of nearly 90% in its first full year of operation, and average rate of nearly \$200. Public facilities include 1,686 square feet of meeting space, a restaurant and lounge, a breakfast buffet, an indoor pool, a fitness room, and a business center. Surface parking is free.

## Secondary Competitors

The secondary competition includes seven hotels located near Boston's Logan International Airport, with varying quality levels, though generally featuring a quality level and price point below that anticipated for the proposed subject hotel. The properties are described as follows:

- The Courtyard by Marriott is a former Holiday Inn and contains 351 rooms; it is in the immediate vicinity of the primarily competitive Hilton Garden Inn.
- The Hampton Inn opened in 2001 and received a comprehensive interior and exterior renovation in 2017, at which time it was expanded from 227 to 250 rooms, effective in April.
- The TownePlace Suites is an extended-stay hotel in Chelsea; it serves extended-stay guests seeking a more affordable option than Residence Inn and Homewood Suites.
- The DoubleTree in Chelsea operated as a Wyndham affiliate prior to its conversion in September 2017.
- enVision, an Ascend Collection hotel, opened in April 2017, representing the most recent addition to the survey. The property is a boutique-style hotel with a relatively modest price point. At 101 rooms, it is also the smallest property in the survey.
- The 208-room Comfort Inn & Suites in Revere opened in 2000 and is located along Route 1A; functions as an affordable limited-service hotel option.
- The 180-room Four Points by Sheraton was originally constructed in 1962 as a Howard Johnson; it has been a Four Points affiliate since 2001. The property is a select-service hotel with an on-site Japanese restaurant.

## New Supply

The following table summarizes new hotel development in the subject market area, including hotels opened or expanded during 2017; new hotels currently under construction; and projects that continue to progress through the development pipeline, pre-construction, including the subject property.



**FIGURE 4-15 NEW SUPPLY**

<b>Hotel Name</b>	<b>Address</b>	<b>City</b>	<b>No. of Rooms</b>	<b>Status</b>	<b>Developer</b>
<b><i>Recently Opened</i></b>					
Homewood Suites	145 Beech Street	Chelsea	152	Opened Mar-2017	XSS Hotels
enVision, Ascend Collection	1834 Revere Beach Pkwy	Everett	101	Opened Apr-2017	Global Vision Hotels
Hampton Inn Expansion	230 Lee Burbank Hwy	Revere	23	Opened Apr-2017	Magna Hospitality
<b><i>Under Construction</i></b>					
The Row, Autograph Collection	360 Foley Street	Somerville	158	Opening Summer-2018	Federal Realty
Holiday Inn	1012-1018 Broadway	Chelsea	124	Opening Fall-2018	XSS Hotels
Wynn Boston Harbor	1 Horizon Way	Everett	671	Opening Summer-2019	Wynn Resorts
<b><i>Pre-Construction</i></b>					
SpringHill Suites - SUBJECT	400 Ocean Avenue	Revere	168	Approved	Lixi Group
Extended-Stay Hotel	205 Revere Beach Pkwy	Revere	132	Approved	XSS Hotels
Unnamed Hotel	49-54 Revere Beach Blvd	Revere	158	Not Yet Approved	JBX Developers
La Quinta Inn	125 Squire Road	Revere	125	Approved	La Quinta Corporation

Of the three hotels currently under construction, the first two noted above have been included in this analysis as new competition: The Row, Autograph Collection, located in Somerville and containing 158 rooms; and the 124-room Holiday Inn under construction in Chelsea. The Wynn Boston Harbor is not included given its status as a casino resort.

For the projects in pre-construction phases, only the subject property has been factored into the analysis. The proposed extended-stay hotel at 205 Revere Beach Parkway is likely to come to fruition eventually, but without a brand affiliation or defined product, it is sufficiently speculative to exclude here. (The property is adjacent to Redgate's new multi-family residential projection, One Beachmont, which is nearing completion with 195 units.) The other two pre-construction projects are also still speculative at this stage.

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 hotel may be affected. Future improvement in market conditions will raise the risk of increased competition. Our forecast of stabilized occupancy and average rate is intended to reflect such risk.

### **Occupancy Forecast – Competitive Set**

Based on our review of the market dynamics in the subject property's competitive environment, and in consideration of the additions to supply anticipated over the foreseeable future, we have developed the following forecast of occupancy for the competitive set.

**FIGURE 4-16 OCCUPANCY FORECAST – COMPETITIVE SET**

	<u>Base Year</u>						
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<b><u>Demand</u></b>							
Occupied Room Nights	699,552	734,529	771,256	809,818	809,818	809,818	809,818
% Change		5.0 %	5.0 %	5.0 %	0.0 %	0.0 %	0.0 %
<b><u>Supply</u></b>							
Existing Hotel Supply	2,406	2,406	2,406	2,406	2,406	2,406	2,406
<b><u>Changes in Supply</u></b>							
Homewood Suites - Chelsea	1	25	25	25	25	25	25
enVision, Ascend Collection - Everett	2	25	25	25	25	25	25
Hampton Inn - Revere	3	6	6	6	6	6	6
The Row, Autograph Collection	4	80	158	158	158	158	158
Holiday Inn Chelsea	5	31	124	124	124	124	124
SpringHill Suites Revere - SUBJECT	6	---	---	168	168	168	168
Total Rooms per Night	2,406	2,572	2,743	2,911	2,911	2,911	2,911
x Nights per Year	365	365	365	365	365	365	365
Available Room Nights per Year	878,017	938,745	1,001,195	1,062,515	1,062,515	1,062,515	1,062,515
% Change		6.9 %	6.7 %	6.1 %	0.0 %	0.0 %	0.0 %
<b>Marketwide Occupancy</b>	<b>79.7 %</b>	<b>78.2 %</b>	<b>77.0 %</b>	<b>76.2 %</b>	<b>76.2 %</b>	<b>76.2 %</b>	<b>76.2 %</b>

- 1 Phase-in of remaining competitive rooms; hotel opened in March 2017
- 2 Phase-in of remaining competitive rooms; hotel opened in April 2017
- 3 Phase-in of remaining competitive rooms; hotel expanded by 23 rooms in April 2017
- 4 Hotel under construction, opening July 2018
- 5 Hotel under construction, opening October 2018
- 6 Subject hotel's assumed January 2020 opening date

As noted above, the competitive set's supply is expected to increase at rates ranging from 6.1% to 6.9% over the next three years, a significant rate of expansion that is nevertheless below the average annual rate of supply growth recorded between 2012 and 2017: 8.1%.

Based on the historical trends, and the fact that the market's occupancy results continue to suggest substantial levels of excess demand available to be activated by new inventory, we have forecast demand growth of 5.0% in each of the next three years, slightly below the rate of supply growth, and below the average annual rate of demand growth recorded over the past five years: 7.3%.

Our forecast reflects a continuation of historical trends, where substantial increases in supply have placed downward pressure on the competitive set's aggregate occupancy rate. Occupancy declined by six percentage points between 2015 and 2017, from 85.7% to 79.7%. Our forecast reflects a stabilized occupancy rate of approximately 76%.

## 5. Projection of Occupancy and Average Rate

Along with ADR 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, other operated departments, and rentals and other income) are driven by the number of guests, and many expense levels 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.

### Occupancy Forecast

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. In the following table, the base-year 2017 penetration rates attained by the primary competitors and the aggregate secondary competitors are presented.

**FIGURE 5-1 HISTORICAL PENETRATION RATES - 2017**

Property	Penetration Factor
Embassy Suites - E. Boston	100 %
Hilton Garden Inn - E. Boston	110
Homewood Suites - Chelsea	105
Residence Inn - Chelsea	118
Residence Inn Tudor Wharf - Charlestown	109
AC Hotel by Marriott - Medford	112
Secondary Competition	94

In 2017, the primary competitors posted penetration factors ranging from 100% to 118%, led by the Residence Inn Chelsea. Overall, the aggregate of primary competitors accommodated approximately 108% of their fair share of demand. The aggregate of secondary competitors attracted only 94% of their fair share of demand.

In the following table, we begin the forecast of the subject property’s occupancy rate by presenting the forecast of total occupied room nights for the competitive set and multiplying this figure by the subject property’s fair share percentage (calculated as the ratio of its room count to the competitive set’s room count). The product, the fair share of occupied room nights, is then multiplied by a selected penetration factor for each year. We have projected this figure to stabilize at 105%, slightly below the aggregate average 108% penetration factor realized by the primary competition in 2017. The product of the calculation represents the number of room nights captured by the subject property. Dividing this figure by the number of room nights available at the 168-room hotel renders the occupancy rate forecast.

