Nichols Hospitality Consulting, Inc.

Market Study with Financial Projections
Proposed Hotel
Berryville, Virginia

Prepared By:

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Prepared For:

Town of Berryville, Virginia
c/o Christy Dunkle, Planning Director
101 Chalmers Court, Suite A
Berryville, Virginia 22611

December 11, 2013

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Jan L. Nichols, CHA, CRE
President

December 11, 2013

Town of Berryville, Virginia
c/o Christy Dunkle, Planning Director
101 Chalmers Court, Suite A
Berryville, Virginia 22611

Re: Proposed Hotel Market Feasibility Study
Berryville, Virginia

Dear Ms. Dunkle:

Pursuant to your request, I herewith submit a market study with financial projections pertaining to the above-captioned property. I have inspected the site and analyzed the hotel market conditions in the Berryville area.

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

It has been a pleasure to assist you on this assignment.

Sincerely,

Jan L. Nichols, CHA, CRE
State-Certified General Real Estate Appraiser #RZ1877

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The Power of Travel Promotion: Spurring Growth, Creating Jobs, published by the US Travel Association, 2013

1. Executive Summary

Property and Location

The proposed hotel site that is the subject of this study is part of a greater 11.6-acre parcel located in the southwest quadrant of the intersection of Harry Byrd Highway (SR 7) and US Highway 340 in the Town of Berryville, Clarke County, Virginia, known as the "Byrd Property".

Site Conclusions

The subject site appears physically suited for the operation of a small, midscale hotel. Access, visibility, zoning, and other physical factors have been analyzed, with the following advantages and disadvantages noted.

Site Advantages:

- Good Accessibility: The subject site is accessible to a variety of local, county, and state highways, and features good access to SR 7 (the most highly trafficked roadway in Clarke County with total average daily traffic of 21,000 to 25,000 near Berryville). Berryville is the County Seat of Clarke County, and is centrally located with good access to numerous leisure, meeting & group, and commercial lodging demand generators within the region.

- Excellent Ingress and Egress: A planned extension of McNeill Drive and/or McClellan Street, which intersects with Mosby Boulevard, one block southwest of the site, will provide ingress/egress. Mosby provides access to North Buckmarsh Street/US 340 within one block, which provides access to SR 7, located within one block. A traffic signal eases access from North Buckmarsh Street in both directions.

- Excellent Visibility: Due to its location directly adjacent to and above the highway grade, the subject site should enjoy good visibility from North Buckmarsh/US 340 and SR 7. Prominent signage on the proposed two-story hotel building and at entrances to the site will enhance the property's visibility. Signage on SR 7 indicating lodging at the Berryville US 340 exit should be provided as well.

- Ample Land, Zoned for Hotel Use: The subject hotel site is part of a greater parcel with a total of 11.6 acres, and is zoned for Business Commercial land use, which allows hotels as well as other commercial/retail land use that would complement a hotel facility. Public water, sewer, and utilities are available to the site.

- Complementary Adjacent Uses: Food Lion grocery store (convenient for hotel guests to purchase deli and other food or sundry items), a bank, and several retirement/assisted living facilities (can generate lodging demand) are nearby, with room for additional commercial development, including restaurants. Within one mile north, a new mini market and gas station, "Route 340 Depot" is scheduled to open in 2014, and a gasoline service station is located within one half mile of the site on N. Buckmarsh.

- Proximity to Restaurants: The site is approximately one-half mile north of Main Street via N. Buckmarsh Street, within walking distance of ±12 restaurants plus unique shops and entertainment in downtown Berryville. Numerous additional restaurants are located within a 10-minute drive, including fine dining.

Site Disadvantages:

- Small Town Location with Limited Current Lodging Demand: The subject hotel site is located in Berryville (population 4,185), Clarke County (population 14,034). Our research indicates a modest amount of commercial, leisure and meeting and group lodging demand is generated locally but is mostly accommodated at midscale hotels elsewhere in the region, especially Winchester. The development of approximately 40 to 50 hotel rooms appears market feasible at this time; however, the development threshold for most major lodging chains is about 75 rooms.

- Marginal AADT Counts: Annual average daily traffic (AADT) counts on SR 7 at Berryville total about 21,000 to 25,000 (confirmed by VDOT as total of both directions), although a portion of this traffic is daily commuter traffic unrelated to lodging demand. AADT on US Route 340 near the subject site totals 9,200. Most hotel chains prefer to locate near highways with a minimum of 25,000 AADT and prefer higher (I-81 in the Winchester metro area AADT was 56,000 to 61,000 total both directions in 2012).

- Clarke County Lags in Economic Development: With limited jobs growth in the past decade (including loss of a major employer, American Woodmark), Clarke County lags its neighboring, fast-growing counties. It is surrounded by strong economic growth engines: Winchester and Frederick County to the east is a major regional medical, business, and retail hub with the advantage of I-81 accessibility; Front Royal and Warren County to the south are located at the juncture of I-66 and I-81; Loudoun County to the east features better access to Washington DC and includes Dulles International Airport; to the north lies Charles Town and West Virginia, with lower taxes and casino gaming. The fact that Clarke County offers no midscale lodging of appeal to business travelers is a detriment to attracting new businesses to the area; however, more economic activity will be necessary to sustain and grow lodging demand in the county.

- Clarke County Lacks a Tourism Strategic Plan and Sufficient Lodging Tax: In order to increase the economic advantages of the tourism industry, Clarke County must increase its 2.0% lodging excise tax rate (for example,

Loudoun County's lodging tax is 7.0%), and develop, adopt, fund and implement a Tourism Strategic Plan.

- Buckmarsh Street Could Be More Pedestrian Friendly*:* North Buckmarsh Street is potential hotel guests' primary access to downtown Berryville, and many will want to walk the half-mile distance. It is important that this be a pedestrian-friendly route. The consultant recommends that the town consider streetscape beautification and wayfinding signage to enhance visitors' experience traversing to Main Street.

Consultant's Recommendations to Increase Tourism and Lodging Demand in Clarke County

Clarke County offers an excellent array of things to do that appeal to tourists, including attractions, wineries, scenic rural highways, historic sites, restaurants, antiques and unique shops, luxury country inns/bed & breakfasts, and recreational amenities. Since the county lacks midscale lodging, most travelers currently seek accommodations in neighboring areas, such as Winchester. *Clarke County has the potential to garner a much greater share of regional travel spending, and tourism should be an important part of its economic development strategy.* Travel and tourism is a major cash-generating engine in Virginia. According to the VTC and US Travel Association, in 2012, domestic travelers spent $21.2 billion on transportation, lodging, food, amusement and recreation, as well as retail shopping in Virginia, a 4.0% increase over 2011. Domestic travel in Virginia directly supported 210,000 jobs within Virginia in 2012, comprising seven percent of total private employment. Forty of Virginia's 134 counties received over $100 million in travel expenditures in 2012.

According to the VTC and US Travel Association, Clarke County currently ranks near the bottom, at 101 out of Virginia's 134 counties in travel spending, with estimated total expenditures of $17.71 million and local tax receipts of $49,000. This compares to adjacent Loudoun County, ranked #3 in the state with estimated total tourist expenditures of $1.558 billion and local tax receipts of $23.9 million. Loudoun County has a lodging tax of 7% - compared to Clarke County's 2% lodging tax. Frederick County ranks 35 with $118.5 million in expenditures and $3.42 million in local tax receipts, while Winchester city attracts $96.3 million in expenditures and $3.19 million in local tax receipts.

The Virginia Tourist Corporation (VTC) is a State agency which assists counties throughout Virginia in promoting tourism to their destination. Factors which could help boost lodging demand locally, and increase the economic impact of tourism in the county, include adoption and implementation of a Tourism Strategic Plan in conjunction with VTC, and increasing the local lodging tax to provide staffing, advertising and promotion funds.

Studies by the US Travel Association show that increased travel marketing and promotion results in increased visitor trips and spending, which creates new jobs and tax revenues, which leads to additional visitor spending.

A social media/Internet campaign is essential in marketing Berryville and Clarke County to travelers. In recent years, travelers and hotel customers are shaping a brand or a destination's online reputation by commenting and sharing experiences. A recent study by Ypartnership/Harrison Group reports that **61%** of travelers consult Tripadvisor.com before booking a hotel reservation, and one-third visited an online community, travel forum or blog in the past 12 months to check out a destination or travel supplier. Tripadvisor.com has a site for

local tourist organizations to promote their destinations, by gathering and showcasing traveler reviews, adding widgets to promote local restaurants, attractions and lodging to travelers searching the web, and widgets to link Tripadvisor users to local sites. It is commendable that Berryville's luxury country inns are highly rated by Tripadvisor guests – Smithfield Farms is ranked #1 with 78 reviews, Rosemont Manor is ranked #2 with 137 reviews, and Berryville Inn and Battletown Inn are ranked #3 and #4 with 36 and 26 reviews, respectively, and all are highly ranked for guest satisfaction with 4.5 to 5 star ratings. The Battletown Inn is also ranked the #1 restaurant out of 20 Berryville area restaurants on Tripadvisor.com, and most area restaurants received positive reviews from travelers. For an example of a small town's highly successful web site and social media marketing, the consultant recommends the following as a good model for web site development: www.nsbfla.com.

Recommended Hotel Brands and Facilities

It is the consultant's opinion that a brand affiliation is necessary to ensure adequate marketing support and professional operational standards for the subject proposed hotel; it is unlikely that an independent, unaffiliated hotel would be market or financially feasible. As presented later in this report, research indicates that lodging demand in Berryville/Clarke County is currently significant enough to support approximately 40 to 50 rooms; *the hotel is considered to be market feasible.* It is the consultant's recommendation that an Upper Midscale or Midscale focused-service hotel brand, including suites, would be most appropriate and offer broad appeal to commercial and leisure travelers. The addition of a meeting room of at least 1,200 square feet (divisible by two) is recommended to increase the property's appeal to the small group and meetings market, and serve as a venue for local meetings and social events.

Recommended Facilities Summary

Recommended Number of Rooms:	±45 Rooms and Suites
Recommended Chain Scale:	Midscale
Recommended Brand:	Cobblestone Inn & Suites or Best Western
Meeting Space:	±1,200 Square Feet Divisible by 2
Food & Beverage Facilities:	Complimentary Hot Breakfast Area Lobby Lounge Beer & Wine Bar
Amenities:	Swimming Pool, Fitness Center, Business Center

Summary of Forecast Conclusions

Projected 2016 (Year One)	
Average Room Rate:	$81.75
Occupancy:	55%
Total Projected Revenue:	$769,000

Projected 2019 (Stabilized Year)	
Average Room Rate:	$89.76
Occupancy:	66%
Total Projected Revenue:	$1,009,000
Hotel's Lodging Excise Tax Potential, 2% Current Rate:	$20,180
Hotel's Lodging Excise Tax Potential, 5% Recommended Rate:	$50,450
Total 2012 Lodging Excise Tax Collected in Clarke County:	**$23,851**

Based on the attached analysis, the subject property is projected to generate Net Operating Income Available for Debt Service of $209,000 in Year One (2016), increasing to $338,000 in Year 4 (2019). At current income capitalization rates, utilizing a discounted cash flow analysis, this indicates a prospective market value for the hotel in the range of $3,100,000 to $3,300,000. Total development costs (land plus construction and soft costs) were not available to the consultant, but if the cost to develop the hotel is less than the estimated prospective market value of the hotel upon opening, the project can be considered financially feasible.

If development costs indicate that the hotel does not appear to be financially feasible, incentives such as reduced real estate taxes (especially in its initial three years as it ramps up its operations to a stabilized level) could be offered by Clarke County officials in order to attract a developer.

In addition to generating jobs and related tourism spending, the hotel will offer substantial benefits to Clarke County in terms of lodging excise tax. At the current 2% rate, a total of $23,851 was collected countywide in 2012 (see VTC table below); the subject hotel alone is projected to generate $20,180 in 2019 (stabilized year). Increasing the local lodging excise tax to 5% (more in line with other regional counties) would increase the hotel's projected excise tax generated by travelers to $50,450.

Virginia is for Lovers

Clarke

	2008	2009	2010	2011	2012	Percent Change
Population	14,562	14,588	14,052	14,232	14,323	0.6 %

	2008	2009	2010	2011	2012	Percent Change
Travel Economic Impacts						
Employment	180	180	181	181	181	0.0%
Expenditures	$ 15,944,303	$ 15,093,236	$ 16,297,022	$ 17,282,927	$ 17,705,339	2.4%
Local Tax Receipts	$ 477,935	$ 457,590	$ 481,908	$ 487,221	$ 493,174	1.2%
Payroll	$ 3,132,265	$ 3,136,138	$ 3,281,407	$ 3,319,652	$ 3,380,703	1.8%
State Tax Receipts	$ 675,852	$ 683,694	$ 716,234	$ 725,100	$ 738,348	1.8%
Local Excise Tax Rates						
Admissions Excise Tax Rate	0 %	0 %	0 %	0 %	0 %	n/a
Food Service Excise Tax Rate	0 %	0 %	0 %	0 %	0 %	n/a
Lodging Excise Tax Rate	2 %	2 %	2 %	2 %	2 %	n/a
Local Excise Tax Collection						
Admissions Excise Tax Collected	$ 0	$ 0	$ 0	$ 0	$ 0	n/a
Food Service Excise Tax Collected	$ 0	$ 0	$ 0	$ 0	$ 0	n/a
Lodging Excise Tax Collected	$ 17,562	$ 15,225	$ 16,058	$ 15,759	$ 23,851	51.3%

Source: Virginia Travel Corporation

2. Nature of the Assignment

Subject of the Study

The original purpose of this study was to evaluate the market feasibility of the development of hotel facilities on a to-be-determined site located in Berryville, Virginia. During the course of the study, a suitable potential hotel site has been identified, known as the "Byrd Property," located in the southwest quadrant of the intersection of Harry Flood Byrd Highway (SR 7) and US 340 in the Town of Berryville, Clarke County, Virginia. This site will be referred to as the Subject Property.

Objective of the Study

The objective of this study is to evaluate the supply and demand factors affecting transient accommodations in the subject market area and determine the market feasibility of a proposed hotel, and estimate the occupancy, average rate, and net operating income available for debt service for its first ten years of operation.

Use of the Study

This report is being prepared for use by the Town of Berryville and/or potential investors in connection with business decision-making purposes. It is not to be disseminated to third parties without the expressed written consent of Nichols Hospitality Consulting, Inc. Any tables or data extracted or quoted from the report must be credited to Nichols Hospitality Consulting, Inc.

Scope of the Study

All information was collected and analyzed by the staff of Nichols Hospitality Consulting, Inc. Information such as operating statements, hotel market data and development information were supplied by representatives of various hotel companies, property managers, community stakeholders, Virginia Travel Corporation, and Smith Travel Research. Market data was supplied by various local government officials and business representatives. The market conclusions herein are based on an independent, unbiased investigation and analysis of the competitive market by the consultant.

Method of Study

The methodology used to develop this market study is based on the market research and valuation techniques set forth in the textbooks entitled *Hotels, Motels and Restaurants: Valuations*

and Market Studies,[1] and *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations.*[2]

1. The subject site has been evaluated from the viewpoint of its physical utility for the operation of a hotel, as well as access, visibility, and other relevant locational factors.

2. The surrounding economic environment has been reviewed to identify specific lodging-related economic and demographic trends that may have an impact on future demand for hotel accommodations.

3. Dividing the market for transient accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.

4. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness.

5. Documentation for occupancy and average rate projections are derived utilizing the market penetration approach based on an analysis of lodging activity.

6. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for Hotels reflects the anticipated economic benefits of the subject property and provide the forecast of net operating income for the first ten years of operation.

Brand and Management Assumptions

It is the consultant's opinion that hotel development, based on the assumptions and conditions herein, and that a brand affiliation is necessary to ensure adequate marketing support and professional operational standards for the subject proposed hotel; it is unlikely that an independent, unaffiliated hotel would be market or financially feasible. As presented later in this report, research indicates that lodging demand in Berryville/Clarke County is currently significant enough to support approximately 40 to 50 rooms; *the hotel is considered to be market-feasible.* It is the consultant's recommendation that an Upper Midscale or Midscale focused-service hotel brand, including suites, would be most appropriate and offer broad appeal to commercial and leisure travelers. *Best Western* and *Cobblestone Hotels* were two alternatives to the major brand franchise systems, with fees that are about half of major brand franchise fees.

This report assumes that the subject proposed hotel will operate under a membership or franchise agreement with a midscale brand, and that the hotel will operate under competent, professional hotel management with aggressive marketing throughout the projection period.

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

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

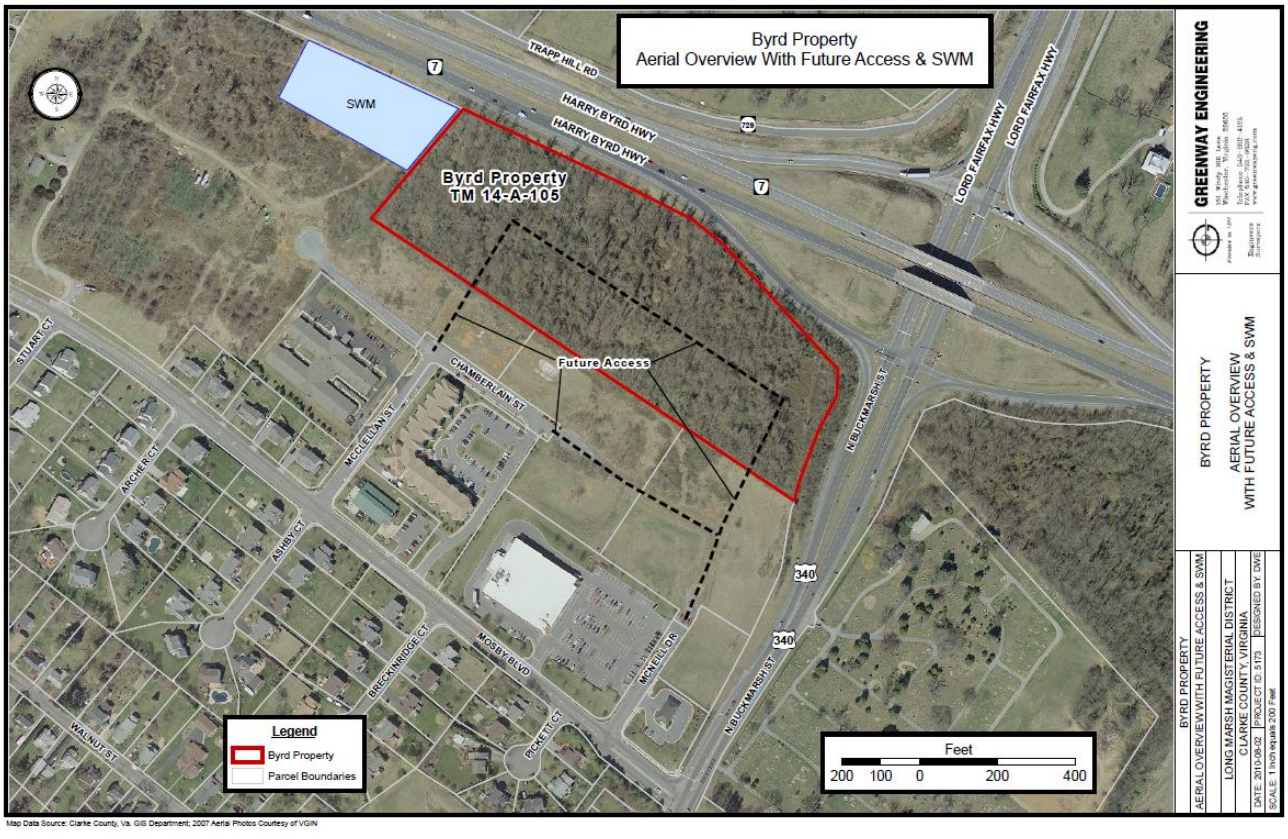
Pertinent Dates

Research of the data and primary fieldwork was performed between October and December 2013. Only information available through these dates has been considered. The hotel is assumed to be open January 1, 2016, operational throughout the period of these projections, and stabilized as of January 1, 2019.

