NARRATIVE APPRAISAL REPORT

Fairfield Inn & Suites by Marriott Ocala

4101 SOUTHWEST 38TH COURT
OCALA, FLORIDA

SUBMITTED TO:

Mr. Martin Pinsker
American Hotel Income Properties REIT Inc.
1660 - 401 West Georgia Street
Vancouver, British Columbia, V6B 5A1

+1 (604) 633-2853

PREPARED BY:

HVS Consulting and Valuation Services
Division of MM&R Valuation Services, Inc.
145 West 17th Street, Suite 400
North Vancouver, BC, V7M 3G4

+1 (604) 988-9743

May 29, 2015

Mr. Martin Pinsker
American Hotel Income Properties REIT Inc.
1660 - 401 West Georgia Street
Vancouver, British Columbia, V6B 5A1

HVS VANCOUVER
145 West 17th Street, Suite 400
North Vancouver, BC, V7M 3G4
+1 (604) 988-9743
+1 (604) 988-4625 FAX
www.hvs.com

Re: Fairfield Inn & Suites by Marriott Ocala
4101 Southwest 38th Court
Ocala, Florida
HVS Reference: 2015020800

Dear Mr. Pinsker:

Pursuant to your request, we herewith submit our narrative appraisal report pertaining to the above-captioned hotel. We have inspected the real estate and analyzed the market conditions in the Ocala, Florida area. Our report has been prepared in accordance with, and is subject to, the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation.

Based on our analysis, it is our opinion that the “as is” market value of the fee simple interest in the real and personal property of the Fairfield Inn & Suites by Marriott Ocala, as of May 14, 2015, is:

$8,700,000

EIGHT MILLION SEVEN HUNDRED THOUSAND DOLLARS

This value estimate equates to $90,600 per room.

We have made no extraordinary assumptions specific to the subject property. However, several important general assumptions have been made that apply to this report. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report. We have made no assumptions of hypothetical conditions in our report.

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,
MM&R Valuation Services, Inc.

Janet L. Snyder, Senior Vice President
jsnyder@hvs.com, +1 (972) 978-4714
State Appraiser License (FL) RZ3639

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1. Summary of Salient Data and Conclusions

Property:	Fairfield Inn & Suites by Marriott Ocala
Location:	4101 Southwest 38th Court Ocala, Florida 34474 Marion County
Interest Appraised:	Fee Simple
Highest and Best Use (as improved):	Limited-service lodging facility

LAND DESCRIPTION

Area:	2.04 acres, or 88,862 square feet
Zoning:	B2 - Community Business
Assessor's Parcel Number(s):	R23862-003-00
FEMA Flood Zone:	X

IMPROVEMENTS DESCRIPTION

Year Opened and Renovated:	1998; Renovated: 2011
Property Type:	Limited-service lodging facility
Building Area:	45,060 square feet
Guestrooms:	96
Number of Stories:	Three
Food and Beverage Facilities:	A breakfast dining area
Meeting Space:	None
Additional Facilities:	An outdoor pool, an outdoor whirlpool, a fitness room, a business center, a market pantry, and a guest laundry room
Parking Spaces:	97 (surface)

OPINIONS OF “AS IS” MARKET VALUE - MAY 14, 2015

Income Capitalization Approach:	$8,700,000
Sales Comparison Approach:	$8,200,000 to $9,000,000
Cost Approach:	Not Applicable
“As Is” Market Value, as of May 14, 2015:	$8,700,000
Market Value Conclusion per Room:	$90,600
Capital Expenditure (if applicable):	$0
Real and Personal Property:	The real and personal property value conclusions exclude any value attributable to intangibles. All value attributable to the intangible property has been removed with the assumed expense of a management fee and a franchise fee (if applicable) in the valuation process. As a result, our value conclusion pertains to the real and personal property components only, which have been valued at $8,320,000 and $380,000, respectively, as of the current date of value.

ASSIGNMENT CONDITIONS

Extraordinary Assumptions:	We have made no extraordinary assumptions specific to the subject property. However, several important general assumptions have been made that apply to this report. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.
Hypothetical Conditions:	We have made no assumptions of hypothetical conditions in our report.

HVS

2. Nature of the Assignment

Subject of the Appraisal

The subject of the appraisal is the fee simple interest in a 2.04-acre (88,862-square-foot) parcel improved with a limited-service lodging facility known as the Fairfield Inn & Suites by Marriott Ocala. The property, which opened in 1998, features 96 rooms, a breakfast dining area, an outdoor pool, an outdoor whirlpool, a fitness room, a business center, a market pantry, and a guest laundry room. The hotel also contains all necessary back-of-the-house space. The hotel's civic address is 4101 Southwest 38th Court, Ocala, Florida, 34474.

Property Rights Appraised

The property rights appraised are the fee simple ownership of the real and personal property. The fee simple estate is defined as "absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."[1]

The Fairfield Inn & Suites by Marriott Ocala is appraised as an open and operating facility.

Objective of the Appraisal

The objective of the appraisal is to develop an opinion of the subject property's "as is" market value. The following definition of market value has been agreed upon by the agencies that regulate federal financial institutions in the United States:

> The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:
>
> 1. buyer and seller are typically motivated;
> 2. both parties are well informed or well advised, and acting in what they consider their own best interests;
> 3. a reasonable time is allowed for exposure in the open market;

[1] Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago Appraisal Institute, 2010).

4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.[2]

"As is" market value is defined by the Appraisal Institute as follows:

> The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date.[3]

Pertinent Dates

The effective date of the "as is" market value opinion is May 14, 2015. The subject property was inspected by Heidi S. Nielsen on May 14, 2015. In addition to the inspection, Heidi S. Nielsen participated in the research for this assignment and assisted in the report's preparation. Janet L. Snyder participated in the analysis and reviewed the findings, but did not personally inspect the property.

Ownership, Franchise, and Management History and Assumptions

The subject property is currently owned by Minch Hospitality Corp., which is based in Ocala, Florida. Minch Hospitality Corp. developed the subject property, which opened in 1998. No transfers of the property have reportedly occurred since its construction. The hotel, along with the Courtyard by Marriott Ocala and the Residence Inn by Marriott Ocala, is now under contract for purchase by American Hotel Income Properties REIT Inc. for a reported portfolio purchase price of $31,000,000; an individual purchase price for the subject property was not allocated.

The subject property is currently owner-operated; however, our appraisal assumes that the subject property will be managed by a professional hotel-operating company, with fees deducted at rates consistent with current market standards. We have assumed a market-appropriate total management fee of 3.0% of total revenues in our study. Please refer to the Income Capitalization Approach chapter for additional discussion pertaining to our management fee assumptions.

The hotel currently operates as a Fairfield Inn & Suites by Marriott under a license agreement with Marriott International; the existing agreement expires in 2018 and does not carry an option for renewal. The property's current franchise agreement calls for a royalty fee of 4.5% of rooms revenue and a marketing assessment of 2.5% of rooms revenue. We note that the current franchise agreement cannot automatically be transferred to a new owner upon the sale of

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[2] *Federal Register*, Vol. 75, No. 237, December 10, 2010: 77472.

[3] Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).

the property. We have assumed that a buyer would elect to continue to operate the hotel as a Fairfield Inn & Suites by Marriott and would enter into a license agreement that would reflect the current terms as published in the company's Uniform Franchise Offering Circular (UFOC). Such a new license could require upgrades or renovations to the property in order to comply with prevailing brand standards, which would necessitate additional investment. Given the overall very good condition of the subject property, we have assumed that any requirements of a property improvement plan (PIP) would be covered by the first year's reserve for replacement; therefore, we have not applied a capital deduction. The Fairfield Inn & Suites by Marriott franchise is reflected in our forecasts with a royalty fee of 5% of rooms revenue, and a marketing assessment of 2.5% of rooms revenue. Reservations fees are also due and are included in the rooms expense line item of our forecast.

Fairfield Inn by Marriott is Marriott's primary economy brand in what Marriott classifies as the moderate-tier segment. Fairfield Inn by Marriott properties offer daily complimentary breakfast, free coffee and tea, free high-speed Internet, a business center, a swimming pool, same-day laundry service, and fitness rooms at most locations. Primary competitors of the Fairfield Inn & Suites by Marriott brand include the Hampton Inn & Suites, Holiday Inn Express Hotel & Suites, and La Quinta Inn & Suites, among others. As of year-end 2013, there were approximately 705 Fairfield Inn and Fairfield Inn & Suites hotels (64,483 rooms) across the United States. In 2013, the chain recorded an occupancy level of 67.9%, an average rate of $98.58, and a RevPAR of $66.95 for North America.

We assume that the hotel will retain its current brand affiliation throughout the holding period. Inherent in this assumption is the expectation that the property will be operated in accordance with brand standards, including requirements for services and cleanliness; that the hotel will be maintained in good condition, with all building systems in good working order; and that any necessary refurbishments or renovations will be completed in a timely manner and in accordance with the requirements of the brand. A copy of the franchise inspection report was not provided for our review. We assume that any deficiencies in the property noted by the brand will be addressed in a timely manner and that the hotel will pass all future franchise inspections.

Most Probable Buyer

The subject property is a well-designed, limited-service hotel that would be attractive to active buyers. The hotel enjoys a favorable location in a tertiary market and offers an appropriate array of facilities and amenities. The hotel has undergone a significant renovation within the last few years, which would be considered a major advantage for a potential buyer. It is our opinion that the most probable buyer of the subject property would be a private investment fund, REIT, or ownership group looking to supplement its national hotel portfolio. This type of buyer would seek to implement its own management team, or a third-party professional hotel operator, and to maintain a nationally recognized brand affiliation.

Intended Use of the Appraisal

This narrative appraisal report is being prepared for use to finance the pending acquisition of the subject property.

Identification of the Client and Intended User(s)

The client for this engagement is American Hotel Income Properties REIT Inc. This report is intended for the addressee firm and may not be distributed to or relied upon by other persons or entities.

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.[4]

We have made no extraordinary assumptions specific to the subject property. However, several important general assumptions have been made that apply to this report. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

"Hypothetical Condition" is defined in USPAP as follows:

> A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis. Comment: Hypothetical conditions are contrary to known facts 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.[5]

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[4] Appraisal Foundation, Uniform Standards of Professional Appraisal Practice, 2014 – 2015 ed.

[5] Appraisal Foundation, Uniform Standards of Professional Appraisal Practice, 2014 – 2015 ed.

We have made no assumptions of hypothetical conditions in our report. We have not made any jurisdictional exceptions to the Uniform Standards of Professional Appraisal Practice in our analysis or report.

Marketing and Exposure Periods

The concepts of marketing period and exposure period are similar and simply reflect different perspectives in time. Exposure period is defined as the estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at its market value, as of the date of value. The exposure period reflects a retrospective opinion based on an analysis of past events and assumes a competitive and open market. Marketing period refers to the amount of time necessary to market the hotel subsequent to our date of value for it to sell for the appraised value, and thus is a prospective opinion.

Our opinion is that the exposure period for the subject property, prior to our date of value, is estimated to be less than or equal to seven months, while the marketing period for the subject property, subsequent to our date of value, is less than or equal to seven months. The marketing and sales process for hotels is extremely efficient. Brokers specializing in hotel transactions actively solicit potential buyers on an ongoing basis and maintain databases on hotel investor criteria. According to the brokers interviewed, the current period from when a property is listed to when the sale closes is typically six to nine months. Brokers are able to electronically produce marketing materials, elicit interest, schedule property tours, accept offers, and select a buyer in approximately 90 to 120 days. Following the execution of a purchase and sale agreement, the due diligence and closing period is typically 90 days.

Hotel properties are being actively sought after by investors. Quality assets often solicit numerous bids, financing is readily available, and for qualified buyers and sellers, the marketing process has resulted in the timely closing of transactions.

Published surveys report marketing time, not the exposure period. Marketing time is an opinion of the amount of time it might take to sell a property at the concluded market value level during the period immediately after the effective date of an appraisal. Currently, marketing time for luxury/upper-upscale properties, full-service hotels, and select-service hotels is averaging 6.3, 6.6, and 6.6 months, respectively, according to the PWC Real Estate Investor Survey - First Quarter 2015, published by PricewaterhouseCoopers. Overall marketing time is averaging 5.3 months for hotels, as reported by the Situs Real Estate Research Corporation's Winter 2015 Real Estate Survey. The following table illustrates marketing periods reported in recent PWC Real Estate Investor Surveys.

FIGURE 2-1 MARKETING PERIODS (MONTHS)

Property Type	1st Quarter '15	3rd Quarter '14	Year Ago
Luxury/Upper-Upscale	3.0 to 12.0	3.0 to 12.0	3.0 to 20.0
Average	*6.3*	*6.0*	*7.8*
Full-Service	3.0 to 9.0	3.0 to 9.0	3.0 to 12.0
Average	*6.6*	*6.7*	*7.3*
Select-Service	2.0 to 12.0	2.0 to 12.0	2.0 to 12.0
Average	*6.6*	*6.8*	*6.8*
Limited-Service	2.0 to 12.0	2.0 to 12.0	2.0 to 12.0
Average	*7.0*	*7.0*	*7.0*

Source: PWC Real Estate Investor Survey - First Quarter 2015

Competency

Our qualifications are included as an addendum to this report. These qualifications reflect that we have the competence required to complete this engagement, in accordance with the competency provision of the Uniform Standards of Professional Appraisal Practice. Our knowledge and experience is appropriate for the complexity of this assignment.

Scope of Work

The methodology used to develop this appraisal 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,*[6] *Hotels & Motels: Valuations and Market Studies,*[7] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[8] *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations,*[9] and *Hotels and Motels – Valuations and Market Studies,*[10] as well as in accordance with the Uniform System of Accounts for the Lodging Industry (USALI).

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[6] Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

[7] Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

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

[9] Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

[10] Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies.* (Chicago: Appraisal Institute, 2001).

1. All information was collected and analyzed by the staff of MM&R Valuation Services, Inc.. Information such as historical operating statements, franchise and/or management agreements, site plans, floor plans, and leases, as applicable, were supplied by the client or property management.
2. The subject site was evaluated from the viewpoint of its utility for the development and operation of a hotel. The potential existence of surplus or excess land was investigated. We have reviewed adjacent uses, regional and local accessibility attributes, and visibility characteristics. A study of the local neighborhood was undertaken to determine its boundaries, land uses, recent developments, and life-cycle stage. Other aspects of the land, such as soil and subsoil conditions, nuisances, hazards, easements, encroachments, zoning, and the current flood zone of the property, have been evaluated.
3. The subject property's improvements were inspected to evaluate their current condition, quality of construction, and design and layout, including any items of physical deterioration or functional obsolescence. A list of facilities and amenities that the property offers has been compiled, and past upgrades of each area of the hotel have been investigated. Recent capital expenditures, as well as planned future upgrades, have been reviewed. The remaining economic life of the hotel has been estimated.
4. Economic and demographic statistics for the subject property's market have been reviewed to identify specific hostelry-related trends that may affect future demand for hotels. Workforce characteristics have been evaluated, including employment trends by sector and unemployment rates. Major businesses and industries operating in the local area were investigated, and local area office statistics and trends were reviewed, as available. Passenger levels and recent changes at the area's pertinent airport have been researched, and visitor demand generators have been identified and evaluated.
5. An STR Trend Report pertaining to historical trends in room-night supply, demand, occupancy, average rate, and RevPAR for the subject property and a group of selected competitors has been ordered and analyzed. Performance levels for each of the competitive hotels have been researched and/or estimated. Ownership, management, facilities, renovations, and other pertinent factors for the competitive properties have been investigated. Potential new hotel supply was researched and quantified. Occupancy levels of the subject property and its existing competition provide a basis for quantifying current accommodated demand in the market. The market for hotel accommodations is segmented based on the specific characteristics of the types of travelers utilizing the area's hotels. By segmenting the demand accommodated by each hotel, the

total demand by market segment is quantified. The demand generated by each market segment is then projected by year up through a point of hypothetical market stabilization. Latent demand, if applicable, is estimated and added to the base demand forecast, resulting in a forecast of overall occupancy for the competitive market.

6. Based on the physical, economic, financial, and legal factors influencing the subject property, a conclusion regarding the property's highest and best use, as currently improved, was developed. The highest and best use of the subject land, as if vacant, was also evaluated based on current real estate trends and market conditions.

7. Occupancy of the subject property was projected based on a forecast of overall market penetration, or penetration by market segment. Average rate was projected based on competitive positioning, through the application of an overall ADR penetration rate, or penetration by each market segment's average rate.

8. Historical income and expense statements for the subject hotel have been reviewed, analyzed, and compared to the financial performance of comparable hotels. Inflation forecasts were researched, forming the basis for our own forecast of inflation. A projection of income and expense was prepared in accordance with the USALI, setting forth the anticipated economic benefits of the subject property. All projections are expressed in inflated dollars. Each line item has been reviewed individually. Amounts are forecast based on past performance, expected changes at the property in the future, and comparable hotel performance levels. Property taxes are forecast based on a review of past assessment levels, comparable hotel assessments, and historical tax rates.

9. Our forecast of net income for the subject property is capitalized into an opinion of value via a ten-year mortgage-equity technique, as well as a discounted-cash-flow analysis. Pertinent direct capitalization rates are also reviewed. Recent trends in interest rates, amortization, loan-to-value ratios, and equity return rates, as well as terminal capitalization rates, are researched and applied during this process.

10. As applicable, sales of comparable hotels have been researched for the local market, by brand nationally, and for the greater region as a whole. Among these sales, a smaller set of sales was selected for more detailed review and analysis. An adjustment grid was developed to assist in deriving our opinion of value via the sales comparison approach.

11. The cost approach was deemed inapplicable in the valuation of the subject property because it is not relied upon by hotel investors in the valuation process and requires unsubstantiated calculations to derive an estimate of

asset depreciation. An opinion of personal property value is presented, as well as an estimate of replacement cost for insurance purposes, if applicable.

12. The appraisal considers the following three approaches to value: cost, sales comparison, and income capitalization. We have investigated numerous improved sales in the market area and have spoken with buyers, sellers, brokers, property developers, and public officials. Because lodging facilities are income-producing properties that are normally bought and sold on the basis of capitalization of their anticipated stabilized earning power, the greatest weight is given to the value indicated by the income capitalization approach. We find that most hotel investors employ a similar procedure in formulating their purchase decisions, and thus the income capitalization approach most closely reflects the rationale of typical buyers.

The value conclusion of the appraisal is based on this investigation and analysis and is conveyed in this narrative report. The analyses, opinions, and conclusions were developed based on, and this report has been prepared in conformance with, our interpretation of the guidelines and recommendations set forth in USPAP.

3. Description of the Real Estate

LAND

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

The subject property is located in southwestern Ocala, east of the intersection formed by Southwest College Road/State Highway 200 and Southwest 38th Court. The street address of the Fairfield Inn & Suites by Marriott Ocala is 4101 Southwest 38th Court, Ocala, Florida, 34474.

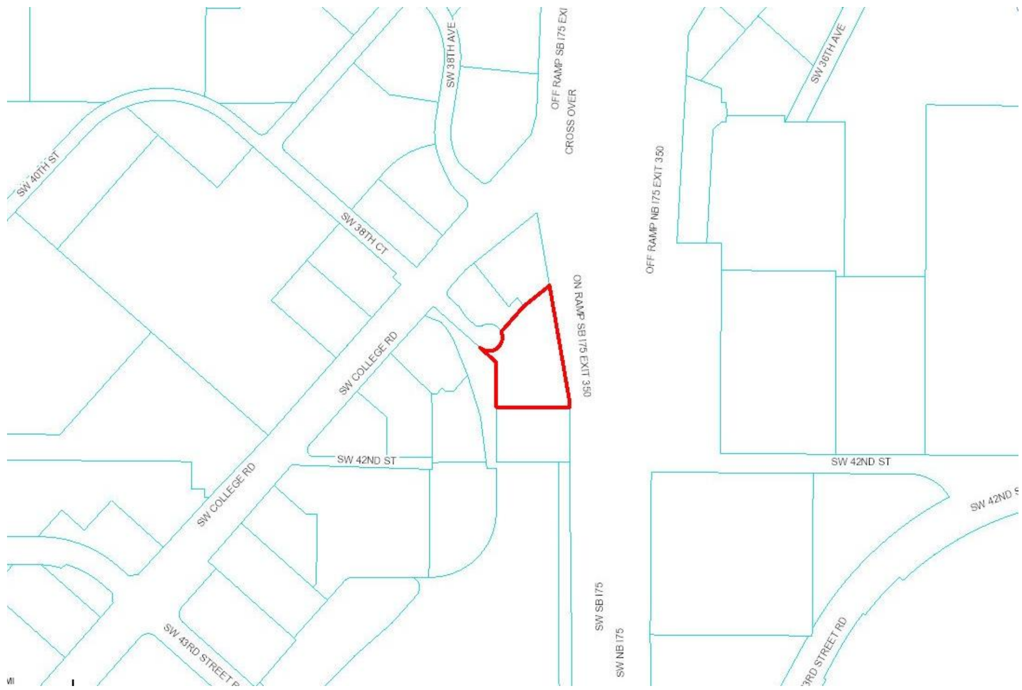
Physical Characteristics

The subject site measures approximately 2.04 acres, or 88,862 square feet. The parcel's adjacent uses are set forth in the following table.

FIGURE 3-1 SUBJECT PARCEL'S ADJACENT USES

Direction	Adjacent Use
North	Steak 'n Shake, KFC
South	Vacant Land
East	Interstate 75
West	Southwest 38th Court

PLAT MAP


SW 38TH AVE
OFF RAMP SB I75 EXI
CROSS OVER
SW 36TH AVE
SW 40TH ST
OFF RAMP NB I75 EXIT 350
SW 38TH CT
ON RAMP SB I75 EXIT 350
SW COLLEGE RD
SW 42ND ST
SW 42ND ST
SW 42ND S
SW COLLEGE RD
SW SB I75
SW NB I75
SW 43RD STREET R

AERIAL PHOTOGRAPH

VIEW FROM SITE TO THE NORTH

VIEW FROM SITE TO THE SOUTH

VIEW FROM SITE TO THE EAST

VIEW FROM SITE TO THE WEST

Primary vehicular access to the property is provided by Southwest 38th Court. The topography of the parcel is generally flat, and the site's shape is irregular.

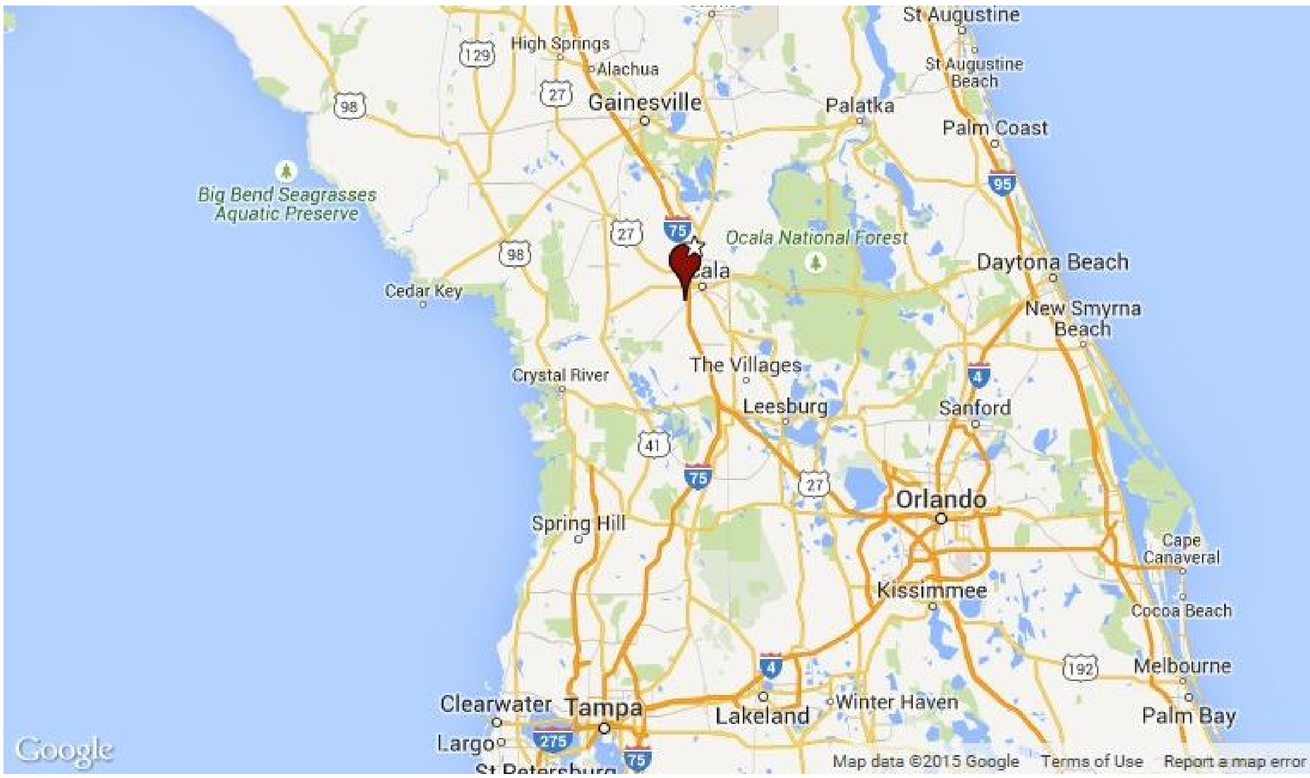
Site Utility

The subject site does not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. The site is fully developed with building and site improvements.

Access and Visibility

It is important to analyze the site in regard to ease of access with respect to regional and local transportation routes and demand generators. The subject site is readily accessible to a variety of local and county roads, as well as state and interstate highways.

MAP OF REGIONAL ACCESS ROUTES



Primary regional access through the area is provided by Interstate 75, a major north/south thoroughfare that extends to such cities as Tampa to the south and Atlanta, Georgia to the north. State Highway 40 provides east/west access across the state, extending from U.S. Highway 41 near Dunnellon on the west side of the state to Ormond Beach on the east side. Several other highways provide accessibility through the area, with U.S. Highway 301 serving as an alternate north/south route. The subject property's market is served by a variety of additional local routes, which are illustrated on the map.

From Interstate 75, motorists take the Ocala/Silver Springs/State Highway 200 Exit and proceed southwest on this thoroughfare for approximately one-tenth of a mile to Southwest 38th Avenue. Motorists execute a left turn onto Southwest 38th Avenue and travel south for approximately one-tenth of a mile to the subject site, which is located on the motorists' left-hand side. The subject property is located near a busy intersection but is setback slightly from the main road; however, due to its height and location adjacent to the interstate, the subject property benefits from good accessibility and very good visibility within the local neighborhood.

Airport Access

The subject property is served by the Orlando International Airport, which is located approximately 65 miles to the southeast of the subject site. From the airport, motorists follow signs to State Highway 528 and travel west on this thoroughfare to State Highway 91. Motorists then proceed north on State Highway 91 to Interstate 75 North, continuing to the subject property as previously noted. The subject hotel is also served by the Tampa International Airport, which is located approximately 75 miles to the southwest of the subject site.

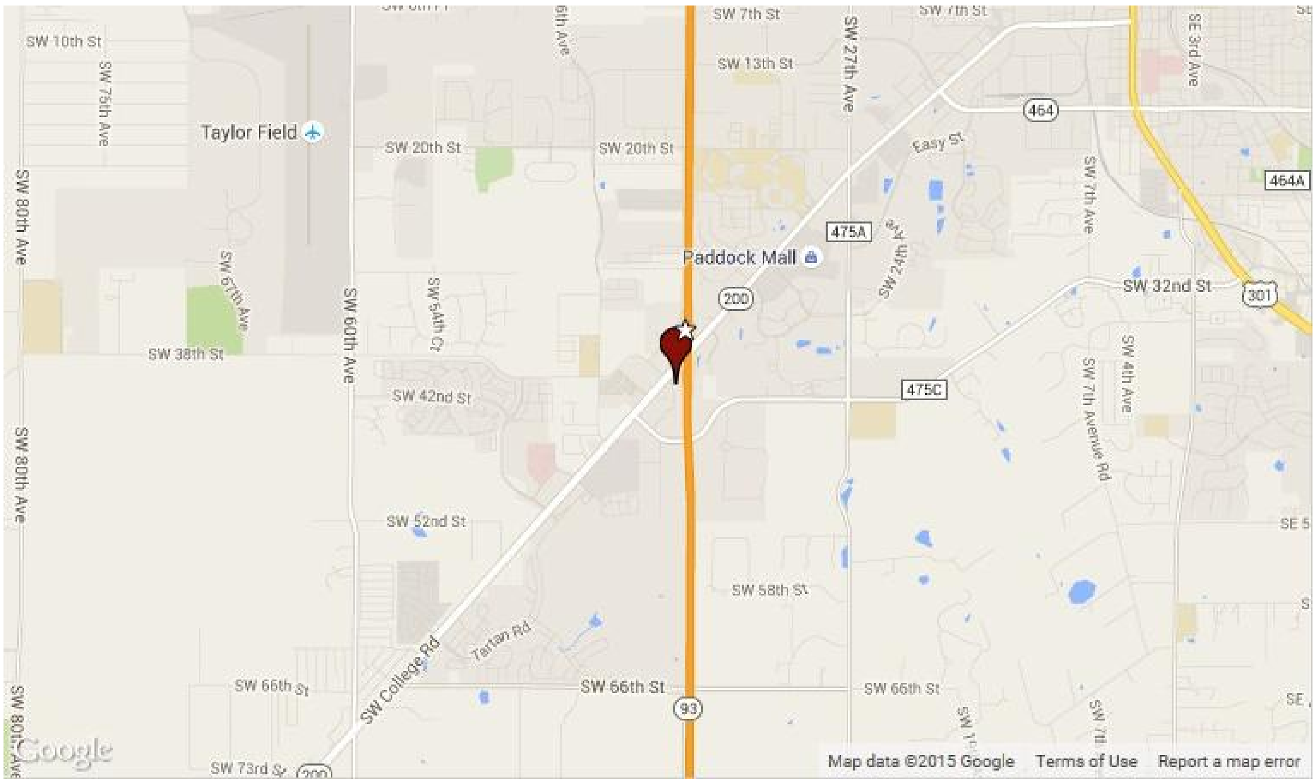
Neighborhood

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

The subject property's neighborhood is generally defined by Southwest 20th Street to the north, Southwest 27th Avenue to the east, Southwest 66th Street to the south, and Southwest 60th Avenue to the west. In general, this neighborhood is in the stable stage of its life cycle, with pockets of growth occurring within the retail/restaurant sector. Within the immediate proximity of the site, land use is heavily commercial and farmland in nature. The neighborhood is characterized by restaurants, hotels, and retail shopping centers along the primary thoroughfares, with residential areas and horse farms located along the secondary roadways.

Some specific businesses and entities in the area include Sam's Club, Market Street at Heath Brook, Paddock Mall, and the College of Central Florida, while hotels in the vicinity of the subject site include the Hampton Inn & Suites and Holiday Inn Hotel & Suites. Restaurants located near the subject property include Bonefish Grill, Red Lobster, and Olive Garden. Notable changes in this neighborhood include new shops and restaurants at the Market Street at Heath Brook shopping center. In general, we would characterize the neighborhood as 25% retail/restaurant use, 25% farmland, 20% residential use, 10% hotel use, 10% vacant, and 10% other.

MAP OF NEIGHBORHOOD



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

Utilities

According to property ownership, the subject site is served by all necessary utilities.

Soil and Subsoil Conditions

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.

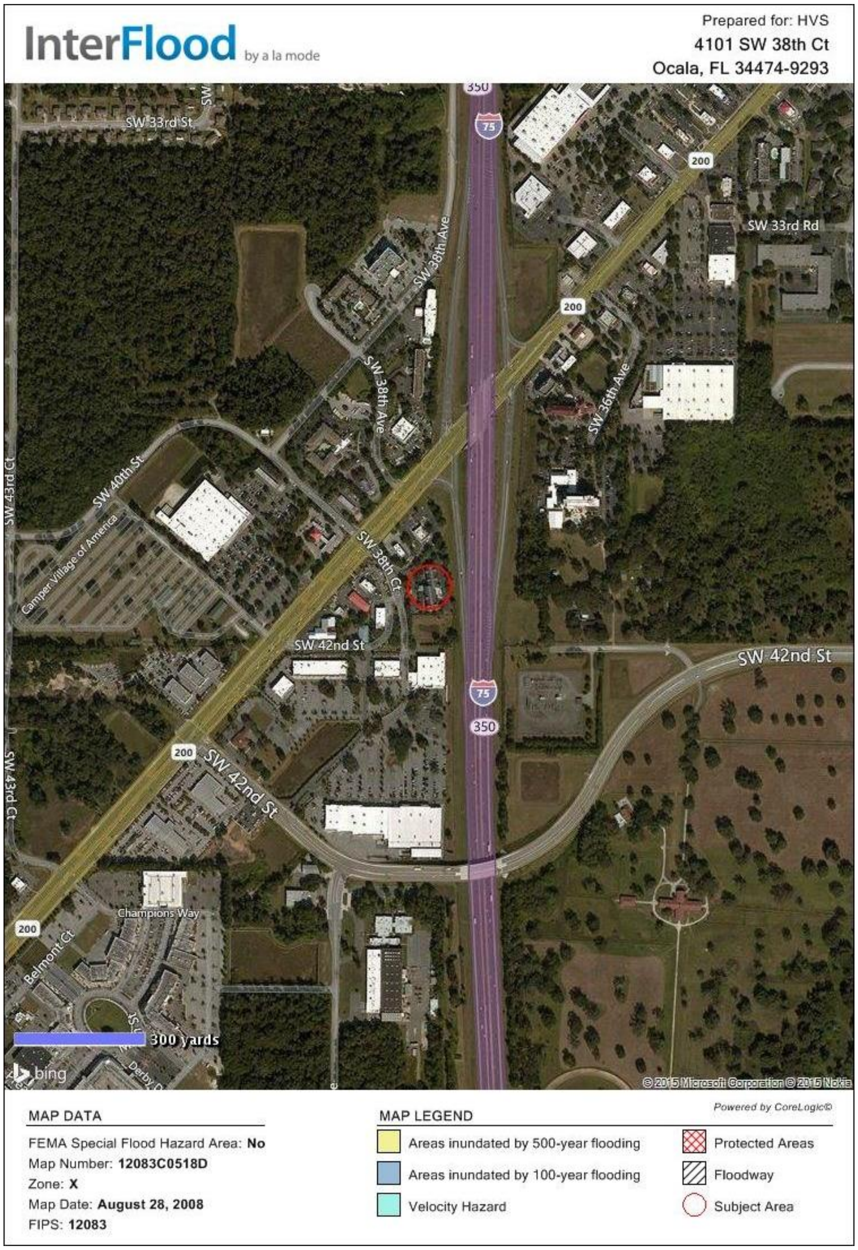
Nuisances and Hazards

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.

Flood Zone

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

COPY OF FLOOD MAP AND COVER



The flood zone definition for the X designation is as follows: areas outside the 500-year flood plain; areas of the 500-year flood; areas of the 100-year flood with average depths of less than one foot or with drainage areas less than one square mile and areas protected by levees from the 100-year flood.

Zoning

According to the local planning office, the subject property is zoned as follows: B2 - Community Business. This zoning designation allows for most commercial uses, including small office complexes, retail and service establishments, and hotels and motels. We assume that all necessary permits and approvals have been secured (including the appropriate liquor license if applicable) and that the subject property was constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the hotel.

Easements and Encroachments

We are not aware of any easements or encroachments encumbering the property that would significantly affect its utility or marketability.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site is favorably located adjacent to the interstate and near a major interchange. In general, the site is well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

IMPROVEMENTS

The quality of a lodging facility's physical improvements has a direct influence on its marketability and attainable occupancy and average rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. This section investigates the subject property's physical improvements and personal property in an effort to determine how they contribute to total value.

