Summary Market Analysis

Proposed Hampton Inn UASTP

Tucson, Arizona

Property Location:

NEC Kolb Road & Science Park Drive
Tucson, Arizona 85747

Prepared by:

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Submitted to:

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December 28, 2009

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Re: Proposed Hampton Inn UASTP
Tucson, Arizona
HVS Reference: 2009180020

Dear Mr. Wright:

Pursuant to your request, we herewith submit our summary market analysis pertaining to the above-captioned property. We have researched and analyzed the hotel market conditions in the Tucson area. We previously inspected the site in March 2008; because the scope of this assignment was to perform a desk study, we have not re-inspected the site or visited the competitive properties. The summary results of our research and analysis are presented in this document. Our report was prepared in accordance with the Uniform Standards of Professional Practice (USPAP), as provided by the Appraisal Foundation.

We have made an extraordinary assumption that the proposed hotel will be completed and open for business on or about October 1, 2011. No architectural drawings for the proposed subject property were available for our review. If the design and construction quality of the proposed subject hotel vary from that assumed by the consultant, our projections of revenue and expense may change.

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,
W&R Hospitality Services, Inc.

Richard D. Williams

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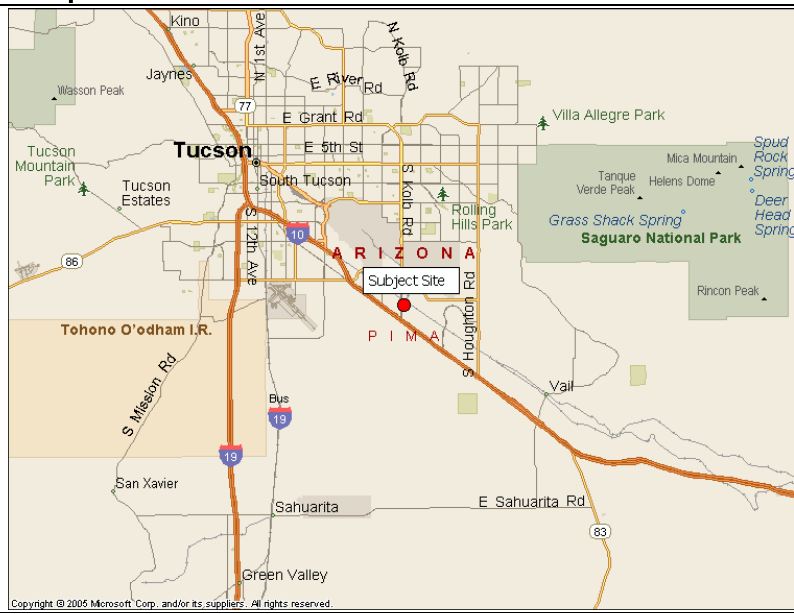
1. Executive Summary

Subject of the Study

The subject of the study is a ±152,460-square-foot (±3.50-acre) parcel to be improved with a limited-service lodging facility; the hotel is expected to be affiliated with the Hampton Inn by Hilton brand. The property is expected to open on October 1, 2011 and will feature 50 rooms, a breakfast dining area, an outdoor pool, an outdoor whirlpool, an exercise room, a business center, a sundries shop, and a vending area. The hotel will also feature all necessary back of the house space.

Architectural drawings for the proposed Hampton Inn do not exist at this time. We understand that the proposed hotel will be based on a 50-unit Hampton Inn prototype. A representative of Hilton Hotels has told the University that while the interior must conform to the prototype, the exterior can vary from the prototype. The University of Arizona Science and Technology Park Development Guidelines sets forth general provisions regarding building exteriors; we recommend that these Development Guidelines be considered in the design of the Proposed Hampton Inn UASTP. The subject site's location is NEC Kolb Road & Science Park Drive, Tucson, Arizona, 85747.

Location Map



Subject Site (photo taken March 2008)

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View of Subject Site looking North on Kolb Road (photo taken March 2008)

View of Subject Site looking Northeast from Science Park Drive (photo taken March 2008)

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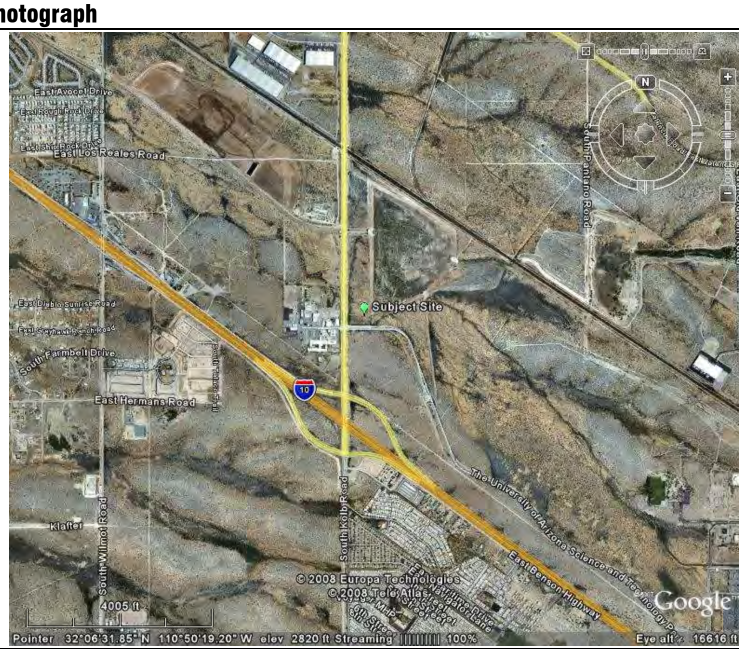
View of Subject Site looking West from Science Park Drive Towards Kolb Road (photo taken March 2008)

Aerial Photograph



We have assumed that all utilities will be available to the site and that no hazards are present that will impede its development. We assume that the certificate of occupancy will be issued on or before the assumed date of opening for the entirety of the improvements.