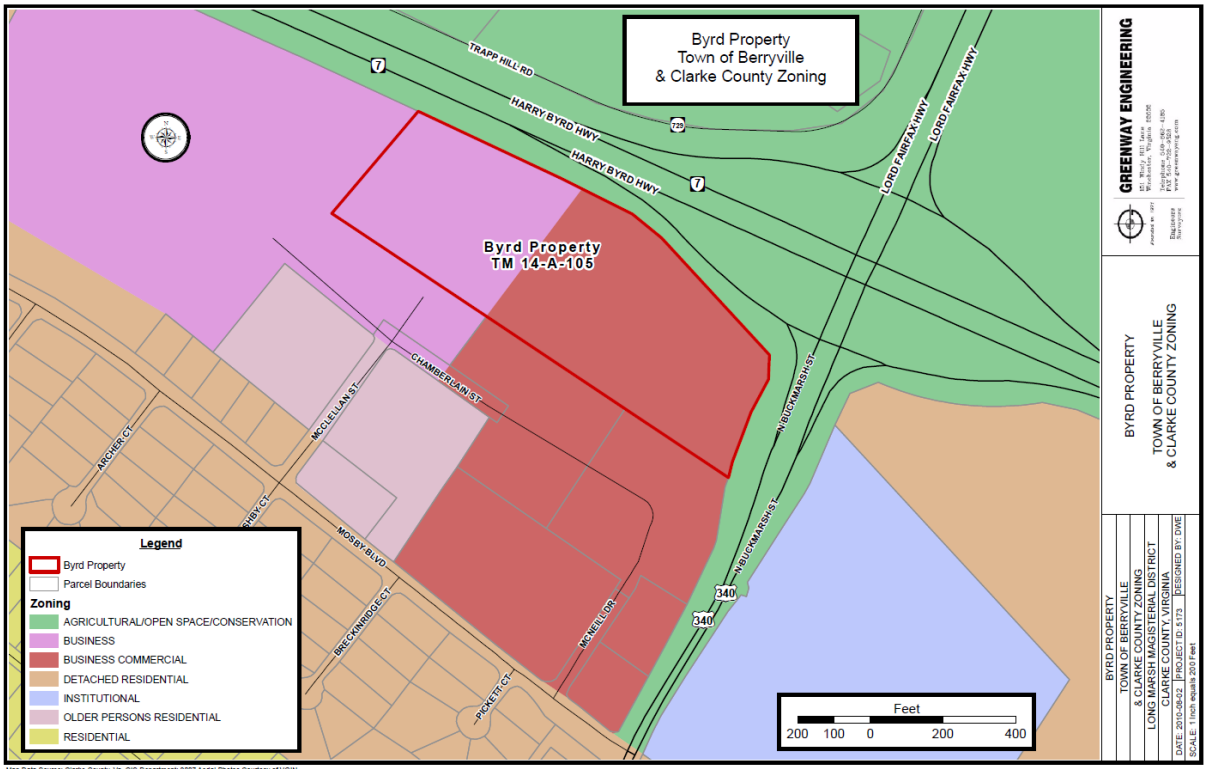
3. Description of the Property

Identification of the Subject Proposed Hotel Site

The proposed hotel site that is the subject of this study is part of a greater 11.6-acre parcel located in the southwest quadrant of the intersection of Harry Byrd Highway (SR 7) and US Highway 340 in the Town of Berryville, Clarke County, Virginia known as the "Byrd Property", depicted in the map below.



The subject site is zoned for Business Commercial land use, which allows hotels as well as other commercial/retail land use that would complement a hotel facility. The owner of the site has indicated support for hotel development on the site, as well as up to two restaurant facilities. The proposed hotel would require up to three acres, indicating ample developable land for several complementary uses. Greenway Engineering has confirmed that public water, sewer, and all needed utilities would be available to the site. The Byrd site is located within the Town of Berryville and is the only developable parcel at the intersection of SR 7 and US 340; the other three quadrants are located in Clarke County and are not zoned for commercial development, as shown in the zoning map below.



Site Accessibility and Visibility

The subject site is accessible to a variety of local, county, and state highways, and features good access to SR 7, the most highly trafficked roadway in Clarke County with annual average daily traffic (AADT) in 2012 of 21,000 to 25,000 (reflecting the total of both directions of traffic). US Route 340 in Berryville near the subject site on North Buckmarsh Street had 2012 total AADT of 9,200. Most hotel chains prefer to locate near highways with a minimum of 20,000 to 25,000 AADT and prefer higher (for example, I-81 in the Winchester metro area averaged 56,000 to 61,000 AADT in 2012).

The site is approximately one-half mile north of Main Street via N. Buckmarsh Street, providing good accessibility to numerous restaurants, shopping, and entertainment in downtown Berryville. There are fifteen restaurants concentrated along East and West Main Street, on S. Buckmarsh, and on Crow Street in downtown Berryville, along with retail shops and entertainment such as the Barns of Rose Hill - a performing arts venue, visitor center, and art gallery. Immediately adjacent to the site is a Food Lion grocery store, convenient for hotel guests to purchase deli and other food or sundry items. Within one mile north, a new mini market and gas station, “Route 340 Depot” is scheduled to open in 2014, and a gasoline service station is located within one half mile of the site on N. Buckmarsh.

North Buckmarsh Street is potential hotel guests’ primary access to downtown Berryville, and many will want to walk the half-mile distance. It is important that this be a pedestrian-friendly route. The consultant recommends that the town consider streetscape beautification and wayfinding signage to enhance visitors’ experience traversing to Main Street.

Ingress and egress to the subject hotel site is planned via an extension of McNeill Drive and/or McClellan Street, which intersects with Mosby Boulevard, one block southwest of the site. Mosby provides access to North Buckmarsh Street/US 340 within one block, which provides access to SR 7, located within one block. A traffic signal eases access from North Buckmarsh Street in both directions. Due to its location directly adjacent to and above the highway grade, the subject site enjoys good visibility from North Buckmarsh/US 340 and SR 7. Prominent signage on the proposed two-story hotel building and at entrances to the site will also enhance the property's visibility. Signage on SR 7 indicating lodging at the Berryville US 340 exit should be provided as well.

The northern terminus of SR 7 is in Winchester, VA where it intersects with Interstate 81, about 15 minutes' drive west of Berryville; the highway traverses Clarke County and terminates to the south in Alexandria, VA. It is a major state highway and busy commuter route in Northern Virginia, with an AADT of 21,000 to 25,000 in Clarke County near Berryville; it is not known how much of the traffic is daily commuters and how much reflects potential lodging guests. SR 7 provides access to Washington, DC, located within about a 1.5-hour drive of Berryville, and to Dulles International Airport, approximately 45 minutes' drive east of Berryville.

Site Conclusions

The subject site appears physically suited for the operation of a small, midscale hotel. Access, visibility, zoning, and other physical factors have been analyzed, with the following advantages and disadvantages noted.

Site Advantages:

- Good Accessibility: The subject site is accessible to a variety of local, county, and state highways, and features good access to SR 7 (the most highly trafficked roadway in Clarke County with an AADT of 21,000 to 25,000 near Berryville). Berryville is the County Seat of Clarke County, and is centrally located with good access to numerous leisure, meeting & group, and commercial lodging demand generators within the region.

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A social media/Internet campaign is essential in marketing Berryville and Clarke County to travelers. In recent years, travelers and hotel customers are shaping a brand or a destination's online reputation by commenting and sharing experiences. A recent study by Ypartnership/Harrison Group reports that **61%** of travelers consult Tripadvisor.com before booking a hotel reservation, and one-third visited an online community, travel forum or blog in the past 12 months to check out a destination or travel supplier. Tripadvisor.com has a site for local tourist organizations to promote their destinations, by gathering and showcasing traveler reviews, adding widgets to promote local restaurants, attractions and lodging to travelers searching the web, and widgets to link Tripadvisor users to local sites. It is commendable that Berryville's luxury country inns are highly rated by Tripadvisor guests – Smithfield Farms is ranked #1 with 78 reviews, Rosemont Manor is ranked #2 with 137 reviews, and Berryville Inn and Battletown Inn are ranked #3 and #4 with 36 and 26 reviews, respectively, and all are highly ranked for guest satisfaction with 4.5 to 5 star ratings. The Battletown Inn is also ranked the #1 restaurant out of 20 Berryville area restaurants on Tripadvisor.com, and most area restaurants received positive reviews from travelers. For an example of a small town's highly successful web site and social media marketing, the consultant recommends the following as a good model for web site development: www.nsbfla.com.

Recommended Hotel Brands and Facilities

It is the consultant's opinion that a brand affiliation is necessary to ensure adequate marketing support and professional operational standards for the subject proposed hotel; it is unlikely that an independent, unaffiliated hotel would be market or financially feasible. As presented later in this report, research indicates that lodging demand in Berryville/Clarke County is currently significant enough to support approximately 40 to 50 rooms; *the hotel is considered to be market-feasible.* It is the consultant's recommendation that an Upper Midscale or Midscale focused-service hotel brand, including suites, would be most appropriate and offer broad appeal to commercial and leisure travelers. The addition of a meeting room of at least 1,200 square feet (divisible by two) is recommended to increase the property's appeal to the small group and meetings market, and serve as a venue for local meetings and social events.

Smith Travel Research (STR), a respected national hospitality industry research firm, lists a total of 70 Upper Midscale and Midscale brands in its *2013 STR US Chain Scales.* A copy of the STR 2013 Chain Scales table is presented in Section 5 of this report. The consultant considered numerous brand alternatives, but all the major chains require a minimum of about 75 rooms, and most have franchise fees that are generally from 9% to 13% of rooms revenue, as well as minimum development requirements (such as an elevator) that drive development costs up. *Best Western* and *Cobblestone Hotels* were two alternatives to the major brand franchise systems, with fees that are about half of major brand franchise fees.

HVS International publishes a study of franchise fees annually. The table below reflects the typical fees of the Best Western Plus (upscale) brand versus several major brands.

Based on Upper Mid-scale Chain 200 Room Hotel	Total Initial Cost	Total Royalty Cost	Total Reservation Cost	Total Marketing Cost	Total Frequent Traveler Cost	Total Misc. Cost	Total Ten-Year Cost	Percent of Total Rooms Revenue
BEST WESTERN PLUS®	**$72,000**	**$1,129,769**	**$706,658**	**$308,699**	**$404,539**	**$10,442**	**$2,632,107**	**5.37%**
Fairfield Inn & Suites	$80,000	$2,206,576	$464,062	$1,225,876	$147,560	$256,674	$4,380,720	8.93%
La Quinta Inn & Suites	$105,000	$1,961,401	$980,701	$1,225,876	$421,599	$312,848	$5,007,424	10.21%
Holiday Inn	$102,500	$2,451,752	$669,863	$1,471,051	$402,519	$577,131	$5,674,815	11.57%
Comfort Inn & Suites	$100,000	$2,770,479	$595,637	$1,887,849	$425,815	$80,757	$5,860,537	11.95%
Hampton Inn / Suites	$110,000	$2,942,102	$237,949	$1,961,401	$413,167	$343,725	$6,008,344	12.25%
Holiday Inn Express	$102,500	$2,942,102	$669,863	$1,471,051	$402,519	$577,131	$6,165,166	12.57%

Source: 2013 HVS Hotel Franchise Fee Guide

Best Western International is a membership association; all hotels are independently owned and operated, with three products: Premier (upscale); Plus (midscale); and Best Western (economy). Advantages of a Best Western membership include: shorter contract terms than the industry norm; lower franchise/membership fees than the industry norm; under 65 rooms can be developed, and a two-story hotel can have exterior corridors and does not need an elevator, reducing development costs; internationally recognized brand name is very popular with leisure travelers; worldwide reservations system; global, national, and regional marketing services. Disadvantages include consumer confusion over product standards; less marketing and frequent guest program strength as compared to major brands; less appeal to commercial travelers. Best Western brand standards, membership fees, and design packages may be viewed at www.bestwesterndevelopers.com.

BEST WESTERN PREMIER Miami International Airport Hotel & Suites - Miami, FL

BEST WESTERN PLUS Piedmont Inn & Suites - Piedmont, SC

BEST WESTERN Hospitality Lane - San Bernardino, CA

Cobblestone Hotels LLC is a franchise-type membership, management and development company based in Neenah, WI whose niche market is smaller communities and towns that are often bypassed by the major chains. Cobblestone is listed as a midscale hotel brand, according to Smith Travel Research's *2013 STR US Chain Scales.* The company opened its first hotel in 2008, with 32 hotels nationwide in mid-2013, and an additional 52 hotels in the development pipeline. Cobblestone brand standards, fees, and design packages may be viewed at www.cobblestonedream.com. The company was co-founded by two experienced hotel executives. Brian Wogernese has been

working in hotels since 1990, and stated WHG Companies, LLC in 1999. With over 17 years' experience in the hotel business, Brian's expertise lies in the areas of asset/liability management, sales and marketing strategies, accounting procedures design and implementation, cash management, hotel operations and labor controls, market planning and segmentation, pre-opening, new acquisition, and hotel conversions. Brian, President and Co-founder, started Cobblestone Hotels in 2008. In addition Brian also co-founded BriMark Builders in 2008. Mark Pomerenke, Co-Founder of Cobblestone Hotels, has over twenty years of experience in the hotel industry. Mark has extensive experience in joint venture development, third party development, hotel brokerage, and hotel site selection. In addition, Mark has worked closely with AmericInn, Wyndham, and Choice Brands. Mark Co-Founded Cobblestone Hotels and BriMark Builder with Brian in 2008. In addition to Brian and Mark's hotel experience, the Cobblestone executive staff has a combined 150 years of experience with Marriott, Hilton, Choice, Wyndham, Carlson, Sheraton, IHG, AmericInn, and other brands.

Typical Cobblestone Inn & Suites (two-story, midscale) photos are depicted below.

A summary of features recommended by the consultant for the proposed ±45-room Midscale Branded Inn & Suites is presented below:

- ±1,200-square-foot meeting room divisible by 2;
- Room mix of approximately 28 double queen, 6 king-bedded, and 11 suites for a total of ±45 guest rooms and suites;
- State-of-the-art technology in marketing and back of house systems;
- Complimentary high-speed Internet access;
- Microwave & mini fridge in every guest room;
- Exercise facility;
- Business center;
- Small lobby lounge beer and wine bar;
- Convenience store for snacks and essentials;
- Complimentary 24-hr coffee in lobby;
- Complimentary deluxe hot breakfast;
- Pillow-top mattresses and quality bedding;
- Swimming pool and pool deck with outdoor grilling area;
- Guest laundry.

This report assumes that the subject hotel is constructed to selected brand standards, all local building code standards, is ADA-compliant, and will contain adequate heating and cooling systems, life support and safety systems, and appropriate back-of-the-house facilities.

This report assumes that the subject proposed ±45-room hotel will operate under a franchise agreement with a midscale brand such as Cobblestone Inn & Suites or Best Western Plus, and that the hotel will operate under competent, professional hotel management throughout the projection period.

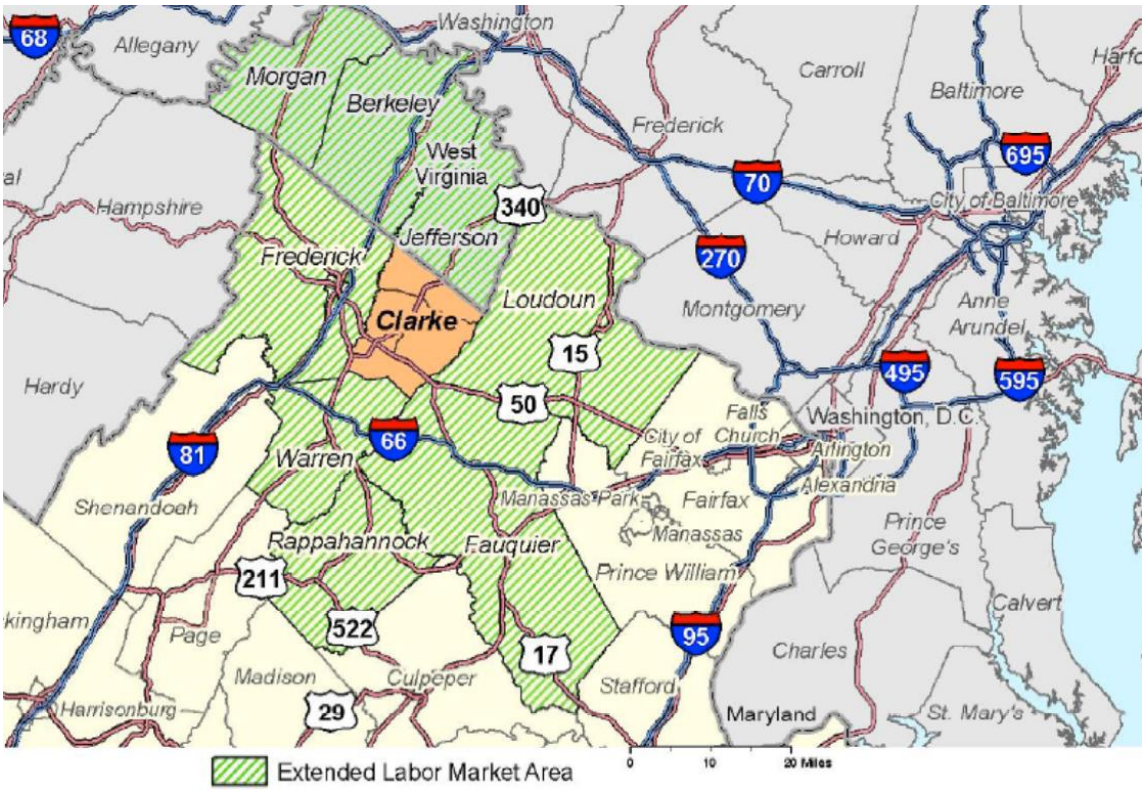
4. Market Area Analysis

The subject hotel site is located in the town of Berryville, the county seat of Clarke County, Virginia. The immediate market area is defined as Clarke County, and the greater market area includes the Washington, DC-MD-VA metropolitan area and the Northern Shenandoah Valley Region of Virginia and West Virginia.

