# Report of Potential Market Demand and Estimated Operating Results for the Proposed Imperial Center Hotel to be Located in Heber, California

*Client Reference No. 487LA-0274 (52739)*

*Pacificland International Development Inc.*
*Imperial Regional Center*
*150 North Santa Anita Avenue*
*Suite 300*
*Arcadia, California 91006*

PKF CONSULTING USA
A CBRE COMPANY

CBRE HOTELS
The World's Leading Hotel Experts.

**Jeff Lugosi**
Managing Director

CBRE, Inc.
**Valuation & Advisory Services**
400 South Hope Street, 25th Floor
Los Angeles, CA 90071

+1 213 613 3375 Office

Jeff.Lugosi@pkfc.com
Jeff.Lugosi@cbre.com
www.cbrehotels.com | www.pkfc.com

October 20, 2015

Pacificland International Development Inc.
Imperial Regional Center
150 North Santa Anita Avenue
Suite 300
Arcadia, California 91006

Dear Mr. Lo:

Pursuant to your request, we have completed our review of your hotel development site located in Heber, California, and developed recommendations as to the build-out of your proposed hotel site.

We have evaluated the market and appropriateness in sizing and positioning of the proposed hotel development. In the course of our analysis, we developed projections of the potential market demand and estimated annual operating performance for the proposed hotel, to be located in Heber. As will be presented in this report, we have assumed an opening date of January 1, 2018 for the subject hotel.

The conclusions set forth in this report are based on an analysis of the supply and demand for hotel rooms as of October 2015, the completion of our fieldwork and primary market research.

As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant change in the competitive market from that set forth in this report. Since our results are based upon estimates and assumptions that are subject to uncertainty and variation, we do not represent them as results that will actually be achieved. It is expressly understood that the scope of our study and the report thereon do not include the possible impact of zoning or environmental regulations, licensing requirements, or other restrictions concerning the project except where such matters have been brought to our attention and are disclosed in the report.

This report was prepared for your use in analyzing the potential for hotel development within Heber, California. As is customary in assignments of this type, neither our name nor the material submitted may be included in any prospectus or as part of any printed material, or used in offerings or representations in connection with the sale of securities or participation interests to the public, without written prior consent.

The terms of our engagement are such that we have no obligation to revise this report to reflect events or conditions that occur subsequent to the date of the completion of our fieldwork. However, we are available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed subject. This report is subject to the General Statement of Assumptions and Limiting Conditions presented in the Addenda.

We appreciate your cooperation extended to us during the course of our engagement and would be pleased to hear from you if we could be of further assistance in the interpretation of our findings and recommendations.

Sincerely,

*PKF Consulting USA*
*A Subsidiary of CBRE, Inc.*

Jeff Lugosi

Jeff Lugosi
Managing Director

TABLE OF CONTENTS

Page Number

SECTION I

INTRODUCTION ..... I-1
OVERVIEW OF STUDY ..... I-1
SCOPE AND METHODOLOGY ..... I-1
ROOM COUNTS ..... I-1
ANALYSIS OF THE SITE LOCATION ..... I-1
AREA REVIEW ..... I-1
MARKET SHARE ESTIMATES ..... I-2
ESTIMATED ANNUAL OPERATING RESULTS ..... I-2
SUMMARY OF CONCLUSIONS ..... I-2

SECTION II

PROPERTY DESCRIPTION ..... II-1
DESCRIPTION OF THE SITE ..... II-1
Location and Site Environs ..... II-1
Access and Visibility ..... II-4
Relationship to Demand Generators ..... II-4
Imperial Center ..... II-4
SUMMARY ..... II-4

DESCRIPTION OF THE PROPOSED SUBJECT HOTEL ..... II-5
SCOPE OF FACILITIES ..... II-5
Guest Rooms ..... II-5
Food and Beverage ..... II-6
Meeting Space ..... II-7
Guest Services and Amenities ..... II-7
CONCLUSION ..... II-7

SECTION III

AREA REVIEW ..... III-2
INTRODUCTION ..... III-2
IMPERIAL COUNTY OVERVIEW ..... III-2
Employment ..... III-3
Renewable Energy ..... III-3
Geothermal ..... III-3
Solar ..... III-3
Wind ..... III-4
Military ..... III-4
Regional Infrastructure ..... III-4
Highways ..... III-4
Ports of Entry ..... III-4
Imperial County Airport ..... III-5
CONCLUSIONS ..... III-5

TABLE OF CONTENTS

Page Number


SECTION IV

**HOTEL MARKET ANALYSIS ..... IV-1**

INTRODUCTION ..... IV-1
THE COMPETITIVE HOTEL MARKET ..... IV-1
Additions to Supply ..... IV-11
HOTEL ROOMS DEMAND ..... IV-11
Historical Performance of the Competitive Supply ..... IV-11
Mix of Demand ..... IV-12
Transient Market Segment ..... IV-13
Group Market Segment ..... IV-13
Supply and Demand Growth ..... IV-13
ESTIMATED PERFORMANCE OF THE SUBJECT ..... IV-16
Penetration Analysis ..... IV-16
Subject Occupancy Projections ..... IV-16
AVERAGE DAILY RATE ..... IV-18
Average Daily Rate and Yield for the Subject ..... IV-18

SECTION V

**STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS ..... V-1**

BASIS OF PROJECTIONS ..... V-1
Comparable Hotels ..... V-1
STABILIZED YEAR ESTIMATE ..... V-4
Departmental Revenues and Expenses ..... V-4
Room Revenue and Expense ..... V-4
Food and Beverage Revenue and Expense ..... V-5
Other Operated Departments Revenue and Expense ..... V-6
Undistributed Operating Expenses ..... V-7
Administrative and General ..... V-7
Marketing ..... V-7
Property Operations and Maintenance ..... V-8
Utility Costs ..... V-8
Fixed Charges ..... V-9
Management Fees ..... V-9
Real Estate Taxes ..... V-9
Insurance ..... V-9
Reserves for Replacement ..... V-9
STABILIZED YEAR OPERATING RESULTS ..... V-10
Estimated Annual Operating Results ..... V-12
Inflation ..... V-12
Statement of Estimated Annual Operating Results ..... V-12

# Section I

# INTRODUCTION

# INTRODUCTION

## OVERVIEW OF STUDY

PKF Consulting USA has been retained by Pacificland International Development, Inc. to conduct an analysis of the potential market demand for a proposed hotel to be located in Heber, California. Our analysis includes projections of the potential market demand and estimates of the annual operating performance for the proposed hotel. This report represents the culmination of our market research, analysis, and assessments relative to the proposed project.

## SCOPE AND METHODOLOGY

To develop conclusions and recommendations concerning the competitive market in which the proposed hotel will be operating, we have conducted an analysis of the existing competitive lodging market within Imperial County. This evaluation was performed with regard to the overall market's suitability for the operation of additional hotel rooms given the current and anticipated market conditions.

## ROOM COUNTS

We evaluated the current site and competitive market, and concluded a high-quality select-service 150-room hotel is supported for the subject site. We have analyzed the market and commented on the appropriateness of the type and room count proposed for the hotel.

## ANALYSIS OF THE SITE LOCATION

We have evaluated the site in terms of its opportunities and constraints for development. In doing so, we have examined the site's access and visibility, ambience, present utilization, topography, neighboring uses, relationship to demand generators, and area amenities.

## AREA REVIEW

We have gathered and analyzed relevant economic data regarding the market area to determine whether the overall economic environment in the area appears to be suitable for hotel development. We have examined correlations between key economic factors and the demand for lodging and utilized forecasts of these indicators to evaluate future demand.

We have performed primary market research in the site area consisting of interviews with key demand generators, an inspection and evaluation of competition, and discussions with persons familiar with development patterns and the local hotel market including government representatives and managers of potentially competitive lodging facilities.

We have also analyzed historical economic growth in the area and the characteristics of each of the principal segments of demand for hotel room nights. From this, we have estimated growth in demand for each market segment and projected demand for each of the five years following the property's opening.

## MARKET SHARE ESTIMATES

We have estimated the competitive market's supply and demand for hotel room nights and have estimated the share of the market that the proposed hotel should reasonably be expected to capture for its first five years of operation.

Based upon an analysis of the sources of demand available to the subject property and the estimated competitive position, we have estimated the average daily rate that could potentially be achieved in a representative year, in current value dollars, and over the first five full years of operation.

## ESTIMATED ANNUAL OPERATING RESULTS

Based on our analysis of market demand and the estimated occupancy and average daily room rates for the proposed hotel, we have estimated revenues and expenses for the subject hotel for its first ten years of operation. These estimates result in a "bottom line" of income before fixed charges of interest, depreciation, amortization, and income taxes.

## SUMMARY OF CONCLUSIONS

Based on current market trends, we have analyzed a 150-room select service hotel for the subject site. The following presents a summary of projected occupancy, average daily room rate, revenues and net operating income for the subject hotel.

**Projected Market Performance of the Subject Hotel**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Occupancy Percentage | Average Daily Rate | Percent Change | REVPAR | Percent Change | Market Penetration | Revenue Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2018 | 54,750 | N/A | 28,700 | N/A | 52% | $131.00 | 3.0% | $ 68.67 | N/A | 92% | 112% |
| 2019 | 54,750 | 0.0% | 33,100 | 15.3% | 60 | 135.00 | 3.0 | 81.62 | 18.9% | 103 | 126 |
| 2020 | 54,750 | 0.0 | 37,300 | 12.7 | 68 | 139.00 | 3.0 | 94.70 | 16.0 | 114 | 137 |
| 2021 | 54,750 | 0.0 | 37,300 | 0.0 | 68 | 143.00 | 3.0 | 97.42 | 2.9 | 114 | 138 |
| 2022 | 54,750 | 0.0 | 37,300 | 0.0 | 68 | 148.00 | 3.0 | 100.83 | 3.5 | 114 | 138 |
| CAAG | 0.0% | | 6.8% | | | 3.1% | | 10.1% | | | |

Source: PKF Consulting USA

**Summary of Estimated Annual Operating Results**

| Year | Total Revenue | Net Operating Income | Ratio to Total Revenues |
|---|---|---|---|
| 2018 | $4,259,000 | $ 832,000 | 20% |
| 2019 | 5,064,000 | 1,336,000 | 26 |
| 2020 | 5,908,000 | 1,864,000 | 32 |
| 2021 | 6,080,000 | 1,917,000 | 32 |
| 2022 | 6,289,000 | 2,002,000 | 32 |
| 2023 | 6,460,000 | 2,048,000 | 32 |
| 2024 | 6,671,000 | 2,128,000 | 32 |
| 2025 | 6,845,000 | 2,168,000 | 32 |
| 2026 | 7,056,000 | 2,242,000 | 32 |
| 2027 | 7,268,000 | 2,311,000 | 32 |

# Section II

# PROPERTY DESCRIPTION

# PROPERTY DESCRIPTION

## DESCRIPTION OF THE SITE

### Location and Site Environs

The hotel development site is located at Heber Road and California 111 in Heber, California. The site is proposed to occupy the southwest corner of the proposed Imperial Center development. The site is currently improved with vacant land.

The immediate bordering uses of the site and of the area surrounding the proposed hotel are listed below:

- **North**: The site is bordered to the immediate north by surface parking for the overall development, followed by a collection of restaurants and additional parking. Directly northeast of the subject site is the location for the proposed 280,000 square foot wholesale exhibition center. Further north is Interstate 8, a major thoroughfare that connects San Diego to the southern portion of Arizona. El Centro is located approximately five miles northwest of the subject site.

- **South**: The subject site is bordered to the south by Heber Road followed by a truck depot and agriculture land. Further south is the city of Calexico followed by the Mexican border.

- **East**: The subject site is bordered to the east by the exhibition center, ampm gas station, and Club Lohoo Steakhouse and club. Further east is State Route 7 which provides secondary access to Mexico.

- **West**: To the immediate west of the subject site is State Route 111, the main north/south state highway through the Coachella Valley, followed by the main Heber area.

The following maps depict the location of the subject site relative to Imperial County.


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# Area Map


# Aerial View

## Access and Visibility

While the subject is expected to be located along State Route 111, the entrance for the proposed hotel is expected to be from Yourman Road. The proposed subject site is accessible via State Route 111, which runs north and south throughout the Coachella Valley, connecting the area to the Mexican border. Travelers can access the site by following Heber Road from State Route 111 then turning left onto Yourman Road. The proposed subject site is located approximately 14 miles south of Imperial County Airport, which provides service to Burbank and San Diego.

The proposed subject is expected to be a multi-story building in an area with mostly single-story structures; therefore, it will have excellent visibility from various areas around the hotel, including visibility from State Route 111 and Heber Road. Proper signage will help mitigate any visibility issues within the surrounding area.

## Relationship to Demand Generators

The subject site is proximate to all Imperial County destinations, such as commercial developments and the Mexican Border. The proposed hotel is expected to generate significant demand from its location proximate to the proposed Imperial Center and along State Route 111. The site is also proximate to the major metropolitan areas San Diego, Los Angeles, Phoenix, Mexicali, and Baja California. The subject is also proximate to Imperial County Airport.