**FIGURE 5-2 OCCUPANCY FORECAST - SUBJECT PROPERTY**

	2020	2021	2022	2023
Occupied Room Nights - Comp Set	809,818	809,818	809,818	809,818
Fair Share % - Subject Hotel	5.8 %	5.8 %	5.8 %	5.8 %
Fair Share Demand - Subject Hotel	46,736	46,736	46,736	46,736
Penetration Factor - Subject Hotel	99 %	102 %	105 %	105 %
Room Nights Captured - Subject Hotel	46,086	47,856	49,178	49,178
Available Room Nights - Subject Hotel	61,320	61,320	61,320	61,320
Occupancy Rate - Subject	75 %	78 %	80 %	80 %

**Average Rate Forecast**

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.

Although the ADR analysis presented here follows the occupancy projection, these two statistics are highly correlated; 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, RevPAR, and respective ADR and RevPAR penetration levels for the proposed subject property’s competitors. The stabilized average rate and RevPAR levels that have been projected for the proposed subject hotel, expressed in base-year dollars, are also presented to understand the ADR positioning anticipated for the property



upon stabilization. The basis for our ADR projection follows later in this section of the report.

**FIGURE 5-3 BASE-YEAR ADR AND REVPAR OF THE COMPETITORS**

Property	Estimated 2017 ADR		Estimated 2017 RevPAR	
	Total	Penetration Factor	Total	Penetration Factor
Embassy Suites - E. Boston	\$210 - \$220	110 - 120 %	\$170 - \$180	120 - 130 %
Hilton Garden Inn - E. Boston	190 - 200	100 - 110	170 - 180	120 - 130
Homewood Suites - Chelsea	180 - 190	100 - 110	150 - 160	100 - 110
Residence Inn - Chelsea	170 - 180	95 - 100	160 - 170	110 - 120
Residence Inn Tudor Wharf - Charlestown	240 - 250	130 - 140	210 - 220	140 - 150
AC Hotel by Marriott - Medford	190 - 200	100 - 110	170 - 180	120 - 130
Average - Primary Competitors	\$205.22	114.0 %	\$176.71	123.2 %
Average - Secondary Competitors	158.48	88.0	118.67	82.7
<b>Overall Average</b>	<b>\$180.03</b>	<b>100.0 %</b>	<b>\$143.44</b>	<b>100.0 %</b>

Based on the preceding market data, and considering the subject property’s physical and locational attributes, we have positioned the subject property’s average rate at the equivalent of \$200 in base-year 2017 dollars. This price point places the subject property in league with the Hilton Garden Inn and AC by Marriott affiliates, and below the results realized by the Embassy Suites and Residence Inn Tudor Wharf affiliates.

In the following table, the base-year selected average rate for the subject property is converted into a forecast through future by applying change rates from year-to-year. The change rates are informed by the assumed underlying inflation rate applied throughout this study, 2.5%, as well as our expectations for the competitive set’s growth factors. As noted below, we have projected a 2.0% decline in average rate for the competitive set in 2018, in recognition of year-to-date trends and impacts of new supply. No growth is projected in 2019, followed by inflationary gains thereafter. These same change rates were applied to the proposed subject hotel. A final downward adjustment is then applied in the first two years of the forecast to account for the hotel’s ramp-up period.

**FIGURE 5-4 ADR FORECAST - MARKET AND PROPOSED SUBJECT PROPERTY**

Calendar Year	Base Year						
	2017	2018	2019	2020	2021	2022	2023
Market ADR	\$180.03	\$176.43	\$176.43	\$180.84	\$185.36	\$190.00	\$194.75
Projected Market ADR Growth Rate	—	-2.0%	0.0%	2.5%	2.5%	2.5%	2.5%
Subject Property ADR - Unadjusted	<b>\$200.00</b>	\$196.00	\$196.00	\$200.90	\$205.92	\$211.07	\$216.35
ADR Growth Rate	—	-2.0%	0.0%	2.5%	2.5%	2.5%	2.5%
<b>Opening Discount Adjustment</b>							
Subject Property ADR - Unadjusted				\$200.90	\$205.92	\$211.07	\$216.35
Opening Discount				5.0%	2.5%	0.0%	0.0%
<b>Subject Property ADR - Adjusted</b>				<b>\$190.86</b>	<b>\$200.77</b>	<b>\$211.07</b>	<b>\$216.35</b>
Real Average Rate Growth				—	5.2%	5.1%	2.5%
Subject ADR Penetration Factor				106%	108%	111%	111%
Subject ADR - Expressed in 2017 Dollars				\$177.23	\$181.89	\$186.56	\$186.56

The subject property’s average rate penetration factor is projected to stabilize at 111%, again slightly below the 114% factor realized by the primary competitors’ aggregate in 2017.

The stabilized average rate, deflated back to base-year 2017 dollars at the assumed underlying 2.5% inflation rate equates to \$186.56. This figure is below the positioned \$200 average rate expressed in 2017 dollars because we have projected below-inflation change rates for the competitive set and subject property average rate levels through the first two projection years, resulting in approximately \$13 of rate erosion.

The following table sets forth our concluding forecast of the proposed subject hotel’s occupancy, average rate, and RevPAR, with corresponding penetration levels, for the first projection year through the stabilized year of operation. Note that the subject property’s average rate forecast is presented prior to adjustments for initial-year pricing discounts.

**FIGURE 5-5 FORECAST COMPARISON – SUBJECT PROPERTY VS. COMPETITIVE SET**

	2015	2016	2017	Projected					
				2018	2019	2020	2021	2022	2023
<b>Proposed SpringHill Suites</b>									
Occupancy				—	—	75.2 %	78.0 %	80.2 %	80.2 %
Change in Points				—	—	—	2.9	2.2	0.0
Occupancy Penetration				—	—	98.6 %	102.4 %	105.2 %	105.2 %
Average Rate				—	—	\$190.86	\$200.77	\$211.07	\$216.35
Change				—	—	—	5.2 %	5.1 %	2.5 %
Average Rate Penetration				—	—	105.5 %	108.3 %	111.1 %	111.1 %
RevPAR				—	—	\$143.44	\$156.69	\$169.28	\$173.51
Change				—	—	—	9.2 %	8.0 %	2.5 %
RevPAR Penetration				—	—	104.1 %	110.9 %	116.9 %	116.9 %
	Historical (Estimated)			Projected					
	2016	2016	2017	2018	2019	2020	2021	2022	2023
<b>Competitive Set</b>									
Occupancy	85.7 %	83.0 %	79.7 %	78.2 %	77.0 %	76.2 %	76.2 %	76.2 %	76.2 %
% Change	—	(2.7)	(3.3)	(1.4)	(1.2)	(0.8)	0.0	0.0	0.0
Average Rate	\$173.02	\$176.10	\$180.03	\$176.43	\$176.43	\$180.84	\$185.36	\$190.00	\$194.75
% Change	—	1.8 %	2.2 %	(2.0) %	0.0 %	2.5 %	2.5 %	2.5 %	2.5 %
RevPAR	\$148.25	\$146.13	\$143.44	\$138.05	\$135.91	\$137.83	\$141.28	\$144.81	\$148.43
% Change	—	(1.4) %	(1.8) %	(3.8) %	(1.5) %	1.4 %	2.5 %	2.5 %	2.5 %

The following occupancy and average rate levels will be used to project the proposed subject hotel’s rooms revenue; this forecast reflects years beginning on January 1, 2020, which correspond with our financial projections.

**FIGURE 5-6 FORECASTS OF OCCUPANCY, AVERAGE RATE, AND REVPAR**

<u>Year</u>	<u>Occupancy</u>	<u>ADR</u>
2020	75 %	\$190.86
2021	78	200.77
2022 (Stab.)	80	211.07

The stabilized figures are intended to reflect the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized results exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually strong or weak performance. Although the subject property may operate at levels above the stabilized forecast, we believe it equally possible for new competition and temporary economic downturns to force results below the selected point of stability.

## 6. Projection of Income and Expense

In this chapter of our report, we have compiled a forecast of income and expense for the proposed subject hotel. This forecast is based on the facilities program set forth previously, as well as the occupancy and average rate forecast 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 period 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 hotel, we have included a sample of individual comparable operating statements from our database of hotel statistics. All financial data are 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. The selected income and expense parameters applied in our forecast for the subject property are also presented in the far-right column, expressed in base-year 2017 dollars.