Various economic and demographic statistics have been evaluated to determine local trends in lodging demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. These trends are then correlated based on their propensity to reflect variations in lodging demand with the objective of forecasting the amount of growth or decline in transient visitation. Only a summary of relevant economic and demographic is presented herein, since general economic development planning is not the function of this report.

Economic and Demographic Overview

Clarke County, Virginia is the northern portion of the scenic Shenandoah Valley, bordered by Winchester, Virginia and Frederick County to the west, the State of West Virginia to the north and the Blue Ridge Mountains and Loudoun County to the east. The county offers a wide range of employment and recreational opportunities, good schools, and desirable quality of life. Berryville is located 60 miles west of Washington, DC, 45 miles west of Dulles International Airport, 12 miles south of Hollywood Casino and Race Track in Charles Town, WV, and 9 miles east of Winchester.



The county's population is approximately 14,000, while Berryville has a population of approximately 4,000. In addition to being the county seat, Berryville's character is defined by its rural setting, situated at the crossroads of SR 7 and Hwy 340, two of the most trafficked roadways in the county. Thirty five miles of the scenic Shenandoah River flows through Virginia from Front Royal north through Clarke County to Harper's Ferry, WV, where it joins the Potomac River. The section of the river in Clarke County designated a State Scenic River.

Business and Industry

Clarke County's proximity to Washington, DC and Dulles International Airport, along with its scenic rural character, historic sites and desirable "small town" quality of life, has attracted a variety of businesses and industry. The county also features a good highway infrastructure (although it lacks interstate highway access, with I-81 located 12 minutes to the west in Winchester), adequate supply of developable land for both residential and industrial uses, and is part of the Dulles Foreign Trade Zone #137. The FTZ program encourages US-based operations by treating products made in the FTZ for the purposes of tariff assessment as if they were produced abroad, reflecting a lower tax rate as a finished product rather than as the individual components of the product.

The Clarke County Industrial Park is located in Berryville, and features ±65 acres, developed a decade ago. There are 14 finished lots with about 200,000 square feet of building space and about 200 employees, engaged in businesses that are mostly construction-related services, repair companies, and warehouse/distribution facilities. There is additional land for industrial uses, and the county is actively seeking to attract new industry and employers.

According to the Clarke County Equine Alliance, there are 130 – 150 horse farms in the county, including thoroughbred racing, quarter horse, hunter/jumpers and event horses, carriage horses, and trail riding horses. There are dozens of horse shows and equestrian related events throughout the year in Clarke County. There are approximately 25 horse boarding farms in the county, with horses from as far away as New York. Equine-related economic activity in the county generates lodging demand that is not currently accommodated within the county.

Clarke County employers with the potential to generate commercial lodging demand include some of the following (note: American Woodmark has closed):

50 Largest Employers

1. Berryville Graphics
2. Clarke County School Board
3. Grafton School, Inc.
4. Clarke County
5. Ggnsc Berryville LLC
6. Project Hope
7. Gsm Consulting Inc
8. Bank of Clarke County
9. Powhatan School
10. Food Lion
11. Greenfield Assisted Living
12. Virginia Division of Community Corrections
13. Dutch Haven Adult Home
14. American Woodmark Corporation
15. The Red Gate Group Limited
16. Cochrans Lumber & Millwork Inc
17. McDonald's
18. Caldwell & Santmyer
19. Town of Berryville
20. Have A Blessed Day
21. Ethicon Inc
22. University of Virginia / Blue Ridge Hospital
23. Postal Service
24. Roseville Veterinary Clinic
25. Waterloo Incorporated
26. Diversified Educational Systems
27. Handy Mart
28. Stuart M. Perry Inc.
29. The Heritage Child Develo
30. Rosemont Manor LLC
31. L. Auberge Provencale
32. Moore and Dorsey
33. Veramar Vineyards LLC
34. Berryville Medical Associates
35. Champion Iron Works Inc
36. Christopher Hansen
37. Harris Contracting Company
38. Mr. Gary P. Haines
39. White Post Dairy LLC
40. Audley Farm
41. Battletown Inn & Restaurant
42. Camino Real Nexican Restaurant
43. Quercus LLC
44. Rivers Edge Landscapes
45. Staffing Concepts Nationa
46. The Makar Company LLC
47. VDOT
48. Starkey Construction
49. Telephone Components
50. 7-Eleven

Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages (QCEW), 1st Quarter (January, February, March) 2013.

Clarke County's largest private employer is Berryville Graphics (BVG), one of the largest, fully automated, hardcover and softcover book manufacturers in the United States, as part of BE Printers America, a division of Bertelsmann AB, a German multinational company. BVG produces nearly 120 million books each year at its manufacturing facility in Berryville, with approximately 500 employees. Representatives for the company indicated that they generate a nominal amount of lodging demand, and that their preferred hotel is the George Washington Wyndham Grand Hotel in Winchester.

The 6th largest county employer is Project Hope, which occupies 200 acres of a former plantation in Millwood, with historic plantation buildings providing offices, meeting space, and lodging. Since 1958, Project Hope has worked in more than 120 countries to make quality of life and sustainable health care available for people around the globe. The Carter Hall Conference Center at Project Hope offers 33 guest rooms in several buildings with accommodations for up to 57 overnight guests. Carter Hall offers several meeting rooms to accommodate from 12 to 80 people, with the Great Hall accommodating a maximum of 80 participants. Complete meeting packages are provided, including catered meals. Most groups are under 60 participants and are accommodated on site, with Carter Hall participants getting first priority for onsite lodging. Project Hope is a budget-minded nonprofit; employees and volunteers from around the world typically arrive from Dulles without a vehicle. Offsite lodging within walking distance of restaurants is preferred when onsite accommodations are full; Winchester hotels are currently the preferred lodging choice.

The Mount Weather Emergency Operations Center, located on Rt. 601 in Clarke County, is believed to house hundreds of employees, but the operation is mostly classified so little information can be garnered. Mount Weather is a major relocation site for the highest level of civilian and military officials in case of national disaster, playing a significant role in the US continuity of government, also known as the High Point Special Facility. It is used as the center of operations for FEMA, and was originally opened as a weather station in the late 1800s. The above ground portion of the FEMA complex is at least 434 acres, and there is believed to be an additional 600,000-square-foot underground component. During a national disaster, they reportedly have up to 100 visiting personnel many of whom seek lodging nearby, and the facility routinely has business-related visitors who need lodging throughout the year.

Another business and leisure travel lodging demand generator is the Clarke County Ruritan Fair Grounds in Berryville, which hosts numerous events throughout the year, in addition to the annual Clarke County Fair. Some of the events are up to a week long and include out-of-town vendors and collectors, such as antique shows; auctions; the Shenandoah Valley Steam Engine Show for steam engine owners and vendors from all over the East Coast; the Shenandoah Valley Fiber Fest with dozens of out-of-state vendors; and the Ham Radio Festival. The facility is widely rented for private group functions such as reunions, anniversaries, receptions, parties, etc., which generate varying amounts of lodging demand.

Clarke County faces challenges in achieving greater economic growth. It is surrounded by strong economic growth engines with substantial competitive advantages; Winchester and Frederick County to the east is a major regional medical, business, and retail hub with the advantage of I-81 accessibility. Front Royal and Warren County to the south are located at the juncture of I-66 and I-81. Loudoun County to the east features better access to Washington DC and includes Dulles International Airport. To the north lies Charles Town and West Virginia, with lower taxes and casino gaming. The fact that Clarke County offers no midscale lodging of appeal to business travelers is a detriment to attracting new businesses to the area; however,

more economic activity will be necessary to sustain and grow lodging demand in the county. Commercial lodging demand is considered very desirable for hotels since it provides a steady source of year-round business and offsets leisure weekend business by filling week days. However, a balanced mix of demand (commercial, leisure, meeting & group) is better than reliance on any one particular segment.

Tourism

To date, tourism has not been a primary economic development strategy for Clarke County. The county offers information for visitors at its website (clarkecounty.gov/visitors), but it is limited in scope and is not interactive. There is no designated tourism professional or tourism organization for visitors to contact. Information about visitor attendance is mostly anecdotal, but our research indicates that in the aggregate significant leisure demand is being generated by Clarke County attractions and events that is mostly accommodated in lodging establishments located outside of the county.

Clarke County offers an excellent array of tourist attractions, wineries, scenic rural highways, historic sites, and recreational amenities of appeal to visitors. Some major attractions that track visitor attendance and provide an indicator of potential leisure lodging demand include the following:

- The Blandy Experimental Farm – State Arboretum of Virginia offers 170 acres open to the public at no charge 365 days of the year. This facility is part of the University of Virginia, and offers numerous environmental education programs and special events throughout the year. It is a popular tourist destination, as well as a wedding location, and offers several meeting rooms onsite as well as overnight accommodations for up to 24 people in The Quarters, a historic landmark on the former plantation. The Director indicated that attendance has grown from 40,000 per year in 1997 to 170,000 in 2013; school children on buses account for only about 3% of the total. Visitor vehicle counts are utilized in a formula to reliably measure attendance. It is unknown how many visitors are day trippers, but a significant number are believed to seek overnight accommodations in the region.

- According to the National Forest Service, there are about 370,000 visitors annually to the Shenandoah National Park at the Front Royal northern entrance, a popular recreation area. The VTC reports that *the Blue Ridge Parkway and Shenandoah National Park are the top two Virginia attractions most frequently visited by travelers.*

- The Appalachian Trail (AT) Conservancy reports its first ever scientific count of AT hikers for the total Trail reveals 1.9 million users annually. The region between Harper's Ferry, WV and Damascus, VA includes the Shenandoah National Park, the Blue Ridge Parkway, and McAfee Knob, with the almost 200 miles of central and southwest VA west of I-81 some of the least-travelled portions of the entire AT. In 2012, a record 2,500 "2,000 Milers" were recorded as hiking the entire Trail from south (Springer Mountain, GA) to north (Katahdin, Maine).

- According to the owner of Dinosaur Land, located at White Post, this nostalgic attraction has been in business for 50 years and is very popular with families with children, attracting an average of about 70,000 visitors annually, with about 30% of attendance

reflected by school children bus tours. Many are day trippers from nearby Washington DC metro area.

- According to Clarke County officials, there are a number of annual events that draw out-of-town visitors and vendors, including spring and fall plant shows at Blandy (included in total attendance presented above); spring and fall art shows at Burwell-Morgan Mill; numerous shows and events throughout the year at Ruritan Fairgrounds in Berryville; Watermelon Park music festivals; Berryville Town Wide Yard Sale in spring and fall; and other shows, events, and festivals throughout the year.

- Barns of Rose Hill is a performing arts venue, visitor center and art gallery located in Berryville. The Barns reflect two early 20th-century dairy barns that were renovated and converted to their current use as a center for community, arts and education via a 501(c)(3) non-profit organization formed in September 2004. The Barns are available for public rental for weddings, receptions, parties and meetings. Educational offerings include classes and workshops in dance, song, pottery and painting; public concerts throughout the year feature bluegrass, classical, soul & folk, and jazz & swing; and a stage for shows including films, dramas, stories and puppets. The Great Hall can accommodate up to 200 people for seated stage performances; the fire Marshall's maximum capacity for the building is 265.

The Virginia Tourism Corporation reports that Winchester (14%) and Front Royal (12%) are the most frequently visited cities in the Shenandoah Valley Region (which includes Berryville and Clarke County), and July (12%), August (12%) and October (11%) are the peak travel months. The primary purpose of the trip for 55% of travelers was visit friends/relatives (including reunions, weddings, funerals, etc.); 25% traveled for pleasure/personal; 19% traveled for entertainment/sightseeing; and 17% traveled for outdoor recreation. For 60% of travelers, their stay included a Friday or Saturday overnight stay in Virginia. Most visitors drive to the region in their own auto/truck (86%), and spend an average of two nights in a hotel (45%), and the most popular hotel brand was Hampton Inn & Suites (12%). A large share of travel parties contain two people (41%). Favorite activities/attractions visited in Virginia include: rural sightseeing (17%); shopping (14%); state/national park (13%); historic sites/churches (13%); museums (10%); fine dining (10%); hiking/backpacking (8%); old homes/mansions (7%); wildlife viewing (7%); wine tasting/winery tour (3%); biking, fishing, horseback riding (2% or less).

In 2012 in Virginia, domestic travelers spent $21.2 billion on transportation, lodging, food amusement and recreation, as well as retail shopping, a 4.0% increase over 2011. Domestic travel in Virginia directly supported 210,000 jobs within Virginia in 2012, comprising seven percent of total private employment. Forty of Virginia's 134 counties received over $100 million in travel expenditures in 2012. For a complete profile, the reader is referred to The Economic Impact of Domestic Travel on Virginia Counties 2012, a study prepared for the VTC by the US Travel Association, August 2013.

According to the VTC and US Travel Association, Clarke County currently ranks near the bottom, at 101 out of Virginia's 134 counties in travel spending with estimated total expenditures of $17.71 million and local tax receipts of $49,000. This compares to adjacent Loudoun County, ranked #3 in the state with estimated total tourist expenditures of $1.558 billion and local tax receipts of $23.9 million. Loudoun County has a lodging tax of 7% - compared to Clarke County's 2% lodging tax. Frederick County ranks 35 with $118.5 million in expenditures and

$3.42 million in local tax receipts, while Winchester city attracts $96.3 million in expenditures and $3.19 million in local tax receipts.

Virginia is for Lovers

Clarke

	2008	2009	2010	2011	2012	Percent Change
Population	14,562	14,588	14,052	14,232	14,323	0.6 %

	2008	2009	2010	2011	2012	Percent Change
Travel Economic Impacts						
Employment	180	180	181	181	181	0.0%
Expenditures	$ 15,944,303	$ 15,093,236	$ 16,297,022	$ 17,282,927	$ 17,705,339	2.4%
Local Tax Receipts	$ 477,935	$ 457,590	$ 481,908	$ 487,221	$ 493,174	1.2%
Payroll	$ 3,132,265	$ 3,136,138	$ 3,281,407	$ 3,319,652	$ 3,380,703	1.8%
State Tax Receipts	$ 675,852	$ 683,694	$ 716,234	$ 725,100	$ 738,348	1.8%
Local Excise Tax Rates						
Admissions Excise Tax Rate	0 %	0 %	0 %	0 %	0 %	n/a
Food Service Excise Tax Rate	0 %	0 %	0 %	0 %	0 %	n/a
Lodging Excise Tax Rate	2 %	2 %	2 %	2 %	2 %	n/a
Local Excise Tax Collection						
Admissions Excise Tax Collected	$ 0	$ 0	$ 0	$ 0	$ 0	n/a
Food Service Excise Tax Collected	$ 0	$ 0	$ 0	$ 0	$ 0	n/a
Lodging Excise Tax Collected	$ 17,562	$ 15,225	$ 16,058	$ 15,759	$ 23,851	51.3%

There is clearly an opportunity for Clarke County to garner a larger share of the region's tourism dollars by providing visitors with a midscale lodging option to make Clarke County the base for their trip, rather than seek lodging in adjacent counties, and to significantly increasing lodging tax revenue.

The consultant recommends that Berryville and Clarke County develop a tourism marketing organization, with the aid of the Virginia Tourist Corporation (VTC), a model tourist organization which assists counties in promoting tourism throughout Virginia. Factors which could help boost lodging demand locally, and increase the economic impact of tourism in the county, include adoption and implementation of a Tourism Strategic Plan in conjunction with VTC, and increasing the local lodging tax to provide staffing, advertising and promotion funds.

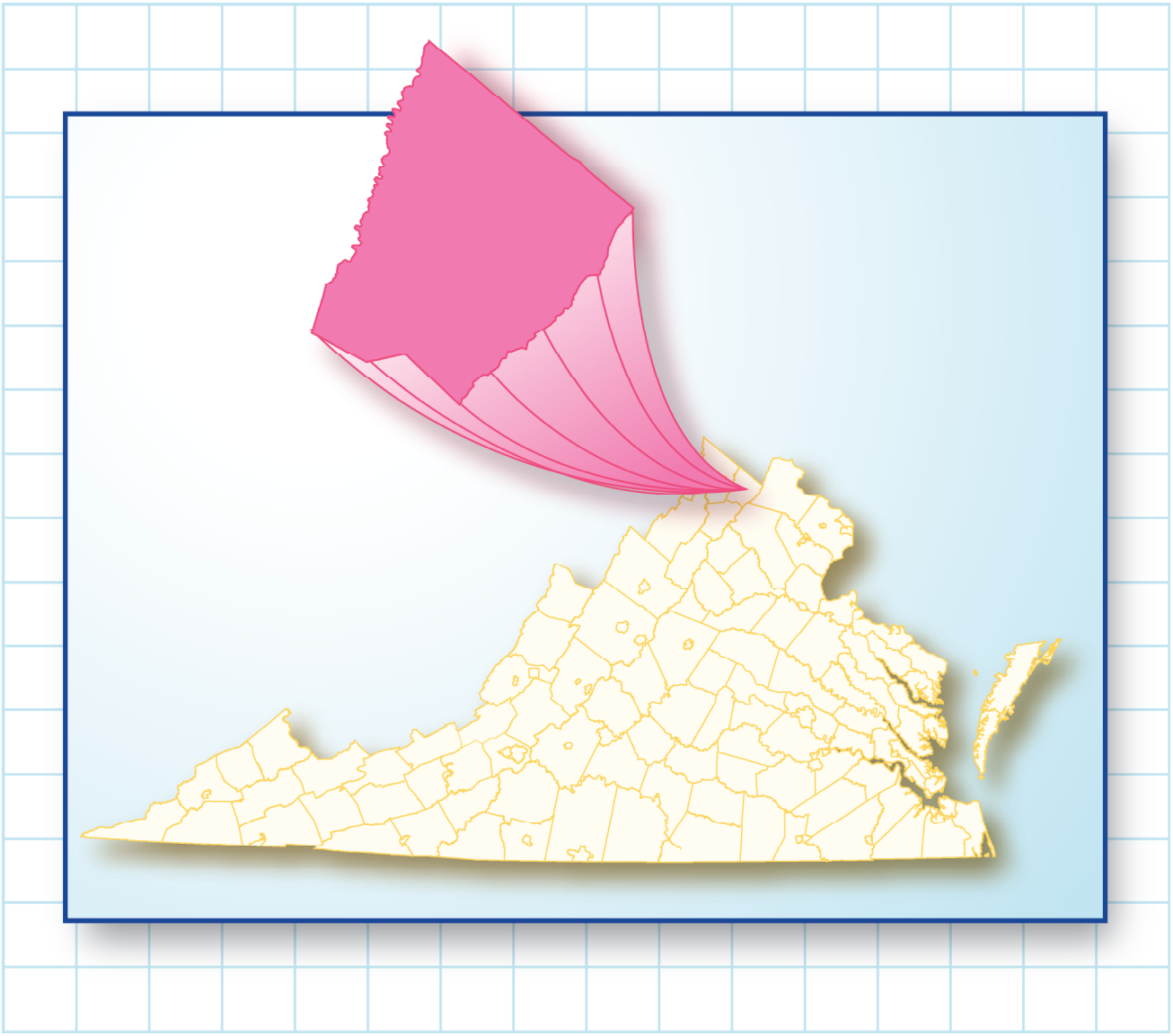
A social media campaign is essential to marketing Berryville to travelers. In recent years, travelers and hotel customers are shaping a brand or a destination's online reputation by commenting and sharing experiences. A recent study by Ypartnership/Harrison Group reports that **61%** of travelers consult Tripadvisor.com before booking a hotel reservation, and one-third visited an online community, travel forum or blog in the past 12 months to check out a destination or travel supplier. Tripadvisor.com has a site for local tourist organizations to promote their destinations, by gathering and showcasing traveler reviews, adding widgets to promote Berryville's best restaurants, attractions and lodging to travelers searching the web, and widgets to link Tripadvisor users to Berryville sites. It is great that Berryville's top inns are highly rated by Tripadvisor guests – Smithfield Farms is ranked #1 with 78 reviews, Rosemont Manor is ranked #2 with 137 reviews, and Berryville Inn and Battletown Inn are ranked #3 and #4 with 36 and 26 reviews, respectively, and all are highly ranked for guest satisfaction with 4.5 to 5 star ratings.