Ownership, Franchise, and Management Assumptions

The ±1,345-acre site comprising the University of Arizona Science and Technology Park was purchased by IBM in the mid-1970s for the purpose of developing a self-contained manufacturing and development facility. Changing business conditions in the early 1990s led IBM to sell its manufacturing operations in Tucson. However, the Systems Storage Division remained at the subject site. The Science and Technology Park contained approximately two million square feet of office, laboratory and manufacturing space. The Arizona Board of Regents purchased the entire Park from IBM in 1994 for $98 million, and then leased the Park back to IBM for $9.3 million annually over a term of 20 years. In 2007, 124 acres were sold to KB Homes in exchange for 65 acres at 36th Street and Kino Parkway. As part of the exchange agreement, ±469.9 acres of land in the Science and Technology Park were annexed into the City of Tucson.

The proposed hotel is expected to be managed by an entity controlled by R. Morgan Burkett or other professional hotel management company with the expertise to manage this type of lodging facility. Terms of the management agreement were not available for our review. We have assumed a market-appropriate base management fee of 4.0% of total revenues in our study.

The proposed subject property will reportedly operate under a franchise agreement with Hilton Hotels as a Hampton Inn; the terms of this agreement were not available for our review. The Hampton Inn by Hilton franchise is reflected in our forecasts with a royalty fee of 5.00% of rooms revenue and a marketing assessment of 4.00% of rooms revenue. Reservations fees are included in the franchise fee expense line item of our forecast.

Overview of Local Area Economy

The City of Tucson is one of several U.S. cities that developed under four flags. The Spanish standard flew first over the Presidio of Tucson, built to withstand Apache attacks in 1776. Later, Tucson flew the flags of Mexico, the Confederate States and, finally, the United States. Today, Tucson is a resort area, an educational and copper center, a cotton and cattle market, headquarters for the Coronado National Forest, home to the University of Arizona, and a place of business for several large industries. Known for its dry and sunny climate, Tucson is gaining a new reputation for high culture and high technology. The city's shops, restaurants, resorts, and points of interest are varied and numerous.

Locally, the unemployment rate was 5.7% in 2008; for this same area in 2009, the most recent month's unemployment rate was registered at 9.2%, versus 6.3% for the same month in 2008.

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

- The City of Tucson, Pima County, the State of Arizona, and the private sector have each made commitments to create a growing, healthy economy and to support high-tech industries. Advanced technology companies like Raytheon Missile Systems, Texas Instruments, IBM, and Universal Avionics all have a significant presence in Tucson. As previously mentioned, Raytheon and IBM are major tenants in the University of Arizona Science and Technology Park. Roughly 150 Tucson companies are in the optics industry, earning Tucson the nickname "Optics Valley." Raytheon Missile Systems began in Tucson in 1951. Through the defense industry consolidation in the 1990s, the business has grown to encompass a wide array of missile systems designed, developed, and produced for the U.S. military services and the allied forces of more than 40 countries. In May of 2008, Raytheon Company was awarded a $61.1-million U.S. Navy contract to purchase radar upgrade kits and other spare parts for the Phalanx Close-In Weapon Systems. In early 2009, both IBM and Texas Instrument reported employee layoffs in reaction to the current economic climate; however, the layoffs have reportedly been minimal, and these industries are expected to remain relatively stable.
- Much of Tucson's economic development has been centered on the development of the University of Arizona, which is currently the third-largest employer in the city. The University of Arizona was the first university in the state of Arizona, founded in 1885, when Arizona was still a territory and is a land-grant institution. The University of Arizona produces more than $530 million in annual research and is the state's only member of the prestigious Association of American Universities.
- Davis-Monthan Air Force Base, located on the southeastern edge of the city, provides many jobs for Tucson residents. Davis-Monthan became a military base in 1925 and is a key Air Combat Command installation. Its presence, as well as the presence of a US Army Intelligence Center (Fort Huachuca, the largest employer in the region in nearby Sierra Vista), has

led to the development of a significant number of high-tech industries, including government contractors, in the area. There are eleven permanent dormitories on base and over 1,200 housing units. Today, there are more than 1,200 businesses employing over 50,000 people in the high-tech industries of Southern Arizona.

Although its economy is diversified across a multitude of sectors including government, education, aerospace, and manufacturing, the Tucson area has been negatively affected by the national recession. A period of extraordinary growth during the first half of the decade brought an onslaught of new residents, housing communities, commercial developments, and employers to the region. The area's largest employers have exercised some consolidation efforts, with the strongest impact evident in the construction and service industries. Tourism, which is particularity sensitive to economic slowdowns, has also dropped as individuals' discretionary income has been reduced. As area companies continue to execute cost-saving measures, contraction of the local economy is on-going.

This area is served by Tucson International Airport. Air traffic registered 3,514,110 passengers in 1999; by 2008, this level had changed to 4,225,869. The change in passenger traffic between 2007 and 2008 was -4.6%; moreover, a rate of change of -16.9% was registered in the year-to-date period for 2009, compared to the same period for 2008.

The market benefits from a variety of tourist and leisure attractions in the area. Consistently pleasant weather and a beautiful desert setting continue to make Tucson a popular tourist destination. The peak season for tourism in this area is from October to May. 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. Many visitors play golf while they are visiting the city, as Tucson is home to several world-class golf resorts. Primary attractions in the area include the following:

- Saguaro National Park is popular tourist attraction, offering enormous saguaro cacti, Upper Sonoran Desert ecology, hiking trails, and a visitor center.
- Arizona-Sonora Desert Museum offers a zoo, a geological museum, and a botanical garden.
- Reid Park and Zoo is a 17-acre zoo that displays its animals in natural settings. The Park also contains two championship golf courses, a

nationally-recognized tennis center, and Hi Corbett Field (the spring training home of the Colorado Rockies national league baseball team).

- The Pima Air & Space Museum houses one of the largest aircraft collections in the world, including World War II combat gliders, experimental aircraft, a B-17 "Flying Fortress," and other military and commercial aircraft. Other tourist attractions include the Old Tucson Studios, Colossal Cave Park, Catalina State Park, Biosphere 2, and a variety of museums.

