MARKET STUDY

Proposed Upper Midscale, Limited- or Select-Service Hotel - Federal Way

2141 SOUTH 314TH STREET
FEDERAL WAY, WASHINGTON

SUBMITTED TO:

Mr. Brian Wilson
Mr. Tim Johnson
City of Federal Way
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PREPARED BY:

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August 25, 2015

Mr. Brian Wilson
Mr. Tim Johnson
City of Federal Way
33325 8th Avenue South
Federal Way, Washington, 98003

Re: Proposed Upper Midscale, Limited- or Select-Service Hotel
Federal Way, Washington
HVS Reference: 2015021117

Dear Mr. Wilson and Mr. Johnson:

Pursuant to your request, we herewith submit our market study pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in the Federal Way, Washington area. We have studied the existing market conditions; the results of our fieldwork and analysis are presented in this report. Based on our findings, we recommend the development of a 93-unit upper midscale, limited- or select-service hotel at the site. Additional facility recommendations are detailed in this market study report. Our report was prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation.

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

Sincerely,
TS Worldwide, LLC

Matthew D. Melville, Vice President
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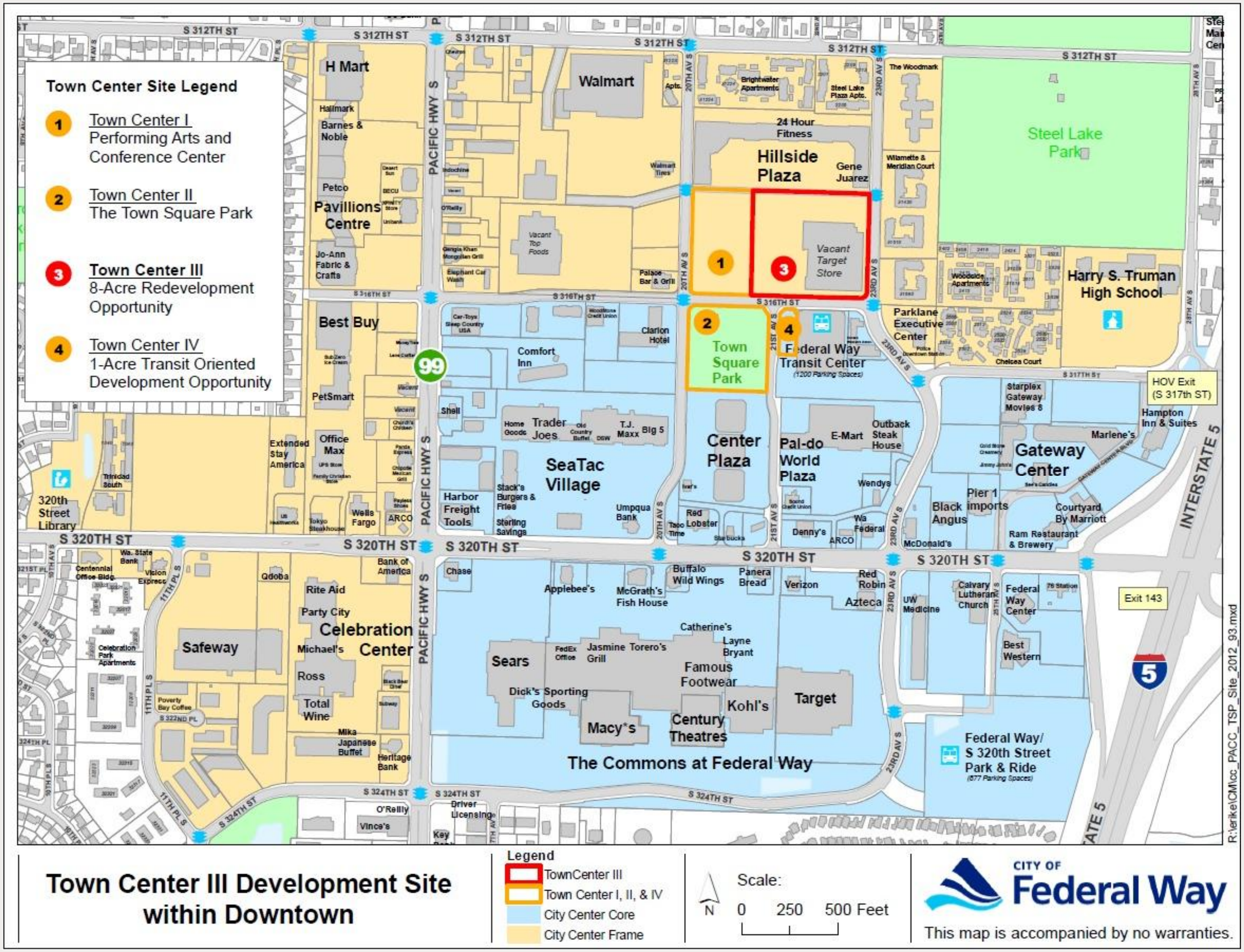
1. Executive Summary

Subject of the Market Study

The subject of the market study is a 93,654-square-foot (2.15-acre) parcel to be improved with a limited-service lodging facility; the projections presented in this study reflect franchise fees consistent with the Holiday Inn Express & Suites brand. The property, which is expected to open on June 1, 2017, is assumed to offer 93 rooms, a breakfast dining area, 2,500 square feet of meeting space, an indoor swimming pool, an indoor whirlpool, a fitness room, a business center, a market pantry, a guest laundry room, vending areas, and other amenities specific to the selected brand. The hotel will also contain all necessary back-of-the-house space.

The City of Federal Way is currently seeking a development partner that will construct and own a hotel on a 2.15-acre site located in Downtown Federal Way. The site is currently improved with a parking lot for a closed discount retail store. The hotel is one component of a multi-faceted development effort consisting of four adjacent sites surrounding the intersection of South 316th Street and 21st Avenue South. HVS was retained to prepare a hotel market study with development recommendations and financial projections. It is understood that this study will be reviewed by various stakeholders in an effort to understand the current and future potential for new transient lodging development at this location. In conjunction with this study, various market participants were interviewed; a list of interviewed parties is included in the addenda of this market study document. We note that redevelopment plans for a 1.0-acre parcel adjacent to the Federal Way Transit Center and a 5.36-acre site immediately east of the proposed hotel are yet to be finalized. The following map identifies the proposed components of the Town Center redevelopment project as of early August 2015.

TOWN CENTER DEVELOPMENT MAP



The subject site's location is 2141 South 314th Street, Federal Way, Washington, 98003.

Pertinent Dates

The effective date of the report is August 12, 2015. The subject site was inspected by Matthew D. Melville on July 23, 2015. In addition to the inspection, Matthew D. Melville participated in the research for this assignment and assisted in the report's preparation. Kasia M. Russell, MAI participated in the analysis and reviewed the findings, but did not personally inspect the property.

Ownership, Franchise, and Management Assumptions

The City of Federal Way acquired the site that is the subject of this market study in November 2014 from Pal-Do Company Inc. for a reported purchase price of $8,200,000, or approximately $25 per square foot. The existing parcel measures 7.48 acres, of which 2.15 acres have been allocated for hotel use. Based on our discussions with city representatives, the existing parcel will be subdivided to create a separate taxable parcel for hotel development. The portion of the site designated for hotel development is currently improved with a paved parking lot for the adjacent closed retail store. Tentative plans call for the eventual demolition of the vacant retail building to make way for a new mixed-use development. The proposed elements and construction timing of the mixed-use development were not known at the time of this study. The site is not currently listed for sale; however, city representatives are seeking potential development partners to construct and operate a proposed hotel. The details of a potential hotel development partnership or transaction structure are yet to be determined.

Details pertaining to management terms were not yet determined at the time of this report; however, we assume that the proposed hotel 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.

We recommend that the proposed subject hotel operate as a midscale, limited- or select-service hotel. Our projections reflect a Holiday Inn Express Hotel & Suites or similar affiliation. Based on our review of the agreement's terms or expected terms, the Holiday Inn Express franchise is reflected in our forecasts with a royalty fee of 6% of rooms revenue, and a marketing assessment of 3% of rooms revenue. Reservations fees will also be due, and are included in the rooms expense line item of our forecast.

Summary of Hotel Market Trends

Local employers and headquarter offices in the area, as well as motorists traveling on Interstate 5, represent the primary sources of demand for the selected set of competitive hotels in Federal Way. Located between Tacoma and Seattle, hotel demand levels in Federal Way are influenced by compression generated by events based in these adjacent cities. Hotel occupancy levels in Federal Way show fluctuations similar to those experienced in markets nationwide; the recession of 2008 and 2009 caused a significant decline from historical levels. Occupancy for the market increased significantly starting in 2011, quickly absorbing the recently opened Hampton Inn & Suites. In subsequent years, occupancy trends have remained positive, surpassing the 60% mark in 2014 for the first time in seven years. Data for the first half of 2015 reflect continued occupancy improvement for the market, prompting market operators to increase average rates substantially.

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

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	911	332,515	—	190,894	—	57.4 %	$71.04	—	$40.78	—
2004	911	332,515	0.0 %	197,211	3.3 %	59.3	71.47	0.6 %	42.39	3.9 %
2005	911	332,515	0.0	207,248	5.1	62.3	76.40	6.9	47.62	12.3
2006	911	332,515	0.0	213,251	2.9	64.1	83.77	9.7	53.73	12.8
2007	911	332,515	0.0	217,681	2.1	65.5	89.30	6.6	58.46	8.8
2008	911	332,515	0.0	193,412	(11.1)	58.2	92.22	3.3	53.64	(8.3)
2009	911	332,515	0.0	171,575	(11.3)	51.6	86.18	(6.5)	44.47	(17.1)
2010	971	354,575	6.6	183,818	7.1	51.8	80.42	(6.7)	41.69	(6.3)
2011	1,054	384,710	8.5	215,903	17.5	56.1	85.85	6.8	48.18	15.6
2012	1,054	384,710	0.0	218,846	1.4	56.9	87.22	1.6	49.61	3.0
2013	1,054	384,710	0.0	224,206	2.4	58.3	90.70	4.0	52.86	6.5
2014	1,054	384,710	0.0	237,319	5.8	61.7	96.95	6.9	59.81	13.1
Average Annual Compounded Change:										
2003-2014			1.3 %		2.0 %			2.9 %		3.5 %
Year-to-Date Through June										
2014	1,054	190,774	—	110,245	—	57.8 %	$93.17	—	$53.84	—
2015	1,054	190,774	0.0 %	116,593	5.8 %	61.1	105.34	13.1 %	64.38	19.6 %

Hotels Included in Sample	Competitive Group	Number of Rooms	Year Affiliated	Year Opened
Red Lion Inn & Suites Federal Way	Group B	90	Sep 2014	Sep 1982
Clarion Hotel Federal Way Seattle	Group B	115	Sep 2007	Jun 1983
Days Inn Federal Way	Group B	54	Jun 2007	Aug 1994
Comfort Inn Federal Way Seattle	Group B	117	Nov 1998	Nov 1998
Econo Lodge Federal Way	Group B	45	Nov 2011	Jun 1999
Extended Stay America Seattle Federal Way	Group B	101	Aug 1999	Aug 1999
Best Western Plus Evergreen Inn & Suites	Group B	165	Oct 2010	Oct 1999
Courtyard Seattle Federal Way	Group A	160	Jun 2000	Jun 2000
Quality Inn & Suites Federal Way Seattle	Group B	65	Aug 2002	Aug 2002
Hampton Inn Suites Seattle Federal Way	Group A	142	Aug 2010	Aug 2010
	Total	**1,054**		

Source: STR Global

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

FIGURE 1-2 FEDERAL WAY HOTEL COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2012			Estimated 2013			Estimated 2014					
Property	Number of Rooms	Commercial	Group	Leisure	Occ.	Average Rate	RevPAR	Occ.	Average Rate	RevPAR	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Competitive Group A	302	50 %	27 %	23 %	71.9 %	$115.48	$83.01	74.3 %	$119.99	$89.14	75.1 %	$129.92	$97.59	9.5 %	121.8 %	163.2 %
Competitive Group B	752	32 %	16 %	52 %	50.8 %	$71.15	$36.16	51.9 %	$73.87	$38.35	56.3 %	$79.30	$44.64	16.4 %	91.3 %	74.6 %
Totals/Averages	**1,054**	**39 %**	**20 %**	**42 %**	**56.9 %**	**$87.22**	**$49.60**	**58.3 %**	**$90.70**	**$52.90**	**61.7 %**	**$96.96**	**$59.81**	**13.1 %**	**100.0 %**	**100.0 %**

FIGURE 1-3 FEDERAL WAY HOTEL COMPETITORS – COMPETITIVE GROUPS

Competitive Group A

Hotel Name	Room Count	Parent Company	Opening Year
Hampton Inn Suites Seattle Federal Way	142	Hilton Hotels & Resorts	2010
Courtyard Seattle Federal Way	160	Marriott International	2000
	302		

Competitive Group B

Hotel Name	Room Count	Parent Company	Opening Year
Clarion Hotel Federal Way	115	Choice Hotels	1983
Comfort Inn Federal Way	117	Choice Hotels	1998
Best Western Evergreen Inn & Suites	165	Best Western International	1999
Quality Inn & Suites Federal Way	65	Choice Hotels	2002
Extended StayAmerica Federal Way	101	Extended Stay Hotels	1999
Red Lion Inn & Suites Federal Way	90	Red Lion Hotels	1982
Econo Lodge Federal Way	45	Choice Hotels	1999
Days Inn Federal Way	54	Wyndham Worldwide	1994
	752		

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Summary of Forecast Occupancy and Average Rate

Based on our analysis presented in Chapter 6 –Projection of Occupancy and Average Rate, we have chosen to use a stabilized occupancy level of 74% and a base-year rate position of $125.00 for the proposed subject hotel. The following table reflects a summary of our market-wide and proposed subject hotel occupancy and average rate projections.

FIGURE 1-4 MARKET AND SUBJECT PROPERTY OCCUPANCY & AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	61.7 %	—	$96.96	—	—	$125.00	128.9 %
2015	64.1	10.0 %	106.66	—	6.0 %	132.50	124.2
2016	63.8	3.0	109.85	—	6.0	140.45	127.9
2017	63.1	3.0	113.15	68.0 %	6.0	148.88	131.6
2018	61.6	3.0	116.54	71.0	4.0	154.83	132.9
2019	61.6	3.0	120.04	74.0	3.0	159.48	132.9
2020	61.6	3.0	123.64	74.0	3.0	164.26	132.9

The following table summarizes the proposed subject hotel's forecast, reflecting fiscal years and opening-year rate discounts as applicable.

FIGURE 1-5 FORECAST OF OCCUPANCY & AVERAGE RATE

Year	Occupancy	Average Rate
2017/18	69 %	$151.34
2018/19	72	156.75
2019/20	74	161.46

Summary of Forecast Income and Expense Statement

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

FIGURE 1-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2017/18	Begins June			2018/19				Stabilized				2020/21			
Number of Rooms:	**93**				**93**				**93**				**93**			
Occupancy:	**69%**				**72%**				**74%**				**74%**			
Average Rate:	**$151.34**				**$156.75**				**$161.46**				**$166.30**			
RevPAR:	**$104.43**				**$112.86**				**$119.48**				**$123.06**			
Days Open:	**365**				**365**				**365**				**365**			
Occupied Rooms:	**23,422**	**%Gross**	**PAR**	**POR**	**24,440**	**%Gross**	**PAR**	**POR**	**25,119**	**%Gross**	**PAR**	**POR**	**25,119**	**%Gross**	**PAR**	**POR**
OPERATING REVENUE																
Rooms	$3,545	96.7 %	$38,118	$151.35	$3,831	96.8 %	$41,194	$156.75	$4,056	96.8 %	$43,613	$161.47	$4,177	96.8 %	$44,914	$166.29
Other Operated Departments	69	1.9	743	2.95	72	1.8	775	2.95	75	1.8	804	2.98	77	1.8	829	3.07
Miscellaneous Income	54	1.5	576	2.29	56	1.4	601	2.29	58	1.4	624	2.31	60	1.4	643	2.38
Total Operating Revenues	3,668	100.0	39,438	156.59	3,959	100.0	42,569	161.98	4,189	100.0	45,042	166.76	4,314	100.0	46,385	171.73
DEPARTMENTAL EXPENSES *																
Rooms	893	25.2	9,599	38.11	935	24.4	10,052	38.25	973	24.0	10,466	38.75	1,003	24.0	10,780	39.91
Other Operated Departments	53	76.1	565	2.24	54	75.4	584	2.22	56	75.0	603	2.23	58	75.0	621	2.30
Total	945	25.8	10,164	40.36	989	25.0	10,636	40.47	1,029	24.6	11,070	40.98	1,060	24.6	11,402	42.21
DEPARTMENTAL INCOME	2,722	74.2	29,274	116.23	2,970	75.0	31,933	121.51	3,159	75.4	33,972	125.78	3,253	75.4	34,984	129.52
UNDISTRIBUTED OPERATING EXPENSES																
Administrative & General	305	8.3	3,281	13.03	318	8.0	3,418	13.01	330	7.9	3,544	13.12	339	7.9	3,650	13.51
Marketing	159	4.3	1,710	6.79	166	4.2	1,781	6.78	172	4.1	1,847	6.84	177	4.1	1,902	7.04
Franchise Fee	319	8.7	3,431	13.62	345	8.7	3,707	14.11	365	8.7	3,925	14.53	376	8.7	4,042	14.97
Prop. Operations & Maint.	106	2.9	1,135	4.51	109	2.7	1,170	4.45	116	2.8	1,251	4.63	120	2.8	1,288	4.77
Utilities	136	3.7	1,461	5.80	142	3.6	1,522	5.79	147	3.5	1,579	5.84	151	3.5	1,626	6.02
Total	1,025	27.9	11,018	43.75	1,079	27.2	11,599	44.14	1,130	27.0	12,145	44.97	1,163	27.0	12,509	46.31
GROSS HOUSE PROFIT	1,698	46.3	18,256	72.49	1,891	47.8	20,334	77.38	2,030	48.4	21,827	80.81	2,090	48.4	22,475	83.21
Management Fee	110	3.0	1,183	4.70	119	3.0	1,277	4.86	126	3.0	1,351	5.00	129	3.0	1,392	5.15
INCOME BEFORE NON-OPER. INC. & EXP.	1,588	43.3	17,072	67.79	1,772	44.8	19,057	72.52	1,904	45.4	20,475	75.81	1,961	45.4	21,084	78.06
NON-OPERATING INCOME AND EXPENSE																
Property Taxes	145	4.0	1,562	6.20	147	3.7	1,579	6.01	148	3.5	1,596	5.91	153	3.5	1,643	6.08
Insurance	42	1.1	449	1.78	43	1.1	463	1.76	44	1.1	477	1.76	46	1.1	491	1.82
Reserve for Replacement	73	2.0	789	3.13	119	3.0	1,277	4.86	168	4.0	1,802	6.67	173	4.0	1,855	6.87
Total	260	7.1	2,800	11.12	309	7.8	3,319	12.63	360	8.6	3,874	14.34	371	8.6	3,990	14.77
EBITDA LESS RESERVE	$1,327	36.2 %	$14,272	$56.67	$1,464	37.0 %	$15,738	$59.89	$1,544	36.8 %	$16,602	$61.46	$1,590	36.8 %	$17,094	$63.29

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

FIGURE 1-7 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2017/18		2018/19		2019/20		2020/21		2021/22	
Number of Rooms:	**93**		**93**		**93**		**93**		**93**	
Occupied Rooms:	**23,422**		**24,440**		**25,119**		**25,119**		**25,119**	
Occupancy:	**69%**		**72%**		**74%**		**74%**		**74%**	
Average Rate:	**$151.34**	**% of**	**$156.75**	**% of**	**$161.46**	**% of**	**$166.30**	**% of**	**$171.29**	**% of**
RevPAR:	**$104.43**	**Gross**	**$112.86**	**Gross**	**$119.48**	**Gross**	**$123.06**	**Gross**	**$126.75**	**Gross**
OPERATING REVENUE										
Rooms	$3,545	96.7 %	$3,831	96.8 %	$4,056	96.8 %	$4,177	96.8 %	$4,303	96.8 %
Other Operated Departments	69	1.9	72	1.8	75	1.8	77	1.8	79	1.8
Miscellaneous Income	54	1.5	56	1.4	58	1.4	60	1.4	62	1.4
Total Operating Revenue	3,668	100.0	3,959	100.0	4,189	100.0	4,314	100.0	4,444	100.0
DEPARTMENTAL EXPENSES*										
Rooms	893	25.2	935	24.4	973	24.0	1,003	24.0	1,033	24.0
Other Operated Departments	53	76.1	54	75.4	56	75.0	58	75.0	60	75.0
Total	945	25.8	989	25.0	1,029	24.6	1,060	24.6	1,092	24.6
DEPARTMENTAL INCOME	2,722	74.2	2,970	75.0	3,159	75.4	3,253	75.4	3,352	75.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	305	8.3	318	8.0	330	7.9	339	7.9	350	7.9
Marketing	159	4.3	166	4.2	172	4.1	177	4.1	182	4.1
Franchise Fee	319	8.7	345	8.7	365	8.7	376	8.7	387	8.7
Prop. Operations & Maint.	106	2.9	109	2.7	116	2.8	120	2.8	123	2.8
Utilities	136	3.7	142	3.6	147	3.5	151	3.5	156	3.5
Total	1,025	27.9	1,079	27.2	1,130	27.0	1,163	27.0	1,198	27.0
GROSS HOUSE PROFIT	1,698	46.3	1,891	47.8	2,030	48.4	2,090	48.4	2,153	48.4
Management Fee	110	3.0	119	3.0	126	3.0	129	3.0	133	3.0
INCOME BEFORE NON-OPER. INC. & EXP.	1,588	43.3	1,772	44.8	1,904	45.4	1,961	45.4	2,020	45.4
NON-OPERATING INCOME AND EXPENSE										
Property Taxes	145	4.0	147	3.7	148	3.5	153	3.5	157	3.5
Insurance	42	1.1	43	1.1	44	1.1	46	1.1	47	1.1
Reserve for Replacement	73	2.0	119	3.0	168	4.0	173	4.0	178	4.0
Total	260	7.1	309	7.8	360	8.6	371	8.6	382	8.6
EBITDA LESS RESERVE	$1,327	36.2 %	$1,464	37.0 %	$1,544	36.8 %	$1,590	36.8 %	$1,638	36.8 %

	2022/23		2023/24		2024/25		2025/26		2026/27	
Number of Rooms:	**93**		**93**		**93**		**93**		**93**	
Occupied Rooms:	**25,119**		**25,119**		**25,119**		**25,119**		**25,119**	
Occupancy:	**74%**		**74%**		**74%**		**74%**		**74%**	
Average Rate:	**$176.43**	**% of**	**$181.72**	**% of**	**$187.17**	**% of**	**$192.79**	**% of**	**$198.57**	**% of**
RevPAR:	**$130.56**	**Gross**	**$134.47**	**Gross**	**$138.51**	**Gross**	**$142.66**	**Gross**	**$146.94**	**Gross**
OPERATING REVENUE										
Rooms	$4,432	96.8 %	$4,565	96.8 %	$4,702	96.8 %	$4,843	96.8 %	$4,988	96.8 %
Other Operated Departments	82	1.8	84	1.8	87	1.8	89	1.8	92	1.8
Miscellaneous Income	63	1.4	65	1.4	67	1.4	69	1.4	71	1.4
Total Operating Revenue	4,577	100.0	4,715	100.0	4,856	100.0	5,002	100.0	5,151	100.0
DEPARTMENTAL EXPENSES*										
Rooms	1,064	24.0	1,096	24.0	1,128	24.0	1,162	24.0	1,197	24.0
Other Operated Departments	61	75.0	63	75.0	65	75.0	67	75.0	69	75.0
Total	1,125	24.6	1,159	24.6	1,193	24.6	1,229	24.6	1,266	24.6
DEPARTMENTAL INCOME	3,452	75.4	3,556	75.4	3,663	75.4	3,772	75.4	3,885	75.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	360	7.9	371	7.9	382	7.9	394	7.9	405	7.9
Marketing	188	4.1	193	4.1	199	4.1	205	4.1	211	4.1
Franchise Fee	399	8.7	411	8.7	423	8.7	436	8.7	449	8.7
Prop. Operations & Maint.	127	2.8	131	2.8	135	2.8	139	2.8	143	2.8
Utilities	160	3.5	165	3.5	170	3.5	175	3.5	181	3.5
Total	1,234	27.0	1,271	27.0	1,309	27.0	1,349	27.0	1,389	27.0
GROSS HOUSE PROFIT	2,218	48.4	2,285	48.4	2,353	48.4	2,424	48.4	2,496	48.4
Management Fee	137	3.0	141	3.0	146	3.0	150	3.0	155	3.0
INCOME BEFORE NON-OPER. INC. & EXP.	2,081	45.4	2,143	45.4	2,207	45.4	2,274	45.4	2,342	45.4
NON-OPERATING INCOME AND EXPENSE										
Property Taxes	162	3.5	167	3.5	172	3.5	177	3.5	183	3.5
Insurance	48	1.1	50	1.1	51	1.1	53	1.1	55	1.1
Reserve for Replacement	183	4.0	189	4.0	194	4.0	200	4.0	206	4.0
Total	394	8.6	405	8.6	418	8.6	430	8.6	443	8.6
EBITDA LESS RESERVE	$1,687	36.8 %	$1,738	36.8 %	$1,790	36.8 %	$1,844	36.8 %	$1,899	36.8 %

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

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

Scope of Work

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

1. All information was collected and analyzed by the staff of TS Worldwide, LLC. Information was supplied by the client and/or the property's development team.
2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
3. The subject property's proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.
4. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.