**FIGURE 6-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2016/17	2016/17	2016	2015/16	2015/16	2017
Number of Rooms:	120 to 150	150 to 190	200 to 260	280 to 360	140 to 190	168
Occupied Rooms:	42,124	46,221	63,149	93,055	52,910	49,056
Days Open:	365	365	365	387	365	365
Occupancy:	85%	75%	74%	75%	88%	80%
Average Rate:	\$182	\$192	\$198	\$205	\$151	\$187
RevPAR:	\$154	\$145	\$147	\$153	\$134	\$149
<b>REVENUE</b>						
Rooms	98.2 %	93.8 %	94.2 %	96.5 %	96.7 %	94.9 %
Other Operated Departments	1.8	6.2	5.8	3.5	3.3	5.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
<b>DEPARTMENTAL EXPENSES*</b>						
Rooms	22.7	21.4	21.9	21.4	23.0	21.4
Other Operated Departments	49.2	54.2	105.7	63.6	22.8	50.0
Total	23.2	23.5	26.8	22.9	23.0	22.9
<b>DEPARTMENTAL INCOME</b>						
	76.8	76.5	73.2	77.1	77.0	77.1
<b>OPERATING EXPENSES</b>						
Administrative & General	10.4	9.8	6.8	7.7	6.3	7.4
Marketing	5.0	3.1	4.8	3.7	3.6	3.9
Franchise Fee	7.9	9.4	8.5	5.4	7.7	7.6
Property Operations & Maintenance	4.6	2.1	4.0	1.9	3.1	3.5
Utilities	3.2	2.5	3.8	3.0	2.3	3.1
Total	31.1	26.9	27.8	21.7	23.0	25.5
<b>HOUSE PROFIT</b>						
	45.7	49.6	45.4	55.4	54.0	51.6
Management Fee	3.0	3.0	3.0	3.0	3.0	3.0
<b>INCOME BEFORE FIXED CHARGES</b>						
	42.7	46.6	42.4	52.5	51.0	48.6
<b>FIXED EXPENSES</b>						
Property Taxes	0.3	9.2	7.0	2.7	4.8	6.6
Insurance	0.8	0.3	0.8	1.6	1.0	0.9
Reserve for Replacement	4.0	4.0	4.0	4.0	4.0	4.0
Total	5.1	13.5	11.8	8.3	9.8	11.5
<b>NET INCOME</b>						
	37.6 %	33.1 %	30.6 %	44.2 %	41.2 %	37.1 %

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



**FIGURE 6-2 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2016/17	2016/17	2016	2015/16	2015/16	2017
Number of Rooms:	120 to 150	150 to 190	200 to 260	280 to 360	140 to 190	168
Occupied Rooms:	42,124	46,221	63,149	93,055	52,910	49,056
Days Open:	365	365	365	387	365	365
Occupancy:	85%	75%	74%	75%	88%	80%
Average Rate:	\$182	\$192	\$198	\$205	\$151	\$187
RevPAR:	\$154	\$145	\$147	\$153	\$134	\$149
<b>REVENUE</b>						
Rooms	\$56,273	\$52,857	\$53,721	\$59,356	\$48,870	\$54,474
Other Operated Departments	1,051	3,518	3,296	2,165	1,671	2,920
Total	57,324	56,375	57,018	61,521	50,540	57,394
<b>DEPARTMENTAL EXPENSES</b>						
Rooms	12,757	11,333	11,790	12,683	11,243	11,680
Other Operated Departments	518	1,908	3,485	1,377	380	1,460
Total	13,275	13,241	15,275	14,060	11,623	13,140
<b>DEPARTMENTAL INCOME</b>						
	44,049	43,134	41,742	47,461	38,918	44,254
<b>OPERATING EXPENSES</b>						
Administrative & General	5,951	5,508	3,863	4,707	3,195	4,250
Marketing	2,885	1,756	2,741	2,255	1,821	2,250
Franchise Fee	4,524	5,286	4,862	3,353	3,910	4,358
Property Operations & Maintenance	2,653	1,202	2,258	1,176	1,543	2,000
Utilities	1,831	1,429	2,146	1,834	1,143	1,800
Total	17,843	15,182	15,870	13,325	11,611	14,658
<b>HOUSE PROFIT</b>						
	26,206	27,952	25,872	34,136	27,307	29,596
Management Fee	1,720	1,691	1,711	1,846	1,516	1,722
<b>INCOME BEFORE FIXED CHARGES</b>						
	24,486	26,261	24,162	32,290	25,790	27,875
<b>FIXED EXPENSES</b>						
Property Taxes	168	5,168	3,978	1,650	2,421	3,804
Insurance	467	177	465	964	510	500
Reserve for Replacement	2,293	2,255	2,281	2,461	2,022	2,296
Total	2,928	7,599	6,724	5,075	4,952	6,600
<b>NET INCOME</b>						
	\$21,558	\$18,662	\$17,438	\$27,215	\$20,838	\$21,275

**FIGURE 6-3 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2016/17	2016/17	2016	2015/16	2015/16	2017
Number of Rooms:	120 to 150	150 to 190	200 to 260	280 to 360	140 to 190	168
Occupied Rooms:	42,124	46,221	63,149	93,055	52,910	49,056
Days Open:	365	365	365	387	365	365
Occupancy:	85%	75%	74%	75%	88%	80%
Average Rate:	\$182	\$192	\$198	\$205	\$151	\$187
RevPAR:	\$154	\$145	\$147	\$153	\$134	\$149
<b>REVENUE</b>						
Rooms	\$181.68	\$192.12	\$198.22	\$204.75	\$151.48	\$186.56
Other Operated Departments	3.39	12.79	12.16	7.47	5.18	10.00
Total	185.08	204.91	210.38	212.22	156.65	196.56
<b>DEPARTMENTAL EXPENSES</b>						
Rooms	41.19	41.19	43.50	43.75	34.85	40.00
Other Operated Departments	1.67	6.93	12.86	4.75	1.18	5.00
Total	42.86	48.13	56.36	48.50	36.03	45.00
<b>DEPARTMENTAL INCOME</b>						
	142.22	156.78	154.02	163.72	120.63	151.56
<b>OPERATING EXPENSES</b>						
Administrative & General	19.21	20.02	14.25	16.24	9.90	14.55
Marketing	9.31	6.38	10.11	7.78	5.64	7.71
Franchise Fee	14.61	19.21	17.94	11.57	12.12	14.92
Property Operations & Maintenance	8.56	4.37	8.33	4.06	4.78	6.85
Utilities	5.91	5.19	7.92	6.33	3.54	6.16
Total	57.61	55.18	58.55	45.97	35.99	50.20
<b>HOUSE PROFIT</b>						
	84.61	101.60	95.46	117.75	84.64	101.36
Management Fee	5.55	6.15	6.31	6.37	4.70	5.90
<b>INCOME BEFORE FIXED CHARGES</b>						
	79.06	95.45	89.15	111.39	79.94	95.46
<b>FIXED EXPENSES</b>						
Property Taxes	0.54	18.78	14.68	5.69	7.50	13.03
Insurance	1.51	0.64	1.71	3.33	1.58	1.71
Reserve for Replacement	7.40	8.20	8.42	8.49	6.27	7.86
Total	9.45	27.62	24.81	17.51	15.35	22.60
<b>NET INCOME</b>						
	\$69.61	\$67.83	\$64.34	\$93.88	\$64.59	\$72.86

The following table summarizes the income and expense parameters selected for the subject property, with the key metrics for each item highlighted in yellow.