### Imperial Center

Imperial Center is expected to be designed to serve as a location for trade shows, where wholesale merchandise is displayed for buyers. In addition to the wholesale market, the center is expected to offer support services such as retail, restaurants, and entertainment. Existing amenities at Imperial Center include four casual restaurants, Marino's Italian Bistro, Joy Seafood Grill, Twin Dragon Chinese Restaurant, and Gobi's Mongolian BBQ, one steakhouse and nightclub, a small exhibition center, and a gas station. Construction on the 280,000 square foot wholesale exhibition center and 900,000 square feet of parking space is currently underway. The proposed subject hotel will be built within Imperial Center and benefit from the nearby amenities and the possibility for induced room nights from the wholesale market.

## SUMMARY

The proposed subject will benefit from being located along State Route 111 and within the overall Imperial Center development. The subject hotel will be well situated to capture demand from the various areas within Imperial County. In summary, we are of the opinion that the proposed subject is well positioned to serve the lodging needs of the local hotel market.

# DESCRIPTION OF THE PROPOSED SUBJECT HOTEL

We have reviewed the available development options for the subject site and analyzed the overall Imperial County lodging market. Our comments concerning facility programming for the subject are based on our analysis of the competitive hotels and the intended positioning of the subject within the competitive market. Based on our analysis of the site and competitive lodging properties, as well as our interviews with hotel representatives, and planning officials, we have developed recommendations as to the facilities program of the hotel. The following provides a general scope of facilities that should be considered for the subject property.

## SCOPE OF FACILITIES

The subject will be competing on the local level with eight hotels located in Imperial County. These hotels include select-service and extended-stay properties, and are all considered average to good quality. To appropriately position the subject within the competitive market, the hotel's overall quality level should be at or above the competitive properties. Based on the existing facilities within the market and the subject's location within Heber, it is our opinion that the proposed development should be positioned as a high quality branded select-service hotel.

A select-service hotel is characterized by reduced amenities with an emphasis on the guestrooms. Examples of select-service brands would be Aloft by Starwood, Cambria by Choice, Courtyard by Marriott, Four Points by Starwood, Hilton Garden Inn by Hilton, Hyatt Place by Hyatt, and Indigo by Intercontinental Hotels Group.

In accordance with our market research, we found support for a range between 100 and 150 guestrooms and recommend the following additional amenities: two-meal restaurant, pool and fitness center, cocktail lounge area, minimal meeting facilities, and pantry/sundry shop.

Based on the market in which the property will operate, it is recommended that the hotel align itself with a brand that will offer competitive assets such as a reservation system and international sales in order to compete in the greater Imperial County market. All of the hotels in the competitive set are brand name hotels. The brand should reflect a widely recognized chain flag to better serve the diverse market.

### Guest Rooms

The proposed hotel should consist of approximately 100 to 150 guestrooms. For the purpose of this analysis, we have assumed 150 guestrooms. We recommend a mix of suites and standard guestrooms with king and double queen beds. Given its positioning, we recommend a mix of 65 percent king rooms, 25 percent double queen rooms, and 10 percent suites.

| Mix of Guestrooms | | |
|---|---|---|
| Room Type | Rooms | Ratio |
| King | 97 | 65% |
| Double Queen | 38 | 25 |
| Suite | 15 | 10 |
| Total | 150 | 100% |

It should be noted that initial site plans call for a 286-room full service hotel; however, after our research in the competitive market, we did not find this hotel product supportable on the subject site at this time. As such, we have conducted our analysis of the subject site as a proposed 150-room select service hotel with the possibility to expand the property in the future.

Individual guest units should offer either king-size beds or two queen beds in approximately 350 square feet of guestroom space. We recommend that the guest rooms contain the following:

- 32″ or larger HDTV with on-command movie options and laptop/phone input
- iHome/media center with alarm clock
- Ample sized working desk and chair
- Telephone with two lines and voicemail
- Complimentary wireless internet access
- Coffee/tea maker with complimentary tea and coffee
- Hairdryer
- In-room safe large enough for a standard laptop
- Iron and ironing board
- Complimentary toiletries
- Other amenities consistent with a high quality select-service hotel

The suites should be larger in size, approximately 480 to 600 square feet, and offer separate sitting areas. With the recommended guest room mix the property should be able to accommodate a diverse mix of demand from the transient and group market segments.

## Food and Beverage

The proposed hotel should provide one two-meal restaurant, as well as a lounge area and catering services. Given the subject's location and characteristics of the market, the restaurant should provide a high-quality, yet casual atmosphere and be positioned as a destination that meets the needs of guests as well as local residents, and complement the hotel's facilities. The lounge area should provide comfortable seating, offer a limited food menu, and have the ability to accommodate special events. Back of the house production areas would service all food and beverage outlets, including meeting rooms. These food and beverage facilities will allow the subject to capture additional revenue as well as provide additional amenities to its guests.

### Meeting Space

Given the size of the site and the recommended room count, the primary demand generators in the market, and positioning as a high-quality, select-service property, the proposed hotel should offer 500 to 1,000 square feet of meeting space, or one or two small meeting rooms. This is in-line with the standard meeting space offering at select-service hotels. All available meeting space should be equipped with wireless internet access, independently controlled lighting, and a good quality sound system.

### Guest Services and Amenities

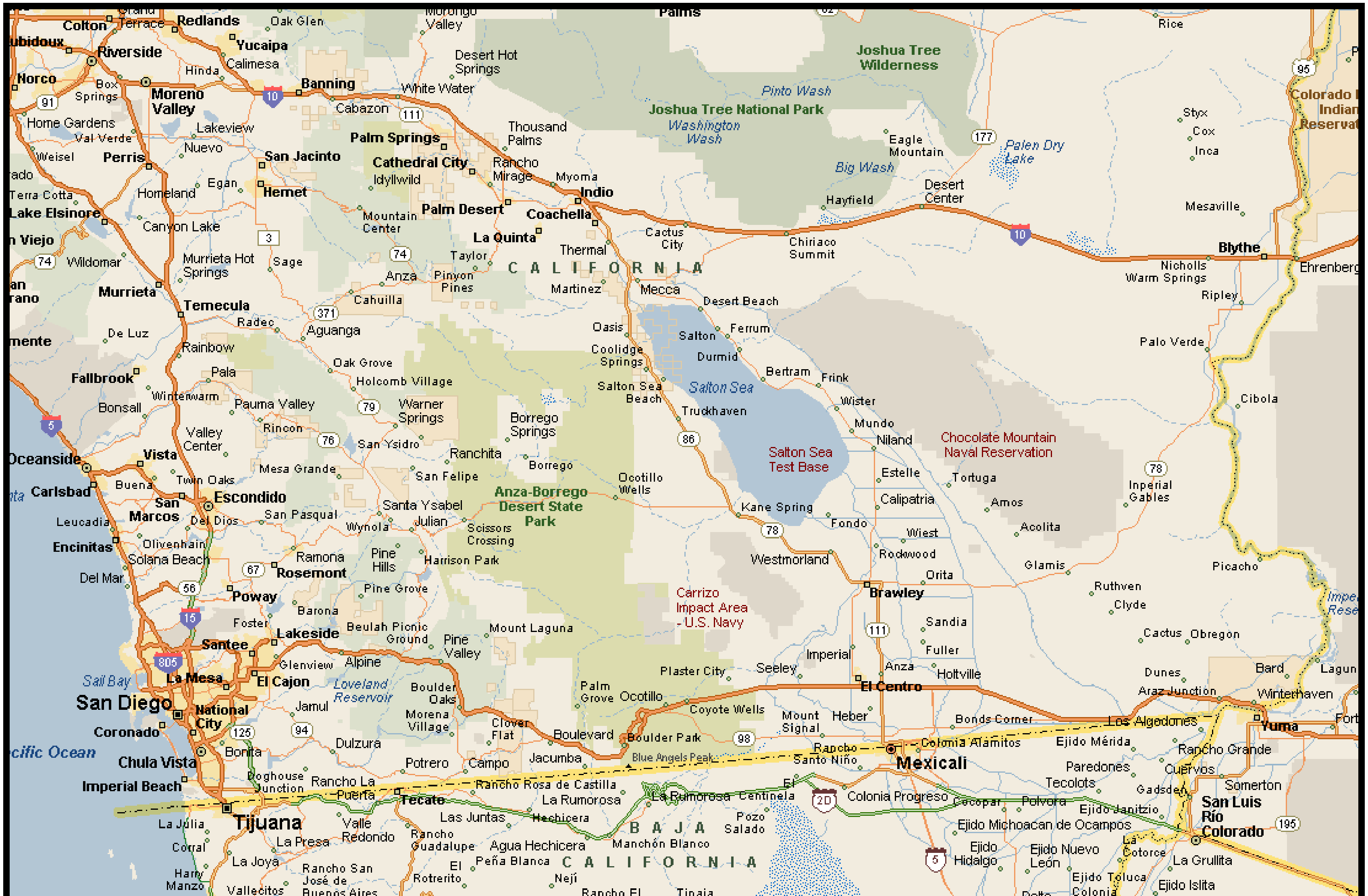
Guest services and amenities should also include a pantry/sundry shop, fitness facility, complimentary high speed wireless internet access in public areas, and business services. The fitness facility in the hotel should be 800 to 1,000 square feet and provide a treadmill, elliptical, bike, and limited weights.

## CONCLUSION

With its Heber location and the recreational and commercial activities in and around Imperial County, the property will be well positioned and well equipped to service the needs of its transient and group guests. In addition, the site's location adjacent to the Imperial Center development along California Route 111 will also help the proposed hotel attract additional commercial related demand.

# Section III

# AREA REVIEW

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# Regional Map

# AREA REVIEW

## INTRODUCTION

The economic climate of the market area encompassing the subject property is an important consideration in forecasting hotel demand and income potential. Historic economic and demographic trends that highlight the amount of visitation or other economic trends provide a basis for hotel demand projections. The purpose of this section is to review available economic and demographic data to determine whether the subject's regional and local market areas might experience future economic growth.

## IMPERIAL COUNTY OVERVIEW

Imperial County covers 2.94 million acres of rural desert and farmland in the southeast corner of California. Imperial County is surrounded by Riverside County to the north, San Diego County to the west, Arizona to the east, and Mexico to the south. Imperial County is the ninth largest county in California, covering an area of 4,597 square miles. The County has an arid climate with hot, dry summers and mild winters with an average annual temperature of 72 degrees.

Three-quarters of the county topography is desert land, made of sand and rugged mountains, with an average annual rainfall of less than three inches. Nevertheless, Imperial County is one of California's major agricultural producers. Farming area in the Imperial County encompasses 830-square miles that extend from the U.S.-Mexico border north to the Salton Sea. This immense farmland is served by an extensive irrigation system, which is supplied by the Colorado River through the All-American Canal.

The following table illustrates the historical population growth for Imperial County from 2000 to 2014.

**Population Growth**
**Imperial County**

| Year | Persons |
|---|---|
| 2000 | 143,151 |
| 2001 | 144,726 |
| 2002 | 147,185 |
| 2003 | 150,909 |
| 2004 | 153,937 |
| 2005 | 157,657 |
| 2006 | 162,532 |
| 2007 | 166,894 |
| 2008 | 170,104 |
| 2009 | 173,241 |
| 2010 | 174,528 |
| 2011 | 175,712 |
| 2012 | 179,138 |
| 2013 | 180,061 |
| 2014 | 180,672 |
| CAAG[1] | 1.7% |

[1]CAAG = Compound Average Annual Growth
Source: California Department of Finance

## Employment

Imperial County's economy is reliant on agriculture and the cross-border family and trade relationships with neighboring Mexico. Imperial County sees economic growth through foreign investment, the retail industry, and a boom of renewable energy projects. The following table depicts the labor force in Imperial County versus the greater United States.

| Employment Statistics | | | | | | |
|---|---|---|---|---|---|---|
| | Imperial County | | | United States | | |
| | Labor Force | Unemployed | Rate | Labor Force | Unemployed | Rate |
| 2013 | 76,600 | 17,200 | 22.5% | 154,408,000 | 9,984,000 | 6.5% |
| 2014 | 80,200 | 19,000 | 23.6 | 146,305,000 | 9,617,000 | 6.2 |
| Source: Imperial County | | | | | | |

A summary of the major employers within Imperial County are presented in the table below.

| Top Employers<br>Imperial County | | |
|---|---|---|
| Company | Industry | Employees |
| Imperial Valley College | Education | 1,000-4,999 |
| Calipatrla State Prison | Government/Defense | 1,000-4,999 |
| Centinela State Prison | Government/Defense | 1,000-4,999 |
| Maul Harvesting | Agriculture | 1,000-4,999 |
| El Centro Regional Medical Center | Healthcare | 500-999 |
| Imperial Date Gardens | Agriculture | 500-999 |
| U.S. Border Patrol | Government/Defense | 500-999 |
| Wal-Mart Stores Inc. | Retail | 500-999 |
| Pioneers Memorial Healthcare | Healthcare | 500-999 |
| Paradise Casino | Hospitality | 500-999 |
| El Centro Naval Air Facility | Government/Defense | 500-999 |
| 8 A Packing LLC | Labor Organizations | 500-999 |
| Source: Moody's Analytics | | |

## Renewable Energy

The demand for renewable resources nationwide has grown dramatically in recent years, driven by concerns about greenhouse gas emissions, higher fuel prices, and energy security. Imperial County is rich in renewable resources and has become a focal point for discussions of renewable energy potential. A brief discussion of a few of the viable renewable resources within Imperial County follows.