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

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

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

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

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

6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.
7. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
8. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.

2. Description of the Site and Neighborhood

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

The subject site is located north of Town Square Park, in the northeast quadrant of the intersection formed by 20th Avenue South and South 316th Street. This site is in the city of Federal Way, Washington.

Physical Characteristics

The subject site measures approximately 2.15 acres, or 93,654 square feet. The parcel's adjacent uses are set forth in the following table.

FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES

Direction	Adjacent Use
North	Hillside Plaza Shopping Center
South	South 316th Street
East	Site of Future Mixed-Use Development
West	Site of Future Performing Arts Center

VIEW OF SUBJECT SITE

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

Vehicular access to the proposed subject hotel will be provided by South 314th Street from either 21st Avenue South or 23rd Avenue South. The topography of the parcel is generally flat, and the site's shape is rectangular.

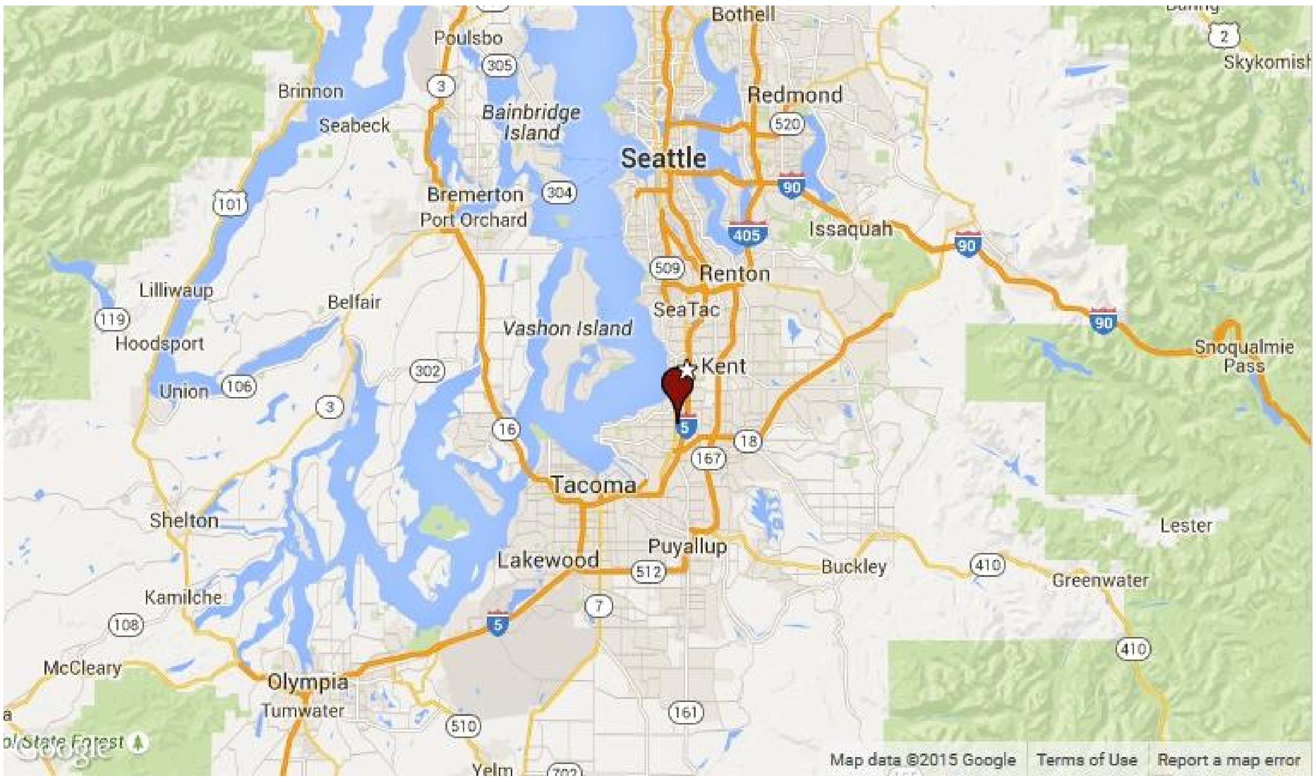
Site Utility

We have assumed that the existing 7.48-acre parcel will be subdivided by the current owner, the City of Federal Way, to create the 2.15-acre hotel parcel. The remaining portion of the site is under consideration for a complementary use that is yet to be determined. We have assumed that the hotel will be designed to minimize negative impact on the line-of-sight from the adjacent parcel while maintaining pedestrian access to the proposed performing arts center. Upon completion of construction, the subject site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. It is expected that the site will be developed fully with building and site improvements, thus contributing to the overall profitability of the hotel.

Access and Visibility

It is important to analyze the site in regard to ease of access with respect to regional and local transportation routes and demand generators. 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 north/south Interstate 5, which provides access to Seattle to the north and Portland, Oregon, to the south. Pacific Highway provides an alternate north/south corridor for commuters located on the west side of Interstate 5. From either of these roadways, motorists can reach Interstate 405 to the north, which forms a half-beltway around the greater Seattle area. From its southern terminus near the Seattle-Tacoma International Airport, Interstate 405 provides direct access to major suburbs, such as Bellevue, Redmond, and Bothell; its northern terminus is near Lynnwood. The subject market is served by a variety of additional local highways, which are illustrated on the map.

South 312th Street, 20th Avenue South, and South 320th Street facilitate travel between the subject site and the principal concentrations of business activity and population in the local area. The proposed subject hotel is anticipated to have adequate signage at the street, as well as on its façade. Overall, the subject site benefits from very good accessibility, and the proposed hotel is expected to enjoy very good visibility from within its local neighborhood.

Airport Access

The proposed subject hotel will be served by the Seattle-Tacoma International Airport, which is located approximately eight miles to the north of the subject site.

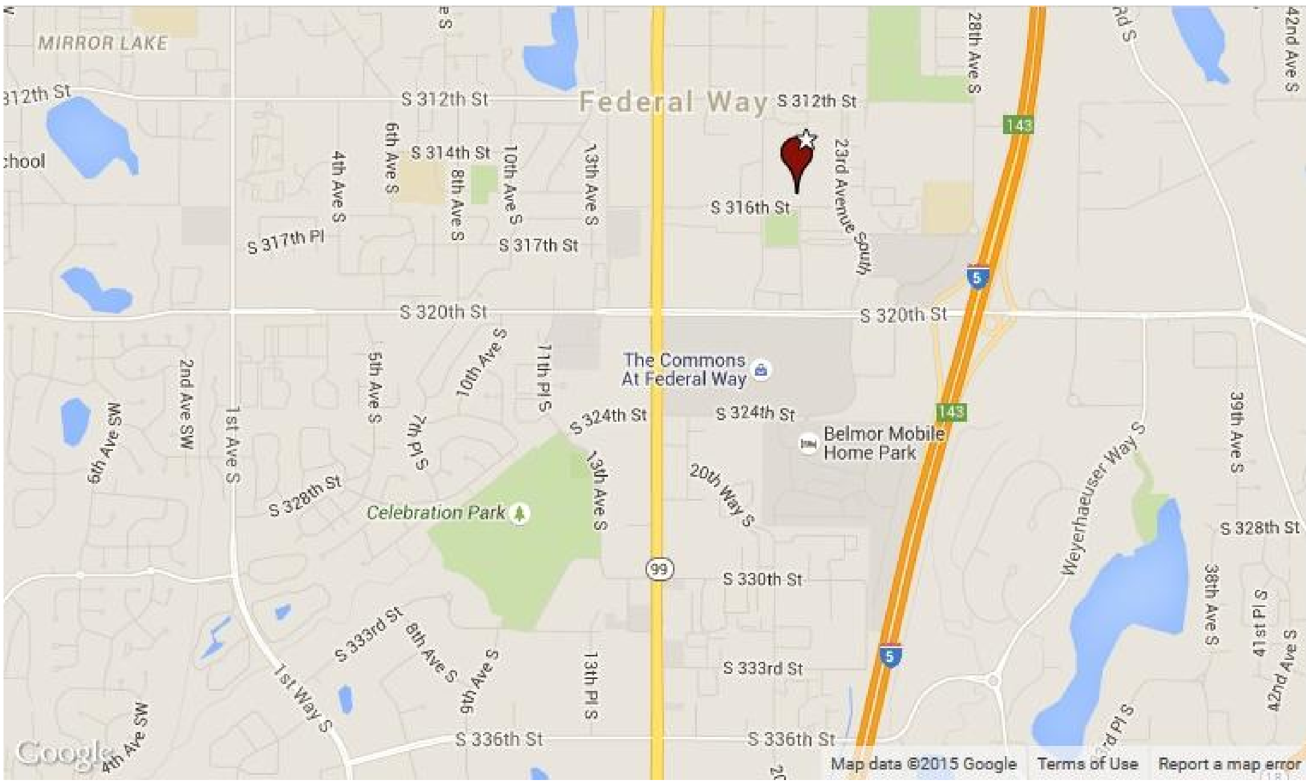
Neighborhood

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 neighborhood and evaluates any pertinent location factors that could affect its future occupancy, average rate, and overall profitability.

The neighborhood surrounding the subject site is generally defined by South 304th Street to the north, 1st Avenue South to the west, South 336th Street to the south, and Interstate 5 to the east. This neighborhood is in the revitalization stage of its life cycle, particularly within the immediate vicinity of the subject site. Within the immediate proximity of the site, land use is primarily commercial in nature. A 3.87-acre parcel located immediately west of the subject site will be improved with a performing arts center slated to break ground this year. The 4.0-acre Town Center Park is under construction, with completion scheduled for the summer of 2016. The greater neighborhood is characterized by restaurants, office buildings, and retail shopping centers along the primary thoroughfares, with residential areas located along the secondary roadways.

Federal Way's major commercial shopping centers are located near the subject site, including The Commons at Federal Way, Gateway Center, and Hillside Plaza. In addition, the site is located one block north of the Federal Way Transit Center, providing convenient access to Downtown Seattle and Tacoma. Restaurants within immediate proximity of the subject site include Palace Korean Bar & Grill, Old Country Buffet, and Red Lobster. The most significant change in the neighborhood is the ongoing Town Center redevelopment project that consists of four adjacent sites to feature complementary uses, of which the proposed hotel is one component. Other plans include the proposed performing arts center and the redesign of the existing Town Square Park. Redevelopment plans for a 1.0-acre parcel adjacent to the Federal Way Transit Center and a 5.36-acre site immediately east of the proposed hotel are not yet finalized. In general, we would characterize the neighborhood as 40% residential use, 30% retail/restaurant use, 15% office use, 5% hotel use, 5% vacant, and 5% other. The proposed subject hotel's opening should be a positive influence on the area; the hotel will be in character with and will complement surrounding land uses. Furthermore, we have assumed that development plans for the adjacent Town Center redevelopment parcels will complement the hotel.

MAP OF NEIGHBORHOOD



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

Utilities

The subject site will reportedly be served by all necessary utilities.

Seismicity, Soil and Subsoil Conditions

The site is located within an identified Seismic Zone 3. This condition is consistent with the surrounding real estate and does not affect the subject site's utility or marketability. 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.

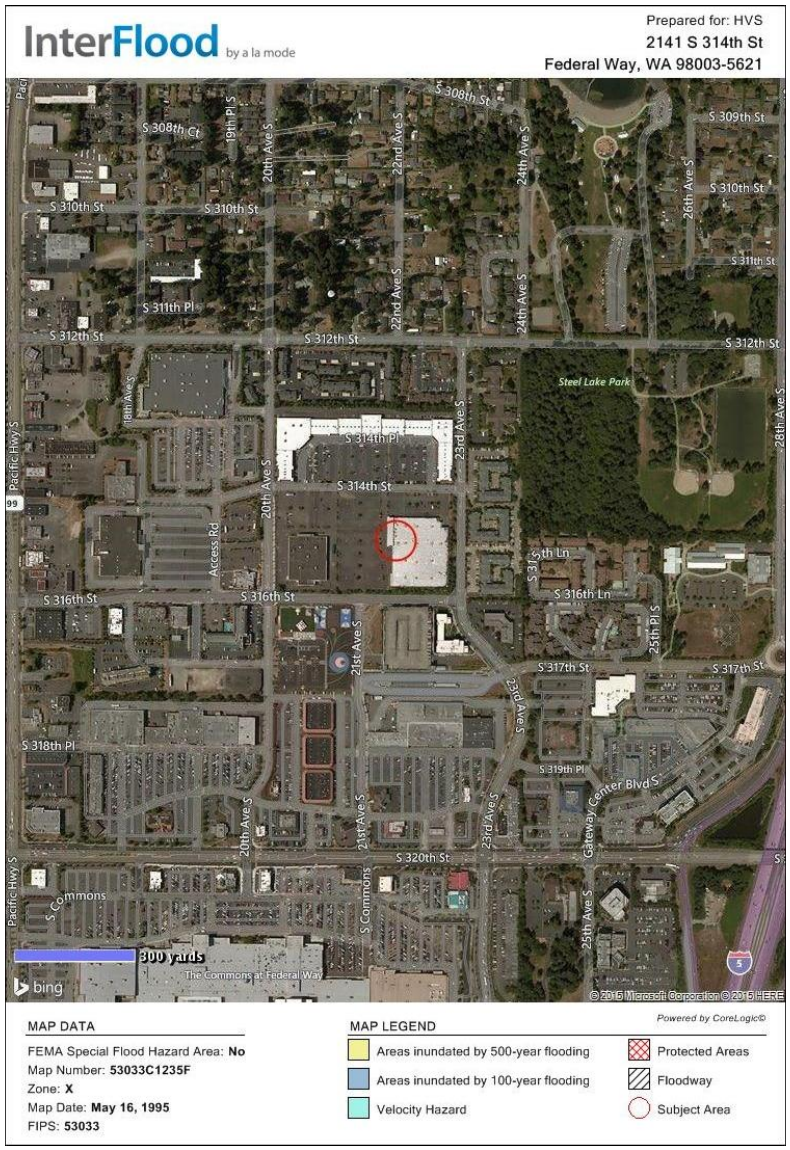
Nuisances and Hazards

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: CC-F - City Center-Frame. This zoning designation allows for most uses, including office, retail, multi-unit residential, medical, government, religious, and hotels and motels. We assume that all necessary permits and approvals will be secured (including the appropriate liquor license if applicable) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

Easements and Encroachments

We are not aware of any easements attached to the property that would significantly affect the utility of the site or marketability of this project.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site is favorably located near a well-traveled commercial corridor and transit center. In general, the site is well suited for hotel use, with acceptable access, visibility, and topography for an effective operation.

3. Market Area Analysis

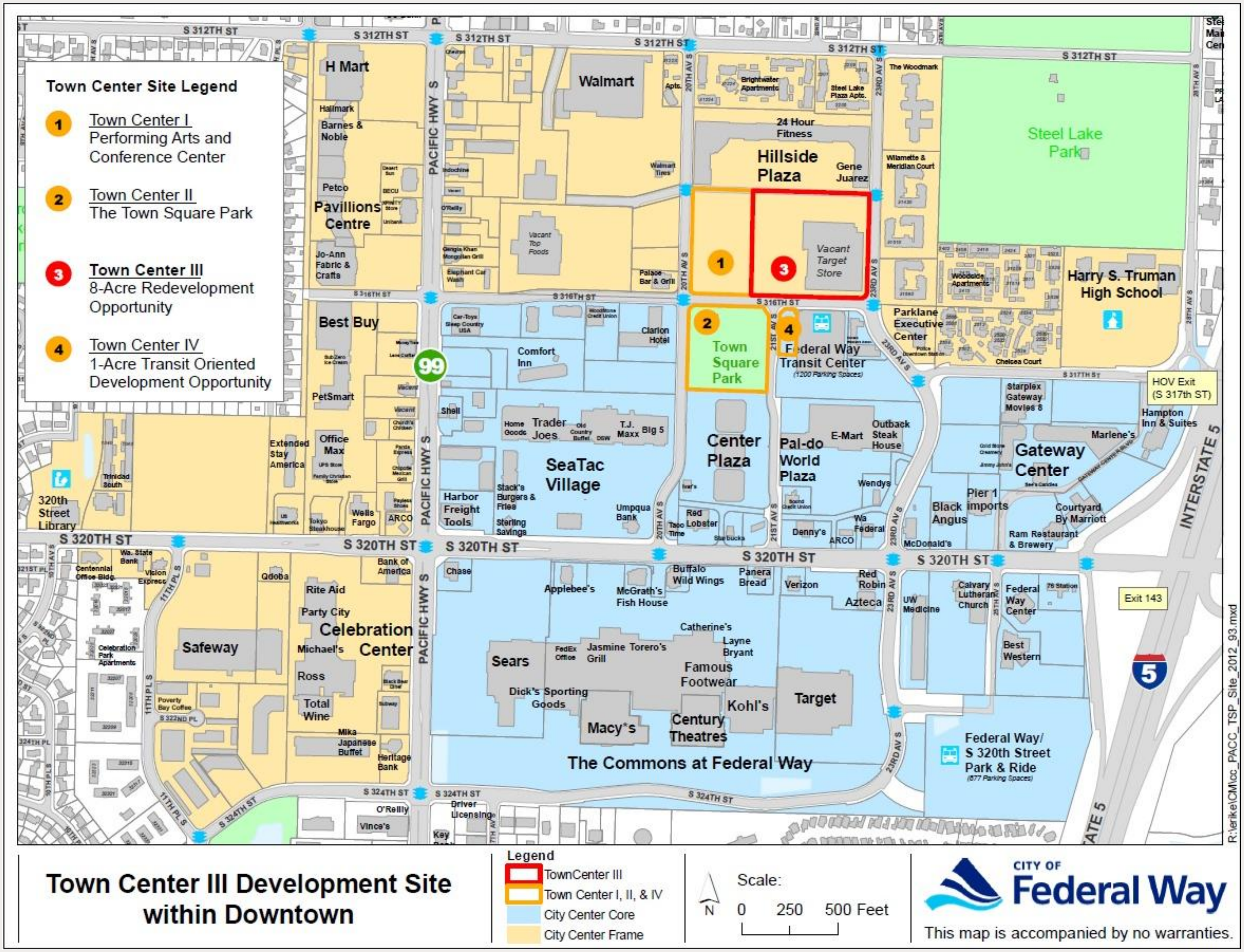
The economic vitality of the market area and neighborhood surrounding the subject site is an important consideration in forecasting lodging demand and future income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project lodging demand. The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

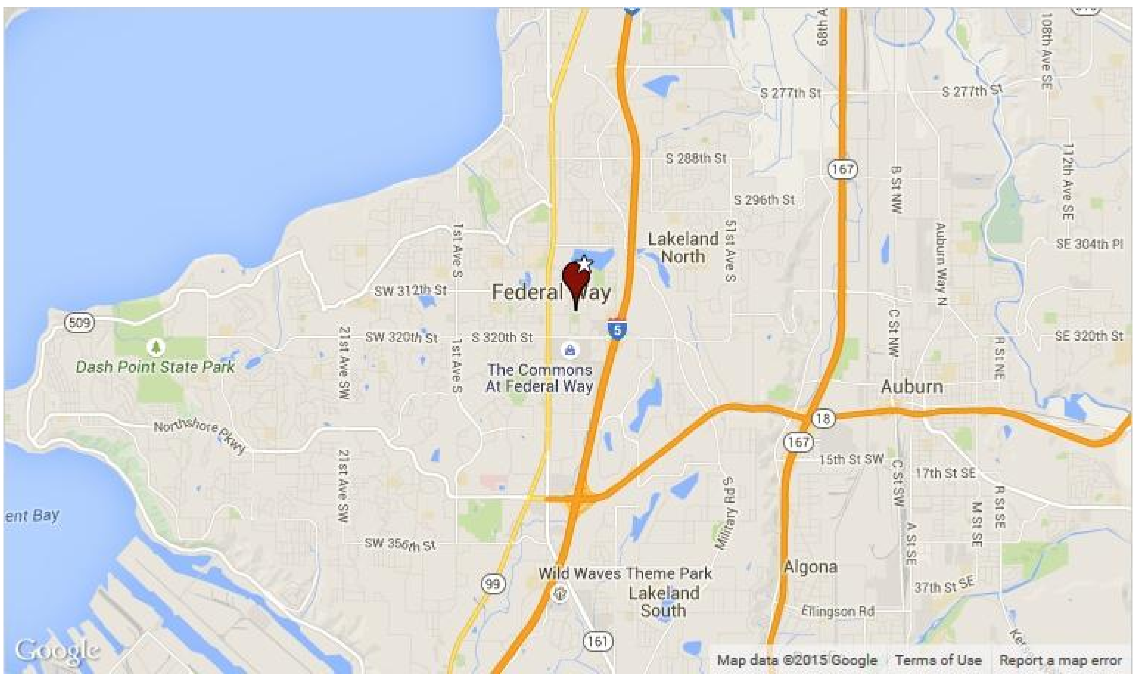
The city of Federal Way is located on Puget Sound, approximately 23 miles south of Downtown Seattle and roughly 13 miles northeast of Downtown Tacoma. Many of Federal Way's approximately 93,000 residents are employed in the greater Seattle-Tacoma region. As such, the economies of nearby Tacoma, Kent, and the Auburn Valley are strongly linked with that of Federal Way. Major firms and entities with a presence in Federal Way include Weyerhaeuser, World Vision, Tesoro, Xerox, Prominence Health, DaVita Dialysis, TOTE Inc., Broadcom, Animal Supply Company, Sound Vascular & Vein, St. Francis Hospital, MJR Development, Rockwell Collins, and the Doyon Government Group. The Federal Way market is experiencing a period of strength, as the city recorded a 75% increase in building permit applications in 2014. In an effort to establish goals and priorities, city representatives have identified four key "Special Projects." These projects include the development of Town Center (which includes the subject hotel), the reuse of the Weyerhaeuser campus, recruiting a university branch to the downtown core, and the development of an overall brand strategy for Federal Way. In understanding local economic conditions, we focused on the presence and impact of Weyerhaeuser as well as the economic activity and conditions of surrounding communities.