After a period of rapid economic expansion mid-decade, the market area has entered into a period of stagnation as the local economy experiences challenges felt across the nation. Recent indicators and our market interviews and research show a recent economic slowdown, especially in the residential housing market. The long-term outlook for the area is favorable and should show signs of economic recovery in 2011, with the hotel market in Tucson achieving 2007 RevPAR levels by 2015.

Overview of Local Area Lodging Market Trends

The 50-room Proposed Hampton Inn UASTP will be located in Tucson, Arizona. The greater market surrounding the proposed subject property offers numerous hotels. Of this larger supply set, the subject property competes with a smaller set of hotels based on various factors. Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, we have identified several properties that are expected to be competitive with the proposed subject property. The competitive set used in our STR sample includes 7 hotels, spanning 727 rooms.

Smith Travel Research (STR) is an independent research firm that compiles data on the lodging industry; its published data is routinely used by typical hotel buyers. STR has compiled historical supply and demand data for this competitive set.

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

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2003	535	195,275	—	118,683	—	60.8 %	$59.14	—	$35.94	—
2004	535	195,275	0.0 %	138,231	16.5 %	70.8	60.47	2.2 %	42.80	19.1 %
2005	535	195,275	0.0	145,736	5.4	74.6	69.46	14.9	51.84	21.1
2006	535	195,275	0.0	145,912	0.1	74.7	76.59	10.3	57.23	10.4
2007	535	195,275	0.0	141,156	(3.3)	72.3	88.82	16.0	64.20	12.2
2008	535	195,275	0.0	127,898	(9.4)	65.5	89.51	0.8	58.63	(8.7)
Year-to-Date Through October										
2008	535	162,640	—	109,689	—	67.4 %	$91.40	—	$61.64	—
2009	601	182,724	12.3 %	102,477	(6.6) %	56.1	78.63	(14.0) %	44.10	(28.5) %
Average Annual Compounded Change:										
2003-2008			0.0 %		1.5 %			8.6 %		10.3 %

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
La Quinta Inn & Suites Tucson Airport	143	Sep 1996	Sep 1996
Country Inn & Suites Tucson Airport	83	Feb 2000	Feb 2000
Fairfield Inn Tucson Airport	85	Feb 2003	Jan 1999
Holiday Inn Express Tucson Airport	98	Oct 2002	Nov 1997
Hampton Inn Suites Tucson East	101	Sep 2009	Sep 2009
Hampton Inn Tucson Airport	126	Jan 1987	Jan 1987
TownePlace Suites Tucson Airport	91	Jun 2009	Jun 2009
Total	727		

Source: Smith Travel Research

Lodging trends in this area experienced a sudden jump in occupancy in 2004 to 70.8% from 60.8% in 2003. Increased defense spending related to the wars in Iraq and Afghanistan brought increased visitation to the Tucson hotels located near the airport and to hotels located north and east of the Davis-Monthan Air Force base. The 83-room Country Inn & Suites Tucson Airport opened in February 2000. The 98-room Holiday Inn Express Tucson Airport converted to its current brand in October 2002 followed by the conversion of the 85-room Fairfield Inn Tucson Airport to its current brand in February 2003. No new hotels opened in this Mid-Scale without Food & Beverage segment in the market area between the Tucson Airport and the UASTP campus until the 91-unit TownePlace Suites Tucson Airport opened in June 2009 followed by the opening of the 101-room Hampton Inn & Suites Tucson East in September 2009. Occupancy in 2005 was 74.6% and reached a peak of 74.7% in 2006, before declining to 72.3% in 2007, and further declining to 65.5% in 2008. The year-to-date 2009 occupancy through October declined to 56.1% compared to the same 10-month period in 2008, which was 67.4%. This decline has been in all segments as business, meeting & group, and leisure travel have all been curtailed. New and expanding companies in the area, such as Citigroup, Arizona Canning Company, and Global Solar have increased travel production, while the new Target Fulfillment distribution center on Rita Road and I-10 is a factor that should positively impact demand in the future. Hotel managers reported that there was an increase in demand for hotel rooms in the first quarter of 2007 related to "Operation Jump Start," which was a federal government program to better secure the border between the U.S. and Mexico; nevertheless, occupancy declined to 72.3%. This program brought approximately 2,500 military and border patrol staff to Tucson for training and program implementation. The Arizona economy has been affected by the national economic recession, which has impacted the state more severely than other states in the country. Arizona along with California, Nevada, and Florida, are the four states that have been most severely impacted by declining real estate values and sub-prime mortgage lending issues. That being said, the city of Tucson has not been as deeply affected as the Phoenix area, and is expected to recover faster than other parts of the state due to the strong presence of defense related industries and the presence of the University of Arizona as a stable employer. and demand left the area. The economic challenges experienced in mid-year 2008 and thus far into 2009 have negatively affected occupancy and average rate as demand levels have subsided substantially at the same time that supply increased in 2009.

The following table illustrates the historical occupancy and average rate levels for selected hotels in the market.

Figure 1-2 Primary Competitors – Operating Performance

		Est. Segmentation		Estimated 2007				Estimated 2008				Estimated 2009					
Property	Number of Rooms	Commercial	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Fairfield Inn Tucson Airport	85	60 %	40 %	85	68 %	$102.00	$69.36	85	60 %	$94.00	$56.40	85	59 %	$81.00	$47.79	103.2 %	103.5 %
Country Inn & Suites Airport	83	50	50	83	56	81.00	45.36	83	49	80.00	39.20	83	48	74.00	35.52	84.0	76.9
Holiday Inn Express Airport	98	65	35	98	75	90.00	67.50	98	69	87.00	60.03	98	64	79.00	50.56	112.0	109.5
Hampton Inn & Suites Tucson East	101	60	40	0	0	0.00	0.00	0	0	0.00	0.00	30	38	82.00	31.16	66.5	67.5
Hampton Inn Tucson Airport	126	60	40	126	78	97.00	75.66	126	73	95.00	69.35	126	64	84.00	53.76	112.0	116.4
TownePlace Suites Tucson Airport	91	70	30	0	0	0.00	0.00	0	0	0.00	0.00	50	50	85.00	42.50	87.5	92.0
Totals/Averages	584	61 %	39 %	392	70.4 %	$93.49	$65.84	392	64.1 %	$90.22	$57.83	472	57.2 %	$80.81	$46.19	100.0 %	100.0 %
Totals/Averages	584	61 %	39 %	392	70.4 %	$93.49	$65.84	392	64.1 %	$90.22	$57.83	472	57.2 %	$80.81	$46.19	100.0 %	100.0 %

Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities. Each primary competitor was evaluated.