Property Overview

The Fairfield Inn & Suites by Marriott Ocala is a limited-service lodging facility containing 96 rentable units. The three-story property opened in 1998. The subject property underwent a comprehensive renovation in 2011. Furthermore, the hotel was converted from a Fairfield Inn by Marriott to a Fairfield Inn & Suites by Marriott at that time. Even with the addition of the suites, the room count did not change, as the larger guestrooms were converted to suites; however, one guestroom was removed and was converted to additional seating space for the breakfast area.

SUBJECT PROPERTY - FRONT OF HOTEL

SUBJECT PROPERTY - BACK OF HOTEL

Summary of the Facilities

Based on our inspection and information provided by management representatives of the subject property, the following table summarizes the facilities available at the subject property.

FIGURE 3-2 FACILITIES SUMMARY

Guestroom Configuration		Number of Units
King		46
Double/Double		40
Studio Suite		10
Total		96
Food & Beverage Facilities		**Seating Capacity**
Breakfast Dining Area		40
Amenities & Services		
Outdoor Swimming Pool	Business Center	
Outdoor Whirlpool	Market Pantry	
Fitness Room	Guest Laundry Room	
Infrastructure		
Parking Spaces		97
Elevators		1 Guest
Life-Safety Systems		Sprinklers, Smoke Detectors
Construction Details		Wood Framing, Poured Concrete

Site Improvements and Hotel Structure

Once guests enter the site, ample parking is available on the surface lot around the hotel building. No recent renovations to the parking lot were noted by management. Signage is located at the entrance of the hotel property; additional signage is located on the western and eastern faces of the building. The area's landscaping was in excellent condition, featuring trees, area shrubs, flowerbeds, and planters. According to management, the landscaping was updated in 2014. Sidewalks are present along the front entrance, as well as around the recreational area on the east side of the hotel, and these walkways were in overall good condition. Overall, the site improvements were in good condition upon inspection.

The hotel comprises one three-story building. The hotel's EIFS exterior was in good condition; there were no major problems observed or reported pertaining to the hotel's exterior finish. Two stairways and one elevator provide internal vertical transportation within the main structure. These spaces are functional, appearing to be well kept upon inspection. The hotel's pitched roof consists of wood trusses, covered with plywood and composition shingles. The roof is original to the hotel's construction in 1998. According to hotel management, the roof is in good condition with no deficiencies. There were no problems reported with the hotel's foundation, structure, or windows; furthermore, we did not observe any deficiencies with these areas.

Public Areas

Guests enter the hotel through a single set of automatic doors, which open to a vestibule, and then through a second set of automatic doors. Overall, the entry was in good condition. The lobby is standard in size, appropriate for a Fairfield Inn & Suites by Marriott. The lobby walls are finished with wallcovering, and the floor is finished with stone tiles and carpet. The front desk, located in the southern portion of the room, features a wood base and a granite countertop. The furnishings and finishes in this space were in very good condition. In 2011, the lobby received new furniture, carpet, and wallcovering.

The hotel's breakfast dining area is located on the north side of the lobby. Its size and layout are appropriate for the limited food and beverage service offered by the hotel, and the furnishings were in very good condition. The breakfast dining area was last renovated in 2011; the space was expanded and upgraded to include new countertops, carpet, wallcovering, and furniture.

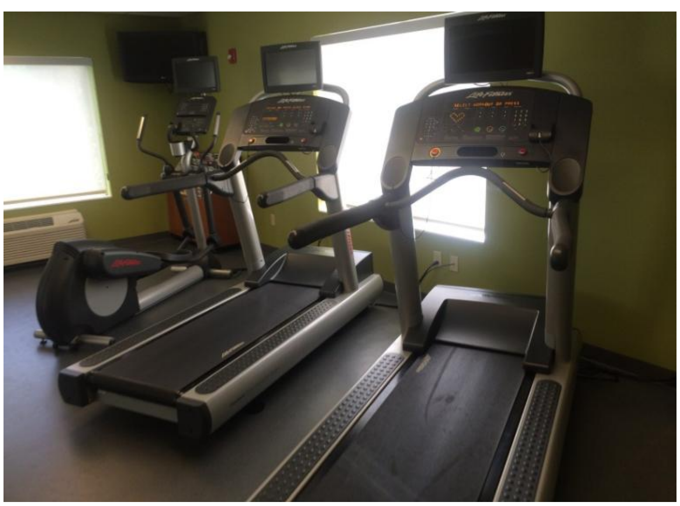
LOBBY SEATING AREA

DINING AREA

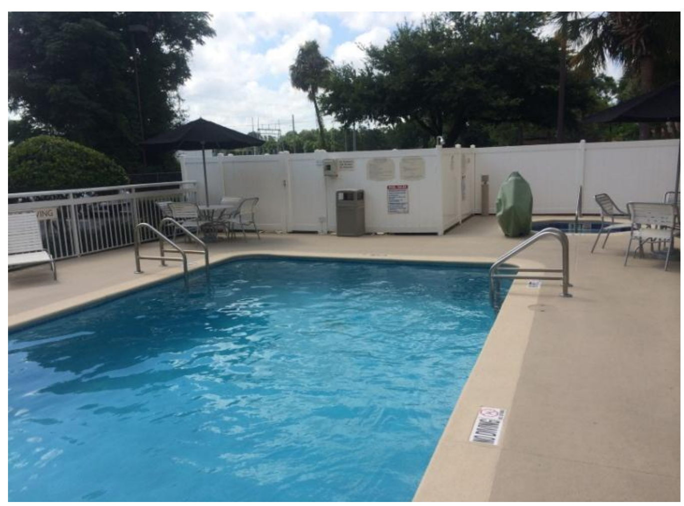
FRONT DESK

The hotel does not offer any meeting space.

EXERCISE ROOM



POOL

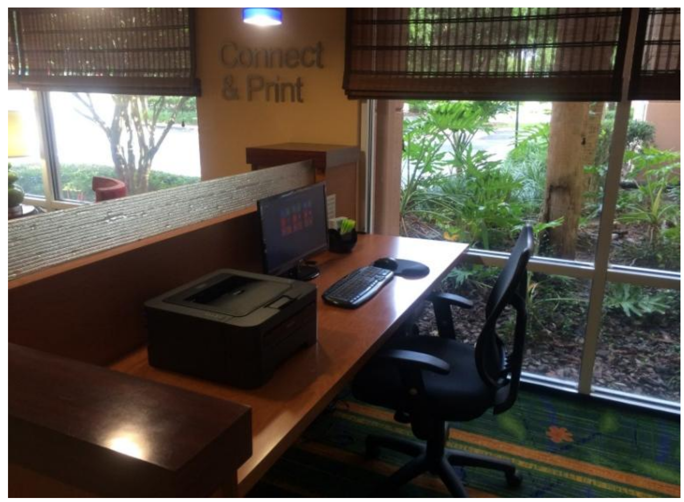


The hotel offers an outdoor pool and whirlpool. There were no major problems reported with the pool operation, and the area was clean and attractive. The hotel offers a fitness room, located on the first floor of the property, which was in good condition at the time of our inspection. No recent renovations to these spaces were noted by management.

The hotel offers The Market, located near the front desk. The Market is operated by the front desk staff, and the space was in very good condition at the time of inspection. The Market was added in 2011 during the lobby renovations. The hotel offers an ice machine near the elevator bay on each guestroom floor, as well as a guest laundry room on the second floor; these areas were in good condition. No recent renovations were noted by management.

THE MARKET

BUSINESS CENTER



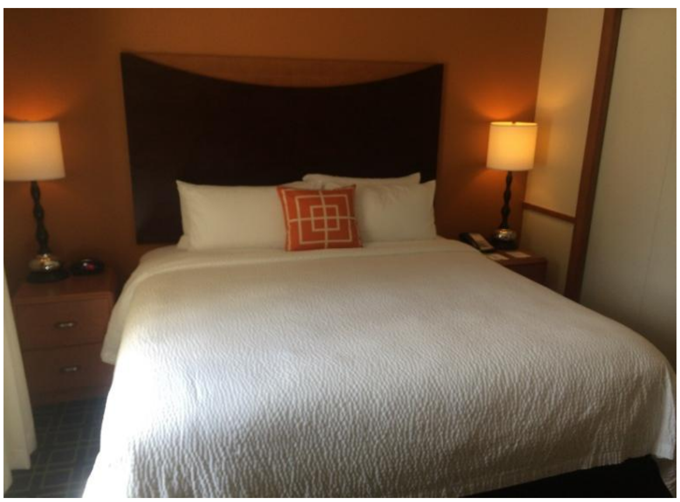
A small business center is located off of the lobby. This space has a single-computer workstation, a printer, and good quality furnishings. No recent renovations were noted by management.

Guestrooms

The hotel features standard and suite-style guestroom configurations, and guestrooms are found on all levels within the one building. The rooms are adequately sized and offer typical amenities for this product type. Guestrooms feature a unit that includes a dresser, a work desk, and a built-in space for a small refrigerator, complemented by a 32-inch flat-panel television, ergonomic work chair, coffeemaker, and lamp; bedside tables; a chair; lighting fixtures; and an iron and ironing board. In-room amenities include wireless, high-speed Internet access and a telephone with voicemail and data port. Suites, which are available for a premium rate, feature a larger living space with a sleeper sofa. The guestrooms were fully renovated in 2011; upgrades included new carpet, case goods, softgoods, artwork, and lighting fixtures, as well as fresh paint for the walls Overall, the guestrooms were in very good condition upon inspection.

Guestroom bathrooms are of a standard size, with a shower-in-tub and a commode. A single sink with vanity area is located just outside of the bathroom. The fixtures were in good condition upon inspection. The floors are finished with tile, and the walls are finished with knockdown texture. Bathroom amenities include a hairdryer and complimentary toiletries. Guest bathroom renovations included new shower curtains and fresh paint in 2011. Overall, the guestroom bathrooms appeared to be in good condition.

TYPICAL GUESTROOM – SLEEPING AREA



TYPICAL GUESTROOM – LIVING AREA

TYPICAL GUESTROOM BATHROOM – SINK

TYPICAL GUESTROOM BATHROOM – BATH

The interior guestroom corridors are wide and functional, permitting the easy passage of housekeeping carts. The corridors received new carpet in 2011. Overall, the guestroom corridors were in very good condition upon inspection.

Back-of-the-House

The subject property is served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a prep kitchen. The kitchen is located adjacent to the breakfast dining area. The limited kitchen facilities are appropriate to the scope of service provided, appearing to be in good condition; no significant or persistent problems were noted by hotel management. New equipment was purchased in 2011, including a microwave, a small refrigerator, and a toaster for the service area to fulfill the new Fairfield Inn & Suites by Marriott breakfast standards. The in-house laundry facility contains two large-capacity washers and two dryers. All appliances were reported to be operational at the time of inspection, appearing to be in good condition.

LAUNDRY

BREAKFAST PREP AREA

ADA and Environmental

According to information provided by management representatives, there are no environmental hazards present in the subject property's improvements, nor did we observe any. The property reportedly complies with the Americans with Disabilities Act; furthermore, the ADA-mandated pool lifts were installed in 2013.

Functional Obsolescence

Due to the age of the subject property, which was constructed roughly 17 years ago, some functional obsolescence is to be expected. However, upon our inspection, we found no major components or aspects of the property's design that significantly limit its profitability.

Effective Age and Remaining Economic Life

Our opinion of effective age and remaining economic life for the building is presented as follows.

FIGURE 3-3 EFFECTIVE AGE AND REMAINING ECONOMIC LIFE

Typical Economic Life	50	Years
Chronological Age	17	
Effective Age	10	
Remaining Economic Life	40	

Hotels are typically renewed on a regular basis. With good ongoing maintenance and regular upgrading, the remaining economic life can be periodically extended.

Capital Expenditures

According to hotel ownership, there have been no major capital expenditures in the last three years, aside from the purchase of two pool lifts in 2013 and landscaping updates in 2014.

Our analysis specifically assumes that the hotel will require ongoing renovations in order to maintain the Fairfield Inn & Suites by Marriott flag, as well as its RevPAR position in this market, as forecast in this report. These costs should be adequately funded by the forecasted reserve for replacement.

Conclusion

Overall, the subject property offers a well-designed, functional layout of support areas and guestrooms. Virtually all aspects of the hotel were upgraded in 2011, and the hotel's improvements remain in very good condition. No significant weaknesses were noted.

4. 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).

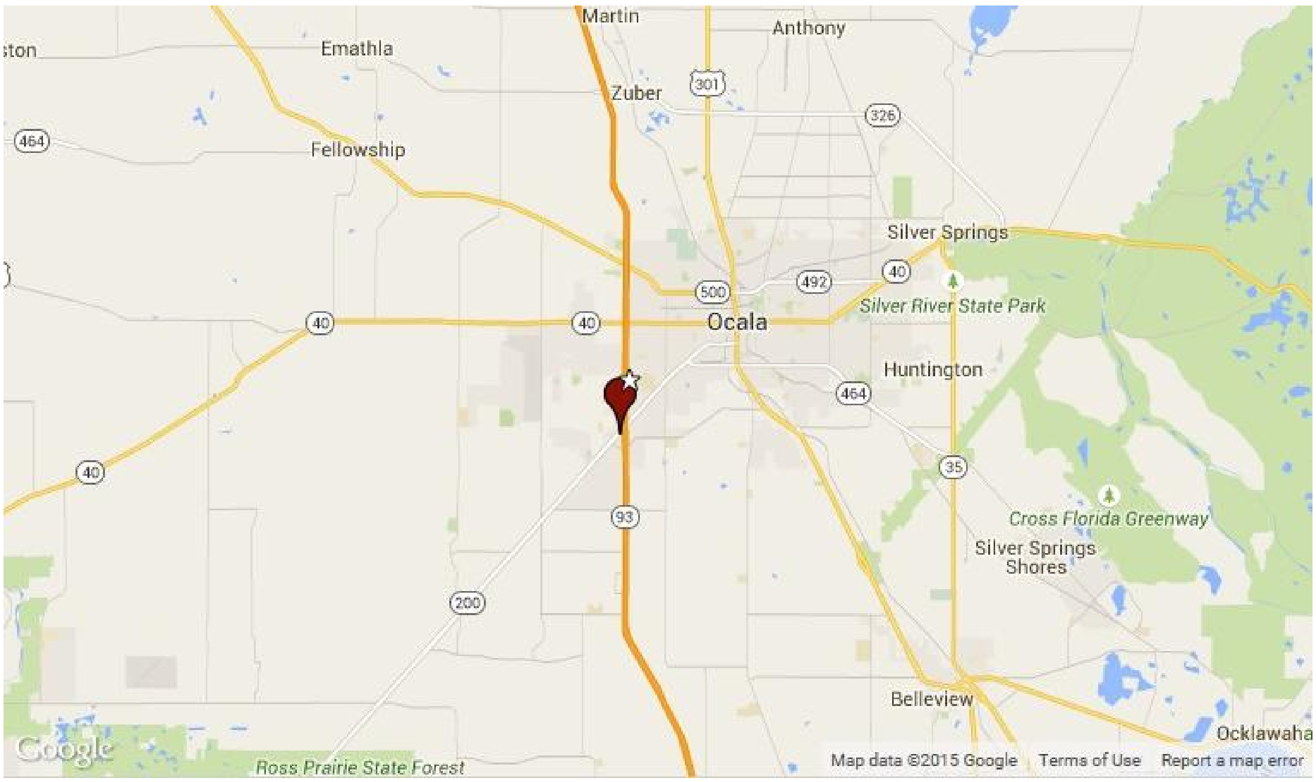
Market Area Definition

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 Ocala, the county of Marion, and the state of Florida. Serving as the seat of Marion County, Ocala is the fourth-largest county in the state and is located in Central Florida. Ocala is known as the "Horse Capital of the World™," and Marion County features more than 600 horse farms anchored by the Florida Horse Park, which opened in 2005, and the Ocala Equestrian Complex. The county is one of only four major thoroughbred centers in the world. The city enjoyed significant population growth between 1975 and 2000, registering some of the highest population growth rates in the country. The area is home to manufacturing facilities for a number of large companies, such as Lockheed Martin, E-ONE, and ClosetMaid. The Ocala area's economy is also supported by a strong healthcare sector and Central Florida Community College.

OCALA

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

MAP OF MARKET AREA



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 4-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2014	2020	Average Annual Compounded Change 2000-10	2010-14	2014-20
Resident Population (Thousands)							
Marion County	260.2	331.4	348.8	383.3	2.4 %	1.3 %	1.6 %
Ocala, FL MSA	260.2	331.4	348.8	383.3	2.4	1.3	1.6
State of Florida	16,047.5	18,838.6	19,892.3	21,658.1	1.6	1.4	1.4
United States	282,162.4	309,330.2	320,976.9	340,554.3	0.9	0.9	1.0
Per-Capita Personal Income*							
Marion County	$27,675	$30,963	$32,329	$34,693	1.1	1.1	1.2
Ocala, FL MSA	27,675	30,963	32,329	34,693	1.1	1.1	1.2
State of Florida	34,981	37,721	38,994	42,027	0.8	0.8	1.3
United States	36,473	39,144	41,079	44,387	0.7	1.2	1.3
W&P Wealth Index							
Marion County	80.1	84.2	83.7	83.3	0.5	(0.2)	(0.1)
Ocala, FL MSA	80.1	84.2	83.7	83.3	0.5	(0.2)	(0.1)
State of Florida	99.3	101.5	100.2	100.0	0.2	(0.3)	(0.0)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Marion County	$247	$331	$367	$428	3.0	2.6	2.6
Ocala, FL MSA	247	331	367	428	3.0	2.6	2.6
State of Florida	22,184	29,113	32,452	37,143	2.8	2.8	2.3
United States	368,842	447,396	490,340	548,160	1.9	2.3	1.9
Total Retail Sales (Millions)*							
Marion County	$3,500	$4,289	$4,838	$5,632	2.1	3.1	2.6
Ocala, FL MSA	3,500	4,289	4,838	5,632	2.1	3.1	2.6
State of Florida	241,576	276,484	312,967	360,559	1.4	3.1	2.4
United States	3,902,969	4,149,070	4,617,326	5,187,469	0.6	2.7	2.0

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The U.S. population has grown at an average annual compounded rate of 0.9% from 2010 through 2014. The county's population has grown at a quicker pace than the nation's population; the average annual growth rate of 1.3% between 2010 and 2014 reflects a gradually expanding area. Following this population trend, per-capita personal income increased slowly, at 1.1% on average annually for the county between 2010 and 2014. Local wealth indexes have remained stable in recent years, registering a relatively modest 83.7 level for the county in 2014.

Food and beverage sales totaled $367 million in the county in 2014, versus $331 million in 2010. This reflects a 2.6% average annual change, which is weaker than the 3.0% pace recorded in the prior decade. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 2.6%, which is forecast through 2020. The retail sales sector demonstrated an annual increase of 2.1% registered in the decade 2000 to 2010, followed by an increase of 3.1% in the period 2010 to 2014. An increase of 2.6% average annual change is expected in county retail sales 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 the county workforce distribution by business sector in 2000, 2010, and 2014, as well as a forecast for 2020.

FIGURE 4-2 HISTORICAL AND PROJECTED EMPLOYMENT (000S)

Industry	2000	Percent of Total	2010	Percent of Total	2014	Percent of Total	2020	Percent of Total	Average Annual Compounded Change 2000-2010	2010-2014	2014-2020
Farm	3.8	3.3 %	3.8	2.9 %	3.8	2.8 %	4.0	2.6 %	(0.1) %	0.6 %	0.7 %
Forestry, Fishing, Related Activities And Other	1.5	1.4	1.8	1.4	1.9	1.3	2.0	1.3	1.7	0.4	1.6
Mining	0.3	0.3	0.5	0.4	0.5	0.4	0.6	0.4	4.6	3.7	1.2
Utilities	0.3	0.2	0.3	0.2	0.3	0.2	0.3	0.2	0.2	(0.6)	0.0
Construction	8.3	7.3	8.7	6.7	8.8	6.4	10.6	6.9	0.5	0.3	3.1
Manufacturing	10.4	9.2	6.8	5.2	6.9	5.0	7.2	4.6	(4.1)	0.4	0.5
Total Trade	21.5	19.1	21.0	16.1	22.5	16.3	25.2	16.3	(0.3)	1.8	1.9
Wholesale Trade	3.6	3.2	3.9	3.0	4.0	2.9	4.2	2.7	0.8	0.6	0.7
Retail Trade	17.9	15.9	17.1	13.1	18.5	13.4	21.0	13.6	(0.5)	2.1	2.1
Transportation And Warehousing	3.3	2.9	3.6	2.7	4.1	3.0	4.6	3.0	0.7	3.4	2.0
Information	1.7	1.5	1.9	1.5	2.0	1.5	2.2	1.4	1.1	1.9	1.3
Finance And Insurance	3.9	3.4	5.9	4.5	6.4	4.7	7.3	4.7	4.3	2.3	2.1
Real Estate And Rental And Lease	3.9	3.4	6.5	5.0	6.9	5.0	7.5	4.9	5.3	1.6	1.5
Total Services	38.3	33.9	50.8	39.1	55.3	40.0	63.1	41.0	2.9	2.1	2.2
Professional And Technical Services	3.9	3.4	5.6	4.3	6.0	4.3	6.7	4.3	3.8	1.6	1.9
Management Of Companies And Enterprises	0.3	0.3	0.4	0.3	0.4	0.3	0.4	0.2	1.5	(1.2)	0.5
Administrative And Waste Services	7.7	6.9	7.8	6.0	8.5	6.2	9.7	6.3	0.1	2.1	2.1
Educational Services	0.5	0.5	1.8	1.4	2.1	1.5	2.6	1.7	12.8	4.4	3.6
Health Care And Social Assistance	9.8	8.7	14.7	11.3	16.0	11.6	18.5	12.0	4.1	2.3	2.4
Arts, Entertainment, And Recreation	2.1	1.9	3.1	2.4	3.4	2.4	3.9	2.5	4.0	2.0	2.3
Accommodation And Food Services	6.5	5.8	8.8	6.8	9.4	6.8	10.5	6.8	3.1	1.8	1.8
Other Services, Except Public Administration	7.4	6.6	8.7	6.7	9.5	6.9	11.0	7.1	1.6	2.2	2.5
Total Government	15.7	13.9	18.5	14.2	18.5	13.4	19.6	12.7	1.7	0.0	1.0
Federal Civilian Government	0.9	0.8	0.9	0.7	0.7	0.5	0.8	0.5	0.8	(5.8)	0.6
Federal Military	0.6	0.5	0.7	0.5	0.7	0.5	0.7	0.4	1.9	(0.4)	0.1
State And Local Government	14.3	12.7	16.9	13.0	17.1	12.4	18.2	11.8	1.7	0.3	1.0
TOTAL	112.8	100.0 %	130.0	100.0 %	138.0	100.0 %	154.2	100.0 %	1.4 %	1.5 %	1.9 %
U.S.	165,371.0	—	173,626.7	—	183,038.2	—	198,343.5	—	0.7	1.3	1.3

Source: Woods & Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county grew at an average annual rate of 1.4%. This trend was on par with the growth rate recorded by the MSA and also outpaced the national average, reflecting the expanding nature of the local economy throughout most of the decade until the recession in the latter years. More recently, the pace of total employment growth in the county accelerated to 1.5% on an annual average from 2010 to 2014, reflecting the initial years of the recovery.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2014, increasing by 4,458 people, or 8.8%, and rising from 39.1% to 40.0% of total employment. Of the various service sub-sectors, Health Care And Social Assistance and Other Services, Except Public Administration were the largest employers. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.9% on average annually through 2020. The trend is above the forecast rate of change for the U.S. as a whole during the same period.

Radial Demographic Snapshot

The following table reflects radial demographic trends for our market area measured by three points of distance from the subject property.

HVS

FIGURE 4-3 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2019 Projection	6,168	24,460	61,281
2014 Estimate	5,436	22,677	58,297
2010 Census	4,793	21,252	56,239
2000 Census	1,798	13,968	42,851
Growth 2014-2019	13.5%	7.9%	5.1%
Growth 2010-2014	13.4%	6.7%	3.7%
Growth 2000-2010	166.6%	52.1%	31.2%
Households			
2019 Projection	2,719	10,549	25,727
2014 Estimate	2,368	9,670	24,320
2010 Census	2,075	8,969	23,297
2000 Census	775	5,637	17,152
Growth 2014-2019	14.8%	9.1%	5.8%
Growth 2010-2014	14.1%	7.8%	4.4%
Growth 2000-2010	167.6%	59.1%	35.8%
Income			
2014 Est. Average Household Income	$54,839	$50,054	$49,378
2014 Est. Median Household Income	36,485	33,806	34,280
2014 Est. Civ Employed Pop 16+ by Occupation	2,224	8,655	22,921
Architect/Engineer	11	67	143
Arts/Entertain/Sports	27	71	209
Building Grounds Maint	61	367	1,280
Business/Financial Ops	36	130	446
Community/Soc Svcs	34	82	295
Computer/Mathematical	23	65	163
Construction/Extraction	101	474	1,119
Edu/Training/Library	136	449	1,126
Farm/Fish/Forestry	1	65	447
Food Prep/Serving	328	1,051	2,308
Health Practitioner/Tec	338	1,351	2,698
Healthcare Support	85	350	763
Maintenance Repair	22	112	503
Legal	48	91	273
Life/Phys/Soc Science	14	41	84
Management	303	960	2,058
Office/Admin Support	241	968	2,835
Production	42	342	1,046
Protective Svcs	13	120	483
Sales/Related	295	1,099	2,912
Personal Care/Svc	31	186	740
Transportation/Moving	34	210	990

Source: The Nielsen Company

This source reports a population of 58,297 within a five-mile radius of the subject property, and 24,320 households within this same radius. Average household income within a five-mile radius of the subject property is currently reported at $49,378, while the median is $34,280.

Unemployment Statistics

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

FIGURE 4-4 UNEMPLOYMENT STATISTICS

Year	County	State	U.S.
2005	3.8 %	3.7 %	5.1 %
2006	3.4	3.2	4.6
2007	4.7	4.0	4.6
2008	8.1	6.3	5.8
2009	12.8	10.4	9.3
2010	13.6	11.1	9.6
2011	12.3	10.0	8.9
2012	10.3	8.5	8.1
2013	8.6	7.3	7.4
2014	7.3	6.3	6.2
Recent Month - Mar			
2014	7.7 %	6.6 %	6.6 %
2015	6.6	5.5	5.5

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

Source: U.S. Bureau of Labor Statistics

The unemployment rate for the U.S. fluctuated within the narrow range of 4.6% to 5.5% in the period spanning from 2004 to 2007. The recession and financial crisis in 2007 and 2008 resulted in heightened unemployment rates, which peaked at 10.0% in October of 2009. Job growth resumed in late 2009; the national unemployment rate has steadily declined since 2010. Total nonfarm payroll employment increased by 295,000 and 126,000 in the most recent months of February and March, respectively, with gains relatively widespread and particularly strong in the professional and business services, health care, and retail trade categories. The unemployment rate was 5.5% in February and March of 2015, slightly lower than the 5.7% rate in January. The positive gains in employment reflect steady progress by the U.S. economy.

Locally, the unemployment rate was 7.3% in 2014; for this same area in 2015, the most recent month's unemployment rate was registered at 6.6%, versus 7.7% for the same month in 2014. After showing year-over-year improvement, unemployment rates began to rise in 2007, and this trend continued through 2010. Economic officials indicated that unemployment rates were high because of the area's large population and increasing popularity with retirees, as many of these retirees were reintroduced into the workforce due to the national economic turmoil. Unemployment levels were also influenced during this period by the closure of Taylor, Bean & Whitaker Mortgage Corp., which maintained a large office in the market; this company reportedly laid off 1,200 employees in 2009. However, unemployment declined in 2011 as the economy rebounded, a trend that continued through 2014. The most recent comparative period illustrates further improvement, as indicated by the latest available data for 2015. Our interviews with economic development officials reflect a positive outlook, primarily attributed to expansions at local businesses and the entrance of new companies, such as Coates Golf.

Major Business and Industry

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

FIGURE 4-5 MAJOR EMPLOYERS

Rank	Firm	Number of Employees
1	Marion County Public Schools	6,071
2	Munroe Regional Medical Center	2,648
3	State of Florida	2,600
4	Wal-Mart Stores, Inc.	2,370
5	Ocala Regional Health System	2,020
6	Publix Supermarkets	1,488
7	Marion County Board of Commissioners	1,462
8	AT&T	1,000
9	City of Ocala	994
10	Lockheed Martin	981

Source: Marion County Economic Development Council, 2015

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

- Major employers such as Lockheed Martin, ClosetMaid, and E-ONE dominate the local manufacturing industry. Lockheed Martin Ocala Operations center is a system-assembly production facility that assembles electronics for space, commercial, and defense applications, along with performing testing and assembly for Lockheed Martin Missiles and Fire Control programs. E-ONE is another major employer for the market and performs design, production, and marketing for fire-rescue vehicles. In August of 2014, E-ONE obtained an agreement with Finnish company Bronto Skylift Oy Ab as the exclusive distributor of Bronto Skylift® RLPs in the United States and Canada.

- The healthcare sector is important within this region. Ocala is home to many healthcare facilities and three primary hospitals, such as Munroe Regional Medical Center, Ocala Regional Medical Center, and West Marion Community Hospital. In 2014, Munroe Regional Medical Center was named Marion County's most preferred hospital for overall quality by the National Research Corporation for the eleventh consecutive year. The 421-bed facility was also recognized as one of the top 100 hospitals for overall cardiac care in 2014 by HealthGrades. In 2014, several Ocala hospitals also received Specialty Excellence Awards for Clinical Excellence in various service areas. In September of 2014, Ocala Health leadership announced a dual-hospital expansion for both Ocala Regional and West Marion that is expected to include a total of 46 new patient beds and nearly 75,000 square feet. The expansion represents a $45,000,000 investment by HCA, Ocala Health's parent company. Both projects will reportedly be completed in late 2016.
- The Ocala area is one of the primary thoroughbred breeding and training centers in the world. Over 35,000 thoroughbreds are being raised on numerous farms among 70,000 acres of land. Many successes in the equestrian world have been achieved by the Ocala farms, breeding forty-seven National Champions and six Kentucky Derby Winners, as well as receiving six Horses of the Year Awards, among many other achievements. In all, the total economic impact of the thoroughbred industry in Ocala is estimated at $2.62 billion.

Entities such as Intellon and the Florida Institute for Human & Machine Cognition are incubating a small technology corridor in Ocala, in the heart of the greater Florida High Tech Corridor. The Ocala community offers investment and support for technology businesses and aggressively promotes job creation with grants, refunds, and abatements to aid companies in their site- and community-selection process. Other changes in the market include the construction of the Marion County Justice Center, which opened in January of 2010, and the expansion at Rasmussen College, with the construction of a $9.2-million, 23,000-square-foot building that opened in March of 2011. Snider Fleet Solutions, a manufacturing company for the transportation industry, announced its relocation to Ocala in 2014. In addition, in January of 2015, Coates Golf announced plans to build a manufacturing plant in Ocala that would produce high-quality golf clubs designed for women. Lastly, the Ocala International Airport, operated by the City of Ocala, is highly utilized by corporate and private jets coming to the area for the thoroughbred auctions. The FAA-regulated control tower opened in 2010, and the Florida Department of Transportation estimates the total annual economic impact from the airport to be $88,646,200 as of 2014. Flight training represents a large component of airport activity at OCF, accounting for roughly 30% of the airport's annual operations.

Airport Traffic

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

Orlando International Airport (MCO) is located approximately six miles southeast of Downtown Orlando. Many major airlines service MCO, and the modern terminal facility offers a convenient passenger transportation system linking the concourse gates to the multilevel terminal. Orlando International Airport offers a variety of retail outlets and services, including numerous restaurants and bars. In 2009, the airport was awarded approximately $26 million in grants through the American Recovery and Reinvestment Act of 2009 (ARRA). According to airport officials, ARRA funding has allowed for taxiway improvements and a variety of other infrastructure improvements. In 2015, construction commenced on a $1.1-billion expansion and modernization project at the airport. Initial changes will include the expansion of the automated people mover, a $215-million intermodal transportation hub, upgraded ticket lobbies, and a $114-million expansion and refurbishment of Airside 4. Construction on the initial improvements is scheduled for completion by 2018. Future plans call for the addition of up to 120 domestic and international gates at the South Terminal, a 1,000-room hotel, and over 750,000 square feet of additional retail space.

The following table illustrates recent operating statistics for the Orlando International Airport, which is the primary airport facility serving the subject property's submarket.

FIGURE 4-6 AIRPORT STATISTICS - ORLANDO INTERNATIONAL AIRPORT

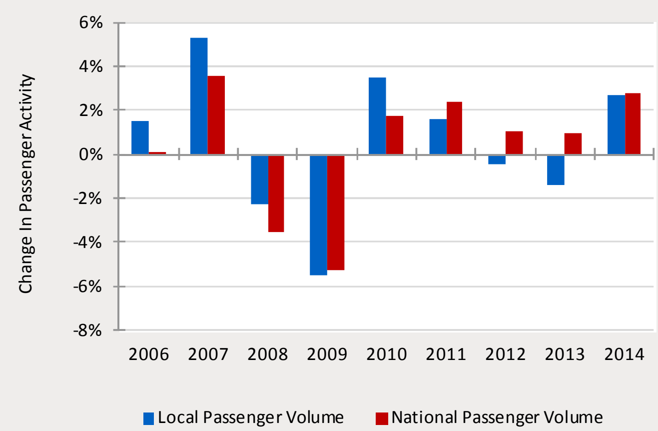
Year	Passenger Traffic	Percent Change*	Percent Change**
2005	34,128,048	—	—
2006	34,640,451	1.5 %	1.5 %
2007	36,480,416	5.3	3.4
2008	35,661,269	(2.2)	1.5
2009	33,693,649	(5.5)	(0.3)
2010	34,877,899	3.5	0.4
2011	35,426,006	1.6	0.6
2012	35,273,036	(0.4)	0.5
2013	34,768,945	(1.4)	0.2
2014	35,714,786	2.7	0.5
Year-to-date, Apr			
2014	12,072,546	—	—
2015	13,017,168	7.8 %	—

*Annual average compounded percentage change from the previous year

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

Source: Orlando International Airport

FIGURE 4-7 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND



Source: HVS, Local Airport Authority

This facility recorded 35,714,786 passengers in 2014. The change in passenger traffic between 2013 and 2014 was 2.7%. The average annual change during the period shown was 0.5%. The recent uptick in passenger traffic can be attributed in large part to increased service by major air carriers in response to stronger economic conditions and a rise in demand. As one of the most visited cities in the world, Orlando boasts an ever-expanding route network. For the month of February 2015, over 20 additional flights across six national and international airlines were added to the airport. This trend is expected to continue throughout 2015 as more favorable economic conditions boost travel to the Orlando market.

The following table illustrates recent operating statistics for the Tampa International Airport, which is the secondary airport facility serving the subject property's submarket.

FIGURE 4-8 AIRPORT STATISTICS – TAMPA INTERNATIONAL AIRPORT

Year	Passenger Traffic	Percent Change*	Percent Change**
2005	19,045,390	—	—
2006	18,867,541	(0.9) %	(0.9) %
2007	19,154,957	1.5	0.3
2008	18,262,934	(4.7)	(1.4)
2009	16,965,545	(7.1)	(2.8)
2010	16,645,765	(1.9)	(2.7)
2011	16,670,315	0.1	(2.2)
2012	16,820,859	0.9	(1.8)
2013	16,920,093	0.6	(1.5)
2014	17,552,707	3.7	(0.9)
Year-to-date, Mar			
2014	4,534,930	—	—
2015	4,866,232	7.3 %	—

*Annual average compounded percentage change from the previous year

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

Source: Tampa International Airport

Tampa International Airport (TPA) is served by major commercial airlines, which provide nonstop daily and connecting service to national and international destinations. Tampa International Airport is an award-winning facility due to its unique architectural design and travel-friendly functionality. In 2013, TPA completed a $27.6-million renovation to Airside F in order to improve the flow of passengers through security and customs and to expand the airport's ability to handle baggage. A $2.5-billion master plan was approved in April of 2013 for the airport. The first phase of this plan, which will include the construction of a consolidated rental car facility and a people mover to transport passengers to the new facility, should be completed by 2017. Additional changes will include the expansion of the current terminals to accommodate an increased number of international travelers; the development of additional commercial, retail, restaurant, and hotel space; and the construction of a new tower. This facility registered 17,552,707 passengers in 2014. The change in passenger traffic between 2013 and 2014 was 3.7%. The increase in passenger traffic can be attributed in large part to improving economic conditions on both micro and macro scales; consumers have increased spending related to travel, while airlines have recovered from the significant decline in demand experienced from 2008 through 2010.