The following pages present key economic and demographic information in the Clarke County Community Profile by the Virginia Employment Commission.

Virginia

COMMUNITY PROFILE

Clarke County



Virginia Employment Commission

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Last updated: 9/4/2013 1:13:01 AM

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I. Introduction

This report provides a community profile of Clarke County. It is intended to compliment the information found in our Virginia Workforce Connection application, which can be accessed online at:

www.VirginiaLMI.com

The report is divided into three major sections. The first contains a profile of regional demographic characteristics and trends, the second supplies similar information for the regional economy, and the third provides a profile of regional education characteristics.

II. Demographic Profile

Overview

This Demographic Profile provides an in-depth analysis of the population in Clarke County. Most of the data is produced by the U.S. Census Bureau, and includes demographic characteristics such as age, race/ethnicity, and gender.

Related Terms and Definitions

Ability to speak English
For people who speak a language other than English at home, the response represents the person's own perception of his or her ability to speak English. Because census questionnaires are usually completed by one household member, the responses may represent the perception of another household member.

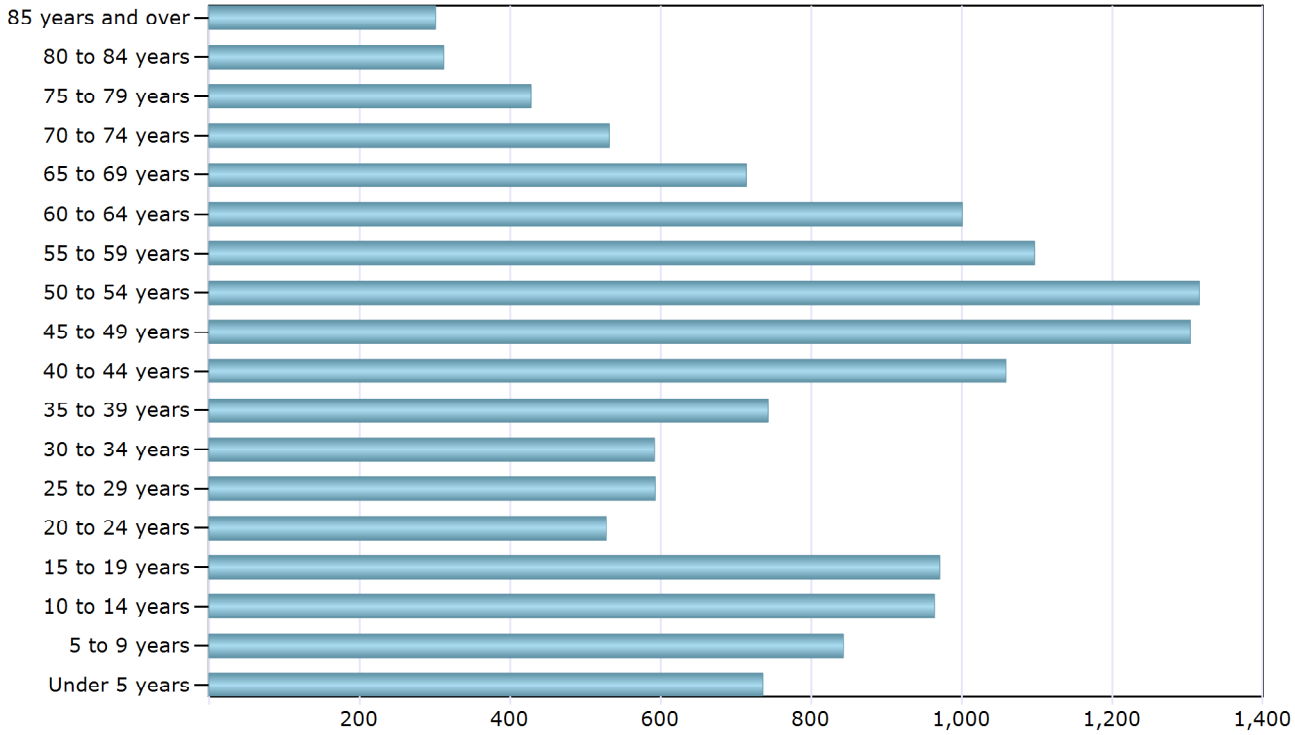
Age
The age classification is based on the age of the person in complete years as of April 1, 2010. The age of the person usually was derived from their date of birth information. Their reported age was used only when date of birth information was unavailable.

Gender
The data on gender were derived from answers to a question that was asked of all people. Individuals were asked to mark either "male" or "female" to indicate their gender. For most cases in which gender was not reported, it was determined by the appropriate entry from the person's given (i.e., first) name and household relationship. Otherwise, gender was imputed according to the relationship to the householder and the age of the person.

Race
The concept of race as used by the Census Bureau reflects self-identification by people according to the race or races with which they most closely identify. The categories are sociopolitical constructs and should not be interpreted as being scientific or anthropological in nature. Furthermore, the race categories include both racial and national-origin groups.

Please note: In the past, our population by race/ethnicity data has always excluded the Hispanic ethnicity from each race category. Starting in January 2013, each race category now includes all ethnicities.

Population by Age



	Clarke County	Virginia	United States
Under 5 years	736	509,625	20,201,362
5 to 9 years	843	511,849	20,348,657
10 to 14 years	964	511,246	20,677,194
15 to 19 years	971	550,965	22,040,343
20 to 24 years	528	572,091	21,585,999
25 to 29 years	593	564,342	21,101,849
30 to 34 years	592	526,077	19,962,099
35 to 39 years	743	540,063	20,179,642
40 to 44 years	1,059	568,865	20,890,964
45 to 49 years	1,304	621,155	22,708,591
50 to 54 years	1,316	592,845	22,298,125
55 to 59 years	1,097	512,595	19,664,805
60 to 64 years	1,001	442,369	16,817,924
65 to 69 years	714	320,302	12,435,263
70 to 74 years	532	229,502	9,278,166
75 to 79 years	428	173,929	7,317,795
80 to 84 years	312	130,801	5,743,327
85 years and over	301	122,403	5,493,433
	14,034	**8,001,024**	**308,745,538**

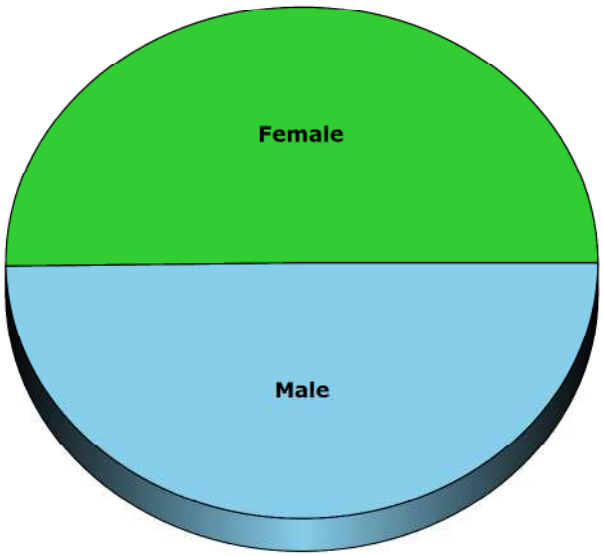
Source: 2010 Census.

Population by Race/Ethnicity

	Clarke County	Virginia	United States
Total			
Total Population	14,034	8,001,024	308,745,538
Race			
White	12,662	5,486,852	223,553,265
Black or African American	746	1,551,399	38,929,319
American Indian or Alaska Native	41	29,225	2,932,248
Asian	126	439,890	14,674,252
Native Hawaiian/Pacific Islander	7	5,980	540,013
Other	180	254,278	19,107,368
Multiple Races	272	233,400	9,009,073
Ethnicity			
Not Hispanic or Latino (of any race)	13,544	7,369,199	258,267,944
Hispanic or Latino (of any race)	490	631,825	50,477,594

Source: 2010 Census.

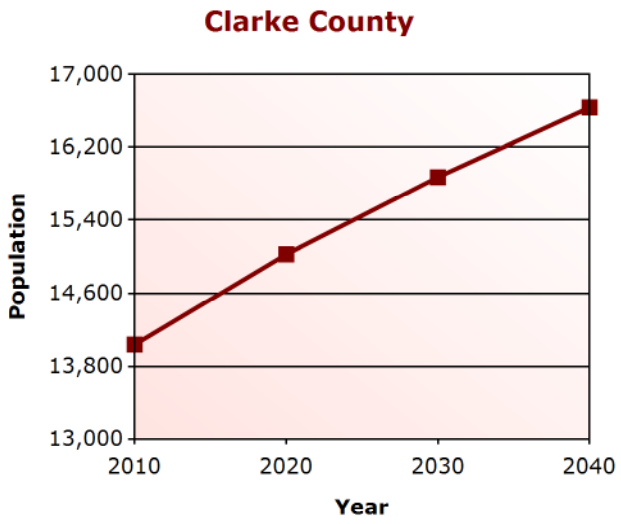
Population by Gender

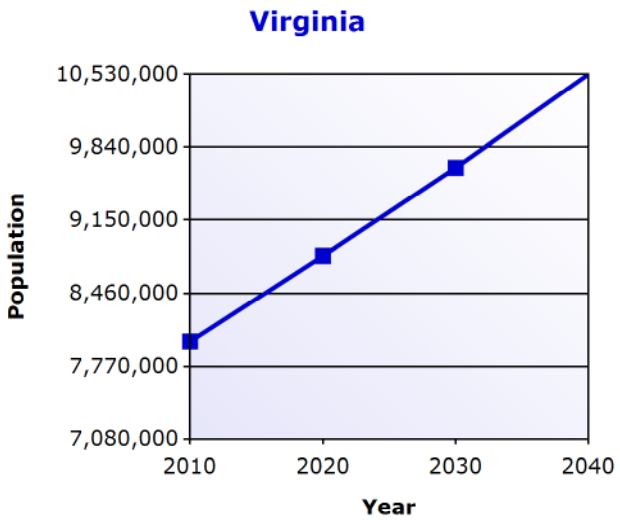


	Clarke County	Virginia	United States
Male	6,989	3,925,983	151,781,326
Female	7,045	4,075,041	156,964,212
	14,034	**8,001,024**	**308,745,538**

Source: 2010 Census.

Population Change





	Clarke County	(% change)	Virginia	(% change)
2000	12,652		7,079,030	
2010	14,034	10.92 %	8,001,024	13.02 %
2020	15,025	7.06 %	8,811,512	10.13 %
2030	15,871	5.63 %	9,645,281	9.46 %
2040	16,631	4.79 %	10,530,229	9.17 %

Source: U.S. Census Bureau, Virginia Employment Commission.

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www.VirginiaLMI.com

United States™ Census 2010

Population Projections by Age and Gender

	2020		2030		2040	
	Female	Male	Female	Male	Female	Male
Under 5 years	332	345	363	377	378	393
5 to 9 years	404	388	454	436	493	473
10 to 14 years	503	509	466	472	514	521
15 to 19 years	402	473	380	448	432	508
20 to 24 years	300	350	318	370	297	346
25 to 29 years	376	414	341	376	326	360
30 to 34 years	313	330	388	409	415	438
35 to 39 years	437	375	587	503	538	461
40 to 44 years	395	368	432	403	542	505
45 to 49 years	414	426	456	469	619	636
50 to 54 years	582	621	423	451	467	498
55 to 59 years	723	743	470	483	523	537
60 to 64 years	684	696	630	641	462	470
65 to 69 years	522	486	704	654	462	429
70 to 74 years	403	447	559	621	520	578
75 to 79 years	303	246	430	350	586	477
80 to 84 years	205	147	330	236	464	331
85 years and over	252	109	308	133	441	191
	7,550	**7,473**	**8,039**	**7,832**	**8,479**	**8,152**
	15,023		**15,871**		**16,631**	

Source: Virginia Employment Commission.

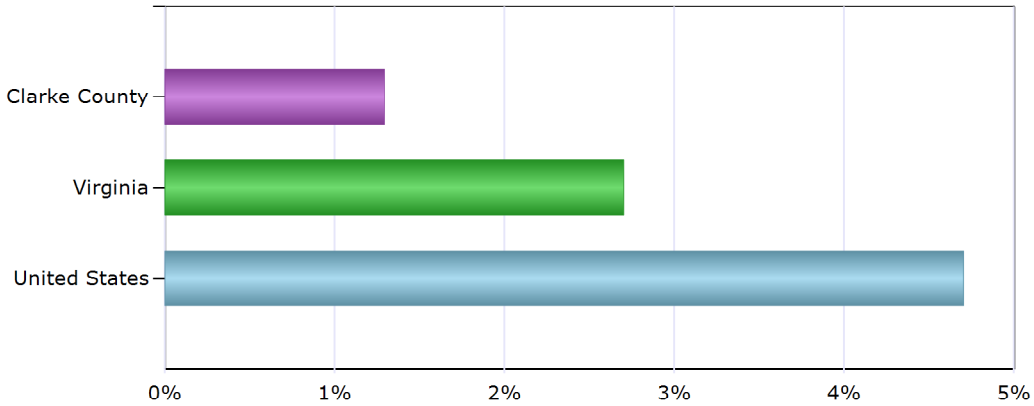
Population Projections by Race/Ethnicity

	2020	2030	2040
Total			
Total Population	15,025	15,871	16,631
Race			
White	13,250	13,491	13,442
Black or African American	754	759	737
Asian	216	327	474
Other	805	1,294	1,978
Ethnicity			
Not Hispanic or Latino (of any race)	14,124	14,395	14,458
Hispanic or Latino (of any race)	900	1,476	2,174

Source: Virginia Employment Commission.

English Language Skills

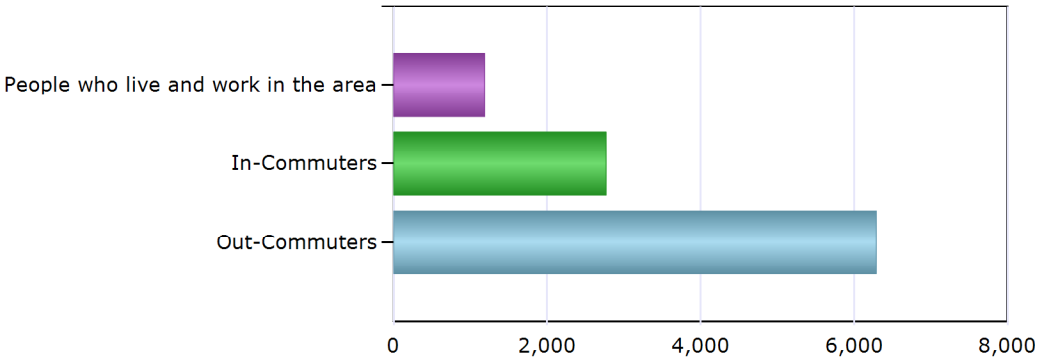
(Age 5 and over that speak English less than well)



	Total	Speak English less than well	Percent
Clarke County	13,305	172	1.29%
Virginia	7,419,283	200,418	2.70%
United States	286,433,395	13,472,190	4.70%

Source: U.S. Census Bureau
American Community Survey, 2007-2011.

Commuting Patterns



Commuting Patterns	
People who live and work in the area	1,185
In-Commuters	2,768
Out-Commuters	6,290
Net In-Commuters (In-Commuters minus Out-Commuters)	-3,522

Source: U.S. Census Bureau,
OnTheMap Application and LEHD Origin-Destination Employment Statistics, 2011.

Top 10 Places Residents are Commuting To

Area	Workers
Loudoun County, VA	1,553
Fairfax County, VA	1,058
Winchester city, VA	572
Frederick County, VA	459
District of Columbia, DC	201
Montgomery County, MD	191
Prince William County, VA	183
Arlington County, VA	139
Warren County, VA	127
Jefferson County, WV	120

Top 10 Places Workers are Commuting From

Area	Workers
Frederick County, VA	932
Winchester city, VA	285
Berkeley County, WV	247
Jefferson County, WV	230
Loudoun County, VA	182
Warren County, VA	156
Shenandoah County, VA	88
Hampshire County, WV	67
Fairfax County, VA	53
Fauquier County, VA	41

Source: U.S. Census Bureau,
OnTheMap Application and LEHD Origin-Destination Employment Statistics, 2011.

Please Note: Commuting patterns data is no longer produced from the Decennial Census. As an alternative, we are providing commuting data from the U.S. Census Bureau's OnTheMap application and LEHD Origin-Destination Employment Statistics program. Since this data is produced from an entirely different data set, it is not advisable to compare the new data with previously released commuting patterns. For more information about the OnTheMap application or the LEHD program, please visit the following website:

http://lehd.ces.census.gov

III. Economic Profile

Overview

The Economic Profile of Clarke County consists primarily of data produced by the Virginia Employment Commission, U.S. Census Bureau, and the Bureau of Labor Statistics.

Related Terms and Definitions

Average Weekly Wage
Computed as average quarterly wages divided by 13.