According to the City of Tucson Planning Office, and our research, new supply expected to be competitive within the proposed subject property's competitive submarket is outlined in the following table.

Figure 1-3 New Supply

Proposed Property	Number of Rooms	Total Competitive Level	Estimated Opening Date	Development Stage
Proposed Hampton Inn UASTP	50	100 %	October 1, 2011	Early Development
Totals/Averages	50			

Market segmentation is a useful procedure because individual classifications often exhibit unique characteristics in terms of growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the room night demand by market segment and analyzing the characteristics of each segment, the demand for transient accommodations can be projected.

Figure 1-4 Accommodated Room Night Demand

	Marketwide	
Market Segment	Accommodated Demand	Percentage of Total
Commercial	59,651	61 %
Leisure	38,767	39
Total	98,418	100 %

Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. We have used a compounded growth rate of 15.0% in 2010 to adjust for the new supply that came on line in mid- to late- 2009. The partial year data for these two properties skewed overall occupancy lower due to the low occupancy achieved by these properties as they ramp up to a stabilized level of operation. Based on this procedure, we forecast the following average annual compounded market segment growth rates.

Figure 1-5 Average Annual Compounded Market Segment Growth Rates

	Annual Growth Rate					
Market Segment	2010	2011	2012	2013	2014	2015
Commercial	15.0 %	4.5 %	5.0 %	4.5 %	3.5 %	3.0 %
Leisure	15.0	4.5	4.0	3.5	3.0	3.0
Base Demand Growth	15.0 %	4.5 %	4.6 %	4.1 %	3.3 %	3.0 %

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.

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Figure 1-6 Forecast of Market Occupancy

		2011	2012	2013	2014	2015
Commercial						
Base Demand		71,686	75,270	78,657	81,410	83,853
Unaccommodated Demand		1,473	1,546	1,616	1,672	1,723
Total Demand		73,158	76,816	80,273	83,083	85,575
Growth Rate		4.5 %	5.0 %	4.5 %	3.5 %	3.0 %
Leisure						
Base Demand		46,588	48,451	50,147	51,652	53,201
Unaccommodated Demand		957	995	1,030	1,061	1,093
Total Demand		47,545	49,447	51,177	52,713	54,294
Growth Rate		4.5 %	4.0 %	3.5 %	3.0 %	3.0 %
Totals						
Base Demand		118,274	123,721	128,804	133,062	137,054
Unaccommodated Demand		2,430	2,542	2,646	2,734	2,816
Total Demand		120,703	126,263	131,450	135,795	139,869
less: Residual Demand		2,430	2,542	2,646	2,734	2,816
Total Accommodated Demand		118,274	123,721	128,804	133,062	137,054
Overall Demand Growth		4.5 %	4.6 %	4.1 %	3.3 %	3.0 %
Existing Hotel Supply		584	584	584	584	584
Proposed Hotels						
Proposed Hampton Inn UASTP	1	13	50	50	50	50
Available Rooms per Night		217,760	231,410	231,410	231,410	231,410
Nights per Year		365	365	365	365	365
Total Supply		597	634	634	634	634
Rooms Supply Growth		2.2 %	6.3 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy		54.3 %	53.5 %	55.7 %	57.5 %	59.2 %

[1] Opening in October 2011 of the 100% competitive, 50-room Proposed Hampton Inn UASTP

These room night projections for the market area are used in determining the proposed subject property's expected occupancy levels, based on penetration levels forecast by segment.

Forecast of the Proposed Subject Property's Occupancy

The proposed 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. We have considered the opening of an 80-unit Homewood Suites adjacent to the proposed Hampton Inn qualitatively in our analysis.

Figure 1-7 Forecast of Subject Property's Occupancy

Market Segment	2011	2012	2013	2014	2015
Commercial					
Demand	71,686	75,270	78,657	81,410	83,853
Market Share	2.0 %	7.7 %	7.9 %	8.6 %	8.6 %
Capture	1,434	5,815	6,250	7,007	7,217
Penetration	95 %	98 %	101 %	109 %	109 %
Leisure					
Demand	46,588	48,451	50,147	51,652	53,201
Market Share	2.0 %	7.9 %	8.2 %	8.9 %	8.9 %
Capture	942	3,815	4,097	4,586	4,724
Penetration	96 %	100 %	104 %	113 %	113 %
Total Room Nights Captured	2,376	9,630	10,347	11,593	11,941
Available Room Nights	4,600	18,250	18,250	18,250	18,250
Subject Occupancy	52 %	53 %	57 %	64 %	65 %
Marketwide Available Room Nights	217,760	231,410	231,410	231,410	231,410
Fair Share	2 %	8 %	8 %	8 %	8 %
Marketwide Occupied Room Nights	118,274	123,721	128,804	133,062	137,054
Market Share	2 %	8 %	8 %	9 %	9 %
Marketwide Occupancy	54 %	53 %	56 %	58 %	59 %
Total Penetration	95 %	99 %	102 %	110 %	110 %

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

Figure 1-8 Market Segmentation Forecast – Subject Property

	2011	2012	2013	2014	2015
Commercial	60 %	60 %	60 %	60 %	60 %
Leisure	40	40	40	40	40
Total	100 %	100 %	100 %	100 %	100 %

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

Figure 1-9 Forecast of Occupancy

Year	Subject Property's Occupancy
2011/12	52 %
2012/13	56
2013/14	62
2014/15	65

Forecast of the Proposed Subject Property's Average Rate

The defined competitive market realized an overall average rate of $80.81 in the 2009 base year, declining from the 2008 level of $90.22. The Mid-Scale without Food & Beverage hotel market segment is highly competitive and very rate sensitive. In the recent recession, which began in December 2007, hotel managers attempted to increase rates to offset declining occupancy. However, in 2009 average rate has fallen 14.0% while occupancy declined 16.8%, resulting in a RevPAR decline of 28.5%. Other important rate aspects of this market include seasonality and older hotel products, which are vulnerable to competition from new, modern hotel products. The selected rate position for the proposed subject property, in base-year dollars, takes into consideration factors such as the Hampton Inn brand and targeting the commercial segment of the market, its location adjacent to a proposed 80-room Homewood Suites and a proposed conference center. We have selected the rate position of $85.00, in base-year dollars, for the proposed subject hotel.