**FIGURE 6-4 STABILIZED NET INCOME FORECAST – SUBJECT PROPERTY – 2017 DOLLARS**

	Deflated, Stabilized Year			
	2017			
<b>Number of Rooms:</b>	<b>168</b>			
<b>Occupancy:</b>	<b>80%</b>			
<b>Average Rate:</b>	<b>\$186.56</b>			
<b>RevPAR:</b>	<b>\$149.24</b>			
<b>Days Open:</b>	<b>365</b>			
<b>Occupied Rooms:</b>	<b>49,056</b>	<b>%Gross</b>	<b>PAR</b>	<b>POR</b>
<b>REVENUE</b>				
Rooms	\$9,152	94.9 %	\$54,474	\$186.56
Other Operated Departments	491	5.1	2,920	10.00
Total Revenues	9,642	100.0	57,394	196.56
<b>DEPARTMENTAL EXPENSES</b>				
Rooms	1,962	21.4 *	11,680	40.00
Other Operated Departments	245	50.0 *	1,460	5.00
Total Expenses	2,208	22.9	13,140	45.00
<b>DEPARTMENTAL INCOME</b>				
	7,435	77.1	44,254	151.56
<b>UNDISTRIBUTED OPERATING EXPENSES</b>				
Administrative & General	714	7.4	4,250	14.55
Marketing	378	3.9	2,250	7.71
Franchise Fee	732	7.6	4,358	14.92
Prop. Operations & Maint.	336	3.5	2,000	6.85
Utilities	302	3.1	1,800	6.16
Total Expenses	2,463	25.5	14,658	50.20
<b>GROSS HOUSE PROFIT</b>				
	4,972	51.6	29,596	101.36
Management Fee	289	3.0	1,722	5.90
<b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b>				
	4,683	48.6	27,875	95.46
<b>NON-OPERATING INCOME &amp; EXPENSE</b>				
Property Taxes	639	6.6	3,804	13.03
Insurance	84	0.9	500	1.71
Reserve for Replacement	386	4.0	2,296	7.86
Total Expenses	1,109	11.5	6,600	22.60
<b>EBITDA LESS RESERVE</b>				
	\$3,574	37.1 %	\$21,275	\$72.86

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

In our forecast, the subject property's net income stabilizes at 37.1% of total revenue, within the range of profit margins indicated by the comparable data: 30.6% to 44.2% of total revenue.

### 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 actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a systematic approach, following the format of the *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

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% throughout the forecast. This stabilized inflation rate accounts for 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.

### Forecast of Revenue and Expense

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of income and expense. The following table presents a detailed forecast through the stabilized projection year, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with lesser detail. The forecasts pertain to years that begin on January 1, 2020, expressed in inflated dollars for each year.

**FIGURE 6-5 DETAILED FORECAST OF INCOME AND EXPENSE**

	2020 (Calendar Year)				2021				Stabilized			
Number of Rooms:	168				168				168			
Occupancy:	75%				78%				80%			
Average Rate:	\$190.86				\$200.77				\$211.07			
RevPAR:	\$143.14				\$156.60				\$168.86			
Days Open:	365				365				365			
Occupied Rooms:	45,990	%Gross	PAR	POR	47,830	%Gross	PAR	POR	49,056	%Gross	PAR	POR
<b>OPERATING REVENUE</b>												
Rooms	\$8,777	94.4 %	\$52,244	\$190.85	\$9,603	94.7 %	\$57,161	\$200.78	\$10,354	94.9 %	\$61,631	\$211.06
Other Operated Departments	518	5.6	3,086	11.27	537	5.3	3,199	11.24	555	5.1	3,304	11.31
<b>Total Operating Revenues</b>	<b>9,295</b>	<b>100.0</b>	<b>55,330</b>	<b>202.12</b>	<b>10,140</b>	<b>100.0</b>	<b>60,360</b>	<b>212.01</b>	<b>10,909</b>	<b>100.0</b>	<b>64,935</b>	<b>222.38</b>
<b>DEPARTMENTAL EXPENSES *</b>												
Rooms	2,060	23.5	12,264	44.80	2,144	22.3	12,764	44.83	2,220	21.4	13,215	45.26
Other Operated Departments	263	50.7	1,563	5.71	270	50.3	1,608	5.65	278	50.0	1,652	5.66
<b>Total Expenses</b>	<b>2,323</b>	<b>25.0</b>	<b>13,827</b>	<b>50.51</b>	<b>2,414</b>	<b>23.8</b>	<b>14,372</b>	<b>50.48</b>	<b>2,498</b>	<b>22.9</b>	<b>14,867</b>	<b>50.91</b>
<b>DEPARTMENTAL INCOME</b>	<b>6,972</b>	<b>75.0</b>	<b>41,503</b>	<b>151.61</b>	<b>7,726</b>	<b>76.2</b>	<b>45,988</b>	<b>161.53</b>	<b>8,411</b>	<b>77.1</b>	<b>50,068</b>	<b>171.47</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>												
Administrative & General	749	8.1	4,457	16.28	779	7.7	4,636	16.28	808	7.4	4,808	16.47
Marketing	396	4.3	2,360	8.62	412	4.1	2,454	8.62	428	3.9	2,546	8.72
Franchise Fee	395	4.2	2,351	8.59	624	6.2	3,715	13.05	828	7.6	4,930	16.89
Prop. Operations & Maint.	352	3.8	2,097	7.66	367	3.6	2,182	7.66	380	3.5	2,263	7.75
Utilities	317	3.4	1,888	6.90	330	3.3	1,963	6.90	342	3.1	2,037	6.97
<b>Total Expenses</b>	<b>2,210</b>	<b>23.8</b>	<b>13,152</b>	<b>48.05</b>	<b>2,512</b>	<b>24.9</b>	<b>14,950</b>	<b>52.51</b>	<b>2,786</b>	<b>25.5</b>	<b>16,584</b>	<b>56.79</b>
<b>GROSS HOUSE PROFIT</b>	<b>4,763</b>	<b>51.2</b>	<b>28,350</b>	<b>103.56</b>	<b>5,214</b>	<b>51.3</b>	<b>31,038</b>	<b>109.02</b>	<b>5,625</b>	<b>51.6</b>	<b>33,484</b>	<b>114.67</b>
Management Fee	279	3.0	1,660	6.06	304	3.0	1,811	6.36	327	3.0	1,948	6.67
<b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b>	<b>4,484</b>	<b>48.2</b>	<b>26,690</b>	<b>97.50</b>	<b>4,910</b>	<b>48.3</b>	<b>29,227</b>	<b>102.66</b>	<b>5,298</b>	<b>48.6</b>	<b>31,536</b>	<b>108.00</b>
<b>NON-OPERATING INCOME &amp; EXPENSE</b>												
Property Taxes	688	7.4	4,096	14.96	705	7.0	4,199	14.75	723	6.6	4,304	14.74
Insurance	90	1.0	538	1.97	93	0.9	552	1.94	95	0.9	566	1.94
Reserve for Replacement	186	2.0	1,107	4.04	304	3.0	1,811	6.36	436	4.0	2,597	8.90
<b>Total Expenses</b>	<b>965</b>	<b>10.4</b>	<b>5,742</b>	<b>20.97</b>	<b>1,102</b>	<b>10.9</b>	<b>6,562</b>	<b>23.05</b>	<b>1,254</b>	<b>11.5</b>	<b>7,467</b>	<b>25.57</b>
<b>EBITDA LESS RESERVE</b>	<b>\$3,519</b>	<b>37.8 %</b>	<b>\$20,949</b>	<b>\$76.53</b>	<b>\$3,808</b>	<b>37.4 %</b>	<b>\$22,665</b>	<b>\$79.61</b>	<b>\$4,044</b>	<b>37.1 %</b>	<b>\$24,069</b>	<b>\$82.43</b>