Tourist Attractions

As noted, the area's location near the Ocala National Forest and a variety of lakes, rivers, and freshwater springs make this area popular for tourism. Tourism in this area generally peaks between January and August. During other times of the year, weekend demand comprises travelers passing through en route to other destinations, people visiting friends or relatives, and other similar weekend demand generators. Primary attractions in the area include the following:

- Silver Springs is a 350-acre nature theme park that offers a variety of rides and attractions at one of the largest artesian springs in the world. The park's most famous attraction is its glass-bottom boat tours, which allow visitors a view of the Silver River's rich underwater life, including snails, alligators, fish, shrimp, and turtles.
- The Appleton Museum of Art of Central Florida Community College features art and antiquities from Africa, Europe, and Asia, as well as the Pre-Columbian era. The museum also features revolving guest exhibits, the current of which is "Everglades: America's Wetland," a collection of photographs taken by a biologist for the National Audubon Society; this exhibit will run until July 2015.
- Ocala National Forest covers 383,000 acres and offers visitors miles of hiking trails and biking trails, as well as a multitude of boating and fishing opportunities. The forest, which was established in 1908, is the oldest national forest east of the Mississippi.
- The Ocala area, known as the "Horse Capital of the World," features approximately 600 horse farms. Visitors can tour many of these facilities, such as the Ocala Equestrian Complex, and experience the world of equestrian breeding and competition first-hand. Visitors may also tour the Florida Horse Park, which hosts world-class equestrian events year-round.

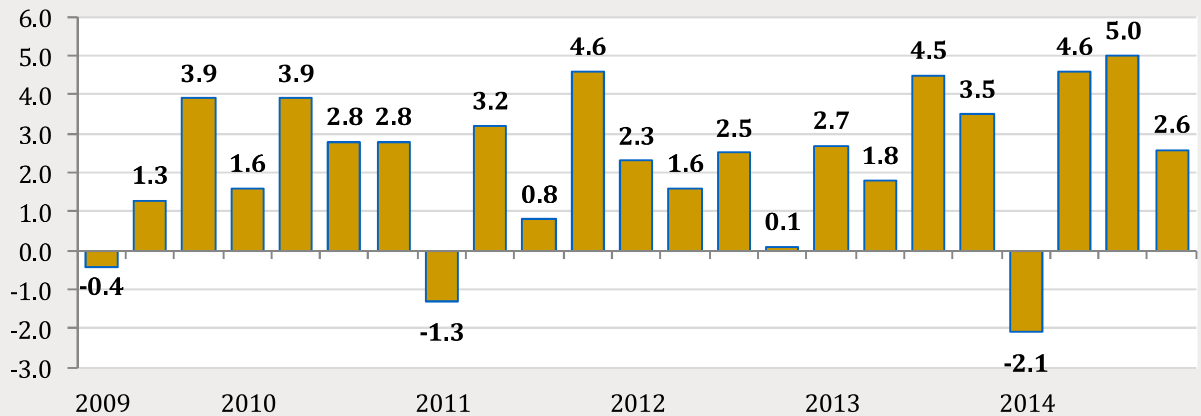
SILVER SPRINGS STATE PARK

Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. Ocala is experiencing a period of economic strength and expansion, primarily led by the healthcare sector and the thoroughbred industry, which provide a stable economic base to the region. The outlook for the area is positive, as county officials anticipate steady growth over the next five years.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy has entered a new phase of sustained economic expansion. The economy has grown at positive, albeit fluctuating, rates for the past three years, with the exception of the first quarter of 2014, largely attributed to the severe winter weather that hampered normal business activity throughout much of the country. A rebound in the second and third quarters registered robust 4.6% and 5.0% growth rates, respectively. Growth in the fourth quarter of 2014, which moderated to 2.6%, was driven by advances in personal consumption expenditures (PCE), private inventory investment, exports, nonresidential fixed investment, state and local government spending, and residential fixed investment.

FIGURE 4-9 UNITED STATES GDP GROWTH RATE



Source: tradingeconomics.com, Bureau of Economic Analysis

The performance of the economic drivers of lodging demand was positive in the fourth quarter of 2014, with real personal consumption expenditures increasing 4.3%, durable goods increasing 7.4%, and services increasing 3.7%. The Conference Board Global Economic Outlook expects U.S. GDP growth to moderate to an annual rate of 2.6% in 2015 due to headwinds generated by the strong U.S. dollar and global economic weakness, while the Economist Intelligence Unit projects a stronger growth rate of 3.4%, driven by lower energy prices and strong employment gains. U.S. economic growth is anticipated to support continued expansion of lodging demand, which in turn is generating strong interest in hotel investments by a diverse array of market participants.

5. Supply and Demand Analysis

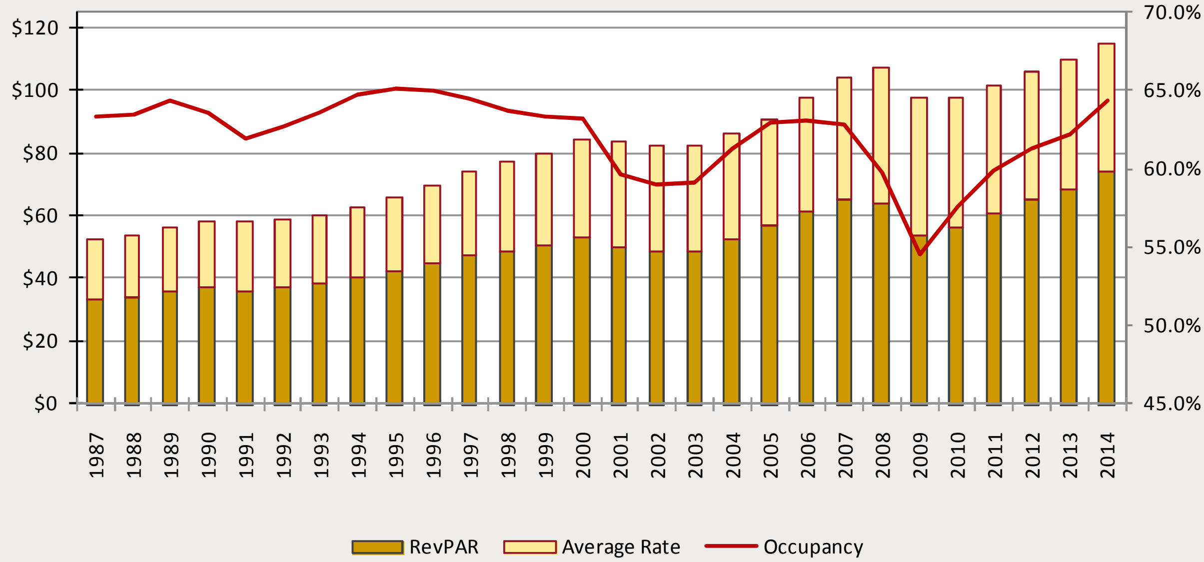
In the lodging industry, supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand toward equilibrium results in a prevailing price, or average rate. The purpose of this section is to investigate current supply and demand trends as indicated by the current competitive market, resulting in a forecast of market-wide occupancy.

National Trends Overview

The subject property and local lodging market are 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 subject property's competitive set.

Smith Travel Research (STR) is an independent research firm that compiles data on the lodging industry, and this information is routinely used by typical hotel buyers. The STR diagram presents annual hotel occupancy and average rate 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 5-1 NATIONAL OCCUPANCY, AVERAGE RATE, AND REVPAR TRENDS



Source: STR

FIGURE 5-2 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – YEAR-TO-DATE DATA

	Occupancy - Thru March			Average Rate - Thru March			RevPAR - Thru March		
	2014	2015	% Change	2014	2015	% Change	2014	2015	% Change
United States	59.3 %	61.1 %	3.1 %	$111.83	$117.05	4.7 %	$66.27	$71.53	7.9 %
Region									
New England	51.0 %	53.5 %	4.9 %	$118.05	$123.63	4.7 %	$60.23	$66.17	9.9 %
Middle Atlantic	56.3	56.9	1.1	141.09	139.68	(1.0)	79.41	79.46	0.1
South Atlantic	62.9	65.4	4.1	115.36	122.20	5.9	72.55	79.98	10.2
East North Central	50.9	52.0	2.1	89.16	93.75	5.1	45.42	48.76	7.3
East South Central	54.0	55.3	2.4	81.78	85.74	4.8	44.18	47.44	7.4
West North Central	50.0	51.4	2.9	84.54	87.45	3.4	42.25	44.95	6.4
West South Central	62.5	63.6	1.6	96.72	100.00	3.4	60.48	63.55	5.1
Mountain	60.8	63.1	3.9	112.67	119.03	5.6	68.45	75.10	9.7
Pacific	66.3	69.0	4.1	135.51	143.65	6.0	89.84	99.16	10.4
Class									
Luxury	66.4 %	68.2 %	2.8 %	$272.16	$283.84	4.3 %	$180.64	$193.64	7.2 %
Upper Upscale	68.4	69.5	1.6	163.86	171.25	4.5	112.05	119.02	6.2
Upscale	67.2	68.8	2.3	124.46	130.88	5.2	83.69	90.07	7.6
Upper Midscale	59.5	61.5	3.3	100.75	105.39	4.6	59.95	64.78	8.1
Midscale	52.6	54.6	3.7	82.08	85.94	4.7	43.17	46.88	8.6
Economy	52.2	54.3	4.0	58.45	61.84	5.8	30.53	33.58	10.0
Location									
Urban	66.5 %	68.2 %	2.6 %	$151.25	$156.48	3.5 %	$100.53	$106.74	6.2 %
Suburban	60.6	62.7	3.5	93.94	99.09	5.5	56.95	62.15	9.1
Airport	70.6	72.1	2.1	101.63	108.62	6.9	71.72	78.26	9.1
Interstate	49.5	51.1	3.2	74.27	77.04	3.7	36.75	39.35	7.1
Resort	65.4	67.5	3.3	170.07	179.57	5.6	111.22	121.27	9.0
Small Metro/Town	48.2	49.8	3.4	84.61	87.47	3.4	40.74	43.54	6.9
Chain Scale									
Luxury	73.5 %	73.6 %	0.2 %	$305.50	$321.93	5.4 %	$224.52	$236.98	5.5 %
Upper Upscale	70.4	71.3	1.3	164.49	172.23	4.7	115.79	122.78	6.0
Upscale	69.8	70.9	1.7	123.93	130.43	5.2	86.46	92.50	7.0
Upper Midscale	59.9	62.0	3.6	99.33	103.97	4.7	59.46	64.50	8.5
Midscale	52.2	54.2	3.9	76.11	79.68	4.7	39.72	43.21	8.8
Economy	52.1	54.0	3.5	52.26	55.15	5.5	27.25	29.76	9.2
Independents	55.2	57.5	4.0	109.54	114.70	4.7	60.49	65.90	8.9

Source: STR - March 2015 Lodging Review

HVS

FIGURE 5-3 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – CALENDAR YEAR DATA

	Occupancy			Average Rate			RevPAR		
	2013	2014	% Change	2013	2014	% Change	2013	2014	% Change
United States	62.2 %	64.4 %	3.6 %	$110.30	$115.32	4.6 %	$68.58	$74.28	8.3 %
Region									
New England	62.4 %	63.7 %	2.1 %	$131.85	$138.68	5.2 %	$82.22	$88.32	7.4 %
Middle Atlantic	65.9	66.9	1.6	155.90	160.45	2.9	102.73	107.40	4.5
South Atlantic	61.9	64.8	4.8	106.63	111.20	4.3	65.96	72.09	9.3
East North Central	59.0	60.6	2.7	95.64	99.65	4.2	56.47	60.40	7.0
East South Central	56.8	59.1	4.1	82.00	86.35	5.3	46.54	51.01	9.6
West North Central	57.7	59.6	3.3	86.52	90.13	4.2	49.97	53.76	7.6
West South Central	61.4	63.7	3.8	93.06	96.44	3.6	57.10	61.42	7.6
Mountain	60.2	63.2	4.9	98.97	104.47	5.6	59.62	65.99	10.7
Pacific	69.4	71.5	3.0	133.75	142.44	6.5	92.83	101.85	9.7
Price									
Luxury	68.6 %	70.0 %	2.2 %	$256.22	$269.13	5.0 %	$175.64	$188.47	7.3 %
Upper upscale	70.1	71.8	2.4	159.84	167.25	4.6	112.12	120.16	7.2
Upscale	69.4	71.8	3.4	123.14	129.07	4.8	85.48	92.64	8.4
Upper midscale	63.2	65.8	4.0	101.44	105.77	4.3	64.15	69.55	8.4
Midscale	56.8	59.0	3.9	83.13	86.37	3.9	47.19	50.93	7.9
Econony	55.2	57.4	4.0	60.02	63.02	5.0	33.11	36.17	9.2
Location									
Urban	70.5 %	72.3 %	2.7 %	$160.81	$167.99	4.5 %	$113.31	$121.53	7.3 %
Suburban	62.8	65.4	4.1	92.60	97.16	4.9	58.15	63.50	9.2
Airport	69.7	72.4	3.9	97.37	102.80	5.6	67.87	74.43	9.7
Interstate	54.7	56.8	3.8	76.23	78.85	3.4	41.70	44.75	7.3
Resort	64.0	66.2	3.6	150.30	158.15	5.2	96.13	104.75	9.0
Small Metro/Town	54.7	56.5	3.3	89.45	92.66	3.6	48.91	52.34	7.0
Chain Scale									
Luxury	74.6 %	75.2 %	0.9 %	$290.61	$306.83	5.6 %	$216.71	$230.84	6.5 %
Upper Upscale	71.9	73.6	2.3	160.98	169.09	5.0	115.82	124.47	7.5
Upscale	71.6	73.9	3.3	121.74	127.80	5.0	87.14	94.48	8.4
Mid-scale w/ F&B	63.8	66.4	4.0	100.37	104.45	4.1	64.05	69.34	8.2
Mid-scale w/o F&B	55.9	58.3	4.3	76.64	79.63	3.9	42.82	46.39	8.3
Economy	55.2	57.3	3.8	53.83	56.37	4.7	29.73	32.33	8.7
Independents	58.5	60.7	3.7	109.02	113.84	4.4	63.82	69.12	8.3

Source: STR - December 2014 Lodging Review

Following the significant occupancy and 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. The pace of demand growth accelerated through the year; in 2010, lodging demand in the U.S. increased by 7.3% over that registered in 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. Average rate decreased by only 0.1% in 2010 when compared to 2009.

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. Average rate rebounded by respective rates of 3.8% and 4.2% in 2011 and 2012, followed by increases of 4.0% and 4.6%, respectively, in 2013 and 2014. In 2012, occupancy reached 61.3% (exceeding the ten-year average); moreover, occupancy gained another point in 2013, ending the year at 62.2%. The nation's occupancy in 2014 registered an additional gain of just over two points, finishing the year at 64.4% and approaching a level not experienced since the mid-1990s. Average rate finished the year just over $110 in 2013, with a 4.6% gain registered in 2014; as a result, average rate ended 2014 at $115.32. As shown, demand and average rates continue to strengthen. These trends, combined with the low levels of supply growth anticipated through the end of this year, should boost occupancy beyond its prior mid-1990's peak in 2015. We forecast U.S. hotel occupancy to reach 65.5% and 66.0% in 2015 and 2016, respectively. On a national average, strengthening occupancy levels should also permit hotels to increase room rates by 5.5% in both 2015 and 2016, above the 4.6% achieved in 2014.

Definition of Subject Hotel Market

The 96-room Fairfield Inn & Suites by Marriott Ocala is located in Ocala, Florida. The subject property's city offers 44 hotels and motels, spanning 3,543 rooms. The two largest hotels are the 256-room Amadeus Hotel and Conference Center and the 196-room Hilton.

Of this larger supply set, the subject property competes with a smaller set of hotels based on various factors. These factors may include location, price point, product quality, length of stay (such as an extended-stay focus vs. non-extended-stay focus), room type (all-suite vs. standard), hotel age, or brand, among other factors. We have reviewed these pertinent attributes and established a competitive set based upon this review.

Historical Supply and Demand Data

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

FIGURE 5-4 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2003	410	149,650	—	104,564	—	69.9 %	$67.26	—	$47.00	—
2004	410	149,650	0.0 %	116,856	11.8 %	78.1	70.55	4.9 %	55.09	17.2 %
2005	410	149,650	0.0	117,958	0.9	78.8	79.00	12.0	62.27	13.0
2006	410	149,650	0.0	115,330	(2.2)	77.1	86.86	9.9	66.94	7.5
2007	410	149,650	0.0	99,456	(13.8)	66.5	87.35	0.6	58.05	(13.3)
2008	410	149,650	0.0	86,005	(13.5)	57.5	78.03	(10.7)	44.85	(22.7)
2009	410	149,650	0.0	84,593	(1.6)	56.5	67.81	(13.1)	38.33	(14.5)
2010	410	149,650	0.0	83,694	(1.1)	55.9	70.21	3.5	39.27	2.4
2011	410	149,558	(0.1)	82,984	(0.8)	55.5	71.49	1.8	39.67	1.0
2012	418	152,416	1.9	83,888	1.1	55.0	74.86	4.7	41.20	3.9
2013	510	186,150	22.1	107,610	28.3	57.8	88.49	18.2	51.15	24.2
2014	509	185,966	(0.1)	113,037	5.0	60.8	93.14	5.3	56.61	10.7
Average Annual Compounded Change:										
2003-2014			2.0 %		0.7 %			3.0 %		1.7 %
Year-to-Date Through March										
2014	510	45,900	—	34,484	—	75.1 %	$98.94	—	$74.33	—
2015	509	45,810	(0.2) %	37,346	8.3 %	81.5	108.12	9.3 %	88.14	18.6 %

Hotels Included in Sample	Competitive Status	Number of Rooms	Year Affiliated	Year Opened
Hampton Inn & Suites Ocala	*Primary*	101	Dec 2012	Dec 2012
Country Inn & Suites Ocala	*Primary*	59	May 2002	May 2002
Fairfield Inn & Suites Ocala	***Subject Property***	**96**	**Dec 1998**	**Dec 1998**
La Quinta Inns & Suites Ocala	*Primary*	117	Jun 1998	Jun 1998
Best Western Ocala Park Centre	*Primary*	136	Jan 1999	Dec 1989
	Total	**509**		

Source: STR Global

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample, and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information by skewing the results. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel in the previous table.

The STR data for the competitive set reflect a market-wide occupancy level of 60.8% in 2014, which compares to 57.8% for 2013. The overall average occupancy level for the calendar years presented equates to 57.1%. The equestrian industry, local employers, and healthcare facilities represent the primary sources of demand for the selected set of competitive hotels in this Ocala market. Demand in this market decreased from 2006 through 2008 given the openings of several new upscale hotels in the greater market, pulling demand from this competitive set. Demand and occupancy further declined in 2009 because of the economic downturn. Demand continued to decline slightly through 2012, finally rebounding in 2013. Occupancy began to increase in January of 2013, following the December 2012 opening of the Hampton Inn & Suites, which helped to increase demand among this competitive set of hotels. Early indications for 2015 point to a continuation of this trend.

The STR data for the competitive set reflect a market-wide average rate level of $93.14 in 2014, which compares to $88.49 for 2013. Average rate in the local market registered growth from 2004 through 2007. The strength of the economy during that time, with little rate-resistance from corporate accounts and leisure travelers, allowed hotel operators to increase rates. Average rate in the local market declined in 2008 and 2009, largely attributed to the Great Recession. This downward trend continued through early 2010; however, average rates bottomed out in the mid-$60s that year. Average rates rebounded in the second half of 2010, and this overall positive trend continued through 2014 as the national and local lodging markets began to normalize along with stronger economic conditions. The opening of the Hampton Inn & Suites caused a significant increase in rates in 2013, as the hotel opened with much higher rates, which in turn allowed other local hotel operators to increase their rates. Year-to-date 2015 data show a continuation of this trend. These occupancy and average rate trends resulted in a RevPAR level of $56.61 in 2014.

Seasonality

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

FIGURE 5-5 MONTHLY OCCUPANCY TRENDS

Month	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	68.8 %	77.6 %	83.0 %	83.8 %	74.1 %	61.8 %	61.6 %	62.0 %	60.4 %	60.9 %	63.1 %	62.0 %	73.6 %
February	90.5	91.6	96.2	91.5	92.0	74.6	75.8	75.3	79.3	79.2	78.7	81.6	85.1
March	85.1	91.0	91.9	91.0	87.4	68.9	69.7	70.3	80.9	80.4	79.1	82.4	86.2
April	70.6	79.7	83.5	82.3	73.0	55.4	57.8	63.1	64.2	57.0	62.9	60.8	—
May	61.6	67.2	70.8	75.8	64.1	47.5	49.0	47.6	47.6	44.9	48.7	50.0	—
June	65.4	72.0	79.3	82.9	70.0	54.4	52.1	55.5	57.8	52.6	53.8	55.7	—
July	69.0	73.6	76.9	80.0	60.2	54.6	51.8	56.1	48.4	49.5	49.8	51.0	—
August	63.0	64.6	65.6	66.0	50.7	51.2	41.2	42.9	39.2	40.7	48.6	54.0	—
September	53.0	83.6	61.4	63.4	51.2	48.7	46.6	41.1	41.3	40.7	40.2	47.3	—
October	71.1	82.1	80.7	71.9	60.9	64.9	53.7	50.9	48.4	53.6	56.1	66.7	—
November	71.8	80.9	82.3	72.4	62.9	54.7	61.4	56.1	51.2	57.4	58.5	60.1	—
December	69.8	74.5	75.5	65.1	53.2	54.1	59.3	51.8	49.0	47.3	55.7	59.0	—
Annual Occupancy	**69.9 %**	**78.1 %**	**78.8 %**	**77.1 %**	**66.5 %**	**57.5 %**	**56.5 %**	**55.9 %**	**55.5 %**	**55.0 %**	**57.8 %**	**60.8 %**	**—**
Year-to-Date	**81.2 %**	**86.6 %**	**90.2 %**	**88.7 %**	**84.3 %**	**68.3 %**	**68.8 %**	**69.0 %**	**73.3 %**	**73.3 %**	**73.5 %**	**75.1 %**	**81.5 %**

Source: STR Global

FIGURE 5-6 MONTHLY AVERAGE RATE TRENDS

Month	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	$69.62	$69.72	$76.80	$87.65	$88.98	$86.58	$71.35	$66.28	$70.22	$70.89	$86.93	$91.81	$101.52
February	76.52	74.97	85.21	97.73	98.82	94.13	78.47	74.79	74.32	77.43	94.89	99.60	110.77
March	75.66	77.67	89.67	97.18	99.07	96.67	76.24	74.89	75.05	80.43	96.59	103.72	111.39
April	69.05	71.59	82.79	89.44	92.07	84.96	68.74	70.19	71.87	74.59	91.46	97.12	—
May	65.53	66.35	75.50	82.32	84.43	78.78	66.64	67.42	66.93	75.35	86.92	91.03	—
June	63.43	66.41	75.67	79.89	84.56	72.81	62.86	67.79	67.98	72.83	85.71	90.30	—
July	63.01	66.58	76.46	82.87	82.12	69.78	63.47	67.37	68.63	71.40	83.74	85.39	—
August	64.06	67.79	72.88	82.12	80.34	67.36	62.37	68.20	71.26	71.60	84.15	85.77	—
September	64.81	72.13	75.70	85.53	82.65	70.13	64.34	70.69	73.63	71.34	85.92	88.86	—
October	63.08	70.85	76.79	84.68	78.92	69.56	63.15	72.05	71.55	75.47	86.08	94.84	—
November	64.10	69.87	78.23	85.02	84.25	68.98	66.46	72.66	74.04	74.62	88.49	92.26	—
December	63.46	69.34	77.59	83.74	78.82	66.33	61.95	67.72	69.65	77.03	83.56	87.79	—
Annual Average Rate	**$67.26**	**$70.55**	**$79.00**	**$86.86**	**$87.35**	**$78.03**	**$67.81**	**$70.21**	**$71.49**	**$74.86**	**$88.49**	**$93.14**	**—**
Year-to-Date	**$74.19**	**$74.33**	**$84.11**	**$94.25**	**$95.93**	**$92.66**	**$75.49**	**$72.19**	**$73.44**	**$76.69**	**$93.17**	**$98.94**	**$108.12**

Source: STR Global

The illustrated monthly occupancy and average rates patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate. Market-wide occupancy spikes to the mid-80s in February and March because of the numerous horse shows and auctions. Average rate is also at the highest during these months, as the increase in demand from these events allows hoteliers to drive rates.

Patterns of Demand

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

FIGURE 5-7 OCCUPANCY, AVERAGE RATE AND REVPAR BY DAY OF WEEK

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Jun 12 - May 13	42.7 %	48.0 %	51.1 %	54.9 %	60.4 %	71.8 %	68.6 %	56.8 %
Jun 13 - May 14	44.2	49.4	53.8	55.2	60.2	74.3	69.8	58.2
Jun 14 - May 15	48.2	54.9	60.4	63.0	66.4	77.5	76.7	63.8
Change (Occupancy Points)								
FY 13 - FY 14	1.5	1.3	2.7	0.3	(0.2)	2.5	1.2	1.3
FY 14 - FY 15	4.0	5.5	6.6	7.8	6.2	3.2	6.9	5.6

ADR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Jun 12 - May 13	$80.02	$80.83	$81.84	$82.60	$82.87	$86.85	$86.28	$83.46
Jun 13 - May 14	86.91	89.13	90.61	90.54	90.04	94.32	93.62	91.14
Jun 14 - May 15	91.37	93.19	94.42	95.16	95.00	100.80	102.40	96.58
Change (Dollars)								
FY 13 - FY 14	$6.90	$8.31	$8.77	$7.94	$7.17	$7.47	$7.34	$7.67
FY 14 - FY 15	4.46	4.06	3.81	4.63	4.96	6.48	8.78	5.44
Change (Percent)								
FY 13 - FY 14	8.6 %	10.3 %	10.7 %	9.6 %	8.7 %	8.6 %	8.5 %	9.2 %
FY 14 - FY 15	5.1	4.6	4.2	5.1	5.5	6.9	9.4	6.0

RevPAR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Jun 12 - May 13	$34.19	$38.81	$41.78	$45.32	$50.05	$62.37	$59.15	$47.42
Jun 13 - May 14	38.42	43.99	48.74	49.97	54.22	70.11	65.34	53.00
Jun 14 - May 15	44.02	51.13	57.00	59.98	63.07	78.11	78.55	61.58
Change (Dollars)								
FY 13 - FY 14	$4.24	$5.19	$6.95	$4.65	$4.16	$7.74	$6.20	$5.59
FY 14 - FY 15	5.60	7.13	8.26	10.01	8.85	8.00	13.20	8.58
Change (Percent)								
FY 13 - FY 14	12.4 %	13.4 %	16.6 %	10.3 %	8.3 %	12.4 %	10.5 %	11.8 %
FY 14 - FY 15	14.6	16.2	17.0	20.0	16.3	11.4	20.2	16.2

Source: STR Global

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights.

SUPPLY

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

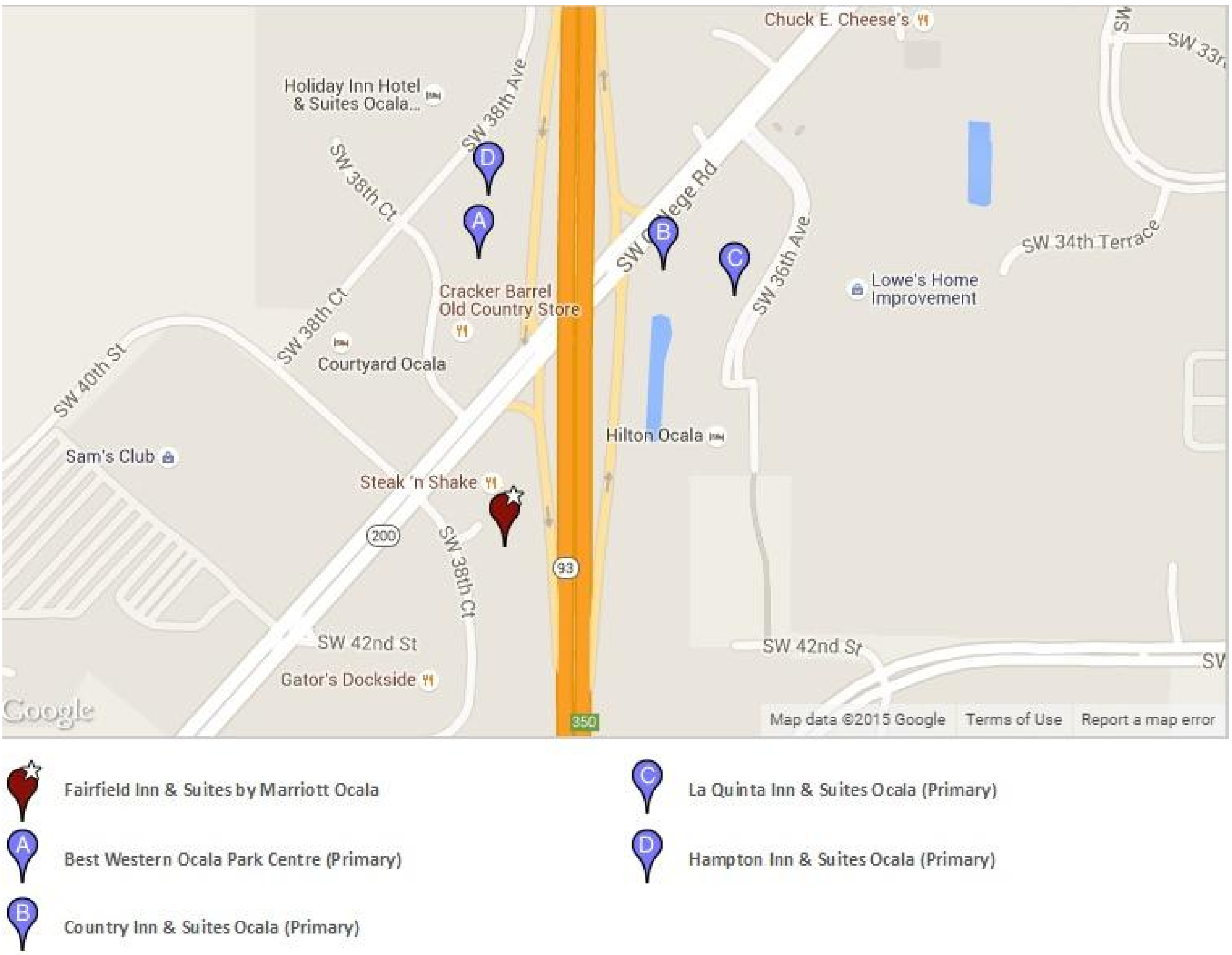
The following table summarizes the important operating characteristics of the primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table also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

FIGURE 5-8 PRIMARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2012				Estimated 2013				Estimated 2014					
Property	Number of Rooms	Commercial	Leisure	Group	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Fairfield Inn & Suites by Marriott Ocala	96	45 %	40 %	15 %	96	57.4 %	$76.82	$44.08	96	54.4 %	$86.77	$47.23	96	58.6 %	$89.60	$52.54	96.4 %	92.6 %
Best Western Ocala Park Centre	136	45	45	10	136	45	71.00	31.95	136	44	75.00	33.00	136	48	79.00	37.92	78.9	66.9
Country Inn & Suites by Carlson Ocala	59	40	50	10	59	65	74.00	48.10	59	64	80.00	51.20	59	65	83.00	53.95	106.9	95.1
La Quinta Inn & Suites Ocala	117	45	45	10	117	61	75.00	45.75	117	62	81.00	50.22	117	64	84.00	53.76	105.2	94.8
Hampton Inn & Suites Ocala	101	45	40	15	9	40	107.00	42.80	101	71	113.00	80.23	101	74	123.00	91.02	121.7	160.5
Totals/Averages	**509**	**44 %**	**44 %**	**12 %**	**417**	**55.1 %**	**$74.68**	**$41.13**	**509**	**57.8 %**	**$88.48**	**$51.12**	**509**	**60.8 %**	**$93.26**	**$56.71**	**100.0 %**	**100.0 %**

The following map illustrates the locations of the subject property and its competitors.

MAP OF COMPETITION



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

PRIMARY COMPETITOR #1 - BEST WESTERN OCALA PARK CENTRE

Best Western Ocala Park Centre
3701 Southwest 38th Avenue
Ocala, FL

FIGURE 5-9 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	136	42 %	$71	$30	75.3 %	76.2 %
Estimated 2011	136	42	71	30	75.6	75.0
Estimated 2012	136	45	71	32	81.7	77.7
Estimated 2013	136	44	75	33	76.2	64.5
Estimated 2014	136	48	79	38	78.9	66.9

The Best Western Ocala Park Centre is owned and operated by DSM Property Management LLC. Facilities and amenities include a breakfast dining area (a complimentary breakfast is served), an outdoor pool and whirlpool, a fitness room, a business center, and a guest laundry room. The hotel, which was opened in 1989, was renovated in 2007; upgrades included new lobby furniture and artwork, as well as a new front desk. The hotel's guestrooms are reportedly updated on an as-needed basis, with the latest upgrade consisting of a new bedding package and new desk chairs. This hotel benefits from its well-known brand name; however, it is disadvantaged by its location, as the hotel is neither visible from State Highway 200 nor from Interstate 75. Overall, the property appeared to be in good condition, inferior to the subject property's condition. Its accessibility is similar to that of the subject hotel, and its visibility is inferior to the Fairfield Inn & Suites by Marriott Ocala.

PRIMARY COMPETITOR #2 - COUNTRY INN & SUITES BY CARLSON OCALA

Country Inn & Suites by Carlson Ocala
3720 Southwest College Road
Ocala, FL

FIGURE 5-10 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	59	62 %	$74	$46	111.2 %	117.2 %
Estimated 2011	59	62	75	47	111.6	117.0
Estimated 2012	59	65	74	48	118.0	116.9
Estimated 2013	59	64	80	51	110.8	100.2
Estimated 2014	59	65	83	54	106.9	95.1

The Country Inn & Suites by Carlson Ocala is owned and operated by Kunal Hotels LLC. Facilities and amenities include a breakfast dining area (a complimentary breakfast is served), an indoor pool and whirlpool, a fitness room, a lobby workstation, a guest laundry facility, and approximately 250 square feet of meeting space. The hotel, which opened in 2002, was renovated in 2010; upgrades included new furniture in the public spaces and new softgoods in the guestrooms. In addition, the exterior of the building was repainted in 2014. This hotel benefits from its location along the highway and its well-maintained facility. Overall, the property appeared to be in good condition, inferior to the subject property's condition. Its accessibility is superior to that of the subject hotel, and its visibility is superior to the Fairfield Inn & Suites by Marriott Ocala.

PRIMARY COMPETITOR #3 - LA QUINTA INN & SUITES OCALA

La Quinta Inn & Suites Ocala
3530 Southwest 36th Avenue
Ocala, FL

FIGURE 5-11 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	117	69 %	$67	$46	123.7 %	118.1 %
Estimated 2011	117	69	70	48	124.2	121.6
Estimated 2012	117	61	75	46	110.8	111.2
Estimated 2013	117	62	81	50	107.3	98.2
Estimated 2014	117	64	84	54	105.2	94.8

The La Quinta Inn & Suites Ocala is corporately owned and operated. Facilities and amenities include a breakfast dining area (a complimentary continental breakfast is served), an outdoor pool and whirlpool, a fitness room, a guest laundry facility, and approximately 400 square feet of meeting space. The hotel, which opened in 1998, was completely renovated in 2013/14; upgrades include all new furniture, artwork, and carpet in the public spaces, as well as all new softgoods, select case goods, carpet, and artwork in the guestrooms. This hotel benefits from its recently renovated facility. Overall, the property appeared to be in excellent condition, superior to the subject property's condition. Its accessibility is superior to that of the subject hotel, and its visibility is superior to the Fairfield Inn & Suites by Marriott Ocala.