### Geothermal

Imperial County is currently the second-largest geothermal energy producing county in the nation, generating about 600 megawatts of energy. Some geothermal plants have been in existence for more than two decades, making geothermal the renewable energy industry with proven longevity in the Valley.

### Solar

With more than 300 days of sun each year, Imperial County has drawn more interest in solar development in the last five years.

### Wind

The landscape of Imperial County has vast amounts of open space, so when the western winds blow from the mountains, it creates an opportunity of harnessing the wind. In mid-2013, the County's first wind energy facility opened near Ocotillo on approximately 12,000 acres of public land. The project has created temporary construction and ongoing permanent employment positions for the area.

## Military

The Naval Air Facility El Centro (NAF EC) is a military airport located six miles northwest of El Centro. NAF EC provides combat and readiness training to active and reserve aviation units for the Navy's operating and training forces, other U.S. forces and allied units. The combination of a unique climate, vast unobstructed desert terrain, limited non-military air traffic and availability of dedicated gunnery and bomb ranges makes NAF EC an ideal environment for aerial combat maneuvering, air-air gunnery, bombing practice, Field Carrier Landing Practice, electronic warfare training, and low-level training.

## Regional Infrastructure

The Imperial County region possesses a wide array of transportation and infrastructure assets and is uniquely located in proximity to major production, trade, and population centers of Southern California and Arizona.

### Highways

According to the Imperial County Comprehensive Economic Development Strategy, for shipping and logistics, the highway system in Imperial County handles approximately 97 percent of total commodity flows across the county. There are four major north-south corridors handling freight within the county: Forrester Road, from I-8 to State Route 78/86 in Westmorland; State Route 7 from the Calexico East Port of Entry to I-8 Freeway; State Route 111 from the Calexico West Border Crossing to State Route 86 in Riverside County; and State Route 86, from State Route 111 to Riverside County where it connects with Interstate 10. Additionally there are two major east-west corridors for trucks; I-8 which originates in San Diego County through Imperial to the Arizona Border; and State Route 98 which parallels I-8 through most of the southern part of the county.

### Ports of Entry

Imperial County is connected to Mexico via three land ports of entry; Calexico West/Mexicali I, Calexico East/Mexicali II, and Andrade/Los Algodones. Approximately 80,000 people cross into the U.S. through these three ports on a daily basis for work, school, shopping, entertainment, and other socially related trips. The Calexico West/Mexicali I port of entry is the primary port for daily person crossing into the U.S. by car or as pedestrians. This port is the third busiest Land Port of Entry in California with four million northbound vehicle crossing each year, 4.8 million northbound pedestrians crossing each year, and it is the critical economic engine for the Imperial and Mexicali region. The Calexico East/Mexicali II is a passenger and commercial port utilized mainly for trade by truck through Imperial County and Baja California, Mexico. The Andrade/Los Algodones Port of Entry is located near the California/Arizona border and is an important gateway for tourism. The majority of traffic occurs during the winter season.

### Imperial County Airport

The Imperial County Airport provides air service for private and commercial passenger and freight transportation. Commercial service to and from San Diego International Airport and Burbank Bob Hope Airport is provided by SeaPort Airlines. Additional activity at Imperial County Airport includes air cargo, military operations, Department of Homeland Security aircraft, as well as business jets and private general aviation flights.

## CONCLUSIONS

As presented above, Imperial County benefits from its location proximate to the United States/Mexico Border. Investment in green energy is expected to fuel modest hiring in the near term. Increased tax revenues from utility production will spur government hiring.

# Section IV

# MARKET DEMAND ANALYSIS

# HOTEL MARKET ANALYSIS

## INTRODUCTION

As a hotel includes a going-concern business as well as real property, the future market performance of a lodging facility is a direct function of the supply and demand for the hotel rooms within its market. Accordingly, an analysis of the hotel market is a key component of our projections of future performance. The subject hotel will compete with other hotels within Imperial County. The following is a discussion of the subject's competitive hotel market.

## THE COMPETITIVE HOTEL MARKET

In order to identify the competitive market of the proposed hotel, we have analyzed the overall hotel market in Imperial County and have selected eight properties located in Calexico and El Centro, California that are deemed to be the most representative of the competitive market. The following chart presents the competitive supply for the subject. A map indicating their locations, a description of each of the competitive hotels and a discussion of the potential additions to the competitive supply follow.

**Proposed Imperial Center Hotel**
**Competitive Supply**

| Map Code | Property | Number of Rooms |
|---|---|---|
| ***SUBJECT*** | ***Proposed Imperial Center Hotel*** | ***150*** |
| 1 | Best Western John Jay Calexico | 58 |
| 2 | Holiday Inn Express Calexico | 73 |
| 3 | TownePlace Suites El Centro | 94 |
| 4 | Fairfield Inn El Centro | 88 |
| 5 | Holiday Inn Express El Centro | 100 |
| 6 | Clarion Inn El Centro | 145 |
| 7 | Best Western John Jay El Centro | 58 |
| 8 | Comfort Inn El Centro | 110 |
| **Competitive Market (Excluding Subject)** | | **726** |

Source: PKF Consulting USA


# Competitive Supply Map

**Competitive Property Number One**
**Best Western John Jay Inn Calexico**

## Location

Address: 2421 Scaroni Avenue
Calexico, California 92231

Distance from the Subject: 3.0 miles south

## Description

Year Opened: 1998
Guestrooms: 58
Configuration: Interior Corridors

## Facilities & Amenities

- Complimentary breakfast
- Complimentary self-parking
- Guest laundry facilities
- Fitness center
- Outdoor swimming pool
- Room Amenities:
    - Desk/work area
    - Coffee/tea maker
    - Complimentary high speed Internet access
    - Iron and ironing board
    - Hairdryer

## Picture

## Condition & Renovations

The Best Western John Jay has had regular upkeep over the years and is in average condition.

## Historical Performance

In 2014, it is estimated that this property performed above the competitive market average in terms of both occupancy and average daily rate.

**Competitive Property Number Two**
**Holiday Inn Express Calexico**

| Location | Description |
|---|---|
| Address: 2501 Scaroni Avenue<br>Calexico, California 92231<br><br>Distance from the Subject: 2.8 miles south | Year Opened: 2003<br>Guestrooms: 73<br>Configuration: Interior Corridors |

**Facilities & Amenities**

- Complimentary breakfast
- Complimentary self-parking
- Guest laundry facilities
- Valet laundry services
- Business center
- Fitness center
- Outdoor swimming pool
- Room Amenities:
    - Room service
    - Work desk
    - Two phones with voicemail
    - Complimentary high speed Internet access
    - Iron and ironing board
    - Coffee/tea maker
    - Mini-refrigerator
    - Microwave
    - Hairdryer

**Picture**

**Condition & Renovations**

The hotel opened in 2003 has had regular upkeep over the years and remains in average condition.

**Historical Performance**

In 2014, it is estimated that the Holiday Inn Express performed above the competitive market average in terms of both occupancy and average daily rate.

## Competitive Property Number Three
## TownePlace Suites El Centro

### Location

Address: 3003 South Dogwood Road
El Centro, California 92243

Distance from the Subject: 4.6 miles northwest

### Description

Year Opened: 2008
Guestrooms: 94
Configuration: Interior corridors

### Facilities & Amenities

- Complimentary breakfast
- Complimentary self-parking
- Guest laundry facilities
- Valet laundry services
- Business center
- Fitness center
- Outdoor swimming pool
- Room Amenities:
  - Coffee/tea maker
  - Sofa bed
  - Full-sized kitchen
  - Complimentary high speed Internet access
  - Iron and ironing board
  - In-room safe
  - Hairdryer

### Picture

### Condition & Renovations

The hotel opened in 2008 and has undergone preventative maintenance since and remains in good condition.

### Historical Performance

In 2014, it is estimated the Towneplace Suites performed above the competitive market average in terms of both occupancy and average daily rate.

**Competitive Property Number Four**
**Fairfield Inn El Centro**

| Location | Description |
|---|---|
| Address: 503 East Danenberg Drive<br>El Centro, California 92243<br><br>Distance from Subject: 4.6 miles northwest | Year opened: 2007<br>Guestrooms: 88<br>Configuration: Interior corridors |

**Facilities & Amenities**

- 1,838 square feet of meeting space
- Complimentary breakfast
- Complimentary self-parking
- Guest laundry facilities
- Valet laundry services
- Business center
- Fitness center
- Outdoor swimming pool
- Room Amenities:
  - Coffee/tea maker
  - Sofa bed
  - Complimentary high speed Internet access
  - Iron and ironing board
  - In-room safe
  - Hairdryer

**Picture**


| Condition & Renovations | Historical Performance |
|---|---|
| The hotel opened in 2007 and has undergone preventative maintenance since and remains in good condition. | In 2014, it is estimated that the Fairfield Inn performed above the market average in terms of both occupancy and average daily rate. |

## Competitive Property Number Five
## Holiday Inn Express El Centro

| Location | Description |
|---|---|
| Address: 350 Smoketree Drive<br>El Centro, California 92243<br><br>Distance from the Subject: 6.4 miles northwest | Year Opened: 2002<br>Guestrooms: 100<br>Configuration: Interior Corridors |

### Facilities & Amenities

- Complimentary self-parking
- Complimentary breakfast
- Complimentary evening reception
- Meeting room for 200 people
- Business center
- Fitness center
- Guest laundry facility
- Valet laundry services
- Outdoor swimming pool
- Room Amenities:
  - Coffee/tea maker
  - Work area with chair
  - Complimentary internet access
  - Telephone with voicemail
  - Mini-fridge and microwave
  - Iron/Ironing Board
  - Hairdryer

### Picture

### Condition & Renovations

The hotel opened in 2002 has had regular upkeep over the years and remains in average condition.

### Historical Performance

In 2014, it is estimated the Best Western performed above the competitive market average in terms of both occupancy and average daily rate.

**Competitive Property Number Six**
**Clarion Inn El Centro**

| Location | Description |
|---|---|
| Address: 1455 Ocotillo Drive<br>El Centro, California 92243<br><br>Distance from the Subject: 7.5 miles northwest | Year Opened: 1967<br>Guestrooms: 145<br>Configuration: Interior Corridors |

**Facilities & Amenities**

- Complimentary self-parking
- Complimentary breakfast
- Business center
- Fitness center
- Hotel lounge/bar
- Outdoor pool and whirlpool
- Guest laundry facility
- Room Amenities:
  - Coffee/tea maker
  - Work area with chair
  - Complimentary internet access
  - Iron/Ironing Board
  - Hairdryer

**Picture**

| Condition & Renovations | Historical Performance |
|---|---|
| The Clarion was converted in 2009 and is in average condition. | In 2014, it is estimated the Clarion Inn performed below the competitive market average in terms of both occupancy and average daily rate. |

**Competitive Property Number Seven**
**Best Western John Jay Inn El Centro**

**Location**

Address: 2352 South Fourth Street
El Centro, California 92243

Distance from the Subject: 6.4 miles northwest

**Description**

Year Opened: 1996
Guestrooms: 58
Configuration: Interior Corridors

**Facilities & Amenities**

- Complimentary breakfast
- Complimentary self-parking
- Guest laundry facilities
- Fitness center
- Business Center
- Outdoor swimming pool
- Room Amenities:
    - Desk/work area
    - Coffee/tea maker
    - Complimentary high speed Internet access
    - Iron and ironing board
    - Hairdryer

**Picture**

**Condition & Renovations**

The hotel was originally opened in 1996 and has received regular maintenance to remain in average condition.

**Historical Performance**

It is estimated the Best Western performed above the competitive market average in terms of both occupancy and average daily rate in 2014.

**Competitive Property Number Eight**
**Comfort Inn and Suites El Centro**

| Location | Description |
|---|---|
| Address: 2354 South Fourth Street<br>El Centro, California 92243<br><br>Distance from the Subject: 6.3 miles northwest | Year Opened: 1995<br>Guestrooms: 110<br>Configuration: Interior Corridors |

**Facilities & Amenities**

- Complimentary breakfast
- Meeting room for small group
- Outdoor pool
- Business center
- Onsite laundry facility
- Gift shop
- Room Amenities:
  - TV with premium cable
  - Coffee/tea maker
  - Hair dryer
  - In-room safes

**Picture**

| Condition & Renovations | Historical Performance |
|---|---|
| The hotel was originally opened in 1995 and has received regular maintenance to remain in average condition. | In 2014, it is estimated the Comfort Inn performed below the competitive market average in terms of both occupancy and average daily rate. |

### Additions to Supply

A 95-room Hampton Inn is currently under construction at the corner of Dogwood Road and Wake Avenue. While a definite timeline is not available, we have estimated the property will be open for operations by January 2016.

According to County officials, a 108-room Holiday Inn is under construction near the corner of Highway 86 and Neckel Road. However, the hotel is partially completed and has been in the same state for over a year. It is believed that the developer may not have financing to complete the project. Due to the uncertainty of completion and location of the hotel, we have excluded this property from our analysis.