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

**FIGURE 6-6 TEN-YEAR FORECAST OF INCOME AND EXPENSE**

	2020		2021		2022		2023		2024		2025		2026		2027		2028		2029	
<b>Number of Rooms:</b>	<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>		<b>168</b>	
<b>Occupied Rooms:</b>	<b>45,990</b>		<b>47,830</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>		<b>49,056</b>	
<b>Occupancy:</b>	<b>75%</b>		<b>78%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>		<b>80%</b>	
<b>Average Rate:</b>	<b>\$190.86</b>	<b>% of</b>	<b>\$200.77</b>	<b>% of</b>	<b>\$211.07</b>	<b>% of</b>	<b>\$216.35</b>	<b>% of</b>	<b>\$221.76</b>	<b>% of</b>	<b>\$227.30</b>	<b>% of</b>	<b>\$232.98</b>	<b>% of</b>	<b>\$238.81</b>	<b>% of</b>	<b>\$244.78</b>	<b>% of</b>	<b>\$250.90</b>	<b>% of</b>
<b>RevPAR:</b>	<b>\$143.14</b>	<b>Gross</b>	<b>\$156.60</b>	<b>Gross</b>	<b>\$168.86</b>	<b>Gross</b>	<b>\$173.08</b>	<b>Gross</b>	<b>\$177.40</b>	<b>Gross</b>	<b>\$181.84</b>	<b>Gross</b>	<b>\$186.39</b>	<b>Gross</b>	<b>\$191.05</b>	<b>Gross</b>	<b>\$195.82</b>	<b>Gross</b>	<b>\$200.72</b>	<b>Gross</b>
<b>OPERATING REVENUE</b>																				
Rooms	\$8,777	94.4 %	\$9,603	94.7 %	\$10,354	94.9 %	\$10,613	94.9 %	\$10,878	94.9 %	\$11,150	94.9 %	\$11,429	94.9 %	\$11,715	94.9 %	\$12,008	94.9 %	\$12,308	94.9 %
Other Operated Departments	518	5.6	537	5.3	555	5.1	569	5.1	583	5.1	598	5.1	613	5.1	628	5.1	644	5.1	660	5.1
<b>Total Operating Revenues</b>	<b>9,295</b>	<b>100.0</b>	<b>10,140</b>	<b>100.0</b>	<b>10,909</b>	<b>100.0</b>	<b>11,182</b>	<b>100.0</b>	<b>11,461</b>	<b>100.0</b>	<b>11,748</b>	<b>100.0</b>	<b>12,042</b>	<b>100.0</b>	<b>12,343</b>	<b>100.0</b>	<b>12,652</b>	<b>100.0</b>	<b>12,968</b>	<b>100.0</b>
<b>DEPARTMENTAL EXPENSES *</b>																				
Rooms	2,060	23.5	2,144	22.3	2,220	21.4	2,276	21.4	2,332	21.4	2,391	21.4	2,451	21.4	2,512	21.4	2,575	21.4	2,639	21.4
Other Operated Departments	263	50.7	270	50.3	278	50.0	284	50.0	292	50.0	299	50.0	306	50.0	314	50.0	322	50.0	330	50.0
<b>Total Expenses</b>	<b>2,323</b>	<b>25.0</b>	<b>2,414</b>	<b>23.8</b>	<b>2,498</b>	<b>22.9</b>	<b>2,560</b>	<b>22.9</b>	<b>2,624</b>	<b>22.9</b>	<b>2,690</b>	<b>22.9</b>	<b>2,757</b>	<b>22.9</b>	<b>2,826</b>	<b>22.9</b>	<b>2,896</b>	<b>22.9</b>	<b>2,969</b>	<b>22.9</b>
<b>DEPARTMENTAL INCOME</b>	<b>6,972</b>	<b>75.0</b>	<b>7,726</b>	<b>76.2</b>	<b>8,411</b>	<b>77.1</b>	<b>8,622</b>	<b>77.1</b>	<b>8,837</b>	<b>77.1</b>	<b>9,058</b>	<b>77.1</b>	<b>9,285</b>	<b>77.1</b>	<b>9,517</b>	<b>77.1</b>	<b>9,755</b>	<b>77.1</b>	<b>9,999</b>	<b>77.1</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>																				
Administrative & General	749	8.1	779	7.7	808	7.4	828	7.4	849	7.4	870	7.4	892	7.4	914	7.4	937	7.4	960	7.4
Marketing	396	4.3	412	4.1	428	3.9	438	3.9	449	3.9	461	3.9	472	3.9	484	3.9	496	3.9	508	3.9
Franchise Fee	395	4.2	624	6.2	828	7.6	849	7.6	870	7.6	892	7.6	914	7.6	937	7.6	961	7.6	985	7.6
Prop. Operations & Maint.	352	3.8	367	3.6	380	3.5	390	3.5	399	3.5	409	3.5	420	3.5	430	3.5	441	3.5	452	3.5
Utilities	317	3.4	330	3.3	342	3.1	351	3.1	359	3.1	368	3.1	378	3.1	387	3.1	397	3.1	407	3.1
<b>Total Expenses</b>	<b>2,210</b>	<b>23.8</b>	<b>2,512</b>	<b>24.9</b>	<b>2,786</b>	<b>25.5</b>	<b>2,856</b>	<b>25.5</b>	<b>2,927</b>	<b>25.5</b>	<b>3,000</b>	<b>25.5</b>	<b>3,075</b>	<b>25.5</b>	<b>3,152</b>	<b>25.5</b>	<b>3,231</b>	<b>25.5</b>	<b>3,312</b>	<b>25.5</b>
<b>GROSS HOUSE PROFIT</b>	<b>4,763</b>	<b>51.2</b>	<b>5,214</b>	<b>51.3</b>	<b>5,625</b>	<b>51.6</b>	<b>5,766</b>	<b>51.6</b>	<b>5,910</b>	<b>51.6</b>	<b>6,058</b>	<b>51.6</b>	<b>6,209</b>	<b>51.6</b>	<b>6,365</b>	<b>51.6</b>	<b>6,524</b>	<b>51.6</b>	<b>6,687</b>	<b>51.6</b>
Management Fee	279	3.0	304	3.0	327	3.0	335	3.0	344	3.0	352	3.0	361	3.0	370	3.0	380	3.0	389	3.0
<b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b>	<b>4,484</b>	<b>48.2</b>	<b>4,910</b>	<b>48.3</b>	<b>5,298</b>	<b>48.6</b>	<b>5,431</b>	<b>48.6</b>	<b>5,566</b>	<b>48.6</b>	<b>5,705</b>	<b>48.6</b>	<b>5,848</b>	<b>48.6</b>	<b>5,995</b>	<b>48.6</b>	<b>6,145</b>	<b>48.6</b>	<b>6,298</b>	<b>48.6</b>
<b>NON-OPERATING INCOME &amp; EXPENSE</b>																				
Property Taxes	688	7.4	705	7.0	723	6.6	741	6.6	760	6.6	779	6.6	798	6.6	818	6.6	839	6.6	859	6.6
Insurance	90	1.0	93	0.9	95	0.9	97	0.9	100	0.9	102	0.9	105	0.9	108	0.9	110	0.9	113	0.9
Reserve for Replacement	186	2.0	304	3.0	436	4.0	447	4.0	458	4.0	470	4.0	482	4.0	494	4.0	506	4.0	519	4.0
<b>Total Expenses</b>	<b>965</b>	<b>10.4</b>	<b>1,102</b>	<b>10.9</b>	<b>1,254</b>	<b>11.5</b>	<b>1,286</b>	<b>11.5</b>	<b>1,318</b>	<b>11.5</b>	<b>1,351</b>	<b>11.5</b>	<b>1,385</b>	<b>11.5</b>	<b>1,419</b>	<b>11.5</b>	<b>1,455</b>	<b>11.5</b>	<b>1,491</b>	<b>11.5</b>
<b>EBITDA LESS RESERVE</b>	<b>\$3,519</b>	<b>37.8 %</b>	<b>\$3,808</b>	<b>37.4 %</b>	<b>\$4,044</b>	<b>37.1 %</b>	<b>\$4,145</b>	<b>37.1 %</b>	<b>\$4,248</b>	<b>37.1 %</b>	<b>\$4,354</b>	<b>37.1 %</b>	<b>\$4,463</b>	<b>37.1 %</b>	<b>\$4,575</b>	<b>37.1 %</b>	<b>\$4,690</b>	<b>37.1 %</b>	<b>\$4,807</b>	<b>37.1 %</b>

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



The following description sets forth the basis for the forecast 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 proposed subject hotel's operating budget and comparable income and expense statements. The forecast is based upon calendar years beginning January 1, 2020, expressed in inflated dollars for each year.

### Rooms Department

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 subject hotel is expected to stabilize at an occupancy level of 80% with an average rate of \$211.07 in 2022. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

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. Based on the comparable data, we have positioned the subject property's rooms expense at \$40.00 per occupied room, as expressed in base-year 2017 dollars.

**FIGURE 6-7 ROOMS EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2020	Deflated Stabilized
Percentage of Revenue	22.7 %	21.4 %	21.9 %	21.4 %	23.0 %	23.5 %	21.4 %
Per Available Room	\$12,757	\$11,333	\$11,790	\$12,683	\$11,243	\$12,264	\$11,680
Per Occupied Room	\$41.19	\$41.19	\$43.50	\$43.75	\$34.85	\$44.80	\$40.00

### Other Operated Departments

According to the Uniform System of Accounts, other operated departments include any major or minor operated department other than rooms and food and beverage. In the case of the subject hotel, revenue of this sort will primarily be derived from

the hotel’s meeting space, in terms of room rentals and any associated catering charges. The comparable properties surveyed here have similar meeting space allotments; thus, we have referenced this data as the key basis for this department’s revenue and expense forecast, as follows. Other sources of this revenue include vending commissions, cancellation fees, and other numerous miscellaneous sources.