TOWN CENTER DEVELOPMENT MAP



The proposed subject property's market area can be defined by its Combined Statistical Area (CSA): Seattle-Tacoma, WA. The CSA represents adjacent metropolitan and micropolitan statistical areas that have a moderate degree of employment interchange. Micropolitan statistical areas represent urban areas in the United States based around a core city or town with a population of 10,000 to 49,999; the MSA requires the presence of a core city of at least 50,000 people and a total population of at least 100,000 (75,000 in New England). 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 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2014	2020	Average Annual Compounded Change 2000-10	2010-14	2014-20
Resident Population (Thousands)							
King County	1,739.0	1,937.2	2,055.8	2,237.1	1.1 %	1.5 %	1.4 %
Seattle-Tacoma-Bellevue, WA MSA	3,052.2	3,447.9	3,640.2	3,934.3	1.2	1.4	1.3
Seattle-Tacoma, WA CSA	3,786.7	4,284.7	4,520.9	4,889.8	1.2	1.4	1.3
State of Washington	5,910.5	6,743.0	7,103.3	7,678.4	1.3	1.3	1.3
United States	282,162.4	309,330.2	320,976.9	340,554.3	0.9	0.9	1.0
Per-Capita Personal Income*							
King County	$54,670	$54,033	$56,678	$60,570	(0.1)	1.2	1.1
Seattle-Tacoma-Bellevue, WA MSA	46,408	47,900	50,118	53,728	0.3	1.1	1.2
Seattle-Tacoma, WA CSA	43,976	45,839	47,941	51,421	0.4	1.1	1.2
State of Washington	38,988	41,341	43,242	46,455	0.6	1.1	1.2
United States	36,473	39,144	41,079	44,387	0.7	1.2	1.3
W&P Wealth Index							
King County	146.4	137.3	137.8	136.4	(0.6)	0.1	(0.2)
Seattle-Tacoma-Bellevue, WA MSA	125.4	121.4	121.5	120.7	(0.3)	0.0	(0.1)
Seattle-Tacoma, WA CSA	119.2	116.4	116.4	115.6	(0.2)	(0.0)	(0.1)
State of Washington	106.5	105.8	105.7	105.2	(0.1)	(0.0)	(0.1)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
King County	$3,311	$4,079	$4,497	$5,026	2.1	2.5	1.9
Seattle-Tacoma-Bellevue, WA MSA	4,853	6,069	6,713	7,534	2.3	2.6	1.9
Seattle-Tacoma, WA CSA	5,641	7,038	7,802	8,788	2.2	2.6	2.0
State of Washington	7,977	9,761	10,839	12,260	2.0	2.7	2.1
United States	368,842	447,396	490,340	548,160	1.9	2.3	1.9
Total Retail Sales (Millions)*							
King County	$31,395	$40,011	$45,454	$52,267	2.5	3.2	2.4
Seattle-Tacoma-Bellevue, WA MSA	48,667	59,917	67,806	77,574	2.1	3.1	2.3
Seattle-Tacoma, WA CSA	57,750	70,453	79,694	91,233	2.0	3.1	2.3
State of Washington	83,351	99,174	111,995	128,102	1.8	3.1	2.3
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 1.5% between 2010 and 2014 reflects a gradually expanding area. Following this population trend, per-capita personal income increased slowly, at 1.2% on average annually for the county between 2010 and 2014. Local wealth indexes have remained stable in recent years, registering a relatively high 137.8 level for the county in 2014.

Food and beverage sales totaled $4,497 million in the county in 2014, versus $4,079 million in 2010. This reflects a 2.5% average annual change, which is stronger than the 2.1% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 1.9%, which is forecast through 2020. The retail sales sector demonstrated an annual increase of 2.5% recorded between 2000 to 2010, followed by an increase of 3.2% in the period from 2010 to 2014. An increase of 2.4% 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 3-2 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	2.4	0.2 %	2.5	0.2 %	2.4	0.2 %	2.5	0.1 %	0.0 %	(0.5) %	0.3 %
Forestry, Fishing, Related Activities And Other	4.1	0.3	3.2	0.2	3.2	0.2	3.3	0.2	(2.4)	(0.1)	0.7
Mining	1.4	0.1	1.4	0.1	1.6	0.1	1.7	0.1	(0.1)	3.3	1.2
Utilities	1.5	0.1	1.3	0.1	1.3	0.1	1.3	0.1	(1.4)	0.8	0.2
Construction	78.4	5.5	66.2	4.5	68.0	4.3	75.2	4.4	(1.7)	0.7	1.7
Manufacturing	146.0	10.2	104.1	7.1	107.6	6.9	109.3	6.3	(3.3)	0.8	0.3
Total Trade	218.5	15.2	193.0	13.2	206.7	13.2	228.5	13.3	(1.2)	1.7	1.7
Wholesale Trade	72.7	5.1	65.1	4.4	68.6	4.4	74.3	4.3	(1.1)	1.3	1.3
Retail Trade	145.8	10.1	127.9	8.7	138.1	8.8	154.1	8.9	(1.3)	1.9	1.8
Transportation And Warehousing	56.3	3.9	50.8	3.5	54.3	3.5	59.1	3.4	(1.0)	1.6	1.4
Information	76.3	5.3	84.3	5.8	89.7	5.7	98.0	5.7	1.0	1.6	1.5
Finance And Insurance	71.4	5.0	71.6	4.9	75.5	4.8	79.6	4.6	0.0	1.3	0.9
Real Estate And Rental And Lease	60.6	4.2	76.5	5.2	81.1	5.2	89.9	5.2	2.4	1.5	1.7
Total Services	556.7	38.8	631.1	43.1	692.3	44.3	783.7	45.5	1.3	2.3	2.1
Professional And Technical Services	127.7	8.9	152.1	10.4	167.2	10.7	190.1	11.0	1.8	2.4	2.2
Management Of Companies And Enterprises	21.6	1.5	23.1	1.6	25.3	1.6	27.3	1.6	0.6	2.3	1.3
Administrative And Waste Services	84.1	5.9	79.4	5.4	88.6	5.7	102.6	6.0	(0.6)	2.8	2.5
Educational Services	23.1	1.6	32.9	2.2	37.0	2.4	42.2	2.5	3.6	3.0	2.2
Health Care And Social Assistance	109.3	7.6	136.9	9.4	149.0	9.5	168.6	9.8	2.3	2.1	2.1
Arts, Entertainment, And Recreation	35.3	2.5	42.2	2.9	45.3	2.9	50.0	2.9	1.8	1.8	1.7
Accommodation And Food Services	88.4	6.2	93.7	6.4	101.5	6.5	111.8	6.5	0.6	2.0	1.6
Other Services, Except Public Administration	67.2	4.7	70.7	4.8	78.3	5.0	91.1	5.3	0.5	2.6	2.6
Total Government	162.6	11.3	177.2	12.1	180.5	11.5	190.3	11.1	0.9	0.5	0.9
Federal Civilian Government	21.9	1.5	22.0	1.5	21.6	1.4	22.3	1.3	0.0	(0.5)	0.5
Federal Military	7.7	0.5	7.6	0.5	7.2	0.5	7.3	0.4	(0.1)	(1.2)	0.1
State And Local Government	133.0	9.3	147.7	10.1	151.7	9.7	160.8	9.3	1.1	0.7	1.0
TOTAL	1,436.4	100.0 %	1,463.3	100.0 %	1,564.2	100.0 %	1,722.4	100.0 %	0.2 %	1.7 %	1.6 %
MSA	2,048.2	—	2,159.8	—	2,302.3	—	2,528.1	—	0.5 %	1.6 %	1.6 %
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 0.2%. This trend was below the growth rate recorded by the MSA and also lagged the national average. More recently, the pace of total employment growth in the county accelerated to 1.7% 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 61,237 people, or 9.7%, and rising from 43.1% to 44.3% of total employment. Of the various service sub-sectors, Professional And Technical Services and Health Care And Social Assistance were the largest employers. Strong growth was also recorded in the Total Trade sector, as well as the Information sector, which expanded by 7.1% and 3.3%, respectively, in the period 2010 to 2014. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.6% 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 site.

FIGURE 3-3 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2019 Projection	11,476	100,014	225,218
2014 Estimate	10,926	95,021	214,997
2010 Census	10,524	91,269	207,565
2000 Census	10,162	84,558	193,534
Growth 2014-2019	5.0%	5.3%	4.8%
Growth 2010-2014	3.8%	4.1%	3.6%
Growth 2000-2010	3.6%	7.9%	7.3%
Households			
2019 Projection	4,808	36,892	82,975
2014 Estimate	4,549	35,110	79,401
2010 Census	4,355	33,848	76,970
2000 Census	4,403	32,051	73,616
Growth 2014-2019	5.7%	5.1%	4.5%
Growth 2010-2014	4.5%	3.7%	3.2%
Growth 2000-2010	-1.1%	5.6%	4.6%
Income			
2014 Est. Average Household Income	$54,454	$72,770	$72,215
2014 Est. Median Household Income	43,863	59,143	58,871
2014 Est. Civ Employed Pop 16+ by Occupation	5,137	46,668	104,781
Architect/Engineer	80	1,275	2,345
Arts/Entertain/Sports	85	650	1,313
Building Grounds Maint	421	2,049	4,565
Business/Financial Ops	163	2,255	4,839
Community/Soc Svcs	113	910	1,624
Computer/Mathematical	144	1,511	3,308
Construction/Extraction	411	2,391	5,644
Edu/Training/Library	114	1,436	3,684
Farm/Fish/Forestry	0	62	264
Food Prep/Serving	460	2,760	6,015
Health Practitioner/Tec	160	1,488	3,631
Healthcare Support	53	1,091	2,382
Maintenance Repair	175	1,494	3,737
Legal	39	272	622
Life/Phys/Soc Science	23	290	500
Management	310	4,482	9,312
Office/Admin Support	856	7,679	17,624
Production	276	2,464	6,349
Protective Svcs	117	1,195	2,304
Sales/Related	435	4,971	10,904
Personal Care/Svc	215	2,131	4,642
Transportation/Moving	488	3,810	9,172

Source: The Nielsen Company

This source reports a population of 214,997 within a five-mile radius of the subject site, and 79,401 households within this same radius. Average household income within a five-mile radius of the subject site is currently reported at $72,215, while the median is $58,871.

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

FIGURE 3-4 HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS

Year	Total Employment	% Chg	Office Employment	% Chg	Industrial Employment	% Chg	Households	% Chg	Population	% Chg	Household Avg. Income	% Chg
2002	1,347,130	—	395,569	—	238,129	—	957,730	—	2,393,970	—	$104,433	—
2003	1,340,470	(0.5) %	396,804	0.3 %	225,915	(5.1) %	963,400	0.6 %	2,407,440	0.6 %	107,205	2.7 %
2004	1,360,430	1.5	403,348	1.6	228,760	1.3	973,460	1.0	2,433,000	1.1	133,889	24.9
2005	1,403,570	3.2	415,052	2.9	239,802	4.8	988,560	1.6	2,471,540	1.6	119,337	(10.9)
2006	1,442,100	2.7	425,185	2.4	247,862	3.4	1,005,000	1.7	2,513,550	1.7	127,355	6.7
2007	1,486,730	3.1	434,651	2.2	255,931	3.3	1,019,360	1.4	2,549,600	1.4	135,687	6.5
2008	1,470,600	(1.1)	431,694	(0.7)	246,457	(3.7)	1,036,550	1.7	2,594,300	1.8	133,071	(1.9)
2009	1,390,270	(5.5)	407,186	(5.7)	231,641	(6.0)	1,054,680	1.7	2,636,460	1.6	124,996	(6.1)
2010	1,405,070	1.1	411,491	1.1	233,059	0.6	1,067,010	1.2	2,672,170	1.4	129,421	3.5
2011	1,435,630	2.2	418,363	1.7	244,620	5.0	1,078,730	1.1	2,717,030	1.7	138,330	6.9
2012	1,478,200	3.0	430,606	2.9	253,105	3.5	1,090,350	1.1	2,765,880	1.8	150,158	8.6
2013	1,520,630	2.9	442,901	2.9	256,071	1.2	1,103,880	1.2	2,809,350	1.6	149,948	(0.1)
2014	1,572,770	3.4	455,063	2.7	260,546	1.7	1,117,660	1.2	2,851,620	1.5	158,913	6.0
Forecasts												
2015	*1,621,190*	*3.1 %*	*469,941*	*3.3 %*	*263,373*	*1.1 %*	*1,146,840*	*2.6 %*	*2,898,350*	*1.6 %*	*$165,407*	*4.1 %*
2016	*1,658,270*	*2.3*	*479,977*	*2.1*	*267,260*	*1.5*	*1,174,190*	*2.4*	*2,941,510*	*1.5*	*170,073*	*2.8*
2017	*1,684,710*	*1.6*	*487,374*	*1.5*	*270,042*	*1.0*	*1,198,980*	*2.1*	*2,980,930*	*1.3*	*174,617*	*2.7*
2018	*1,696,940*	*0.7*	*492,867*	*1.1*	*270,140*	*0.0*	*1,218,520*	*1.6*	*3,019,560*	*1.3*	*178,333*	*2.1*
2019	*1,703,380*	*0.4*	*496,384*	*0.7*	*269,193*	*(0.4)*	*1,236,210*	*1.5*	*3,057,640*	*1.3*	*181,066*	*1.5*
Average Annual Compound Change												
2002 - 2014		1.3 %		1.2 %		0.8 %		1.3 %		1.5 %		3.6 %
2002 - 2007		2.0		1.9		1.5		1.3		1.3		5.4
2007 - 2010		(1.9)		(1.8)		(3.1)		1.5		1.6		(1.6)
2010 - 2014		2.9		2.5		2.8		1.2		1.6		5.3
Forecast 2014 - 2019		*1.6 %*		*1.8 %*		*0.7 %*		*2.0 %*		*1.4 %*		*2.6 %*

Source: REIS Report, 1st Quarter, 2015

For the Seattle market, of the roughly 1,600,000 persons employed, 29% work in offices and are categorized as office employees, while 17% are categorized as industrial employees. Total employment decreased by an average annual compound rate of -1.9% during the recession of 2007 to 2010, followed by an improvement of 2.9% from 2010 to 2014. By comparison, office employment reflected compound change rates of -1.8% and 2.5%, during same respective periods. Total employment is expected to expand by 3.1% in 2015, while office employment is forecast to expand by 3.3% in 2015. Forecasts for the period 2014 through 2019 anticipate total employment will improve at an average annual compound rate of 1.6%, and office employment is forecast to improve by 1.8% on average annually during the same time frame.

The number of households are forecast to improve by 2.0% on average annually between 2014 and 2019. Population is forecast to expand during this same time frame, at an average annual compounded rate of 1.4%. Household average income is forecast to grow by 2.6% on average annually between 2014 through 2019.

Unemployment Statistics

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

FIGURE 3-5 UNEMPLOYMENT STATISTICS

Year	County	MSA	State	U.S.
2005	4.4 %	4.8 %	5.6 %	5.1 %
2006	3.7	4.2	5.0	4.6
2007	3.2	3.7	4.7	4.6
2008	3.9	4.5	5.4	5.8
2009	8.0	8.7	9.2	9.3
2010	9.0	9.7	10.0	9.6
2011	8.0	8.7	9.2	8.9
2012	6.4(C)	7.2(C)	8.1	8.1
2013	4.9(C)	5.8(C)	7.0	7.4
2014	4.6(C)	5.2(C)	6.2	6.2
Recent Month - May				
2014	4.4 %	5.0 %	6.0 %	6.3 %
2015	3.7	4.4	5.3	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 2009. Job growth resumed in late 2009; the national unemployment rate has steadily declined since 2010. Total nonfarm payroll employment increased by 223,000, 280,000, and 223,000 in the most recent months of April, May, and June respectively, with gains relatively widespread and particularly strong in the professional and business services, leisure and hospitality, and health care categories. The unemployment rate was reported to be 5.3% in June 2015, just under the 5.5% rate registered in April and May. The positive gains in employment reflect steady progress by the U.S. economy.

Locally, the unemployment rate was 4.6(C)% in 2014; for this same area in 2015, the most recent month's unemployment rate was registered at 3.7%, versus 4.4% for the same month in 2014. After showing year-over-year improvement, regional unemployment rates began to rise in 2008, and this trend continued through 2010, with county unemployment figures more than doubling from the low point in 2007. The greater Puget Sound area experienced significant layoffs from companies such as Microsoft, Boeing, and Starbucks, as well as Washington Mutual, which failed in September 2008. However, in 2011, the economy and local employment started to recover; this positive trend continued through 2014. Furthermore, the most recent comparative period shows a marked improvement in the unemployment rate, according to the latest available data for 2015. As previously noted, most of Federal Way's residents work outside of the city; recent decreases in unemployment rates for the MSA suggest a positive trend for Federal Way and its adjacent communities. Our research and discussions with economic development officials reflect a positive outlook, as many local employers are adding jobs.

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 3-6 MAJOR EMPLOYERS

Rank	Firm	Number of Employees
1	Federal Way School District #210	2,600
2	World Vision, Inc.	1,704
3	Xerox Commercial Services	1,350
4	Weyerhaeuser Company	1,225
5	Franciscan Health System at St. Francis Hospital	875
6	Norpoint Entertainment (Wild Waves)	871
7	United States Postal Service	616
8	Wal-Mart Stores, Inc.	560
9	City of Federal Way	480
10	DaVita Dialysis	318

Source: City of Federal Way

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

- Historically, the city's largest private employer was Weyerhaeuser, one of the world's largest private owners of timberlands. This firm owns or controls more than six million acres of timberlands, primarily in the U.S., and manages another 14 million acres under long-term licenses in Canada. In August 2014, Weyerhaeuser announced plans to relocate the firm's corporate headquarters from the existing 430-acre campus in Federal Way to office space in Downtown Seattle. This move will result in a loss of approximately 1,200 local jobs and an increase in vacant office and industrial space. Major structures to be vacated at the Federal Way campus consist of a 350,000-square-foot corporate headquarters building (CH Building) and a 460,000-square-foot office/industrial/research and development building (WTC Building). The move is scheduled to occur during the third or fourth quarter of 2016. As of the time of this study, no plans have been announced regarding a new tenant at the Weyerhaeuser campus. However, discussions with the seller's broker revealed significant interest from domestic and international firms. The broker indicated that the property is expected to be sold by the end of 2015, with Weyerhaeuser to sign a short-term lease for at least the first half of 2016.
- Labor force data compiled by the City of Federal Way show that 86% of local working residents are employed elsewhere. Most Federal Way residents travel to Seattle for work, with smaller numbers working in the communities of Tacoma, Kent, and Auburn. Similarly, the largest group of Federal Way employees from outside the city live in Tacoma, followed by Kent, Seattle, and Auburn. This information reflects a high degree of interdependence among

these communities, suggesting that Federal Way is strongly influenced by business activity beyond city limits.

- The city of Seattle, with a total population of roughly 662,000, is established as a major center for technology and services in the Pacific Northwest. The greater Seattle area is home to a number of high-technology firms including Amazon.com, Microsoft, and T-Mobile, all of which have recorded significant growth in recent years. Tacoma's economy is strongly associated with the shipping and technology sectors, while also benefiting from the presence of Joint Base Lewis-McChord. While smaller than both Seattle and Tacoma, the communities of Auburn and Kent have experienced increases in both population and related economic activity. Located approximately six miles east of Federal Way, Auburn is home to a 2,100,000-square-foot Boeing manufacturing plant. Kent, located roughly seven miles north of Federal Way, is the home to a variety of firms including Boeing's space and defense division, R.E.I., and a Starbucks coffee-roasting plant. Auburn and Kent, which are smaller suburban communities similar to Federal Way, are expected to continue to be strongly affected by economic activity in both Seattle and Tacoma.

While the local economy is considered relatively robust, the pending departure of Federal Way's largest employer has raised some concern. It is expected that a firm of comparable size will take over the Weyerhaeuser campus. However, the identify of such a firm and the timing for occupancy remain significant unknowns. This uncertainty is likely to result in high levels of scrutiny for new development projects in Federal Way in the near term. Nevertheless, the redevelopment plan for the downtown area and the new branding strategy created by economic development and political officials are expected to bode well for the long-term growth of the city. On a regional basis, growth trends for the Seattle market area are highly positive, with high-technology growth supporting increased activity for various major employers. Federal Way is likely to benefit from this growth, especially given the established transportation links to both Tacoma and Seattle, specifically the Federal Way Transit Center and future plans for related transit development. Overall, even with the departure of Weyerhaeuser from Federal Way, the long-term outlook for the city is positive.

Office Space Statistics

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

FIGURE 3-7 OFFICE SPACE STATISTICS – MARKET OVERVIEW

	Submarket	Inventory Buildings	Inventory Square Feet	Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
1	Central Seattle	299	38,144,000	33,452,300	12.3 %	$34.77
2	Kirkland/Redmond	135	8,531,000	7,788,800	8.7	26.82
3	Northend/Snohomish	172	7,441,000	6,332,300	14.9	25.82
4	Bellevue/Issaquah	250	20,250,000	17,739,000	12.4	36.15
5	**Renton/Kent/Southend**	**164**	**7,343,000**	**6,182,800**	**15.8**	**21.59**
	Totals and Averages	**1,020**	**81,709,000**	**71,495,200**	**12.5 %**	**$32.28**

Source: REIS Report, 1st Quarter, 2015

The greater Seattle market comprises a total of 81.7 million square feet of office space. For the 1st Quarter of 2015, the market reported a vacancy rate of 12.5% and an average asking rent of $32.28. The subject property is located in the Renton/Kent/Southend submarket, which houses 7,343,000 square feet of office space. The submarket's vacancy rate of 15.8% is above the overall market average. The average asking lease rate of $21.59 is below the average for the broader market.

The following table illustrates a trend of office space statistics for the overall Seattle market and the Renton/Kent/Southend submarket.

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

	Seattle Market							Renton/Kent/Southend Submarket						
Year	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2002	71,932,000	—	60,817,000	—	15.5 %	$25.32	—	7,312,000	—	5,733,000	—	21.6 %	$20.96	—
2003	72,774,000	1.2 %	60,727,000	(0.1) %	16.6	24.04	(5.1) %	7,230,000	(1.1) %	5,285,000	(7.8) %	26.9	20.00	(4.6) %
2004	73,191,000	0.6	61,965,000	2.0	15.3	23.53	(2.1)	7,370,000	1.9	5,336,000	1.0	27.6	19.51	(2.5)
2005	73,410,000	0.3	63,867,000	3.1	13.0	23.87	1.4	7,461,000	1.2	5,663,000	6.1	24.1	19.50	(0.1)
2006	73,489,000	0.1	66,636,000	4.3	9.3	25.79	8.0	7,077,000	(5.1)	5,817,000	2.7	17.8	20.30	4.1
2007	75,046,000	2.1	68,176,000	2.3	9.2	29.49	14.3	7,151,000	1.0	6,035,000	3.7	15.6	21.19	4.4
2008	77,146,000	2.8	68,966,000	1.2	10.6	30.86	4.6	7,283,000	1.8	6,016,000	(0.3)	17.4	21.37	0.8
2009	80,609,000	4.5	66,657,000	(3.3)	17.3	29.43	(4.6)	7,320,000	0.5	5,834,000	(3.0)	20.3	21.04	(1.5)
2010	81,405,000	1.0	68,378,000	2.6	16.0	28.64	(2.7)	7,338,000	0.2	6,002,000	2.9	18.2	20.91	(0.6)
2011	81,785,000	0.5	69,541,000	1.7	15.0	28.83	0.7	7,396,000	0.8	6,050,000	0.8	18.2	20.88	(0.1)
2012	82,211,000	0.5	70,397,000	1.2	14.4	29.34	1.8	7,343,000	(0.7)	6,036,000	(0.2)	17.8	20.92	0.2
2013	80,797,000	(1.7)	69,442,000	(1.4)	14.1	30.18	2.9	7,343,000	0.0	6,036,000	0.0	17.8	20.90	(0.1)
2014	81,406,000	0.8	71,242,000	2.6	12.5	31.31	3.7	7,343,000	0.0	6,344,000	5.1	13.6	21.49	2.8
Forecasts														
2015	*83,860,000*	*3.0 %*	*73,646,000*	*3.4 %*	*12.2 %*	*$33.33*	*6.5 %*	*7,343,000*	*0.0 %*	*6,388,000*	*0.7 %*	*13.0 %*	*$22.31*	*3.8 %*
2016	*85,477,000*	*1.9*	*75,610,000*	*2.7*	*11.5*	*34.94*	*4.8*	*7,395,000*	*0.7*	*6,466,000*	*1.2*	*12.6*	*23.00*	*3.1*
2017	*87,055,000*	*1.8*	*77,416,000*	*2.4*	*11.1*	*36.65*	*4.9*	*7,495,000*	*1.4*	*6,557,000*	*1.4*	*12.5*	*23.67*	*2.9*
2018	*88,074,000*	*1.2*	*78,745,000*	*1.7*	*10.6*	*38.48*	*5.0*	*7,582,000*	*1.2*	*6,565,000*	*0.1*	*13.4*	*24.45*	*3.3*
2019	*89,144,000*	*1.2*	*79,971,000*	*1.6*	*10.3*	*40.55*	*5.4*	*7,687,000*	*1.4*	*6,588,000*	*0.4*	*14.3*	*25.30*	*3.5*
Average Annual Compound Change														
2002 - 2014		1.0 %		1.3 %			1.8 %		0.0 %		0.8 %			0.2 %
2002 - 2007		0.9		2.3			3.1		(0.4)		1.0			0.2
2007 - 2010		2.7		0.1			(1.0)		0.9		(0.2)			(0.4)
2010 - 2014		0.0		1.0			2.3		0.0		1.4			0.7
Forecast 2014 - 2019		*1.8 %*		*2.3 %*			*5.3 %*		*0.9 %*		*0.8 %*			*3.3 %*

Source: REIS Report, 1st Quarter, 2015

The inventory of office space in the Seattle market increased at an average annual compound rate of 1.0% from 2002 through 2014, while occupied office space expanded at an average annual rate of 1.3% over the same period. During the period of 2002 through 2007, occupied office space expanded at an average annual compound rate of 2.3%. From 2007 through 2010, occupied office space remained relatively stable at an average annual compound rate of 0.1%, reflecting the impact of the recession. The onset of the recovery is evident in the 1.0% average annual change in occupied office space from 2010 to 2014. From 2014 through 2019, the inventory of occupied office space is forecast to increase at an average annual compound rate of 2.3%, with available office space expected to increase 1.8%, thus resulting in an anticipated vacancy rate of 10.3% as of 2019. According to REIS, the Renton/Kent/Southend submarket comprises the smallest amount of both available and occupied office space in the Seattle market. Although overall office occupancy levels in Seattle have recovered since 2009, the Renton/Kent/Southend submarket continues to struggle to absorb vacant space, with vacancy rates remaining measurably higher than the market average as companies relocate their operations to newer, more attractive space in other submarkets. One major example of this shift is the pending move of Weyerhaeuser from Federal Way to Seattle's Pioneer Square. The submarket, and specifically Federal Way, is expected to be negatively affected by the upcoming shift.