## HOTEL ROOMS DEMAND

Demand for hotel rooms is categorized in three ways:

- **Demonstrated Demand**: the demand already captured at competitive hotels;
- **Induced Demand**: the demand that does not presently seek accommodations in the competitive market, but could be persuaded to do so through marketing efforts, room rates, facilities, services and amenities.
- **Unsatisfied Demand**: the demand that seeks accommodations in the market but is not satisfied due to one of a number of factors: sell-outs during peak season; lack of a particular type of accommodation; lack of meeting space; or high room rates.

### Historical Performance of the Competitive Supply

The aggregate average annual available and occupied rooms, resulting occupancy levels, average daily rate, and RevPAR (revenue per available room) for the competitive supply from 2010 to 2014, as well as July 2014 and 2015 are presented in the following table.

**Historical Market Performance of the Competitive Supply**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
|---|---|---|---|---|---|---|---|---|---|
| 2010 | 264,990 | N/A | 139,385 | N/A | 52.6% | $86.61 | N/A | $45.56 | N/A |
| 2011 | 264,990 | 0.0% | 145,215 | 4.2% | 54.8 | 88.16 | 1.8% | 48.31 | 6.0% |
| 2012 | 264,990 | 0.0 | 158,994 | 9.5 | 60.0 | 90.64 | 2.8 | 54.38 | 12.6 |
| 2013 | 264,990 | 0.0 | 168,269 | 5.8 | 63.5 | 92.70 | 2.3 | 58.86 | 8.2 |
| 2014 | 264,990 | 0.0 | 151,574 | -9.9 | 57.2 | 91.38 | -1.4 | 52.27 | -11.2 |
| CAAG | 0.0% | | 2.1% | | | 1.3% | | 3.5% | |
| 7/14 ytd | 154,760 | N/A | 94,713 | N/A | 61.2% | $91.30 | N/A | $55.88 | N/A |
| 7/15 ytd | 154,760 | 0.0% | 102,296 | 8.0% | 66.1% | 94.82 | 3.9% | 62.68 | 12.2% |

Source: PKF Consulting USA

As noted in the preceding table, the supply within the competitive set during the preceding years as experienced no growth. During the same five-year period, demand, as measured in occupied room nights, increased at a compound annual growth rate (CAAG) of 2.1 percent, highlighted by significant increases in 2012 and 2013.

In 2010, the market ended with an occupancy of 52.6 percent, the lowest the market experienced over the five-year period. The market finished 2011 at a 54.8 percent occupancy, reflecting a 4.2 percent growth over 2010. In 2012, occupied room nights posted significant growth of 9.5 percent over the same period in 2011. In 2013, the market increased again with occupied rooms growth of 5.8 percent over the same period in 2012. However, the market experienced a significant drop in occupancy in 2014 of 9.9 percent over 2013. This drop is most notably due to the loss of the British Military business which had previously stayed throughout the year in neighborhood hotels for training at the Naval Air Facility El Centro.

Average daily rate (ADR) in the market started at a low of $86.61 in 2010 with the effects of the national recession. In 2011, the market posted a 1.8 percent increase to finish the year at $88.16. 2012 finished the year with a 2.8 percent increase over 2011, which equated to an ADR of $90.64. In 2013, rates continued to grow with an increase of 2.3 percent resulting in an ADR of $92.70. Last year ADR decreased lightly by 1.4 percent over 2013, bringing the market ADR to $91.38.

Revenue per available room (RevPAR), a combination of occupancy and average daily room rate, increased at an average of 3.5 percent annually over the five-year period. In 2011, signs of recovery began showing as both occupancy and ADR experienced significant growth, resulting in a RevPAR increase of 6.0 percent and a further 12.6 increase in 2012. Year-end 2013 posted further positive RevPAR growth of 8.2 percent. In 2014, the market experienced a significant decrease in RevPAR at 11.2 percent.

For the period through July 2015, demand has increased 8.0 percent and ADR has increased by 3.9 percent during the same period. As a result, RevPAR increased 12.2 percent versus the same period in 2014.

## Mix of Demand

The demand captured by the market is derived from the transient and group meeting segments. The 2014 market segmentation is displayed in the following table.

**Competitive Market**
**2014 Mix of Demand**

| Market Segment | Room Nights | Ratio |
|---|---|---|
| Transient | 128,800 | 85% |
| Group | 22,700 | 15% |
| Total | 152,000 | 100% |

Source: PKF Consulting USA

Using the historical growth in the market as a base and taking into account the current demonstrated and future projected economic conditions, we have estimated future growth in overall market demand. Each market segment is discussed in the following paragraphs, followed by a discussion and summary table setting forth our estimated growth in supply and demand.

### Transient Market Segment

Transient demand represents those persons staying at the hotels to conduct business in and visit the surrounding areas. There is a significant amount of government business generated in the market. Demand also emanates from the green energy businesses located throughout Imperial County. Additionally, the market is able to generate leisure demand from visitors coming to visit the area from Mexico. The transient market segment accounted for approximately 128,800 room nights of demand in 2014, or approximately 85.0 percent of total market demand.

Based on our analysis of the local economic and development trends, as well as discussions with management of competitive hotels, we have estimated that this market segment will grow at 6.0 percent through the end of 2015 before growing consistently at 3.0 percent in 2016 and throughout the remainder of our projection period. We have induced 7,500 transient room nights into the market in 2016 with the opening of the Hampton Inn. Additionally, we have induced 10,000 transient room nights into the market in 2018 with the opening of the subject hotel.

### Group Market Segment

The group market segment is comprised of rooms demand from social and association groups, as well as corporate group meeting demand. This segment accounted for approximately 15.0 percent of total market demand, or 22,700 room nights of captured demand. Most of the group business generated in the competitive market originates from small corporate groups, generally less than 250 people, that are gathered for informational meetings or training sessions. Most of this business is associated with companies that are located in the surrounding areas. A large segment of group room demand is generated by SMERF (social, military, education, religious, and fraternal) organizations.

We have estimated that this market segment will grow by 4.0 percent in 2015 followed by consistently at 3.0 percent in 2016 and throughout the remainder of our projection period. With the opening of the subject hotel and Imperial Center, we have induced 8,000 room nights into the market in 2018.

### Supply and Demand Growth

Based on our analysis of the economic conditions, we have estimated growth in market supply and rooms demand. Using the historical growth in the market as a base, we have estimated future growth in overall market demand. Based upon the developer's concept, as previously discussed, the Imperial Center Wholesale market could potentially increase the overall hotel room demand in the area.

We have estimated that the market will increase to an occupancy rate of 60.0 percent in 2015 followed by a decrease to 58.0 percent in 2016 with the opening of the Hampton Inn. We have estimated the market will increase to an occupancy rate of 59.0 percent in 2017 before decreasing again to 57.0 percent with the opening of the subject hotel. As the market begins to absorb the additional hotel, we estimate the market will increase to 59.0 percent occupancy in 2019 followed by an increase to a stabilized occupancy of 60.0 percent in 2020. Though it is likely that the market will fluctuate above and below this level, we find 60.0 percent a reasonable level of stabilization given the projected growth of the transient and group markets.

The following table details the projected supply and demand for the competitive set.

**Proposed Heber Hotel**
**Competitive Market**
**Estimated Future Growth in Lodging Supply and Demand**
**2014 - 2022**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| **ROOMS SUPPLY** | 726 | | | | | | | | |
| **Additions/(Deletions) to Supply** | | | | | | | | | |
| Proposed Heber Hotel | | | | | 150 | | | | |
| Hampton Inn by Imperial Mall | | | 95 | | | | | | |
| Cumulative Rooms Supply | 726 | 726 | 821 | 821 | 971 | 971 | 971 | 971 | 971 |
| Total Annual Rooms Supply | 264,990 | 264,990 | 299,665 | 299,665 | 354,415 | 354,415 | 354,415 | 354,415 | 354,415 |
| Growth Over the Prior Year | 0.0% | 0.0% | 13.1% | 0.0% | 18.3% | 0.0% | 0.0% | 0.0% | 0.0% |
| DEMONSTRATED DEMAND IN BASE YR | | | | | | | | | |
| Transient | 128,838 | 85% | | | | | | | |
| Group | 22,736 | 15% | | | | | | | |
| TOTAL DEMONSTRATED DEMAND | 151,574 | 100% | | | | | | | |
| INDUCED/(UNSATISFIED) DEMAND | | | | | | | | | |
| Transient | | 0 | 7,500 | 0 | 10,000 | 0 | 0 | 0 | 0 |
| Group | | 0 | 0 | 0 | 8,000 | 0 | 0 | 0 | 0 |
| TOTAL INDUCED/(UNSATISFIED) DEMAND | | 0 | 7,500 | 0 | 18,000 | 0 | 0 | 0 | 0 |
| GROWTH RATES | | | | | | | | | |
| Transient | | 6.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Group | | 4.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| **PROJECTED DEMAND** | | | | | | | | | |
| Transient | | | | | | | | | |
| Demonstrated | 128,838 | 136,568 | 140,665 | 152,610 | 157,189 | 172,204 | 177,371 | 182,692 | 188,172 |
| Induced/(Unsatisfied) | 0 | 0 | 7,500 | 0 | 10,000 | 0 | (516) | (5,837) | (11,318) |
| Total | 128,800 | 136,600 | 148,200 | 152,600 | 167,200 | 172,200 | 176,900 | 176,900 | 176,900 |
| Growth Over Prior Year | N/A | 6.1% | 8.5% | 3.0% | 9.6% | 3.0% | 2.7% | 0.0% | 0.0% |
| Group | | | | | | | | | |
| Demonstrated | 22,736 | 23,646 | 24,355 | 25,086 | 25,838 | 34,853 | 35,899 | 36,976 | 38,085 |
| Induced/(Unsatisfied) | 0 | 0 | 0 | 0 | 8,000 | 0 | (104) | (1,181) | (2,291) |
| Total | 22,700 | 23,600 | 24,400 | 25,100 | 33,800 | 34,900 | 35,800 | 35,800 | 35,800 |
| Growth Over Prior Year | N/A | 4.0% | 3.4% | 2.9% | 34.7% | 3.3% | 2.6% | 0.0% | 0.0% |
| Total Market Demand | 151,500 | 160,200 | 172,600 | 177,700 | 201,000 | 207,100 | 212,700 | 212,700 | 212,700 |
| Growth Over Prior Year | N/A | 5.7% | 7.7% | 3.0% | 13.1% | 3.0% | 2.7% | 0.0% | 0.0% |
| **Market Occupancy** | **57%** | **60%** | **58%** | **59%** | **57%** | **58%** | **60%** | **60%** | **60%** |

Source: PKF Consulting USA

## ESTIMATED PERFORMANCE OF THE SUBJECT

### Penetration Analysis

We have estimated occupancy levels for the subject on the basis of a market penetration analysis. Our analysis of the competitive hotels and how these hotels compare to the quality level of the subject support this method. Market penetration is defined as the actual capture of room demand in relation to the hotel's fair share of demand. Market penetration levels in excess of 100 percent of fair share suggest a hotel has competitive advantages, while competitive weaknesses or positioning strategies are reflected in market penetration levels of less than 100 percent of fair market share.

The actual penetration of each market segment by the subject property may deviate from fair market share for the following reasons:

- The competitive advantages or disadvantages of the subject, taking into consideration factors, such as exclusivity, location, room rate structure, quality and extent of amenities offered, affiliation, quality of management, and marketing efforts and image (guest perception);
- The characteristics and composition of each market segment;
- The restraint on demand captured due to capacity constraints during certain periods of the week or season, or due to the accommodation requirements of certain market segments; and,
- Management decisions concerning target markets.

Based on our analysis, the subject's estimated stabilized market mix in a representative year of operation are as follows.

**Proposed Heber Hotel**
**Stabilized Mix of Demand and Market Penetration**

| Market Segment | Room Nights | Ratio | Penetration |
|---|---|---|---|
| Transient | 30,100 | 81% | 110% |
| Group | 7,200 | 19% | 130% |
| Total | 37,300 | 100% | 114% |

Source: PKF Consulting USA

### Subject Occupancy Projections

Utilizing the historical performance of the competitive supply and the projected growth in demand in the subject's market, we have estimated the proposed subject's performance in terms of occupancy from its opening in 2018 to 2022. We estimate it will post an occupancy rate of 52 percent in 2018. In 2019, we estimate that the occupancy will increase to 60 percent as the subject property ramps up in performance. As the property's rooms are absorbed in the market, its occupancy is projected to increase to 68 percent in 2020, where it is estimated to stabilize for the remainder of our projections.