Figure 1-10 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	57.2 %	—	$80.81	—	—	$85.00	105.2 %
2010	53.1	1.0 %	81.62	—	1.0 %	85.85	105.2
2011	54.3	3.0	84.07	52.0 %	3.0	88.43	105.2
2012	53.5	4.5	87.85	53.0	4.5	92.40	105.2
2013	55.7	3.5	90.92	57.0	3.5	95.64	105.2
2014	57.5	3.0	93.65	64.0	3.0	98.51	105.2
2015	59.2	3.0	96.46	65.0	3.0	101.46	105.2

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

Figure 1-11 Forecast of Average Rate

Year	Occupancy	Average Rate
2011/12	52 %	$91.40
2012/13	56	94.82
2013/14	62	97.78
2014/15	65	100.72

Forecast of Income and Expense

The following table presents a detailed forecast through the fifth projection year, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years beginning October 1, 2011 and are expressed in inflated dollars for each year.

Figure 1-12 Detailed Forecast of Income and Expense

	2011/12	Begins October			2012/13				2013/14				Stabilized				2015/16			
Number of Rooms:	50				50				50				50				50			
Occupancy:	52%				56%				62%				65%				65%			
Average Rate:	$91.40				$94.82				$97.78				$100.72				$103.74			
RevPAR:	$47.53				$53.10				$60.63				$65.47				$67.43			
Days Open:	365				365				365				365				365			
Occupied Rooms:	9,490	%Gross	PAR	POR	10,220	%Gross	PAR	POR	11,315	%Gross	PAR	POR	11,863	%Gross	PAR	POR	11,863	%Gross	PAR	POR
REVENUE																				
Rooms	$867	96.6 %	$17,340	$91.36	$969	96.6 %	$19,380	$94.81	$1,106	96.7 %	$22,120	$97.75	$1,195	96.7 %	$23,900	$100.74	$1,231	96.7 %	$24,620	$103.77
Telephone	2	0.2	32	0.17	2	0.2	35	0.17	2	0.2	39	0.17	2	0.2	42	0.18	2	0.2	43	0.18
Other Income	29	3.2	580	3.06	32	3.2	638	3.12	36	3.1	720	3.18	39	3.1	773	3.26	40	3.1	797	3.36
Total Revenues	898	100.0	17,952	94.58	1,003	100.0	20,053	98.11	1,144	100.0	22,879	101.10	1,236	100.0	24,715	104.17	1,273	100.0	25,460	107.31
DEPARTMENTAL EXPENSES *																				
Rooms	206	23.8	4,124	21.73	218	22.5	4,362	21.34	233	21.1	4,668	20.63	245	20.5	4,899	20.65	252	20.5	5,046	21.27
Telephone	5	294.2	93	0.49	5	282.2	98	0.48	5	266.8	105	0.46	5	260.0	110	0.46	6	260.0	113	0.48
Other Expenses	22	75.0	435	2.29	23	71.5	456	2.23	24	67.0	482	2.13	25	65.0	503	2.12	26	65.0	518	2.18
Total	233	25.9	4,653	24.51	246	24.5	4,916	24.05	263	23.0	5,255	23.22	276	22.3	5,511	23.23	284	22.3	5,676	23.93
DEPARTMENTAL INCOME	665	74.1	13,299	70.07	757	75.5	15,137	74.06	881	77.0	17,624	77.88	960	77.7	19,205	80.95	989	77.7	19,784	83.39
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	98	10.9	1,955	10.30	102	10.2	2,049	10.02	108	9.4	2,161	9.55	113	9.1	2,252	9.49	116	9.1	2,320	9.78
Marketing	44	4.9	874	4.61	46	4.6	917	4.48	48	4.2	967	4.27	50	4.1	1,008	4.25	52	4.1	1,038	4.37
Franchise Fee	78	8.7	1,561	8.22	87	8.7	1,744	8.53	100	8.7	1,991	8.80	108	8.7	2,151	9.07	111	8.7	2,216	9.34
Prop. Operations & Maint.	48	5.4	967	5.10	51	5.1	1,014	4.96	53	4.7	1,069	4.72	56	4.5	1,114	4.70	57	4.5	1,148	4.84
Utilities	65	7.3	1,307	6.88	68	6.8	1,370	6.70	72	6.3	1,444	6.38	75	6.1	1,505	6.35	78	6.1	1,551	6.54
Total	333	37.2	6,663	35.11	355	35.4	7,093	34.70	382	33.3	7,632	33.73	402	32.5	8,030	33.85	414	32.5	8,272	34.86
HOUSE PROFIT	332	36.9	6,636	34.96	402	40.1	8,044	39.35	500	43.7	9,992	44.15	559	45.2	11,174	47.10	576	45.2	11,512	48.52
Management Fee	36	4.0	718	3.78	40	4.0	802	3.92	46	4.0	915	4.04	49	4.0	989	4.17	51	4.0	1,018	4.29
INCOME BEFORE FIXED CHARGES	296	32.9	5,918	31.18	362	36.1	7,242	35.43	454	39.7	9,077	40.11	509	41.2	10,186	42.93	525	41.2	10,494	44.23
FIXED EXPENSES																				
Insurance	17	1.9	347	1.83	18	1.8	358	1.75	18	1.6	368	1.63	19	1.5	379	1.60	20	1.5	391	1.65
Reserve for Replacement	18	2.0	359	1.89	30	3.0	602	2.94	46	4.0	915	4.04	49	4.0	989	4.17	51	4.0	1,018	4.29
Total	35	3.9	706	3.72	48	4.8	959	4.69	64	5.6	1,283	5.67	68	5.5	1,368	5.77	70	5.5	1,409	5.94
NET INCOME	$261	29.0 %	$5,212	$27.46	$314	31.3 %	$6,283	$30.74	$390	34.1 %	$7,793	$34.44	$441	35.7 %	$8,818	$37.17	$454	35.7 %	$9,085	$38.29