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.

The Seattle-Tacoma International Airport is the regional air hub of the Pacific Northwest and is served by various domestic and international commercial airlines. In 2010, Seattle-Tacoma International Airport completed a $4.2-billion upgrade that expanded the central terminal; enhanced transportation systems; and added a third runway, additional curbside and baggage check-in locations, and additional retail and concession areas. The project also involved the expansion of the Sound Transit Program to provide light-rail transportation between Seattle-Tacoma International Airport and Downtown Seattle. In addition, the North Sea-Tac Airport Renovation (NorthSTAR) of the airport's 40-year-old north satellite will reportedly begin in 2016, with completion scheduled for 2020.

The following table illustrates recent operating statistics for the Seattle-Tacoma International Airport, which is the primary airport facility serving the proposed subject hotel’s submarket.

FIGURE 3-9 AIRPORT STATISTICS - SEATTLE-TACOMA INTERNATIONAL AIRPORT

Year	Passenger Traffic	Percent Change*	Percent Change**
2005	29,289,026	—	—
2006	29,996,424	2.4 %	2.4 %
2007	31,296,628	4.3	3.4
2008	32,196,528	2.9	3.2
2009	31,227,512	(3.0)	1.6
2010	31,553,166	1.0	1.5
2011	32,823,220	4.0	1.9
2012	33,223,111	1.2	1.8
2013	34,826,741	4.8	2.2
2014	37,497,941	7.7	2.8
Year-to-date, Jun			
2014	17,244,122	—	—
2015	19,543,784	13.3 %	—

*Annual average compounded percentage change from the previous year

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

Source: Seattle-Tacoma International Airport

This facility recorded 37,497,941 passengers in 2014. The change in passenger traffic between 2013 and 2014 was 7.7%. The average annual change during the period shown was 2.8%. The significant increase in passenger traffic is attributed to the introduction of new routes by various area carriers.

Tourist Attractions

The market benefits from a variety of tourist and leisure attractions in the area. The peak season for tourism in this area is from May to September, when the weather in the Pacific Northwest is most inviting. Many visitors come to the area to take an Alaskan cruise during the summer months. Seattle also hosts a wide variety of cultural activities, concerts, bazaars, and festivals. During other times of the year, weekend demand comprises travelers passing through en route to other destinations, people visiting friends or relatives, and sports enthusiasts attending professional sporting events. Primary attractions in the area include the following:

- The Weyerhaeuser King County Aquatic Center is a legacy venue of the 1990 Seattle Goodwill Games. The facility maintains one of the most active competition schedules in the country, hosting more than 50 events annually. The center has been the site of Olympic Trials, top national and international competitions, and the Pacific Northwest's premier events. This facility has a significant impact on local hotel demand given a very strong event calendar, particularly during the spring and summer months.

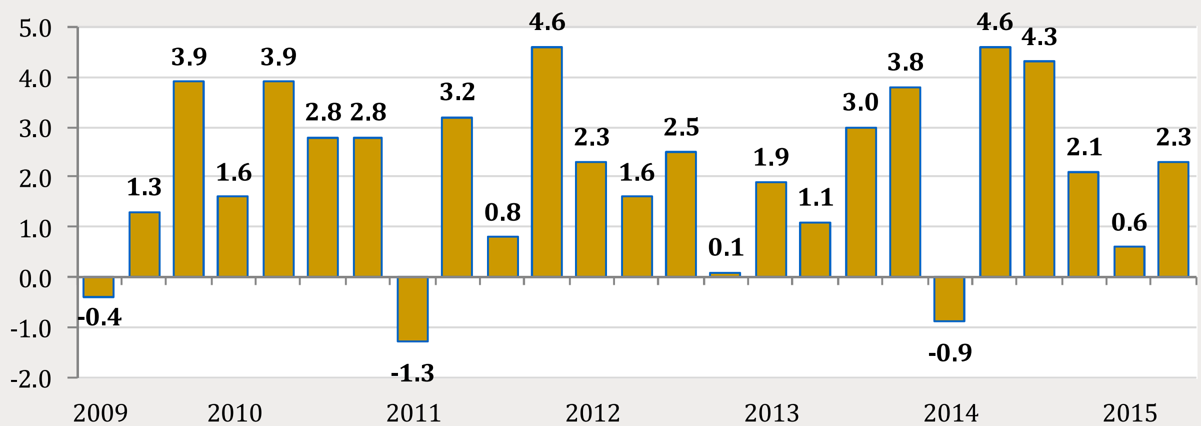
- Wild Waves theme park, which opened in 1977, is a popular summer destination in the Pacific Northwest and is the biggest of its kind in the region. According to park management representatives, the facility primarily serves local residents as well as visitors from the Portland and Vancouver metro areas. Wild Waves hosted approximately 550,000 visitors in 2014.
- The Rhododendron Species Foundation and Botanical Garden, is a nonprofit botanic garden that specializes in rhododendrons and spans 22 acres. This facility is located adjacent to the Pacific Bonsai Museum, formerly a private collection held by Weyerhaeuser. Following the announcement of the company's impending move, the museum was established as a nonprofit. According to the museum's director, the facility draws roughly 30,000 visitors per year.
- The proposed Center for Arts, Culture, Education, and Community Events is expected to have a significant positive impact on the local economy. The facility is scheduled to begin construction in the fall of 2015 at the northeast corner of 20th Avenue South and South 316th Street. The 41,000-square-foot multi-purpose facility will house a 700-seat theatre, a 5,200-square-foot culinary education center, and 8,000 square feet of event and activity space. The facility should open in 2017.

Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. The nearby suburbs and urban areas of Seattle are experiencing a period of economic strength. However, market conditions in Federal Way are somewhat overshadowed by the uncertainty caused by Weyerhaeuser's impending relocation. Absent a clear timeframe for the introduction of a new tenant at the large campus, sentiment in the area is expected to remain cautious.

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, recording positive, albeit fluctuating, growth for the past three years, with the exception of the first quarter of 2014. In early 2014, the decline was principally attributed to the severe winter weather that hampered normal business activity throughout much of the country. Robust 4.6% and 4.3% growth rates were registered in the second and third quarters of 2014, respectively, fueled by increases in personal consumption expenditures (PCE) and private inventory investment. Growth in the fourth quarter of 2014 moderated to 2.1%, as decreases in federal government spending and increased imports offset growth in other sectors. Another harsh winter caused a drop in the pace of GDP growth in the first quarter of 2015, as slower levels of domestic investment were unable to offset a widening trade gap. Preliminary estimates for the second quarter indicate a rebound, with GDP growth accelerating to 2.3%, driven by increases in PCE and state and local government spending. Higher levels of exports combined with a deceleration in imports have also contributed to this growth. These trends were partially offset by downturns in private inventory investment, nonresidential fixed investment, and federal government spending, as well as a deceleration in residential fixed investment.

FIGURE 3-10 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.

4. Supply and Demand Analysis

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

Definition of Subject Hotel Market

The 93-room Proposed Upper Midscale, Limited- or Select-Service Hotel will be located in Federal Way, Washington. King County offers 261 hotels and motels, spanning 35,348 rooms. The two largest hotels are the 1,236-room Sheraton Seattle Hotel and the 981-room Westin Seattle.

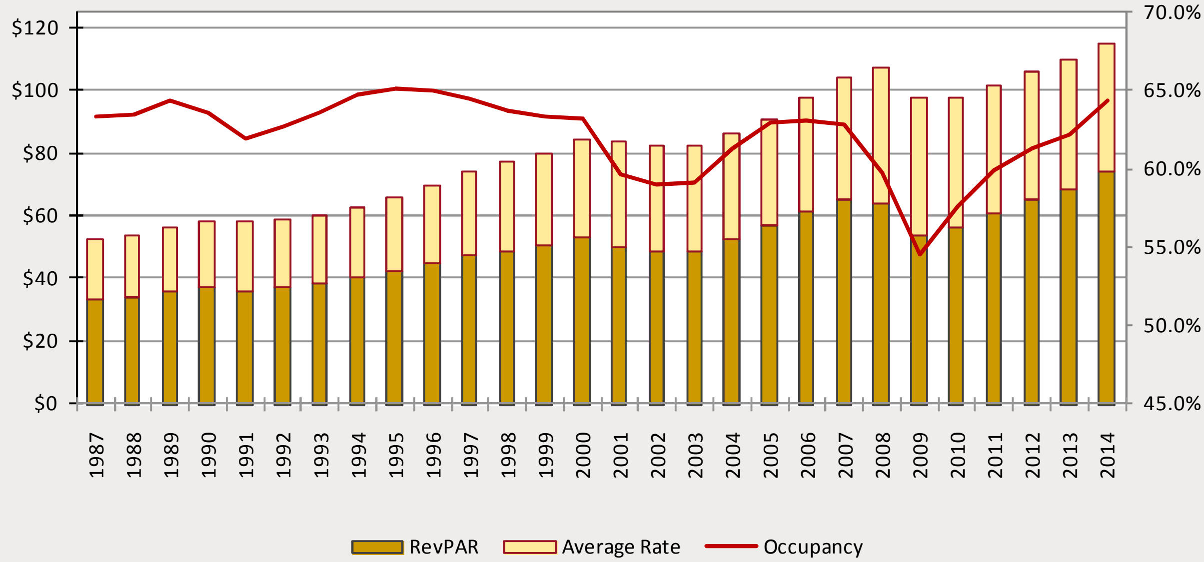
Of this larger supply set, the proposed subject hotel is expected to compete with a smaller set of hotels based on various factors. These factors may include location, price point, product quality, length of stay (such as an extended-stay focus vs. non-extended-stay focus), room type (all-suite vs. standard),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

National Trends Overview

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

Smith Travel Research (STR) is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. Figure 4-1 presents annual hotel occupancy and average rate data since 1987. Figures 4-2 and 4-3 illustrate the more recent trends, categorized by geography, price point, type of location, and chain scale. The statistics include occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

FIGURE 4-1 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS



Source: STR

FIGURE 4-2 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – YEAR-TO-DATE DATA

	Occupancy - Thru June			Average Rate - Thru June			RevPAR - Thru June		
	2014	2015	% Change	2014	2015	% Change	2014	2015	% Change
United States	63.7 %	65.2 %	2.3 %	$113.59	$119.02	4.8 %	$72.36	$77.57	7.2 %
Region									
New England	58.5 %	60.6 %	3.7 %	$130.37	$136.75	4.9 %	$76.25	$82.94	8.8 %
Middle Atlantic	63.9	64.5	1.0	153.41	153.87	0.3	97.96	99.19	1.3
South Atlantic	66.1	68.2	3.3	113.87	120.36	5.7	75.24	82.13	9.2
East North Central	57.8	58.9	1.9	96.13	101.81	5.9	55.61	60.01	7.9
East South Central	59.2	60.6	2.5	85.22	89.79	5.4	50.41	54.44	8.0
West North Central	57.3	57.9	1.0	88.08	91.17	3.5	50.49	52.81	4.6
West South Central	64.9	64.9	0.0	97.13	100.03	3.0	63.02	64.90	3.0
Mountain	63.3	65.1	2.8	105.40	111.07	5.4	66.69	72.25	8.3
Pacific	70.0	72.5	3.5	137.64	146.74	6.6	96.38	106.40	10.4
Class									
Luxury	69.2 %	70.9 %	2.4 %	$268.55	$280.07	4.3 %	$185.91	$198.62	6.8 %
Upper Upscale	72.1	73.0	1.1	166.38	173.91	4.5	120.04	126.90	5.7
Upscale	71.3	72.5	1.8	127.10	133.49	5.0	90.57	96.82	6.9
Upper Midscale	64.9	66.4	2.3	103.87	108.66	4.6	67.43	72.18	7.0
Midscale	57.7	59.3	2.7	84.74	88.65	4.6	48.88	52.55	7.5
Economy	56.5	58.0	2.8	60.85	64.19	5.5	34.37	37.26	8.4
Location									
Urban	71.6 %	72.8 %	1.8 %	$162.81	$169.49	4.1 %	$116.51	$123.47	6.0 %
Suburban	65.1	66.7	2.4	95.80	101.01	5.4	62.36	67.37	8.0
Airport	73.4	74.8	1.9	102.41	109.51	6.9	75.15	81.90	9.0
Interstate	55.1	56.4	2.2	76.82	79.55	3.6	42.35	44.83	5.9
Resort	67.1	69.1	3.0	160.57	168.95	5.2	107.69	116.69	8.4
Small Metro/Town	53.9	55.1	2.3	88.40	91.57	3.6	47.66	50.49	5.9
Chain Scale									
Luxury	75.7 %	76.1 %	0.6 %	$302.44	$318.42	5.3 %	$228.88	$242.39	5.9 %
Upper Upscale	74.1	74.8	0.9	167.57	175.61	4.8	124.25	131.33	5.7
Upscale	73.9	74.7	1.1	126.52	133.15	5.2	93.51	99.51	6.4
Upper Midscale	65.5	67.1	2.6	102.73	107.46	4.6	67.35	72.15	7.3
Midscale	57.2	58.9	2.9	78.45	81.97	4.5	44.88	48.26	7.6
Economy	56.5	57.8	2.3	54.55	57.51	5.4	30.82	33.23	7.8
Independents	59.5	61.3	3.1	111.00	116.17	4.7	66.01	71.19	7.9

Source: STR - June 2015 Lodging Review

FIGURE 4-3 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
Economy	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.

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. HVS has ordered and analyzed an STR Trend Report of historical supply and demand data for a group of hotels considered applicable to this analysis for the proposed subject hotel. This information is presented in the following table, along with the 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 4-4 HISTORICAL SUPPLY AND DEMAND TRENDS

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2003	911	332,515	—	190,894	—	57.4 %	$71.04	—	$40.78	—
2004	911	332,515	0.0 %	197,211	3.3 %	59.3	71.47	0.6 %	42.39	3.9 %
2005	911	332,515	0.0	207,248	5.1	62.3	76.40	6.9	47.62	12.3
2006	911	332,515	0.0	213,251	2.9	64.1	83.77	9.7	53.73	12.8
2007	911	332,515	0.0	217,681	2.1	65.5	89.30	6.6	58.46	8.8
2008	911	332,515	0.0	193,412	(11.1)	58.2	92.22	3.3	53.64	(8.3)
2009	911	332,515	0.0	171,575	(11.3)	51.6	86.18	(6.5)	44.47	(17.1)
2010	971	354,575	6.6	183,818	7.1	51.8	80.42	(6.7)	41.69	(6.3)
2011	1,054	384,710	8.5	215,903	17.5	56.1	85.85	6.8	48.18	15.6
2012	1,054	384,710	0.0	218,846	1.4	56.9	87.22	1.6	49.61	3.0
2013	1,054	384,710	0.0	224,206	2.4	58.3	90.70	4.0	52.86	6.5
2014	1,054	384,710	0.0	237,319	5.8	61.7	96.95	6.9	59.81	13.1
Average Annual Compounded Change:										
2003-2014			1.3 %		2.0 %			2.9 %		3.5 %
Year-to-Date Through June										
2014	1,054	190,774	—	110,245	—	57.8 %	$93.17	—	$53.84	—
2015	1,054	190,774	0.0 %	116,593	5.8 %	61.1	105.34	13.1 %	64.38	19.6 %

Hotels Included in Sample	Competitive Group	Number of Rooms	Year Affiliated	Year Opened
Red Lion Inn & Suites Federal Way	Group B	90	Sep 2014	Sep 1982
Clarion Hotel Federal Way Seattle	Group B	115	Sep 2007	Jun 1983
Days Inn Federal Way	Group B	54	Jun 2007	Aug 1994
Comfort Inn Federal Way Seattle	Group B	117	Nov 1998	Nov 1998
Econo Lodge Federal Way	Group B	45	Nov 2011	Jun 1999
Extended Stay America Seattle Federal Way	Group B	101	Aug 1999	Aug 1999
Best Western Plus Evergreen Inn & Suites	Group B	165	Oct 2010	Oct 1999
Courtyard Seattle Federal Way	Group A	160	Jun 2000	Jun 2000
Quality Inn & Suites Federal Way Seattle	Group B	65	Aug 2002	Aug 2002
Hampton Inn Suites Seattle Federal Way	Group A	142	Aug 2010	Aug 2010
	Total	**1,054**		

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.

Change in supply during the historical period reviewed was limited to the opening of the 142-unit Hampton Inn & Suites in August 2010.

Room-night demand, reflected by occupied room nights, fluctuated during the period reviewed. Significant declines in demand were recorded in 2008 and 2009, in line with national economic recession. Between 2007 and 2009, total occupied room nights decreased by roughly 46,000, or approximately 21%. Market-wide recovery in the following years was aided by the introduction of the new Hampton Inn & Suites in addition to significant average-rate discounting. Total demand for hotels in Federal Way did not rebound to the 2007 level until 2012, a total of five calendar years.

The STR data for the competitive set reflect a market-wide occupancy level of 61.7% in 2014, which compares to 58.3% for 2013. The overall average occupancy level for the calendar years presented equates to 56.2%. Local employers and headquarter offices in the area, as well as motorists traveling on Interstate 5, represent the primary sources of demand for the selected set of competitive hotels in Federal Way. Located between Tacoma and Seattle, hotel demand levels in Federal Way are influenced by compression generated by events based in these adjacent cities. Hotel occupancy levels in Federal Way show fluctuations similar to those experienced in markets nationwide; the recession of 2008 and 2009 caused a significant decline from historical levels. Occupancy for the market increased significantly starting in 2011, quickly absorbing the recently opened Hampton Inn & Suites. In subsequent years, occupancy trends have remained positive, surpassing the 60% mark in 2014 for the first time in seven years. Data for the first half of 2015 reflect continued occupancy improvement for the market, prompting market operators to increase average rates substantially.

The STR data for the competitive set reflect a market-wide average rate level of $96.95 in 2014, which compares to $90.70 for 2013. The average across all calendar years presented for average rate equates to $88.31. Average rate in the local market registered significant growth from 2004 through 2007. The strength of the economy during that time, with little rate-resistance from major corporate accounts such as Weyerhaeuser and strong compression generated by Tacoma and

Seattle, allowed hotel operators to increase rates. Average rate growth began to slow in 2008 largely attributed to the Great Recession. A downward trend was recorded in 2009 and 2010; average rates bottomed out in the low $80s in 2010. Average rates began to rebound in 2011 given the strengthening economy and the opening of the new Hampton Inn & Suites hotel; this positive trend continued thereafter, with a double-digit increase in average rate in the year-to-date 2015 data owing to the recent increases in demand. These occupancy and average rate trends resulted in a RevPAR level of $59.81 in 2014.

Seasonality

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

FIGURE 4-5 MONTHLY OCCUPANCY TRENDS

Month	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	43.2 %	45.8 %	46.3 %	48.2 %	61.0 %	47.2 %	40.0 %	42.5 %	38.1 %	44.8 %	44.0 %	45.1 %	44.6 %
February	58.4	57.0	58.1	56.5	63.2	58.4	51.4	52.8	50.9	52.5	54.0	56.1	56.1
March	59.4	61.3	66.8	66.1	67.3	65.0	55.5	57.7	57.1	59.0	58.8	59.4	61.4
April	47.1	51.8	60.2	55.1	58.4	55.4	43.7	47.0	51.7	46.0	49.9	51.1	53.3
May	54.0	52.8	58.6	61.7	63.9	59.6	48.3	53.1	59.0	54.5	55.5	58.4	67.3
June	65.6	69.6	72.8	76.2	75.7	66.9	55.8	57.8	66.4	69.3	65.5	76.9	84.1
July	77.2	80.8	81.3	75.6	79.1	73.0	67.4	73.5	78.3	73.6	78.4	84.4	—
August	74.0	76.3	80.0	82.6	78.6	76.2	70.1	60.0	73.2	73.4	84.2	85.8	—
September	63.0	66.6	64.4	72.3	67.9	62.1	58.0	54.0	60.8	63.2	62.7	67.9	—
October	52.2	54.3	58.4	60.9	62.0	51.1	45.9	46.3	51.5	54.1	52.5	55.3	—
November	47.5	49.0	53.4	56.6	60.7	44.1	38.6	41.9	46.9	49.4	48.1	50.3	—
December	47.2	46.2	47.4	57.3	47.5	38.9	44.1	38.4	39.2	42.5	45.1	49.0	—
Annual Occupancy	**57.4 %**	**59.3 %**	**62.3 %**	**64.1 %**	**65.5 %**	**58.2 %**	**51.6 %**	**51.8 %**	**56.1 %**	**56.9 %**	**58.3 %**	**61.7 %**	**—**
Year-to-Date	**54.5**	**56.3**	**60.4**	**60.6**	**64.9**	**58.7**	**49.1 %**	**51.8 %**	**53.9 %**	**54.3 %**	**54.6 %**	**57.8 %**	**61.1 %**

Source: STR Global

FIGURE 4-6 MONTHLY AVERAGE RATE TRENDS

Month	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	$72.78	$69.67	$73.32	$76.87	$83.70	$90.27	$85.37	$72.36	$80.95	$84.31	$85.47	$87.13	$93.35
February	71.71	69.18	74.05	79.66	88.13	91.87	89.03	79.77	86.87	90.29	89.84	96.06	101.07
March	71.63	71.24	74.76	82.45	89.62	94.43	88.17	84.09	88.61	93.43	92.37	97.37	101.57
April	71.32	71.32	73.96	80.90	88.14	92.62	82.81	76.76	84.10	85.34	85.71	89.10	98.45
May	70.12	69.69	75.13	83.48	91.09	92.56	83.80	78.76	86.17	83.84	87.10	89.06	97.20
June	70.81	73.22	77.71	85.51	91.54	94.76	85.42	78.00	88.96	89.56	91.48	97.46	128.52
July	74.21	73.85	79.14	88.53	95.78	95.01	94.65	82.55	90.93	88.69	95.30	106.46	—
August	71.67	74.65	81.05	91.05	96.03	95.16	96.71	82.31	88.78	91.82	99.74	109.27	—
September	69.32	71.00	78.25	86.15	87.12	92.11	81.73	81.63	84.24	84.51	89.15	98.22	—
October	70.04	71.92	76.32	85.21	87.88	91.06	80.37	83.23	82.85	85.65	90.49	95.13	—
November	68.41	70.49	75.54	80.14	83.88	86.43	77.43	82.73	80.45	84.03	86.51	88.82	—
December	68.76	67.46	72.95	77.78	82.66	83.01	77.66	78.87	79.05	79.82	85.04	93.48	—
Annual Average Rate	**$71.04**	**$71.47**	**$76.40**	**$83.77**	**$89.30**	**$92.22**	**$86.18**	**$80.42**	**$85.85**	**$87.22**	**$90.70**	**$96.95**	**—**
Year-to-Date	**$71.34**	**$70.87**	**$74.98**	**$81.87**	**$88.84**	**$92.92**	**$85.87**	**$78.60**	**$86.32**	**$88.07**	**$88.93**	**$93.17**	**$105.34**

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.