The the following table presents our estimate of future market penetration and resulting occupancies for the subject property.

| Proposed Heber Hotel<br>Market Penetration and Projected Occupancy | | | | | |
|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| TOTAL ROOMS AVAILABLE | | | | | |
| **Proposed Heber Hotel** | **54,750** | **54,750** | **54,750** | **54,750** | **54,750** |
| Competitive Market | 354,415 | 354,415 | 354,415 | 354,415 | 354,415 |
| Fair Share of Supply | 15.4% | 15.4% | 15.4% | 15.4% | 15.4% |
| ESTIMATED TOTAL MARKET DEMAND | | | | | |
| Transient | 167,200 | 172,200 | 176,900 | 176,900 | 176,900 |
| Group | 33,800 | 34,900 | 35,800 | 35,800 | 35,800 |
| TOTAL | 201,000 | 207,100 | 212,700 | 212,700 | 212,700 |
| FAIR SHARE OF DEMAND | | | | | |
| Transient | 25,800 | 26,600 | 27,300 | 27,300 | 27,300 |
| Group | 5,200 | 5,400 | 5,500 | 5,500 | 5,500 |
| TOTAL | 31,000 | 32,000 | 32,800 | 32,800 | 32,800 |
| SUBJECT PENETRATION | | | | | |
| Transient | 90% | 100% | 110% | 110% | 110% |
| Group | 105% | 120% | 130% | 130% | 130% |
| ROOM NIGHTS CAPTURED | | | | | |
| Transient | 23,200 | 26,600 | 30,100 | 30,100 | 30,100 |
| Group | 5,500 | 6,500 | 7,200 | 7,200 | 7,200 |
| TOTAL CAPTURED DEMAND | 28,700 | 33,100 | 37,300 | 37,300 | 37,300 |
| MARKET SHARE CAPTURED | 14.3% | 16.0% | 17.5% | 17.5% | 17.5% |
| **OVERALL MARKET PENETRATION** | **92%** | **103%** | **114%** | **114%** | **114%** |
| **SUBJECT OCCUPANCY** | **52%** | **60%** | **68%** | **68%** | **68%** |
| MARKET MIX | | | | | |
| Transient | 81% | 80% | 81% | 81% | 81% |
| Group | 19% | 20% | 19% | 19% | 19% |
| TOTAL | 100% | 100% | 100% | 100% | 100% |

Source: PKF Consulting USA

## AVERAGE DAILY RATE

Presented in the following table is the historical growth in the market's average daily room rates for the period from 2010 through 2014. During the five-year period, average daily room rates increased at a rate of 1.3 percent annually. As the hotels focus on pushing the rate above pre-recession highs, we expect the rate will continue to recover over the next few years.

| **Historical Change in Average Daily Rate** | | |
|---|---|---|
| | Market | |
| Year | ADR | Change |
| 2010 | $86.61 | N/A |
| 2011 | 88.16 | 1.8% |
| 2012 | 90.64 | 2.8 |
| 2013 | 92.70 | 2.3 |
| 2014 | 91.38 | -1.4 |
| CAAG | 1.3% | |
| 4/14 ytd | $91.30 | N/A |
| 4/15 ytd | 94.82 | 3.9% |
| Source: PKF Consulting USA | | |

Average daily rate in the competitive market is estimated to grow by 3.6 percent on a compound average annual basis from 2015 to 2022 as noted by the competitive market's projected performance. Our market projections assume rate growth above inflationary increases in 2015 through 2018, when the subject hotel enters the market. The market should achieve growth similar to long-term inflation in 2020 and beyond.

| **Projected Market Performance of the Competitive Supply** | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Market Occupancy | Average Daily Rate | Percent Change | REVPAR | Percent Change |
| 2015 | 264,990 | 0.0% | 160,200 | 5.7% | 60% | $95.00 | 4.0% | $57.43 | 9.9% |
| 2016 | 299,665 | 13.1 | 172,600 | 7.7 | 58 | 98.00 | 3.2 | 56.45 | -1.7 |
| 2017 | 299,665 | 0.0 | 177,700 | 3.0 | 59 | 101.00 | 3.1 | 59.89 | 6.1 |
| 2018 | 354,415 | 18.3 | 201,000 | 13.1 | 57 | 108.00 | 6.9 | 61.25 | 2.3 |
| 2019 | 354,415 | 0.0 | 207,100 | 3.0 | 58 | 111.00 | 2.8 | 64.86 | 5.9 |
| 2020 | 354,415 | 0.0 | 212,700 | 2.7 | 60 | 115.00 | 3.6 | 69.02 | 6.4 |
| 2021 | 354,415 | 0.0 | 212,700 | 0.0 | 60 | 118.00 | 2.6 | 70.82 | 2.6 |
| 2022 | 354,415 | 0.0 | 212,700 | 0.0 | 60 | 122.00 | 3.4 | 73.22 | 3.4 |
| CAAG | 4.2% | | 4.1% | | | 3.6% | | 3.5% | |
| Source: PKF Consulting USA | | | | | | | | | |

### Average Daily Rate and Yield for the Subject

Our derivation of the average daily rate for the subject property in a stabilized year of operation is based primarily on information concerning the other hotel properties in the competitive supply.

The following table outlines our estimates of average daily rate and the resulting revenue yield for the subject. In the subject's first year of operation, we estimate that the hotel's average daily rate will be $131.00. It is our estimation that the subject will be able to increase its average daily rate by 3.0 percent on a compound average annual basis for the duration of our projection period. This equates to a representative year ADR of $120.00 in 2015 dollars. As the data indicates, the proposed subject's revenue yield is projected to ramp up during the first three years of operation and is anticipated to achieve a stabilized revenue yield of 138 percent by 2021.

**Projected Market Performance of the Subject Hotel**

| Year | Annual Supply | Percent Change | Occupied Rooms | Percent Change | Occupancy Percentage | Average Daily Rate | Percent Change | REVPAR | Percent Change | Market Penetration | Revenue Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2018 | 54,750 | N/A | 28,700 | N/A | 52% | $131.00 | 3.0% | $ 68.67 | N/A | 92% | 112% |
| 2019 | 54,750 | 0.0% | 33,100 | 15.3% | 60 | 135.00 | 3.0 | 81.62 | 18.9% | 103 | 126 |
| 2020 | 54,750 | 0.0 | 37,300 | 12.7 | 68 | 139.00 | 3.0 | 94.70 | 16.0 | 114 | 137 |
| 2021 | 54,750 | 0.0 | 37,300 | 0.0 | 68 | 143.00 | 3.0 | 97.42 | 2.9 | 114 | 138 |
| 2022 | 54,750 | 0.0 | 37,300 | 0.0 | 68 | 148.00 | 3.0 | 100.83 | 3.5 | 114 | 138 |
| CAAG | 0.0% | | 6.8% | | | 3.1% | | 10.1% | | | |

Source: PKF Consulting USA

# *Section V*

## *STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS*

# STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS

## BASIS OF PROJECTIONS

For the proposed hotel, we have prepared statements of estimated operating results. To prepare estimates of future operating results for the proposed hotel, the starting point or basis is the best estimate of results that could be achieved with good management in a representative year or stabilized market, calculated in 2015 dollars.

We estimate that during a representative year, the subject property could achieve a stabilized occupancy of 60.0 percent at an average daily room rate of $120.00, stated in 2015 dollars. From this base, we considered the effects of inflation, and occupancy levels for the projection period for a ten-year operating period, beginning January 1, 2018 through December 31, 2027. The underlying rationale and assumptions used in preparing these estimates are presented in this section.

### Comparable Hotels

We have used information on the operating performance of five comparable facilities. This information is primarily obtained from confidential statistics compiled as a basis for the PKF Consulting USA's publication *Trends in the Hospitality Industry*. Our comparable hotels consist of five select-service hotels, with various food and beverage offerings and are all considered comparable to the subject due to their size, facilities, brand affiliation, and rate. Given that the information is provided to us on a confidential basis, we cannot disclose the identity of the comparable hotels.

While five comparable hotels have been included in our write-up of the estimated annual operating results, numerous additional sources were utilized in our analysis and to confirm the reasonableness of our projections going forward.

Summary data pertaining to the comparable hotels is provided on the following pages.

**Proposed Heber Hotel**
Operating Results of Comparable Hotels

| | Hotel A | | | Hotel B | | | Hotel C | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ratio | Per Room | P.O.R. | Ratio | Per Room | P.O.R. | Ratio | Per Room | P.O.R. |
| Revenues | | | | | | | | | |
| Rooms | 95.7% | $28,573 | $115.62 | 98.9% | $29,462 | $110.52 | 73.2% | $30,757 | $121.57 |
| Food & Beverage | 0.0% | 0 | 0.00 | 0.0% | 0 | 0.00 | 22.5% | 9,466 | 37.41 |
| Other Operated Departments | 4.3% | 1,289 | 5.22 | 1.1% | 335 | 1.26 | 4.2% | 1,777 | 7.02 |
| Total Revenues | 100.0% | 29,863 | 120.84 | 100.0% | 29,797 | 111.77 | 100.0% | 42,000 | 166.00 |
| Departmental Expenses | | | | | | | | | |
| Rooms | 20.9% | 5,961 | 24.12 | 19.2% | 5,651 | 21.20 | 23.9% | 7,354 | 29.06 |
| Food & Beverage | #DIV/0! | 0 | 0.00 | #DIV/0! | 0 | 0.00 | 71.0% | 6,719 | 26.56 |
| Other Operated Departments | 34.9% | 450 | 1.82 | 105.8% | 355 | 1.33 | 9.9% | 176 | 0.70 |
| Total Departmental Expenses | 21.5% | 6,411 | 25.94 | 20.2% | 6,006 | 22.53 | 33.9% | 14,248 | 56.32 |
| Departmental Profit | 78.5% | 23,452 | 94.90 | 79.8% | 23,791 | 89.24 | 66.1% | 27,752 | 109.69 |
| Undistributed Expenses | | | | | | | | | |
| Administrative & General | 10.5% | 3,136 | 12.69 | 10.4% | 3,104 | 11.64 | 9.5% | 4,005 | 15.83 |
| Marketing | 10.4% | 3,105 | 12.56 | 9.8% | 2,930 | 10.99 | 12.4% | 5,207 | 20.58 |
| Property Operation and Maintenance | 5.6% | 1,678 | 6.79 | 4.4% | 1,316 | 4.94 | 3.7% | 1,538 | 6.08 |
| Utility Costs | 4.9% | 1,464 | 5.92 | 3.9% | 1,157 | 4.34 | 4.2% | 1,762 | 6.96 |
| Total Undistributed Operating Expenses | 31.4% | 9,383 | 37.97 | 28.6% | 8,507 | 31.91 | 29.8% | 12,513 | 49.46 |
| Gross Operating Profit | 47.1% | 14,069 | 56.93 | 51.3% | 15,283 | 57.33 | 36.3% | 15,239 | 60.23 |
| Base Management Fee | 2.6% | 774 | 3.13 | 2.6% | 777 | 2.91 | 2.4% | 1,025 | 4.05 |
| Fixed Expenses | | | | | | | | | |
| Property Taxes | 2.3% | 684 | 2.77 | 2.3% | 672 | 2.52 | 0.2% | 83 | 0.33 |
| Insurance | 1.3% | 390 | 1.58 | 1.3% | 386 | 1.45 | 0.1% | 58 | 0.23 |
| Total Fixed Expenses | 3.6% | 1,074 | 4.35 | 3.5% | 1,058 | 3.97 | 0.3% | 140 | 0.55 |
| Net Operating Income Before Reserve | 40.9% | 12,221 | 49.45 | 45.1% | 13,448 | 50.45 | 33.5% | 14,074 | 55.63 |

Source: ***PKF Consulting***

**Proposed Heber Hotel**
Operating Results of Comparable Hotels

| | Hotel D | | | Hotel E | | | Weighted Average | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ratio | Per Room | P.O.R. | Ratio | Per Room | P.O.R. | Ratio | Per Room | P.O.R. |
| Revenues | | | | | | | | | |
| Rooms | 92.0% | $31,344 | $126.63 | 85.2% | $27,126 | $112.51 | 86.6% | $29,490 | $117.99 |
| Food & Beverage | 7.6% | 2,584 | 10.44 | 13.2% | 4,207 | 17.45 | 11.1% | 5,309 | 21.49 |
| Other Operated Departments | 0.4% | 124 | 0.50 | 1.6% | 515 | 2.14 | 2.3% | 784 | 3.14 |
| Total Revenues | 100.0% | 34,052 | 137.57 | 100.0% | 31,848 | 132.09 | 100.0% | 34,040 | 136.19 |
| Departmental Expenses | | | | | | | | | |
| Rooms | 22.0% | 6,905 | 27.90 | 22.1% | 5,988 | 24.84 | 21.9% | 6,455 | 25.83 |
| Food & Beverage | 72.6% | 1,876 | 7.58 | 100.3% | 4,220 | 17.50 | 79.4% | 4,216 | 17.07 |
| Other Operated Departments | 76.9% | 96 | 0.39 | 85.1% | 438 | 1.82 | 36.7% | 288 | 1.15 |
| Total Departmental Expenses | 26.1% | 8,877 | 35.86 | 33.4% | 10,646 | 44.16 | 28.6% | 9,733 | 38.94 |
| Departmental Profit | 73.9% | 25,175 | 101.71 | 66.6% | 21,202 | 87.94 | 71.4% | 24,307 | 97.25 |
| Undistributed Expenses | | | | | | | | | |
| Administrative & General | 8.5% | 2,904 | 11.73 | 8.5% | 2,692 | 11.16 | 9.3% | 3,158 | 12.64 |
| Marketing | 6.9% | 2,356 | 9.52 | 10.3% | 3,283 | 13.62 | 10.0% | 3,412 | 13.65 |
| Property Operation and Maintenance | 3.6% | 1,217 | 4.92 | 6.5% | 2,078 | 8.62 | 4.6% | 1,583 | 6.33 |
| Utility Costs | 3.8% | 1,279 | 5.17 | 7.1% | 2,269 | 9.41 | 4.8% | 1,641 | 6.56 |
| Total Undistributed Operating Expenses | 22.8% | 7,756 | 31.33 | 32.4% | 10,322 | 42.81 | 28.8% | 9,793 | 39.18 |
| Gross Operating Profit | 51.2% | 17,419 | 70.37 | 34.2% | 10,880 | 45.13 | 42.6% | 14,514 | 58.07 |
| Base Management Fee | 6.0% | 2,043 | 8.25 | 2.0% | 629 | 2.61 | 3.2% | 1,096 | 4.38 |
| Fixed Expenses | | | | | | | | | |
| Property Taxes | 3.2% | 1,086 | 4.39 | 3.3% | 1,062 | 4.41 | 2.2% | 739 | 2.96 |
| Insurance | 0.8% | 257 | 1.04 | 0.9% | 275 | 1.14 | 0.7% | 255 | 1.02 |
| Total Fixed Expenses | 3.9% | 1,343 | 5.43 | 4.2% | 1,337 | 5.55 | 2.9% | 994 | 3.98 |
| Net Operating Income Before Reserve | 41.2% | 14,033 | 56.69 | 28.0% | 8,914 | 36.97 | 36.5% | 12,424 | 49.71 |

Source: ***PKF Consulting***

## STABILIZED YEAR ESTIMATE

As indicated previously, we have estimated the performance of the subject for a stabilized year of operation. This estimate is primarily based on our review of the performance of other comparable hotels. The support for our stabilized year estimate is detailed in the following paragraphs, and is stated in calendar year 2015 dollars.