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

Figure 1-13 Ten-Year Forecast of Income and Expense

	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17		2017/18		2018/19		2019/20		2020/21	
Number of Rooms:	50		50		50		50		50		50		50		50		50		50	
Occupied Rooms:	9,490		10,220		11,315		11,863		11,863		11,863		11,863		11,863		11,863		11,863	
Occupancy:	52%		56%		62%		65%		65%		65%		65%		65%		65%		65%	
Average Rate:	$91.40	% of	$94.82	% of	$97.78	% of	$100.72	% of	$103.74	% of	$106.85	% of	$110.06	% of	$113.36	% of	$116.76	% of	$120.26	% of
RevPAR:	$47.53	Gross	$53.10	Gross	$60.63	Gross	$65.47	Gross	$67.43	Gross	$69.45	Gross	$71.54	Gross	$73.68	Gross	$75.89	Gross	$78.17	Gross
REVENUE																				
Rooms	$867	96.6 %	$969	96.6 %	$1,106	96.7 %	$1,195	96.7 %	$1,231	96.7 %	$1,268	96.7 %	$1,306	96.7 %	$1,345	96.7 %	$1,385	96.7 %	$1,427	96.7 %
Telephone	2	0.2	2	0.2	2	0.2	2	0.2	2	0.2	2	0.2	2	0.2	2	0.2	2	0.2	3	0.2
Other Income	29	3.2	32	3.2	36	3.1	39	3.1	40	3.1	41	3.1	42	3.1	44	3.1	45	3.1	46	3.1
Total	898	100.0	1,003	100.0	1,144	100.0	1,236	100.0	1,273	100.0	1,311	100.0	1,351	100.0	1,391	100.0	1,432	100.0	1,476	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	206	23.8	218	22.5	233	21.1	245	20.5	252	20.5	260	20.5	268	20.5	276	20.5	284	20.5	292	20.5
Telephone	5	294.2	5	282.2	5	266.8	5	260.0	6	260.0	6	260.0	6	260.0	6	260.0	6	260.0	7	260.0
Other Expenses	22	75.0	23	71.5	24	67.0	25	65.0	26	65.0	27	65.0	27	65.0	28	65.0	29	65.0	30	65.0
Total	233	25.9	246	24.5	263	23.0	276	22.3	284	22.3	292	22.3	301	22.3	310	22.3	319	22.3	329	22.3
DEPARTMENTAL INCOME	665	74.1	757	75.5	881	77.0	960	77.7	989	77.7	1,019	77.7	1,049	77.7	1,081	77.7	1,113	77.7	1,147	77.7
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	98	10.9	102	10.2	108	9.4	113	9.1	116	9.1	119	9.1	123	9.1	127	9.1	131	9.1	134	9.1
Marketing	44	4.9	46	4.6	48	4.2	50	4.1	52	4.1	53	4.1	55	4.1	57	4.1	58	4.1	60	4.1
Franchise Fee	78	8.7	87	8.7	100	8.7	108	8.7	111	8.7	114	8.7	118	8.7	121	8.7	125	8.7	128	8.7
Prop. Operations & Maint.	48	5.4	51	5.1	53	4.7	56	4.5	57	4.5	59	4.5	61	4.5	63	4.5	65	4.5	67	4.5
Utilities	65	7.3	68	6.8	72	6.3	75	6.1	78	6.1	80	6.1	82	6.1	85	6.1	87	6.1	90	6.1
Total	333	37.2	355	35.4	382	33.3	402	32.5	414	32.5	426	32.5	439	32.5	452	32.5	465	32.5	479	32.5
HOUSE PROFIT	332	36.9	402	40.1	500	43.7	559	45.2	576	45.2	593	45.2	611	45.2	629	45.2	647	45.2	667	45.2
Management Fee	36	4.0	40	4.0	46	4.0	49	4.0	51	4.0	52	4.0	54	4.0	56	4.0	57	4.0	59	4.0
INCOME BEFORE FIXED CHARGES	296	32.9	362	36.1	454	39.7	509	41.2	525	41.2	540	41.2	557	41.2	573	41.2	590	41.2	608	41.2
FIXED EXPENSES																				
Insurance	17	1.9	18	1.8	18	1.6	19	1.5	20	1.5	20	1.5	21	1.5	21	1.5	22	1.5	23	1.5
Reserve for Replacement	18	2.0	30	3.0	46	4.0	49	4.0	51	4.0	52	4.0	54	4.0	56	4.0	57	4.0	59	4.0
Total	35	3.9	48	4.8	64	5.6	68	5.5	70	5.5	73	5.5	75	5.5	77	5.5	79	5.5	82	5.5
NET INCOME	$261	29.0 %	$314	31.3 %	$390	34.1 %	$441	35.7 %	$454	35.7 %	$468	35.7 %	$482	35.7 %	$496	35.7 %	$511	35.7 %	$527	35.7 %

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

We have considered operating efficiencies created by a single management company operating the proposed Homewood Suites and the proposed Hampton Inn on the same site, which is expected to also include a proposed conference center. Administrative & general expense, marketing expense, and insurance expense are anticipated to be slightly lower than if each hotel were operated independently by two different management companies.

Based on conversations with the UASTP management, we have assumed that the proposed subject hotel will be owned by an entity created by the University of Arizona Science and Technology Park. At this time we anticipate that the hotel's land, improvements, and personal property will be exempted from real and personal property taxes, but will be subject to lodging and sales taxes. If this assumption proves to be incorrect, our projection of net operating income will be negatively impacted.