FIGURE 4-7 MARKET PERFORMANCE BY IDENTIFIED SEASON (HIGH, LOW, & SHOULDER)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
High Season (June - August)									
Occupancy	77.8 %	72.1 %	64.5 %	63.6 %	72.7 %	72.1 %	76.2 %	82.4 %	84.1 %
Average Rate	$94.52	$94.99	$92.80	$81.18	$89.61	$90.03	$95.88	$104.71	$128.52
RevPAR	73.58	68.46	59.87	51.66	65.16	64.93	73.03	86.30	108.02
Low Season (December - January)									
Occupancy	54.3 %	43.0 %	42.1 %	40.3 %	38.6 %	43.7 %	44.6 %	47.1 %	44.6 %
Average Rate	$83.24	$86.99	$81.33	$75.69	$79.99	$82.12	$85.25	$90.43	$93.35
RevPAR	45.18	37.43	34.22	30.51	30.90	35.88	37.98	42.56	41.66
Shoulder Season (February - May & September - November)									
Occupancy	63.4 %	56.6 %	48.8 %	50.2 %	54.0 %	54.1 %	54.5 %	56.9 %	59.6 %
Average Rate	$88.03	$91.84	$83.60	$81.13	$84.88	$86.79	$88.85	$93.64	$99.49
RevPAR	55.77	51.94	40.77	40.72	45.86	46.97	48.44	53.33	59.34

Source: STR Global

Trends for hotel demand in Federal Way reflect some level of seasonality, with the high season occurring from June through August. The market benefits from significant leisure travelers during the summer months, as well as visitors associated with events at the King County Aquatic Center. January and December are considered low-season months, with occupancy levels consistently below 50%. Other months represent the shoulder season, with occupancy levels ranging in the 50% to 60% range. In all months, the highest quality assets in terms of condition and branding are the first to benefit from demand for accommodations. In Federal Way, hotels in Competitive Group A fare particularly better than the Group B properties given their strong brand affiliations and established corporate accounts. One notable trend for seasonality is improved occupancy and average rate performance for all seasons since 2012; historically, the most significant improvement in occupancy levels has occurred during the high season.

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 4-8 OCCUPANCY, AVERAGE RATE AND REVPAR BY DAY OF WEEK

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Jul 12 - Jun 13	41.8 %	55.2 %	60.4 %	62.5 %	58.5 %	60.1 %	60.9 %	57.0 %
Jul 13 - Jun 14	44.5	55.2	62.6	64.2	62.2	64.7	65.7	59.9
Jul 14 - Jun 15	46.1	60.1	67.4	69.4	65.8	67.0	67.5	63.3
Change (Occupancy Points)								
FY 13 - FY 14	2.6	0.1	2.1	1.7	3.8	4.6	4.9	2.9
FY 14 - FY 15	1.6	4.9	4.9	5.2	3.6	2.3	1.8	3.5

ADR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Jul 12 - Jun 13	$82.35	$90.85	$93.19	$92.76	$88.79	$82.30	$81.74	$87.63
Jul 13 - Jun 14	86.34	94.78	98.70	98.21	93.65	87.88	87.88	92.69
Jul 14 - Jun 15	93.99	104.58	108.74	109.06	103.70	97.82	97.98	102.68
Change (Dollars)								
FY 13 - FY 14	$4.00	$3.93	$5.51	$5.46	$4.86	$5.57	$6.14	$5.06
FY 14 - FY 15	7.65	9.80	10.04	10.85	10.04	9.95	10.10	9.99
Change (Percent)								
FY 13 - FY 14	4.9 %	4.3 %	5.9 %	5.9 %	5.5 %	6.8 %	7.5 %	5.8 %
FY 14 - FY 15	8.9	10.3	10.2	11.0	10.7	11.3	11.5	10.8

RevPAR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Jul 12 - Jun 13	$34.45	$50.14	$56.29	$57.96	$51.93	$49.45	$49.78	$49.96
Jul 13 - Jun 14	38.39	52.35	61.74	63.07	58.29	56.85	57.78	55.49
Jul 14 - Jun 15	43.33	62.88	73.33	75.66	68.23	65.50	66.14	65.03
Change (Dollars)								
FY 13 - FY 14	$3.94	$2.21	$5.45	$5.11	$6.36	$7.40	$8.00	$5.53
FY 14 - FY 15	4.94	10.53	11.59	12.59	9.94	8.65	8.36	9.55
Change (Percent)								
FY 13 - FY 14	11.4 %	4.4 %	9.7 %	8.8 %	12.2 %	15.0 %	16.1 %	11.1 %
FY 14 - FY 15	12.9	20.1	18.8	20.0	17.1	15.2	14.5	17.2

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. A review of hotel occupancy and average rate data by day of the week shows moderate fluctuation, with the strongest RevPAR levels recorded during the midweek period and the weakest level recorded on Sunday nights. This pattern is considered typical, with most midweek demand consisting of commercial travelers, while Sunday nights exhibit weaker levels of demand across all market segments.

SUPPLY

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are expected to be competitive with the proposed subject hotel.

FIGURE 4-9 FEDERAL WAY HOTEL COMPETITORS – COMPETITIVE GROUPS

Competitive Group A

Hotel Name	Room Count	Parent Company	Opening Year
Hampton Inn Suites Seattle Federal Way	142	Hilton Hotels & Resorts	2010
Courtyard Seattle Federal Way	160	Marriott International	2000
	302		

Competitive Group B

Hotel Name	Room Count	Parent Company	Opening Year
Clarion Hotel Federal Way	115	Choice Hotels	1983
Comfort Inn Federal Way	117	Choice Hotels	1998
Best Western Evergreen Inn & Suites	165	Best Western International	1999
Quality Inn & Suites Federal Way	65	Choice Hotels	2002
Extended StayAmerica Federal Way	101	Extended Stay Hotels	1999
Red Lion Inn & Suites Federal Way	90	Red Lion Hotels	1982
Econo Lodge Federal Way	45	Choice Hotels	1999
Days Inn Federal Way	54	Wyndham Worldwide	1994
	752		

All competitive hotels in the Federal Way market area were visited and available operating data for these hotels were analyzed. In conjunction with this study, we completed interviews with a sample of the hotel management representatives. Based on our analysis and discussions, we categorized the existing lodging supply into two groups. Competitive Group A consists of the Hampton Inn & Suites and Courtyard by Marriott, both offering high-quality products popular among all market segments. Competitive Group B consists primarily of economy-branded hotels, with significantly lower average rates than hotels included in Competitive Group A.

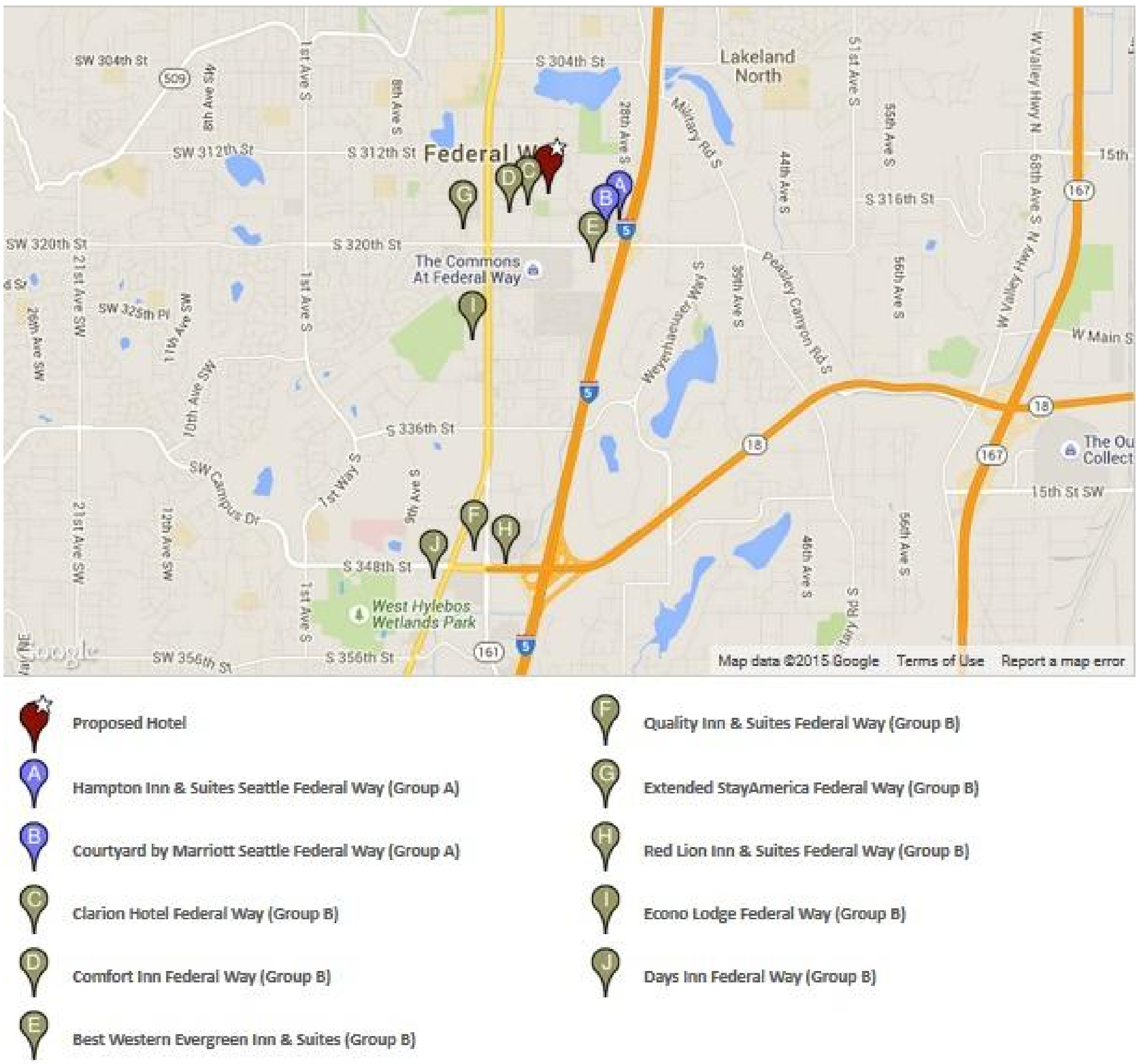
We have identified eight hotels in Federal Way that are expected to operate at average-rate levels that are significantly below the positioned level of the proposed subject property. These assets have been designated as Competitive Group B given their respective age, condition, and brand affiliations. Hotels in Competitive Group B are not expected to compete directly with the proposed subject hotel and existing Competitive Group A hotels (Hampton Inn & Suites and Courtyard by Marriott). A comparison of the historical aggregate RevPAR (revenue per available room) performance of the two groups shows a significant differential. The aggregate RevPAR of Competitive Group A has consistently outperformed the levels of Competitive Group B, by a significant margin.

FIGURE 4-10 FEDERAL WAY HOTEL COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2012			Estimated 2013			Estimated 2014					
Property	**Number of Rooms**	**Commercial**	**Group**	**Leisure**	**Occ.**	**Average Rate**	**RevPAR**	**Occ.**	**Average Rate**	**RevPAR**	**Occ.**	**Average Rate**	**RevPAR**	**RevPAR Change**	**Occupancy Penetration**	**Yield Penetration**
Competitive Group A	302	50 %	27 %	23 %	71.9 %	$115.48	$83.01	74.3 %	$119.99	$89.14	75.1 %	$129.92	$97.59	9.5 %	121.8 %	163.2 %
Competitive Group B	752	32 %	16 %	52 %	50.8 %	$71.15	$36.16	51.9 %	$73.87	$38.35	56.3 %	$79.30	$44.64	16.4 %	91.3 %	74.6 %
Totals/Averages	**1,054**	**39 %**	**20 %**	**42 %**	**56.9 %**	**$87.22**	**$49.60**	**58.3 %**	**$90.70**	**$52.90**	**61.7 %**	**$96.96**	**$59.81**	**13.1 %**	**100.0 %**	**100.0 %**

The following map illustrates the locations of the proposed subject hotel and its future competitors.

MAP OF COMPETITION



The proposed hotel is expected to be most competitive with hotels in Competitive Group A. These two assets is described in further detail on the following pages.

COMPETITIVE GROUP A- HAMPTON INN & SUITES SEATTLE FEDERAL WAY

Hampton Inn & Suites Seattle Federal Way
31720 Gateway Center Boulevard South
Federal Way, WA

The Hampton Inn & Suites Seattle Federal Way is owned and operated by Royal Hospitality, LLC. Facilities and amenities include a breakfast dining area (a complimentary breakfast is served), an indoor pool and whirlpool, a fitness room, a business center, a market pantry, a guest laundry room, and approximately 2,100 square feet of meeting space. The hotel has not undergone any significant upgrades since opening in 2010. This hotel benefits from its position as the newest hotel in the Federal Way area, as well as its strong Hilton brand affiliation. Overall, the property appeared to be in very good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the proposed subject property.

COMPETITIVE GROUP A- COURTYARD BY MARRIOTT SEATTLE FEDERAL WAY

Courtyard by Marriott Seattle Federal Way
31910 Gateway Center Boulevard South
Federal Way, WA

The Courtyard by Marriott Seattle Federal Way is jointly owned by Chatham Lodging Trust and Northstar Realty Finance and is operated by Marriott International. Facilities and amenities include The Bistro, an indoor pool and whirlpool, a fitness room, a business center, a market pantry, a guest laundry room, and 1,640 square feet of meeting space. The hotel, which opened in 2000, received lobby and Bistro area upgrades in 2013. Renovation of the hotel's guestrooms is scheduled to commence in the fall of 2015. This hotel benefits from its strong Marriott brand affiliation but is somewhat disadvantaged by the current condition of the guestroom product. Following the completion of the scheduled renovation, guestrooms are expected to be in excellent condition. Overall, the property appeared to be in good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the proposed subject property.

HVS

Supply Changes

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

FIGURE 4-11 NEW SUPPLY

Proposed Property	Number of Rooms	Estimated Opening Date	Developer	Development Stage
Proposed Upper Midscale, Limited- or Select-Service Hotel - Federal Way	93	June 1, 2017	TBD	Early Development
Totals/Averages	**93**			

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

Supply Conclusion

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

DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the competitors discussed previously in this section; performance results are estimated, rounded for the competition.

FIGURE 4-12 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2012	218,865	—	384,870	—	56.9 %	$87.22	—	$49.60	—
Est. 2013	224,369	2.5 %	384,710	(0.0) %	58.3	90.70	4.0 %	52.90	6.7 %
Est. 2014	237,327	5.8	384,710	0.0	61.7	96.96	6.9	59.81	13.1
Avg. Annual Compounded Chg., Est. 2012-Est. 2014:		4.1 %		(0.0) %			5.4 %		9.8 %

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 4-13 ACCOMMODATED ROOM NIGHT DEMAND

	Marketwide	
Market Segment	Accommodated Demand	Percentage of Total
Commercial	91,394	39 %
Group	46,992	20
Leisure	98,940	42
Total	**237,327**	**100 %**

The market's demand mix comprises commercial demand, with this segment representing roughly 39% of the accommodated room nights in Federal Way. The remaining portion comprises group at 20%, with the final and largest portion being leisure in nature, at 42%.

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.

Historically, commercial demand in the Federal Way market area was strongly tied to activity at the Weyerhaeuser campus. Our discussions with management at the Hampton Inn & Suites and Courtyard by Marriott revealed that the bulk of the hotel demand generated by Weyerhaeuser is served by these two hotels. However, overall room-night production from this firm has decreased considerably since 2013, requiring the hotels to target other commercial demand sources, including government contractors. Our forecast of commercial demand intends to reflect the impact of Weyerhaeuser's departure on hotel demand in Federal Way. At the time of this study, no plans were announced regarding a potential new tenant at the campus. In addition, while a conceptual plan exists for a mixed-use project at the Town Center, no specific development strategy or timing has been determined. Future growth trends in commercial demand would likely be influenced by confirmed information on the future of these developments. We project demand change rates of 3.0% in 2015, -5.0% in 2016, and 3.0% in 2017. After these first three projection years, we have forecast commercial demand to increase by 1.0% in 2018 before stabilizing in subsequent years.

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 Federal Way market is generated by social and tour groups, as well as by corporate meetings and events hosted by firms with local presence. Hotels that are equipped to serve the needs of groups typically offer some type of flexible meeting space and food and beverage service, as well as a block of guestrooms. The inclusion of meeting space at the proposed subject hotel, as well as the proposed adjacent performing arts center, is expected to support minimal growth in group demand for the Federal Way market area. We project demand change rates of 3.0% in 2015, 1.0% in 2016, and 2.0% in 2017. After these first three projection years, we have forecast demand change rates of 1.0% in 2018 before stabilizing in subsequent years.

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 in the Federal Way market area is associated with existing attractions and demand generators including Wild Waves Theme Park and the King County Aquatic Center. While not significant drivers of hotel room-night demand, the Pacific Bonsai Museum and Rhododendron Species Botanical Garden are additional attractions. According to representatives at both Wild Waves Theme Park and King County Aquatic Center, visitation to these facilities reflects a positive trend. The event calendar for the King County Aquatic Center remains strong, with nearly 50 events scheduled for 2015. According to management, Wild Waves hosted approximately 550,000 visitors in 2014. Long-term increases in visitation are expected to come from new, yet-to-be planned attractions. In addition, the proposed performing arts center is expected to support some leisure demand increases. Lastly, a considerable amount of leisure demand is associated with motorists on Interstate 5, as the Federal Way lodging market offers significant price discounts when compared to hotels in Seattle. Increased occupancy in the first half of 2015 is most reflective of the lower prices offered by area hotels compared to Seattle accommodations. Considering both current and historical trends, we project demand change rates of 10.0% in 2015, 2.0% in 2016, and 2.0% in 2017. After these first three projection years, we have forecast demand change rates of 1.0% in 2018 before stabilizing in subsequent years.

Conclusion

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

FIGURE 4-14 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

	Annual Growth Rate				
Market Segment	**2015**	**2016**	**2017**	**2018**	**2019**
Commercial	3.0 %	-5.0 %	3.0 %	1.0 %	0.0 %
Group	3.0	1.0	2.0	1.0	0.0
Leisure	10.0	2.0	2.0	1.0	0.0
Base Demand Growth	**5.9 %**	**-0.8 %**	**2.4 %**	**1.0 %**	**0.0 %**

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 4-15 FORECAST OF MARKET OCCUPANCY

	2015	2016	2017	2018	2019
Commercial					
Base Demand	94,136	89,429	92,112	93,033	93,033
Total Demand	94,136	89,429	92,112	93,033	93,033
Growth Rate	3.0 %	(5.0) %	3.0 %	1.0 %	0.0 %
Group					
Base Demand	48,402	48,886	49,864	50,362	50,362
Total Demand	48,402	48,886	49,864	50,362	50,362
Growth Rate	3.0 %	1.0 %	2.0 %	1.0 %	0.0 %
Leisure					
Base Demand	108,834	111,011	113,231	114,364	114,364
Total Demand	108,834	111,011	113,231	114,364	114,364
Growth Rate	10.0 %	2.0 %	2.0 %	1.0 %	0.0 %
Totals					
Base Demand	251,372	249,326	255,207	257,759	257,759
Total Demand	251,372	249,326	255,207	257,759	257,759
less: Residual Demand	4,730	4,041	0	0	0
Total Accommodated Demand	246,642	245,285	255,207	257,759	257,759
Overall Demand Growth	3.9 %	(0.6) %	4.0 %	1.0 %	0.0 %
Market Mix					
Commercial	37.4 %	35.9 %	36.1 %	36.1 %	36.1 %
Group	19.3	19.6	19.5	19.5	19.5
Leisure	43.3	44.5	44.4	44.4	44.4
Existing Hotel Supply	1,054	1,054	1,054	1,054	1,054
Proposed Hotels					
Proposed Upper Midscale, Limited- or Select-Service Hotel [1]			55	93	93
Available Rooms per Night	384,710	384,710	404,612	418,655	418,655
Nights per Year	365	365	365	365	365
Total Supply	1,054	1,054	1,109	1,147	1,147
Rooms Supply Growth	0.0 %	0.0 %	5.2 %	3.5 %	0.0 %
Marketwide Occupancy	**64.1 %**	**63.8 %**	**63.1 %**	**61.6 %**	**61.6 %**

[1] Opening in June 2017 of the 100% competitive, 93-room Proposed Upper Midscale, Limited- or Select-Service Hotel - Federal Way

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

5. Description of the Proposed Project

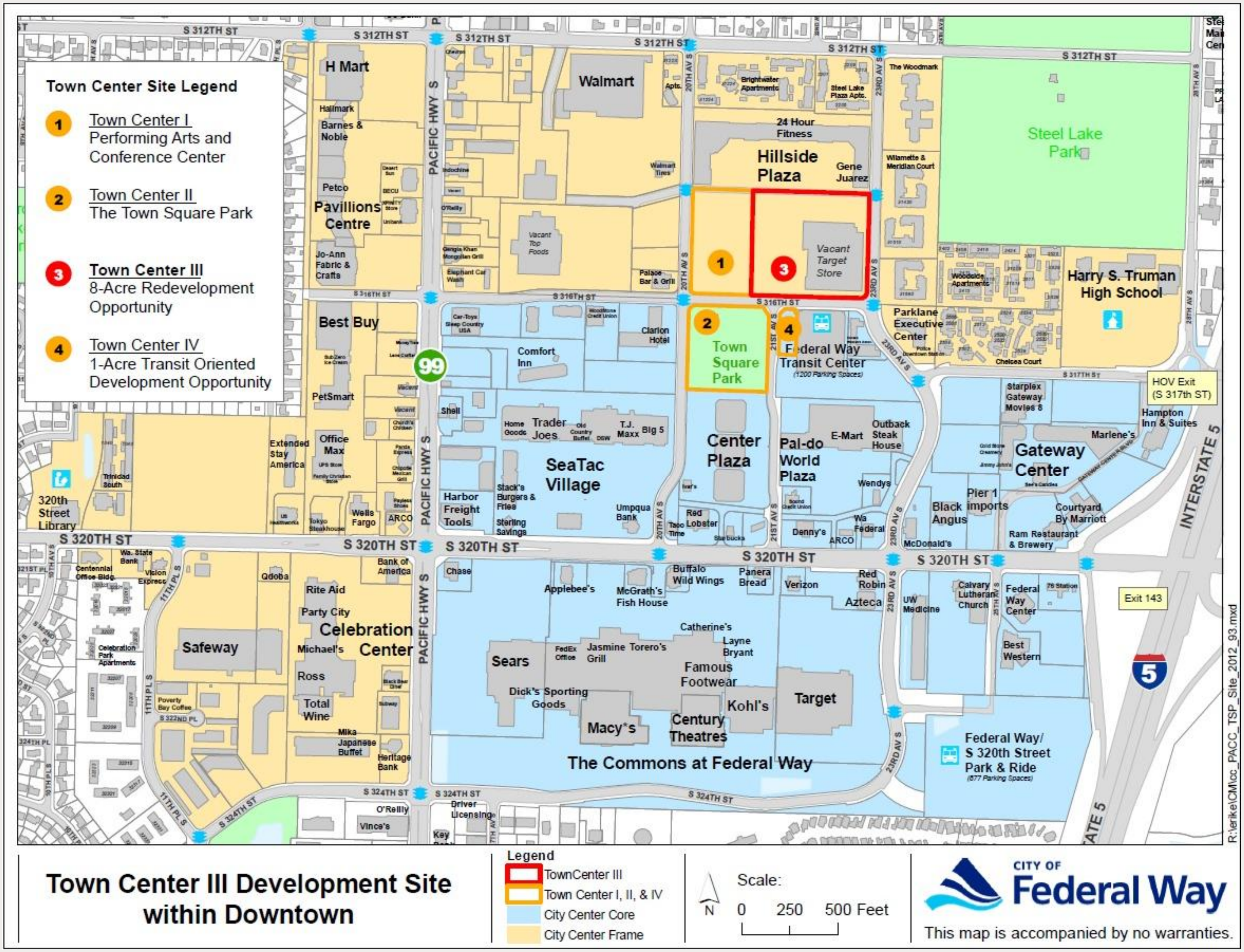
The quality of a lodging facility's physical improvements has a direct influence on marketability, attainable occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. This section investigates the subject property's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

Project Overview

Based on the results of our study, we recommend a 93-unit upper midscale, limited- or select-service hotel operating under a nationally recognized brand affiliation. For the purposes of our analysis, we have utilized franchise fee levels and amenities consistent with the Holiday Inn Express Hotel & Suites brand.