PRIMARY COMPETITOR #4 - HAMPTON INN & SUITES OCALA

Hampton Inn & Suites Ocala
2075 Southwest Highway 484
Ocala, FL

FIGURE 5-12 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2012	9	40 %	$107	$43	72.6 %	104.1 %
Estimated 2013	101	71	113	80	122.9	156.9
Estimated 2014	101	74	123	91	121.7	160.5

The Hampton Inn & Suites Ocala is owned by JEGG LLC and is operated by Summit Management. Facilities and amenities include a breakfast dining area (a complimentary breakfast is served), an outdoor pool and whirlpool, a fitness room, a market pantry, a guest laundry room, a business center, and approximately 650 square feet of meeting space. The hotel has reportedly not undergone any major renovations since its opening in 2012. This hotel benefits from its strong brand affiliation and its status as the newest hotel in the market. Overall, the property appeared to be in very good condition, superior to the subject property's condition. Its accessibility is similar to that of the subject hotel, and its visibility is similar to the Fairfield Inn & Suites by Marriott Ocala.

Supply Changes

It is important to consider any new hotels that may have an impact on the subject property's operating performance. According to the local planning office, and our research and inspection (as applicable), no new hotels are expected within the subject property's competitive submarket at this time.

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

Supply Conclusion

We have identified various properties that are competitive to some degree with the subject property. We have also investigated potential increases in competitive supply in this Ocala submarket. The Fairfield Inn & Suites by Marriott Ocala will continue to operate in a dynamic market of varying product types and price points. Next, we will present our forecast for demand change, using the historical supply data presented as a starting point.

DEMAND

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

FIGURE 5-13 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2010	83,044	—	148,920	—	55.8 %	$70.19	—	$39.14	—
Est. 2011	82,729	(0.4) %	148,920	0.0 %	55.6	71.53	1.9 %	39.74	1.5 %
Est. 2012	83,746	1.2	152,051	2.1	55.1	74.68	4.4	41.13	3.5
Est. 2013	107,346	28.2	185,785	22.2	57.8	88.48	18.5	51.12	24.3
Est. 2014	112,984	5.3	185,785	0.0	60.8	93.26	5.4	56.71	10.9
Avg. Annual Compounded Chg., Est. 2010-Est. 2014:		8.0 %		5.7 %			7.4 %		9.7 %

HVS

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2014 distribution of accommodated-room-night demand as follows.

FIGURE 5-14 ACCOMMODATED ROOM-NIGHT DEMAND

	Marketwide		Subject Property	
Market Segment	Accommodated Demand	Percentage of Total	Accommodated Demand	Percentage of Total
Commercial	50,143	44 %	9,247	45 %
Leisure	49,151	44	8,219	40
Group	13,690	12	3,082	15
Total	**112,984**	**100 %**	**20,548**	**100 %**

The market's demand mix comprises commercial demand, with this segment representing roughly 44% of the accommodated room nights in this Ocala submarket. The remaining portion comprises leisure at 44%, with the final portion group in nature, reflecting 12%.

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

Commercial Segment

Commercial demand consists mainly of individual businesspeople passing through the subject market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as "preferred" accommodations in return for more favorable rates, which are discounted in proportion to the number of room nights produced by a commercial client. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

A major factor considered in the development of our growth rates is the presence of major manufacturing operations in the Ocala market. Companies including Lockheed Martin, Emerson Electric, and E-One have begun to increase room-night production with ramp-ups in training, research and development, and manufacturing. Additionally, businesses associated with the equestrian industry and the presence of the College of Central Florida should continue to provide stable sources of commercial demand. Furthermore, growth within this market segment is expected to continue as the manufacturing industry fully recovers. Considering both current and historical trends, we project demand change rates of 6.5% in 2015, 2.5% in 2016, and 1.0% in 2017.

Leisure Segment

Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites such as Expedia, Hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest Friday and Saturday nights, and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels.

Leisure demand is primarily generated by family's visiting relatives and SMERFE-related leisure business. Demand is also generated by Interstate 75, as all hotels in this market are situated just off this highway. Silver Springs Nature Amusement Park and Wild Waters Water Park, located approximately seven miles from the market, also draw leisure-related demand to area hotels. During the winter months, from January to March, the annual Horse Show In The Sun takes place. This is a major event of its kind that attracts more than 17,000 attendees, usually selling out hotels in the market. Furthermore, this market also experiences spikes in demand during hurricane impacts along Florida's coasts; however, because this demand is impossible to predict, our forecast does not include a component of weather-related demand. We anticipate leisure demand to strengthen in the coming years as the economy continues to strengthen. Considering both current and historical trends, we project demand change rates of 6.5% in 2015, 2.0% in 2016, and 1.0% in 2017.

Group Segment

In the limited-service sector, group demand is most commonly generated by groups that require ten or more room nights, but need little to no meeting space within the hotel. Examples of these groups include family reunions, sports teams, and bus tours. In some markets, limited-service hotels may also accommodate demand from groups or individuals attending events at the local convention center or at one of the larger convention hotels in the area.

Group demand in the area is primarily generated by State of Florida Government and state associations. The convenient location of Ocala within central Florida makes this area easily accessible from major cities such as Orlando, Tampa, Jacksonville, and Miami. Other group demand is generated by baseball teams, wedding groups, and family reunions. The Cal Ripken baseball league attracts several youth teams throughout the summer to play at the Ocala Rotary Complex. Group demand in the area is expected to improve in the near future; as the economy strengthens, state associations, SMERFE groups, and corporate businesses should increase meeting activity. Considering both current and historical trends, we project demand change rates of 4.5% in 2015, 1.5% in 2016, and 0.5% in 2017.

Conclusion

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

FIGURE 5-15 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

	Annual Growth Rate		
Market Segment	**2015**	**2016**	**2017**
Commercial	6.5 %	2.5 %	1.0 %
Leisure	6.5	2.0	1.0
Group	4.5	1.5	0.5
Base Demand Growth	**6.3 %**	**2.2 %**	**0.9 %**

Accommodated Demand and Market-wide Occupancy

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

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

FIGURE 5-16 ACCOMMODATED DEMAND

	2014	2015	2016	2017
Commercial				
Base Demand	50,143	53,402	54,737	55,285
Total Demand		53,402	54,737	55,285
Growth Rate		6.5 %	2.5 %	1.0 %
Leisure				
Base Demand	49,151	52,346	53,393	53,927
Total Demand		52,346	53,393	53,927
Growth Rate		6.5 %	2.0 %	1.0 %
Group				
Base Demand	13,690	14,306	14,520	14,593
Total Demand		14,306	14,520	14,593
Growth Rate		4.5 %	1.5 %	0.5 %
Totals				
Base Demand	112,984	120,054	122,651	123,805
Overall Demand Growth		6.3 %	2.2 %	0.9 %
Market Mix				
Commercial	44.4 %	44.5 %	44.6 %	44.7 %
Leisure	43.5	43.6	43.5	43.6
Group	12.1	11.9	11.8	11.8
Existing Hotel Supply	509	509	509	509
Available Rooms per Night	185,785	185,785	185,785	185,785
Nights per Year	365	365	365	365
Total Supply	509	509	509	509
Rooms Supply Growth	—	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	**60.8 %**	**64.6 %**	**66.0 %**	**66.6 %**

These room-night projections for the market area will be used in forecasting the subject property's occupancy and average rate in the following chapter.

6. Projection of Occupancy and Average Rate

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance and market value. Most of a lodging facility's other revenue sources (such as food, beverages, 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.

Historical Operating Performance

The following table sets forth the subject property's historical occupancy, average rate, and RevPAR results. For the purpose of comparison, we have presented corresponding data (as provided by Smith Travel Research) for the competitive hotels described in the previous section. In addition to the annual percent change calculations, we have determined the subject property's occupancy, average rate, and RevPAR penetration rates.

FIGURE 6-1 HISTORICAL TRENDS

	2010	2011	2012	2013	2014	Year-to-Date Through March 2014	Year-to-Date Through March 2015
Fairfield Inn & Suites by Marriott Ocala							
Occupancy	55.3 %	54.4 %	57.4 %	54.4 %	58.6 %	72.9 %	74.9 %
Change	—	(1.6) %	5.5 %	(5.2) %	7.7 %	—	2.7 %
Occupancy Penetration	98.9 %	98.0 %	104.3 %	94.1 %	96.5 %	97.1 %	91.8 %
Average Rate	$71.53	$72.04	$76.82	$86.77	$89.60	$96.60	$108.22
Change	—	0.7 %	6.6 %	13.0 %	3.3 %	—	12.0 %
Average Rate Penetration	101.9 %	100.8 %	102.6 %	98.1 %	96.2 %	97.6 %	100.1 %
RevPAR	$39.56	$39.19	$44.08	$47.23	$52.54	$70.44	$81.04
Change	—	(0.9) %	12.5 %	7.1 %	11.3 %	—	15.0 %
RevPAR Penetration	100.7 %	98.8 %	107.0 %	92.3 %	92.8 %	94.8 %	91.9 %

	2010	2011	2012	2013	2014	Year-to-Date Through March 2014	Year-to-Date Through March 2015
Ocala Submarket							
Occupancy	55.9 %	55.5 %	55.0 %	57.8 %	60.8 %	75.1 %	81.5 %
Change	(1.1) %	(0.8) %	(0.8) %	5.0 %	5.1 %	—	8.5 %
Average Rate	$70.21	$71.49	$74.86	$88.49	$93.14	$98.94	$108.12
Change	3.5 %	1.8 %	4.7 %	18.2 %	5.3 %	—	9.3 %
RevPAR	$39.27	$39.67	$41.20	$51.15	$56.61	$74.33	$88.14
Change	2.4 %	1.0 %	3.9 %	24.2 %	10.7 %	—	18.6 %

Source: STR Global

The Fairfield Inn & Suites by Marriott Ocala experienced a 4.2-point occupancy change in 2014, increasing from 54.4% in 2013 to 58.6% in 2014. Because of this change, occupancy penetration relative to the Smith Travel Research set of reporting hotels equaled 96.5% in 2014. The hotel's occupancy fluctuated in recent years, decreasing in 2011 because of the decline in market demand; the hotel's penetration rate also decreased as the hotel underwent property-wide renovations that year. In 2012, occupancy rose given an improvement in the overall economy; however, the entrance of the Hampton Inn & Suites in December of 2012 had a large impact on the subject property, causing occupancy to decrease in 2013. As the new supply was absorbed, occupancy increased in 2014. Recent data illustrate a continuation of this trend.

Average rate penetration for the Fairfield Inn & Suites by Marriott Ocala equated to 96.2% in 2014, contributing to the overall RevPAR penetration level of 92.8% in the same year. Average rate at the subject property has increased during the last few years, largely attributed to the renovations to the property in 2011, as well as the strength of the economy.

Penetration Rate Analysis

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

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competitors are set forth for each segment for the base year, 2014.

FIGURE 6-2 HISTORICAL PENETRATION RATES

Property	Commercial	Leisure	Group	Overall
Fairfield Inn & Suites by Marriott Ocala	98 %	89 %	119 %	96 %
Best Western Ocala Park Centre	80	82	65	79
Country Inn & Suites by Carlson Ocala	96	123	88	107
La Quinta Inn & Suites Ocala	107	109	87	105
Hampton Inn & Suites Ocala	123	112	151	122
Secondary Competition				

Because of its varying levels of penetration among the three market demand segments, the Fairfield Inn & Suites by Marriott Ocala achieved an overall penetration rate of 96% in 2014. Overall, the subject property's occupancy penetration level was ranked fourth among the illustrated averages. The subject property achieved its highest segment penetration rate in the commercial segment, at 98%, due to the hotel's popularity with mid-week corporate travelers.

Among all properties listed, the Hampton Inn & Suites Ocala achieved the highest penetration rate within the commercial segment. The highest penetration rate in the leisure segment was achieved by the Country Inn & Suites by Carlson Ocala, while the Hampton Inn & Suites Ocala led the market with the highest group penetration rate.

Forecast of Subject Property's Occupancy

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

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

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

Our interviews with market participants did not reveal any expected major market-segmentation shifts. The subject property is anticipated to maintain its current market mix, focusing on major corporate accounts and leisure users. Continued maintenance of the property is expected to help it maintain its competitive level and assist the hotel in achieving the occupancy forecast presented in this chapter. No new competitive supply is anticipated in this submarket, which should contribute to the area's overall stability.

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

FIGURE 6-3 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2014	2015	2016	2017
Commercial				
Demand	50,143	53,402	54,737	55,285
Market Share	18.4 %	18.4 %	18.4 %	18.4 %
Capture	9,247	9,848	10,094	10,195
Penetration	98 %	98 %	98 %	98 %
Leisure				
Demand	49,151	52,346	53,393	53,927
Market Share	16.7 %	16.7 %	16.7 %	16.7 %
Capture	8,219	8,753	8,929	9,018
Penetration	89 %	89 %	89 %	89 %
Group				
Demand	13,690	14,306	14,520	14,593
Market Share	22.5 %	22.5 %	22.5 %	22.5 %
Capture	3,082	3,221	3,269	3,286
Penetration	119 %	119 %	119 %	119 %
Total Room Nights Captured	**20,548**	**21,822**	**22,292**	**22,498**
Available Room Nights	35,040	35,040	35,040	35,040
Subject Occupancy	**59 %**	**62 %**	**64 %**	**64 %**
Marketwide Available Room Nights	185,785	185,785	185,785	185,785
Fair Share	**19 %**	**19 %**	**19 %**	**19 %**
Marketwide Occupied Room Nights	112,984	120,054	122,651	123,805
Market Share	**18 %**	**18 %**	**18 %**	**18 %**
Marketwide Occupancy	**61 %**	**65 %**	**66 %**	**67 %**
Total Penetration	**96 %**	**96 %**	**96 %**	**96 %**

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

FIGURE 6-4 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2014	2015	2016	2017
Commercial	45 %	45 %	45 %	45 %
Leisure	40	40	40	40
Group	15	15	15	15
Total	100 %	100 %	100 %	100 %

Based on our analysis of the subject property and market area, we have selected a stabilized occupancy level of 64%. The stabilized occupancy is 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 occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

Average Rate Analysis

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

Competitive Position

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

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

Property	Estimated 2014 Average Room Rate	Average Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Fairfield Inn & Suites by Marriott Ocala	$89.60	96.1 %	$52.54	92.6 %
Best Western Ocala Park Centre	79.00	84.7	37.92	66.9
Country Inn & Suites by Carlson Ocala	83.00	89.0	53.95	95.1
La Quinta Inn & Suites Ocala	84.00	90.1	53.76	94.8
Hampton Inn & Suites Ocala	123.00	131.9	91.02	160.5
Average - Subject & Primary Competitors	$93.26	100.0 %	$56.71	100.0 %

The defined primarily competitive market realized an overall average rate of $93.26 in the 2014 base year, improving from the 2013 level of $88.48. The subject property's base-year rate position was $89.60. The Hampton Inn & Suites achieved the highest estimated average rate in the local competitive market, by a significant margin, because of its strong brand affiliation and overall very good condition. Other important rate aspects of this market include the horse auctions and shows during the first quarter of the year, which increase rates as visitors come from all over the country, as well as internationally. The subject property's historical rate reflects the hotel's positioning as a Marriott-branded, limited-service hotel and is appropriately positioned within the existing competitors.

As illustrated previously, the average rate for the primarily competitive market averaged $88.48 in 2013, before reaching $93.26 in 2014. The rate of change for this Ocala area primary set was 5.4% between 2013 and 2014. Market-wide rates began to trend upward in 2010. We expect average rates to continue to improve because of strengthening economic conditions and continued maintenance and renovations to existing properties.

Based on these considerations, the following table illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied an underlying inflation rate of 2.0% in 2015/16, 2.5% in 2016/17, and 3.0% in 2017/18 and thereafter.

FIGURE 6-6 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Areawide (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	60.8 %	—	$93.26	59.0 %	—	$89.60	96.1 %
2015	64.6	6.5 %	99.32	62.0	7.5 %	96.32	97.0
2016	66.0	4.5	103.79	64.0	4.5	100.65	97.0
2017	66.6	4.0	107.94	64.0	4.0	104.68	97.0

As illustrated above, a 7.5% rate of change is expected for the subject property's room rate in 2015. As illustrated at the beginning of this chapter, the subject property's rate changed by 12.0% in the most recent historical period. This is followed by rates of 4.5% and 4.0% in 2016 and 2017, respectively. The subject property's room rate is anticipated to follow a trend similar to that of the market, increasing in the first projection year. The average-rate penetration level is expected to improve by the stabilized year as the opening of the Hampton Inn & Suites has allowed the subject property to increase its rate more than some of the other hotels in the competitive set due to the competiveness of the brands. Management reported that rate increases going forward should be supported by continued maintenance to the property. Anticipated future economic strength in this market should also support longer-term rate improvements for the subject property.

The following table provides a comparison of the historical performance and forecasts for the subject property and competitive set.

FIGURE 6-7 COMPARISON OF HISTORICAL AND PROJECTED OCCUPANCY, AVERAGE RATE, AND REVPAR – SUBJECT PROPERTY AND MARKET

	Historical					Projected					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Fairfield Inn & Suites by Marriott Ocala											
Occupancy	55.3 %	54.4 %	57.4 %	54.4 %	58.6 %	62.3 %	63.6 %	64.2 %	64.2 %	64.2 %	64.2 %
Change	—	(1.6) %	5.5 %	(5.2) %	7.7 %	6.2 %	2.2 %	0.9 %	0.0 %	0.0 %	0.0 %
Occupancy Penetration	99.2	97.9	104.2 %	94.2 %	96.4 %	96.4 %	96.4 %	96.4 %	96.4 %	96.4 %	96.4 %
Average Rate	$71.53	$72.04	$76.82	$86.77	$89.60	$96.32	$100.65	$104.68	$107.82	$111.05	$114.39
Change	—	0.7 %	6.6 %	13.0 %	3.3 %	7.5 %	4.5 %	4.0 %	3.0 %	3.0 %	3.0 %
Average Rate Penetration	101.9	100.7	102.9 %	98.1 %	96.1 %	97.0 %	97.0 %	97.0 %	97.0 %	97.0 %	97.0 %
RevPAR	$39.56	$39.19	$44.08	$47.23	$52.54	$59.98	$64.03	$67.21	$69.23	$71.30	$73.44
Change	—	(0.9) %	12.5 %	7.1 %	11.3 %	14.2 %	6.7 %	5.0 %	3.0 %	3.0 %	3.0 %
RevPAR Penetration	101.1	98.6	107.2 %	92.4 %	92.6 %	93.5 %	93.5 %	93.4 %	93.4 %	93.4 %	93.4 %

	Historical (Estimated)					Projected					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Ocala Submarket											
Occupancy	55.8 %	55.6 %	55.1 %	57.8 %	60.8 %	64.6 %	66.0 %	66.6 %	66.6 %	66.6 %	66.6 %
Change	—	(0.4) %	(0.9) %	4.9 %	5.3 %	6.3 %	2.2 %	0.9 %	0.0 %	0.0 %	0.0 %
Average Rate	$70.19	$71.53	$74.68	$88.48	$93.26	$99.32	$103.79	$107.94	$111.18	$114.51	$117.95
Change	—	1.9 %	4.4 %	18.5 %	5.4 %	6.5 %	4.5 %	4.0 %	3.0 %	3.0 %	3.0 %
RevPAR	$39.14	$39.74	$41.13	$51.12	$56.71	$64.18	$68.52	$71.93	$74.09	$76.31	$78.60
Change	—	1.5 %	3.5 %	24.3 %	10.9 %	13.2 %	6.8 %	5.0 %	3.0 %	3.0 %	3.0 %

The North American lodging market bottomed out in late 2009, at which time demand rebounded and the supply pipeline diminished. In 2010, occupancy rebounded strongly, and by 2011, average rates in most U.S. markets showed increases. By year-end 2014, occupancy approached the levels realized during the 1994–1996 timeframe, and average rate remained well above the prior 2008 peak. In many primary markets, strong occupancy levels and a lack of new supply are allowing hotel operators to make continued, aggressive average rate gains in 2015. While average rate growth is strong in some secondary and tertiary markets, it may be limited in the near term by the entrance of new supply. With demand now recovered from the correction in 2009, and new supply remaining muted in 2015 and 2016, markets should be able to support continued, healthy average rate gains in the near term.

The following occupancies and average rates will be used to project the subject property's rooms revenue; this forecast begins on June 1, 2015, and corresponds with our financial projections.

FIGURE 6-8 FORECASTS OF OCCUPANCY, AVERAGE RATE, AND REVPAR

Year	Occupancy	Average Rate	RevPAR
2015/16	63 %	$98.11	$61.81
2016/17	64	102.32	65.48
2017/18	64	105.98	67.83

7. Highest and Best Use

The concept of highest and best use is a fundamental element in the determination of value of real property, either as if vacant or as improved. USPAP requires that a property's highest and best use be analyzed. Only if the current improvements do not reflect the highest and best use of the property does the highest and best use of the site "as if" vacant need to be considered.

Highest and best use is defined as follows:

> The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. Alternatively, the probable use of land or improved property—specific with respect to the user and timing of the use—that is adequately supported and results in the highest present value.[11]

As If Vacant

The subject site enjoys a favorable location proximate to the interstate and is of an appropriate size to support any number of retail, office, or hospitality projects. Furthermore, significant improvements in hotel demand, as well as expectations of continued rate recovery in the coming months, are enhancing the potential for new hotel development in the current market. Some financing is again available for new construction, in particular for healthy markets and for projects that have a strong borrower profile. Therefore, commercial development such as a viable hotel product, office space, or a retail project on the subject site would represent the highest and best use; however, more market research would be required to make this determination.

As Improved

The subject property is a viable enterprise generating a positive net operating income. The level of net income is improving in the current economic environment. Accordingly, the property is generating sufficient return to the land to continue to support its current use as a limited-service hotel. It is our opinion that the highest and best use of the subject property is its continued use as an operating hotel.

[11] Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).

8. Approaches to Value

In appraising real estate for market value, three approaches to value are considered: income capitalization, cost, and sales comparison. Basic summaries of each approach are provided as follows; please refer to the introduction of each respective chapter for additional description.

Income Capitalization Approach

The income capitalization approach analyzes a property's ability to generate financial returns as an investment. The appraisal estimates a property's operating cash flow, and the result is utilized in a direct capitalization technique and a discounted-cash-flow analysis. The income capitalization approach is often selected as the preferred valuation method for operating properties because it most closely reflects the investment rationale of knowledgeable buyers.

Sales Comparison Approach

The sales comparison approach estimates the value of a property by comparing it to similar properties sold on the open market. To obtain a supportable estimate of value, the sales price of a comparable property must be adjusted to reflect any dissimilarity between it and the property being appraised. The sales comparison approach is most useful in the case of simple forms of real estate such as vacant land and single-family homes, where the properties are homogeneous and the adjustments are few and relatively simple to compute. In the case of complex investments such as hotels, where the adjustments are numerous and more difficult to quantify, the sales comparison approach loses much of its reliability.

Cost Approach

The cost approach estimates market value by computing the cost of replacing the property and subtracting any depreciation resulting from physical deterioration, functional obsolescence, and external (or economic) obsolescence. The value of the land, as if vacant and available, is then added to the depreciated value of the improvements for a total value estimate. The cost approach is most reliable for estimating the value of new properties; however, as the improvements deteriorate and market conditions change, the resultant loss in value becomes increasingly difficult to quantify accurately. Moreover, our experience with hotel investors shows that this group of buyers and sellers relies upon the methods of the income approach when making decisions; the cost approach generally does not play a significant role.

Reconciliation

The final step in the valuation process is the reconciliation and correlation of the value indications. Factors that are considered in assessing the reliability of each approach include the purpose of the appraisal, the nature of the subject property, and the reliability of the data used. In the reconciliation, the applicability and supportability of each approach are considered and the range of value indications is examined. The most significant weight is given to the approach that produces the most reliable solution and most closely reflects the criteria used by typical investors.

9. Income Capitalization Approach

The income capitalization approach is based on the principle that the value of a property is indicated by its net return, or what is known as the present worth of future benefits. The future benefits of income-producing properties, such as hotels, are net income before debt service and depreciation (as estimated by a forecast of income and expense) and any anticipated reversionary proceeds from a sale. These future benefits can be converted into an indication of market value through a capitalization process and discounted-cash-flow analysis.

Methodology

Using the income capitalization approach, the subject property has been valued by analyzing the local market for transient accommodations, examining existing and proposed competition, and developing a forecast of income and expense that reflects current and anticipated income trends and cost components through a stabilized year of operation.

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life, given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The stabilized year's net income is then extended into an eleven-year forecast of income and expense by applying the assumed underlying inflation rate to each revenue and expense item from the stabilized year forward, unless otherwise noted.

The eleven-year forecast of net income forms the basis of a mortgage-equity and discounted-cash-flow analysis, where ten years of net income and a reversion derived from the capitalized eleventh year's net income are discounted back to the date of value and summed to derive an estimate of market value. The ten-year period reflects the typical holding period of large real estate assets such as hotels. In addition, the ten-year 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.

Because the value is unknown but the loan-to-value ratio and market rates of return can be estimated, the value is computed by way of a linear algebraic equation. The algebraic equation that solves for the total property value using a ten-year mortgage and equity technique was developed by Suzanne R. Mellen, CRE, MAI, FRICS, ISHC, Senior Managing Director of the San Francisco office of HVS. A complete discussion of the technique is presented in her article entitled "Simultaneous Valuation: A New Technique."[12]

Review of Operating History

Because the subject property is an existing hotel with an established operating performance, its historical income and expense experience can serve as a basis for projections. The following income and expense statements were provided by current ownership. Where applicable, we have reorganized the statements in accordance with the Uniform System of Accounts for the Lodging Industry (USALI). The 11th edition of the USALI, which was issued in 2014, became effective on January 1, 2015; however, the hospitality industry is still in the process of converting to the new reporting standards. Given the lack of sufficient detail or information provided in accordance with the 11th edition of the USALI, we have forecast revenues and expenses for the subject property using the 10th edition of the USALI.

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[12] Suzanne Mellen, "Simultaneous Valuation: A New Technique," *Appraisal Journal.* April (1983).

FIGURE 9-1 HISTORICAL OPERATING PERFORMANCE

	2014/15	**Fiscal Year Ending April**			**2014**	**Calendar Year**			**2013**	**Calendar Year**			**2012**	**Calendar Year**		
Number of Rooms:	**96**				**96**				**96**				**96**			
Paid Occupied Rooms:	**20,774**				**20,548**				**19,071**				**20,108**			
Days Open:	**365**				**365**				**365**				**365**			
Paid Occupancy:	**59.3%**			**Amount**	**58.6%**			**Amount**	**54.4%**			**Amount**	**57.4%**			**Amount**
Average Rate:	**$94.50**	**Percentage**	**Available**	**Occupied**	**$89.60**	**Percentage**	**Available**	**Occupied**	**$86.77**	**Percentage**	**Available**	**Occupied**	**$76.82**	**Percentage**	**Available**	**Occupied**
RevPAR:	**$56.03**	**of Revenue**	**Room**	**Room**	**$52.54**	**of Revenue**	**Room**	**Room**	**$47.23**	**of Revenue**	**Room**	**Room**	**$44.08**	**of Revenue**	**Room**	**Room**
OPERATING REVENUE																
Rooms	$1,963	99.0 %	$20,449	$94.50	$1,841	98.8 %	$19,178	$89.60	$1,655	97.7 %	$17,238	$86.77	$1,545	98.4 %	$16,091	$76.82
Other Operated Departments	19	1.0	196	0.91	21	1.1	214	1.00	39	2.3	405	2.04	26	1.6	268	1.28
Miscellaneous Income	2	0.1	16	0.08	2	0.1	20	0.09	0	0.0	0	0.00	0	0.0	0	0.00
Total Operating Revenue	1,984	100.0	20,662	95.48	1,864	100.0	19,412	90.69	1,694	100.0	17,643	88.81	1,570	100.0	16,359	78.10
DEPARTMENTAL EXPENSES*																
Rooms	512	26.1	5,338	24.67	483	26.3	5,035	23.52	478	28.9	4,976	25.05	432	28.0	4,503	21.50
Other Operated Departments	21	111.9	220	1.02	22	106.8	228	1.07	36	93.0	376	1.89	26	102.8	275	1.31
Total	534	26.9	5,557	25.68	505	27.1	5,263	24.59	514	30.3	5,352	26.94	459	29.2	4,778	22.81
DEPARTMENTAL INCOME	1,450	73.1	15,105	69.80	1,358	72.9	14,149	66.10	1,180	69.7	12,291	61.87	1,112	70.8	11,580	55.29
UNDISTRIBUTED OPERATING EXPENSES																
Administrative & General	155	7.8	1,614	7.46	152	8.2	1,586	7.41	151	8.9	1,574	7.92	141	8.9	1,464	6.99
Marketing	63	3.2	655	3.03	62	3.3	642	3.00	100	5.9	1,045	5.26	101	6.4	1,053	5.03
Franchise Fee	138	6.9	1,435	6.63	129	6.9	1,346	6.29	79	4.7	823	4.14	71	4.5	744	3.55
Prop. Operations & Maint.	95	4.8	989	4.57	98	5.3	1,024	4.78	73	4.3	757	3.81	63	4.0	659	3.15
Utilities	105	5.3	1,091	5.04	106	5.7	1,107	5.17	113	6.6	1,173	5.90	104	6.6	1,083	5.17
Total	555	28.0	5,785	26.73	548	29.4	5,705	26.65	516	30.4	5,371	27.04	480	30.6	5,003	23.89
GROSS HOUSE PROFIT	895	45.1	9,320	43.07	811	43.5	8,444	39.45	664	39.3	6,920	34.84	631	40.2	6,577	31.40
Management Fee	66	3.3	691	3.20	62	3.4	651	3.04	52	3.1	539	2.71	52	3.3	539	2.57
INCOME BEFORE NON-OPER. INC. & EXP.	828	41.8	8,628	39.87	748	40.1	7,793	36.41	613	36.2	6,381	32.12	580	36.9	6,038	28.83
NON-OPERATING INCOME AND EXPENSE																
Property Taxes	59	3.0	612	2.83	58	3.1	609	2.84	57	3.3	591	2.97	53	3.4	549	2.62
Insurance	49	2.5	515	2.38	55	3.0	575	2.69	55	3.3	576	2.90	51	3.3	533	2.54
Income/Fixed1	0	0.0	0	0.00	0	0.0	1	0.01	0	0.0	1	0.01	0	0.0	1	0.00
Total	108	5.5	1,127	5.21	114	6.1	1,185	5.54	112	6.6	1,168	5.88	104	6.7	1,083	5.17
EBITDA LESS RESERVE	$720	36.3 %	$7,501	$34.66	$634	34.0 %	$6,608	$30.87	$500	29.6 %	$5,213	$26.24	$476	30.2 %	$4,955	$23.66
NOI adjusted to reflect a 3.0% mgmt fee and a 5.0% reserve	$628	31.7 %			$548	29.4 %			$417	24.6 %			$402	25.6 %		

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

FIGURE 9-2 HISTORICAL OPERATING PERFORMANCE (CONTINUED)

	2015	Year-to-Date Ending April			2014	Year-to-Date Ending April		
Number of Rooms:	96				96			
Paid Occupied Rooms:	8,626				8,400			
Days Open:	120				120			
Paid Occupancy:	74.9%			Amount	72.9%			Amount
Average Rate:	$108.22	Percentage	Available	Occupied	$96.60	Percentage	Available	Occupied
RevPAR:	$81.04	of Revenue	Room	Room	$70.44	of Revenue	Room	Room
OPERATING REVENUE								
Rooms	$934	99.0 %	$9,724	$108.22	$811	98.7 %	$8,453	$96.60
Other Operated Departments	8	0.9	85	0.95	10	1.2	102	1.17
Miscellaneous Income	1	0.1	9	0.10	1	0.1	13	0.14
Total Operating Revenue	943	100.0	9,818	109.27	822	100.0	8,568	97.91
DEPARTMENTAL EXPENSES*								
Rooms	186	20.0	1,942	21.61	157	19.4	1,639	18.73
Other Operated Departments	7	89.5	76	0.85	8	82.5	84	0.96
Total	194	20.5	2,018	22.45	165	20.1	1,723	19.69
DEPARTMENTAL INCOME	749	79.5	7,800	86.81	657	79.9	6,844	78.22
UNDISTRIBUTED OPERATING EXPENSES								
Administrative & General	57	6.1	598	6.65	55	6.6	569	6.51
Marketing	21	2.3	221	2.46	20	2.4	208	2.37
Franchise Fee	65	6.9	681	7.58	57	6.9	592	6.76
Prop. Operations & Maint.	24	2.5	249	2.77	27	3.3	283	3.23
Utilities	36	3.8	370	4.12	37	4.5	386	4.41
Total	203	21.6	2,118	23.57	196	23.8	2,038	23.29
GROSS HOUSE PROFIT	545	57.9	5,682	63.24	461	56.1	4,806	54.93
Management Fee	22	2.4	234	2.61	19	2.3	193	2.21
INCOME BEFORE NON-OPER. INC. & EXP.	523	55.5	5,448	60.63	443	53.8	4,613	52.72
NON-OPERATING INCOME AND EXPENSE								
Property Taxes	20	2.1	205	2.28	19	2.4	201	2.30
Insurance	13	1.4	140	1.56	19	2.3	200	2.29
Income/Fixed1	0	0.0	0	0.00	0	0.0	1	0.01
Total	33	3.5	345	3.84	39	4.7	403	4.60
EBITDA LESS RESERVE	$490	52.0 %	$5,103	$56.79	$404	49.1 %	$4,210	$48.12
NOI adjusted to reflect a								
3.0% mgmt fee and a 5.0% reserve	$437	46.4 %			$357	43.4 %		

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

The 2014/15 base year illustrates an overall positive trend in profitability, owing to an increase in rooms revenue. Revenues associated with telephone charges, guest laundry facility, meeting room rentals, and market pantry commissions are included in the other operated departments line. Miscellaneous income is generated by the vending commissions. No major changes in expense levels and ratios were noted.

Comparable Operating Statements

In order to gauge the subject property's profitability, we have reviewed the following individual income and expense statements from comparable hotels, derived from our database of hotel income and expense statements. 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 subject property's 2014/15 operating history has been included to facilitate a comparison. The stabilized statement of income and expense, in 2014/15 dollars, is presented as well.