Our positioning of each revenue and expense level is supported by comparable operations or trends specific to this market.

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Figure 1-14 Comparable Operating Statements: Ratio to Sales

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized $
Year:	2008/09	2007/08	2007/08	2007/08	2007	2009
Number of Rooms:	50 to 80	70 to 90	70 to 100	60 to 80	60 to 80	50
Days Open:	365	365	365	366	364	365
Occupancy:	59%	73%	75%	62%	75%	65%
Average Rate:	$109	$93	$110	$86	$88	$89
RevPAR:	$65	$68	$82	$53	$66	$58
REVENUE						
Rooms	99.5 %	99.0 %	98.0 %	96.4 %	97.8 %	96.7 %
Telephone	0.1	0.1	0.0	0.0	0.2	0.2
Other Income	0.4	1.0	2.0	3.6	1.9	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	22.0	25.0	18.0	25.3	18.5	20.5
Telephone	1,067.9	1,400.0	1,300.0	0.0	307.0	260.0
Other Expenses	49.8	5.3	50.0	0.0	204.8	65.0
Total	23.4	25.5	19.1	25.0	22.7	22.3
DEPARTMENTAL INCOME	76.6	74.5	80.9	75.0	77.3	77.7
OPERATING EXPENSES						
Administrative & General	12.1	9.8	9.5	12.5	8.1	9.1
Marketing	4.2	1.8	3.5	4.8	0.6	4.1
Franchise Fee	7.6	10.1	10.0	7.7	10.8	8.7
Property Operations & Maintenance	5.0	4.7	2.7	4.0	3.0	4.5
Utilities	4.1	5.7	4.9	7.1	3.7	6.1
Total	33.0	32.1	30.7	36.0	26.2	32.5
HOUSE PROFIT	43.6	42.4	50.2	39.0	51.1	45.2
Management Fee	3.5	3.8	3.8	4.8	3.0	4.0
INCOME BEFORE FIXED CHARGES	40.1	38.7	46.4	34.1	48.1	41.2
FIXED EXPENSES						
Property Taxes	12.5	6.6	3.5	4.0	2.8	0.0
Insurance	0.8	2.0	3.3	0.6	0.9	1.5
Ground Lease	0.3	0.0	0.0	0.0	0.0	0.0
Miscellaneous Fixed Expenses	0.3	0.0	0.0	0.0	0.6	0.0
Reserve for Replacement	4.0	4.0	4.0	4.0	4.0	4.0
Total	17.6	12.6	10.8	8.6	8.3	5.5
NET INCOME	22.5 %	26.1 %	35.6 %	25.5 %	39.8 %	35.7 %

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

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Figure 1-15 Comparable Operating Statements: Amounts Per Available Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized $
Year:	2008/09	2007/08	2007/08	2007/08	2007	2009
Number of Rooms:	50 to 80	70 to 90	70 to 100	60 to 80	60 to 80	50
Days Open:	365	365	365	366	364	365
Occupancy:	59%	73%	75%	62%	75%	65%
Average Rate:	$109	$93	$110	$86	$88	$89
RevPAR:	$65	$68	$82	$53	$66	$58
REVENUE						
Rooms	$23,712	$24,688	$29,988	$19,329	$23,948	$21,231
Telephone	29	13	12	0	56	37
Other Income	96	238	605	729	472	687
Total	23,837	24,938	30,605	20,057	24,476	21,955
DEPARTMENTAL EXPENSES						
Rooms	5,211	6,163	5,407	4,886	4,422	4,352
Telephone	309	175	151	129	173	97
Other Expenses	48	13	302	0	966	447
Total	5,568	6,350	5,860	5,014	5,561	4,896
DEPARTMENTAL INCOME	18,269	18,588	24,744	15,043	18,916	17,059
OPERATING EXPENSES						
Administrative & General	2,894	2,450	2,919	2,500	1,975	2,001
Marketing	1,003	450	1,081	971	137	895
Franchise Fee	1,807	2,513	3,058	1,543	2,650	1,911
Property Operations & Maintenance	1,197	1,163	814	800	736	990
Utilities	972	1,425	1,512	1,414	910	1,337
Total	7,873	8,000	9,384	7,229	6,409	7,135
HOUSE PROFIT	10,396	10,588	15,360	7,814	12,507	9,924
Management Fee	834	938	1,151	971	734	878
INCOME BEFORE FIXED CHARGES	9,562	9,650	14,209	6,843	11,772	9,046
FIXED EXPENSES						
Property Taxes	2,991	1,638	1,058	800	676	0
Insurance	200	500	1,012	114	216	0
Ground Lease	70	0	0	0	0	0
Miscellaneous Fixed Expenses	70	0	0	0	138	0
Reserve for Replacement	953	998	1,224	802	979	878
Total	4,214	3,135	3,294	1,717	2,009	1,215
NET INCOME	$5,348	$6,515	$10,915	$5,126	$9,763	$7,831

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Figure 1-16 Comparable Operating Statements: Amounts Per Occupied Room