### Departmental Revenues and Expenses

In the *Uniform System of Accounts for Hotels*, revenues to the facility are categorized by the department from which they are derived. In the case of the subject, these include income from rooms, food and beverage, and other operated departments. In the *Uniform System of Accounts for Hotels*, only direct operating expenses associated with each department are charged to the operating departments. General overhead items, which are applicable to the overall operation of the facility, are classified as undistributed operating expenses.

Direct or departmental revenues and expenses, which typically vary with occupancy, are generally analyzed on a per occupied room (POR) or ratio basis, while undistributed expenses, which are more fixed in nature, are typically analyzed on a per available room (PAR) basis.

#### Room Revenue and Expense

***Room revenue*** is based on the number of occupied rooms multiplied by the ADR for each respective year as presented in this report. As indicated in our previous analyses, we estimated that the stabilized occupancy rate of the subject would be 68.0 percent, with an ADR of $120.00 (expressed in 2015 dollars).

**150 Rooms x 365 Days x 68.0% Occupancy x $120.00 = $4,468,000 (rounded)**

The following is a table illustrating average daily rate, annual occupancy and annual room's revenue commencing January 1, 2018 (the anticipated date of opening).

**Estimated Rooms Revenue**

| Year | Average Daily Rate | Annual Occupancy | Rooms Revenue |
|---|---|---|---|
| 2018 | $131.00 | 52.0% | $3,730,000 |
| 2019 | 135.00 | 60.0 | 4,435,000 |
| 2020 | 139.00 | 68.0 | 5,175,000 |
| 2021 | 143.00 | 68.0 | 5,324,000 |
| 2022 | 148.00 | 68.0 | 5,510,000 |
| 2023 | 152.00 | 68.0 | 5,659,000 |
| 2024 | 157.00 | 68.0 | 5,845,000 |
| 2025 | 161.00 | 68.0 | 5,994,000 |
| 2026 | 166.00 | 68.0 | 6,180,000 |
| 2027 | 171.00 | 68.0 | 6,366,000 |

***Room expense*** consists of salaries and wages, employee benefits, commissions, contract cleaning, guest transportation, laundry and dry cleaning, linen, operating supplies, reservation costs, uniforms, complimentary benefits, and other items related to the rooms department.

The operating results for the comparable hotels have a range of 19.2 percent to 23.9 percent of room sales, or a range of $21.20 to $29.06 per occupied room. Based on our analysis of comparable properties, we estimate that for a stabilized year of operation the rooms department expense for the subject will be $25.00 POR or 20.8 percent of room revenue. This estimate is within the range of comparables on a POR and ratio basis.

| Rooms Expense | | |
|---|---|---|
| | Per Occupied Room | Ratio to Rms Revenue |
| Comparables | | |
| A | $24.12 | 20.9% |
| B | 21.20 | 19.2% |
| C | 29.06 | 23.9% |
| D | 27.90 | 22.0% |
| E | 24.84 | 22.1% |
| Weighted Average | 25.83 | 21.9% |
| Subject Stabilized Year | $25.00 | 20.8% |

## Food and Beverage Revenue and Expense

***Food and beverage revenue*** is generated by the sale of meals to both hotel guests and also outside patrons in the food and beverage outlets, the sale of soft drinks, liquor, and wine in the lounge, and other associated revenues. Food and beverage revenue will vary depending on the number of food and beverage outlets, and the amount of meeting space. There are various components that will contribute to the subject's food and beverage revenue. The outlets at the subject hotel are assumed to include the following: grab and go market, casual dining restaurant, a hotel lounge, and meeting space. Additionally, guests will be within the same block as the restaurants currently open within Imperial Center.

We have estimated food and beverage revenues of approximately $15.00 per occupied room. This results in food and beverage revenues of approximately $558,000 in a representative year. The hotel is expected to have a strong crowd for breakfast and dinner with the lack of quality food offerings within the immediate area. This estimate is within the range of comparables on a POR and total basis.

| Food & Beverage Revenue | | |
|---|---|---|
| | Total Amount | Per Occupied Room |
| Comparables | | |
| C | $1,315,791 | $37.41 |
| D | 384,998 | 10.44 |
| E | 656,282 | 17.45 |
| Weighted Average | N/A | 21.49 |
| Subject Stabilized Year | $558,000 | $15.00 |

***Food and beverage expense*** includes the cost of food and beverage, payroll and related expenses, and other items such as laundry, linen, china, glassware, silverware, uniform costs, supplies, as well as other miscellaneous items. The food and beverage expense percentage to total food and beverage revenue for the comparable hotels ranged from 71.0 percent to 100.3 percent. Considering the financial comparables and the type of food and beverage operations proposed for the subject property, we believe a food and beverage expense percentage of 75.0 percent of total food and beverage revenues is appropriate for the subject property.

| Food & Beverage Expense | |
|---|---|
| | Ratio to F&B Rev. |
| Comparables | |
| C | 71.0% |
| D | 72.6% |
| E | 100.3% |
| Weighted Average | 79.4% |
| Subject Stabilized Year | 75.0% |

### Other Operated Departments Revenue and Expense

***Other Operated Departments Revenue*** can vary significantly among the comparable properties and the subject depending on the nature of the additional revenue generators. Other expected operated departments at the subject property include revenue from the gift shop, telephone and internet, business services, and in-room entertainment. This line item also includes rentals and other income. The comparable hotels had a range of other operated department revenue from $0.50 to $7.02 per occupied room. Based upon the various components of this line item, we have estimated the income for the subject to be approximately $2.00 per occupied room in a representative year of operations.

| Other Operated Departments Revenue | |
|---|---|
| | Per Occupied Room |
| Comparables | |
| A | $5.22 |
| B | 1.26 |
| C | 7.02 |
| D | 0.50 |
| E | 2.14 |
| Weighted Average | 3.14 |
| Subject Stabilized Year | $2.00 |

***Other Operated Department Expenses*** include payroll costs, employee benefits, and other operating supplies of such other operated departments. The comparables' other operating expenses ranged from a 9.9 percent to a 105.8 percent expense ratio, with a weighted average of 36.7 percent. For a representative year of operations, we have estimated expenses at approximately 80.0 percent of revenues for the subject, which is within the range of comparable hotels and in line with industry standards.

| Other Operated Departments Expense | |
|---|---|
| | Ratio to O.O.D. Rev. |
| Comparables | |
| A | 34.9% |
| B | 105.8% |
| C | 9.9% |
| D | 76.9% |
| E | 85.1% |
| Weighted Average | 36.7% |
| Subject Stabilized Year | 80.0% |

## Undistributed Operating Expenses

Undistributed Operating Expenses are operating expenses that are not chargeable to a particular operating department and are presented as undistributed operating expenses, in accordance with the *Uniform System of Accounts for the Lodging Industry*. These expenses include administrative and general, marketing, property operations and maintenance, and energy and utilities. These expenses are relatively unaffected by fluctuations in occupancies and ADR. Excluding management fees, which are a fixed percentage based on a contract agreement and market parameters, these expenses are analyzed primarily on a dollar amount per available room (PAR) basis.

### Administrative and General

This category includes the salary and wages of the general manager and administrative staff; cash overages and shortages, credit card commissions, bad debt expense, security, data processing costs, accounting payroll expense, and professional fees. Administrative and general expenses at the comparables ranged from $2,692 to $4,005 per available room with ratios to total revenue ranging from 8.5 percent to 10.5 percent of total revenues. We have estimated an administrative and general expense for the subject property of $3,000 per available room, which is 8.8 percent of revenues. This is within the range of comparables on a PAR and ratio basis.

| Administrative and General | | |
|---|---|---|
| | Per Available Room | Ratio to Total Rev. |
| Comparables | | |
| A | $3,136 | 10.5% |
| B | 3,104 | 10.4% |
| C | 4,005 | 9.5% |
| D | 2,904 | 8.5% |
| E | 2,692 | 8.5% |
| Weighted Average | 3,158 | 9.3% |
| Subject Stabilized Year | $3,000 | 8.8% |

### Marketing

This expense includes the cost of advertising, printing of brochures, salary associated with sales and marketing personnel, and other costs associated with an ongoing sales and promotion program. Marketing expenses for the comparables ranged from $2,356 to $5,207 per available room. The amount spent on marketing depends on the location, reputation, and brand association of the property. As such, we have estimated an expense of approximately $3,800 per available room, which equates to 11.2 percent of total revenues. This estimate is within the range of comparables on a PAR and ratio basis.

| Marketing | | |
|---|---|---|
| | Per Available Room | Ratio to Total Rev. |
| Comparables | | |
| A | $3,105 | 10.4% |
| B | 2,930 | 9.8% |
| C | 5,207 | 12.4% |
| D | 2,356 | 6.9% |
| E | 3,283 | 10.3% |
| Weighted Average | 3,412 | 10.0% |
| Subject Stabilized Year | $3,800 | 11.2% |

### Property Operations and Maintenance

Property operations and maintenance expenses are a function of building age and usage. This category includes the engineering salaries, wages and benefits, maintenance of the building, grounds and landscape, electrical and mechanical equipment, engineering, refrigeration, operating supplies, cleaning, waste removal, and uniforms. The comparable hotels posted expenses ranging from $1,217 to $2,078 per available room. Property operations and maintenance expenditures for the subject are estimated at approximately $1,600 per available room in 2015 dollars in a representative year, which is 4.7 percent of revenues.

| Property Operation and Maintenance | | |
|---|---|---|
| | Per Available Room | Ratio to Total Rev. |
| Comparables | | |
| A | $1,678 | 5.6% |
| B | 1,316 | 4.4% |
| C | 1,538 | 3.7% |
| D | 1,217 | 3.6% |
| E | 2,078 | 6.5% |
| Weighted Average | 1,583 | 4.6% |
| Subject Stabilized Year | $1,600 | 4.7% |

### Utility Costs

Energy and utility costs include electric, fuel, steam, water, and sewer charges. The cost of utilities at the comparable hotels ranged from $1,157 to $2,269 per available room. We have estimated energy and utility costs of $1,400 in a representative year of operation, equal to 4.1 percent of total revenues.

| Utility Costs | | |
|---|---|---|
| | Per Available Room | Ratio to Total Rev. |
| Comparables | | |
| A | $1,464 | 4.9% |
| B | 1,157 | 3.9% |
| C | 1,762 | 4.2% |
| D | 1,279 | 3.8% |
| E | 2,269 | 7.1% |
| Weighted Average | 1,641 | 4.8% |
| Subject Stabilized Year | $1,400 | 4.1% |

## Fixed Charges

### Management Fees

A management fee is an expense item representing the value of the management services. It is a variable operating expense normally expressed as a percentage of total revenues. Management fees for properties of this type typically range from 2.0 to 3.0 percent, and as such, we find a 3.0 percent expense level reasonable. This equates to a base management fee of $153,000 in a representative year.

### Real Estate Taxes

The subject property is in the real estate taxing jurisdiction of the San Diego County Tax Assessor's Office. In California, Proposition 13 limits property taxes to one percent of the assessed value plus city, special district, and county bonds. Assessed values are further limited to a two percent increase per year, except upon sale or major alterations of the property. In either of these two events, the property is re-appraised to current market value, usually as evidenced by the sales price or the construction cost. We were not provided with total construction cost. For the purpose of this analysis, we have used the tax estimate of 1.1 percent of the hotel's estimated value upon completion. This equates to an estimated property tax of $191,000 in a representative year, or 3.7 percent of total revenues.