**FIGURE 6-8 OTHER OPERATED DEPARTMENTS REVENUE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2020	Deflated Stabilized
Percentage of Revenue	1.8 %	6.2 %	5.8 %	3.5 %	3.3 %	5.6 %	5.1 %
Per Available Room	\$1,051	\$3,518	\$3,296	\$2,165	\$1,671	\$3,086	\$2,920
Per Occupied Room	\$3.39	\$12.79	\$12.16	\$7.47	\$5.18	\$11.27	\$10.00

**FIGURE 6-9 OTHER OPERATED DEPARTMENTS EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2020	Deflated Stabilized
Percentage of Revenue	49.2 %	54.2 %	105.7 %	63.6 %	22.8 %	50.7 %	50.0 %
Per Available Room	\$518	\$1,908	\$3,485	\$1,377	\$380	\$1,563	\$1,460
Per Occupied Room	\$1.67	\$6.93	\$12.86	\$4.75	\$1.18	\$5.71	\$5.00

Based on the comparable data, we have positioned the subject property’s stabilized other operated departments revenue at \$10.00 per occupied room, with an expense ratio of 50.0%.

**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. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the administrative and general expense level at a market- and property-supported level.

**FIGURE 6-10 ADMINISTRATIVE AND GENERAL EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2020	Deflated Stabilized
Percentage of Revenue	10.4 %	9.8 %	6.8 %	7.7 %	6.3 %	8.1 %	7.4 %
Per Available Room	\$5,951	\$5,508	\$3,863	\$4,707	\$3,195	\$4,457	\$4,250
Per Occupied Room	\$19.21	\$20.02	\$14.25	\$16.24	\$9.90	\$16.28	\$14.55

We have positioned this expense at \$4,250 per available room, as expressed in base-year 2017 dollars, based on the comparable data. This expense positioning is intended to account for a \$25,000-per-year assessment to the property owner for their share of the skywalk maintenance costs. This equates to approximately \$150 per room for the 168-room subject property.

**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, except 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. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the marketing expense level at a market- and property-supported level.

**FIGURE 6-11 MARKETING EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2020	Deflated Stabilized
Percentage of Revenue	5.0 %	3.1 %	4.8 %	3.7 %	3.6 %	4.3 %	3.9 %
Per Available Room	\$2,885	\$1,756	\$2,741	\$2,255	\$1,821	\$2,360	\$2,250
Per Occupied Room	\$9.31	\$6.38	\$10.11	\$7.78	\$5.64	\$8.62	\$7.71

We have positioned this expense at \$2,250 per available room, as expressed in base-year 2017 dollars, based on the comparable data.

**Franchise Fee**

The SpringHill Suites franchise agreement was signed in June 2016 and will extend for 20 years beginning as of the hotel’s opening date. Brand standard fees include a royalty equal to 5.5% of rooms revenue and a marketing fund contribution equal to 2.5% of rooms revenue, for a total of 8.0% of rooms revenue. Assuming the hotel opens as currently scheduled, Marriott has agreed to a partial reduction in the royalty rate during the first two years of operation, equal to 2.0% of rooms revenue in Year One and 4.0% of rooms revenue in Year Two. We have made our forecast consistent with these terms.

**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.

**FIGURE 6-12 PROPERTY OPERATIONS AND MAINTENANCE EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2020	Deflated Stabilized
Percentage of Revenue	4.6 %	2.1 %	4.0 %	1.9 %	3.1 %	3.8 %	3.5 %
Per Available Room	\$2,653	\$1,202	\$2,258	\$1,176	\$1,543	\$2,097	\$2,000
Per Occupied Room	\$8.56	\$4.37	\$8.33	\$4.06	\$4.78	\$7.66	\$6.85

We have positioned this expense at \$2,000 per available room, as expressed in base-year 2017 dollars, based on the comparable data.

### 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 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.

**FIGURE 6-13 UTILITIES EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2020	Deflated Stabilized
Percentage of Revenue	3.2 %	2.5 %	3.8 %	3.0 %	2.3 %	3.4 %	3.1 %
Per Available Room	\$1,831	\$1,429	\$2,146	\$1,834	\$1,143	\$1,888	\$1,800
Per Occupied Room	\$5.91	\$5.19	\$7.92	\$6.33	\$3.54	\$6.90	\$6.16

We have positioned this expense at \$1,800 per available room, as expressed in base-year 2017 dollars, based on the comparable data.

### Management Fee

Our forecasts reflect the anticipated economic results generated by a typical professional hotel management company, with management fees deducted consistent with market standards at 3.0% of total revenue.

### Property Taxes

Property tax expense for the subject property is projected based on comparable assessment and taxation data for similar hotels. The following table details current real property assessments for those local hotels that we consider most physically similar to the proposed subject hotel.

**FIGURE 6-14 COMPARABLE ASSESSMENTS**

Hotel	Municipality	No. of Rooms	Real Property Assessment	
			Total	Per Room
Embassy Suites Logan	Boston	273	\$57,853,800	\$211,919
Hilton Garden Inn Logan	Boston	178	26,714,500	150,081
Residence Inn	Chelsea	128	15,013,700	117,295
Residence Inn Tudor Wharf	Boston	168	37,208,500	221,479
AC by Marriott	Medford	152	13,478,700	88,676
Hampton Inn	Revere	250	18,207,500	72,830

The other variable in the forecast is the tax rate. The following table details commercial property tax rates in the City of Revere over the past ten years.

**FIGURE 6-15 TAX RATE HISTORY**

Year	Tax Rate
2009	2.201 %
2010	2.684
2011	2.930
2012	3.047
2013	3.156
2014	3.155
2015	2.974
2016	2.870
2017	2.753
2018	2.536

Source: City of Revere, MA

The following table details the basis for our forecast of the subject’s property tax expense in base-year 2017 dollars.



**FIGURE 6-16 PROPERTY TAX FORECAST – 2017 DOLLARS**

Positioned Assessment	\$150,000
x No. of Rooms	<u>168</u>
Total	\$25,200,000
x Tax Rate	<u>2.536%</u>
Total	\$639,072
Per Room	\$3,804

The positioned assessment of \$150,000 per room is intended to account for personal property taxation as well, which is taxed in Massachusetts and tends to equate to approximately 10% of real property valuations.

**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.

**FIGURE 6-17 INSURANCE EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2020	Deflated Stabilized
Percentage of Revenue	0.8 %	0.3 %	0.8 %	1.6 %	1.0 %	1.0 %	0.9 %
Per Available Room	\$467	\$177	\$465	\$964	\$510	\$538	\$500
Per Occupied Room	\$1.51	\$0.64	\$1.71	\$3.33	\$1.58	\$1.97	\$1.71

We have positioned this expense at \$500 per available room, as expressed in base-year 2017 dollars, based on the comparable data.

**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 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) oversees a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent study was published in 2014.<sup>7</sup> 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 ages 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 our analysis and on our review of the proposed subject asset and comparable lodging facilities, as well as on 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 has been ramped up during the initial projection period.

**Forecast of Revenue  
and Expense  
Conclusion**

Projected total revenue, House profit, and EBITDA less replacement reserves are set forth in the following table.

---

<sup>7</sup> The International Society of Hotel Consultants, *CapEx 2014, A Study of Capital Expenditure in the U.S. Hotel Industry*.

**FIGURE 6-18 FORECAST OF REVENUE AND EXPENSE CONCLUSION**

Year	Total Revenue		House Profit		House Profit Ratio	EBITDA Less Replacement Reserve		
	Total	% Change	Total	% Change		Total	% Change	As a % of Ttl Rev
2020	\$9,295,000	—	\$4,763,000	—	51.2 %	\$3,519,000	—	37.8 %
2021	10,140,000	9.1 %	5,214,000	9.5 %	51.3	3,808,000	8.2 %	37.4
2022 (Stab.)	10,909,000	7.6	5,625,000	7.9	51.6	4,044,000	6.2	37.1
2023	11,182,000	2.5	5,766,000	2.5	51.6	4,145,000	2.5	37.1
2024	11,461,000	2.5	5,910,000	2.5	51.6	4,248,000	2.5	37.1

Two additional sources of operating income apart from the hotel operation are associated with the leased restaurant space and the Starbucks coffee store. The project developer is underwriting these revenue components as follows:

**Leased Restaurant** – assuming the 4,000 square feet are leased at \$40 triple net, the Year One income stream from this component is \$160,000. Inflationary gains are anticipated thereafter.