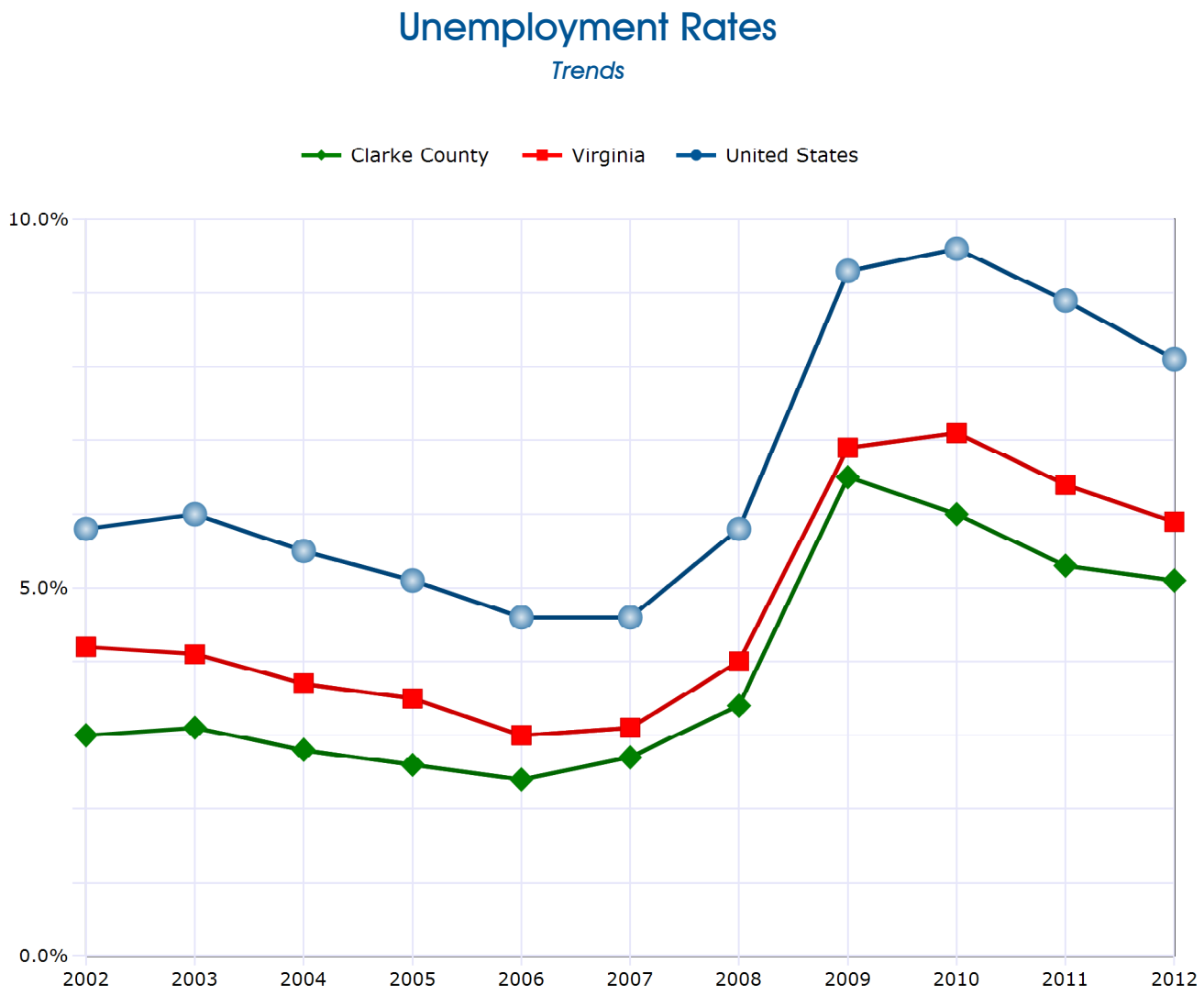
Consumer Price Index (CPI)
The Consumer Price Index measures the average change over time in the prices paid by urban consumers for a representative market basket of consumer goods and services.

Local Employment Dynamics (LED)
The Local Employment Dynamics Program at the Census Bureau, together with its state partners, provides employment information at the county, city, and Workforce Investment Area level. This information tracks workers in different industries by age and gender and provides statistics on job creation, separation, turnover, and wages.

Quarterly Census of Employment & Wages (QCEW)
A federal/state cooperative program that collects and compiles employment and wage data for workers covered by state unemployment insurance (UI) laws and the federal civilian workers covered by Unemployment Compensation for Federal Employees (UCFE). These data are maintained at the state in micro and macro levels and also sent to BLS quarterly.

Unemployment Insurance (UI)
Unemployment insurance is a program for the accumulation of funds paid by employers to be used for the payment of unemployment insurance to workers during periods of unemployment which are beyond the workers' control. Unemployment insurance replaces a part of the worker's wage loss if he becomes eligible for payments.

Unemployment Rate
The number of unemployed people as a percentage of the labor force.

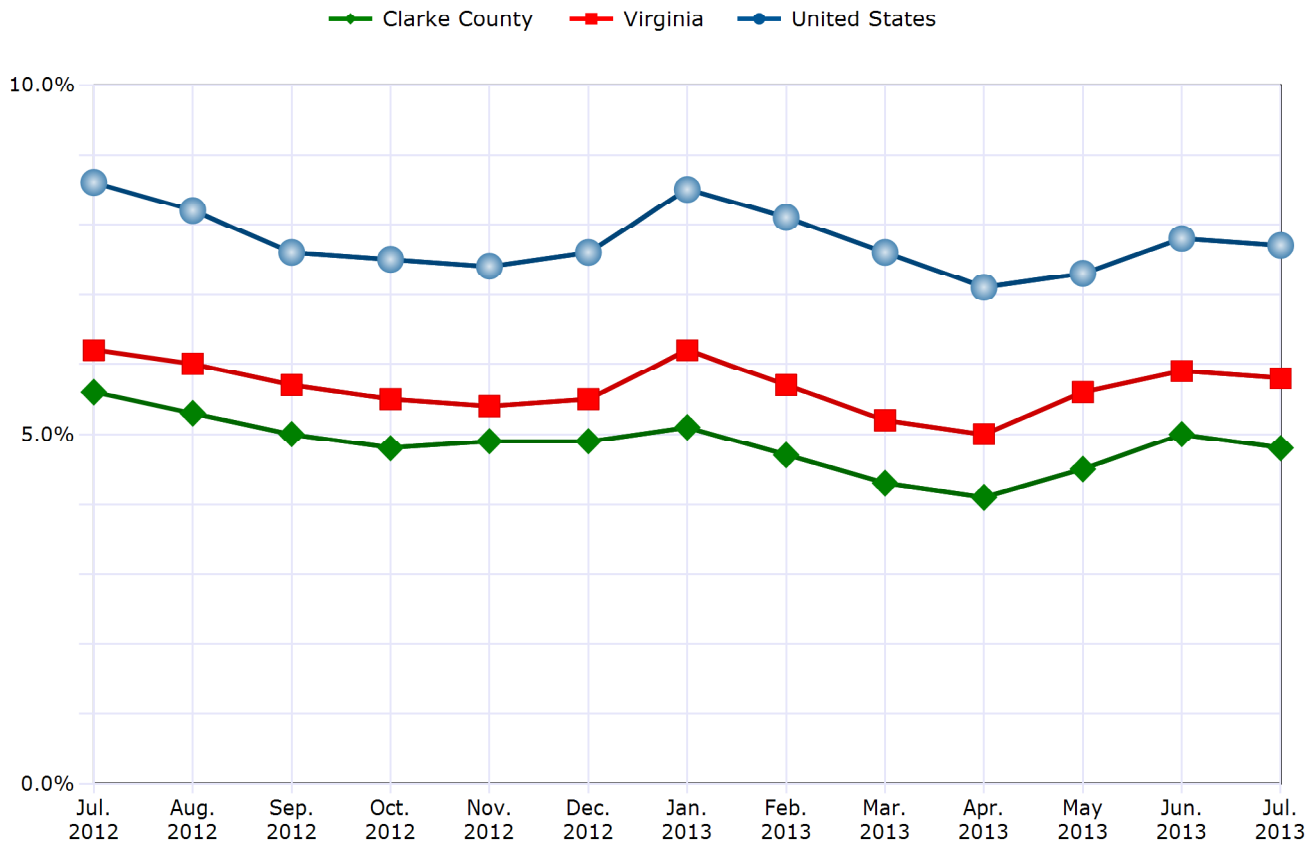


	Clarke County	Virginia	United States
2002	3.0%	4.2%	5.8%
2003	3.1%	4.1%	6.0%
2004	2.8%	3.7%	5.5%
2005	2.6%	3.5%	5.1%
2006	2.4%	3.0%	4.6%
2007	2.7%	3.1%	4.6%
2008	3.4%	4.0%	5.8%
2009	6.5%	6.9%	9.3%
2010	6.0%	7.1%	9.6%
2011	5.3%	6.4%	8.9%
2012	5.1%	5.9%	8.1%

Source: Virginia Employment Commission,
Local Area Unemployment Statistics.

Unemployment Rates

Past 12 Months



	Clarke County	Virginia	United States
Jul. 2012	5.6%	6.2%	8.6%
Aug. 2012	5.3%	6.0%	8.2%
Sep. 2012	5.0%	5.7%	7.6%
Oct. 2012	4.8%	5.5%	7.5%
Nov. 2012	4.9%	5.4%	7.4%
Dec. 2012	4.9%	5.5%	7.6%
Jan. 2013	5.1%	6.2%	8.5%
Feb. 2013	4.7%	5.7%	8.1%
Mar. 2013	4.3%	5.2%	7.6%
Apr. 2013	4.1%	5.0%	7.1%
May 2013	4.5%	5.6%	7.3%
Jun. 2013	5.0%	5.9%	7.8%
Jul. 2013	4.8%	5.8%	7.7%

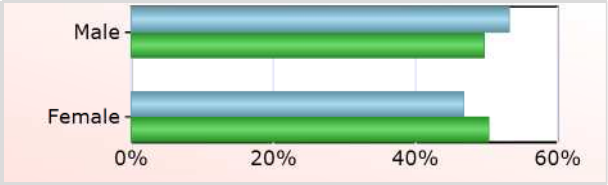
Source: Virginia Employment Commission,
Local Area Unemployment Statistics.

Characteristics of the Insured Unemployed

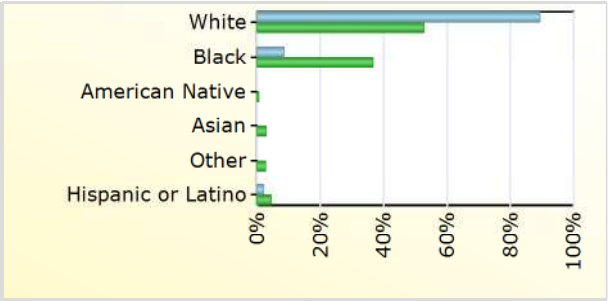
Clarke County - (47 claimants)

Virginia - (45,296 claimants)

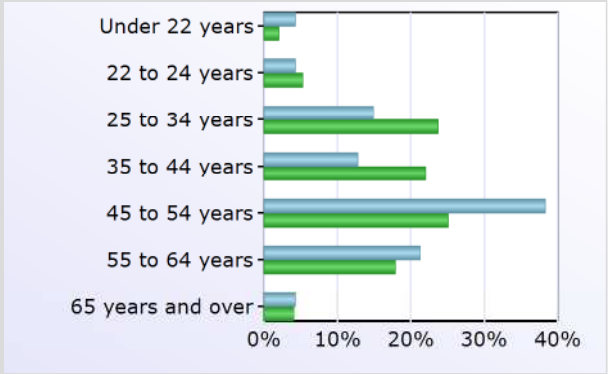
Gender	Clarke County	Virginia
Male	25	22,503
Female	22	22,793
Unspecified		



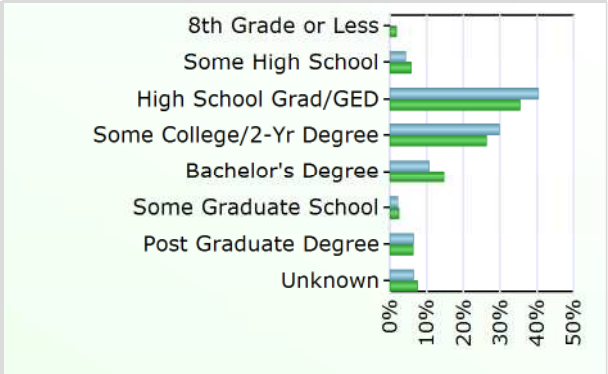
Race	Clarke County	Virginia
White	42	23,884
Black	4	16,590
American Native		251
Asian		1,310
Other		1,237
Hispanic or Latino	1	2,024



Age	Clarke County	Virginia
Under 22 years	2	908
22 to 24 years	2	2,395
25 to 34 years	7	10,734
35 to 44 years	6	9,967
45 to 54 years	18	11,358
55 to 64 years	10	8,097
65 years and over	2	1,837
Unknown		



Education	Clarke County	Virginia
8th Grade or Less		779
Some High School	2	2,616
High School Grad/GED	19	16,031
Some College/2-Yr Degree	14	11,900
Bachelor's Degree	5	6,650
Some Graduate School	1	1,086
Post Graduate Degree	3	2,852
Unknown	3	3,382

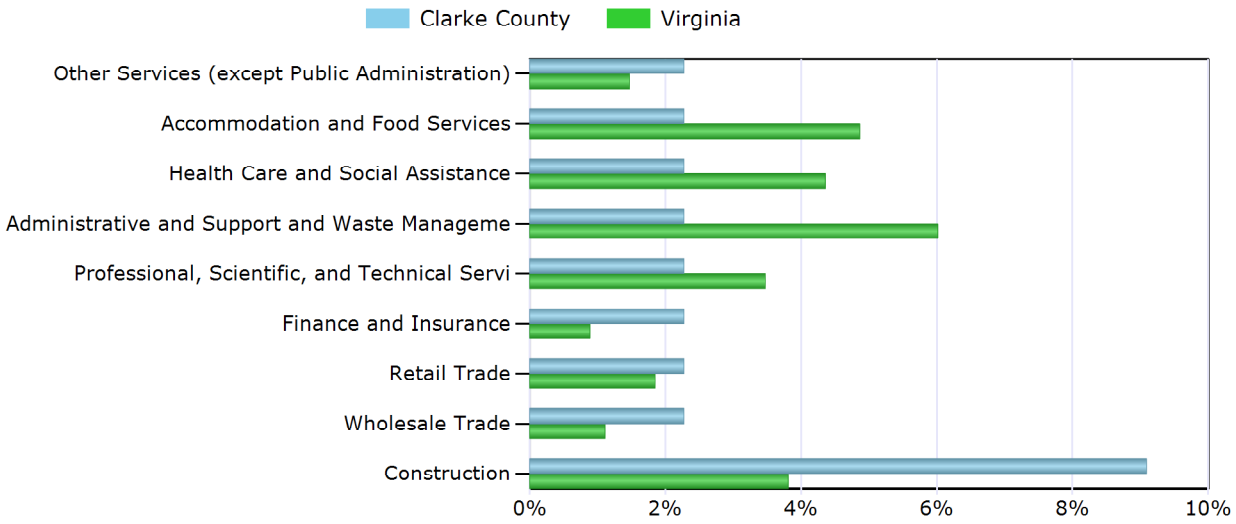


Source: Virginia Employment Commission,
Characteristics of the Insured Unemployed, August 2013.

Characteristics of the Insured Unemployed

Top 5 Industries With Largest Number of Claimaints in Clarke County

(excludes unclassified)



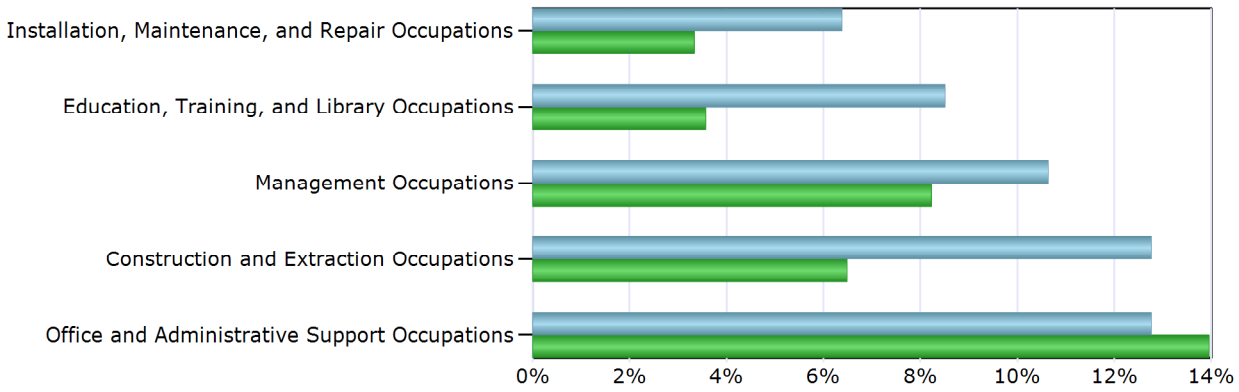
Industry	Clarke County	Virginia
Agriculture, Forestry, Fishing and Hunting		48
Mining, Quarrying, and Oil and Gas Extraction		186
Utilities		12
Construction	4	1,616
Manufacturing		644
Wholesale Trade	1	471
Retail Trade	1	784
Transportation and Warehousing		453
Information		198
Finance and Insurance	1	377
Real Estate and Rental and Leasing		220
Professional, Scientific, and Technical Servi	1	1,473
Management of Companies and Enterprises		50
Administrative and Support and Waste Manageme	1	2,551
Educational Services		291
Health Care and Social Assistance	1	1,848
Arts, Entertainment, and Recreation		92
Accommodation and Food Services	1	2,063
Other Services (except Public Administration)	1	624
Unclassified	32	28,407

Source: Virginia Employment Commission,
Characteristics of the Insured Unemployed, August 2013.