The proposed hotel is assumed to open on June 1, 2017. The City of Federal Way is currently seeking a development partner that will construct and own a hotel on a 2.15-acre site located in Downtown Federal Way. The site is currently improved with a parking lot for a closed discount retail store. The hotel is one component of a multi-faceted development effort consisting of four adjacent sites surrounding the intersection of South 316th Street and 21st Avenue South. HVS was retained to prepare a hotel market study with development recommendations and financial projections. It is understood that this study will be reviewed by various stakeholders in an effort to understand the current and future potential for new transient lodging development at this location. In conjunction with this study, various market participants were interviewed; a list of interviewed parties is included in the addenda of this market study document. We note that redevelopment plans for a 1.0-acre parcel adjacent to the Federal Way Transit Center and a 5.36-acre site immediately east of the proposed hotel are yet to be finalized. The following map identifies the proposed components of the Town Center redevelopment project as of early August 2015.

TOWN CENTER DEVELOPMENT MAP



Typical Amenities: Limited- and Select-Service Hotels

As brand selection is yet to occur, we utilized details from the current Holiday Inn Express Hotel & Suites development brochure to provide an example of amenities typical to limited- and select-service hotels. Depending on the selected brand, the mix of facilities and amenities may change. Amenities and facilities presented in the following table are considered typical to limited- and select-service hotels.

FIGURE 5-1 TYPICAL FACILITIES: LIMITED- & SELECT SERVICE HOTELS

Guestroom Configuration - Based on Holiday Inn Express Hotel & Suites Prototype	Number of Units
King	46
Double Queen	22
King Suite	9
King Extra Wide	4
Double Queen Suite	7
Accessible King	2
Accessible Double Queen	1
Accessible King Suite	1
Accessible Queen Suite	1
Total	93

Food & Beverage Facilities	Seating Capacity (Estimated)
Breakfast Dining Area	40

Indoor Meeting & Banquet Facilities	Square Footage
Flexible Meeting Space	2,500

Amenities & Services	
Indoor Swimming Pool	Market Pantry
Indoor Whirlpool	Guest Laundry Room
Fitness Room	Vending Areas
Business Center	

Infrastructure	
Parking Spaces	TBD
Elevators	2 Guest
Life-Safety Systems	Sprinklers, Smoke Detectors
Construction Details	Poured Concrete

Site Improvements and Hotel Structure

The layout of the building on the proposed site is yet to be determined, pending the selection of the brand and finalization of the total guestroom count. However, the site should be expected to be large enough to accommodate the construction of a limited- or select-service hotel based on various brand prototypes and is assumed to offer ample parking on a surface lot, within a parking garage, or with a combination of these options. Signage is expected to be present on the exterior of the building, with highly conspicuous signage likely on the south side of the building facing Town Square Park. We assume that all signage will adequately identify the property and meet brand standards. Landscaping should allow for a positive guest impression and competitive exterior appearance. Sidewalks are expected be present along the front entrance and around the perimeter of the hotel. An existing staircase on the south side of the property is assumed to remain in place for pedestrian access to South 316th Street. Overall, the proposed hotel's site improvements are expected to be adequate for the operation of a lodging property.

The hotel structure is expected to be constructed of poured concrete and concrete panels, depending on brand standards, building codes, and the developer's construction budget. The exterior of the hotel will likely be finished with EIFS or stucco. We expect the proposed hotel to feature exterior design elements consistent with the adjacent performing arts center and other nearby developments. At least two elevators and stairways will provide internal vertical transportation within the main structure as needed. The hotel roof will most likely be constructed of concrete and a rubber-membrane roofing system. Double-paned windows are expected to reduce noise transmission into the rooms. Heating and cooling will likely be provided by centralized systems. The building components are expected to be normal for a hotel of this type and should meet the standards for this market. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that would affect the future operating potential of the hotel or delay its assumed opening date.

Public Areas

Guests will likely enter the hotel through a single set of automatic doors, which will open to a vestibule, and then through a second set of automatic doors. The lobby is expected be average in size and appropriate for a limited- or select-service hotel. The lobby walls are likely to be finished with wallcovering, and the floor will likely be finished with stone tiles and carpet. The front desk is expected to feature a granite countertop, installed with appropriate property management and telephone systems. The furnishings and finishes in this space should offer an appropriate first impression, and the design of the space should lend itself to adequate efficiency and be consistent with specifications published by the selected brand. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

Depending on the selected brand, the dining area will offer a daily breakfast on the lobby level. The furnishings of the space are expected to be of a similar style and finish as lobby and guestroom furnishings.

Given the site's location adjacent to the proposed performing arts center, there is an opportunity to provide a significant amount of meeting space, beyond that of a typical select- or limited-service hotel. We recommend a total of 2,500 square feet of flexible meeting space be included in the facility plan. The quality of meeting space furniture, fixtures, and equipment is assumed to be consistent with the public areas and guestrooms.

The hotel will likely offer an indoor pool and whirlpool and a fitness room as recreational facilities. It is typical for restrooms will be present off the pool area. The recreations facilities offered should be of a quality that is consistent with the standards of the selected brand.

Other amenities will likely include a business center and a market pantry in the lobby, a guest laundry facility, and vending areas on each floor with ice machines. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

Guestrooms

The hotel is expected to feature standard and suite-style room configurations, with guestrooms present on all levels of the property's anticipated single building. The guestrooms will likely average approximately 340 square feet in size and are expected to offer typical amenities for this product type. In addition to the standard furnishings, guestrooms should feature an iron and ironing board, a coffeemaker, and wireless, high-speed Internet access. Suites, which are expected be available for a premium rate, should feature a larger living area and additional amenities such as a wet-bar area with a microwave and small refrigerator. Overall, the guestrooms should offer a competitive product for the local market area.

Guestroom bathrooms are expected to be of a standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a stone countertop. The floors will likely be finished with tile, and the walls are expected to be finished with wallcovering. Bathrooms are expected to feature a hairdryer and complimentary toiletries. Overall, the bathroom design should be appropriate for a product of this type.

The interior guestroom corridors are expected to be wide and functional, permitting the easy passage of housekeeping carts. Corridor carpet, wallcovering, signage, and lighting should be in keeping with the overall look and design of the rest of the property.

Back-of-the-House

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

ADA and Environmental

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

Capital Expenditures

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

Conclusion

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

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.

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 each of the Competitive Group A hotels and the aggregate Group B competitors are set forth for each segment for the base year.

FIGURE 6-1 HISTORICAL PENETRATION RATES

Property	Commercial	Group	Leisure	Overall
Hampton Inn & Suites Seattle Federal Way	173 %	168 %	80 %	133 %
Courtyard by Marriott Seattle Federal Way	145	169	54	112
Competitive Group B	77	72	114	91

The Hampton Inn & Suites Seattle Federal Way is estimated to have achieved the highest penetration rate within the commercial segment. The highest estimated penetration rate in the group segment was likely achieved by the Courtyard by Marriott Seattle Federal Way, while the Competitive Group B hotels are estimated to have achieved the highest leisure penetration rate as an aggregate. Hotels included in Competitive Group A have benefited from strong brand affiliations and popularity across all market segments. As a result, these hotels have outperformed the overall market in terms of both occupancy and average rate, resulting in aggregate historical penetration levels well above 100%.

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 tables.

The following tables set forth, by market segment, the projected adjusted penetration rates for the subject property and the competitors.

FIGURE 6-2 COMMERCIAL SEGMENT ADJUSTED PENETRATION RATES

Hotel	2014	2015	2016	2017	2018	2019
Hampton Inn & Suites Seattle Federal Way	173 %	173 %	170 %	167 %	165 %	165 %
Courtyard by Marriott Seattle Federal Way	145	145	153	155	153	153
Competitive Group B	77	77	76	74	73	73
Proposed Upper Midscale, Limited- or Select-Service Hotel	**—**	**—**	**—**	**121**	**124**	**129**

Within the commercial segment, the proposed subject hotel's occupancy penetration is positioned at an above-market-average level by the stabilized period due to its location within the Town Center Development, as well as the expected strength of the selected affiliation in capturing corporate demand associated with travelers with brand preferences. The proposed subject hotel is expected to outperform the hotels in Competitive Group B and should be slightly below hotels in Competitive Group A. Overall, the proposed hotel's penetration of the commercial segment is positioned above the market average.

FIGURE 6-3 GROUP SEGMENT ADJUSTED PENETRATION RATES

Hotel	2014	2015	2016	2017	2018	2019
Hampton Inn & Suites Seattle Federal Way	168 %	168 %	167 %	160 %	155 %	155 %
Courtyard by Marriott Seattle Federal Way	169	169	172	167	162	161
Competitive Group B	72	72	72	69	67	67
Proposed Upper Midscale, Limited- or Select-Service Hotel	**—**	**—**	**—**	**172**	**176**	**180**

The proposed subject hotel is expected to benefit from its location adjacent to the proposed Center for Arts, Culture, Education, and Community Events. We recommend that the hotel include 2,500 square feet of meeting space to complement the space to be offered at the adjacent center. As a result, the proposed subject hotel is forecast to achieve above-market penetration of the group segment.

FIGURE 6-4 LEISURE SEGMENT ADJUSTED PENETRATION RATES

Hotel	2014	2015	2016	2017	2018	2019
Hampton Inn & Suites Seattle Federal Way	80 %	80 %	79 %	79 %	79 %	79 %
Courtyard by Marriott Seattle Federal Way	54	54	59	69	70	69
Competitive Group B	114	114	113	113	113	112
Proposed Upper Midscale, Limited- or Select-Service Hotel	**—**	**—**	**—**	**69**	**79**	**89**

The proposed subject hotel's leisure penetration level is positioned slightly above the levels achieved by hotels in Competitive Group A. The selected brand is expected to be popular with leisure travelers, a portion of which is expected to be associated with events at the adjacent performing arts center. Our analysis assumes that the performing arts center will be operational as of the proposed hotel's opening. Overall, the proposed subject hotel's penetration of the leisure segment is forecast to stabilize at a level that is slightly below the market average given the price-sensitivity of this demand segment.

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

FIGURE 6-5 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2017	2018	2019	2020
Commercial	40 %	39 %	38 %	38 %
Group	31	30	29	29
Leisure	29	31	33	33
Total	100 %	100 %	100 %	100 %

The proposed subject hotel'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 6-6 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2017	2018	2019	2020
Commercial				
Demand	92,112	93,033	93,033	93,033
Market Share	5.9 %	10.1 %	10.4 %	10.4 %
Capture	5,479	9,384	9,708	9,708
Penetration	121 %	124 %	129 %	129 %
Group				
Demand	49,864	50,362	50,362	50,362
Market Share	8.5 %	14.3 %	14.6 %	14.6 %
Capture	4,215	7,179	7,341	7,341
Penetration	172 %	176 %	180 %	180 %
Leisure				
Demand	113,231	114,364	114,364	114,364
Market Share	3.4 %	6.4 %	7.2 %	7.2 %
Capture	3,865	7,370	8,225	8,225
Penetration	69 %	79 %	89 %	89 %
Total Room Nights Captured	**13,559**	**23,933**	**25,273**	**25,273**
Available Room Nights	19,902	33,945	33,945	33,945
Subject Occupancy	**68 %**	**71 %**	**74 %**	**74 %**
Marketwide Available Room Nights	404,612	418,655	418,655	418,655
Fair Share	**5 %**	**8 %**	**8 %**	**8 %**
Marketwide Occupied Room Nights	255,207	257,759	257,759	257,759
Market Share	**5 %**	**9 %**	**10 %**	**10 %**
Marketwide Occupancy	**63 %**	**62 %**	**62 %**	**62 %**
Total Penetration	**108 %**	**115 %**	**121 %**	**121 %**

Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 74%. 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's future primary competitors.

FIGURE 6-7 BASE YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS

Property	Estimated 2014 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Competitive Group A	$129.92	134.0 %	$97.59	163.2 %
Competitive Group B	79.30	81.8	44.64	74.6
Overall Average	**$96.96**		**$59.81**	
Estimated Differentials (rounded)				
Group A to Group B	$50.00		$50.00	
Group A to Overall Average	30.00		40.00	

The defined primarily competitive market realized an overall average rate of $129.92 in the 2014 base year, improving from the 2013 level of $119.99. The hotels included in Competitive Group A achieved a significantly higher average rate than the market as a whole. Both the Hampton Inn & Suites and Courtyard by Marriott are popular among all demand segments and are particularly sought-after by commercial business travelers who tend to be less price-sensitive than leisure guests. The selected rate position for the proposed subject hotel, in base-year dollars, takes into consideration factors such as its strong brand affiliation, its location within the Town Center development, and the new condition of the guestrooms and public areas. We have selected the rate position of $125.00, in base-year dollars, for the proposed subject.

Market-wide rates began to trend upward in 2011. We expect average rates to continue to improve as a result of improved economic conditions driving stronger occupancy levels. The introduction of a new upper midscale, limited- or select-service hotel is forecast to influence overall market performance, as the hotel is likely to compete more with the strongest hotels in the market, the Hampton Inn & Suites and Courtyard by Marriott.

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 underlying inflation rates of 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2013.

FIGURE 6-8 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	61.7 %	—	$96.96	—	—	$125.00	128.9 %
2015	64.1	10.0 %	106.66	—	6.0 %	132.50	124.2
2016	63.8	3.0	109.85	—	6.0	140.45	127.9
2017	63.1	3.0	113.15	68.0 %	6.0	148.88	131.6
2018	61.6	3.0	116.54	71.0	4.0	154.83	132.9
2019	61.6	3.0	120.04	74.0	3.0	159.48	132.9

As illustrated above, a 6.0% rate of change is expected for the proposed subject hotel's positioned 2014 room rate in 2015. This is followed by growth rates of 6.0% in both 2016 and 2017 and 4.0% in 2018, before eventually reaching a growth rate equal to the assumed underlying inflation rate of 3.0% in 2019 and thereafter. The Federal Way market should experience rate growth through the near term. The proposed subject hotel's rate position should reflect growth superior to market trends because of the proposed hotel's new facility, strong brand affiliation, and location within the Town Center development. The proposed subject hotel’s penetration rate is forecast to reach 132.9% by the stabilized period.

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 reflects years beginning on June 1, 2017 and corresponds with our financial projections.

FIGURE 6-9 FORECAST OF OCCUPANCY, AVERAGE RATE, AND REVPAR

Year	Occupancy	Average Rate	RevPAR
2017/18	69 %	$151.34	$104.43
2018/19	72	156.75	112.86
2019/20	74	161.46	119.48

7. Projection of Income and Expense

In this chapter of our report, we have compiled a forecast of income and expense for the proposed subject hotel. This forecast is based on the facilities program set forth previously, as well as the occupancy and average rate forecast discussed previously.

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

Comparable Operating Statements

In order to project future income and expense for the proposed subject hotel, we have included a sample of individual comparable operating statements from our database of hotel statistics. All financial data are presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). The following data reflect the performance of five hotel properties. The properties were chosen based on similarities in product, market orientation, brand affiliation, size, and price positioning. These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense.

FIGURE 7-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Number of Rooms:	**40 to 60**	**90 to 110**	**130 to 160**	**80 to 110**	**90 to 110**	**93**
Occupied Rooms:	**14,605**	**26,533**	**38,027**	**23,715**	**27,129**	**25,119**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**74%**	**73%**	**72%**	**71%**	**74%**	**74%**
Average Rate:	**$142**	**$140**	**$141**	**$137**	**$131**	**$139**
RevPAR:	**$105**	**$102**	**$101**	**$98**	**$98**	**$103**
REVENUE						
Rooms	98.7 %	99.2 %	96.9 %	99.4 %	97.0 %	96.8 %
Other Operated Departments	1.3	0.8	1.1	0.0	3.0	1.8
Rentals & Other Income	0.0	0.0	2.0	0.5	0.0	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	19.0	26.2	21.6	21.9	24.1	24.0
Other Operated Departments	12.0	64.3	110.1	764.9	79.8	75.0
Total	18.9	26.5	22.1	22.2	25.7	24.6
DEPARTMENTAL INCOME	81.1	73.5	77.9	77.8	74.3	75.4
OPERATING EXPENSES						
Administrative & General	9.5	7.2	6.8	10.4	7.2	7.9
Marketing	1.4	2.8	6.0	1.8	5.0	4.1
Franchise Fee	9.7	8.9	7.8	7.9	7.7	8.7
Property Operations & Maintenance	3.3	2.8	2.7	1.5	3.2	2.8
Utilities	5.9	4.5	2.8	3.6	3.4	3.5
Total	29.8	26.3	26.2	25.1	26.5	27.0
HOUSE PROFIT	51.3	47.2	51.7	52.7	47.8	48.5
Management Fee	3.0	3.5	3.0	3.0	3.0	3.0
INCOME BEFORE FIXED CHARGES	48.3	43.6	48.7	49.8	44.7	45.5
FIXED EXPENSES						
Property Taxes	3.1	3.0	5.6	0.6	1.9	3.6
Insurance	2.1	0.7	0.2	2.4	0.6	1.1
Reserve for Replacement	4.0	4.0	4.0	4.0	4.0	4.0
Total	9.2	7.7	9.8	7.0	6.5	8.6
NET INCOME	39.1 %	35.9 %	38.9 %	42.8 %	38.2 %	36.8 %

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

FIGURE 7-2 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized $
Number of Rooms:	**40 to 60**	**90 to 110**	**130 to 160**	**80 to 110**	**90 to 110**	**93**
Occupied Rooms:	**14,605**	**26,533**	**38,027**	**23,715**	**27,129**	**25,119**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**74%**	**73%**	**72%**	**71%**	**74%**	**74%**
Average Rate:	**$142**	**$140**	**$141**	**$137**	**$131**	**$139**
RevPAR:	**$105**	**$102**	**$101**	**$98**	**$98**	**$103**
REVENUE						
Rooms	$38,386	$37,229	$36,848	$35,686	$35,650	$37,618
Other Operated Departments	498	286	403	17	1,090	694
Rentals & Other Income	18	0	768	189	0	538
Total	38,902	37,515	38,018	35,892	36,740	38,850
DEPARTMENTAL EXPENSES						
Rooms	7,295	9,770	7,973	7,820	8,590	9,028
Other Operated Departments	60	184	443	132	870	520
Total	7,354	9,954	8,417	7,953	9,460	9,549
DEPARTMENTAL INCOME	31,547	27,561	29,601	27,940	27,280	29,301
OPERATING EXPENSES						
Administrative & General	3,688	2,701	2,589	3,723	2,650	3,057
Marketing	534	1,061	2,288	641	1,840	1,593
Franchise Fee	3,783	3,357	2,969	2,822	2,830	3,386
Property Operations & Maintenance	1,289	1,069	1,023	531	1,170	1,079
Utilities	2,296	1,687	1,074	1,285	1,260	1,362
Total	11,591	9,875	9,944	9,002	9,750	10,477
HOUSE PROFIT	19,956	17,686	19,657	18,938	17,530	18,825
Management Fee	1,167	1,315	1,141	1,077	1,100	1,166
INCOME BEFORE FIXED CHARGES	18,790	16,371	18,517	17,861	16,430	17,659
FIXED EXPENSES						
Property Taxes	1,224	1,116	2,127	205	700	1,379
Insurance	812	249	90	870	230	411
Reserve for Replacement	1,556	1,501	1,521	1,436	1,470	1,554
Total	3,592	2,865	3,737	2,511	2,400	3,345
NET INCOME	$15,198	$13,506	$14,780	$15,350	$14,030	$14,315

FIGURE 7-3 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Number of Rooms:	**40 to 60**	**90 to 110**	**130 to 160**	**80 to 110**	**90 to 110**	**93**
Occupied Rooms:	**14,605**	**26,533**	**38,027**	**23,715**	**27,129**	**25,119**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**74%**	**73%**	**72%**	**71%**	**74%**	**74%**
Average Rate:	**$142**	**$140**	**$141**	**$137**	**$131**	**$139**
RevPAR:	**$105**	**$102**	**$101**	**$98**	**$98**	**$103**
REVENUE						
Rooms	$141.93	$140.31	$140.50	$136.94	$131.41	$139.27
Other Operated Departments	1.84	1.08	1.53	0.07	4.02	2.57
Rentals & Other Income	0.07	0.00	2.93	0.72	0.00	1.99
Total	143.83	141.39	144.97	137.73	135.43	143.84
DEPARTMENTAL EXPENSES						
Rooms	26.97	36.82	30.40	30.01	31.66	33.43
Other Operated Departments	0.22	0.69	1.69	0.51	3.21	1.93
Total	27.19	37.52	32.09	30.52	34.87	35.35
DEPARTMENTAL INCOME	116.64	103.87	112.87	107.21	100.56	108.48
OPERATING EXPENSES						
Administrative & General	13.64	10.18	9.87	14.28	9.77	11.32
Marketing	1.97	4.00	8.73	2.46	6.78	5.90
Franchise Fee	13.99	12.65	11.32	10.83	10.43	12.54
Property Operations & Maintenance	4.76	4.03	3.90	2.04	4.31	3.99
Utilities	8.49	6.36	4.10	4.93	4.64	5.04
Total	42.86	37.22	37.92	34.54	35.94	38.79
HOUSE PROFIT	73.79	66.66	74.96	72.67	64.62	69.70
Management Fee	4.31	4.96	4.35	4.13	4.05	4.32
INCOME BEFORE FIXED CHARGES	69.47	61.70	70.61	68.54	60.56	65.38
FIXED EXPENSES						
Property Taxes	4.52	4.21	8.11	0.79	2.58	5.11
Insurance	3.00	0.94	0.34	3.34	0.85	1.52
Reserve for Replacement	5.75	5.66	5.80	5.51	5.42	5.75
Total	13.28	10.80	14.25	9.64	8.85	12.38
NET INCOME	$56.19	$50.90	$56.36	$58.90	$51.71	$53.00

The comparables' departmental income ranged from 73.5% to 81.1% of total revenue. The comparable properties achieved a house profit ranging from 47.2% to 52.7% of total revenue. 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 *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

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

FIGURE 7-4 INFLATION ESTIMATES

Name (Sample from Survey)	Firm	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier) June 2015	Dec 2015	June 2016	Dec 2016	June 2017
Lewis Alexander	Nomura Securities International	0.3	1.8	2.1	2.1	—
Paul Ashworth	Capital Economics	0.3	1.0	2.0	2.2	2.5
David Berson	Nationwide Insurance	0.1	1.1	2.0	2.3	2.1
Brian Bethune	Tufts University	0.0	1.0	1.5	2.2	2.2
Steven Blitz	ITG Investment Research	0.0	0.4	0.8	1.8	2.5
Beth Ann Bovino	Standard and Poor's	-0.2	0.7	2.1	2.4	2.3
Joseph Carson	AllianceBernstein	0.7	1.0	2.0	2.5	3.0
Mike Cosgrove	Econoclast	0.2	1.0	2.4	2.5	2.3
David Crowe	National Association of Home Builders	1.9	2.0	2.1	2.1	2.1
J. Dewey Daane	Vanderbilt University	0.0	1.5	2.0	2.0	2.0
Rajeev Dhawan	Georgia State University	-0.4	1.5	2.3	2.5	2.5
Douglas Duncan	Fannie Mae	-0.1	0.7	2.0	2.1	2.2
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	-0.2	1.0	2.3	2.2	—
Mike Fratantoni	Mortgage Bankers Association	0.6	1.8	2.3	2.5	2.9
Michael Gregory	BMO Capital	0.0	0.7	2.1	2.4	2.2
Doug Handler	IHS Global Insight	0.0	1.2	1.5	2.1	2.4
Maury Harris	UBS	0.0	0.8	2.0	2.8	—
Jan Hatzius	Goldman, Sachs & Co.	-0.2	0.8	2.1	2.1	2.3
Stuart Hoffman	PNC Financial Services Group	0.1	1.5	2.2	2.4	2.4
Derek Holt	Scotiabank	0.1	1.0	2.0	2.2	2.0
Jack Kleinhenz	National Retail Federation	0.0	1.5	2.0	2.2	2.3
Joseph LaVorgna	Deutsche Bank Securities, Inc.	-0.1	0.9	2.5	2.7	2.6
Edward Leamer/David Shulman	UCLA Anderson Forecast	0.1	1.2	3.0	3.2	3.2
Kevin Logan	HSBC Securities	0.0	0.9	1.5	2.1	—
John Lonski	Moody's Investors Service	-0.2	0.9	1.7	1.8	2.0
Jim Meil	ACT Research	0.0	1.2	1.8	2.1	2.2
Michael Moran	Daiwa Capital	0.0	0.8	1.9	2.0	2.2
Joel Naroff	Naroff Economic Advisors	0.0	1.4	3.0	2.9	2.6
Mark Nielson	MacroEcon Global Advisors	1.0	2.6	3.4	3.2	3.1
Lindsey Piegza	Stifel, Nicoulas and Company, Incorporated (formerly	-0.3	0.0	0.3	—	—
Tom Porcelli	RBC Capital	0.4	1.6	1.9	2.2	—
Russell Price	Ameriprise Financial	0.0	1.6	2.3	2.4	2.3
Arun Raha	Eaton Corp.	0.2	1.5	1.8	1.8	2.0
Vincent Reinhart	Morgan Stanley	0.1	1.5	1.8	2.0	—
Ian Shepherdson	Pantheon Macroeconomics	0.1	1.5	2.0	2.2	2.5
Allen Sinai	Decision Economics, Inc.	0.1	1.0	1.5	1.8	2.0
James F. Smith	Parsec Financial Management	1.6	1.8	1.7	1.4	1.6
Neal Soss	CSFB	0.0	0.8	1.7	1.9	—
Stephen Stanley	Pierpont Securities	0.3	2.2	3.0	3.2	3.3
Kevin Swift	American Chemisty Council	0.0	0.8	2.3	2.5	2.8
Diane Swonk	Mesirow Financial	0.0	0.6	1.9	2.1	2.1
US Economics Team	BNP Paribas	0.2	1.8	2.3	2.8	2.7
Bart van Ark	The Conference Board	-0.1	0.8	2.2	2.0	—
William T. Wilson	The Heritage Foundation	0.0	0.5	1.2	1.7	1.7
Lawrence Yun	National Association of Realtors	0.2	2.8	3.1	3.2	3.0
	Averages:	0.2 %	1.1 %	1.9 %	2.1 %	2.2 %

Source: wsj.com, July 1, 2015

As the preceding table indicates, the financial analysts who were surveyed in June 2015 anticipated inflation rates ranging from -0.1% to 2.8% (on an annualized basis) for December 2015; the average of these data points was 1.1%. The same group expects annualized inflation rates of 1.9% and 2.1% for June 2016 and December 2016, respectively, slightly lower than the inflation rate forecasts for June 2017, which average 2.2%.