FIGURE 9-3 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2014/15**	**2013**	**2013/14**	**2013**	**2013**	**2013/14**	**2014/15**
Number of Rooms:	**96**	**110 to 150**	**70 to 100**	**60 to 90**	**70 to 90**	**70 to 100**	**96**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**59.3%**	**66%**	**61%**	**61%**	**65%**	**65%**	**64%**
Average Rate:	**$94.50**	**$100**	**$103**	**$89**	**$89**	**$97**	**$98**
RevPAR:	**$56.03**	**$66**	**$63**	**$54**	**$58**	**$63**	**$63**
REVENUE							
Rooms	99.0 %	97.3 %	99.3 %	98.3 %	98.3 %	97.4 %	99.1 %
Other Operated Departments	1.0	2.7	0.7	1.0	0.8	0.0	0.9
Rentals & Other Income	0.1	0.0	0.0	0.7	0.9	2.5	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*							
Rooms	26.1	24.4	24.2	26.0	27.2	27.2	26.1
Other Operated Departments	111.9	34.2	63.2	44.2	111.1	3,300.7	110.1
Total	26.9	24.7	24.5	26.0	27.7	27.6	26.8
DEPARTMENTAL INCOME	73.1	75.3	75.5	74.0	72.3	72.4	73.2
OPERATING EXPENSES							
Administrative & General	7.8	10.2	8.1	7.9	9.0	10.4	8.1
Marketing	3.2	7.2	4.5	1.0	2.7	2.3	2.9
Franchise Fee	6.9	9.2	8.9	6.9	8.7	6.8	7.4
Property Operations & Maintenance	4.8	4.3	4.7	3.1	4.0	4.5	4.4
Utilities	5.3	5.0	4.9	5.6	5.5	4.7	4.9
UDOE 1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	28.0	35.8	31.2	24.4	29.9	28.7	27.7
HOUSE PROFIT	45.1	39.5	44.3	49.6	42.4	43.7	45.5
Management Fee	3.3	3.0	3.0	3.1	2.8	4.0	3.0
INCOME BEFORE FIXED CHARGES	41.8	36.5	41.3	46.5	39.6	39.7	42.5

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

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FIGURE 9-4 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2014/15**	**2013**	**2013/14**	**2013**	**2013**	**2013/14**	**2014/15**
Number of Rooms:	**96**	**110 to 150**	**70 to 100**	**60 to 90**	**70 to 90**	**70 to 100**	**96**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**59.3%**	**66%**	**61%**	**61%**	**65%**	**65%**	**64%**
Average Rate:	**$94.50**	**$100**	**$103**	**$89**	**$89**	**$97**	**$98**
RevPAR:	**$56.03**	**$66**	**$63**	**$54**	**$58**	**$63**	**$63**
REVENUE							
Rooms	$20,449	$24,062	$23,097	$19,753	$21,118	$23,059	$22,989
Other Operated Departments	196	672	163	200	174	8	201
Rentals & Other Income	16	0	0	143	189	599	17
Total	20,662	24,734	23,260	20,096	21,480	23,667	23,208
DEPARTMENTAL EXPENSES							
Rooms	5,338	5,871	5,593	5,131	5,750	6,268	6,004
Other Operated Departments	220	230	103	88	193	271	222
Total	5,557	6,101	5,696	5,220	5,942	6,538	6,225
DEPARTMENTAL INCOME	15,105	18,633	17,564	14,877	15,538	17,128	16,982
OPERATING EXPENSES							
Administrative & General	1,614	2,515	1,893	1,594	1,943	2,473	1,873
Marketing	655	1,772	1,045	205	576	537	676
Franchise Fee	1,435	2,270	2,079	1,378	1,872	1,613	1,724
Property Operations & Maintenance	989	1,069	1,095	619	860	1,062	1,021
Utilities	1,091	1,225	1,150	1,115	1,171	1,109	1,126
UDOE 1	0	0	0	0	0	0	0
Total	5,785	8,852	7,261	4,911	6,422	6,794	6,422
HOUSE PROFIT	9,320	9,781	10,303	9,966	9,116	10,334	10,560
Management Fee	691	742	698	614	612	935	696
INCOME BEFORE FIXED CHARGES	8,628	9,039	9,605	9,351	8,504	9,399	9,864

FIGURE 9-5 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

	Subject	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2014/15**	**2013**	**2013/14**	**2013**	**2013**	**2013/14**	**2014/15**
Number of Rooms:	**96**	**110 to 150**	**70 to 100**	**60 to 90**	**70 to 90**	**70 to 100**	**96**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**59.3%**	**66%**	**61%**	**61%**	**65%**	**65%**	**64%**
Average Rate:	**$94.50**	**$100**	**$103**	**$89**	**$89**	**$97**	**$98**
RevPAR:	**$56.03**	**$66**	**$63**	**$54**	**$58**	**$63**	**$63**
REVENUE							
Rooms	$94.50	$100.14	$103.43	$89.01	$88.99	$96.99	$98.41
Other Operated Departments	0.91	2.79	0.73	0.90	0.73	0.03	0.86
Rentals & Other Income	0.08	0.00	0.00	0.64	0.79	2.52	0.07
Total	95.48	102.93	104.16	90.56	90.52	99.54	99.35
DEPARTMENTAL EXPENSES							
Rooms	24.67	24.43	25.05	23.12	24.23	26.36	25.70
Other Operated Departments	1.02	0.96	0.46	0.40	0.81	1.14	0.95
Total	25.68	25.39	25.51	23.52	25.04	27.50	26.65
DEPARTMENTAL INCOME	69.80	77.54	78.65	67.04	65.48	72.04	72.70
OPERATING EXPENSES							
Administrative & General	7.46	10.47	8.48	7.18	8.19	10.40	8.02
Marketing	3.03	7.37	4.68	0.92	2.43	2.26	2.89
Franchise Fee	6.63	9.45	9.31	6.21	7.89	6.78	7.38
Property Operations & Maintenance	4.57	4.45	4.90	2.79	3.63	4.47	4.37
Utilities	5.04	5.10	5.15	5.03	4.93	4.66	4.82
UDOE 1	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	26.73	36.84	32.52	22.13	27.07	28.58	27.49
HOUSE PROFIT	43.07	40.71	46.14	44.91	38.41	43.47	45.21
Management Fee	3.20	3.09	3.12	2.77	2.58	3.93	2.98
INCOME BEFORE FIXED CHARGES	39.87	37.62	43.01	42.14	35.84	39.53	42.23

The comparables' departmental income ranged from 72.3% to 75.5% of total revenue. The subject property's 2014/15 departmental income ratio of 73.1% is within this range. The comparable properties achieved a house profit ranging from 39.5% to 49.6% of total revenue. The subject property's 2014/15 house profit percentage of 45.1% of total revenue is within this range. We will refer to the comparable operating data in our discussion of each line item, which follows later in this section of the report.

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 USALI. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

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

FIGURE 9-6 INFLATION ESTIMATES

Name	Firm	Dec 2014	June 2015	Dec 2015	June 2016	Dec 2016
		Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier)				
Lewis Alexander	Nomura Securities International	1.3 %	0.7 %	1.8 %	2.3	2.3
Paul Ashworth	Capital Economics	1.4	1.0	2.0	2.4 %	2.5 %
Ram Bhagavatula	Combinatorics Capital	1.5	2.2	2.4	2.4	2.5
Beth Ann Bovino	Standard and Poor's	1.6	1.4	1.9	1.7	1.8
Michael Carey	Credit Agricole CIB	1.4	1.1	1.8	1.7	2.0
Joseph Carson	AllianceBernstein	1.4	1.5	2.2	2.5	3.0
Julia Coronado	BNP Paribas	1.0	0.3	1.9	2.2	2.2
Mike Cosgrove	Econoclast	1.5	1.8	2.0	2.2	2.3
Lou Crandall	Wrightson ICAP	1.1	0.8	2.7	2.8	2.5
J. Dewey Daane	Vanderbilt University	1.8	2.0	2.0	2.0	2.0
Douglas Duncan	Fannie Mae	1.4	0.8	1.6	2.0	2.0
Robert Dye	Comerica Bank	1.1	0.4	1.9	2.3	2.0
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	1.6	1.4	2.1	—	—
Mike Fratantoni	Mortgage Bankers Association	1.6	1.9	2.0	2.2	2.5
Doug Handler	IHS Global Insight	0.8	(0.4)	1.1	2.2	2.4
Ethan Harris	Bank of America Securities- Merrill Lynch	1.3	0.4	1.7	—	2.3
Maury Harris	UBS	1.4	0.3	1.6	2.4	2.5
Tracy Herrick	Avidbank	1.5	2.0	2.4	2.9	3.2
Jack Kleinhenz	National Retail Federation	1.4	1.5	2.0	2.1	2.2
Joseph LaVorgna	Deutsche Bank Securities, Inc.	1.4	0.8	1.8	2.2	2.1
Edward Leamer/David Shulman	UCLA Anderson Forecast	1.4	0.8	1.8	2.3	2.5
Don Leavens/Tim Gill	NEMA Business Information Services	1.6	1.3	1.5	1.9	1.9
John Lonski	Moody's Investors Service	1.2	1.0	1.8	1.8	1.8
Aneta Markowska	Societe Generale	1.0	(0.7)	1.2	2.6	2.5
Robert Mellman	JP Morgan Chase & Co.	1.3	0.6	1.6	2.0	2.0
Mark Nielson	MacroEcon Global Advisors	—	—	—	2.6	2.8
Jim O'Sullivan	High Frequency Economics	1.3	1.1	2.2	2.5	2.6
Dr. Joel Prakken/ Chris Varvares	Macroeconomic Advisers	1.7	1.4	1.3	1.8	2.1
Arun Raha	Eaton Corp.	1.7	1.8	1.8	2.0	2.0
Vincent Reinhart	Morgan Stanley	1.4	1.0	1.8	2.3	2.2
Ian Shepherdson	Pantheon Macroeconomics	1.2	0.7	2.0	2.0	2.5
John Silvia	Wells Fargo & Co.	1.6	1.3	2.2	2.4	2.4
Allen Sinai	Decision Economics, Inc.	1.4	1.2	1.1	1.3	1.5
James F. Smith	Parsec Financial Management	1.4	1.6	1.8	1.7	1.4
Sean M. Snaith	University of Central Florida	1.6	1.2	1.4	1.6	1.8
Sung Won Sohn	California State University	1.3	1.5	1.6	1.7	1.8
Neal Soss	CSFB	1.4	0.4	1.4	—	—
Stephen Stanley	Pierpont Securities	1.2	1.0	2.5	3.0	3.2
Susan M. Sterne	Economic Analysis Associates Inc.	2.0	1.6	1.7	1.8	1.5
Diane Swonk	Mesirow Financial	1.3	0.8	1.7	2.2	2.3
Carl Tannenbaum	The Northern Trust	1.6	1.2	2.0	2.2	2.3
Bart van Ark	The Conference Board	1.4	1.0	1.7	2.0	2.0
Brian S. Wesbury/ Robert Stein	First Trust Advisors, L.P.	1.5	1.5	2.4	2.6	2.8
William T. Wilson	The Heritage Foundation	2.0	1.8	2.0	2.2	2.3
Lawrence Yun	National Association of Realtors	1.4	2.8	3.1	3.3	3.5
	Averages:	1.4 %	1.1 %	1.9 %	2.2 %	2.3 %

Source: wsj.com, January 7, 2015

As the preceding table indicates, the financial analysts who were surveyed in December of 2014 anticipated inflation rates ranging from -0.7% to 2.8% (on an annualized basis) for June 2015; the average of these data points was 1.1%. The same group expects annualized inflation rates of 1.9% and 2.2% for December 2015 and June 2016, respectively, slightly lower than the inflation rate averages for December 2016, shown at 2.3%.

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

FIGURE 9-7 NATIONAL CONSUMER PRICE INDEX (ALL URBAN CONSUMERS)

Year	National Consumer Price Index	Percent Change from Previous Year
2004	188.9	—
2005	195.3	3.4 %
2006	201.6	3.2
2007	207.3	2.8
2008	215.3	3.8
2009	214.5	-0.4
2010	218.1	1.6
2011	224.9	3.1
2012	229.6	2.1
2013	233.0	1.5
2014	234.8	0.8
Average Annual Compounded Change		
	2004 - 2014:	2.2 %
	2009 - 2014:	1.8

Source: Bureau of Labor Statistics

Between 2004 and 2014, the national CPI increased at an average annual compounded rate of 2.2%; from 2009 to 2014, the CPI rose by a slightly lower average annual compounded rate of 1.8%. In 2014, the CPI rose by 0.8%, a decrease from the level of 1.5% recorded in 2013.

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 2.0% in 2015, 2.5% in 2016, and 3.0% in 2017 and thereafter. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Summary of Projections

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 forecast through the first several projection years, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on June 1, 2015, expressed in inflated dollars for each year.

FIGURE 9-8 FORECAST OF INCOME AND EXPENSE AND TRAILING-12-MONTH OPERATING HISTORY

	Historical Operating Results																							
	2014/15	Fiscal Year Ending April			2015/16				2016/17				Stabilized				2018/19				2019/20			
Number of Rooms:	96				96				96				96				96				96			
Occupancy (Paid Rooms):	59%				63%				64%				64%				64%				64%			
Average Rate:	$94.50				$98.11				$102.32				$105.98				$109.16				$112.43			
RevPAR:	$56.03				$61.81				$65.48				$67.83				$69.86				$71.96			
Days Open:	365				365				365				365				365				365			
Occupied Rooms (Paid):	20,774	%Gross	PAR	POR	22,075	%Gross	PAR	POR	22,426	%Gross	PAR	POR	22,426	%Gross	PAR	POR	22,426	%Gross	PAR	POR	22,426	%Gross	PAR	POR
OPERATING REVENUE																								
Rooms	$1,963	99.0 %	$20,449	$94.50	$2,166	99.0 %	$22,563	$98.12	$2,295	99.1 %	$23,906	$102.34	$2,377	99.1 %	$24,760	$105.99	$2,448	99.1 %	$25,500	$109.16	$2,521	99.1 %	$26,260	$112.42
Other Operated Departments	19	1.0	196	0.91	20	0.9	204	0.89	20	0.9	211	0.90	21	0.9	217	0.93	21	0.9	223	0.96	22	0.9	230	0.99
Miscellaneous Income	2	0.1	16	0.08	2	0.1	17	0.07	2	0.1	17	0.07	2	0.1	18	0.08	2	0.1	19	0.08	2	0.1	19	0.08
Total Operating Revenues	1,984	100.0	20,662	95.48	2,187	100.0	22,784	99.08	2,317	100.0	24,134	103.31	2,400	100.0	24,995	107.00	2,471	100.0	25,742	110.20	2,545	100.0	26,510	113.48
DEPARTMENTAL EXPENSES *																								
Rooms	512	26.1	5,338	24.67	565	26.1	5,883	25.58	603	26.3	6,277	26.87	621	26.1	6,465	27.68	639	26.1	6,659	28.51	658	26.1	6,859	29.36
Other Operated Departments	21	111.9	220	1.02	22	110.5	226	0.98	22	110.1	232	0.99	23	110.1	239	1.02	24	110.1	246	1.05	24	110.1	253	1.09
Total	534	26.9	5,557	25.68	586	26.8	6,109	26.57	625	27.0	6,509	27.86	644	26.8	6,704	28.70	663	26.8	6,905	29.56	683	26.8	7,112	30.45
DEPARTMENTAL INCOME	1,450	73.1	15,105	69.80	1,601	73.2	16,675	72.52	1,692	73.0	17,626	75.45	1,756	73.2	18,291	78.30	1,808	73.2	18,837	80.64	1,862	73.2	19,397	83.04
UNDISTRIBUTED OPERATING EXPENSES																								
Administrative & General	155	7.8	1,614	7.46	182	8.3	1,891	8.22	188	8.1	1,955	8.37	194	8.1	2,017	8.63	199	8.1	2,077	8.89	205	8.1	2,140	9.16
Marketing	63	3.2	655	3.03	66	3.0	683	2.97	68	2.9	706	3.02	70	2.9	728	3.12	72	2.9	750	3.21	74	2.9	772	3.31
Franchise Fee	138	6.9	1,435	6.63	162	7.4	1,692	7.36	172	7.4	1,793	7.68	178	7.4	1,857	7.95	184	7.4	1,913	8.19	189	7.4	1,970	8.43
Prop. Operations & Maint.	95	4.8	989	4.57	99	4.5	1,031	4.48	102	4.4	1,066	4.56	106	4.4	1,100	4.71	109	4.4	1,133	4.85	112	4.4	1,167	5.00
Utilities	105	5.3	1,091	5.04	109	5.0	1,137	4.95	113	4.9	1,176	5.03	116	4.9	1,213	5.19	120	4.9	1,249	5.35	124	4.9	1,287	5.51
Total	555	28.0	5,785	26.73	618	28.2	6,434	27.98	643	27.7	6,696	28.67	664	27.7	6,915	29.60	684	27.7	7,122	30.49	704	27.7	7,335	31.40
GROSS HOUSE PROFIT	895	45.1	9,320	43.07	983	45.0	10,241	44.54	1,049	45.3	10,929	46.79	1,092	45.5	11,376	48.70	1,125	45.5	11,715	50.15	1,158	45.5	12,062	51.64
Management Fee	66	3.3	691	3.20	66	3.0	684	2.97	70	3.0	724	3.10	72	3.0	750	3.21	74	3.0	772	3.31	76	3.0	795	3.40
INCOME BEFORE NON-OPER. INC. & EXP.	828	41.8	8,628	39.87	918	42.0	9,558	41.56	980	42.3	10,205	43.69	1,020	42.5	10,626	45.49	1,050	42.5	10,942	46.84	1,082	42.5	11,267	48.23
NON-OPERATING INCOME AND EXPENSE																								
Property Taxes	59	3.0	612	2.83	62	2.8	647	2.81	64	2.7	663	2.84	66	2.7	683	2.92	68	2.7	703	3.01	70	2.7	724	3.10
Insurance	49	2.5	515	2.38	50	2.3	526	2.29	52	2.2	539	2.31	53	2.2	555	2.38	55	2.2	572	2.45	57	2.2	589	2.52
Reserve for Replacement	0	0.0	0	0.00	109	5.0	1,139	4.95	116	5.0	1,207	5.17	120	5.0	1,250	5.35	124	5.0	1,287	5.51	127	5.0	1,325	5.67
Total	108	5.5	1,127	5.21	222	10.1	2,312	10.05	231	9.9	2,409	10.31	239	9.9	2,488	10.65	246	9.9	2,562	10.97	253	9.9	2,639	11.30
EBITDA LESS RESERVE	$720	36.3 %	$7,501	$34.66	$696	31.9 %	$7,246	$31.51	$748	32.4 %	$7,796	$33.37	$781	32.6 %	$8,138	$34.84	$804	32.6 %	$8,380	$35.87	$828	32.6 %	$8,628	$36.93

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

NOI adjusted to reflect a		
3.0% mgmt fee and a 5.0% reserve	$628	31.7 %

FIGURE 9-9 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		2024/25	
Number of Rooms:	**96**		**96**		**96**		**96**		**96**		**96**		**96**		**96**		**96**		**96**	
Occupied Rooms:	**22,075**		**22,426**		**22,426**		**22,426**		**22,426**		**22,426**		**22,426**		**22,426**		**22,426**		**22,426**	
Occupancy:	**63%**		**64%**		**64%**		**64%**		**64%**		**64%**		**64%**		**64%**		**64%**		**64%**	
Average Rate:	**$98.11**	**% of**	**$102.32**	**% of**	**$105.98**	**% of**	**$109.16**	**% of**	**$112.43**	**% of**	**$115.80**	**% of**	**$119.28**	**% of**	**$122.86**	**% of**	**$126.54**	**% of**	**$130.34**	**% of**
RevPAR:	**$61.81**	**Gross**	**$65.48**	**Gross**	**$67.83**	**Gross**	**$69.86**	**Gross**	**$71.96**	**Gross**	**$74.12**	**Gross**	**$76.34**	**Gross**	**$78.63**	**Gross**	**$80.99**	**Gross**	**$83.42**	**Gross**
OPERATING REVENUE																				
Rooms	$2,166	99.0 %	$2,295	99.1 %	$2,377	99.1 %	$2,448	99.1 %	$2,521	99.1 %	$2,597	99.1 %	$2,675	99.1 %	$2,755	99.1 %	$2,838	99.1 %	$2,923	99.1 %
Other Operated Departments	20	0.9	20	0.9	21	0.9	21	0.9	22	0.9	23	0.9	23	0.9	24	0.9	25	0.9	26	0.9
Miscellaneous Income	2	0.1	2	0.1	2	0.1	2	0.1	2	0.1	2	0.1	2	0.1	2	0.1	2	0.1	2	0.1
Total Operating Revenue	2,187	100.0	2,317	100.0	2,400	100.0	2,471	100.0	2,545	100.0	2,622	100.0	2,700	100.0	2,781	100.0	2,865	100.0	2,951	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	565	26.1	603	26.3	621	26.1	639	26.1	658	26.1	678	26.1	699	26.1	720	26.1	741	26.1	763	26.1
Other Operated Departments	22	110.5	22	110.1	23	110.1	24	110.1	24	110.1	25	110.1	26	110.1	27	110.1	27	110.1	28	110.1
Total	586	26.8	625	27.0	644	26.8	663	26.8	683	26.8	703	26.8	724	26.8	746	26.8	768	26.8	792	26.8
DEPARTMENTAL INCOME	1,601	73.2	1,692	73.0	1,756	73.2	1,808	73.2	1,862	73.2	1,918	73.2	1,976	73.2	2,035	73.2	2,096	73.2	2,159	73.2
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	182	8.3	188	8.1	194	8.1	199	8.1	205	8.1	212	8.1	218	8.1	224	8.1	231	8.1	238	8.1
Marketing	66	3.0	68	2.9	70	2.9	72	2.9	74	2.9	76	2.9	79	2.9	81	2.9	83	2.9	86	2.9
Franchise Fee	162	7.4	172	7.4	178	7.4	184	7.4	189	7.4	195	7.4	201	7.4	207	7.4	213	7.4	219	7.4
Prop. Operations & Maint.	99	4.5	102	4.4	106	4.4	109	4.4	112	4.4	115	4.4	119	4.4	122	4.4	126	4.4	130	4.4
Utilities	109	5.0	113	4.9	116	4.9	120	4.9	124	4.9	127	4.9	131	4.9	135	4.9	139	4.9	143	4.9
Total	618	28.2	643	27.7	664	27.7	684	27.7	704	27.7	725	27.7	747	27.7	770	27.7	793	27.7	816	27.7
GROSS HOUSE PROFIT	983	45.0	1,049	45.3	1,092	45.5	1,125	45.5	1,158	45.5	1,193	45.5	1,229	45.5	1,266	45.5	1,304	45.5	1,343	45.5
Management Fee	66	3.0	70	3.0	72	3.0	74	3.0	76	3.0	79	3.0	81	3.0	83	3.0	86	3.0	89	3.0
INCOME BEFORE NON-OPER. INC. & EXP.	918	42.0	980	42.3	1,020	42.5	1,050	42.5	1,082	42.5	1,114	42.5	1,148	42.5	1,182	42.5	1,218	42.5	1,254	42.5
NON-OPERATING INCOME AND EXPENSE																				
Property Taxes	62	2.8	64	2.7	66	2.7	68	2.7	70	2.7	72	2.7	74	2.7	76	2.7	78	2.7	81	2.7
Insurance	50	2.3	52	2.2	53	2.2	55	2.2	57	2.2	58	2.2	60	2.2	62	2.2	64	2.2	66	2.2
Reserve for Replacement	109	5.0	116	5.0	120	5.0	124	5.0	127	5.0	131	5.0	135	5.0	139	5.0	143	5.0	148	5.0
Total	222	10.1	231	9.9	239	9.9	246	9.9	253	9.9	261	9.9	269	9.9	277	9.9	285	9.9	294	9.9
EBITDA LESS RESERVE	$696	31.9 %	$748	32.4 %	$781	32.6 %	$804	32.6 %	$828	32.6 %	$853	32.6 %	$879	32.6 %	$905	32.6 %	$933	32.6 %	$961	32.6 %

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

Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take three years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the subject property's operating history, operating budget, and comparable income and expense statements. The forecast begins on June 1, 2015, expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. The subject property is expected to stabilize at 64.0% with an average rate of $105.98 in 2017/18. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

Other Operated Departments Revenue

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 2014/15 base year, other operated departments revenue equated to 1.0% of rooms revenue, or $0.91 per occupied room. The comparable operating statements illustrate other operated departments revenue ranging from 0.0% to 2.8% of rooms revenue and $0.03 to $2.79 per occupied room. We forecast the subject property's other operated departments revenue at 0.9% of rooms revenue or $0.89 per occupied room in year one, stabilizing at 0.9% of rooms revenue or $0.93 per occupied room.

Miscellaneous Income

In 2014/15, the subject property's miscellaneous income equated to 0.1% of rooms revenue or $0.08 per occupied room. Miscellaneous income revenue for the comparables ranged from 0.7% to 2.6% of rooms revenue or $0.64 to $2.52 per occupied room. We forecast the subject property's miscellaneous income at 0.1% of rooms revenue or $0.07 per occupied room in year one, stabilizing at 0.1% of rooms revenue or $0.08 per occupied room.

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy and managers can generally scale the level of service staff on hand to meet an expected occupancy level, 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 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.

In 2014/15, rooms expense for the subject property equated to 26.1% of rooms revenue, or $24.67 per occupied room. The comparables illustrated rooms expense ranging between 24.2% and 27.2% of rooms revenue, or $23.12 to $26.36 per occupied room. We have adjusted rooms expense upward during the initial forecast period, above the underlying inflationary rate, in order to maintain an appropriate level of expense as a percentage of departmental revenue in light of the hotel's established operating history. Higher expenses are expected for departmental costs such as reservation fees, staffing levels, and supply needs, among other factors, and our expense forecast reflects this likelihood. We have projected rooms expense for the subject property at 26.1% or $25.58 per occupied room in year one, stabilizing at 26.1% or $27.68 per occupied room.

Other Operated Departments Expense

Other operated departments expense comprises expenses associated with the hotel's various other and minor operated departments. Other operated departments expense equated to 111.9% of departmental revenue and $1.02 per occupied room in 2014/15. The expense ranges from $0.40 to $1.14 per occupied room for the comparables. We have forecast other operated departments expense at 110.5% of departmental revenue or $0.98 per occupied room in year one, stabilizing at 110.1% of departmental revenue or $1.02 per occupied room.

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.

In 2014/15, the subject property's administrative and general expense equated to 7.8% of total revenue or $1,614 per available room. For the comparables, this expense ranges from 7.9% to 10.4% of total revenue or $1,594 to $2,515 per available room. Based upon our review of comparable operating statements and the operating history of the subject property, we have adjusted the administrative and general line item upward. Currently, ownership benefits from owning three hotels within a mile of one another; therefore, we have assumed that new ownership would not benefit from some of the streamlined expenses. Administrative and general expense has been forecast at 8.3% of total revenue or

$1,891 per available room in year one, stabilizing at 8.1% of total revenue or $2,017 per available room.

Information and Telecommunications Systems Expense

Information and telecommunications systems expense consists of all costs associated with a hotel's technology infrastructure. This includes the costs of cell phones, administrative call and Internet services, and complimentary call and Internet services. Expenses in this category are typically organized by type of technology, or the area benefitting from the technology solution. The subject property is not reporting information and telecommunications systems as a separate line item at this time. Therefore, we have not forecast an expense in this line item going forward. We assume that all information and telecommunications systems expenses are accounted for in the other line items of the hotel's operating statement.

Marketing Expense

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

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

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

In 2014/15, marketing expense for the subject property equated to 3.2% of total revenue or $655 per available room. This expense for the comparables ranged from 1.0% to 7.2% of total revenue or $205 to $1,772 per available room. Marketing expense has been projected at 3.0% of total revenue or $683 per available room in year one, stabilizing at 2.9% of total revenue or $728 per available room.

Franchise Fee

The subject property is assumed to operate as a Fairfield Inn & Suites by Marriott throughout the projection period. The costs of the Fairfield Inn & Suites by Marriott affiliation are reflected in our forecast and comprise a 5% royalty fee and a 2.5% advertising assessment. Other charges related to the affiliation, such as frequent guest programs, are reflected in the appropriate departmental expenses, consistent with the Uniform System of Accounts for the Lodging Industry (USALI).

Marketing expense and franchise fees are often analyzed in total because hotels may account for some components of franchise expense in the marketing expense category. The subject property's total marketing and franchise expense has been forecast at 10.3% of total revenue on a stabilized basis, which compares with a total for the comparables ranging from 7.9% to 16.4% of total revenue.

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.

In 2014/15, the subject property's property operations and maintenance expense equated to 4.8% of total revenue or $989 per available room. The comparable operations indicated property operations and maintenance expense ranging from 3.1% to 4.7% of total revenue or $619 to $1,095 per available room. Property operations and maintenance expense has been forecast at 4.5% of total revenue or $1,031 per available room in year one, stabilizing at 4.4% of total revenue or $1,100 per available room.

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.

In 2014/15, the subject property's utilities expense equated to 5.3% of total revenue or $1,091 per available room. The comparable operations indicate utilities expense ranging from 4.7% to 5.6% of total revenue, or $1,109 to $1,225 per available room. Utility expenses are highly tied to local utility rates in the Ocala market; therefore, we have given primary consideration to the hotel's operating history. Utilities expense has been forecast at 5.0% of total revenue or $1,137 per available room in year one, stabilizing at 4.9% of total revenue or $1,213 per available room.

Management Fee

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

Property Taxes

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

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

FIGURE 9-10 SUBJECT PROPERTY'S ASSESSMENT HISTORY

Hotel	Number of Rooms	Total	Amounts Per Room Total
Subject Property	96	$3,000,367	$31,254
Best Western Ocala Park Centre	136	$3,968,765	$29,182
Country Inn & Suites Ocala	59	2,017,869	34,201
La Quinta Inn & Suites Ocala	117	3,693,736	31,570
Hampton Inn & Suites Ocala	101	5,220,244	51,686

Source: Marion County Tax Collector

The subject hotel's historical real property assessment level has increased in recent years, while the personal property assessment has decreased.

Tax rates are based on the city and county budgets, which change annually. The most recent tax rate in this jurisdiction was reported at 17.7276. The following table shows changes in the tax rate during the last several years.

FIGURE 9-11 PROPERTY TAX RATES

Year	Real Property Tax Rate	Personal Property Tax Rate
2012	18.1040	18.1040
2013	17.8710	17.8710
2014	17.7276	17.7276

Source: Marion County Tax Collector

Because the objective of assessed value is to maintain a specific value relationship among all properties in a taxing jurisdiction, comparable hotel assessments should be evaluated to determine whether the subject property's assessed value appears reasonable in this context. A review of the assessed values of several comparable hotels located in the local county jurisdiction reveals the following information.

FIGURE 9-12 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Number of Rooms	Total	Amounts Per Room Total
Subject Property	96	$3,000,367	$31,254
Best Western Ocala Park Centre	136	$3,968,765	$29,182
Country Inn & Suites Ocala	59	2,017,869	34,201
La Quinta Inn & Suites Ocala	117	3,693,736	31,570
Hampton Inn & Suites Ocala	101	5,220,244	51,686

Source: Marion County Tax Collector

The data show that the subject property's assessment is within the range presented by the comparable data and appears reasonable in this context based upon the extent of the subject hotel's improvements, the current quality of the building, and the size of the site.

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

FIGURE 9-13 PROJECTED PROPERTY TAX EXPENSE

Year	Assessed Value Real	Assessed Value Personal	Total	Forecast Rate of Value Change	Base Rate of Tax Burden Increase	Real Prop. Tax Rate	Pers. Prop. Tax Rate	Tax Forecast
Historical	$3,000,367	$433,525	$3,433,892	—	—	17.73	17.73	$60,875
2015/16	$3,000,367	$433,525	$3,433,892	0.0 %	2.0 %	—	—	$62,092
2016/17	3,000,367	433,525	3,433,892	0.0	2.5	—	—	63,644
2017/18	3,000,367	433,525	3,433,892	0.0	3.0	—	—	65,554
2018/19	3,000,367	433,525	3,433,892	0.0	3.0	—	—	67,520
2019/20	3,000,367	433,525	3,433,892	0.0	3.0	—	—	69,546

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage.

Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

The subject property's insurance expense equated to 2.5% of revenue or $515 per available room in 2014/15. Based on the subject hotel's operating budget and/or discussions with management, we project the subject property's insurance expense at 2.3% of total revenue or $526 per available room in year one, increasing with the rate of inflation in subsequent years.

Other Fixed Items

The subject property does not report any additional significant fixed expenses.

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) undertook a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent findings of the study were published in a report in 2007.[13] 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 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 this study, our review of the subject asset and comparable lodging facilities, and our industry expertise, we estimate that a reserve for replacement of 5% of total revenues is sufficient to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment.

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

Forecast of Income and Expense Conclusion

Revenues and expenses have been forecast for the subject property over the projection period shown. Over the long term, occupancy is expected to improve as the economy strengthens further, while average rate is anticipated to achieve greater gains as the hotel continues to ramp up toward stabilization. Historical and projected total revenue and net operating income are set forth in the following chart.

FIGURE 9-14 FORECAST OF INCOME AND EXPENSE CONCLUSION

	Year	Total Operating Revenue	Percentage Change	House Profit	Percentage Change	House Profit	EBITDA Less Replacement Reserve	Percentage Change	ELRR%
Historical	2012	$1,570,000		$631,000		40.2 %	$402,000		25.6 %
	2013	1,694,000	7.9 %	664,000	5.2 %	39.3	417,000	3.7 %	24.6
	2014	1,864,000	10.0	811,000	22.1	43.5	548,000	31.4	29.4
TTM ending	2014/15	1,984,000	6.4	895,000	10.4	45.1	628,000	14.6	31.7
Projected	2015/16	$2,187,000	10.2 %	$983,000	9.8 %	45.0 %	$696,000	10.8 %	31.9 %
	2016/17	2,317,000	5.9	1,049,000	6.7	45.3	748,000	7.5	32.4
	2017/18	2,400,000	3.6	1,092,000	4.1	45.5	781,000	4.4	32.6
	2018/19	2,471,000	3.0	1,125,000	3.0	45.5	804,000	2.9	32.6
	2019/20	2,545,000	3.0	1,158,000	2.9	45.5	828,000	3.0	32.6

The forecast of income and expense anticipates the net operating income ratio to improve from 31.7% of gross revenues in the base year to 32.6% of gross revenues by the fifth projection year.

INCOME CAPITALIZATION – MORTGAGE-EQUITY TECHNIQUE

The subject property has been valued via the income approach through the application of a ten-year mortgage-equity technique and a discounted-cash-flow analysis. The conversion of the subject property's forecasted net income into an estimate of value was based on the premise that investors typically leverage their real estate investments to enhance their equity yield. Typically, the majority of a transaction is capitalized with mortgage financing (50% to 80%), with equity comprising the balance (20% to 50%). The amounts and terms of available mortgage financing and the rates of return that are required to attract sufficient equity capital formed the basis for allocating the net income between the mortgage and equity components and deriving a value estimate.

The following table illustrates the valuation parameters used in the analysis.

FIGURE 9-15 VALUATION VARIABLES

Stabilized Year:	3	
Inflation:	3.0	%
Mortgage Component		
Loan to Value:	70	%
Amortization:	25	Years
Term:	10	Years
Interest Rate:	5.00	%
Mortgage Constant:	0.070151	
Equity Component		
Equity Yield:	19.0	%
Reversion		
Terminal Cap Rate:	9.5	%
Transaction Costs:	3.0	%
Income Value:	$8,700,000	
Derived Discount Rate:	10.4	%
Interest:	Monthly	

Mortgage Component

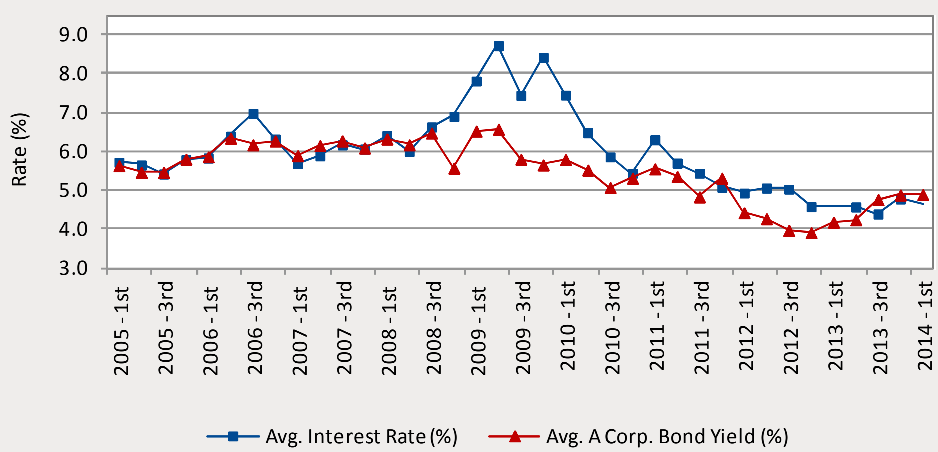
Hotel financing is currently very active at all tiers of the lodging industry. Lenders are attracted to the lodging industry because of the higher yields generated by hotel financing relative to other commercial real estate, and the industry is performing strongly, with supply growth constrained. Commercial banks, mortgage REITs, insurance companies, and CMBS and mezzanine lenders are aggressively pursuing deals. Financing is also increasingly available for hotels that require a turnaround.