### Insurance

Insurance expense includes coverage for liability and buildings and contents, and has been on the rise in the last few years. Insurance expense for the comparable properties ranged from $58 PAR to $390 PAR. Based on the subject's proposed facilities and our knowledge of industry trends, this expense at the subject property is estimated to be $400 per available room in 2015 dollars for a representative year of operation.

| **Insurance** | |
|---|---|
| | Per Available Room |
| Comparables | |
| A | $390 |
| B | 386 |
| C | 58 |
| D | 257 |
| E | 275 |
| Weighted Average | 255 |
| Subject Stabilized Year | $400 |

### Reserves for Replacement

An additional item not typically listed on an owner's income statement is the amount required for the periodic replacement of certain short-lived items such as carpeting, draperies, and other furniture, fixtures and equipment. For a new hotel, reserves are often lower in the first few years, because very little capital improvements will be necessary. We have increased the reserves gradually over the first three full years of the projection period to build up reserves as the building ages. We have projected reserves for replacement of

2.0 percent in 2018, 3.0 percent in 2019, and 4.0 percent in 2020 and each year thereafter.

## STABILIZED YEAR OPERATING RESULTS

Presented on the following page is an estimate of the subject hotel's stabilized year operating results expressed in current value 2015 dollars. This estimate is based on the foregoing analysis. For this twelve-month period, revenues are projected to total approximately $5,100,000. Gross operating profit, which does not include management fees, property taxes, insurance, or reserves for replacement, totals approximately $2,220,000, or 43.5 percent of total revenue. Net operating income for the subject in a stabilized year, after the deduction of a management fee, property taxes, insurance, and a reserve for capital replacement, is projected to be $1,612,000 or 31.6 percent of total revenue.

**Proposed Heber Hotel**
Representative Year of Operation

| | Stated in 2015 Dollars | | | |
|---|---|---|---|---|
| Number of Units: | 150 | | | |
| Number of Annual Rooms Available: | 54,750 | | | |
| Number of Rooms Occupied: | 37,230 | | | |
| Annual Occupancy: | 68.0% | | | |
| Average Daily Rate: | $120.00 | | | |
| Revenue Per Available Room: | $81.60 | | | |
| | Amount | Ratio | Per Room | P.O.R. |
| Revenues | | | | |
| Rooms | $4,468,000 | 87.6% | $29,787 | $120.01 |
| Food & Beverage | 558,000 | 10.9% | 3,720 | 14.99 |
| Other Operated Departments | 74,000 | 1.5% | 493 | 1.99 |
| Total Revenues | 5,100,000 | 100.0% | 34,000 | 136.99 |
| Departmental Expenses | | | | |
| Rooms | 931,000 | 20.8% | 6,207 | 25.01 |
| Food & Beverage | 419,000 | 75.1% | 2,793 | 11.25 |
| Other Operated Departments | 60,000 | 81.1% | 400 | 1.61 |
| Total Departmental Expenses | 1,410,000 | 27.6% | 9,400 | 37.87 |
| Departmental Profit | 3,690,000 | 72.4% | 24,600 | 99.11 |
| Undistributed Expenses | | | | |
| Administrative & General | 450,000 | 8.8% | 3,000 | 12.09 |
| Marketing | 570,000 | 11.2% | 3,800 | 15.31 |
| Property Operation and Maintenance | 240,000 | 4.7% | 1,600 | 6.45 |
| Utility Costs | 210,000 | 4.1% | 1,400 | 5.64 |
| Total Undistributed Operating Expenses | 1,470,000 | 28.8% | 9,800 | 39.48 |
| Gross Operating Profit | 2,220,000 | 43.5% | 14,800 | 59.63 |
| Base Management Fee | 153,000 | 3.0% | 1,020 | 4.11 |
| Fixed Expenses | | | | |
| Property Taxes | 191,000 | 3.7% | 1,273 | 5.13 |
| Insurance | 60,000 | 1.2% | 400 | 1.61 |
| Total Fixed Expenses | 251,000 | 4.9% | 1,673 | 6.74 |
| Net Operating Income Before Reserve | 1,816,000 | 35.6% | 12,107 | 48.78 |
| FF&E Reserve | 204,000 | 4.0% | 1,360 | 5.48 |
| Net Operating Income After Reserve | $1,612,000 | 31.6% | $10,747 | $43.30 |

Source: ***PKF Consulting***

## Estimated Annual Operating Results

The previous analysis provided for the income and expenses incurred in the operation of the subject in a stabilized year. In the following analysis, we provide estimated income and expenses for the subject during each year of the ten year holding period anticipated for a typical investor. Our estimate of the performance for the subject in the stabilized year is used as a basis for our analysis, considering the effects of inflation, business development, and varying occupancy.

## Inflation

To portray price level changes during the holding period, we have assumed an inflation rate of 3.0 percent throughout the projection period. This rate reflects the consensus of several well-recognized economists for the current long-term outlook for the future movement of prices and is consistent with the inflation rates of the 1990s and early 2000s. All expenses except for property taxes are projected to increase at 3.0 percent throughout the holding period.

It should be noted that inflation is caused by many factors and unanticipated events and circumstances can affect the forecasted rate. Therefore, the estimated operating results computed over the projection period can vary from the actual operating results, and the variations may be material.

## Statement of Estimated Annual Operating Results

The estimated annual operating results for the proposed hotel from January 1, 2018 to December 31, 2027 are presented on the following pages.

**Proposed Heber Hotel**
Projected Operating Results
Calendar Years

| | 2018 | | 2019 | | 2020 | | 2021 | | 2022 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of Units: | 150 | | 150 | | 150 | | 150 | | 150 | |
| Number of Annual Rooms Available: | 54,750 | | 54,750 | | 54,750 | | 54,750 | | 54,750 | |
| Number of Rooms Occupied: | 28,470 | | 32,850 | | 37,230 | | 37,230 | | 37,230 | |
| Annual Occupancy: | 52.0% | | 60.0% | | 68.0% | | 68.0% | | 68.0% | |
| Average Daily Rate: | $131.00 | | $135.00 | | $139.00 | | $143.00 | | $148.00 | |
| Revenue Per Available Room: | $68.12 | | $81.00 | | $94.52 | | $97.24 | | $100.64 | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Revenues | | | | | | | | | | |
| Rooms | $3,730,000 | 87.6% | $4,435,000 | 87.6% | $5,175,000 | 87.6% | $5,324,000 | 87.6% | $5,510,000 | 87.6% |
| Food & Beverage | 467,000 | 11.0% | 555,000 | 11.0% | 647,000 | 11.0% | 667,000 | 11.0% | 687,000 | 10.9% |
| Other Operated Departments | 62,000 | 1.5% | 74,000 | 1.5% | 86,000 | 1.5% | 89,000 | 1.5% | 92,000 | 1.5% |
| Total Revenues | 4,259,000 | 100.0% | 5,064,000 | 100.0% | 5,908,000 | 100.0% | 6,080,000 | 100.0% | 6,289,000 | 100.0% |
| Departmental Expenses | | | | | | | | | | |
| Rooms | 897,000 | 24.0% | 986,000 | 22.2% | 1,079,000 | 20.9% | 1,111,000 | 20.9% | 1,145,000 | 20.8% |
| Food & Beverage | 393,000 | 84.2% | 438,000 | 78.9% | 486,000 | 75.1% | 500,000 | 75.0% | 515,000 | 75.0% |
| Other Operated Departments | 50,000 | 80.6% | 59,000 | 79.7% | 69,000 | 80.2% | 71,000 | 79.8% | 73,000 | 79.3% |
| Total Departmental Expenses | 1,340,000 | 31.5% | 1,483,000 | 29.3% | 1,634,000 | 27.7% | 1,682,000 | 27.7% | 1,733,000 | 27.6% |
| Departmental Profit | 2,919,000 | 68.5% | 3,581,000 | 70.7% | 4,274,000 | 72.3% | 4,398,000 | 72.3% | 4,556,000 | 72.4% |
| Undistributed Expenses | | | | | | | | | | |
| Administrative & General | 492,000 | 11.6% | 506,000 | 10.0% | 522,000 | 8.8% | 537,000 | 8.8% | 553,000 | 8.8% |
| Marketing | 623,000 | 14.6% | 642,000 | 12.7% | 661,000 | 11.2% | 681,000 | 11.2% | 701,000 | 11.1% |
| Property Operation and Maintenance | 262,000 | 6.2% | 270,000 | 5.3% | 278,000 | 4.7% | 287,000 | 4.7% | 295,000 | 4.7% |
| Utility Costs | 229,000 | 5.4% | 236,000 | 4.7% | 243,000 | 4.1% | 251,000 | 4.1% | 258,000 | 4.1% |
| Total Undistributed Operating Expenses | 1,606,000 | 37.7% | 1,654,000 | 32.7% | 1,704,000 | 28.8% | 1,756,000 | 28.9% | 1,807,000 | 28.7% |
| Gross Operating Profit | 1,313,000 | 30.8% | 1,927,000 | 38.1% | 2,570,000 | 43.5% | 2,642,000 | 43.5% | 2,749,000 | 43.7% |
| Base Management Fee | 128,000 | 3.0% | 152,000 | 3.0% | 177,000 | 3.0% | 182,000 | 3.0% | 189,000 | 3.0% |
| Fixed Expenses | | | | | | | | | | |
| Property Taxes | 202,000 | 4.7% | 219,000 | 4.3% | 223,000 | 3.8% | 228,000 | 3.8% | 232,000 | 3.7% |
| Insurance | 66,000 | 1.5% | 68,000 | 1.3% | 70,000 | 1.2% | 72,000 | 1.2% | 74,000 | 1.2% |
| Total Fixed Expenses | 268,000 | 6.3% | 287,000 | 5.7% | 293,000 | 5.0% | 300,000 | 4.9% | 306,000 | 4.9% |
| Net Operating Income Before Reserve | 917,000 | 21.5% | 1,488,000 | 29.4% | 2,100,000 | 35.5% | 2,160,000 | 35.5% | 2,254,000 | 35.8% |
| FF&E Reserve | 85,000 | 2.0% | 152,000 | 3.0% | 236,000 | 4.0% | 243,000 | 4.0% | 252,000 | 4.0% |
| Net Operating Income After Reserve | $832,000 | 19.5% | $1,336,000 | 26.4% | $1,864,000 | 31.6% | $1,917,000 | 31.5% | $2,002,000 | 31.8% |
| Source: ***PKF Consulting*** | Full Year of Operation | | | | | | | | | |

**Proposed Heber Hotel**
Projected Operating Results
Calendar Years

| | 2023 | | 2024 | | 2025 | | 2026 | | 2027 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of Units: | 150 | | 150 | | 150 | | 150 | | 150 | |
| Number of Annual Rooms Available: | 54,750 | | 54,750 | | 54,750 | | 54,750 | | 54,750 | |
| Number of Rooms Occupied: | 37,230 | | 37,230 | | 37,230 | | 37,230 | | 37,230 | |
| Annual Occupancy: | 68.0% | | 68.0% | | 68.0% | | 68.0% | | 68.0% | |
| Average Daily Rate: | $152.00 | | $157.00 | | $161.00 | | $166.00 | | $171.00 | |
| Revenue Per Available Room: | $103.36 | | $106.76 | | $109.48 | | $112.88 | | $116.28 | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Revenues | | | | | | | | | | |
| Rooms | $5,659,000 | 87.6% | $5,845,000 | 87.6% | $5,994,000 | 87.6% | $6,180,000 | 87.6% | $6,366,000 | 87.6% |
| Food & Beverage | 707,000 | 10.9% | 729,000 | 10.9% | 751,000 | 11.0% | 773,000 | 11.0% | 796,000 | 11.0% |
| Other Operated Departments | 94,000 | 1.5% | 97,000 | 1.5% | 100,000 | 1.5% | 103,000 | 1.5% | 106,000 | 1.5% |
| Total Revenues | 6,460,000 | 100.0% | 6,671,000 | 100.0% | 6,845,000 | 100.0% | 7,056,000 | 100.0% | 7,268,000 | 100.0% |
| Departmental Expenses | | | | | | | | | | |
| Rooms | 1,179,000 | 20.8% | 1,214,000 | 20.8% | 1,251,000 | 20.9% | 1,288,000 | 20.8% | 1,327,000 | 20.8% |
| Food & Beverage | 531,000 | 75.1% | 546,000 | 74.9% | 563,000 | 75.0% | 580,000 | 75.0% | 597,000 | 75.0% |
| Other Operated Departments | 75,000 | 79.8% | 78,000 | 80.4% | 80,000 | 80.0% | 82,000 | 79.6% | 85,000 | 80.2% |
| Total Departmental Expenses | 1,785,000 | 27.6% | 1,838,000 | 27.6% | 1,894,000 | 27.7% | 1,950,000 | 27.6% | 2,009,000 | 27.6% |
| Departmental Profit | 4,675,000 | 72.4% | 4,833,000 | 72.4% | 4,951,000 | 72.3% | 5,106,000 | 72.4% | 5,259,000 | 72.4% |
| Undistributed Expenses | | | | | | | | | | |
| Administrative & General | 570,000 | 8.8% | 587,000 | 8.8% | 605,000 | 8.8% | 623,000 | 8.8% | 642,000 | 8.8% |
| Marketing | 722,000 | 11.2% | 744,000 | 11.2% | 766,000 | 11.2% | 789,000 | 11.2% | 813,000 | 11.2% |
| Property Operation and Maintenance | 304,000 | 4.7% | 313,000 | 4.7% | 323,000 | 4.7% | 332,000 | 4.7% | 342,000 | 4.7% |
| Utility Costs | 266,000 | 4.1% | 274,000 | 4.1% | 282,000 | 4.1% | 291,000 | 4.1% | 299,000 | 4.1% |
| Total Undistributed Operating Expenses | 1,862,000 | 28.8% | 1,918,000 | 28.8% | 1,976,000 | 28.9% | 2,035,000 | 28.8% | 2,096,000 | 28.8% |
| Gross Operating Profit | 2,813,000 | 43.5% | 2,915,000 | 43.7% | 2,975,000 | 43.5% | 3,071,000 | 43.5% | 3,163,000 | 43.5% |
| Base Management Fee | 194,000 | 3.0% | 200,000 | 3.0% | 205,000 | 3.0% | 212,000 | 3.0% | 218,000 | 3.0% |
| Fixed Expenses | | | | | | | | | | |
| Property Taxes | 237,000 | 3.7% | 242,000 | 3.6% | 247,000 | 3.6% | 252,000 | 3.6% | 257,000 | 3.5% |
| Insurance | 76,000 | 1.2% | 78,000 | 1.2% | 81,000 | 1.2% | 83,000 | 1.2% | 86,000 | 1.2% |
| Total Fixed Expenses | 313,000 | 4.8% | 320,000 | 4.8% | 328,000 | 4.8% | 335,000 | 4.7% | 343,000 | 4.7% |
| Net Operating Income Before Reserve | 2,306,000 | 35.7% | 2,395,000 | 35.9% | 2,442,000 | 35.7% | 2,524,000 | 35.8% | 2,602,000 | 35.8% |
| FF&E Reserve | 258,000 | 4.0% | 267,000 | 4.0% | 274,000 | 4.0% | 282,000 | 4.0% | 291,000 | 4.0% |
| Net Operating Income After Reserve | $2,048,000 | 31.7% | $2,128,000 | 31.9% | $2,168,000 | 31.7% | $2,242,000 | 31.8% | $2,311,000 | 31.8% |