**Starbucks** – based on actual historical operating results from other Starbucks coffee stores managed by the project developer, the income attributable to this space is programed at \$180,000, with inflationary gains thereafter.

**FIGURE 6-19 FORECAST OF REVENUE AND EXPENSE CONCLUSION**

Year	Hotel EBITDA	Plus: Rental Income			Total EBITDA
		Leased Restaurant	Starbucks		
2020	\$3,519,000	+ \$160,000	+ \$180,000	=	\$3,859,000
2021	3,808,000	+ 164,000	+ 185,000	=	4,157,000
2022	4,044,000	+ 168,000	+ 190,000	=	4,402,000
2023	4,145,000	+ 172,000	+ 195,000	=	4,512,000
2024	4,248,000	+ 176,000	+ 200,000	=	4,624,000
2025	4,354,000	+ 180,000	+ 205,000	=	4,739,000
2026	4,463,000	+ 185,000	+ 210,000	=	4,858,000
2027	4,575,000	+ 190,000	+ 215,000	=	4,980,000
2028	4,690,000	+ 195,000	+ 220,000	=	5,105,000
2029	4,807,000	+ 200,000	+ 226,000	=	5,233,000

The preceding total income stream is used as the basis for testing the proposed hotel's economic feasibility, in the subsequent chapter.

## 7. Feasibility Analysis

Return on investment can be defined as the future benefits of an income-producing property relative to its acquisition or construction cost. The first step in performing a return on investment analysis is to determine the amount to be initially invested. For a proposed property, this amount is most likely to be the development cost of the hotel. Based on the total development cost, the individual investor will utilize a return on investment analysis to determine if the future cash flow from a current cash outlay meets his or her own investment criteria and at what level above or below this amount such an outlay exceeds or fails to meet these criteria.

As an individual or company considering investment in hotel real estate, the decision to use one's own cash, an equity partner's capital, or lender financing will be an internal one. Because hotels typically require a substantial investment, only the largest investors and hotel companies generally have the means to purchase properties with all cash. We would anticipate the involvement of some financing by a third party for the typical investor or for those who may be entering the market for hotel acquisitions at this time. In leveraged acquisitions and developments where investors typically purchase or build upon real estate with a small amount of equity cash (20% to 50%) and a large amount of mortgage financing (50% to 80%), it is important for the equity investor to acknowledge the return requirements of the debt participant (mortgagee), as well as his or her own return requirements. Therefore, we will begin our rate of return analysis by reviewing the debt requirements of typical hotel mortgagees.

### Construction Cost Estimate

Because the subject property is a proposed hotel, we have relied upon the actual development budget for the proposed subject hotel in performing a cost analysis. As this budget takes into consideration all of the physical, structural, and design elements specific to the property, it is believed to be the most accurate assessment of the actual cost of developing a hotel facility of this type. The details of this budget, prepared by the developers of the SpringHill Suites, are presented in the following table.

**FIGURE 7-1 SUBJECT PROPERTY CONSTRUCTION BUDGET**

Component	Cost	
	Total	Per Room
<b>HARD COSTS &amp; SITE IMPROVEMENTS</b>		
New Construction	\$29,000,000	\$172,619
Site Work	400,000	2,381
Temporary Conditions	430,000	2,560
General Conditions and Requirement	2,525,000	15,030
Hoisting	280,000	1,667
GC Insurance	403,000	2,399
GC Fee	970,650	5,778
Hard Cost Contingency	882,000	5,250
Sub-Total	\$34,890,650	\$207,682
<b>FF&amp;E</b>	3,360,000	\$20,000
<b>PRE-OPENING &amp; WORKING CAPITAL</b>		
Pre-Opening	\$252,000	\$1,500
Working Capital	75,600	450
Sub-Total	\$327,600	\$1,950
<b>SOFT COSTS</b>		
Architect	\$898,000	\$5,345
Interior Design	80,000	476
Engineering	100,000	595
Construction MGT	400,000	2,381
Franchise Fee	100,000	595
Closing and Legal	200,000	1,190
Taxes	260,000	1,548
Builders Risk	436,133	2,596
Bond	294,000	1,750
Tap Fees/EDU/Permits	830,000	4,940
Soft Cost Contingency	107,944	643
Bank Interest and Carry Fees	1,228,000	7,310
Sub-Total	\$4,934,077	\$29,370
<b>TOTAL W/O LAND &amp; DEVELOPER'S PROFIT</b>	<b>\$43,512,327</b>	<b>\$259,002</b>
<b>LAND ACQUISITION</b>	<b>\$4,366,667</b>	<b>\$25,992</b>
<b>TOTAL W/O DEVELOPER'S PROFIT</b>	<b>\$47,878,994</b>	<b>\$284,994</b>
Rounded	<b>\$47,900,000</b>	<b>\$285,000</b>

**Mortgage Component**

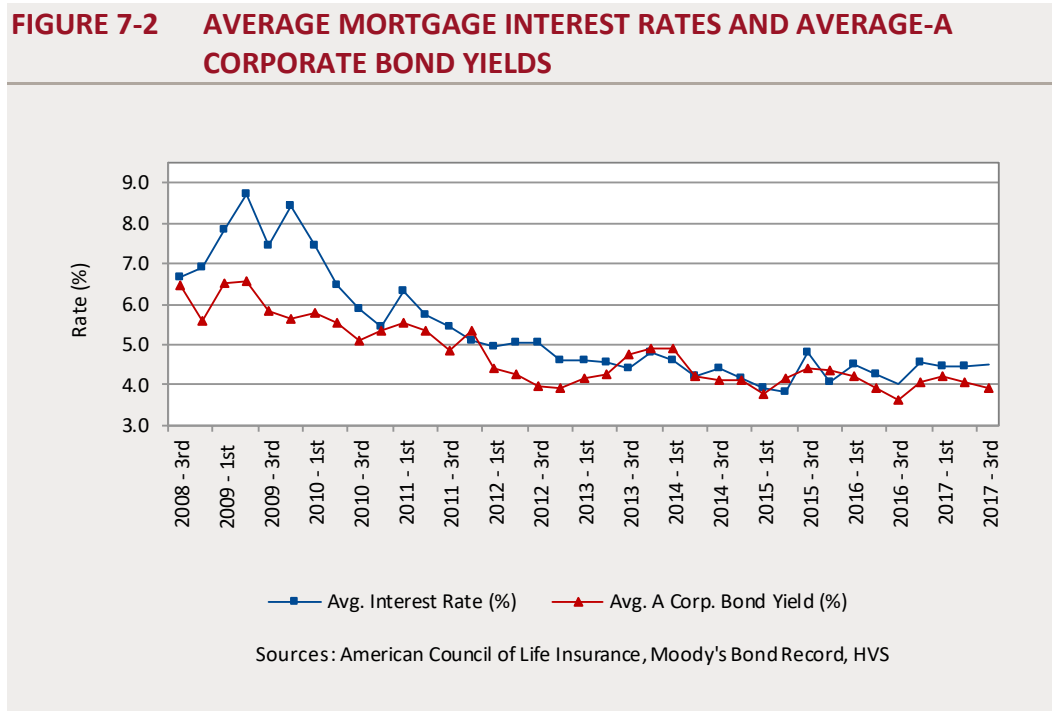
Hotel financing is available for most tiers of the lodging industry from a variety of lender types. The CMBS market is in a phase of strong activity, including lending in the hospitality sector. While many lenders remain active, underwriting standards

are more stringent than ten years ago, and loan-to-value ratios remain in the 60% to 70% range. Lenders continue to be attracted to the lodging industry because of the higher yields generated by hotel financing relative to other commercial real estate, and the industry continues to perform strongly in most markets. Commercial banks, mortgage REITs, insurance companies, and CMBS and mezzanine lenders continue to pursue deals.

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 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.





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.

$$Y = 0.95702153 X + 0.76102760$$

Where: Y = Estimated Hotel Mortgage Interest Rate  
X = Current Average-A Corporate Bond Yield  
(Coefficient of correlation is 95%)

The March 28, 2018, average yield on average-A corporate bonds, as reported by Moody's Investors Service, was 4.12%. When used in the previously presented equation, a factor of 4.12 produces an estimated hotel/motel interest rate of 4.70% (rounded).