Characteristics of the Insured Unemployed

Top 5 Occupation Groups With Largest Number of Claimaints in Clarke County

(excludes unclassified)

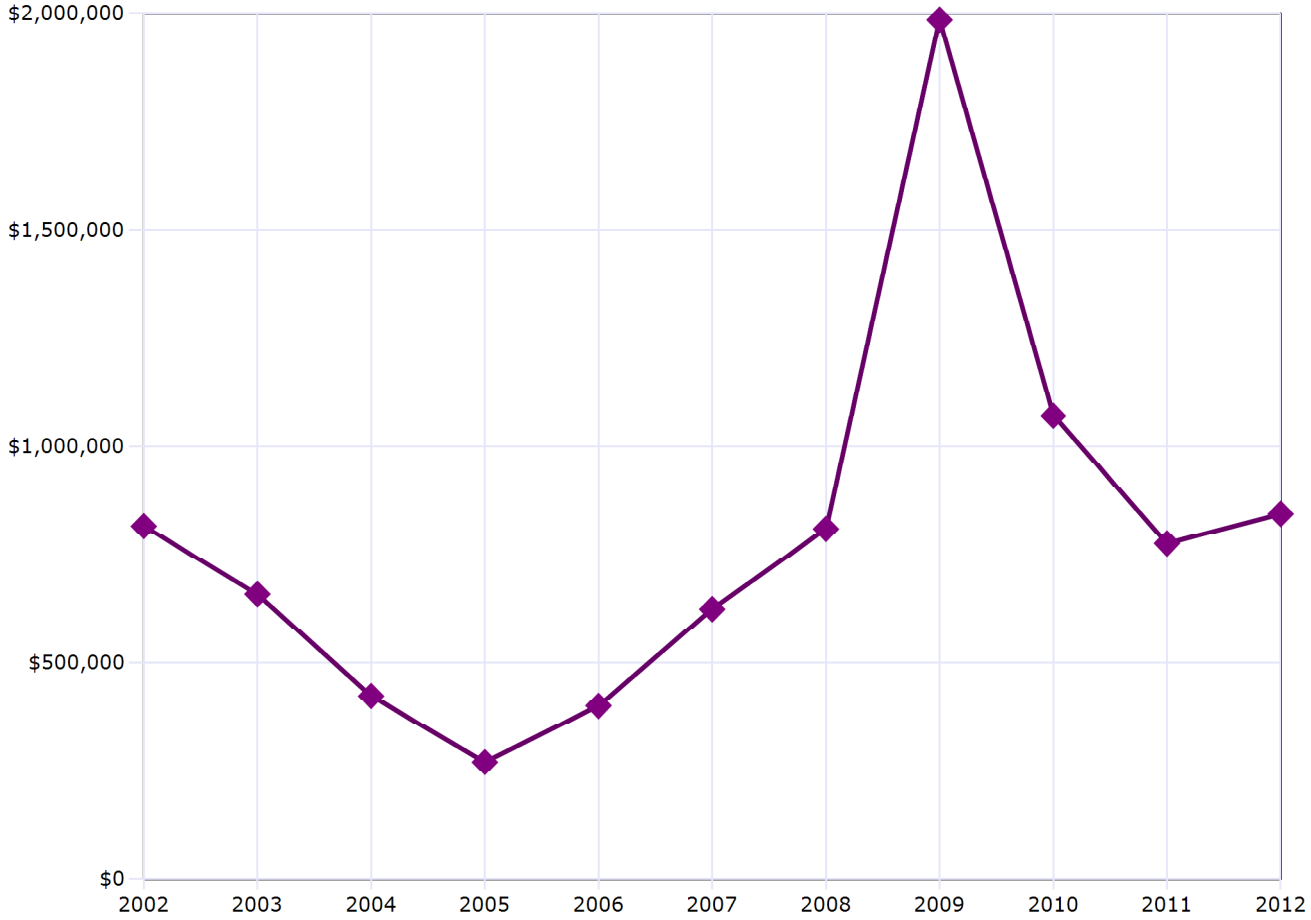


Occupation	Clarke County	Virginia
Management Occupations	5	3,727
Business and Financial Operations Occupations	2	2,260
Computer and Mathematical Occupations	1	1,685
Architecture and Engineering Occupations	2	784
Life, Physical, and Social Science Occupations		196
Community and Social Service Occupations		594
Legal Occupations		205
Education, Training, and Library Occupations	4	1,617
Arts, Design, Entertainment, Sports, and Media Occ		869
Healthcare Practitioners and Technical Occupations		855
Healthcare Support Occupations	2	1,319
Protective Service Occupations	1	524
Food Preparation and Serving Related Occupations	1	2,600
Building and Grounds Cleaning and Maintenance Occu		968
Personal Care and Service Occupations	1	737
Sales and Related Occupations	2	3,320
Office and Administrative Support Occupations	6	6,322
Farming, Fishing, and Forestry Occupations	1	87
Construction and Extraction Occupations	6	2,939
Installation, Maintenance, and Repair Occupations	3	1,511
Production Occupations	2	3,961
Transportation and Material Moving Occupations	1	2,129
Military Specific Occupations		669
Unknown Occupation Code	7	5,418

Source: Virginia Employment Commission,
Characteristics of the Insured Unemployed, August 2013.

Unemployment Insurance Payments

Trends

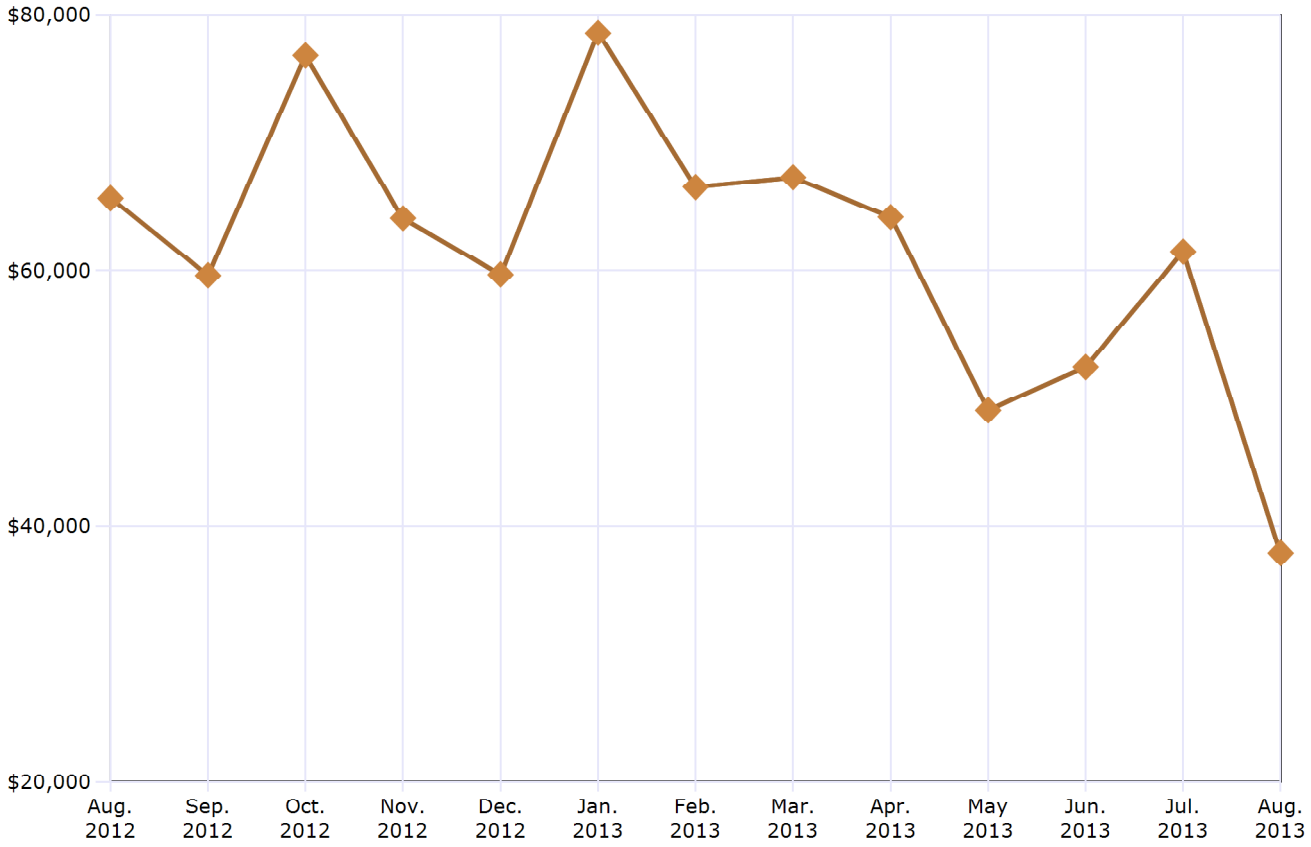


	Clarke County		Virginia	
	Weeks Paid	Amount Paid	Weeks Paid	Amount Paid
2002	2,479	$814,958	2,494,138	$741,502,766
2003	2,383	$658,550	2,320,260	$608,250,060
2004	1,665	$423,283	1,632,841	$376,193,745
2005	1,041	$270,466	1,382,659	$327,192,126
2006	1,395	$400,508	1,334,848	$334,996,815
2007	2,087	$623,803	1,384,335	$364,789,088
2008	2,598	$808,554	1,699,923	$468,544,246
2009	6,521	$1,985,385	3,782,630	$1,069,206,277
2010	3,566	$1,070,113	2,727,738	$748,174,724
2011	2,671	$775,266	2,242,341	$612,702,314
2012	2,700	$843,467	2,102,986	$592,044,339

Source: Virginia Employment Commission, Unemployment Insurance Program.

Unemployment Insurance Payments

Past 12 Months



	Clarke County		Virginia	
	Weeks Paid	Amount Paid	Weeks Paid	Amount Paid
Aug. 2012	209	$65,655	160,972	$44,988,220
Sep. 2012	182	$59,624	142,335	$40,685,067
Oct. 2012	233	$76,808	169,497	$48,641,092
Nov. 2012	204	$64,096	148,802	$42,228,783
Dec. 2012	193	$59,694	144,914	$41,107,449
Jan. 2013	261	$78,583	218,684	$60,852,121
Feb. 2013	209	$66,536	181,880	$50,992,027
Mar. 2013	221	$67,293	173,510	$49,108,549
Apr. 2013	214	$64,193	186,852	$53,635,467
May 2013	160	$49,068	152,821	$44,049,360
Jun. 2013	167	$52,455	150,735	$42,976,692
Jul. 2013	205	$61,486	186,871	$53,368,753
Aug. 2013	126	$37,896	140,860	$40,474,693

Source: Virginia Employment Commission, Unemployment Insurance Program.

Employers by Size of Establishment

	Clarke County	Virginia
0 to 4 employees	303	143,645
5 to 9 employees	74	37,338
10 to 19 employees	37	26,967
20 to 49 employees	15	19,113
50 to 99 employees	8	6,710
100 to 249 employees	***	3,641
250 to 499 employees	***	961
500 to 999 employees	0	354
1000 and over employees	0	242
	442	**238,971**

Employment by Size of Establishment

	Clarke County	Virginia
0 to 4 employees	464	214,056
5 to 9 employees	476	248,288
10 to 19 employees	504	365,681
20 to 49 employees	437	578,869
50 to 99 employees	479	457,232
100 to 249 employees	***	544,056
250 to 499 employees	***	333,338
500 to 999 employees	0	242,689
1000 and over employees	0	611,650
	3,639	**3,595,859**

Note: Asterisks (***) indicate non-disclosable data.
'Zero; no employment' typically represents new startup firms or sole-proprietorships.

Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages (QCEW), 1st Quarter (January, February, March) 2013.

50 Largest Employers

1. Berryville Graphics
2. Clarke County School Board
3. Grafton School, Inc.
4. Clarke County
5. Ggnsc Berryville LLC
6. Project Hope
7. Gsm Consulting Inc
8. Bank of Clarke County
9. Powhatan School
10. Food Lion
11. Greenfield Assisted Living
12. Virginia Division of Community Corrections
13. Dutch Haven Adult Home
14. American Woodmark Corporation
15. The Red Gate Group Limited
16. Cochrans Lumber & Millwork Inc
17. McDonald's
18. Caldwell & Santmyer
19. Town of Berryville
20. Have A Blessed Day
21. Ethicon Inc
22. University of Virginia / Blue Ridge Hospital
23. Postal Service
24. Roseville Veterinary Clinic
25. Waterloo Incorporated
26. Diversified Educational Systems
27. Handy Mart
28. Stuart M. Perry Inc.
29. The Heritage Child Develo
30. Rosemont Manor LLC
31. L. Auberge Provencale
32. Moore and Dorsey
33. Veramar Vineyards LLC
34. Berryville Medical Associates
35. Champion Iron Works Inc
36. Christopher Hansen
37. Harris Contracting Company
38. Mr. Gary P. Haines
39. White Post Dairy LLC
40. Audley Farm
41. Battletown Inn & Restaurant
42. Camino Real Nexican Restaurant
43. Quercus LLC
44. Rivers Edge Landscapes
45. Staffing Concepts Nationa
46. The Makar Company LLC
47. VDOT
48. Starkey Construction
49. Telephone Components
50. 7-Eleven

Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages (QCEW), 1st Quarter (January, February, March) 2013.

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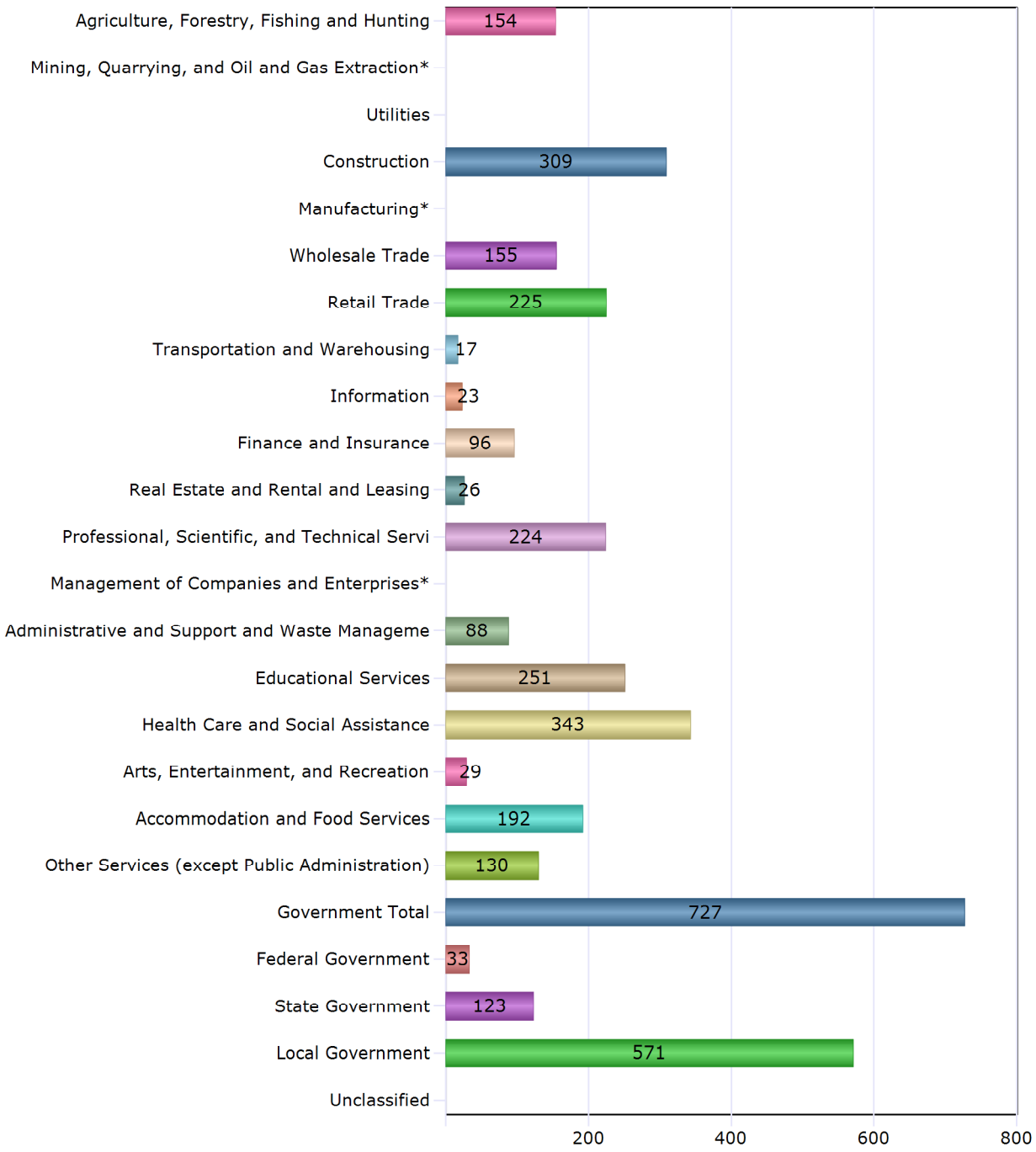
Employment by Industry

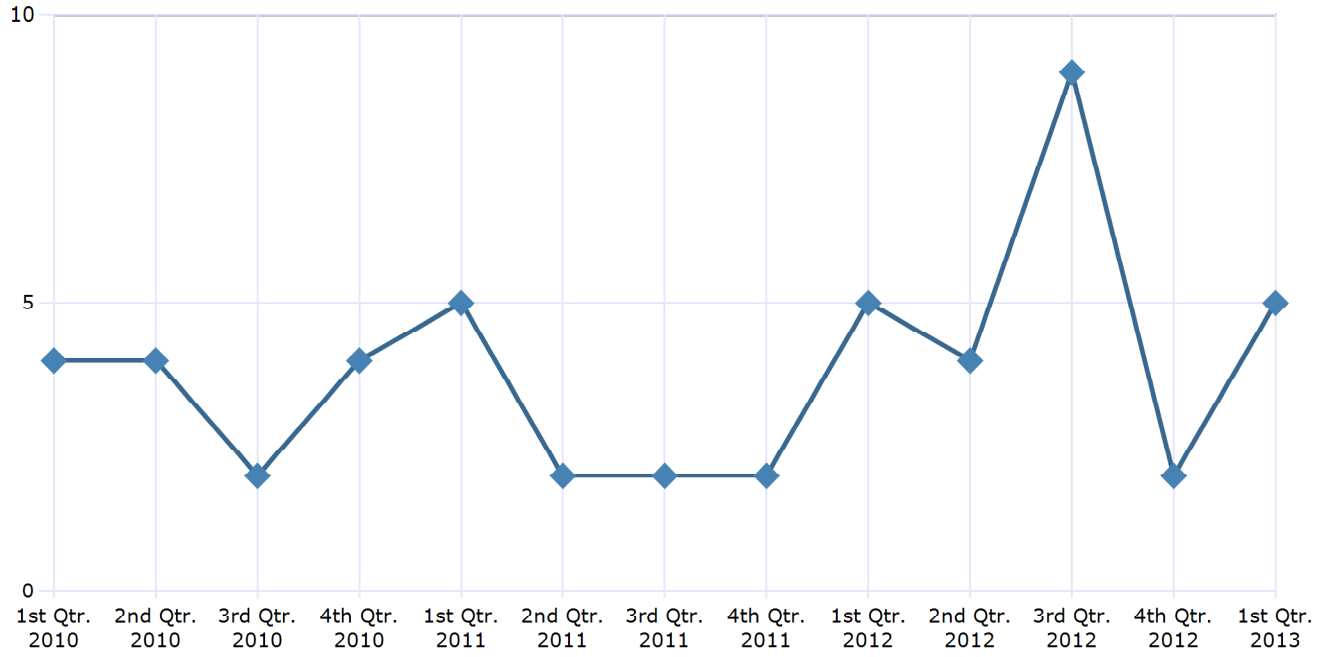


Total: 3,640

Note: Asterisk (*) indicates non-disclosable data.

Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages (QCEW), 1st Quarter (January, February, March) 2013.