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.

FIGURE 9-16 AVERAGE MORTGAGE INTEREST RATES AND AVERAGE-A CORPORATE BOND YIELDS



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

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

$$Y = 0.93675987\ X + 0.96975529$$

Where: Y = Estimated Hotel Mortgage Interest Rate
X = Current Average-A Corporate Bond Yield
(Coefficient of correlation is 93%)

The April 29, 2015, average yield on average-A corporate bonds, as reported by Moody's Investors Service, was 3.99%. When used in the previously presented equation, a factor of 3.99 produces an estimated hotel/motel interest rate of 4.71% (rounded).

Yields on U.S. treasuries and average-A corporate bonds remain at low levels due to Federal Reserve policy and the strengthening of the dollar, providing a very favorable financing environment. Interest rates for single hotel assets are currently ranging from 4.0% to 6.0%, 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 200 to 400 basis points over the corresponding yield on treasury notes. As of April 29, 2015, the yield on the ten-year T-bill was 1.90%, indicating an interest rate range from 3.9% to 5.9%. With the strengthening of the dollar, hotel mortgage interest rates have returned to their historical low. The Federal Reserve is expected to maintain rates at the current level through mid-year 2015, with a potential increase anticipated in the latter half of the year if the U.S. economy continues to perform strongly. At present, we find that lenders that are active in the market are using loan-to-value ratios of 60% to 80% and amortization periods of 20 to 30 years.

Based on our analysis of the current lodging industry mortgage market and adjustments for specific factors, such as the property's location and conditions in the Ocala hotel market, it is our opinion that a 5.00% interest, 25-year amortization mortgage with a 0.070151 constant is appropriate for the subject property. In the mortgage-equity analysis, we have applied a loan-to-value ratio of 70%, which is reasonable to expect based on this interest rate and current parameters.

Equity Component

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

Hotel Sales – Each appraisal performed by HVS uses a mortgage-equity approach in which income is projected and then discounted to a current value at rates reflecting the cost of debt and equity capital. In the case of hotels that were sold near the date of our valuation, we were able to derive the equity yield rate and unlevered discount rate by inserting the ten-year projection, total investment (purchase price and estimated capital expenditure and/or PIP) and debt assumptions into a valuation model and solving for the equity yield. The overall capitalization rates for the historical income and projected first-year income are based on the sales price "as is." The following table shows a representative sample of hotels that were sold on or about the time that we appraised them, along with the derived equity return and discount rates based on the purchase price and our forecast.

FIGURE 9-17 SAMPLE OF HOTELS SOLD – BUDGET/ECONOMY

Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Overall Rate Based on Sales Price: Historical Year	Overall Rate Based on Sales Price: Projected Year One	Gross Room Revenue Multiplier: Historical Year	Gross Room Revenue Multiplier: Projected Year One
Quality Inn	Limon, CO	47	Feb-14	12.9 %	22.0 %	10.9 %	12.1 %	3.1	2.9
Suburban Extended Stay	Coralville, IA	74	Dec-14	11.7	19.0	4.1	6.1	4.2	3.6
Howard Johnson Express Inn	Harrisburg, PA	71	Nov-14	10.6	18.9	7.8	9.9	3.8	3.4
Days Inn	Norfolk, VA	152	Nov-14	13.4	22.8	4.2	6.6	2.3	2.1
Super 8	Watertown, SD	57	Nov-14	13.6	22.4	4.2	10.8	2.4	2.4
Quality Inn	Louisville, CO	68	Sep-14	12.7	24.0	13.0	11.8	3.4	3.3
Quality Inn Placentia Anaheim	Placentia, CA	131	Aug-14	11.2	18.9	6.9	8.6	3.6	3.8
Best Western Sandman Hotel	Sacramento, CA	112	Aug-14	12.8	19.0	—	7.9	3.6	3.3
Country Inn & Suites	St Charles, IL	84	Aug-14	12.3	22.4	9.8	10.0	2.2	2.2
Sleep Inn & Suites	Sheboygan, WI	60	Aug-14	12.5	21.0	6.4	8.9	4.2	3.3
Quality Inn	Houmas, LA	158	Aug-14	12.2	21.0	8.0	11.3	1.9	2.1
Red Roof Inn	Elyria, OH	97	Aug-14	12.9	23.8	11.6	10.7	2.9	2.5
Travelodge	Colorado Springs, CO	50	Jun-14	10.1	18.6	6.6	9.0	2.8	2.7
Red Lion Hotel	Twin Falls, ID	112	Jun-14	12.0	19.3	0.7	7.6	1.0	0.9
Wingate Inn Chesapeake	Chesapeake, VA	100	Jun-14	11.8	21.6	7.6	8.6	3.0	2.8
America's Best Value Inn	Corpus Christi, TX	154	Jun-14	14.0	25.5	3.0	11.7	1.7	1.4
Magnuson Hotel Baton Rouge	Baton Rouge, LA	125	Jun-14	12.9	21.9	7.4	8.6	3.1	2.7
Imperial 88 Motel	Cortland, NY	33	Jun-14	14.3	24.8	14.6	12.4	2.5	2.6
Sleep Inn	Beaufort, SC	86	Jun-14	11.4	20.0	—	8.8	5.0	2.4
Best Western Hospitality Inn	Port Huron, MI	63	Jun-14	11.3	20.3	9.4	10.9	2.3	2.2
Best Inn & Suites	Denver, CO	194	May-14	12.1	23.3	12.3	12.7	2.3	2.3
Comfort Inn (Conversion)	Akron, OH	131	May-14	10.7	19.0	—	20.8	4.9	1.4
Best Western Premier	Amarillo, TX	260	May-14	11.8	18.6	1.7	3.7	4.2	3.2
Quality Inn Gaylord	Gaylord, MI	116	Apr-14	14.0	24.0	9.4	11.2	2.1	2.0
Red Lion Hotel	Yakima, WA	156	Apr-14	13.3	20.8	7.5	9.5	1.5	1.4
Comfort Inn	Cincinnati, OH	106	Apr-14	13.6	22.9	7.8	11.6	2.5	2.0
Travelodge	Morro Bay, CA	33	Apr-14	11.9	20.0	6.9	8.1	5.3	4.6
Morro Shores Inn & Suites	Morro Bay, CA	30	Apr-14	12.6	21.5	9.6	9.3	5.2	4.9
Best Western Plus	Haverhill, MA	126	Apr-14	13.5	22.3	9.1	11.3	2.7	2.6
La Quinta Inn	Tallahassee, FL	134	Apr-14	13.1	22.2	13.3	9.7	2.4	2.4
Atlantic Ocean Palm Inn	Daytona Beach, FL	50	Apr-14	12.9	22.3	3.2	3.4	3.4	3.3
Best Western	Fort Lee, NJ	63	Mar-14	13.2	22.3	9.1	10.0	3.9	3.8
Executive Inn	Woodbury, NY	108	Mar-14	10.1	16.9	14.2	7.4	2.8	3.7
Comfort Inn	Clinton, MD	92	Feb-14	11.8	19.3	5.4	6.4	4.5	4.2
Ramada Inn & Suites	Glendale Heights, IL	82	Jan-14	12.4	19.8	—	8.6	3.4	3.4
Best Western	West Coxsackie, NY	63	Jan-14	12.6	20.3	7.0	10.1	4.1	3.5
Best Western Plus	Fairfield, CT	60	Jan-14	12.0	23.2	10.3	10.6	2.3	2.3

Source: HVS

FIGURE 9-18 SAMPLE OF HOTELS SOLD – SELECT-SERVICE/EXTENDED-STAY

						Overall Rate Based on Sales Price	
Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Historical Year	Projected Year One
Holiday Inn Express	Saint Rose, LA	134	Mar-15	11.0 %	20.3 %	9.0 %	8.2 %
Hampton Inn	Titusville, FL	86	Mar-15	10.5	17.3	9.7	9.5
Red Lion Wenatchee	Wenatchee, WA	149	Feb-15	12.8	20.0	5.0	8.4
Hyatt Place	San Jose, CA	234	Nov-14	10.0	17.4	6.8	6.6
Holiday Inn	Chandler, AZ	106	Nov-14	11.8	21.2	4.9	6.2
Hilton Garden Inn	Burlington, MA	179	Nov-14	9.8	17.4	6.5	7.6
Inn at Key West	Key West, FL	106	Sep-14	11.0	19.6	7.5	7.8
Hampton Inn	Pleasanton, TX	63	Aug-14	10.9	20.0	20.0	17.3
Courtyard by Marriott	Montgomery, AL	146	Aug-14	11.0	19.6	4.3	9.0
Springhill Suites	Atlanta, GA	147	Aug-14	10.2	18.9	7.7	8.5
Springhill Suites	New York, NY	173	Jul-14	9.2	14.3	4.6	6.8
Residence Inn Midtown East	New York, NY	211	Jul-14	9.7	15.7	6.7	8.8
Holiday Inn Express	New Orleans, LA	129	Jul-14	12.7	21.9	3.4	3.1
Holiday inn Austin NW	Austin, TX	194	Jun-14	12.9	21.4	10.5	8.8
Holiday Inn Express & Suites	Peoria, IL	98	Jun-14	12.8	21.1	3.7	6.7
Hampton Inn	Tulsa, OK	70	May-14	10.4	18.0	7.0	9.5
Holiday Inn Express & Suites	Santa Cruz, CA	100	Apr-14	11.3	18.7	8.3	8.6
Aloft Hotel	Broomfield, CO	139	Apr-14	11.0	20.7	9.4	10.3
Courtyard by Marriott	Columbia, SC	189	Mar-14	10.6	18.3	5.5	9.4
Courtyard by Marriott (Conversion)	Austin, TX	198	Feb-14	11.9	20.2	10.6	10.7
Hyatt Place Minneapolis	Minneapolis, MN	213	Dec-13	10.0	17.0	—	6.5
Holiday Inn Express	Brooklyn, NY	104	Dec-13	9.8	16.7	9.1	8.4
Hilton Garden Inn	Sarasota, FL	115	Dec-13	11.9	20.3	10.4	10.6
Homewood Suites	Gaitherburg, MD	203	Nov-13	11.5	18.0	—	2.5
Hampton Inn Beeville	Beeville, TX	70	Nov-13	11.9	19.4	10.6	8.5
Hampton Inn & Suites	Austin, TX	102	Nov-13	11.1	18.5	7.8	8.8
Springhill Suites	Little Rock, AK	78	Oct-13	12.2	19.9	7.8	10.3
Staybridge Suites	Mount Laurel, NJ	99	Oct-13	12.0	19.8	10.6	9.5
Holiday Inn Express & Suites	Westampton, NJ	76	Oct-13	12.3	20.0	8.1	8.5
Springhill Suites	Oklahoma City, OK	128	Oct-13	11.9	19.4	8.8	9.8
Holiday Inn	Willowbrook, IL	220	Oct-13	13.7	20.8	4.3	6.9
Residence Inn	Bellevue, WA	231	Oct-13	9.5	15.9	8.2	7.8
Courtyard Raleigh	Raleigh, NC	109	Sep-13	11.2	18.6	7.8	7.8
Holiday Inn Express & Suites	Wauseon, OH	64	Aug-13	13.0	21.7	8.7	10.4
Holiday Inn	New York, NY	226	Jun-13	10.0	16.6	7.8	7.8
Residence Inn Coconut Grove	Miami, FL	140	Jun-13	10.0	16.1	7.2	6.7
Holiday Inn Express & Suites	Elk Grove, CA	116	Jun-13	10.8	17.4	7.6	8.2

Source: HVS

Investor Interviews - During the course of our work, we continuously monitor investor equity-yield requirements through discussions with hotel investors and brokers. While equity still looks to yield high returns for the risk of hotel investment, the low-yield environment, coupled with increased competition for quality assets, has placed downward pressure on equity-yield returns. We find that equity-yield rates currently range from a low in the low-to-mid teens for high-barrier-to-entry "trophy assets"; the upper teens for high quality, institutional-grade assets in strong markets; and the upper teens to low 20s for quality assets in more typical markets. Equity yields have increased moderately because of higher leverage levels, though competition for quality assets continues to place downward pressure on return requirements. Equity-yield rates tend to exceed 20% for aging assets with functional obsolescence and/or other challenging property- or market-related issues. Equity return requirements also vary with an investment's level of leverage. Higher loan-to-value ratios are becoming more prevalent, allowing for increased equity returns.

The following table summarizes the range of equity yields indicated by hotel sales and investor interviews. We note that there tends to be a lag between the sales data and current market conditions, and thus, the full effect of the change in the economy and capital markets may not yet be reflected.

FIGURE 9-19 SUMMARY OF EQUITY YIELD OR INTERNAL RATE OF RETURN REQUIREMENTS

Source	Data Point Range	Average
HVS Hotel Sales - Full-Service & Luxury	15.1% - 22%	18.2%
HVS Hotel Sales - Select-Service & Extended-Stay	14.3% - 21.9%	18.9%
HVS Hotel Sales - Budget/Economy	16.9% - 25.5%	21.2%
HVS Investor Interviews	12% - 22%	

Based on the assumed 70% loan-to-value ratio, the risk inherent in achieving the projected income stream, and the age, condition, and anticipated market position of the subject property, it is our opinion that an equity investor is likely to require an equity yield rate of 19.0%. While the lack of attainable yields on alternate investments has continued to put downward pressure on equity-yield rates, increasing leverage levels are enabling investors to earn higher returns. Competition for quality assets remains strong among all hotel asset types. These influences are keeping equity yields from increasing significantly. Intense competition for assets in the major metro areas is pushing investors to pursue acquisitions with greater upside in secondary and tertiary markets. Value-added acquisitions are also attracting greater interest due to the increasing availability of financing for these types of transactions and the potential for higher returns.

Terminal Capitalization Rate

Inherent in this valuation process is the assumption of a sale at the end of the ten-year holding period. The estimated reversionary 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.

We have reviewed several recent investor surveys. The following chart summarizes the averages presented for terminal capitalization rates in various investor surveys during the past decade. Note that survey data lag the market and do not necessarily reflect the most current market conditions.

FIGURE 9-20 HISTORICAL TRENDS OF TERMINAL CAPITALIZATION RATES

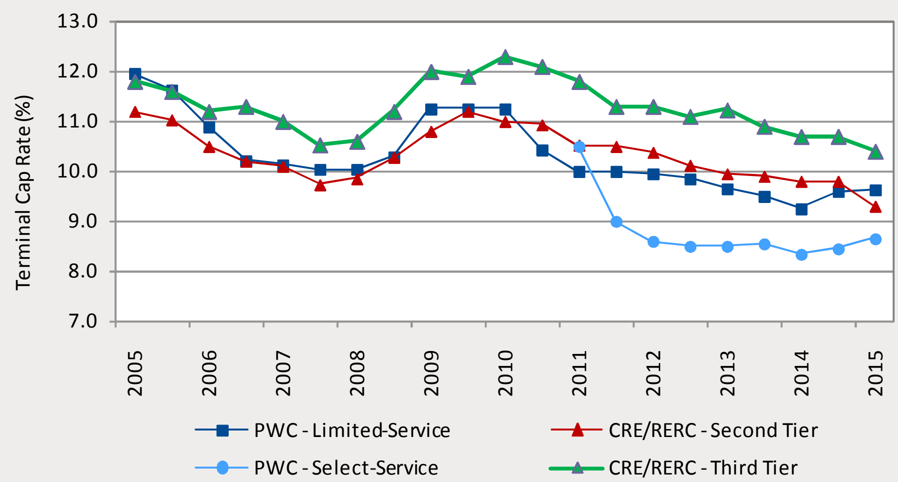


FIGURE 9-21 TERMINAL CAPITALIZATION RATES DERIVED FROM INVESTOR SURVEYS

Source	Data Point Range	Average
PWC Real Estate Investor Survey - 1st Quarter 2015		
Limited-Service Hotels	7.75% - 11.0%	9.6%
Select-Service Hotels	6.0% - 11.0%	8.7%
USRC Hotel Investment Survey - Winter 2015		
Limited-Service Hotels	6.8% - 12.0%	9.4%
Situs RERC Real Estate Report - Winter 2015		
Second Tier Hotels	5.9% - 12.0%	9.3%
Third Tier Hotels	7.0% - 13.0%	10.4%

For purposes of this analysis, we have applied a terminal capitalization rate of 9.5%. Our final position for the terminal capitalization rate reflects the current market for hotel investments. In tandem with overall lower return expectations, terminal capitalization rates for quality hotel assets in markets with high barriers to entry have returned to their 2005 to 2007 lows, while terminal capitalization rates for older assets or for those suffering from functional obsolescence and/or weak market conditions remain elevated, reflecting the market's recognition that certain assets have less opportunity for significant appreciation.

Mortgage-Equity Method - Value Opinion

The valuation of the mortgage and equity components is accomplished using an algebraic equation that calculates the exact amount of debt and equity that the hotel will be able to support based on the anticipated cash flow (as estimated by the forecast of income and expense) and the specific return requirements demanded by the mortgage lender (interest) and the equity investor (equity yield). Thus, the anticipated net income (before debt service and depreciation) is allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. The total of the mortgage component and the equity component equals the value of the property. Using this method of the income capitalization approach with the variables set forth, our opinion of value of the fee simple interest in the subject property is illustrated in the following table.

FIGURE 9-22 VALUE OPINION AND APPLICATION OF CAPITAL DEDUCTION, AS APPLICABLE

Value Indication Prior to Deduct:	$8,690,942
Capital Deduction, If Applicable:	0
Value Indication ("As Is") After Deduction:	$8,690,942
Rounded to:	$8,700,000

Mathematical Proof of Value

The value is mathematically proven by confirming that the market-derived yields are met for the lender and equity participant during the projection period. Using the assumed financial structure set forth in the previous calculations, market value can be allocated between the debt and equity as follows.

Mortgage Component (70%)	$6,084,000
Equity Component (30%)	2,607,000
Total	$8,691,000

The annual debt service is calculated by multiplying the mortgage component by the mortgage constant.

Mortgage Component	$6,084,000
Mortgage Constant	0.070151
Annual Debt Service	$426,797

The eleven-year forecast of net income and ten-year forecast of net income to equity are presented in the following table.

FIGURE 9-23 ELEVEN-YEAR FORECAST OF NET INCOME AND TEN-YEAR FORECAST OF NET INCOME TO EQUITY

Year	Net Income Before Debt Service	Less: Debt Service	Net Income to Equity	Debt Coverage Ratio	Cash-on-Cash Return
2015/16	$696,000	$427,000	$269,000	1.63	10.3 %
2016/17	748,000	427,000	321,000	1.75	12.3
2017/18	781,000	427,000	354,000	1.83	13.6
2018/19	804,000	427,000	377,000	1.88	14.5
2019/20	828,000	427,000	401,000	1.94	15.4
2020/21	853,000	427,000	426,000	2.00	16.3
2021/22	879,000	427,000	452,000	2.06	17.3
2022/23	905,000	427,000	478,000	2.12	18.3
2023/24	933,000	427,000	506,000	2.19	19.4
2024/25	961,000	427,000	534,000	2.25	20.5
2025/26	990,000				

Our debt-coverage ratio falls within the range of 1.3 to 1.7, reflecting the debt-coverage ratios required in the current market. The net proceeds to equity upon sale of the property were determined by deducting sales expenses (brokerage and legal fees) and the outstanding mortgage balance.

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

11th Year's Net Income	$990,000
Capitalization Rate	9.5%
Reversionary Value	$10,421,000
Less:	
Brokerage and Legal Fees	313,000
Mortgage Balance	4,497,000
Net Sale Proceeds to Equity	$5,611,000

The discount rate (before debt service), the yield to the lender, and the yield to the equity position have been calculated by computer with the following results.

FIGURE 9-24 TOTAL PROPERTY VALUE AND INTERNAL RATES OF RETURN

Position	Value	Projected Yield (Internal Rate of Return) Over Holding Period
Total Property	$8,691,000	10.4 %
Mortgage	$6,084,000	4.9
Equity	$2,607,000	19.0

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

The position of the total property yield or unlevered discount rate reflects the current ready availability and low cost of both debt and equity capital. As of third-quarter 2013, lenders are very active, with capital available from numerous sources. Equity and mezzanine financing is also readily available due to the attractive yields being generated by hotels when compared with other forms of commercial real estate. We continue to interview hotel investors to assess the movement in yield rates and their impact on value.

The following tables demonstrate that the property receives its anticipated yields, proving that the value is correct based on the assumptions used in this approach.

FIGURE 9-25 VALUE OF THE MORTGAGE COMPONENT

Year	Total Annual Debt Service		Present Worth of $1 Factor at 4.9%		Discounted Cash Flow
2015/16	$427,000	x	0.952931	=	$407,000
2016/17	427,000	x	0.908077	=	388,000
2017/18	427,000	x	0.865335	=	369,000
2018/19	427,000	x	0.824605	=	352,000
2019/20	427,000	x	0.785791	=	336,000
2020/21	427,000	x	0.748805	=	320,000
2021/22	427,000	x	0.713559	=	305,000
2022/23	427,000	x	0.679973	=	290,000
2023/24	427,000	x	0.647967	=	277,000
2024/25	4,924,000 *	x	0.617468	=	3,040,000
			Value of Mortgage Component		$6,084,000

*10th year debt service of $427,000 plus outstanding mortgage balance of $4,497,000

FIGURE 9-26 VALUE OF THE EQUITY COMPONENT

Year	Net Income to Equity		Present Worth of $1 Factor at 19.0%		Discounted Cash Flow
2015/16	$269,000	x	0.840381	=	$226,000
2016/17	321,000	x	0.706240	=	227,000
2017/18	354,000	x	0.593511	=	210,000
2018/19	377,000	x	0.498775	=	188,000
2019/20	401,000	x	0.419161	=	168,000
2020/21	426,000	x	0.352255	=	150,000
2021/22	452,000	x	0.296028	=	134,000
2022/23	478,000	x	0.248776	=	119,000
2023/24	506,000	x	0.209067	=	106,000
2024/25	6,145,000 *	x	0.175696	=	1,080,000
			Value of Equity Component		$2,608,000

FIGURE 9-27 VALUE OF THE EQUITY, DEBT AND TOTAL PROPERTY

Year	Net Income Available for Debt Service		Present Worth of $1 Factor at 10.4%		Discounted Cash Flow
2015/16	$696,000	x	0.905808	=	$630,000
2016/17	748,000	x	0.820487	=	614,000
2017/18	781,000	x	0.743204	=	580,000
2018/19	804,000	x	0.673199	=	541,000
2019/20	828,000	x	0.609789	=	505,000
2020/21	853,000	x	0.552352	=	471,000
2021/22	879,000	x	0.500324	=	440,000
2022/23	905,000	x	0.453198	=	410,000
2023/24	933,000	x	0.410510	=	383,000
2024/25	11,069,000 *	x	0.371843	=	4,116,000
			Total Property Value		$8,690,000

*10th year net income of $961,000 plus sales proceeds of $10,108,000

Direct Capitalization

The following table reflects the capitalization rates for the subject property that have been derived based on our estimate of market value via the discounted-cash-flow analysis. Note that the stabilized year's net income has been deflated to first-year dollars.

FIGURE 9-28 DERIVED CAPITALIZATION RATES

Year	Net Operating Income	Market Value "As Is"	Derived Capitalization Rate
2014/15 Historical*	$628,000	$8,700,000	7.2 %
Forecast 2015/16	696,000	$8,700,000	8.0
Deflated Stabilized (2015/16) Dollars	740,000		

*2014/15 historical net operating income has been adjusted to reflect a 3.0% management fee and a 5.0% reserve for replacement

The derived capitalization rates are considered appropriate for a lodging facility such as the Fairfield Inn & Suites by Marriott Ocala. The capitalization rate based on the first year's projected net income is in line with current rates of return for hotel investments with the subject property's operating profile.

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

FIGURE 9-29 HISTORICAL TRENDS OF OVERALL CAPITALIZATION RATES

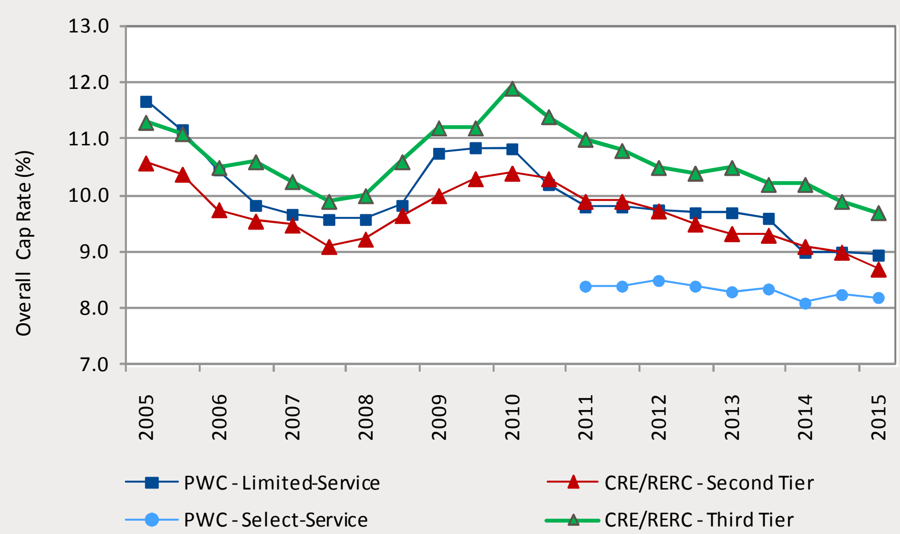


FIGURE 9-30 OVERALL CAPITALIZATION RATES DERIVED FROM SALES AND INVESTOR SURVEYS

Source	Data Point Range	Average
HVS Hotel Sales - Budget/Economy	0.7% - 14.6%	8.0%
HVS Hotel Sales - Select-Service & Extended-Stay	3.4% - 20%	7.9%
PWC Real Estate Investor Survey - 1st Quarter 2015		
Limited-Service Hotels	7.5% - 10.0%	9.0%
Select-Service Hotels	5.0% - 11.0%	8.2%
USRC Hotel Investment Survey - Winter 2015		
Limited-Service Hotels	6.3% - 10.0%	8.5%
Situs RERC Real Estate Report - Winter 2015		
Second Tier Hotels	5.0% - 12.0%	8.7%
Third Tier Hotels	6.0% - 12.5%	9.7%

We note that these results represent overall averages taken from a wide array of individual data points; accordingly, a range of reasonableness exists above and below the most recent figures. We have also reviewed capitalization rates from our extensive hotel transactions database; although not directly comparable, a selection of these rates is shown in the table titled *Sample of Hotels Sold*, which is presented previously in this chapter.

Discounted Cash Flow Analysis

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

1. An appropriate discount rate is selected to apply to the projected net income before debt service. This rate reflects the "free and clear" internal rate of return to an all-cash purchaser or a blended rate of debt and equity return requirements. The discount rate takes into consideration the degree of perceived risk, anticipated inflation, market attitudes, and rates of return on other investment alternatives, as well as the availability and cost of financing. The discount rate is chosen by reviewing sales transactions and investor surveys and interviewing market participants.
2. A reversionary value reflecting the sales price of the property at the end of the ten-year holding period is calculated by capitalizing the eleventh-year net income by the terminal capitalization rate and deducting typical brokerage and legal fees.

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

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

FIGURE 9-31 HISTORICAL TRENDS OF DISCOUNT RATES

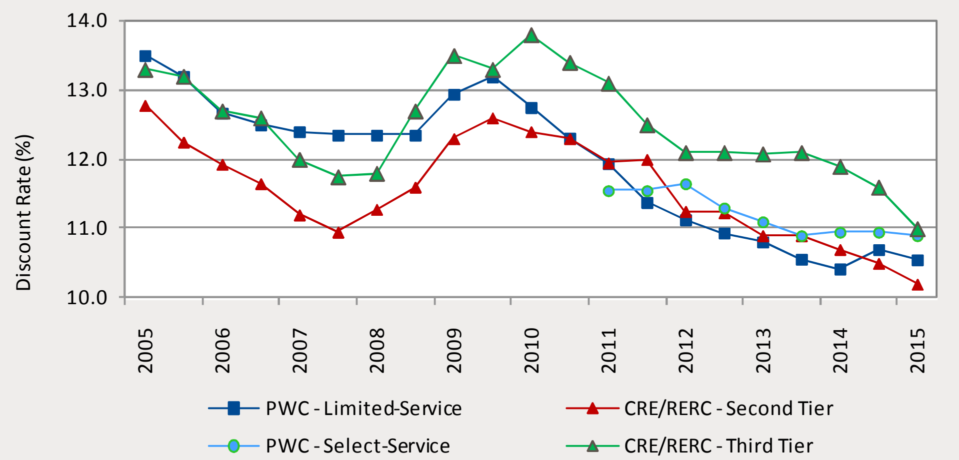


FIGURE 9-32 OVERALL DISCOUNT RATES DERIVED FROM SALES AND INVESTOR SURVEYS

Source	Data Point Range	Average
HVS Hotel Sales - Budget/Economy	10.1% - 14.3%	12.4%
HVS Hotel Sales - Select-Service & Extended-Stay	9.2% - 13.7%	11.2%
PWC Real Estate Investor Survey - 1st Quarter 2015		
Limited-Service Hotels	8.5% - 12.0%	10.6%
Select-Service Hotels	9.0% - 13.0%	10.9%
USRC Hotel Investment Survey - Winter 2015		
Limited-Service Hotels	7.8% - 15.0%	11.0%
Situs RERC Real Estate Report - Winter 2015		
Second Tier Hotels	7.0% - 13.0%	10.2%
Third Tier Hotels	7.0% - 13.5%	11.0%

We note that these results represent overall averages taken from a wide array of individual data points; accordingly, a range of reasonableness exists above and below the most recent figures. Based on our review of these surveys, sales transactions (see total property yields shown in the table titled *Sample of Hotels Sold*), and interviewing market participants, we have selected a discount rate of 10.50% for our analysis. Similar to the developed total property yield, our selected discount rate considers the current market for hotel investments, as well as the characteristics of the property and market.

Utilizing the discount rate set forth, the discounted-cash-flow procedure is summarized as follows. The capital deduction, if applicable, is applied in this analysis as shown.

HVS

FIGURE 9-33 DISCOUNTED CASH FLOW ANALYSIS

Year	Net Income		Discount Factor @ 10.50%	Discounted Cash Flow
2015/16	$696,000		0.90498	$629,864
2016/17	748,000		0.81898	612,600
2017/18	781,000		0.74116	578,848
2018/19	804,000		0.67073	539,271
2019/20	828,000		0.60700	502,596
2020/21	853,000		0.54932	468,571
2021/22	879,000		0.49712	436,971
2022/23	905,000		0.44989	407,146
2023/24	933,000		0.40714	379,858
2024/25	11,069,000	*	0.36845	4,078,516
			Estimated Market Value, Prior to Deduct	$8,634,241
			Capital Deduction (If Applicable)	0
			Estimated Market Value, After Deduct	$8,634,241
			Rounded To	**$8,600,000**
			Per Room	**$90,000**

Reversion Analysis	
11th Year's Net Income	$990,000
Capitalization Rate	9.5%
Total Sales Proceeds	$10,421,053
Less: Transaction Costs @ 3.0%	312,632
Net Sales Proceeds	$10,108,421

*10th year net income of $961,000 plus sales proceeds of $10,108,000

Conclusion

Using the income capitalization approach, the subject property was valued by a mortgage-equity valuation analysis and a straightforward discounted-cash-flow analysis. Based on our review of each method and their inherent strengths and weaknesses, as well as investor attitudes and methodologies, we have reconciled the value indication via the income capitalization approach to $8,700,000, or $90,600 per room.

10. Sales Comparison Approach

The sales comparison approach is based on the principle of substitution, which defines a property's value as the cost of acquiring an equally desirable substitute (assuming that no costly delay is incurred in making the substitution). Thus, the sales comparison approach can be used to form an opinion of a property's market value from the price at which equally desirable properties have sold, or for which they can be purchased, on the open market.

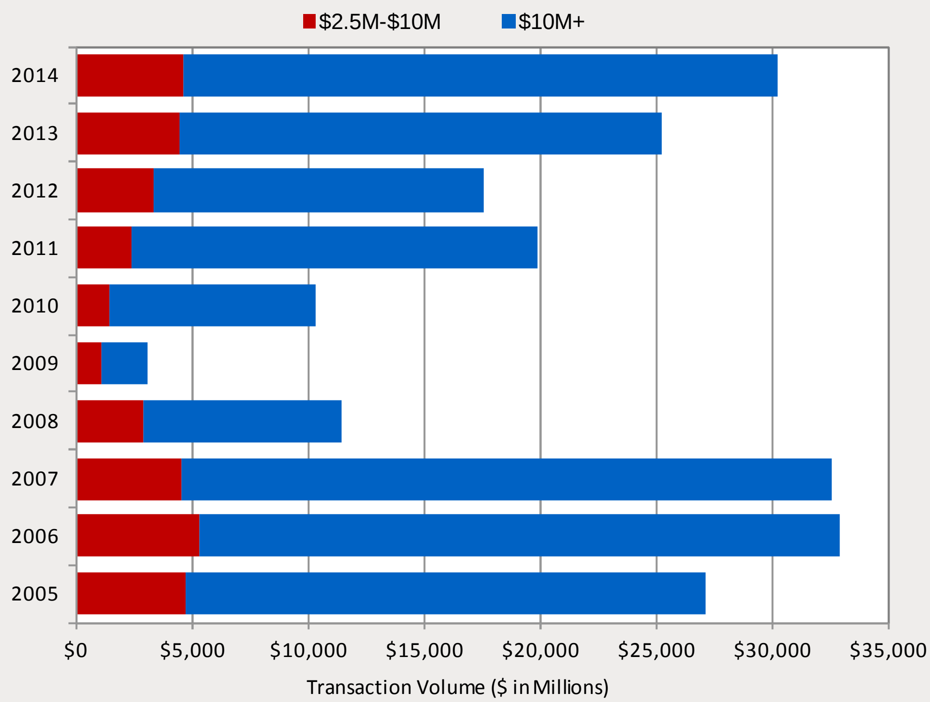
Hotel Investment Market Overview

The following overview of the hotel investment market during recent industry investment cycles provides a context for the sales comparison approach.

The volume of hotel transactions and the price paid for individual assets are influenced by two principal factors: the availability of capital and the performance of the lodging sector as a whole. When high levels of leverage are available on favorable terms and the industry is performing well, investors are attracted to the market, and both prices and the number of transactions increase. These market conditions often induce sellers to put their properties on the market, further fueling the pace of transaction activity. Conversely, when the availability of capital declines and when interest rates increase, both the pace of activity and pricing levels decrease. When these capital conditions coincide with a downturn in industry performance, the transaction market drops off significantly. In this environment, sellers are typically unwilling to put their properties on the market, electing to wait until market conditions improve. The impact of these influences results in a cyclical investment market, recording peaks and valleys in response to changes in the capital markets and the economy.

The following chart sets forth the dollar volume of U.S. hotel transactions over the past ten years through 2014, as reported by Real Capital Analytics. The blue portion of the bar chart represents the volume of transactions with a price in excess of $10 million, identified as Major Sales Transactions, while the red portion of the bar represents the volume of transactions with a price of $2.5 million to $10 million. While the sales volume of hotels priced at $10 million and under increased by 5% over the past year, transaction volume for hotels selling at a price of $10 million and above increased by a robust 25%.