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 7-5 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 underlying inflation rates of 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2013. 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 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 that begin on June 1, 2017, expressed in inflated dollars for each year.

FIGURE 7-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2017/18	Begins June			2018/19				Stabilized				2020/21			
Number of Rooms:	93				93				93				93			
Occupancy:	69%				72%				74%				74%			
Average Rate:	$151.34				$156.75				$161.46				$166.30			
RevPAR:	$104.43				$112.86				$119.48				$123.06			
Days Open:	365				365				365				365			
Occupied Rooms:	23,422	%Gross	PAR	POR	24,440	%Gross	PAR	POR	25,119	%Gross	PAR	POR	25,119	%Gross	PAR	POR
OPERATING REVENUE																
Rooms	$3,545	96.7 %	$38,118	$151.35	$3,831	96.8 %	$41,194	$156.75	$4,056	96.8 %	$43,613	$161.47	$4,177	96.8 %	$44,914	$166.29
Other Operated Departments	69	1.9	743	2.95	72	1.8	775	2.95	75	1.8	804	2.98	77	1.8	829	3.07
Miscellaneous Income	54	1.5	576	2.29	56	1.4	601	2.29	58	1.4	624	2.31	60	1.4	643	2.38
Total Operating Revenues	3,668	100.0	39,438	156.59	3,959	100.0	42,569	161.98	4,189	100.0	45,042	166.76	4,314	100.0	46,385	171.73
DEPARTMENTAL EXPENSES *																
Rooms	893	25.2	9,599	38.11	935	24.4	10,052	38.25	973	24.0	10,466	38.75	1,003	24.0	10,780	39.91
Other Operated Departments	53	76.1	565	2.24	54	75.4	584	2.22	56	75.0	603	2.23	58	75.0	621	2.30
Total	945	25.8	10,164	40.36	989	25.0	10,636	40.47	1,029	24.6	11,070	40.98	1,060	24.6	11,402	42.21
DEPARTMENTAL INCOME	2,722	74.2	29,274	116.23	2,970	75.0	31,933	121.51	3,159	75.4	33,972	125.78	3,253	75.4	34,984	129.52
UNDISTRIBUTED OPERATING EXPENSES																
Administrative & General	305	8.3	3,281	13.03	318	8.0	3,418	13.01	330	7.9	3,544	13.12	339	7.9	3,650	13.51
Marketing	159	4.3	1,710	6.79	166	4.2	1,781	6.78	172	4.1	1,847	6.84	177	4.1	1,902	7.04
Franchise Fee	319	8.7	3,431	13.62	345	8.7	3,707	14.11	365	8.7	3,925	14.53	376	8.7	4,042	14.97
Prop. Operations & Maint.	106	2.9	1,135	4.51	109	2.7	1,170	4.45	116	2.8	1,251	4.63	120	2.8	1,288	4.77
Utilities	136	3.7	1,461	5.80	142	3.6	1,522	5.79	147	3.5	1,579	5.84	151	3.5	1,626	6.02
Total	1,025	27.9	11,018	43.75	1,079	27.2	11,599	44.14	1,130	27.0	12,145	44.97	1,163	27.0	12,509	46.31
GROSS HOUSE PROFIT	1,698	46.3	18,256	72.49	1,891	47.8	20,334	77.38	2,030	48.4	21,827	80.81	2,090	48.4	22,475	83.21
Management Fee	110	3.0	1,183	4.70	119	3.0	1,277	4.86	126	3.0	1,351	5.00	129	3.0	1,392	5.15
INCOME BEFORE NON-OPER. INC. & EXP.	1,588	43.3	17,072	67.79	1,772	44.8	19,057	72.52	1,904	45.4	20,475	75.81	1,961	45.4	21,084	78.06
NON-OPERATING INCOME AND EXPENSE																
Property Taxes	145	4.0	1,562	6.20	147	3.7	1,579	6.01	148	3.5	1,596	5.91	153	3.5	1,643	6.08
Insurance	42	1.1	449	1.78	43	1.1	463	1.76	44	1.1	477	1.76	46	1.1	491	1.82
Reserve for Replacement	73	2.0	789	3.13	119	3.0	1,277	4.86	168	4.0	1,802	6.67	173	4.0	1,855	6.87
Total	260	7.1	2,800	11.12	309	7.8	3,319	12.63	360	8.6	3,874	14.34	371	8.6	3,990	14.77
EBITDA LESS RESERVE	$1,327	36.2 %	$14,272	$56.67	$1,464	37.0 %	$15,738	$59.89	$1,544	36.8 %	$16,602	$61.46	$1,590	36.8 %	$17,094	$63.29

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

FIGURE 7-7 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		2024/25		2025/26		2026/27	
Number of Rooms:	**93**		**93**		**93**		**93**		**93**		**93**		**93**		**93**		**93**		**93**	
Occupied Rooms:	**23,422**		**24,440**		**25,119**		**25,119**		**25,119**		**25,119**		**25,119**		**25,119**		**25,119**		**25,119**	
Occupancy:	**69%**		**72%**		**74%**		**74%**		**74%**		**74%**		**74%**		**74%**		**74%**		**74%**	
Average Rate:	**$151.34**	**% of**	**$156.75**	**% of**	**$161.46**	**% of**	**$166.30**	**% of**	**$171.29**	**% of**	**$176.43**	**% of**	**$181.72**	**% of**	**$187.17**	**% of**	**$192.79**	**% of**	**$198.57**	**% of**
RevPAR:	**$104.43**	**Gross**	**$112.86**	**Gross**	**$119.48**	**Gross**	**$123.06**	**Gross**	**$126.75**	**Gross**	**$130.56**	**Gross**	**$134.47**	**Gross**	**$138.51**	**Gross**	**$142.66**	**Gross**	**$146.94**	**Gross**
OPERATING REVENUE																				
Rooms	$3,545	96.7 %	$3,831	96.8 %	$4,056	96.8 %	$4,177	96.8 %	$4,303	96.8 %	$4,432	96.8 %	$4,565	96.8 %	$4,702	96.8 %	$4,843	96.8 %	$4,988	96.8 %
Other Operated Departments	69	1.9	72	1.8	75	1.8	77	1.8	79	1.8	82	1.8	84	1.8	87	1.8	89	1.8	92	1.8
Miscellaneous Income	54	1.5	56	1.4	58	1.4	60	1.4	62	1.4	63	1.4	65	1.4	67	1.4	69	1.4	71	1.4
Total Operating Revenue	3,668	100.0	3,959	100.0	4,189	100.0	4,314	100.0	4,444	100.0	4,577	100.0	4,715	100.0	4,856	100.0	5,002	100.0	5,151	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	893	25.2	935	24.4	973	24.0	1,003	24.0	1,033	24.0	1,064	24.0	1,096	24.0	1,128	24.0	1,162	24.0	1,197	24.0
Other Operated Departments	53	76.1	54	75.4	56	75.0	58	75.0	60	75.0	61	75.0	63	75.0	65	75.0	67	75.0	69	75.0
Total	945	25.8	989	25.0	1,029	24.6	1,060	24.6	1,092	24.6	1,125	24.6	1,159	24.6	1,193	24.6	1,229	24.6	1,266	24.6
DEPARTMENTAL INCOME	2,722	74.2	2,970	75.0	3,159	75.4	3,253	75.4	3,352	75.4	3,452	75.4	3,556	75.4	3,663	75.4	3,772	75.4	3,885	75.4
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	305	8.3	318	8.0	330	7.9	339	7.9	350	7.9	360	7.9	371	7.9	382	7.9	394	7.9	405	7.9
Marketing	159	4.3	166	4.2	172	4.1	177	4.1	182	4.1	188	4.1	193	4.1	199	4.1	205	4.1	211	4.1
Franchise Fee	319	8.7	345	8.7	365	8.7	376	8.7	387	8.7	399	8.7	411	8.7	423	8.7	436	8.7	449	8.7
Prop. Operations & Maint.	106	2.9	109	2.7	116	2.8	120	2.8	123	2.8	127	2.8	131	2.8	135	2.8	139	2.8	143	2.8
Utilities	136	3.7	142	3.6	147	3.5	151	3.5	156	3.5	160	3.5	165	3.5	170	3.5	175	3.5	181	3.5
Total	1,025	27.9	1,079	27.2	1,130	27.0	1,163	27.0	1,198	27.0	1,234	27.0	1,271	27.0	1,309	27.0	1,349	27.0	1,389	27.0
GROSS HOUSE PROFIT	1,698	46.3	1,891	47.8	2,030	48.4	2,090	48.4	2,153	48.4	2,218	48.4	2,285	48.4	2,353	48.4	2,424	48.4	2,496	48.4
Management Fee	110	3.0	119	3.0	126	3.0	129	3.0	133	3.0	137	3.0	141	3.0	146	3.0	150	3.0	155	3.0
INCOME BEFORE NON-OPER. INC. & EXP.	1,588	43.3	1,772	44.8	1,904	45.4	1,961	45.4	2,020	45.4	2,081	45.4	2,143	45.4	2,207	45.4	2,274	45.4	2,342	45.4
NON-OPERATING INCOME AND EXPENSE																				
Property Taxes	145	4.0	147	3.7	148	3.5	153	3.5	157	3.5	162	3.5	167	3.5	172	3.5	177	3.5	183	3.5
Insurance	42	1.1	43	1.1	44	1.1	46	1.1	47	1.1	48	1.1	50	1.1	51	1.1	53	1.1	55	1.1
Reserve for Replacement	73	2.0	119	3.0	168	4.0	173	4.0	178	4.0	183	4.0	189	4.0	194	4.0	200	4.0	206	4.0
Total	260	7.1	309	7.8	360	8.6	371	8.6	382	8.6	394	8.6	405	8.6	418	8.6	430	8.6	443	8.6
EBITDA LESS RESERVE	$1,327	36.2 %	$1,464	37.0 %	$1,544	36.8 %	$1,590	36.8 %	$1,638	36.8 %	$1,687	36.8 %	$1,738	36.8 %	$1,790	36.8 %	$1,844	36.8 %	$1,899	36.8 %

*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 proposed subject hotel's operating budget and comparable income and expense statements. The forecast is based upon fiscal years beginning June 1, 2017, expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. The proposed subject hotel is expected to stabilize at an occupancy level of 74% with an average rate of $161.46 in 2019/20. 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. The proposed subject hotel's other operated departments revenue sources are expected to include the hotel's market pantry, vending areas, and guest laundry facility. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel.

The comparable operating statements illustrate other operated departments revenue ranging from to of rooms revenue and $ to $ per occupied room. We forecast the proposed subject hotel's other operated departments revenue to stabilize at 1.8% of rooms revenue or $2.98 per occupied room by the stabilized year, 2019/20.

Miscellaneous Income

The miscellaneous income sources comprise those other than guestrooms, food and beverage, and the other operated departments. The proposed subject hotel's miscellaneous income revenues are expected to be generated by the rentals of the property's meeting space. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel. Miscellaneous revenue for the comparables ranged 0.0% to 2.1% of rooms revenue or $0.07 to $2.93 on a per-occupied-room basis. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. We forecast the proposed subject hotel's miscellaneous income to stabilize at $2.31 per occupied room by the stabilized year, 2019/20.

Rooms Expense

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

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

The comparables illustrated rooms expense ranging between 19.0% and 26.2% of rooms revenue; on a per-occupied-room basis, the range was between $26.97 and $36.82. We have projected rooms expense for the proposed subject hotel at 25.2% in the first year (or $38.11 per occupied room), stabilizing at 24.0% in 2019/20 (or $38.75 per occupied room). The proposed subject hotel's rooms department expense has been positioned based upon our review of the comparable operating data and our understanding of the hotel's future service level and price point.

Other Operated Departments Expense

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories. This was previously discussed in this chapter. We have projected a stabilized expense ratio of 75.0% in 2019/20. The proposed subject hotel's other operated departments revenue sources are expected to include the hotel's market pantry, vending areas, and guest laundry facility. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel.

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.

As a percentage of total revenue, the comparable operations indicate an administrative and general expense range from 6.8% to 10.4%, or $2,589 to $3,723 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the administrative and general expense level at a market- and property-supported level. In the first projection year, we have projected administrative and general expense for the proposed subject hotel to be $3,281 per available room, or 8.3% of total revenue. By the 2019/20 stabilized year, these amounts change to $3,544 per available room and 7.9% of total revenue.

Marketing Expense

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

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

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

As a percentage of total revenue, the comparable operations indicate a marketing expense range from 1.4% to 6.0%, or $534 to $2,288 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the marketing expense level at a market- and property-supported level. In the first projection year, we have projected marketing expense for the proposed subject hotel to be $1,710 per available room, or 4.3% of total revenue. By the 2019/20 stabilized year, these amounts change to $1,847 per available room and 4.1% of total revenue.

Franchise Fee

As previously discussed, the subject is expected to be a branded, upper midscale, limited- or select-service hotel. For the purposes of this analysis and report, we utilized franchise fees consistent with the Holiday Inn Express Hotel & Suites brand affiliation.

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.

As a percentage of total revenue, the comparable operations indicate a property operations and maintenance expense range from 1.5% to 3.3%, or $531 to $1,289 per available room. We expect the proposed subject hotel's maintenance operation to be well managed. Expense levels should stabilize at a typical level for a property of this type. Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, we have projected property operations and maintenance expense for the proposed subject hotel to be $1,135 per available room, or 2.9% of total revenue. By the 2019/20 stabilized year, these amounts change to $1,251 per available room and 2.8% of total revenue.

Utilities Expense

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

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

As a percentage of total revenue, the comparable operations indicate a utilities expense range from 2.8% to 5.9%, or $1,074 to $2,296 per available room. The changes in this utilities line item through the projection period are a result of the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, we have projected utilities expense for the proposed subject hotel to be $1,461 per available room, or 3.7% of total revenue. By the 2019/20 stabilized year, these amounts change to $1,579 per available room and 3.5% of total revenue.

Management Fee

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand-name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are 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 proposed subject hotel have been forecast at 3.0% of total revenue.

Property Taxes

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

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

FIGURE 7-8 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Number of Rooms	2015 Taxable Values Land	Improvements	Personal	Total
Hampton Inn & Suites Seattle Federal Way	142	$1,839,800	$9,545,500	Not avail.	$11,385,300
Courtyard by Marriott Seattle Federal Way	160	2,038,700	14,125,700	Not avail.	16,164,400
Clarion Hotel Federal Way	115	1,664,200	5,100,100	Not avail.	6,764,300
Comfort Inn Federal Way	117	2,302,900	4,517,900	Not avail.	6,820,800
Best Western Evergreen Inn & Suites	165	2,231,700	7,564,600	Not avail.	9,796,300
Quality Inn & Suites Federal Way	65	899,500	3,165,400	Not avail.	4,064,900
Extended StayAmerica Federal Way	101	1,410,400	3,968,100	Not avail.	5,378,500
Red Lion Inn & Suites Federal Way	90	1,521,800	2,982,000	Not avail.	4,503,800
Econo Lodge Federal Way	45	240,000	1,978,700	Not avail.	2,218,700
Days Inn Federal Way	54	436,300	2,606,500	Not avail.	3,042,800
Assessments per Room					
Hampton Inn & Suites Seattle Federal Way		$12,956	$67,222	Not avail.	$80,178
Courtyard by Marriott Seattle Federal Way		12,742	88,286	Not avail.	101,028
Clarion Hotel Federal Way		14,471	44,349	Not avail.	58,820
Comfort Inn Federal Way		19,683	38,615	Not avail.	58,297
Best Western Evergreen Inn & Suites		13,525	45,846	Not avail.	59,372
Quality Inn & Suites Federal Way		13,838	48,698	Not avail.	62,537
Extended StayAmerica Federal Way		13,964	39,288	Not avail.	53,252
Red Lion Inn & Suites Federal Way		16,909	33,133	Not avail.	50,042
Econo Lodge Federal Way		5,333	43,971	Not avail.	49,304
Days Inn Federal Way		8,080	48,269	Not avail.	56,348
Positioned Subject - Per Room	**93**	**$17,900**	**$75,000**	**$15,000**	**$107,900**
Positioned Subject - Total		**$1,664,700**	**$6,975,000**	**$1,395,000**	**$10,034,700**

Source: King County Department of Assessments

FIGURE 7-9 LAND DATA - COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Parcel Number(s)	Site Acreage	2015 Taxable Land Value	Assessment Per SF
Hampton Inn & Suites Seattle Federal Way	092104-9185	2.35	$1,839,800	$18.00
Courtyard by Marriott Seattle Federal Way	092104-9320 & 092104-9328	2.60	2,038,700	18.00
Clarion Hotel Federal Way	092104-9291	2.12	1,664,200	18.00
Comfort Inn Federal Way	092104-9146	2.94	2,302,900	18.00
Best Western Evergreen Inn & Suites	797820-0540	2.85	2,231,700	18.00
Quality Inn & Suites Federal Way	202104-9055	2.06	899,500	10.00
Extended StayAmerica Federal Way	082104-9121	1.85	1,410,400	17.50
Red Lion Inn & Suites Federal Way	212104-9078	2.91	1,521,800	12.00
Econo Lodge Federal Way	172104-9078	0.69	240,000	8.00
Days Inn Federal Way	202104-9045	0.83	436,300	12.00
Positioned Subject	To Be Subdivided	2.12	$1,664,700	$18.03

We have positioned the future assessment levels of the subject site and proposed improvements based upon the illustrated comparable data. We also reviewed land assessments on a per-square-foot basis for existing hotels in Federal Way to assist in our estimate for the 2.15-acre subdivided parcel. Personal property assessments were estimated based on typical furniture, fixture, and equipment budgets for select- and limited-service hotels. We have positioned these assessments closest to the Hampton Inn & Suites and Courtyard by Marriott because of the similarities, including product type; overall, the positioned assessments are well supported by the market data.

Tax rates are based on the city and county budgets, which change annually. The most recent tax rate in this jurisdiction was reported at 14.19601 per $1,000 of taxable value. The following table shows changes in the tax rate during the last several years.

FIGURE 7-10 COUNTY TAX RATES

Tax Year	Personal Property Tax Rate	Real Property Tax Rate
2013	16.13871	16.13871
2014	15.74707	15.74707
2015	14.19601	14.19601

Source: King County Department of Assessments

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

FIGURE 7-11 PROJECTED PROPERTY TAX EXPENSE

	Assessed Value				Pers. Prop.	Property	Tax
Year	Land	Improvements	Personal	Total	Tax Rate	Tax Rate	Forecast
Positioned	$1,664,700	$6,975,000	$1,395,000	$10,034,700	14.20	14.20	$142,453
2017/18	$1,664,700	$6,975,000	$1,395,000	$10,034,700	14.48	14.48	$145,302
2018/19	1,664,700	6,975,000	1,255,500	9,895,200	14.84	14.84	146,864
2019/20	1,664,700	6,975,000	1,067,175	9,706,875	15.29	15.29	148,391

Insurance Expense

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

Based on comparable data and the structural attributes of the proposed project, we project the proposed subject hotel's insurance expense at $477 per available room by the stabilized year (positioned at $400 on a per-available-room basis in base-year dollars). This forecast equates to 1.1% of total revenue on a stabilized basis. In subsequent years, this amount is assumed to increase in tandem with inflation.

Reserve for Replacement

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

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

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent findings of the study were published in a report in 2007.[6] Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year 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 4% of total revenues is sufficient to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment. This amount is ramped up during the initial projection period.

Conclusion

In conclusion, our analysis reflects a profitable operation, with net income expected to total 36.8% 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 24.6% of revenue by the stabilized year, while undistributed operating expenses total 27.0% of total revenues; this assumes that the property will be operated competently by a well-known hotel operator. After a 3.0% of total revenues management fee, and 8.6% of total revenues in fixed expenses, a net income ratio of 36.8% is forecast by the stabilized year.

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

8. Statement of Assumptions and Limiting Conditions

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

13. We are not required to give testimony or attendance in court because of this analysis without previous arrangements, and shall do so only when our standard per-diem fees and travel costs have been paid prior to the appearance.

14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.

15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.

16. The quality of a lodging facility's onsite management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.

17. The financial analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease because of market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel investor as of the stated date of the report.

18. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.

19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity,

most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.

20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.

21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.

22. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide, LLC as employees, rather than as individuals.