New Startup Firms

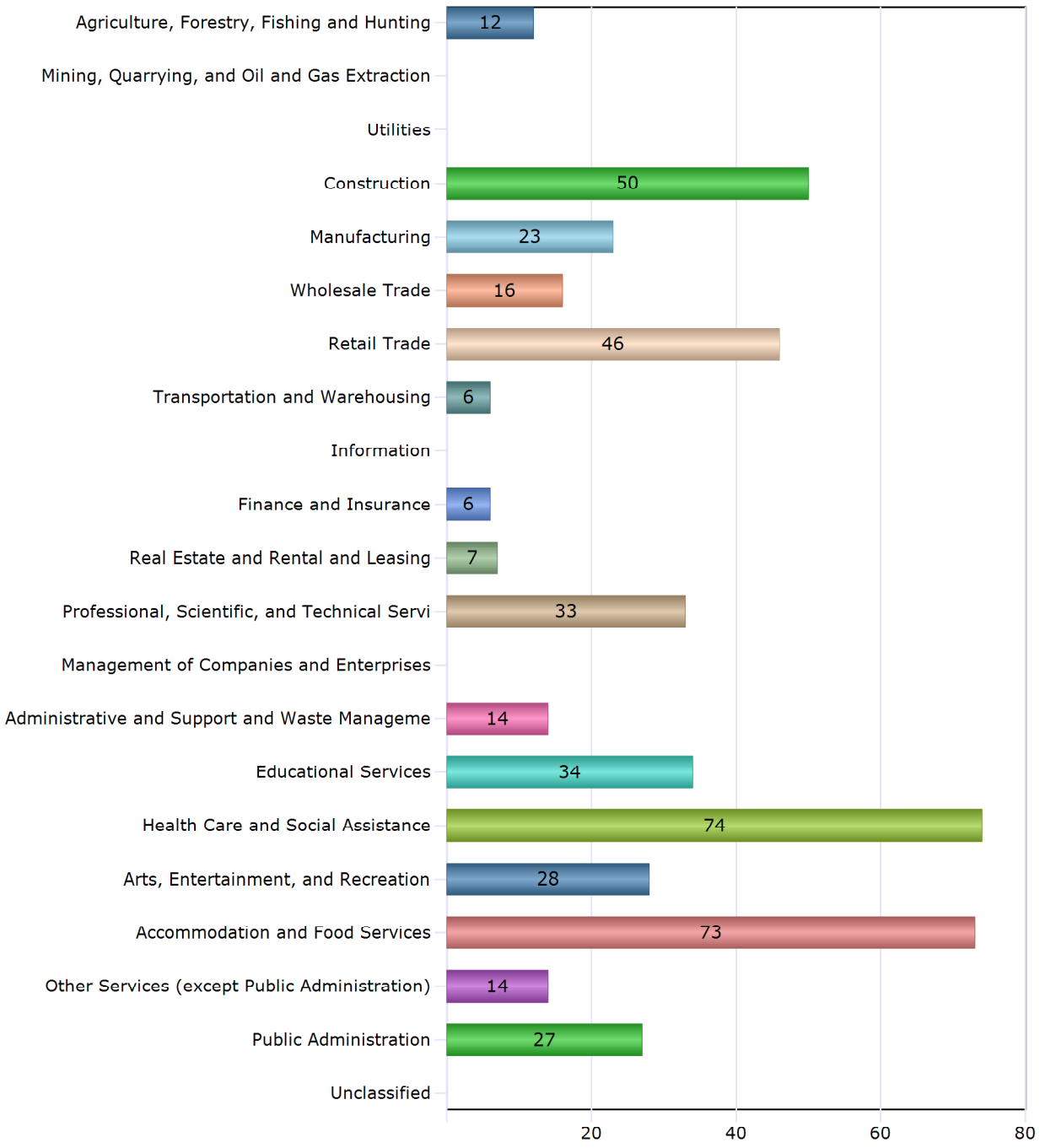


	Clarke County	Virginia
1st Qtr. 2010	4	2,633
2nd Qtr. 2010	4	2,475
3rd Qtr. 2010	2	2,758
4th Qtr. 2010	4	2,568
1st Qtr. 2011	5	3,083
2nd Qtr. 2011	2	3,023
3rd Qtr. 2011	2	2,405
4th Qtr. 2011	2	2,518
1st Qtr. 2012	5	3,079
2nd Qtr. 2012	4	2,506
3rd Qtr. 2012	9	3,977
4th Qtr. 2012	2	2,999
1st Qtr. 2013	5	3,321

Note: The following criteria was used to define new startup firms:
1.) Setup and liability date both occurred during 1st Quarter (January, February, March) 2013
2.) Establishment had no predecessor UI Account Number
3.) Private Ownership
4.) Average employment is less than 250
5.) For multi-unit establishments, the parent company must also meet the above criteria.

Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages (QCEW), 1st Quarter (January, February, March) 2013.

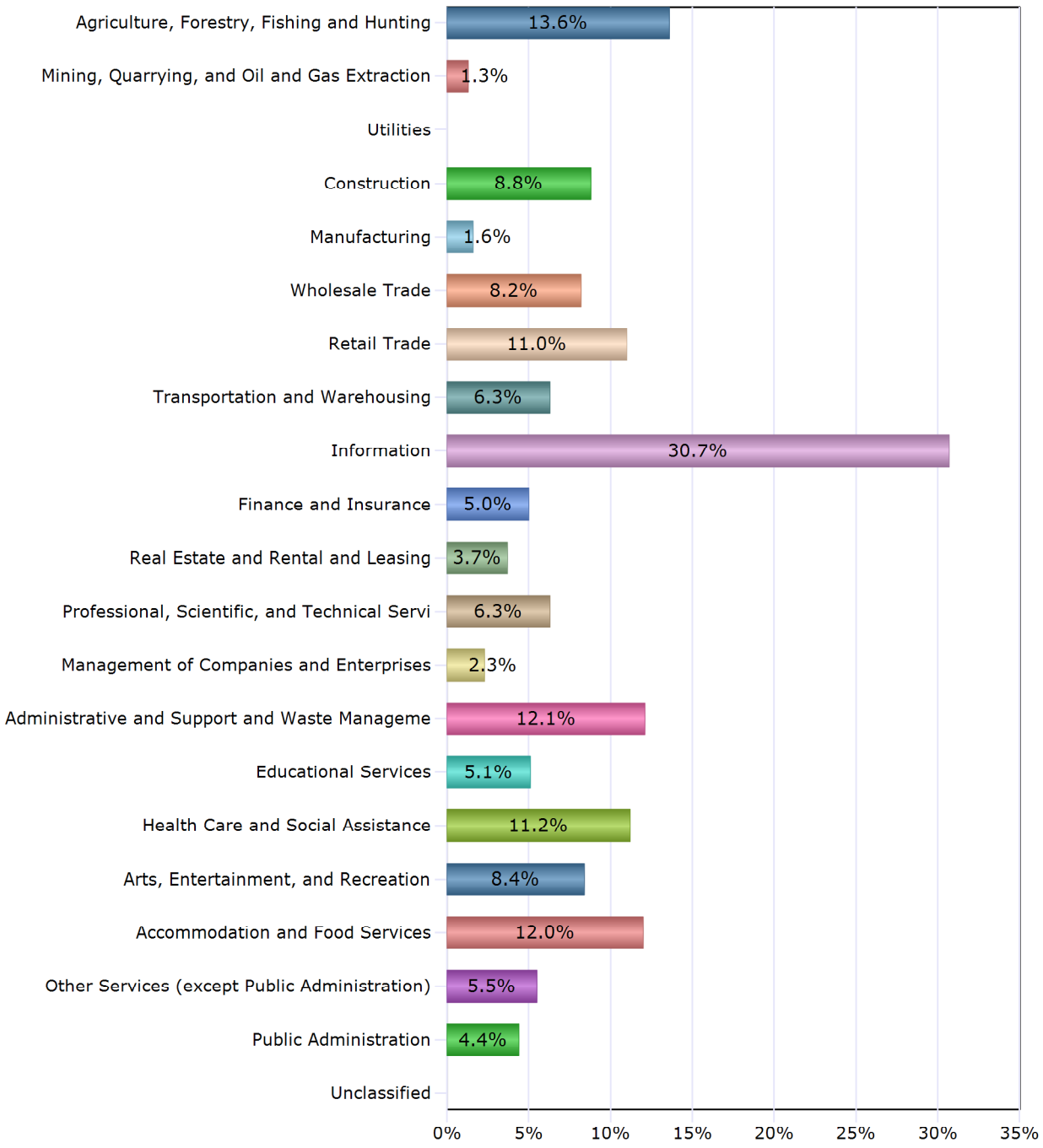
New Hires by Industry



Total: 466

Source: U.S. Census Bureau,
Local Employment Dynamics (LED) Program, 2nd Quarter (April, May, June) 2012, all ownerships.

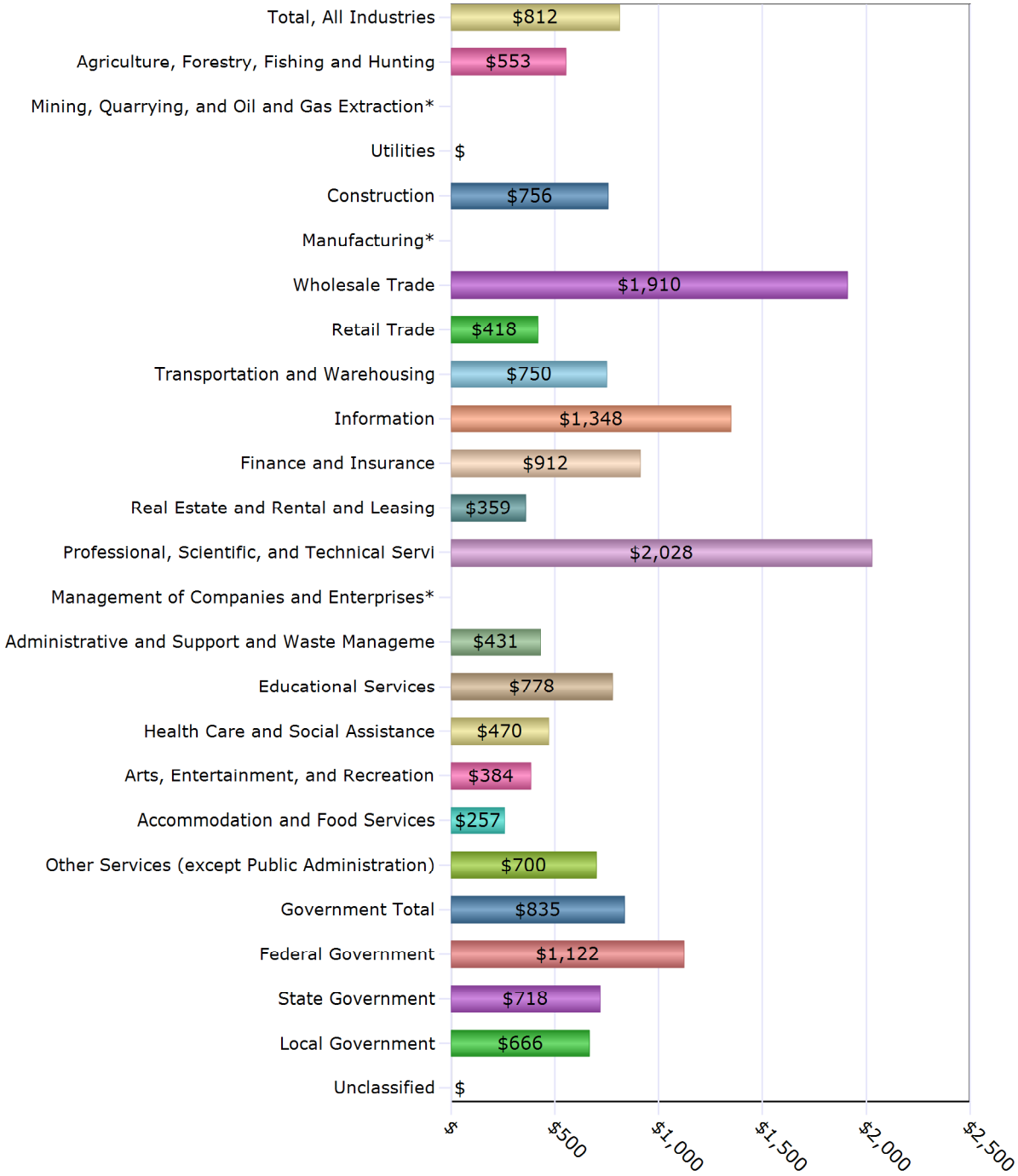
Turnover by Industry



Average: 6.5%

Source: U.S. Census Bureau,
Local Employment Dynamics (LED) Program, 1st Quarter (January, February, March) 2012, all ownerships.

Average Weekly Wage by Industry



Note: Asterisk (*) indicates non-disclosable data.

Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages (QCEW), 1st Quarter (January, February, March) 2013.

Age of Workers by Industry

	14—18	19—21	22—24	25—34	35—44	45—54	55—64	65+
Total, All Industries	74	128	181	643	780	1,029	682	250
Agriculture, Forestry, Fishing and Hunting	6	5	7	17	19	29	33	17
Mining, Quarrying, and Oil and Gas Extraction								
Utilities								
Construction		13	11	51	69	92	40	11
Manufacturing			5	73	145	210	146	34
Wholesale Trade			11	42	29	25	22	11
Retail Trade	10	18	20	38	28	55	30	17
Transportation and Warehousing				2	4	4	8	
Information								
Finance and Insurance			6	20	13	28	23	7
Real Estate and Rental and Leasing				6	6	13	12	5
Professional, Scientific, and Technical Servi			9	40	59	64	29	7
Management of Companies and Enterprises								
Administrative and Support and Waste Manageme	4		5	12	23	34	10	7
Educational Services		6	24	151	172	216	147	56
Health Care and Social Assistance	9	25	35	70	74	81	57	20
Arts, Entertainment, and Recreation	6	3	7	12	3	9	7	8
Accommodation and Food Services	31	40	18	40	34	30	19	
Other Services (except Public Administration)		5		17	25	36	23	24
Public Administration	4	5	16	31	53	66	47	17

Source: U.S. Census Bureau,
Local Employment Dynamics (LED) Program, 2nd Quarter (April, May, June) 2012, all ownerships.

What is LED?

Developed by the U.S. Census Bureau, the Local Employment Dynamics (LED) program merges Virginia's Unemployment Compensation wage and employer records with Census demographic data. Read more about LED on the following website:

http://lehd.did.census.gov/led/

Industry Employment and Projections

Long Term

	Employment			Percent	
	Estimated 2010	Projected 2020	Change	Total	Annual
Total, All Industries	214,211	249,384	35,173	16.42%	1.53%
Agriculture, Forestry, Fishing and Hunting	259	255	-4	-1.54%	-.16%
Mining, Quarrying, and Oil and Gas Extraction	329	318	-11	-3.34%	-.34%
Utilities	579	576	-3	-.52%	-.05%
Construction	10,110	13,600	3,490	34.52%	3.01%
Manufacturing	32,351	33,374	1,023	3.16%	.31%
Wholesale Trade	5,577	6,205	628	11.26%	1.07%
Retail Trade	26,264	29,972	3,708	14.12%	1.33%
Transportation and Warehousing	8,559	10,552	1,993	23.29%	2.12%
Information	3,206	3,602	396	12.35%	1.17%
Finance and Insurance	4,206	4,744	538	12.79%	1.21%
Real Estate and Rental and Leasing	2,054	2,334	280	13.63%	1.29%
Professional, Scientific, and Technical Servi	4,902	6,306	1,404	28.64%	2.55%
Management of Companies and Enterprises	2,231	2,332	101	4.53%	.44%
Administrative and Support and Waste Manageme	6,756	8,051	1,295	19.17%	1.77%
Educational Services	24,663	30,935	6,272	25.43%	2.29%
Health Care and Social Assistance	25,270	33,639	8,369	33.12%	2.9%
Arts, Entertainment, and Recreation	2,557	2,929	372	14.55%	1.37%
Accommodation and Food Services	19,920	22,636	2,716	13.63%	1.29%
Other Services (except Public Administration)	5,458	6,405	947	17.35%	1.61%

Note: Asterisks (***) indicate non-disclosable data.
Projections data is for Shenandoah Valley (LWIA IV). No data available for Clarke County.

Source: Virginia Employment Commission,
Long Term Industry and Occupational Projections, 2010-2020.

Industry Employment and Projections

Short Term

	Employment			Percent	
	Estimated 2012	Projected 2014	Change	Total	Annual
Total, All Industries	3,955,612	4,060,985	105,373	2.66%	1.32%
Agriculture, Forestry, Fishing and Hunting	3,754	3,867	113	3.01%	1.49%
Mining, Quarrying, and Oil and Gas Extraction	8,504	7,958	-546	-6.42%	-3.26%
Utilities	10,545	10,303	-242	-2.29%	-1.15%
Construction	177,604	181,252	3,648	2.05%	1.02%
Manufacturing	231,330	231,797	467	.2%	.1%
Wholesale Trade	111,429	112,109	680	.61%	.3%
Retail Trade	418,185	429,362	11,177	2.67%	1.33%
Transportation and Warehousing	106,247	108,890	2,643	2.49%	1.24%
Information	70,989	69,773	-1,216	-1.71%	-.86%
Finance and Insurance	127,679	132,281	4,602	3.6%	1.79%
Real Estate and Rental and Leasing	51,726	52,560	834	1.61%	.8%
Professional, Scientific, and Technical Servi	397,450	414,697	17,247	4.34%	2.15%
Management of Companies and Enterprises	75,979	80,137	4,158	5.47%	2.7%
Administrative and Support and Waste Manageme	209,347	217,100	7,753	3.7%	1.83%
Educational Services	367,237	377,416	10,179	2.77%	1.38%
Health Care and Social Assistance	410,652	428,306	17,654	4.3%	2.13%
Arts, Entertainment, and Recreation	43,217	45,231	2,014	4.66%	2.3%
Accommodation and Food Services	311,532	323,755	12,223	3.92%	1.94%
Other Services (except Public Administration)	130,702	134,193	3,491	2.67%	1.33%

Note: Asterisks (***) indicate non-disclosable data.
Projections data is for Virginia Statewide. No data available for Clarke County.

Source: Virginia Employment Commission,
Short Term Industry and Occupational Projections, 2012-2014.

Occupation Employment and Projections

Long Term

	Employment			Openings		
	Estimated 2010	Projected 2020	% Change	Replace -ments	Growth	Total
Total, All Occupations	214,211	249,384	16.42%	5,133	3,589	8,722
Management Occupations	7,881	8,589	8.98%	162	74	236
Business and Financial Operations Occupations	6,187	7,391	19.46%	125	121	246
Computer and Mathematical Occupations	2,348	2,890	23.08%	45	54	99
Architecture and Engineering Occupations	2,296	2,488	8.36%	50	21	71
Life, Physical, and Social Science Occupations	1,107	1,239	11.92%	32	14	46
Community and Social Service Occupations	2,663	3,331	25.08%	58	67	125
Legal Occupations	852	995	16.78%	14	14	28
Education, Training, and Library Occupations	15,411	19,359	25.62%	321	395	716
Arts, Design, Entertainment, Sports, and Media Occupations	3,167	3,858	21.82%	83	71	154
Healthcare Practitioners and Technical Occupations	11,614	14,647	26.12%	233	304	537
Healthcare Support Occupations	6,240	8,346	33.75%	88	211	299
Protective Service Occupations	4,121	4,436	7.64%	104	34	138
Food Preparation and Serving Related Occupations	18,872	21,739	15.19%	672	287	959
Building and Grounds Cleaning and Maintenance Occupations	8,510	9,974	17.2%	152	146	298
Personal Care and Service Occupations	7,261	9,475	30.49%	163	224	387
Sales and Related Occupations	23,916	27,092	13.28%	762	318	1,080
Office and Administrative Support Occupations	28,457	32,172	13.05%	633	394	1,027
Farming, Fishing, and Forestry Occupations	771	799	3.63%	22	3	25
Construction and Extraction Occupations	10,646	13,103	23.08%	241	248	489
Installation, Maintenance, and Repair Occupations	10,392	11,996	15.43%	228	161	389
Production Occupations	22,410	23,503	4.88%	464	140	604
Transportation and Material Moving Occupations	19,089	21,962	15.05%	479	289	768

Note: Asterisks (***) indicate non-disclosable data.
Projections data is for Shenandoah Valley (LWIA IV). No data available for Clarke County.

Source: Virginia Employment Commission,
Long Term Industry and Occupational Projections, 2010-2020.