FIGURE 10-1 U.S. HOTEL TRANSACTION VOLUME BY YEAR (SALES ABOVE $2.5M)

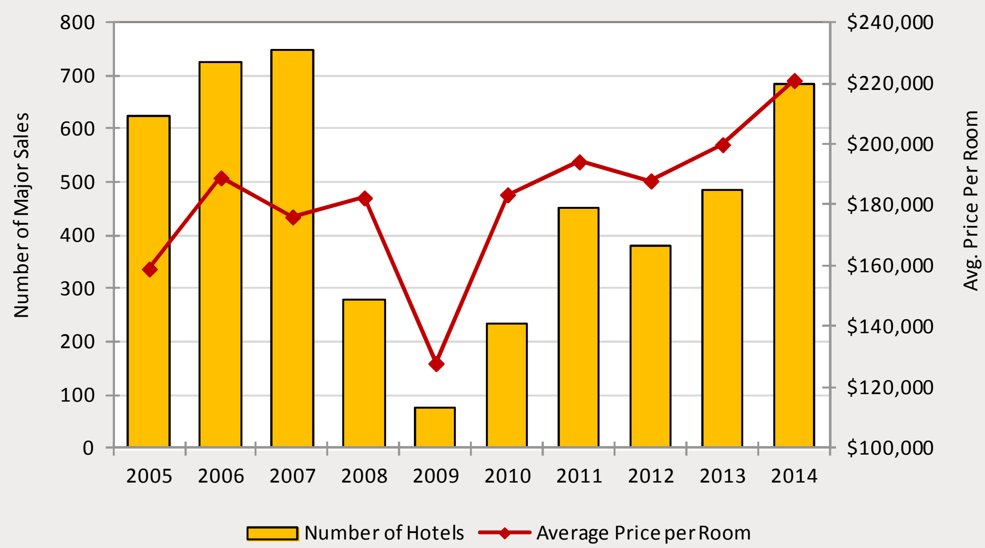


Source: RCA

The cyclical nature of the hospitality investment market is evident in the sales data. Following peak levels of activity in 2006 and 2007, hotel transaction activity slowed dramatically in 2008 due to the weakening economy and reduction in CMBS lending. The market came to a virtual standstill in 2009 due to the financial crisis, which negatively affected the hotel and real estate industries. With a recovery in fundamentals underway, transaction activity began to recover in 2010. Sales activity has continued to increase since that time, driven by strong industry fundamentals. Total sales volume increased by 22% from 2013 to 2014, reaching $30 billion, still $2 billion shy of the peak levels reached in 2006 and 2007. Given the very strong outlook for hotel performance and the continuing availability of low cost capital, sales volume in 2015 is expected to exceed prior peak levels.

The following graph sets forth the number of major hotel transactions (defined as those with a purchase price in excess of $10 million) and the average price per room since 2005.[14]

FIGURE 10-2 U.S. HOTEL TRANSACTIONS BY YEAR (SALES ABOVE $10M)



Source: RCA

The average price per room for hotels selling at a price of $10 million and over reached $220,000 in 2014, a 10% increase over the prior year. It should be noted that the average price per room is greatly influenced by the kinds of hotels being sold. In 2014, the transaction market was dominated by the sale of limited- and select-service hotels, with relatively fewer large, full-service and luxury assets transacting, which served to moderate the value-per-room gain. The number of major hotels that sold in 2014 increased by a surprising 46%, reflecting the greater number of smaller, lower-priced hotel transactions over the past year.

Major sales transaction activity, defined as hotels that sell in excess of $10 million, mirrors the total sales trend. Since its nadir in 2009, the market recovered to almost 700 major sales transactions in 2014, a notable 46% increase over the number of major hotels that sold in 2013. As of early 2015, the market is in a

[14] Real Capital Analytics individual and portfolio hotel transactions data

healthy state of equilibrium; equity interest in the sector remains strong, and debt is widely available at favorable interest rates. These factors, combined with continued strong industry fundamentals, are attracting more investors and sellers to the market. International investors looking for a safe haven for their capital and REITs, which performed very well in 2014, are expected to remain the most active buyers in 2015. Limited- and select-service hotels, many of which sold in portfolios that represented 30% of all major transaction activity in 2014, are anticipated to remain the most active product type. Competition for high-quality assets in gateway cities remains strong, driving many buyers to pursue assets in secondary markets. As the cycle evolves, investor interest is broadening outside the premier sectors and markets. While some aging assets and/or those in need of unfunded capital improvements may continue to be challenged, capital is increasingly available for asset turnarounds, which is also beginning to boost activity in this segment of the market.

The improvements in market conditions since 2012 have resulted in increased sales transaction activity reflective of investor expectations in a normalized market. Thus, we have tried to focus on sales transactions from 2012 to the present, if adequate comparable data are available. Sales from prior years may be pertinent if there has been sparse activity in the subject property's product type since the 2008/09 economic downturn. Capitalization rates derived from the historical income of the sales vary widely, depending upon when the sale occurred and how a hotel was performing at the time of sale. Given these factors, we have researched and relied upon the most relevant comparable sales data in our appraisal of the subject property, although adjustments for changes in capital market conditions may be warranted, depending on the date and particular attributes of the transaction.

Sales History of Subject

The subject property is currently owned by Minch Hospitality Corp., which is based in Ocala, Florida. Minch Hospitality Corp. developed the subject property, which opened in 1998. No transfers of the property have reportedly occurred since its construction. The hotel, along with the Courtyard by Marriott Ocala and the Residence Inn by Marriott Ocala, is now under contract for purchase by American Hotel Income Properties REIT Inc. for a reported portfolio purchase price of $31,000,000; an individual purchase price for the subject property was not allocated.

Comparable Sales

To present our selection of comparable sales, we conducted a comprehensive search for recent transactions of hotels that bear comparison to the subject property in one or more key areas. When possible, we gave priority to transactions occurring in the same state or region as the subject property. We also considered factors such as operational and physical similarities to the subject property, including brand affiliation and revenue-generating characteristics. All of the data have been verified by HVS or obtained from a verifying source. The following transactions involved hotels that have some degree of geographic similitude with the subject property.

FIGURE 10-3 REVIEW OF PERTINENT TRANSACTIONS

Property	Location	Sale Date	Price	Rooms	Price/Rm	Overall Cap	Year Opened
Courtyard by Marriott Naples	Naples, Florida	Jan-15	$12,300,000	102	$120,588	—	1996
Courtyard Fort Lauderdale Coral Springs	Coral Springs, Florida	Jan-15	$7,000,000	110	$63,636	—	2000
TownePlace Suites by Marriott Tampa Westshore Airport	Tampa, Florida	Dec-14	$14,320,000	122	$117,377	—	2007
Fairfield Inn & Suites by Marriott Titusville Kennedy Space Center	Titusville, Florida	Nov-14	$11,176,032	96	$116,417	8.3%	2007
Fairfield Inn & Suites by Marriott Melbourne Palm Bay Viera	Melbourne, Florida	Nov-14	$9,662,611	83	$116,417	8.3%	2008
Hampton Inn Fort Lauderdale Plantation	Plantation, Florida	Sep-14	$13,000,000	128	$101,562	—	1999
Holiday Inn Resort Lake Buena Vista	Orlando, Florida	Jun-14	$44,000,000	507	$86,785	—	1990
Hawthorn Suites by Wyndham Orlando Convention Center	Orlando, Florida	Jan-14	$8,300,000	120	$69,167	—	1991
Hampton Inn Naples Interstate 75	Naples, Florida	Jan-14	$6,772,500	91	$74,423	—	2000
Hampton Inn Sarasota Interstate 75 Bee Ridge	Sarasota, Florida	Dec-13	$9,000,000	121	$74,380	10.7%	1997
Fairfield Inn & Suites by Marriott West Palm Beach Jupiter	Jupiter, Florida	Dec-13	$9,000,000	110	$81,818	10.1%	2000
Hilton Garden Inn Sarasota Bradenton Airport	Sarasota, Florida	Dec-13	$10,800,000	115	$93,913	10.4%	2001
Hilton Cocoa Beach Oceanfront	Cocoa Beach, Florida	Oct-13	$20,000,000	296	$67,568	—	1986
Hilton Garden Inn Orlando East University Central Florida	Orlando, Florida	Aug-13	$9,451,800	122	$77,474	—	2001
Hampton Inn Miami Airport West	Doral, Florida	Aug-13	$14,766,067	127	$116,268	—	1996
Holiday Inn Key Largo	Key Largo, Florida	Aug-13	$14,000,000	132	$106,061	—	1972
Courtyard by Marriott Tampa North	Tampa, Florida	Jul-13	$6,650,000	81	$82,099	—	1995
Hilton Garden Inn Fort Myers	Fort Myers, Florida	Jun-13	$9,135,000	126	$72,500	3.6%	2001
Holiday Inn Express Sarasota East I 75	Sarasota, Florida	Jun-13	$9,000,000	101	$89,109	7.8%	2003
Holiday Inn Express Tampa Rocky Point Island	Tampa, Florida	May-13	$6,350,000	88	$72,159	5.2%	1998
Hampton Inn Jacksonville Ponte Vedra Beach Mayo Clinic	Jacksonville Beach, Florida	May-13	$8,400,000	117	$71,795	—	2000
Hilton Garden Inn Orlando at SeaWorld	Orlando, Florida	May-13	$24,000,000	224	$107,143	—	2001
Hilton Garden Inn Tampa East Brandon	Tampa, Florida	Mar-13	$12,500,000	152	$82,237	—	2002
Courtyard by Marriott Jacksonville Flagler Center	Jacksonville, Florida	Feb-13	$9,350,000	120	$77,917	—	2007
Hyatt Place Orlando Convention Center	Orlando, Florida	Jan-13	$12,665,000	149	$85,000	7.0%	1998
Hyatt Place Orlando Universal	Orlando, Florida	Jan-13	$12,835,000	151	$85,000	7.4%	2000
Courtyard by Marriott Tampa Oldsmar	Oldsmar, Florida	Sep-12	$11,000,000	99	$111,111	8.3%	2003
Courtyard by Marriott Orlando Airport	Orlando, Florida	Sep-12	$10,289,046	149	$69,054	9.5%	1989
Residence Inn by Marriott Tampa Oldsmar	Oldsmar, Florida	Sep-12	$9,200,000	78	$117,949	8.3%	2005
Courtyard by Marriott Orlando International Drive	Orlando, Florida	Sep-12	$10,427,154	151	$69,054	12.9%	1990
Hilton Garden Inn Boca Raton	Boca Raton, Florida	Jul-12	$10,900,000	149	$73,154	—	2002

The following transactions involved hotels that have some degree of branding similitude with the subject property.

FIGURE 10-4 REVIEW OF PERTINENT TRANSACTIONS (CONTINUED)

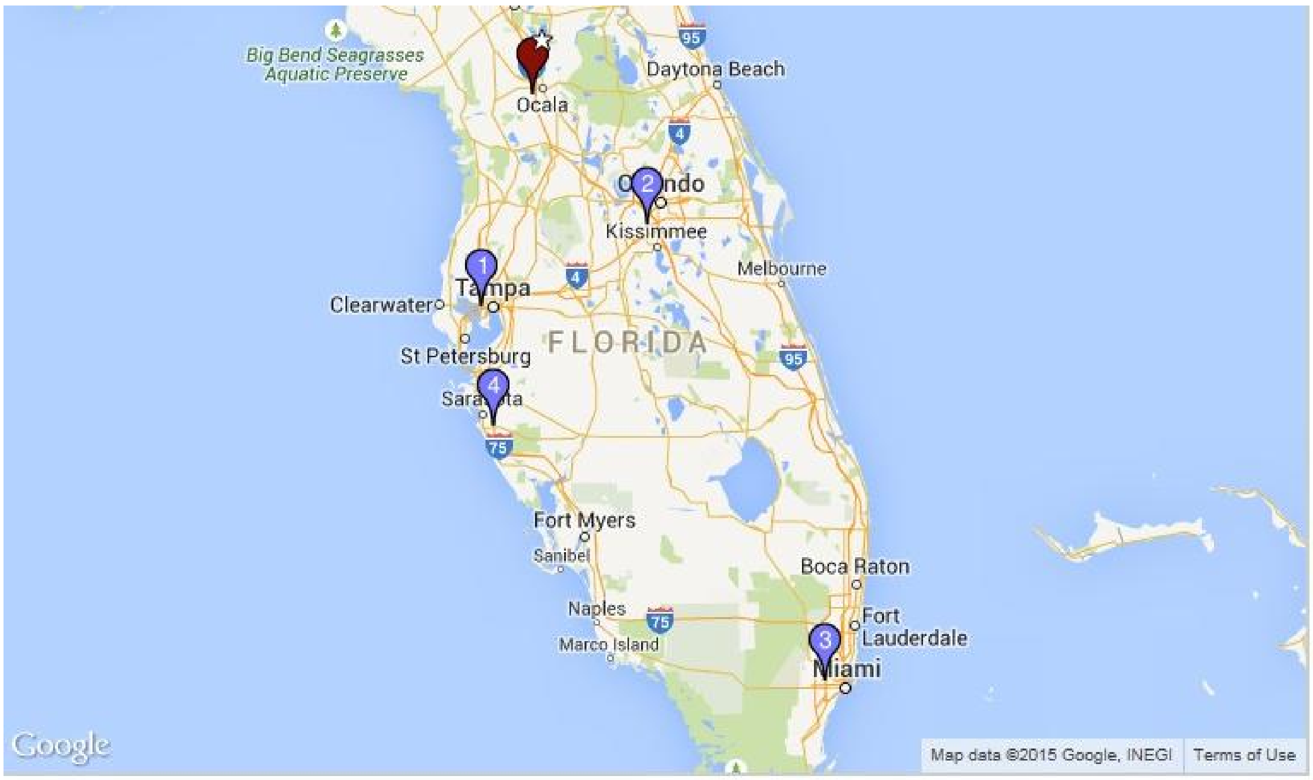
Property	Location	Sale Date	Price	Rooms	Price/Rm	Overall Cap	Year Opened
Hampton Inn Philadelphia Great Valley Malvern	Frazer, Pennsylvania	Mar-15	$11,000,000	125	$88,000	—	1998
Hampton Inn Des Moines Airport	Des Moines, Iowa	Feb-15	$10,900,000	120	$90,833	—	1987
Hampton Inn Port Huron	Port Huron, Michigan	Feb-15	$6,250,000	70	$89,286	—	1998
Fairfield Inn & Suites by Marriott Titusville Kennedy Space Center	Titusville, Florida	Nov-14	$11,176,032	96	$116,417	8.3%	2007
Fairfield Inn & Suites by Marriott Melbourne Palm Bay Viera	Melbourne, Florida	Nov-14	$9,662,611	83	$116,417	8.3%	2008
Hampton Inn Fort Lauderdale Plantation	Plantation, Florida	Sep-14	$13,000,000	128	$101,562	—	1999
Fairfield Inn & Suites by Marriott Asheboro	Asheboro, North Carolina	Jul-14	$6,650,000	87	$76,437	—	2009
Fairfield Inn & Suites by Marriott Kingsland	Kingsland, Georgia	Jul-14	$5,800,000	82	$70,732	—	2008
Hampton Inn Asheboro	Asheboro, North Carolina	Jul-14	$9,850,000	111	$88,739	—	1995
Fairfield Inn & Suites by Marriott Fairfield Napa Valley	Fairfield, California	Jun-14	$6,450,000	68	$94,853	—	2006
Hampton Inn Houma	Houma, Louisiana	Jun-14	$7,100,000	84	$84,524	9.3%	1998
Hampton Inn Tulsa Sand Springs	Tulsa, Oklahoma	May-14	$4,900,000	71	$69,014	10.4%	2001
Hampton Inn Sulphur	Sulphur, Louisiana	May-14	$6,550,000	79	$82,911	11.1%	1997
Hampton Inn Naples Interstate 75	Naples, Florida	Jan-14	$6,772,500	91	$74,423	—	2000
Hampton Inn Allentown	Allentown, Pennsylvania	Jan-14	$9,300,000	124	$75,000	—	1988
Hampton Inn Waterbury	Waterbury, Connecticut	Jan-14	$6,000,000	91	$65,934	18.2%	2005
Fairfield Inn & Suites by Marriott West Palm Beach Jupiter	Jupiter, Florida	Dec-13	$9,000,000	110	$81,818	10.1%	2000
Hampton Inn Sarasota Interstate 75 Bee Ridge	Sarasota, Florida	Dec-13	$9,000,000	121	$74,380	10.7%	1997
Hampton Inn Boise Airport	Boise, Idaho	Nov-13	$4,400,000	63	$69,841	—	1995
Hampton Inn Pittsburgh Greentree	Pittsburgh, Pennsylvania	Nov-13	$15,260,000	132	$115,606	—	1986
Hampton Inn Maumelle	Maumelle, Arkansas	Nov-13	$6,300,000	71	$88,732	—	2011
Hampton Inn Pittsburgh Cranberry	Cranberry Township, Pennsylvar	Nov-13	$13,770,000	116	$118,707	—	1985
Hampton Inn Miami Airport West	Doral, Florida	Aug-13	$14,766,067	127	$116,268	—	1996
Hampton Inn Knoxville West At Cedar Bluff	Knoxville, Tennessee	Aug-13	$18,750,000	175	$107,143	—	1986
Hampton Inn Jacksonville Ponte Vedra Beach Mayo Clinic	Jacksonville Beach, Florida	May-13	$8,400,000	117	$71,795	—	2000
Hampton Inn Raleigh Capital Boulevard North	Raleigh, North Carolina	Apr-13	$9,555,000	131	$72,939	—	1999
Hampton Inn Laurel	Laurel, Maryland	Mar-13	$6,662,500	80	$83,281	7.0%	2001
Fairfield Inn & Suites by Marriott Phoenix Midtown	Phoenix, Arizona	Feb-13	$10,500,000	107	$98,131	—	2002
Hampton Inn Marshall	Marshall, Michigan	Jan-13	$5,165,000	73	$70,753	—	2004
Hampton Inn Brattleboro	Brattleboro, Vermont	Jan-13	$7,400,000	73	$101,370	—	2005
Fairfield Inn & Suites by Marriott Charleston Airport Convention Center	North Charleston, South Carolin	Nov-12	$9,400,000	102	$92,157	10.0%	2000

From these selected sales, we have chosen several primary transactions for further review and consideration in the development of an indication of value via this approach. These transactions are illustrated in the following table.

FIGURE 10-5 SUMMARY OF SELECTED COMPARABLE SALES

Property	Location	Sale Date	Price	Rooms	Price/Rm	Overall Cap	Year Opened
TownePlace Suites by Marriott Tampa Westshore Airport	Tampa, Florida	Dec-14	$14,320,000	122	$117,377	—	2007
Hawthorn Suites by Wyndham Orlando Convention Center	Orlando, Florida	Jan-14	$8,300,000	120	$69,167	—	1991
Hampton Inn Miami Airport West	Doral, Florida	Aug-13	$14,766,067	127	$116,268	—	1996
Holiday Inn Express Sarasota East I 75	Sarasota, Florida	Jun-13	$9,000,000	101	$89,109	7.8%	2003

MAP OF PRIMARY COMPARABLE SALES



Property	Location	Sale Date	Price	Rooms	Price/Rm
Subject Property					
1 TownePlace Suites by Marriott Tampa Westshore Airport	Tampa, FL	Dec-2014	14,320,000	122	117,377
2 Hawthorn Suites by Wyndham Orlando Convention Center	Orlando, FL	Jan-2014	8,300,000	120	69,167
3 Hampton Inn Miami Airport West	Doral, FL	Aug-2013	14,766,067	127	116,268
4 Holiday Inn Express Sarasota East I 75	Sarasota, FL	Jun-2013	9,000,000	101	89,109

These sales are further detailed on the following pages.

Sale #1
TownePlace Suites by Marriott Tampa Westshore Airport
Tampa, Florida
122 Rooms

TRANSACTION DATA

Date of Sale:	December-14
Interest Conveyed:	Fee Simple
Buyer:	Noble Investment Group
Seller:	McKibbon Hotel Group, Inc.
Sales Price:	$14,320,000
Price per Room:	$117,377
Occupancy (Jan 1, 2014 - Dec 31, 2014):	82.6%
Average Rate (Jan 1, 2014 - Dec 31, 2014):	$91
RevPAR (Jan 1, 2014 - Dec 31, 2014):	$75
Rooms Revenue Multiplier:	4.3
Reported Capitalization Rate:	Not Disclosed
Confirmation:	Broker

PROPERTY DATA

Year Opened:	2007
Property Class:	First Class
Facilities:	# Stories: 4, # F&B Outlets: 1
Amenities:	Business Center, Laundry/Valet, Garage/Parking, Outdoor Pool, Fitness Center
Condition at Sale:	Good
Type of Location:	Urban

This property is located near Interstate 275, one-half mile from the Tampa International Airport. The hotel market contains several businesses and demand generators including Cypress Point Park, Westshore Plaza, University of Tampa, Tampa Convention Center, and Florida Aquarium. This property was purchased along with the Residence Inn Tampa Westshore for $35,720,000. At the time of sale, the new owners planned to conduct brand specific upgrades to the property. The hotel will continue to operate as a TownePlace Suites by Marriott.

Sale #2
Hawthorn Suites by Wyndham Orlando Convention Center
Orlando, Florida
120 Rooms

TRANSACTION DATA

Date of Sale:	January-14
Interest Conveyed:	Fee Simple
Buyer:	GVL Hospitality LLC
Seller:	Muniraj Enterprises Inc
Sales Price:	$8,300,000
Price per Room:	$69,167
Occupancy (Jan 1, 2013 - Dec 31, 2013):	74.0%
Average Rate (Jan 1, 2013 - Dec 31, 2013):	$67
RevPAR (Jan 1, 2013 - Dec 31, 2013):	$50
Rooms Revenue Multiplier:	3.8
Reported Capitalization Rate:	Not Disclosed
Confirmation:	RCA data

PROPERTY DATA

Year Opened:	1991
Property Class:	First Class
Facilities:	# Stories: 5
Amenities:	Business Center, Laundry/Valet, Outdoor Pool, Fitness Center, Whirlpool
Condition at Sale:	Good
Type of Location:	Suburban

This property is located near Interstate 4, one-half mile from the Orange County Convention Center. The hotel market area contains several businesses and demand generators including SeaWorld Orlando, University of Central Florida Rosen College of Hospitality Management, The Florida Mall, Walt Disney World, and Orlando International Airport. At the time of sale, the new owners planned to conduct a brand-specific renovation to the property.

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Sale #3
Hampton Inn Miami Airport West
Doral, Florida
127 Rooms

TRANSACTION DATA

Date of Sale:	August-13
Interest Conveyed:	Fee Simple
Buyer:	Lightstone Value Plus Real Estate
Seller:	Baywood Hotels, Inc.
Sales Price:	$14,766,067
Price per Room:	$116,268
Occupancy (Jan 1, 2012 - Dec 31, 2012):	87.0%
Average Rate (Jan 1, 2012 - Dec 31, 2012):	$99
RevPAR (Jan 1, 2012 - Dec 31, 2012):	$86
Rooms Revenue Multiplier:	3.7
Reported Capitalization Rate:	Not Disclosed
Confirmation:	Broker

PROPERTY DATA

Year Opened:	1996
Property Class:	Mid-Scale
Facilities:	# Stories: 6, Total SF Meeting Space: 896
Amenities:	Business Center, Laundry/Valet, Outdoor Pool, Fitness Center
Condition at Sale:	Good
Type of Location:	Airport

This property is located near the Palmetto Expressway, two and one-half miles from Mall of the Americas. The hotel market area contains several businesses and demand generators including the Doral Golf Resort & Spa (featuring the TPC Blue Monster at Doral), Miami International Mall, and Miami International Airport. This property was sold along with the Hampton Inn & Suites Fort Lauderdale Airport for a total of $31,000,000. The property will undergo cosmetic renovations and will continue operating as a Hampton Inn. The hotel will be managed by ownership.

HVS

Sale #4
Holiday Inn Express
Sarasota East I 75
Sarasota, Florida
101 Rooms

TRANSACTION DATA

Date of Sale:	June-13
Interest Conveyed:	Fee Simple
Buyer:	Boulder Hotel FLA, LLC
Seller:	CIS Sarasota, LLC
Sales Price:	$9,000,000
Price per Room:	$89,109
Occupancy (Jan 1, 2013 - Sep 30, 2013):	66.5%
Average Rate (Jan 1, 2013 - Sep 30, 2013):	$102
RevPAR (Jan 1, 2013 - Sep 30, 2013):	$68
Rooms Revenue Multiplier:	3.6
Reported Capitalization Rate:	7.8%
Confirmation:	Costar

PROPERTY DATA

Year Opened:	2003
Property Class:	Mid-Scale
Facilities:	# Stories: 4, # F&B Outlets: 1, Total SF Meeting Space: 1,100
Amenities:	Business Center, Laundry/Valet, Outdoor Pool, Fitness Center
Condition at Sale:	Good
Type of Location:	Suburban

This property is located off Interstate 75, six miles from the Bobby Jones Golf Complex. The hotel market area contains several businesses and demand generators including Sarasota Springs, Stoneybrook Golf and Country Club, Sarasota Memorial Hospital, Siesta Key Public Beach, and the Museum of Asian Art. The new owners planned to conduct renovations to the property, and the hotel will be operated by ownership.

Review of Comparable Sales

The following table sets forth the adjustment grid used to account for differences between the transacted properties and the subject property.

FIGURE 10-6 COMPARABLE SALES ADJUSTMENT GRID

Elements of Comparison	Subject Property	Sale #1 TownePlace Suites by Marriott Tampa Westshore Airport, Tampa, Florida	Sale #2 Hawthorn Suites by Wyndham Orlando Convention Center, Orlando, Florida	Sale #3 Hampton Inn Miami Airport West, Doral, Florida	Sale #4 Holiday Inn Express Sarasota East I 75, Sarasota, Florida
Sale Price		$14,320,000	$8,300,000	$14,766,067	$9,000,000
Number of Rooms	96	122	120	127	101
Price per Room		$117,377	$69,167	$116,268	$89,109
Year Open	1998	2007	1991	1996	2003
Date of Sale	May-15	December-14	January-14	August-13	June-13
Adjustments for Transaction Characteristics (Per Room)					
Property Rights Conveyed	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		117,377	69,167	116,268	89,109
Financing Terms		Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		117,377	69,167	116,268	89,109
Conditions of Sale		Normal	Normal	Normal	Normal
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		117,377	69,167	116,268	89,109
Market Conditions		Similar	Inferior	Inferior	Inferior
Adjustment		0.0 %	10.0 %	10.0 %	10.0 %
Adjusted Sales Price		117,377	76,083	127,895	98,020
Adjusted Price		$117,377	$76,083	$127,895	$98,020
Adjustments for Property Characteristics					
Location/Market		Similar	Superior	Similar	Similar
Adjustment		0.0 %	(5.0) %	0.0 %	0.0 %
Physical Condition/Facilities		Inferior	Inferior	Inferior	Inferior
Adjustment		5.0 %	10.0 %	5.0 %	5.0 %
Other Revenue Sources		Similar	Similar	Similar	Similar
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %
Market Orientation (RevPAR)	$56.03	$74.84	$49.58	$86.13	$67.94
Adjustment		(25.1) %	13.0 %	(35.0) %	(17.5) %
Cumulative Percentage Adjustment		(20.1) %	18.0 %	(30.0) %	(12.5) %
Net Adjust. for Property Characteristics		(23,634)	13,695	(38,308)	(12,284)
Adjusted Price Per Room		$93,743	$89,778	$89,587	$85,735

Property Rights Conveyed

The purpose of this assignment is the valuation of the fee simple interest in the subject property. This adjustment accounts for differences between the interest transferred for each of the comparable sales and that of the subject of the appraisal. All comparable sales represented the fee simple interest; thus, no adjustments for property rights conveyed were deemed necessary.

Financing Terms

The transaction price of a sale may be affected by the financing structure. When necessary, this adjustment converts extraordinary financing to market terms. All comparable sales represented cash transactions. Therefore, no adjustments were made for financing terms.

Conditions of Sale

The motivations of the buyer and/or seller may affect the price paid for a property. This adjustment reconciles any atypical aspects of the transaction, in conformance with the definition of market value. All transactions were considered to have normal conditions of sale; as such, no adjustments were applied.

Market Conditions

The purpose of this adjustment is to account for significant changes in external economic conditions between the date of sale and the date of value, including changes in tax laws, investor requirements, mortgage terms, and other factors that might affect real estate value. The lack of financing and more stringent underwriting terms, combined with limited investor interest, resulted in poor investment market conditions from the third quarter of 2008 into 2010. Beginning mid-year 2010, investor interest and the large volume of equity capital seeking quality hotel investments resulted in improved market conditions. In the latter half of 2011, market conditions regressed somewhat as investors and lenders became more cautious and capital was less available. This caution eased in early 2012, and market conditions returned to those that prevailed in late 2010 and early 2011. Beginning mid-year 2012, the cost and availability of mortgage capital improved significantly, with interest rates falling below the levels experienced at the peak of the market in 2006 and 2007. This trend continued through 2013 and 2014, with interest rates remaining low and loan-to-value ratios rising in response to increased lender interest in the hospitality sector. In recognition of the changing market conditions, upward adjustments were applied to the transactions that occurred in 2013 and early 2014.

Location/Market Adjustments

The adjustment for differences in location or market is intended to consider any specific locational attributes that would influence the value of the hotel over and above the influence reflected in the revenue levels achieved by the property. Typically, these influences are tied to the characteristics of the site and are most common when an asset is in a location or market that has high barriers to entry. A downward adjustment for location/market characteristics was applied to the transaction noted as Sale #2 to reflect the premium attributable to its location in a comparatively stronger real estate market. No other adjustments for location or market characteristics were deemed necessary.

Physical Condition/ Facilities Adjustments

Adjustments for physical condition or facilities address differences in the condition of the property at the time of sale, the age of the property as of the date of sale, and/or the array of facilities available. Upward adjustments for physical condition were applied to all the transactions given these assets' earlier dates of construction and aging physical plants or their lack of any major renovations, considered inferior to the subject property, which underwent a comprehensive renovation in 2011.

Other Revenue Adjustments

Adjustments for other revenue sources and additional facilities are necessary to account for significant differences in revenue sources, such as food and beverage outlets, meeting space, or other operating departments, aside from rooms. All properties were deemed to have generally similar facilities and revenue sources; therefore, no adjustments were applied to the sales.

RevPAR Adjustments

Hotels are purchased and sold on their ability to generate revenue and net income. Thus, we find that a reliable way to adjust hotel sales is by comparing RevPARs. Revenue per available room inherently reflects the relative revenue-producing ability of each of the comparable sales, the primary consideration of hotel purchasers. The best way to adjust comparable hotel sales is to calculate the difference between a comparable hotel's RevPAR at the time of sale with the subject property's RevPAR. RevPAR adjustments also inherently account for differences in physical condition and the passage of time. As such, we have adjusted the per-room sales price for each sale by the percentage differential between the subject hotel's base-year RevPAR and that of each property at the time of its sale.

Therefore, we have applied adjustments based on these factors.

Conclusion

Prior to adjustments, the comparable sales transacted for amounts ranging from $69,000 to $117,000 per room. Following quantitative and qualitative adjustments, we have positioned an appropriate value at $86,000 to $94,000 per room, or $8,200,000 to $9,000,000, for the 96-room subject property.

11. Cost Approach

Market value is determined via the cost approach by first estimating the market value of the subject land as if vacant and available for its highest and best use, and then adding the cost to construct the subject improvements. Market participants tend to take into consideration the cost to develop a new hotel or motel with optimal physical and functional utility when forming their purchase decisions regarding existing properties. The principle of substitution, which is basic to the cost approach, affirms that no prudent investor would pay more for a property than the cost to acquire the site and construct comparable improvements without undue delay.

As addressed in prior sections of this report, the cost approach has limited utility in the valuation of existing hotels. The quantification of external and incurable functional obsolescence is based on numerous adjustments. It is our experience that knowledgeable purchasers of complex hotel properties are more concerned with the economics of the investment. Therefore, the cost approach has little significance. In light of its minimal value and the difficulty in quantifying the varying sources of depreciation, we have not utilized the cost approach in estimating the value of the subject property. However, we have estimated the market value of the site and the replacement cost of the subject property's improvements for insurance purposes.

Land Valuation

Land value may be estimated in a variety of ways including the sales comparison approach and the allocation, extraction, or ground rent capitalization methods. For the majority of hostelry properties, the two primary methods used are the sales comparison approach and the ground-lease capitalization approach.

Ground Lease Approach to Land Value

Hotels are often constructed on leased land. While the lease terms differ somewhat from property to property, the basis for the rental calculation is often tied to a percentage of revenue formula. Using the forecasted revenues for the subject property and applying a typical hotel ground-lease rental formula, the appraiser is able to determine the hotel's economic rental (the income attributed to the land). The land value can then be estimated by capitalizing the hypothetical ground rent. The self-adjusting aspect of this approach is a key element to its reliability.

We have researched actual long-term ground leases encumbering hotels. The following tables summarize our findings, showing the property, its room count, and its rental formula.

FIGURE 11-1 SUMMARY OF HOTEL GROUND LEASES

Hotel and Location		Number of Rooms	Ground Lease Formula	Rental Based on Year 1 Forecast Subject Property Revenues: Dollar Amount (+000)	% of Rooms Revenue	% of Total Revenue
Park Ridge Marriott	Park Ridge, NJ	289	2.75% of total gross revenues, against a minimum	$60	2.8%	2.8%
Holiday Inn Riverwalk	San Antonio, TX	313	2.5% of rooms revenue, 1% of food and beverage revenue, and 2% of other income	$54	2.5%	2.5%
Marriott Biscayne Bay	Miami, FL	605	4% of rooms revenue and 3% of food and beverage revenue, against a minimum of $1,000,000	$87	4.0%	4.0%
Parkview Executive	Trumbull, CT	324	3% of rooms revenue, against a small minimum	$65	3.0%	3.0%
Marriott Hotel	Tulsa, OK	338	3% of rooms revenue, against a small minimum	$65	3.0%	3.0%
Marriott Medical Center	Houston, TX	389	3% of rooms revenue up to $15,000,000 and 3.25% above $15,000,000, against a small minimum	$65	3.0%	3.0%
Marriott Denver West	Golden, CO	307	Years 1-3: 3% of rooms revenue, years 4-6: 3.5% of rooms revenue, years 7+: 4% of rooms revenue; if hotel is expanded, rent is 5% of rooms revenue	$76	3.5%	3.5%
Marriott Albuquerque	Albuquerque, NM	412	3.5% of rooms revenue, against a minimum	$76	3.5%	3.5%
Hotel Meridien	New Orleans, LA	505	Greater of 2.5% of rooms revenue, 1.25% of total revenue, or $425,000	$54	2.5%	2.5%
Marriott Hotel	Overland Park, KS	404	3% of rooms revenue, against a small minimum	$65	3.0%	3.0%
Four Seasons	Los Angeles, CA	349	Years 1-5: $900,000 annually; thereafter, the greater of $1,500,000 annually, 10.8% of the market value of the land, or 5% of the gross revenue of the proceeding 12 months	$108	5.0%	5.0%

FIGURE 11-2 SUMMARY OF HOTEL GROUND LEASES (CONTINUED)

Hotel and Location		Number of Rooms	Ground Lease Formula	Rental Based on Year 1 Forecast Subject Property Revenues: Dollar Amount (+000)	% of Rooms Revenue	% of Total Revenue
Marriott Hotel	Woodland Hills, CA	473	The greater of $550,000 annually or 5% of rooms revenue; percentage rent is not to exceed 25% of a stipulated cash flow level	$108	5.0%	5.0%
Doubletree Desert Princess	Cathedral City, CA	289	Years 2-6: 2% of gross revenue; years 7-15: 2.5% of gross revenue; years 16-25: 3% of gross revenue; years 26-50: 4% of gross revenue; years 51-66: 4.5% of gross revenue	$55	2.5%	2.5%
Proposed Doubletree	Hermosa Beach, CA	250	Year 1: $125,000; year 2: $175,000; year 3: $225,000; year 4: $350,000; years 4-14: 4% of rooms revenue; years 15-19: 5% of rooms revenue; years 20-55: 6% of rooms revenue	$87	4.0%	4.0%
San Francisco Airport	Burlingame, CA	695	Year 1: 5% of rooms revenue; year 2: 5.25% of rooms revenue; years 3+: 5.5% of rooms revenue, against a minimum	$119	5.5%	5.4%
Ritz-Carlton Hotel	Rancho Mirage, CA	250	Year 1: 0.5% of total revenue; year 2: 1.0% of total revenue; year 3: 1.5% of total revenue; year 4+: 5.0% of total revenue	$109	5.0%	5.0%
Hyatt Regency	Sacramento, CA	508	Years 1-10: 2% of gross revenue; years 11+: 3% of gross revenue	$66	3.0%	3.0%
San Francisco Marriott	San Francisco, CA	1,500	Years 1-8: $1.05 million or 4% of gross rooms revenue or 2% of remaining revenue; year 9+: $1.5 million	$87	4.0%	4.0%
Doubletree Hotel	Santa Clara, CA	500	Years 1-3: $0; years 4-5: 3% of rooms revenue and 2% of food and beverage revenue; years 6-9: 3.5% of rooms revenue and 2% of food and beverage revenue; years 10-15: 4.5% of rooms revenue and 2% of food and beverage revenue; year 16+: 4.5% of rooms revenue and 3% of food and beverage revenue	$97	4.5%	4.5%

Our analysis of these ground lease rental formulas indicates that economic ground rents for hotels such as the subject property typically range from approximately 2% to 5% of rooms revenue. Hotels with significant land relative to room count, hotels in resort areas, or hotels in land-sparse downtown markets may command higher ground rent.