Source: ***PKF Consulting***

## *Addendum*

## *Terms and Conditions*

**TERMS AND CONDITIONS**

1. The Terms and Conditions herein are part of an agreement for consulting services (the "Agreement") between CBRE, Inc. (the "Consultant") and the client signing this Agreement, and for whom the consulting services will be performed (the "Client"), and shall be deemed a part of such Agreement as though set forth in full therein. The Agreement shall be governed by the laws of the state where the Consultant's office is located for the Consultant executing this Agreement.
2. Client shall be responsible for the payment of all fees stipulated in the Agreement. Payment of the engagement fee and preparation of a report (the "Report") are not contingent upon any predetermined value or on an action or event resulting from the analyses, opinions, conclusions, or use of the Consulting Report. Final payment is due as provided in the Proposal Specifications Section of this Agreement. If a draft report is requested, the fee is considered earned upon delivery of the draft report. It is understood that the Client may cancel this assignment in writing at any time prior to delivery of the completed report. In such event, the Client is obligated only for the prorated share of the fee based upon the work completed and expenses incurred (including travel expenses to and from the job site), with a minimum charge of $500. Additional copies of the Reports are available at a cost of $250 per original color copy and $100 per photocopy (black and white), plus shipping fees of $30 per report.
3. If Consultant is subpoenaed to give testimony or otherwise required or requested by Client or a third party to participate in meetings, phone calls, conferences, litigation or other legal proceedings (including preparation for such proceedings) because of, connected with or in any way pertaining to this engagement, the Report, the Consultant's expertise, or the Property, Client shall pay Consultant's additional costs and expenses based on Consultant's then-prevailing hourly rates and related fees. Such charges include and pertain to time spent in preparing for and providing court room testimony, depositions, travel time, mileage and related travel expenses, waiting time, document review and preparation time (excluding preparation of the Report), meeting participation, and Consultant's other related commitment of time and expertise. Hourly charges and other fees for such participation will be provided upon request. In the event Client requests additional consulting services beyond the scope and purpose stated in the Agreement, Client agrees to pay additional fees for such services and to reimburse related expenses, whether or not the completed report has been delivered to Client at the time of such request.
4. Consultant shall have the right to terminate this Agreement at any time for cause effective immediately upon written notice to Client on the occurrence of fraud or the willful misconduct of Client, its employees or agents.
5. In the event Client fails to make payments when due then, from the date due until paid, the amount due and payable shall bear interest at the maximum rate permitted in the state where the office is located for the Consultant executing the Agreement. In the event either party institutes legal action against the other to enforce its rights under this Agreement, the prevailing party shall be entitled to recover its reasonable attorney's fees and expenses. Each party waives the right to a trial by jury in any action arising under this Agreement.
6. Consultant assumes there are no major or significant items or issues affecting the Property that would require the expertise of a professional building contractor, engineer, or environmental consultant for Consultant to prepare a valid report. Client acknowledges that such additional expertise is not covered in the engagement fee and agrees that, if such additional expertise is required, it shall be provided by others at the discretion and direction of the Client, and solely at Client's additional cost and expense.
7. In the event of any dispute between Client and Consultant relating to this Agreement, or Consultant's or Client's performance hereunder, Consultant and Client agree that such dispute shall be resolved by means of binding arbitration in accordance with the commercial arbitration rules of the American Arbitration Association, and judgment upon the award rendered by an arbitrator may be entered in any court of competent jurisdiction. Depositions may be taken and other discovery obtained during such arbitration proceedings to the same extent as authorized in civil judicial proceedings in the state where the office of the Consultant executing this Agreement is located. The arbitrator shall be limited to awarding

compensatory damages and shall have no authority to award punitive, exemplary or similar damages. The prevailing party in the arbitration proceeding shall be entitled to recover its expenses from the losing party, including costs of the arbitration proceeding, and reasonable attorney's fees. Client acknowledges that Consultant is being retained hereunder as an independent contractor to perform the services described herein and nothing in this Agreement shall be deemed to create any other relationship between Client and Consultant. This engagement shall be deemed concluded and the services hereunder completed upon delivery to Client of the Report discussed herein.

8. All statements of fact in the report which are used as the basis of the Consultant's analyses, opinions, and conclusions will be true and correct to the best of the Consultant's knowledge and belief. Consultant does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information or the condition of the Property furnished to Consultant by Client or others.

9. Consultant shall have no responsibility for legal matters, including zoning, or questions of survey or title, soil or subsoil conditions, engineering, or other similar technical matters. The report will not constitute a survey of the Property analyzed.

10. Client shall provide Consultant with such materials with respect to the assignment as are requested by Consultant and in the possession or under the control of Client. Client shall provide Consultant with sufficient access to the Property to be analyzed, and hereby grants permission for entry unless discussed in advance to the contrary.

11. The data gathered in the course of the assignment (except data furnished by Client) and the report prepared pursuant to the Agreement are, and will remain, the property of Consultant. With respect to data provided by Client, Consultant shall not violate the confidential nature of the Consultant-Client relationship by improperly disclosing any proprietary information furnished to Consultant. Notwithstanding the foregoing, Consultant is authorized by Client to disclose all or any portion of the report and related data as may be required by statute, government regulation, legal process, or judicial decree, including to appropriate representatives of the Appraisal Institute if such disclosure is required to enable Consultant to comply with the Bylaws and Regulations of such Institute as now or hereafter in effect.

12. Unless specifically noted, in preparing the Report the Consultant will not be considering the possible existence of asbestos, PCB transformers, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (collectively, "Hazardous Material) on or affecting the Property, or the cost of encapsulation or removal thereof. Further, Client represents that there is no major or significant deferred maintenance of the Property that would require the expertise of a professional cost estimator or contractor. If such repairs are needed, the estimates are to be prepared by others, at Client's discretion and direction, and are not covered as part of the engagement fee.

13. In the event Client intends to use the Report in connection with a tax matter, Client acknowledges that Consultant provides no warranty, representation or prediction as to the outcome of such tax matter. Client understands and acknowledges that any relevant taxing authority (whether the Internal Revenue Service or any other federal, state or local taxing authority) may disagree with or reject the Report or otherwise disagree with Client's tax position, and further understands and acknowledges that the taxing authority may seek to collect additional taxes, interest, penalties or fees from Client beyond what may be suggested by the Report. Client agrees that Consultant shall have no responsibility or liability to Client or any other party for any such taxes, interest, penalties or fees and that Client will not seek damages or other compensation from Consultant relating to any such taxes, interest, penalties or fees imposed on Client, or for any attorneys' fees, costs or other expenses relating to Client's tax matters.

14. Consultant shall have no liability with respect to any loss, damage, claim or expense incurred by or asserted against Client arising out of, based upon or resulting from Client's failure to provide accurate or complete information or documentation pertaining to an assignment ordered under or in connection with this Agreement, including Client's failure, or the failure of any of Client's agents, to provide a complete copy of the Report to any third party.

15. LIMITATION OF LIABILITY. EXCEPT TO THE EXTENT ARISING FROM SECTION 16 BELOW, OR SECTION 17 IF APPLICABLE, IN NO EVENT SHALL EITHER PARTY OR ANY OF THEIR OFFICERS, DIRECTORS, EMPLOYEES OR CONTRACTORS BE LIABLE TO THE OTHER, WHETHER BASED IN CONTRACT, WARRANTY, INDEMNITY, NEGLIGENCE, STRICT LIABILITY OR OTHER TORT OR OTHERWISE, FOR (I) ANY SPECIAL, CONSEQUENTIAL, PUNITIVE, INCIDENTAL OR INDIRECT DAMAGES AND (II) AGGREGATE DAMAGES IN CONNECTION WITH THIS AGREEMENT (EXCLUDING THE OBLIGATION TO PAY THE FEES REQUIRED HEREUNDER) IN EXCESS OF THE GREATER OF THE AMOUNT OF THE TOTAL FEES PAID TO CONSULTANT UNDER THIS AGREEMENT OR TEN THOUSAND DOLLARS ($10,000). THIS LIABILITY LIMITATION SHALL NOT APPLY IN THE EVENT OF A FINAL FINDING BY AN ARBITRATOR OR A COURT OF COMPETENT JURISDICTION THAT SUCH LIABILITY IS THE RESULT OF A PARTY'S GROSS NEGLIGENCE, FRAUD OR WILLFUL MISCONDUCT.

16. Client shall not disseminate, distribute, make available or otherwise provide any Report prepared hereunder to any third party (including without limitation, incorporating or referencing the Report , in whole or in part, in any offering or other material intended for review by other parties) except to (i) any third party approved in writing by Consultant and identified herein as an "Intended User" of the Report, (ii) any third party service provider (including rating agencies and Client's auditors) using the Report in the course of providing services for the sole benefit of Client, or (iii) as required by statute, government regulation, legal process, or judicial decree. In the event Consultant consents, in writing, to Client incorporating or referencing the Report in any offering or other materials intended for review by other parties, Client shall not distribute, file, or otherwise make such materials available to any such parties unless and until Client has provided Consultant with complete copies of such materials and Consultant has approved all such materials in writing. Client shall not modify any such materials once approved by Consultant. In the absence of satisfying the conditions of this paragraph with respect to a party who is not designated as an Intended User, in no event shall the receipt of a Report by such party extend any right to the party to use and rely on such report, and Consultant shall have no liability for such unauthorized use and reliance on any Report. In the event Client breaches the provisions of this paragraph, Client shall indemnify, defend and hold Consultant, and its affiliates and their officers, directors, employees, contractors, agents and other representatives (Consultant and each of the foregoing an "Indemnified Party" and collectively the "Indemnified Parties"), fully harmless from and against all losses, liabilities, damages and expenses (collectively, "Damages") claimed, sustained or incurred by any party arising out of or in connection with such breach, regardless of any negligence on the part of any Indemnified Party in preparing the Report.

17. In the event Client incorporates or references the Report, in whole or in part, in any offering or other material intended for review by other parties, Client shall indemnify, defend and hold each of the Indemnified Parties harmless from and against any Damages in connection with (i) any transaction contemplated by this Agreement or in connection with the engagement of or performance of services by any Indemnified Party hereunder, (ii) any actual or alleged untrue statement of a material fact, or the actual or alleged failure to state a material fact necessary to make a statement not misleading in light of the circumstances under which it was made with respect to all information furnished to any Indemnified Party or made available to a prospective party to a transaction, or (iii) an actual or alleged violation of applicable law by Client (including, without limitation, securities laws) or the negligent or intentional acts or omissions of Client (including the failure to perform any duty imposed by law); and will reimburse each Indemnified Party for all reasonable fees and expenses (including fees and expenses of counsel) (collectively, "Expenses") as incurred in connection with investigating, preparing, pursuing or defending any threatened or pending claim, action, proceeding or investigation (collectively, "Proceedings") arising there from, and regardless of whether such Indemnified Party is a formal party to such Proceeding. Client agrees not to enter into any waiver, release or settlement of any Proceeding (whether or not any Indemnified Party is a formal party to such Proceeding) without the prior written consent of Consultant (which consent will not be unreasonably withheld or delayed) unless such waiver, release or settlement includes an unconditional release of each Indemnified Party from all liability arising out of such Proceeding.