Despite the recent interest-rate increases, hotel debt remains available at favorable interest rates from a variety of lender types as of early 2018 (e.g., CMBS, balance-sheet lenders, insurance companies, SBA lenders, and other sources). The most prevalent interest rates for single hotel assets are currently ranging from 5.0% to 7.0%, depending on the type of debt, loan-to-value ratio, and the quality of the asset and its market.

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 is being priced at roughly 250 to 500 basis points over the corresponding yield on treasury notes. As of March 28, 2018, the yield on the ten-year T-bill was 2.78%, indicating an interest rate range from 5.3% to 7.8%. The hotel investment market has been very active given the strong performance of this sector and low interest rates in recent years. The Federal Reserve, which raised the federal funds rate by 25 basis points in December 2016, March 2017, and June 2017, is anticipated to raise interest rates again in 2018. Hotel mortgage interest rates have only been slightly influenced by the recent rate increases by the Fed given the contraction in interest-rate spreads; however, future increases by the Fed raises the prospect of a higher cost of debt capital for hotel investors in 2018. Hotel values have not yet been affected by the rise in the Fed rate; furthermore, debt capital is expected to remain available at favorable interest rates in the near term. At present, we find that lenders that are active in the market are using loan-to-value ratios of 60% to 70%, and amortization periods of 20 to 30 years. Loan-to-value ratios in 2018 are not as robust as those from a couple of years ago, when ratios as high as 75% were available.

Based on our analysis of the current lodging industry mortgage market and adjustments for specific factors, such as the proposed property's location and

conditions in the Revere hotel market, it is our opinion that a 5.00% interest, 25-year amortization mortgage with a 0.070151 constant is appropriate for the proposed subject hotel. In the mortgage-equity analysis, we have applied a loan-to-cost ratio of 70%, which is reasonable to expect based on this interest rate and current parameters. The following tables calculate the annual debt service

**FIGURE 7-3 ANNUAL DEBT SERVICE**

Construction Cost Estimate	\$47,900,000
Loan-to-Value Ratio	<u>70%</u>
Mortgage Component	\$33,530,000
Mortgage Constant	<u>0.070151</u>
Annual Debt Service	\$2,352,000

Deducting the annual debt service from the forecast of total operating income (Figure 6-19 in the preceding chapter) renders the net income to the equity position, calculated below.

**FIGURE 7-4 NET INCOME TO EQUITY**

Year	Net Income Available for Debt Service	Total Annual Debt Service	Net Income to Equity
2020	\$3,859,000	- \$2,352,000	= \$1,507,000
2021	\$4,157,000	- 2,352,000	= \$1,805,000
2022	\$4,402,000	- 2,352,000	= \$2,050,000
2023	\$4,512,000	- 2,352,000	= \$2,160,000
2024	\$4,624,000	- 2,352,000	= \$2,272,000
2025	\$4,739,000	- 2,352,000	= \$2,387,000
2026	\$4,858,000	- 2,352,000	= \$2,506,000
2027	\$4,980,000	- 2,352,000	= \$2,628,000
2028	\$5,105,000	- 2,352,000	= \$2,753,000
2029	\$5,233,000	- 2,352,000	= \$2,881,000

**Equity Yield**

The feasibility of the proposed hotel is tested here by determining the equity yield rate associated with the assumed equity contribution (30% of the construction cost) and the net income to equity. The equity yield is the rate of return that the equity investor expects over a typical holding period, assumed to be ten years in this

analysis. 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. In this analysis, we iterate the equity yield rate that equalizes the net income to equity and the assumed equity investment. The equity contribution is calculated as the product of the construction cost multiplied by the equity to value share, 30%.

**FIGURE 8-5 EQUITY CONTRIBUTION**

Construction Cost	\$47,900,000
Equity Contribution Percentage	30.0%
Equity Contribution	\$14,370,000

As will be noted below, the equity yield rate that equalizes the net income to equity and the equity contribution is 21.12%.

**Reversionary Proceeds**

Inherent in this valuation process is the assumption of a sale at the end of the ten-year holding period. The estimated reversionary sale 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 sale 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. To select an appropriate terminal capitalization rate, we have referred to recent investor surveys, summarized below.

**FIGURE 7-6 INVESTOR SURVEYS - TERMINAL CAPITALIZATION RATES**

Source	Data Point Range	Average
PWC Real Estate Investor Survey - 3rd Quarter 2017		
Select-Service Hotels	7.0% - 10.75%	9.1%
Full-Service Hotels	7.0% - 10.0%	8.4%
Luxury Hotels	5.5% - 9.5%	7.2%
USRC Hotel Investment Survey - Mid-Year 2017		
Full-Service Hotels	7.5% - 10.0%	8.3%
Situs RERC Real Estate Report - 4th Quarter 2017		
First Tier Hotels	6.0% - 10.5%	8.4%

For purposes of this analysis, we have applied a terminal capitalization rate of 8.0%, which is reasonable for a project of the proposed subject hotel’s physical quality, brand affiliation, and location. The calculation of the reversionary equity proceeds follows.

**FIGURE 7-7 REVERSIONARY EQUITY PROCEEDS**

11th Year's EBITDA Less Reserve	\$5,364,000
Capitalization Rate	8.0%
Reversionary Value	<u>\$67,048,000</u>
Less:	
Brokerage and Legal Fees	1,676,000
Mortgage Balance	<u>24,787,000</u>
Net Sale Proceeds to Equity	\$40,585,000

The following table demonstrates that a 21.12% equity yield rate is required to equalize the present value of the equity investment with the assumed \$14,370,000 equity capital outlay.

**FIGURE 7-8 EQUITY COMPONENT YIELD**

Year	Net Income to Equity		Present Worth of \$1 Factor at 21.12%		Discounted Cash Flow
2020	\$1,507,000	x	0.825623	=	\$1,244,000
2021	\$1,805,000	x	0.681654	=	1,230,000
2022	\$2,050,000	x	0.562789	=	1,154,000
2023	\$2,160,000	x	0.464652	=	1,004,000
2024	\$2,272,000	x	0.383627	=	872,000
2025	\$2,387,000	x	0.316732	=	756,000
2026	\$2,506,000	x	0.261501	=	655,000
2027	\$2,628,000	x	0.215901	=	567,000
2028	\$2,753,000	x	0.178253	=	491,000
2029	\$43,466,000 *	x	0.147170	=	<u>6,397,000</u>
				Value of Equity Component	\$14,370,000

\*10th year net income to equity of \$2,881,000 plus sales proceeds of \$40,585,000

**Feasibility Conclusion**

To evaluate the economic feasibility of the proposed SpringHill Suites, we analyzed the lodging market, researched the area's economics, reviewed the estimated development cost, and prepared a ten-year forecast of income and expense, which was based on our review of the current and historical market conditions, as well as comparable income and expense statements. Based on current debt market conditions, we estimated the annual debt service, and then calculated the net income to equity as the remainder. The equity yield rate is then iterated as the figure that equates the net present value of the equity-specific returns with the assumed equity component contribution. The derived yield rate equates to 21.12%. Whereas threshold equity yield rates are currently in the range of 16% to 18% for projects of this sort, the analysis indicates a strongly positive feasibility conclusion, with a premium to threshold yields of approximately 300 to 500 basis points.

## 8. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a feasibility study of the proposed subject hotel; 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 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 affect 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. We are not qualified to detect hazardous substances and 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 are assumed 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 the appropriate liquor license if applicable), 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 because of this analysis without previous arrangements, and shall do so only when our standard per-diem fees and travel costs have been 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 onsite 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 financial 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 because of market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel investor as of the stated date of the report.
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 HVS, a division of 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.

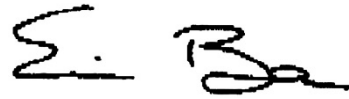
## 9. Certification

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 present or prospective interest in the property that is the subject of this report and no 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. Erich Baum, CRE personally inspected the property described in this report and prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report;
9. Erich Baum, CRE has not previously performed services, as an appraiser or in any other capacity, on the property that is the subject of this assignment;
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; and

11. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

A handwritten signature in black ink, appearing to read 'E. Baum'.

---

Erich Baum, CRE  
Senior Vice President  
TS Worldwide, LLC  
State Appraiser License (MA) 103018