Based on the revenue projections set forth for the subject property as part of this appraisal, the following table shows how the economic ground rent has been calculated. We have utilized a ground rent percentage of 3.0% in our analysis.

Forecast Year One Rooms Revenue	$2,166,000
Rental Percentage	3.0 %
Economic Ground Rent	**$64,980**

Rent generated from an unsubordinated ground lease represents a low-risk flow of income. Because the tenant improvements typically amount to more than five times the value of the land, the risk of default is almost nonexistent. For hotel ground leases where rent is tied to revenue, the property owner is also protected from the adverse effects of inflation. Based on these minimal risk factors and the current cost of long-term capital, it is our opinion that the appropriate ground rent overall capitalization rate would be as indicated in the following table because of the aforementioned low level of risk. Based on our analysis of the subject property, we have selected a capitalization rate of 8.0%.

Applying the indicated capitalization rate to the subject property's economic ground rent results in the following estimate of land value.

$$\frac{\text{Economic Ground Rent}}{\text{Capitalization Rate}} = \frac{\$64{,}980}{8.0\ \%} = \mathbf{\$812{,}250}$$

This conclusion has been rounded to $800,000 in the remainder of our analysis.

Personal Property

In a hotel, the personal property consists of the furniture, fixtures, and equipment (FF&E) and the inventories in place at the subject property as of the date of value. USPAP defines personal property as "identifiable tangible objects that are considered by the general public as being 'personal' – for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate."[15]

In accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), the appraisers have delineated the market value of the subject hotel's personal property. Most furnishings in a hotel can command little more than a salvage value substantially lower than the original cost when sold separately from the improvements. Personal property has been valued based on the depreciated replacement cost of the FF&E. Personal property is an integral part of a transient lodging facility.

The allocation of a portion of the overall hotel's value to the personal property is not explicitly considered by hotel investors in making their pricing decisions. Lodging facilities are usually sold with their personal property in place. In a transaction, any operating supplies or inventories are negotiated as part of the closing statement adjustments.

The following table sets forth a depreciation schedule developed by HVS for determining the market value, or "value in exchange," of a hotel's FF&E. The depreciation estimates represent the average depreciation applicable to the entirety of a hotel's personal property; these have been applied to the original cost of the FF&E.

FIGURE 11-3 FURNITURE, FIXTURES, AND EQUIPMENT DEPRECIATION SCHEDULE

Average Age (Years)	Percent Depreciated
1	40 %
2	60
3	70
4	75
5	80
6	85
7	89
8	92
9	95
10	98

Source: HVS

15 Ibid.

We estimate the total replacement cost of the subject property's FF&E at $16,000 per available room, or a total of $1,536,000. Assuming an average economic life of ten years and an effective age of four, the value of the FF&E currently in place is approximately $4,000 per room, or a total of $380,000 (rounded). This is calculated using an accelerated depreciation schedule, which estimates total depreciation of a hotel's furnishings after four years at 75.0%.

Replacement Cost for Insurance Purposes

At the client's request, we have estimated the replacement cost for the subject property's building and contents for insurance purposes. One of the nationally recognized authorities on replacement cost information is Marshall & Swift, and HVS uses the Commercial Estimator computer software program produced by Marshall & Swift. As defined by Marshall & Swift, the replacement cost of a building is the total cost of construction required to replace the subject building with a substitute of like or equal utility using current standards of materials and design. These costs include labor, materials, supervision, contractors' profit and overhead, architects' plans and specifications, sales taxes, and insurance. The Marshall & Swift costs also contain the normal interest on the actual building funds during period of construction; normal site preparation including the excavation and grading for foundation, as well as backfill for the structure only and the finish of foundation; and utilities from structure to lot line figured for typical setback. Although generally reliable, the data used to compile this estimate provide only a rough indication of what the replacement cost of the property may be.

For the purpose of developing a replacement cost estimate using the Marshall & Swift Commercial Estimator program, the building has been classified as a Class C, Rank 3 hotel structure. Based on information obtained from the subject property's ownership or management, the total area of the building is estimated to be 45,060 square feet. The following chart reflects the summary of the Marshall & Swift estimate.

FIGURE 11-4 MARSHALL & SWIFT ESTIMATE

Date of Query:	May 14, 2015
Occupancy:	limited-service
Class:	Class C
Height (Feet):	10
Rank:	3
Total Area (Square Feet):	45,060
Number of Stories (Section):	3
Number of Elevators:	1
Shape:	2
Number of Rooms:	96

Basic Structure	Unit	Cost Per SF	Total
Base Cost	45,060	$76.59	$3,451,145
Exterior Walls	45,060	23.36	1,052,602
Heating & Cooling	45,060	5.60	252,336
Elevator (s)	45,060	1.80	81,067
Sprinklers	45,060	2.95	132,927
		Total Cost:	**$4,970,077**
		Rounded to:	**$5,000,000**
		Per Room:	**$52,083**

As previously detailed, our estimate of the replacement cost of furniture, fixtures, and equipment is $1,536,000.

For the purpose of estimating replacement cost for insurance purposes, only hard or direct construction costs should be reflected; therefore, certain exclusions need to be taken into consideration. An adjustment for exclusions is made to account for the portion of the construction which is not covered by a policy but which is included in the Marshall & Swift replacement cost estimate. Exclusions typically constitute 5.0% to 10.0% of the replacement cost and include items such as landscaping, parking, other yard improvements, and the foundation or sub-structure. In this analysis, a 10.0% adjustment was made to the replacement cost of the hotel to account for these exclusions. The estimated replacement cost of the personal property is then added to the adjusted replacement cost of the building. Our opinion of the replacement cost for insurance purposes is presented in the following table.

FIGURE 11-5 ESTIMATE OF REPLACEMENT COST FOR INSURANCE PURPOSES

Replacement Cost of Building:	$5,000,000
Less Exclusions (10%)	500,000
Insurable Value of Structures	$4,500,000
Plus Furniture, Fixtures, & Equipment	$1,536,000
Total Insurable Value:	$6,036,000
Rounded to:	**$6,000,000**
Per Room:	**$62,500**

This analysis should not be relied upon to determine actual insurance coverage, which can be properly estimated only by consultants considered experts in cost estimation and insurance underwriting. It is provided to aid in the overall decision-making process of the client/reader/user, and no representations or warranties are made by HVS regarding the accuracy of this estimate. We strongly recommend that other sources be utilized when considering replacement costs and property insurance estimates.

HVS

12. Reconciliation of Value Indications

The reconciliation, which is the last step in the appraisal process, involves summarizing and correlating the data and procedures employed throughout the analysis. The final value conclusion is arrived at after reviewing the estimates indicated by the income capitalization and sales comparison approaches. The relative significance, applicability, and defensibility of each indicated value are considered, and the greatest weight is given to that approach deemed most appropriate for the property being appraised.

The purpose of this report is to estimate the market value of the fee simple interest in the subject property; our appraisal involves a careful analysis of the property itself and the economic, demographic, political, physical, and environmental factors that influence real estate values.

Income Capitalization Approach

To estimate the subject property's value via the income capitalization approach, we have analyzed the local market for transient accommodations, examined the competitive environment, projected occupancy and average rate levels, and developed a forecast of income and expense that reflects anticipated income trends and cost components through a stabilized year of operation. The subject property's projected net income before debt service was allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. Through a discounted cash flow and income capitalization procedure, the value of each component was calculated; the total of the mortgage and equity components equates to the value of the property.

Our nationwide experience indicates that the procedures used in estimating market value by the income capitalization approach are comparable to those employed by the hotel investors who constitute the marketplace. For this reason, we believe that the income capitalization approach produces the most supportable value estimate, and it is given the greatest weight in our final estimate of the subject property's market value.

Sales Comparison Approach

The sales comparison approach uses actual sales of similar properties to provide an indication of the subject property's value. Although we have investigated a number of sales in an attempt to develop a range of value indications, several adjustments are necessary to render these sales prices applicable to the subject property. The adjustments, which tend to be subjective, diminish the reliability of the sales comparison approach; furthermore, typical hotel investors employ a sales comparison procedure only to establish broad value parameters.

The hotel sales outlined earlier in this report indicate an adjusted value range of $86,000 to $94,000 per available room. The income capitalization approach indicates a per room value of $90,600 (rounded). This information supports the value indicated by the income capitalization approach.

Cost Approach

As discussed in the Cost Approach section, due to the practices of typical hotel buyers and sellers in today's market, the cost approach was not employed in arriving at an "as is" market value estimate.

Value Conclusion

Careful consideration has been given to the strengths and weaknesses of the three approaches to value discussed above. In recognition of the purpose of this appraisal, we have given primary weight to the value indicated by the income capitalization approach.

Based on our analysis, it is our opinion that the "as is" market value of the fee simple interest in the real and personal property of the Fairfield Inn & Suites by Marriott Ocala, as of May 14, 2015, is:

$8,700,000

EIGHT MILLION SEVEN HUNDRED THOUSAND DOLLARS

This value estimate equates to $90,600 per room. The estimates of market value include the land (if applicable), the improvements, and the furniture, fixtures, and equipment. The appraisal assumes that the hotel is open and operational.

We have made no extraordinary assumptions specific to the subject property. However, several important general assumptions have been made that apply to this report. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report. We have made no assumptions of hypothetical conditions in our report.

13. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. 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 valued as though free and clear unless otherwise stated.
3. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would render the property more or less valuable. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
4. We have not considered the presence of potentially hazardous materials such as asbestos, urea-formaldehyde-foam insulation, any form of toxic waste, polychlorinated biphenyls (PCB), pesticides, mold, or lead-based paints. The appraisers are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
5. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have conducted no specific compliance survey to determine whether the subject property has been designed in accordance with the various detailed requirements of the ADA. It is possible that the design does not conform to the requirements of the act, and this could have an unfavorable effect on value. Because we have no direct evidence regarding this issue, our estimate of value does not consider possible non-compliance with the ADA.
6. We have made no survey of the property, 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 is within the boundaries of the property described, and that there is no encroachment or trespass unless noted.
7. All information, financial operating statements, estimates, and opinions obtained from parties not employed by MM&R Valuation Services, Inc. are assumed true and correct. We can assume no liability resulting from misinformation.
8. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.

9. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
10. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
11. 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.
12. 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.
13. 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.
14. We take no responsibility for any events or circumstances that take place subsequent to either the date of value or the date of our field inspection, whichever occurs first.
15. The quality of a lodging facility's onsite management has a direct effect on a property's economic viability and value. 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 and the value estimate.
16. 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 buyer as of the stated date(s) of valuation.

17. 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.

18. 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.

19. 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.

20. Although this analysis employs various mathematical calculations to provide value indications, the final estimate is subjective and may be influenced by our experience and other factors not specifically set forth in this report.

21. Any distribution of the total value between the land and improvements or between partial ownership interests applies only under the stated use. Moreover, separate allocations between components are not valid if this report is used in conjunction with any other analysis.

22. Our report has been prepared in accordance with, and is subject to, the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the Uniform Standards of Professional Practice (USPAP), as provided by the Appraisal Foundation.

23. This study was prepared by MM&R Valuation Services, Inc.. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of MM&R Valuation Services, Inc. as employees, rather than as individuals.

HVS

14. Certification

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

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
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. Heidi S. Nielsen personally inspected the property described in this report; Janet L. Snyder participated in the analysis and reviewed the findings, but did not personally inspect the property;
9. Heidi S. Nielsen provided significant real property appraisal assistance to Janet L. Snyder, and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this appraisal report;
10. Janet L. Snyder has not performed services, as an appraiser or in any other capacity, on the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment;
11. 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;

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

13. as of the date of this report, Janet L. Snyder has completed the Standards and Ethics Education Requirements for Candidates of the Appraisal Institute.

Janet L. Snyder
Senior Vice President
MM&R Valuation Services, Inc.
State Appraiser License (FL) RZ3639

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

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

BASE-YEAR OCCUPANCY AND PENETRATION LEVELS

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

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

MARKET-WIDE ROOM NIGHT DEMAND

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

The following discussion will be based upon an analysis of the commercial market segment. The same methodology is applied for each market segment to derive an estimate of a hotel's overall occupancy. The table below sets forth the commercial demand accommodated by each hotel. Each hotel's commercial penetration factor is computed by:

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

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

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

COMMERCIAL SEGMENT PENETRATION FACTORS

Property	Number of Rooms	Fair Share	Commercial Capture	Commercial Market Share	Commercial Penetration
Hotel A	100	23.5 %	16,425	30.0 %	127.6 %
Hotel B	125	29.4	20,759	37.9	129.0
Hotel C	200	47.1	17,520	32.0	68.1
Totals/Average	**425**	**100.0 %**	**54,704**	**100.0 %**	**100.0 %**

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

COMMERCIAL SEGMENT FAIR SHARE

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

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

The market share of each hotel must be adjusted to reflect the change in the denominator that comprises the sum of each hotel's market share.

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

COMMERCIAL SEGMENT PROJECTIONS (YEAR 1)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	127.6 %	24.3 %	25.0 %	131.4 %	13,688
Hotel B	125	23.8	129.0	30.7	31.6	132.8	17,299
Hotel C	200	38.1	68.1	25.9	26.7	70.1	14,600
New Hotel	100	19.0	85.0	16.2	16.7	87.5	9,117
Totals/Average	**525**	**100.0 %**		**97.1 %**	**100.0 %**		**54,704**

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

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

COMMERCIAL SEGMENT PROJECTIONS (YEAR 2)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	131.4 %	25.0 %	23.1 %	121.5 %	12,662
Hotel B	125	23.8	132.8	31.6	29.3	122.9	16,004
Hotel C	200	38.1	70.1	26.7	24.7	64.8	13,507
New Hotel	100	19.0	130.0	24.8	22.9	120.3	12,531
Totals/Average	**525**	**100.0 %**		**108.1 %**	**100.0 %**		**54,704**

Explanation of the Simultaneous Valuation Formula

The algebraic equation known as the simultaneous valuation formula, which solves for the total property value using a ten-year mortgage and equity technique, was developed by Suzanne R. Mellen, CRE, MAI, FRICS, ISHC, Senior Managing Director of the San Francisco office of HVS. A complete discussion of the technique is presented in her article entitled "Simultaneous Valuation: A New Technique."[16]

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity Residual Value – The value of the equity upon the sale at the end of the projection period (d_r) is the reversionary value less the brokerage and legal costs and the ending mortgage balance. The following formula represents the equity residual value.

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

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

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

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

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

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

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

$$(1 - M)\ V$$

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

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

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

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

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

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

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

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

SUMMARY OF KNOWN VARIABLES

Annual Net Income	NI	See Ten-Year Forecast
Loan-To-Value Ratio	M	70 %
Interest Rate	*i*	5.00 %
Debt Service Constant	f	0.070151
Equity Yield	Ye	19.0 %
Transaction Costs	b	3.0 %
Annual Constant Required to Amortize the Loan in Ten Years	fp	0.127279
Terminal Capitalization Rate	Rr	9.5 %

The present worth of a $1 factor at the 19.0% equity yield rate is set forth as follows.

PRESENT WORTH OF $1 FACTOR AT THE EQUITY YIELD RATE

Year Ending	Present Worth of $1 Factor at 19.0%
2015/16	0.840381
2016/17	0.706240
2017/18	0.593511
2018/19	0.498775
2019/20	0.419161
2020/21	0.352255
2021/22	0.296028
2022/23	0.248776
2023/24	0.209067
2024/25	0.175696

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

$$P = (0.07015 - 0.0500) / (0.12728 - 0.0500) = 0.260755$$

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

$$(f \times M \times V) = 0.07015 \times 0.70 \times V = (0.04911)V$$

Inserting the variables into the valuation formula produces the following.

$$
\begin{array}{lllll}
(& 696{,}000 - & 0.04911\ V) & \times & 0.84034 + \\
(& 748{,}000 - & 0.04911\ V) & \times & 0.70616 + \\
(& 781{,}000 - & 0.04911\ V) & \times & 0.59342 + \\
(& 804{,}000 - & 0.04911\ V) & \times & 0.49867 + \\
(& 828{,}000 - & 0.04911\ V) & \times & 0.41905 + \\
(& 853{,}000 - & 0.04911\ V) & \times & 0.35214 + \\
(& 879{,}000 - & 0.04911\ V) & \times & 0.29592 + \\
(& 905{,}000 - & 0.04911\ V) & \times & 0.24867 + \\
(& 933{,}000 - & 0.04911\ V) & \times & 0.20897 + \\
(& 961{,}000 - & 0.04911\ V) & \times & 0.1756 +
\end{array}
$$

$$(((990{,}000 / 0.095) - (0.030 \times (990{,}000 / 0.095)) -$$

$$((1 - 0.260755) \times 0.7 \times V)) \times 0.175602) = (1 - 0.7)V$$

Like terms are combined as follows.

$$
\begin{array}{rcl}
\$5{,}248{,}764 - 0.303935V & = & (1 - 0.70)V \\
\$5{,}248{,}764 & = & 0.60394V \\
V & = & \$5{,}248{,}764 / 0.60394 \\
V & = & \$8{,}690{,}942
\end{array}
$$

Total Property Value as Indicated by the Income Capitalization Approach (Say)	=	$8,700,000

It is important to note that this analysis does not reflect any capital deductions (if applicable).

Janet Snyder

EMPLOYMENT

2005 to present	HVS CONSULTING AND VALUATION SERVICES Atlanta, Georgia
2004 – 2005	HILTON DALLAS LINCOLN CENTRE Dallas, Texas
2002 – 2004	HILTON HOTELS Dallas, Texas

EDUCATION AND OTHER TRAINING

BA – Baylor University

Other Specialized Training Classes Completed:
Basic Appraisal Principles – 30 hours
Basic Appraisal Procedures – 30 hours
Uniform Standards of Professional Appraisal Practice – 15 hours
Basic Income Capitalization – 39 hours
General Appraiser Sales Comparison Approach – 30 hours
Business Practices and Ethics – 8 hours
General Appraiser Market Analysis and HBU – 30 hours
General Appraiser Site Valuation and Cost Approach – 30 hours
General Appraiser Report Writing and Case Studies – 30 hours
Statistics, Modeling and Finance – 15 hours
An Introduction to Valuing Green Buildings – 7 hours
Condemnation Appraising: Principles & Applications – 22 hours
Advanced Income Capitalization – 40 hours
NC Trainee Supervisor Class – 4 hours
FL Law Class – 3 hours
Quantitative Analysis – 40 hours
USPAP Update – 2008, 2014

STATE CERTIFICATIONS

Alabama, Florida, Georgia, Kentucky, New Hampshire, North Carolina, South Carolina, Tennessee, Virginia, West Virginia

PUBLISHED ARTICLES

HVS Journal	"In Focus: InterContinental Hotels Group," April 2014
HVS Journal	"Market Intelligence Report 2013: Charlotte," August 2013
HVS Journal	"HVS Hotel Market Intelligence Report: Asheville, North Carolina," September 2012
HVS Journal	"HVS Reflections on the 2010 Hunter Hotel Conference," Co-authored with Mike Brophy, May 2010
HVS Journal	"HVS Market Intelligence Report: Asheville, North Carolina," January 2009

PROFESSIONAL AFFILIATIONS

American Hotel & Lodging Association

EXAMPLES OF CORPORATE AND INSTITUTIONAL CLIENTS SERVED

Alianza Trinity Holdings LLC
Anglo Irish
Ascent Hospitality
Atlantis Marine World
Bank of America
Bank of Colorado
Bank of Hampton Roads
Bank of Jackson Hole
Bank of the Commonwealth
Bank of the Ozarks
Bankers Bank
Barclays
BB&T
Bear Stearns
Behringer Harvard
Biltmore Company
Blanchard & Calhoun
Bracewell & Giuliani LLP
Bright's Creek Development
Cantor Fitzgerald
Capmark Finance Inc.
Capsule Group
Carolina Bank
Cascade Financial
CIBC World Markets
Citadel Securities
Citibank
Citigroup
Columbus Bank and Trust
Column Financial
Continental
Cornerstone Commercial Mortgages, LLC
Credit Suisse
CSFB
CW Capital
Deutsche Bank
DNC Hotels, LLC
EagleBank MD
Eastern Bank
Elm Street Center LLC
Fidelity Bank
Financial Funding
First State Bank
Ganesh Ventures LLC
GE Commercial Mortgage
GE Franchise Finance
Gibson Dunn & Crutcher
Gibson Hotel Management & Development
GMAC Commercial Mortgage
GoldKey PHR Hotels & Resorts
Goldman Sachs
GS Development LLC
HFF
Hill, LLC
Holliday Fenoglio Fowler
Holloway Lodging REIT
iCAP Realty Advisors
IRSA
Istar Financial
Ixis Capital Markets
JAM Hospitality
JER Partners
Johnson Resort Properties
Jones Lang LaSalle
JPMorgan Chase
Kilpatrick/Torchlight
Kimpton Hotels & Resorts
Laconia Savings Bank
Lady Vista
Latitude Hospitality, Inc.
Laureate Capital
Laurus Corporation
Lehman Brothers
LNR
Love Funding
Lubbock Economic Development Alliance
MainSource Bank
Maxwell Development
McNamee Hosea
Merrill Lynch
Merrill Trust
MetLife
Moody National Companies
Morgan Stanley
Mortenson Development
Mutual Bank
Narsi Properties, Inc.
Noah Bank
Nomura
North Hill Suites, LLC
Northmarq Capital
NRB of Chicago
NXT Capital, LLC
Olympia Equity Advisors
Orix Capital Markets
Parks Hospitality Group
Peabody Hotels
Peachtree Hotel Group
PGP Inc.
Potomac Business Services
Principal Real Estate Advisors
Pritchard Associates, Inc.
Property Analytics
Prudential
R&R, LLC
Raldex Hospitality
RAM Hotels
Ravi Patel
RBS Greenwich Capital
Resort Management Group, LLC
Richard Curtis
Robinson McFadden
Rosedev Development
Ryan Companies US, Inc.
S&H Equities
Scenic Land Investments
Seagrass Real Estate & Development
Seaport Companies
Seaview Properties, LLC
Signature Bank
Silverton Bank
Sovereign Bank
Specialty Finance Group
Starwood Capital Group
Summit Financial
Synergie/Titan Development
The Village at Hendrix, LLC
TierOne Bank
Torchlight
TriMont Real Estate
UBS
UrbanAmerica LP
US Bank
Virendra Patel
Walton Street Capital

EXAMPLES OF PROPERTIES APPRAISED OR EVALUATED

ALABAMA

Proposed Autograph Collection, Birmingham
Proposed Hilton Garden Inn, Anniston
Proposed Hotel, Auburn
Hilton, Birmingham
Proposed Hotel, Conway
Proposed Hampton Inn & Suites, Fairhope
Proposed Embassy Suites, Hoover
Homewood Suites, Mobile
Courtyard by Marriott, Montgomery
Proposed Hotel, Montgomery
Proposed Hotel, Prattville

ARIZONA

Proposed aloft, Glendale
Holiday Inn Express, Phoenix
Fairfield Inn, Sierra Vista

ARKANSAS

Fairfield Inn & Suites, Conway
Proposed Hotel, Conway
Residence Inn by Marriott, Little Rock

CALIFORNIA

Proposed Hampton Inn & Suites, Lancaster
Proposed Homewood Suites, Lancaster
Proposed element, Palmdale
Proposed SpringHill Suites, Ridgecrest
Best Western Miramar, San Diego

COLORADO

The Sky Hotel Aspen, Aspen
The Hotel Telluride, Telluride

CONNECTICUT

Homewood Suites, Farmington

DELAWARE

Proposed Hampton Inn & Suites, Newark

DISTRICT OF COLUMBIA

Willard InterContinental Hotel and Office
Courtyard Washington Navy Yard

FLORIDA

Country Inn & Suites, Cape Canaveral
Daytona Beach Resort, Daytona Beach
Westin, Fort Lauderdale
Comfort Inn, Gainesville
Crowne Plaza Hollywood Beach Sian, Hollywood
Cheeca Lodge & Spa, Islamorada
Homewood Suites, Maitland
Proposed Hampton Inn & Suites, New Smyrna Beach
International Plaza Resort, Orlando
Hampton Inn, Ormond Beach
Proposed Home2 Suites, Pensacola
Proposed Saba Hotel, Rosemary Beach
Proposed Hampton Inn & Suites, Sarasota
Holiday Inn, Tallahassee
Crowne Plaza, West Palm Beach

GEORGIA

Hilton Atlanta Airport, Atlanta
Sheraton Gateway Hotel Atlanta Airport, Atlanta
W Hotel, Atlanta
Hampton Inn West, Augusta
Holiday Inn, Augusta
Wingate Inn, Augusta
SpringHill Suites, Buckhead
Best Western Plus, Conyers
Fairfield Inn by Marriott, Cordele
Holiday Inn Express, Cordele
Proposed Fairfield Inn & Suites, Dalton
Proposed Embassy Suites, Duluth
Proposed Spruill Residence Inn, Dunwoody
Hilton Garden Inn, Lithonia
Proposed Hotel & Conference Center, Lookout Mountain
Fairfield Inn by Marriott, Milledgeville
Proposed Aloft, Perimeter
The Brice, Savannah
Proposed Cambria Suites, Savannah
Proposed Hotel Indigo, Savannah
Fairfield Inn by Marriott, Warner Robbins

INDIANA

Hampton Inn, Clarksville

KENTUCKY

Fairfield Inn & Suites by Marriott, Ashland
Holiday Inn, Bowling Green
Proposed Candlewood Suites, Bowling Green
Baymont Inn & Suites, Lexington
Best Western Regency Inn, Lexington
Courtyard by Marriott, Lexington
DoubleTree Guest Suites, Lexington
Holiday Inn Express, Lexington
Holiday Inn, Louisville
Holiday Inn, Hurstbourne, Louisville
Proposed Holiday Inn Express, Louisville

Courtyard by Marriott, Paducah
Proposed Courtyard by Marriott, Somerset

LOUISIANA

Proposed Courtyard by Marriott, Houma
Hampton Inn, Lancaster
Homewood Suites, Lancaster
Proposed Hotel Indigo, New Orleans

MAINE

TownePlace Suites, Scarborough
Holiday Inn, Waterville

MARYLAND

Sheraton Washington North, Beltsville
Hilton, Columbia
Legacy Hotel, Rockville
Holiday Inn Select, Solomon's Island

MASSACHUSSETS

Homewood Suites, Billerica
Seaport Hotel and Parking Garage, Boston
Proposed Hotel at Patriot Place, Foxboro
Clarion Nantasket Beach Resort Hotel and Spa, Hull
TownePlace Suites, Tewksbury

MICHIGAN

Hilton Airport, Kentwood

MINNESOTA

Homewood Suites, Bloomington
Proposed Westin, Minneapolis
Proposed Cambria Suites, Rochester

MISSISSIPPI

Proposed TownePlace Suites, Flowood
Proposed Embassy Suites, Jackson
Candlewood Suites, Pearl
Dancing Rabbit Inn, Philadelphia

MISSOURI

Proposed Indigo Hotel, Kansas City

NEW HAMPSHIRE

Proposed Courtyard, Keene

NEW JERSEY

Proposed Fairfield Inn & Suites, Millville
Proposed aloft, Newark
Proposed Sheraton, Newark
Proposed Holiday Inn Express, West Long Branch

NEW MEXICO

TownePlace Suites, Farmington

NEW YORK

Land, Bronx
Proposed Harbor Center Marriott Hotel, Buffalo
Holiday Inn JFK (Hilton conversion), Jamaica
Proposed Courtyard by Marriott, New York City
Proposed Ludlow Hotel, New York City
Proposed Hyatt Place, Riverhead
Land, Ronkonkoma
Sheraton, Smithtown

NORTH CAROLINA

Sleep Inn & Suites, Albemarle
Clarion Inn Airport, Asheville
Crowne Plaza, Asheville
Days Inn, Asheville
DoubleTree Biltmore, Asheville
Four Points, Asheville
Hilton Biltmore Park, Asheville
Holiday Inn Airport, Asheville
Proposed Homewood Suites, Asheville
Proposed Hotel, Asheville
Proposed Hotel – Biltmore Estate, Asheville
Proposed Lodge at Biltmore Estate, Asheville
Ramada, Asheville
Red Roof Inn, Asheville
Renaissance, Asheville
SpringHill Suites by Marriott, Asheville
Proposed Tweetsie Railroad Hotel, Blowing Rock
Hampton Inn, Boone
Holiday Inn Express, Boone
Proposed Radisson Blu, Brights Creek
Proposed Hilton Garden Inn, Carolina Beach
Embassy Suites Raleigh - Durham Research Triangle East, Cary
Courtyard by Marriott Charlotte Arrowwood, Charlotte
Courtyard by Marriott Charlotte Billy Graham Parkway, Charlotte
Courtyard by Marriott Charlotte City Center, Charlotte
Econo Lodge, Charlotte
Hilton Charlotte University Place, Charlotte
Renaissance, Charlotte
Sheraton Charlotte Airport, Charlotte

SpringHill Suites Charlotte Airport, Charlotte
Holiday Inn Express, Clemmons
Hampton Inn & Suites, Concord
Holiday Inn Express, Dillsboro
Proposed Full-Service, Durham
Proposed Hilton Garden Inn, Durham
Proposed Hotel, Durham
DoubleTree, Fayetteville
Proposed Boutique Hotel, Gastonia
Marriott, Greensboro
Proposed TownePlace Suites by Marriott, Greensboro
Proposed Wyndham, Greensboro
Red Roof Inn, Greenville
Quality Inn & Suites, Hickory
Red Roof Inn, Hickory
Hawthorn Suites, Huntersville
Proposed Hotel, Huntersville
Sea Ranch Hotel, Kill Devil Hills
Proposed Sonesta Resort/Land Impact Study, Mill Spring
Quality Inn & Suites, Monroe
Wingate Inn, Mooresville
Comfort Suites, Pineville
Hampton Inn & Suites, Pineville
Hilton Garden Inn, Pineville
Hampton Inn, Pisgah Forest
Car Wash, Raleigh
Courtyard North Raleigh, Raleigh
Embassy Suites Crabtree, Raleigh
Proposed aloft, Raleigh
Proposed element hotel, Raleigh
Proposed Marriott, Raleigh
Proposed Summerfield Suites, Raleigh
Renaissance Hotel, Raleigh
Proposed Fairfield Inn by Marriott, Rocky Mount
Hampton Inn, Shelby
Residence Inn by Marriott, Southern Pines
Masters Inn, Statesville
Comfort Inn, Sylva
Full-Service Restaurant, Winston-Salem
Hilton Garden Inn, Winston-Salem

NORTH DAKOTA

Proposed Extended-Stay Hotel, Minot

OHIO

Hampton Inn, Akron
Fairfield Inn, Austintown
Marriott Airport, Cleveland
Quality Inn, Durant
Proposed Courtyard by Marriott, Grove City
Hampton Inn, Kent
Proposed Courtyard by Marriott, Stow

OKLAHOMA

Quality Inn, Durant
Renaissance, Tulsa

PENNSYLVANIA

Wyndham, Harrisburg
Proposed Candlewood Suites, Hazelton
Le Meridien, Philadelphia
Courtyard by Marriott Shadyside, Pittsburgh
Proposed Staybridge Suites, Royersford

SOUTH CAROLINA

Hilton Garden Inn Waterfront, Charleston
Proposed Hilton Garden Inn, Charleston
Proposed Hotel, Charleston
Marriott, Columbia
Proposed Aloft, Columbia
Proposed Sheraton, Columbia
Value Place, Elgin
Proposed Staybridge Suites, Florence
Embassy Suites, Greenville
Proposed Hilton Garden Inn, Greenville
Aqua Beach Inn, Myrtle Beach
Crown Reef Resort, Myrtle Beach
Holiday Inn Express, Myrtle Beach
Springmaid Beach Resort, Myrtle Beach
Quality Inn, North Charleston
Proposed Home2 Suites, Orangeburg
Hilton Garden Inn, Rock Hill
Proposed Courtyard, Summerville
Proposed Residence Inn, Summerville
Holiday Inn Oceanfront, Surfside Beach

TENNESSEE

Homewood Suites, Brentwood
Fairfield Inn & Suites, Chattanooga
Sheraton Read House, Chattanooga
Staybridge Suites, Chattanooga
Proposed Fairfield Inn & Suites, Johnson City
Red Roof Inn, Johnson City
Fitness Center, Knoxville
Hilton Hotel, Knoxville
Marriott, Knoxville
Red Roof Inn Knoxville West, Knoxville
Holiday Inn Select, Memphis
Wyndham Garden, Memphis
Homewood Suites Brentwood, Nashville

TEXAS

Days Inn, Amarillo
Super 8 University, Austin
Homewood Suites Market Center, Dallas
Holiday Inn Express, Frisco
Proposed Hilton Garden Inn, Frisco
Proposed Courtyard by Marriott, Galveston
Hampton Inn Medical Center, Houston

Hilton Garden Inn Northwest, Houston
Wyndham DFW Airport North, Irving
Proposed Hotel, Lubbock
Proposed Focused-Service, New Braunfels
Quality Inn & Suites, San Antonio
Holiday Inn Express, Waxahachie
Proposed Fairfield Inn & Suites, Westover Hill

VIRGINIA

Hilton Garden Inn, Arlington
Proposed Hampton Inn, Bedford
Courtyard by Marriott, Charlottesville
Proposed Beacon Hotel, Charlottesville
AmeriSuites (Hyatt Place Conversion), Chester
Hampton Inn Petersburg Southpark Mall, Colonial Heights
Holiday Inn Petersburg North Fort Lee, Colonial Heights
Best Western, Exmore
Country Inn & Suites, Hampton
Embassy Suites, Hampton
Proposed Hyatt Place, Herndon
Proposed Sheraton, Herndon
Comfort Inn Gunston Corner, Lorton
Omni, Newport News
Proposed Courtyard by Marriott, Newport News
Proposed Residence Inn, Newport News
Courtyard by Marriott, Norfolk
SpringHill Suites, Norfolk
Proposed Hyatt Place, Richmond
Proposed Hotel, Virginia Beach

WISCONSIN

Proposed aloft, Green Bay
Crowne Plaza, Madison
Marriott, Madison
Proposed Staybridge Suites, Milwaukee

WYOMING

Rustic Inn, Jackson

INTERNATIONAL

MEXICO

Proposed Thompson Hotel, Los Veneros

JAMAICA

Proposed Resort

STATE OF FLORIDA
DEPARTMENT OF BUSINESS AND PROFESSIONAL REGULATION
FLORIDA REAL ESTATE APPRAISAL BD

LICENSE NUMBER	
RZ3639	

The CERTIFIED GENERAL APPRAISER
Named below IS CERTIFIED
Under the provisions of Chapter 475 FS.
Expiration date: NOV 30, 2016

SNYDER, JANET L
416 GREENSTONE LANE
MILLS RIVER NC 28759

ISSUED: 11/12/2014 DISPLAY AS REQUIRED BY LAW SEQ # L1411120002055