9. Certification

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

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Matthew D. Melville personally inspected the property described in this report; Kasia M. Russell, MAI participated in the analysis and reviewed the findings, but did not personally inspect the property;
9. Matthew D. Melville provided significant assistance to Kasia M. Russell, MAI, and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report;
10. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;

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

Matthew D. Melville
Vice President

Kasia M. Russell, MAI
Managing Director, Senior Partner
TS Worldwide, LLC

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

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

BASE-YEAR OCCUPANCY AND PENETRATION LEVELS

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**

Matthew D. Melville

EMPLOYMENT

2005 to present	HVS CONSULTING AND VALUATION SERVICES Portland, Oregon
Summer 2004	ELBOW BEACH HOTEL & SPA Paget, Bermuda
2000 –2004	CORNELL UNIVERSITY SCHOOL OF HOTEL ADMINISTRATION Ithaca, New York
January 2004	ISLANDS MEDIA, SPA MAGAZINE Carpinteria, California, and New York, New York
Summer 2003	RANCHO LA PUERTA FITNESS SPA Tecate, Baja California, Mexico
Summer 2002	HYATT REGENCY TAMAYA RESORT AND SPA Santa Ana Pueblo, New Mexico

EDUCATION AND OTHER TRAINING

BS – School of Hotel Administration, Cornell University

Other Specialized Training Classes Completed:
Uniform Standards of Professional Appraisal Practice – 15 hours
Basic Appraisal Procedures – 30 hours
Basic Appraisal Principles – 30 hours
General Appraiser Income Approach – 60 hours
General Appraiser Market Analysis and HBU – 30 hours
General Appraiser Site Valuation and Cost Approach – 30 hours
General Appraiser Sales Comparison Approach – 30 hours
General Appraiser Report Writing and Case Studies – 30 hours
Commercial Appraisal Review – 15 hours
Expert Witness for Commercial Appraisers – 15 hours
Statistics, Modeling and Finance – 15 hours
Advanced Income – 35 hours
Advanced Highest and Best Use – 35 hours

STATE CERTIFICATION	California, Colorado, Oregon
PROFESSIONAL AFFILIATIONS	Cornell Hotel Society National Trust for Historic Preservation

PUBLISHED ARTICLES

Global Hospitality Report	"The Space Race Continues: the Evolution of Space Tourism from Novelty to Opportunity," co-authored with Shira Amrany, September 2009
Global Hospitality Report	"Incentives of Historic Proportion," July 2006
Global Hospitality Report	"Branding with History: Historic Hotels Find Ways to Build a Competitive Advantage," January 2006

EXAMPLES OF CORPORATE AND INSTITUTIONAL CLIENTS SERVED

Aareal Bank AG
America Resurgens Management Corporation
Anglo Irish Bank
Ashford Hospitality Trust
Bankers Bank
Barclays Capital
BBCN
Bear Sterns
Calyon Corporate & Investment Bank
Canyon Ranch Management
Cap Juluca Properties, Ltd.
Capmark Finance
Centier Bank
Central Hotel LLC
CitiGroup Property Investors
Clarion Partners
Countrywide Financial Corporation
Credit Suisse
Deutsche Bank
Foss Group Beacon LLC
Garrett Hotel Group
GE Commercial Finance – Real Estate
Goldentree Asset Management
Government of St. Martin
Greater Jamaica Development Corporation
Greenhill & Company
Greenwich Capital Financial Products, Inc.
Hard Rock Hotels & Resorts
Hospitality Investment Group
Howard University
Jackson National Life Insurance Company
JP Morgan Chase & Company
KBR Capital
La Jolla Bank
Lehman Brothers
LNR Property Corporation
Merrill Lynch
Metrovest Equities
Montville Property Holdings
Morgan Stanley
NATIXIS Real Estate Capital
New Mexico Bank & Trust
Nomura
Normandy Real Estate Partners
Northmarq Capital
Northview Hotel Group
Open Bank
PIA Investments
PPM Finance, Inc.
Prime Capital Advisors
RBS Greenwich Capital Markets
RLJ Development
Steve Shukla
Thor Equities
Trinity Hotel Investors
UBS
Union State Bank
University of North Carolina at Chapel Hill
US Hotel Group
Valley National Bank
ValStone Partners
Virtual Realty Enterprises
Wachovia Corporation
Wells Fargo & Company

EXAMPLES OF PROPERTIES APPRAISED OR EVALUATED

ALASKA

Americas Best Value Inn, Anchorage
Microtel Inn & Suites, Anchorage

ARIZONA

Miraval Life in Balance Resort, Catalina
Proposed Select-Service Hotel, Lake Havasu
Proposed Best Western, Topock
Canyon Ranch, Tucson
Hampton Inn & Suites Tucson Mall, Tucson
La Posada Lodge and Casitas, Tucson
TownePlace Suites by Marriott, Tucson
Westward Look Resort, Tucson

CALIFORNIA

Renaissance Esmeralda Resort and Spa, Indian Wells
Hilton Universal City, Los Angeles
SpringHill Suites by Marriott, Napa
Fairmont Hotel, Newport Beach
Hyatt Regency, Newport Beach
Hilton Garden Inn, Oxnard
Dynasty Suites, Redlands
Proposed Holiday Inn Express, San Jose
Hampton Inn & Suites, San Luis Obispo

COLORADO

Renaissance Boulder Suites, Broomfield
Inverness Hotel and Conference Center, Englewood
Residence Inn by Marriott, Louisville

CONNECTICUT

Dolce Norwalk Conference Center, Norwalk
Proposed Hotel Complex

DISTRICT OF COLUMBIA

Capital Hilton, Washington
Proposed Hotel, Washington
Westin City Center, Washington
Westin Embassy Row, Washington

FLORIDA

Hilton Garden Inn, Fort Myers
Suites at Old Town, Kissimmee
Canyon Ranch Living Operations, Miami Beach
Proposed Hotel, Miami Beach
La Playa Beach Resort, Naples
Best Western Movie Land, Orlando
Holiday Inn Sunspree Resort, Orlando

GEORGIA

W Atlanta Downtown, Atlanta
Proposed Hotel, College Park

ILLINOIS

Canyon Ranch Living Operations, Chicago
Palmer House Hilton, Chicago
Westin River North, Chicago
Proposed Upscale Hotel, Chicago

MASSACHUSETTS

Proposed Hilton Garden Inn, Boston
Proposed Residence Inn by Marriott, Boston
Canyon Ranch, Lenox

MICHIGAN

Hilton Garden Inn, Detroit
DoubleTree Hotel, Novi
Holiday Inn Express & Suites, Roseville
Holiday Inn Express & Suites, Woodhaven

MINNESOTA

Northland Inn, Brooklyn Park

NEW JERSEY

Proposed Hotel, Jersey City
North Maple Inn, Basking Ridge
Hilton, Fort Lee

NEW MEXICO

Plaza Inn, Albuquerque
Proposed Hotel, Albuquerque
Proposed Hotel Chaco, Albuquerque
TownePlace Suites Albuquerque North, Albuquerque
Holiday Inn, Clovis
Courtyard by Marriott, Santa Fe
Hilton Historic Plaza, Santa Fe
Inn of the Five Graces, Santa Fe

NEW YORK

Proposed Beacon Long Dock Conference Center, Beacon
Lake Placid Lodge, Lake Placid
Hilton Garden Inn, Nanuet
Roosevelt Hotel, New York
Doral Arrowwood Conference Center, Rye Brook
Baron's Cove Inn, Sag Harbor

The Point, Saranac Lake
Proposed Hilton Garden Inn, Stonybrook
Holiday Inn, Suffern
Marriott Westchester, Tarrytown

NORTH CAROLINA

The Carolina Inn, Chapel Hill
Sleep Inn & Suites, Concord
Graylyn International Conference Center, Winston-Salem

OREGON

Courtyard by Marriott, Beaverton
Proposed St. Johns Hotel, Portland

PENNSYLVANIA

Fairfield Inn by Marriott, Cranberry Township
Sheraton City Center, Philadelphia

RHODE ISLAND

Courtyard by Marriott Downtown, Providence

SOUTH CAROLINA

The Willcox, Aiken

TEXAS

Embassy Suites, Lubbock
Canyon Ranch Spa Club Operations, Queen Mary 2
Canyon Ranch Products

WASHINGTON

Proposed AC Hotel, Bellevue

WEST VIRGINIA

Hampton Inn, Martinsburg

WISCONSIN

Brookfield Suites Hotel and Convention Center, Brookfield
DoubleTree Hotel, Brookfield
DoubleTree Hotel, Novi

INTERNATIONAL

Caribbean
Cap Juluca, Maundays Bay, Anguilla

Kasia Russell, MAI

EMPLOYMENT

2006 to present	HVS CONSULTING AND VALUATION SERVICES Portland, Oregon
2005 – 2006	SKAGIT VALLEY CASINO RESORT Bow, Washington
2003 – 2004	HOTEL BELLWETHER Bellingham, Washington

EDUCATION AND OTHER TRAINING

BA – Western Washington University

Other Specialized Training Classes Completed:

Uniform Standards of Professional Appraisal Practice – 15 hours
Basic Appraisal Procedures – 30 hours
Basic Appraisal Principles – 30 hours
General Appraiser Income Approach – 60 hours
General Appraiser Market Analysis and HBU – 30 hours
General Appraiser Sales Comparison Approach – 30 hours
General Appraiser Site Valuation and Cost Approach – 30 hours
Business Practices and Ethics – 8 hours
Statistics, Modeling and Finance – 15 hours
General Appraiser Report Writing and Case Studies – 30 hours
Advanced Income – 35 hours
Report Writing and Valuation Analysis – 40 hours
Small Hotel Valuation – 7 hours
Fundamentals of Separating Real, Personal Property, and Intangible Business Assets – 15 hours
Advanced Market Analysis and Highest & Best Use – 35 hours

EDUCATION (CONTINUED)

Advanced Concepts & Case Studies – 40 hours
General Demonstration Appraisal Report Writing (Demo)
OR Supervisor/Trainee Class – 4 hours
Advanced Income – 35 hours
CA Laws and Regulations – 4 hours
Nevada Law – 4 hours
Mortgage Fraud – 7 hours
Oddball Appraisals – 7 hours
USPAP Updates – 2009, 2011, 2013, 2014

STATE CERTIFICATIONS

Alaska, Arizona, California, Colorado, Hawaii, Idaho, Nevada, Oregon, Utah, Washington

PUBLISHED ARTICLES

HVS Journal	"Market Intelligence Report 2013 Seattle," co-authored with Desiree Flanary, July 2013
HVS Journal	"Portland Market Intelligence Report 2013," co-authored with Desiree Flanary, July 2013
HVS Journal	"HVS Hotel Market Intelligence Report: Portland, Oregon," June 2010
HVS Journal	"The Recession's Effects on Seattle's Hotel Industry," August 2009
HVS Journal	"HVS Market Intelligence Report: Downtown Phoenix, Arizona," August 2008
HVS Journal	"HVS Market Intelligence Report: Minneapolis, Minnesota," November 2007

PROFESSIONAL AFFILIATIONS

Appraisal Institute – Designated Member (MAI)

EXAMPLES OF CORPORATE AND INSTITUTIONAL CLIENTS SERVED

AEW Capital
Alchemist Hotels Group, LLC
American Pacific International
AMI Development
Archon
Arnall Golden Gregory LLP
Aureus Hospitality Group
Avana Capital
Bank of America
Bank of East Asia
Bank of the Ozarks
Bank of the Rio Grande
Barclays Capital
Basis Investment Group
Bear Stearns
BLX
BMC Capital
Borrego Springs Bank
BTR Associates LLC
Business Lenders
Business Partners
California Republic Bank
Cantor Commercial Real Estate Lending LLC
Cathay Bank
Charter Holdings
CIBC
Citigroup
CL Hospitality
Clarion Partners
Colony Capital
Commerce Bank
Community South
Credit Suisse
Dancing Bear, LLC
Deutsche Bank
DFW Airport
Dougherty Funding
Eagle Bank
Farmers National Bank
Fennemore Craig
First Choice Bank
First Merchants Corporation
GC Hotel Group, LLC
GE Capital
GE Commercial Finance
GE Franchise Finance
Glacier Bank
Goldman Sachs
Greenberg Traurig
Grobel Properties
Grossman Properties
Hamister Group
HANMI Bank
Holiday Garden U.S.
Holland Partners
Hospitality Developments and Investments
IAG Underwriters
Iberia Bank
ING Real Estate Finance
Investcorp
Investel One LLC/Shanghai Construction Group
JL Woode, Ltd.
Johnson Brothers
JPMorgan Chase
Khalid Chaudhry
Kilpatrick Stockton
Ladder Capital
Latitude Financial
Lehman Brothers
Liberty SBF
LNR Partners
LoanCore Capital Partners
Los Alamos Bank
Love Funding
M&I Bank
MainSource Bank
Merrill Lynch
MetLife
MidCap Financial
Miller Global
Mission Oaks Bank
Montgomery Highlands
Moody National Companies
Mortenson Development
Natixis
Neptune Hospitality
NRB of Chicago
Orix
Pacific Northwest Consulting LLC
Pacific Pearl Hotels
Pactrust Bank
Penta Hospitality
Peoples Bank
Piper Jaffray
Prime Capital
Prime Finance
Quorum Hotels
Resort Management Group LLC
Sage Hospitality Resources
Security Bank of Kansas City
SHS Hotels
Silver Peak Finance
Silverton Bank
Simon Group
Societe Generale
Specialty Finance Group
Starwood Capital
State Bank of Texas
Stearns Bank NA
Stonehill Strategic Capital
Sunshine Development
Taipei Fubon Commercial Bank
Taiwan Business Bank
TD Banknorth
The Bank of Las Vegas
Thorofare Capital
Thyberg Enterprises
Torchlight
Trancas Capital
Travis Credit Union
UBS Securities, LLC
Unity Bank
US Bank
USA Hotel Group
Valley Capital Bank
Value Xpress
Virtual Realty Enterprises
Voyager Bank
Wachovia
Washington Trust Bank
Wayzata Properties
Western State Bank
Widewaters Group
Willow Capital Group
WPM Construction

HVS

EXAMPLES OF PROPERTIES APPRAISED OR EVALUATED

PORTFOLIO ANALYSIS

JPMorgan Portfolio of 6, Various Locations
JPMorgan Portfolio of 9, Various Locations
Natixis Portfolio of 14, Various Locations
Quarterly Clarion Portfolio of 47, Various Locations

ALABAMA

Homewood Suites, Huntsville
Comfort Inn, Prattville
Courtyard by Marriott, Prattville
Proposed Homewood Suites, Prattville

ALASKA

Proposed Home2 Suites, Anchorage

ARIZONA

Red Roof Inn, Chandler
Best Western, Cottonwood
Hilton Phoenix East, Mesa
Arizona Grand Resort, Phoenix
Country Inn & Suites, Phoenix
Crowne Plaza, Phoenix
Hilton Garden Inn Airport North, Phoenix
Hyatt Regency, Phoenix
Red Roof Inn, Phoenix
Sheraton Phoenix Downtown, Phoenix
Travelodge, Phoenix
Holiday Inn Express, Show Low
Proposed Hilton Garden Inn/Home2 Suites by Hilton, Tempe
Ramada, Tempe
Red Roof Inn Phoenix Airport, Tempe
Proposed Best Western, Topock
Holiday Inn Express, Tucson
Holiday Inn Express, Winslow

CALIFORNIA

Proposed Fairfield Inn & Suites, Alameda
Hotel Menage, Anaheim
Proposed Azusa Hotel, Azusa
Crowne Plaza, Burlingame
Residence Inn by Marriott, Corona
Residence Inn, Cupertino
Courtyard by Marriott, Fairfield
Courtyard Airport, Fresno
Radisson, Fresno
Residence Inn Anaheim/Garden Grove, Garden Grove
Proposed Hilton Garden Inn, Irvine
Proposed Select-Service Hotel, Lake Havasu
Homewood Suites, La Quinta
Proposed Hilton Garden Inn, Lompoc
Proposed Hotel, Los Angeles
The Standard Hotel, Los Angeles
Proposed Residence Inn by Marriott, Mammoth Lakes
Belamar Hotel, Manhattan Beach
Proposed Hotel, Napa
Sheraton, Ontario
Embassy Suites, Orange
Proposed Upscale Hotel, Palo Alto
Hilton at the Club Expansion, Pleasanton
Fairfield Inn by Marriott, San Bernardino
Best Western Americania, San Francisco
Carriage Inn, San Francisco
Good Hotel, San Francisco
Hotel Metropolis, San Francisco
Hotel Vertigo, San Francisco
Proposed Crowne Plaza, San Gabriel
Crowne Plaza, San Pedro
Travelodge, Santa Monica
Proposed Unscripted, South Lake Tahoe
Embassy Suites, Valencia
Proposed Fairfield Inn & Suites by Marriott, Woodland

COLORADO

Proposed Limited-Service Hotel, Breckenridge
Hyatt Summerfield Suites, Colorado Springs
Proposed Sheraton Downtown, Colorado Springs
Cameron Motel, Denver
Quality Inn (Brand Analysis), Denver
Regency Hotel (Brand Analysis), Greeley
Proposed Hotel, Telluride

CONNECTICUT

Fairfield Inn by Marriott, Milford
Fairfield Inn by Marriott, Wallingford
Fairfield Inn, Windsor Locks

FLORIDA

Multi-use Commercial Property, Deerfield Beach
Hampton Inn, Ft. Lauderdale
Hampton Inn, Jacksonville
Residence Inn, Jacksonville
Residence Inn, West Palm Beach

GEORGIA

Candlewood Suites, Athens
Embassy Suites, Kennesaw
Hotel Indigo, Vinings

IDAHO

Proposed SpringHill Suites, Coeur d'Alene
SpringHill Suites by Marriott, Coeur d'Alene
Proposed Fairfield Inn & Suites, Moscow
Hampton Inn & Suites, Mountain Home
Hampton Inn, Twin Falls
Holiday Inn Express, Twin Falls

Quality Inn, Twin Falls

ILLINOIS

Holiday Inn Merchandise Mart, Chicago
Hilton Oak Lawn, Chicago
Proposed Renaissance Blackstone, Chicago
Renaissance, Chicago
Danville Inn & Convention Center, Danville
Marriott Suites, Deerfield
Proposed Hampton Inn & Suites, Edwardsville
Comfort Inn, Elk Grove Village
Days Inn, Matteson
Holiday Inn, Moline
Holiday Inn Express, Moline
Candlewood Suites, O'Fallon
Inn Town Motel, Rockford
Days Inn, Sheffield
Holiday Inn Express, Shiloh
The Blue Star Inn, Urbana
Holiday Inn, Willowbrook

INDIANA

Red Carpet Inn, Anderson
Proposed Suburban Extended-Stay, Castleton
Proposed Suburban Extended-Stay, Clarksville
La Quinta Inn & Suites, Fort Wayne
Quality Inn, Fort Wayne
Sheraton Keystone Crossing, Indianapolis
Quality Inn & Suites, Lebanon
Ramada Inn, Logansport
Super 8, Logansport
Super 8, Markle
Days Inn, Merrillville
Holiday Inn, Merrillville
Proposed Holiday Inn, Merrillville
Knights Inn, South Bend
Proposed Suburban Extended-Stay, South Bend
Hilton Garden Inn, West Lafayette

IOWA

Days Inn, Davenport
Hampton Inn, Des Moines
Quality Inn, Newton
Econo Lodge, West Liberty

KANSAS

Econo Lodge, Wichita

KENTUCKY

Baymont Inn & Suites, Bowling Green
Rodeway Inn, Florence

LOUISIANA

Proposed Courtyard by Marriott, Houma

MARYLAND

Hampton Inn, Lexington

MICHIGAN

Comfort Suites, Benton Harbor
Best Western, Grand Haven
Econo Lodge, Lansing
The Regent Inn, Lansing
Econo Lodge, Petoskey

MINNESOTA

Hampton Inn, Eagan
Hampton Inn, Eden Prairie
Proposed aloft, Edina
Super 8, Granite Falls
Super 8, Marshall
DoubleTree Park Place, Minneapolis
Hotel IVY, Minneapolis
Proposed Westin, Minneapolis
Westin, Minneapolis
Hampton Inn, Minnetonka

MISSISSIPPI

Car Wash, Magee

MISSOURI

Hampton Inn, Bloomington
Proposed Indigo Hotel, Kansas City

MONTANA

Proposed Limited-Service Hotel, Culbertson
Proposed Best Western Plus, East Glacier Park

NEBRASKA

Days Inn, McCook

NEVADA

Siena Hotel, Reno

NEW JERSEY

Sheraton, Eatontown
Rest Inn, Williamstown

NEW MEXICO

Hampton Inn, Albuquerque
Hawthorn Suites, Albuquerque
Hotel Parq Central, Albuquerque
Wyndham, Albuquerque
Proposed Home2 Suites, Farmington
Hotel Encanto de Las Cruces, Las Cruces
Hotel St. Francis, Santa Fe

NEW YORK

Rodeway Inn, Ithaca
Fairfield Inn, Spring Valley
Proposed Hilton Garden Inn, Williamsville

OHIO

Comfort Inn, Austintown
Sheraton, Independence
The Elms Holiday Inn, Oxford

OREGON

DoubleTree, Beaverton
Proposed Limited-Service Hotel, Beaverton
Holiday Inn Express, Corvallis
Proposed OSU Campus Hotel, Corvallis
Courtyard Portland Hillsboro, Hillsboro
Proposed Full-Service Orenco Station, Hillsboro
Proposed Residence Inn by Marriott, Hillsboro
Residence Inn by Marriott Portland West Hillsboro, Hillsboro
TownePlace Suites Portland Hillsboro, Hillsboro
Hilton Garden Inn, Lake Oswego
Hampton Inn, Medford
Proposed Hilton Garden Inn, Medford
Courtyard by Marriott Portland Downtown/Convention Center, Portland
DoubleTree Lloyd Center, Portland
Proposed Hilton Garden Inn, Portland
Proposed Hyatt Place, Portland
Proposed St. Johns Hotel, Portland
Hilton Garden Inn, Springfield
DoubleTree, Tigard
Embassy Suites, Tigard

PENNSYLVANIA

Courtyard by Marriott, Altoona
Fairfield Inn by Marriott, Butler
SpringHill Suites by Marriott, Washington

TENNESSEE

Clarion Airport Graceland, Memphis
Residence Inn, Nashville

TEXAS

Holiday Inn Express, Cedar Hill
Proposed Hotel Developments, DFW Airport
DoubleTree by Hilton, El Paso
La Quinta, Granbury
Courtyard by Marriott Medical Center, Houston
La Quinta Inn & Suites, Katy

UTAH

Best Western Plus Midvale, Midvale
Proposed Microtel, Naples
TownePlace Suites, Orem
Proposed Upscale Hotel, Park City
Best Western, Richfield
Super 8, Richfield
Rodeway Inn, Salina
Peery Hotel, Salt Lake City

VIRGINIA

Hampton Inn Petersburg Southpark Mall, Colonial Heights
Holiday Inn Petersburg North Fort Lee, Colonial Heights
DoubleTree Airport, Richmond
Courtyard by Marriott, Vienna

WASHINGTON

Embassy Suites, Bellevue
Fairfield Inn, Bellevue
Proposed AC Hotel, Bellevue
Proposed Marriott, Bellevue
Residence Inn, Bellevue
Westin, Bellevue
Proposed Limited-Service Hotel, Blaine
Residence Inn, Bothell
SpringHill Suites, Bothell
Hampton Inn & Suites, DuPont
Proposed Limited-Service Hotel, DuPont
Proposed Hotel Silver Lake, Everett
Proposed Limited-Service Hotel, Kennewick
Value Inn, Kent
Embassy Suites, Lynnwood
Residence Inn, Lynnwood
Proposed Home2 Suites, Marysville
Proposed Lodge at Columbia Point, Richland
DoubleTree Airport, Seattle
DoubleTree Arctic Club Hotel, Seattle
Hilton Airport, Seattle
Hilton Downtown, Seattle
Hilton Seattle, Seattle
Homewood Suites, Seattle
Proposed Residence Inn, Seattle
Residence Inn, Seattle
Fairfield Inn, Spokane
Courtyard by Marriott Seattle South Center, Tukwila
Proposed Full-Service Hotel, Tukwila
Proposed Home2 Suites, Tukwila
Residence Inn, Tukwila
Proposed Hampton Inn, Vancouver
SpringHill Suites, Wenatchee

WISCONSIN

Courtyard by Marriott, Brown Deer
Residence Inn, Glendale
Clearwaters Convention Center Hotel, Marshfield
Holiday Inn Express, Milwaukee
Proposed Hotel, Verona

WYOMING

The Lodge at Jackson Hole (Best Western), Jackson
Rustic Inn, Jackson
Best Western The Lodge at Jackson Hole, Jackson Hole
The Rustic Inn, Jackson Hole
Paintbrush Motel, Riverton

INTERNATIONAL

Puerto Rico

El Conquistador, Las Croabas
El San Juan Hotel & Casino, San Juan
Hilton Condado Plaza Hotel & Casino,
San Juan

Interviewed Stakeholders & Market Participants
Compiled by Matthew D. Melville, Vice President, HVS Portland

Mr. Robert Ettinger, **Dumas Bay Centre Manager, Parks & Recreation Department, City of Federal Way**

Mr. Tim Johnson, **Economic Development Director, City of Federal Way**

Ms. Michelle Roy, **Crime Analyst and Prevention Program Coordinator, City of Federal Way**

Mr. Brian Wilson, **Chief of Staff, City of Federal Way**

Ms. Theresa Yvonne, **Executive Director, Performing Arts and Events Center, City of Federal Way**

Ms. Clarissa Baltazar, **General Manager, Clarion Hotel Federal Way Seattle**

Mr. Richard Song, **General Manager, Comfort Inn Federal Way Seattle**

Ms. Jenny Vasquez, **General Manager, Courtyard by Marriott Seattle Federal Way**

Mr. Ed K., Manager, **Days Inn Federal Way**

Ms. Ginny Heller, Manager, Manager Marketing & Communications, **Seattle Children's Hospital**

Mr. Ryan Miller, **General Manager, Hampton Inn & Suites Seattle Federal Way**

Mr. Jim Reinhardsen, **Principal & Senior Managing Director, Heartland LLC**

Ms. Kathy McCabe, **Executive Director, Pacific Bonsai Museum**

Ms. Nicole "Nikki" Upthagrove, **Front Desk Manager, Quality Inn & Suites Federal Way Seattle**

Mr. Mike Dunwiddie, **Regional Aquatic Center Coordinator, Weyerhaeuser King County Aquatic Center**

Ms. Kristi Brady, **General Sales Manager, Wild Waves Theme Park**

Mr. Todd Suchan, **General Manager, Wild Waves Theme Park**

Mr. Wei Zhang, **Principal, Winson Investment**

Ms. Jane Bankester, **Travel Director, World Vision**