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized $
Year:	2008/09	2007/08	2007/08	2007/08	2007	2009
Number of Rooms:	50 to 80	70 to 90	70 to 100	60 to 80	60 to 80	50
Days Open:	365	365	365	366	364	365
Occupancy:	59%	73%	75%	62%	75%	65%
Average Rate:	$109	$93	$110	$86	$88	$89
RevPAR:	$65	$68	$82	$53	$66	$58
REVENUE						
Rooms	$109.37	$92.65	$110.28	$85.51	$88.30	$89.49
Telephone	0.13	0.05	0.04	0.00	0.21	0.16
Other Income	0.44	0.89	2.22	3.22	1.74	2.90
Total	109.94	93.59	112.55	88.73	90.25	92.54
DEPARTMENTAL EXPENSES						
Rooms	24.04	23.13	19.88	21.61	16.31	18.34
Telephone	1.42	0.66	0.56	0.57	0.64	0.41
Other Expenses	0.22	0.05	1.11	0.00	3.56	1.88
Total	25.68	23.83	21.55	22.18	20.50	20.64
DEPARTMENTAL INCOME	84.26	69.76	90.99	66.55	69.75	71.90
OPERATING EXPENSES						
Administrative & General	13.35	9.19	10.73	11.06	7.28	8.43
Marketing	4.63	1.69	3.98	4.30	0.50	3.77
Franchise Fee	8.34	9.43	11.25	6.83	9.77	8.06
Property Operations & Maintenance	5.52	4.36	2.99	3.54	2.72	4.17
Utilities	4.48	5.35	5.56	6.26	3.36	5.64
Total	36.31	30.02	34.51	31.98	23.63	30.07
HOUSE PROFIT	47.95	39.74	56.49	34.57	46.12	41.83
Management Fee	3.85	3.52	4.23	4.30	2.71	3.70
INCOME BEFORE FIXED CHARGES	44.10	36.22	52.25	30.27	43.41	38.13
FIXED EXPENSES						
Property Taxes	13.79	6.15	3.89	3.54	2.49	0.00
Insurance	0.92	1.88	3.72	0.51	0.80	1.42
Ground Lease	0.32	0.00	0.00	0.00	0.00	0.00
Miscellaneous Fixed Expenses	0.32	0.00	0.00	0.00	0.51	0.00
Reserve for Replacement	4.40	3.74	4.50	3.55	3.61	3.70
Total	19.44	11.77	12.11	7.59	7.41	5.12
NET INCOME	$24.66	$24.45	$40.14	$22.68	$36.00	$33.01

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Figure 1-17 Comparable Operating Statements: Composite Statement

Number of Rooms:	369			
Days Open:	365			
Occupancy:	69.1%		Amount per	Amount per
Average Rate:	$97.48	Percentage	Available	Occupied
RevPAR:	$67.39	of Revenue	Room	Room
REVENUE				
Rooms	$9,077	98.2 %	$24,599	$97.48
Telephone	8	0.1	21	0.08
Other Income	161	1.7	436	1.73
Total	9,245	100.0	25,055	99.29
DEPARTMENTAL EXPENSES				
Rooms	1,939	21.4	5,254	20.82
Telephone	68	875.6	183	0.73
Other Expenses	97	60.2	262	1.04
Total	2,103	22.7	5,699	22.59
DEPARTMENTAL INCOME	7,142	77.3	19,356	76.71
OPERATING EXPENSES				
Administrative & General	943	10.2	2,557	10.13
Marketing	271	2.9	733	2.91
Franchise Fee	871	9.4	2,359	9.35
Property Operations & Maintenance	346	3.7	939	3.72
Utilities	468	5.1	1,268	5.03
Total	2,899	31.4	7,857	31.14
HOUSE PROFIT	4,243	45.9	11,499	45.57
Management Fee	346	3.7	938	3.72
INCOME BEFORE FIXED CHARGES	3,897	42.2	10,562	41.85
FIXED EXPENSES				
Property Taxes	516	5.6	1,398	5.54
Insurance	163	1.8	441	1.75
Ground Lease	4	0.0	12	0.05
Miscellaneous Fixed Expenses	14	0.2	38	0.15
Reserve for Replacement	370	4.0	1,002	3.97
Total	1,063	11.5	2,880	11.41
NET INCOME	$2,835	30.7 %	$7,682	$30.44

In conclusion, our analysis reflects a profitable operation, with net income expected to total 35.7% of total revenue by the stabilized year. The stabilized total revenue comprises primarily rooms revenue, with a secondary portion derived from other income sources. On the cost side, departmental expenses total 22.3% of revenue by the stabilized year, while undistributed operating expenses total 32.5% of total revenues; this assumes that the property will be operated competently by a well-known hotel operator. After a 4.0% of total revenues management fee, and 5.5% of total revenues in fixed expenses, a net income ratio of 35.7% is forecast by the stabilized year.

Method of Study

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

1. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant location factors.
2. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
3. Dividing the market for transient accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, required facilities and amenities, seasonality, daily demand fluctuations, and price sensitivity.
4. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness.

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

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5. The subject property's proposed improvements have been evaluated or recommended for optimal capture of demand in this market and at the subject site’s location.
6. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
7. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.

Date of Inspection

The subject site was inspected by Richard D. Williams, MAI on February 26, 2008, and was not re-inspected for this summary market analysis.

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2. Statement of Assumptions and Limiting Conditions

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

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

9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
17. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been

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

18. This analysis assumes continuation of all provisions of the Internal Revenue Code of 1986, as amended to date.
19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
22. This study was prepared by W&R Hospitality Services, Inc.. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of W&R Hospitality Services, Inc. as employees, rather than as individuals.
23. No architectural drawings for the proposed subject property were available for review as of the date of this report. If the design and construction quality of the proposed subject hotel vary from that assumed by the consultant, our estimates of operating results may change. Any intended or unintended user of this summary market analysis should verify that the proposed hotel is designed and constructed per the information relied on by the consultant.
24. We have assumed that the proposed hotel will be completed and open for business on or about October 1, 2011.

3. Certification

The undersigned hereby certifies that, to the best of my 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 my personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved;
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
7. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Richard D. Williams, MAI personally inspected the property described in this report on February 1, 2008, but did not re-inspect the property for this report;
9. No one other than the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report;
10. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;

11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and
12. As of the date of this report, Richard D. Williams, MAI has completed the requirements of the continuing education program of the Appraisal Institute.

Richard D. Williams, MAI
Managing Director
W&R Hospitality Services, Inc.
dba HVS Global Hospitality Services, Inc.

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

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

Base-Year Occupancy and Penetration Levels

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

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

Market-wide Room Night Demand

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

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

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

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

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

The following 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%	12,973	30.0%	127.6%
Hotel B	125	29.4	14,054	37.9	129.0
Hotel C	200	47.1	27,677	32.0	68.1
Total/Average	425	100.0%	54,704	100.0%	100.0%

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

Commercial Segment Fair Share

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

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

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

Commercial Segment Projections (Year 1)

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

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

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have declined by approximately nine percentage points due to the reapportionment of demand.

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

Commercial Segment Projections (Year 2)

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