Occupation Employment and Projections

Short Term

	Employment			Openings		
	Estimated 2012	Projected 2014	% Change	Replace -ments	Growth	Total
Total, All Occupations	3,955,612	4,060,985	2.66%	92,454	54,026	146,480
Management Occupations	217,453	220,929	1.6%	4,016	1,760	5,776
Business and Financial Operations Occupations	264,892	275,110	3.86%	4,754	5,109	9,863
Computer and Mathematical Occupations	207,476	216,456	4.33%	3,114	4,490	7,604
Architecture and Engineering Occupations	82,615	83,241	.76%	1,728	446	2,174
Life, Physical, and Social Science Occupations	31,111	31,936	2.65%	976	414	1,390
Community and Social Service Occupations	56,720	59,186	4.35%	1,183	1,233	2,416
Legal Occupations	42,929	44,297	3.19%	654	684	1,338
Education, Training, and Library Occupations	245,233	252,268	2.87%	4,950	3,518	8,468
Arts, Design, Entertainment, Sports, and Media Occupations	69,323	71,296	2.85%	1,794	1,027	2,821
Healthcare Practitioners and Technical Occupations	200,448	207,190	3.36%	3,625	3,372	6,997
Healthcare Support Occupations	95,207	99,525	4.54%	1,214	2,159	3,373
Protective Service Occupations	99,190	101,608	2.44%	2,532	1,210	3,742
Food Preparation and Serving Related Occupations	312,407	324,952	4.02%	13,190	6,272	19,462
Building and Grounds Cleaning and Maintenance Occupations	148,427	152,688	2.87%	2,454	2,130	4,584
Personal Care and Service Occupations	135,751	142,547	5.01%	3,061	3,404	6,465
Sales and Related Occupations	424,154	432,950	2.07%	14,269	4,504	18,773
Office and Administrative Support Occupations	557,817	569,857	2.16%	12,121	6,434	18,555
Farming, Fishing, and Forestry Occupations	7,185	7,248	.88%	202	38	240
Construction and Extraction Occupations	192,411	194,542	1.11%	4,030	1,174	5,204
Installation, Maintenance, and Repair Occupations	153,691	156,453	1.8%	3,282	1,482	4,764
Production Occupations	179,839	181,430	.88%	3,626	1,161	4,787
Transportation and Material Moving Occupations	231,333	235,276	1.7%	5,680	2,004	7,684

Note: Asterisks (***) indicate non-disclosable data.
Projections data is for Virginia Statewide. No data available for Clarke County.

Source: Virginia Employment Commission,
Short Term Industry and Occupational Projections, 2012-2014.

Growth Occupations

	Employment			Average Annual Openings			
	Estimated 2010	Projected 2020	% Change	Replace -ments	Growth	Total	Average Annual Salary
Personal Care Aides	1,735	3,015	73.78%	14	128	142	$17,854
Home Health Aides	***	***	***	***	***	***	$20,957
Veterinary Technologists and Technicians	96	148	54.17%	2	5	7	$35,109
Medical Secretaries	284	436	53.52%	4	15	19	$33,671
Brickmasons and Blockmasons	147	225	53.06%	3	8	11	$41,026
Physical Therapist Assistants	146	220	50.68%	2	7	9	$38,335
Dental Hygienists	188	280	48.94%	4	9	13	$75,626
Glaziers	78	116	48.72%	3	4	7	$38,646
Personal Financial Advisors	124	182	46.77%	1	6	7	$79,496
Ambulance Drivers and Attendants, Except Emergency Medical Technicians	***	***	***	***	***	***	N/A
Software Developers, Systems Software	142	207	45.77%	2	6	8	$103,013
Physical Therapist Aides	121	176	45.45%	2	6	8	$22,406
Helpers--Pipelayers, Plumbers, Pipefitters, and Steamfitters	305	443	45.25%	8	14	22	$27,749
Helpers--Carpenters	170	245	44.12%	4	8	12	$28,616
Physician Assistants	100	144	44%	2	4	6	$85,484
Physical Therapists	446	637	42.83%	5	19	24	$71,159
Coaches and Scouts	690	985	42.75%	18	30	48	$33,831
Market Research Analysts and Marketing Specialists	247	349	41.3%	7	10	17	$50,341
Dental Assistants	402	565	40.55%	8	16	24	$31,169
Medical Assistants	500	700	40%	8	20	28	$31,023

Note: Asterisks (***) indicate non-disclosable data.
Projections and OES wage data are for Shenandoah Valley (LWIA IV). No data available for Clarke County.

Source: Virginia Employment Commission,
Long Term Industry and Occupational Projections, 2010-2020
Occupational Employment Statistics (OES) Survey, 2011.

Declining Occupations

	Employment			Openings		
	Estimated 2010	Projected 2020	% Change	Replace -ments	Growth	Total
Postal Service Clerks	124	60	-51.61%	3	0	3
Sewing Machine Operators	224	156	-30.36%	1	0	1
Textile Knitting and Weaving Machine Setters, Operators, and Tenders	***	***	***	***	***	***
Chemical Plant and System Operators	146	121	-17.12%	5	0	5
Postal Service Mail Carriers	472	392	-16.95%	15	0	15
Prepress Technicians and Workers	246	209	-15.04%	6	0	6
Textile, Apparel, and Furnishings Workers, All Other	212	186	-12.26%	2	0	2
Chemical Equipment Operators and Tenders	292	257	-11.99%	5	0	5
Pressers, Textile, Garment, and Related Materials	117	105	-10.26%	1	0	1
Data Entry Keyers	251	239	-4.78%	4	0	4
Floral Designers	178	170	-4.49%	6	0	6
Detectives and Criminal Investigators	165	158	-4.24%	4	0	4
Highway Maintenance Workers	510	489	-4.12%	14	0	14
Aircraft Mechanics and Service Technicians	***	***	***	***	***	***
First-Line Supervisors of Correctional Officers	152	148	-2.63%	5	0	5
Mixing and Blending Machine Setters, Operators, and Tenders	420	409	-2.62%	12	0	12
Cutting, Punching, and Press Machine Setters, Operators, and Tenders, Metal and Plastic	502	491	-2.19%	4	0	4
Parking Lot Attendants	112	110	-1.79%	3	0	3
Paper Goods Machine Setters, Operators, and Tenders	197	194	-1.52%	2	0	2
Packaging and Filling Machine Operators and Tenders	1,678	1,654	-1.43%	28	0	28

Note: Asterisks (***) indicate non-disclosable data.
Projections data is for Shenandoah Valley (LWIA IV). No data available for Clarke County.

Source: Virginia Employment Commission,
Long Term Industry and Occupational Projections, 2010-2020.

Consumer Price Index (CPI)

All Urban Consumers (CPI-U)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Ann.	% chg
2003	181.700	183.100	184.200	183.800	183.500	183.700	183.900	184.600	185.200	185.000	184.500	184.300	184.000	2.3
2004	185.200	186.200	187.400	188.000	189.100	189.700	189.400	189.500	189.900	190.900	191.000	190.300	188.900	2.7
2005	190.700	191.800	193.300	194.600	194.400	194.500	195.400	196.400	198.800	199.200	197.600	196.800	195.300	3.4
2006	198.300	198.700	199.800	201.500	202.500	202.900	203.500	203.900	202.900	201.800	201.500	201.800	201.600	3.2
2007	202.416	203.499	205.352	206.686	207.949	208.352	208.299	207.917	208.490	208.936	210.177	210.036	207.342	2.8
2008	211.080	211.693	213.528	214.823	216.632	218.815	219.964	219.086	218.783	216.573	212.425	210.228	215.303	3.8
2009	211.143	212.193	212.709	213.240	213.856	215.693	215.351	215.834	215.969	216.177	216.330	215.949	214.537	-0.4
2010	216.687	216.741	217.631	218.009	218.178	217.965	218.011	218.312	218.439	218.711	218.803	219.179	218.056	1.6
2011	220.223	221.309	223.467	224.906	225.964	225.722	225.922	226.545	226.889	226.421	226.230	225.672	224.939	3.2
2012	226.665	227.663	229.392	230.085	229.815	229.478	229.104	230.379	231.407	231.317	230.221	229.601	229.594	2.1
2013	230.280	232.166	232.773	232.531	232.945	233.504	233.596							

Urban Wage Earners and Clerical Workers (CPI-W)

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Ann.	% chg
2003	177.700	179.200	180.300	179.800	179.400	179.600	179.600	180.300	181.000	180.700	180.200	179.900	179.800	2.2
2004	180.900	181.900	182.900	183.500	184.700	185.300	184.900	185.000	185.400	186.500	186.800	186.000	184.500	2.6
2005	186.300	187.300	188.600	190.200	190.000	190.100	191.000	192.100	195.000	195.200	193.400	192.500	191.000	3.5
2006	194.000	194.200	195.300	197.200	198.200	198.600	199.200	199.600	198.400	197.000	196.800	197.200	197.100	3.2
2007	197.559	198.544	200.612	202.130	203.661	203.906	203.700	203.199	203.889	204.338	205.891	205.777	202.767	2.9
2008	206.744	207.254	209.147	210.698	212.788	215.223	216.304	215.247	214.935	212.182	207.296	204.813	211.053	4.1
2009	205.700	206.708	207.218	207.925	208.774	210.972	210.526	211.156	211.322	211.549	212.003	211.703	209.630	-0.7
2010	212.568	212.544	213.525	213.958	214.124	213.839	213.898	214.205	214.306	214.623	214.750	215.262	213.967	2.1
2011	216.400	217.535	220.024	221.743	222.954	222.522	222.686	223.326	223.688	223.043	222.813	222.166	221.575	3.6
2012	223.216	224.317	226.304	227.012	226.600	226.036	225.568	227.056	228.184	227.974	226.595	225.889	226.229	2.1
2013	226.520	228.677	229.323	228.949	229.399	230.002	230.084							

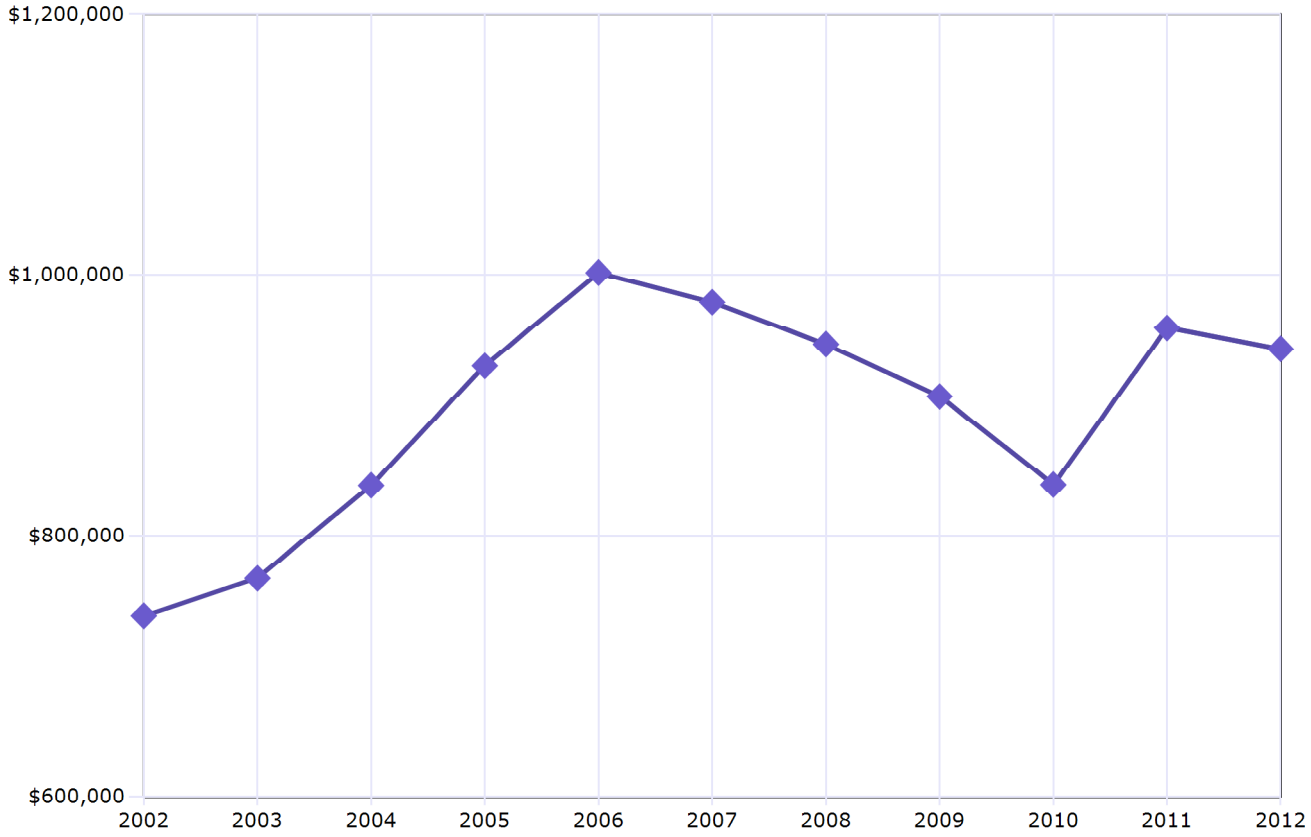
Note: CPI data is for the United States only. No data available for Clarke County.

The CPI-U includes expenditures by urban wage earners and clerical workers, professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, retirees and others not in the labor force. The CPI-W only includes expenditures by those in hourly wage earning or clerical jobs.

Source: Bureau of Labor Statistics,
Consumer Price Indexes (CPI) Program.

Local Option Sales Tax

Trends



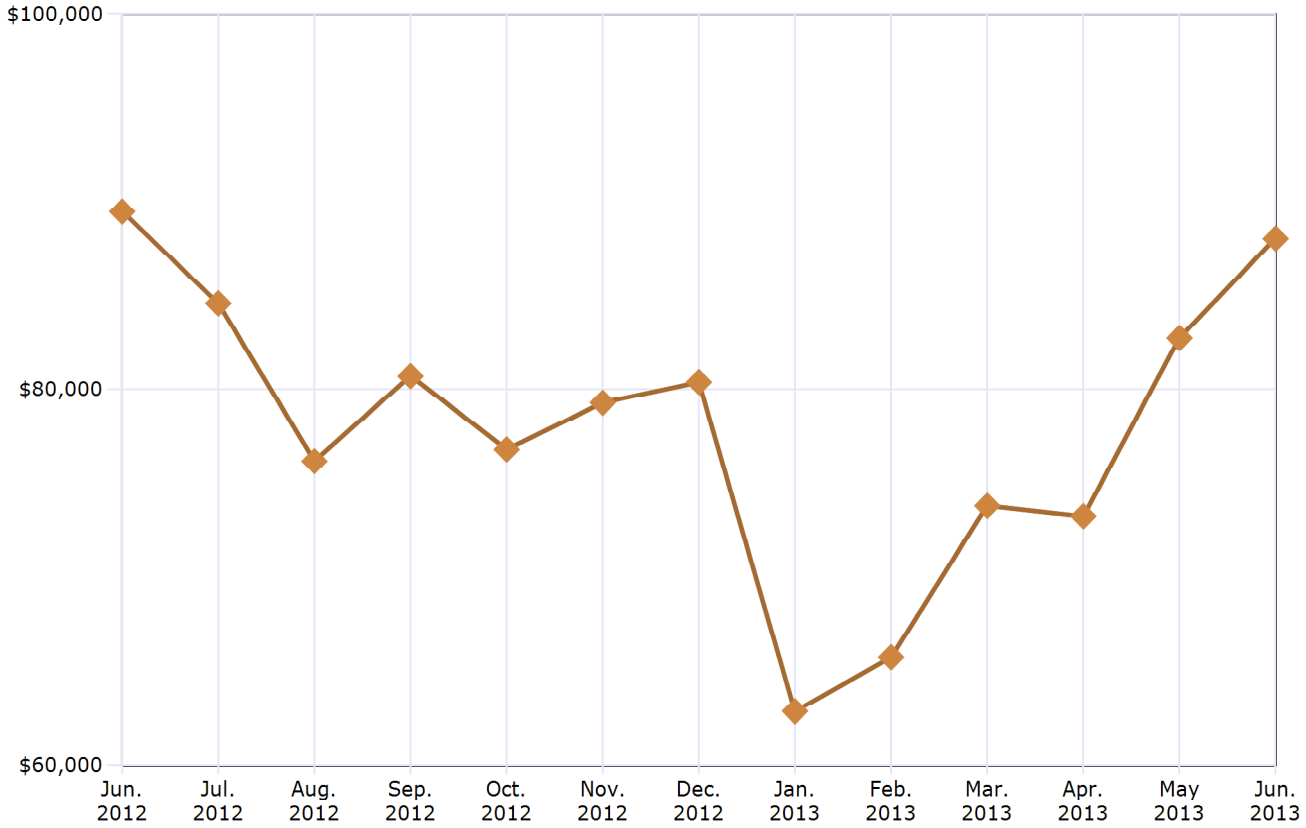
	Clarke County	Virginia
2002	$738,708	$789,905,170
2003	$767,218	$838,275,059
2004	$838,497	$914,499,686
2005	$930,210	$976,923,577
2006	$1,001,523	$1,028,544,074
2007	$978,930	$1,056,766,678
2008	$946,762	$1,032,815,078
2009	$906,567	$979,594,664
2010	$838,981	$992,820,512
2011	$959,165	$1,035,981,229
2012	$943,215	$1,080,663,042

Note: This data is based on Virginia sales tax revenues deposited, rather than the actual taxable sales figures as reported on a dealer's return.

Source: Virginia Department of Taxation, Revenue Forecasting.

Local Option Sales Tax

Past 12 Months



	Clarke County	Virginia
Jun. 2012	$89,479	$95,717,390
Jul. 2012	$84,591	$90,152,230
Aug. 2012	$76,181	$91,983,080
Sep. 2012	$80,716	$90,120,871
Oct. 2012	$76,807	$84,242,722
Nov. 2012	$79,294	$91,139,984
Dec. 2012	$80,396	$107,426,421
Jan. 2013	$62,882	$80,376,392
Feb. 2013	$65,742	$81,521,983
Mar. 2013	$73,805	$92,230,779
Apr. 2013	$73,249	$92,553,822
May 2013	$82,742	$92,436,992
Jun. 2013	$88,039	$97,114,277

Note: This data is based on Virginia sales tax revenues deposited, rather than the actual taxable sales figures as reported on a dealer's return.

Source: Virginia Department of Taxation, Revenue Forecasting.

IV. Education Profile

Overview

The Education Profile for Clarke County provides an assortment of data collected from the United States Census Bureau and the National Center for Education Statistics (NCES).

Related Terms and Definitions

Associate's degree
An award that normally requires at least two but less than four years of full-time equivalent college work.

Bachelor's degree
An award that normally requires at least four but not more than five years of full-time equivalent college-level work.

Post-baccalaureate certificate
An award that requires completion of an organized program of study equivalent to 18 semester credit hours beyond the bachelor's. It is designed for persons who have completed a bachelor's degree, but do not meet the requirements of a master's degree.

Master's degree
An award that requires the successful completion of a program of study of at least the full-time equivalent of one but not more than two academic years of work beyond the bachelor's degree.

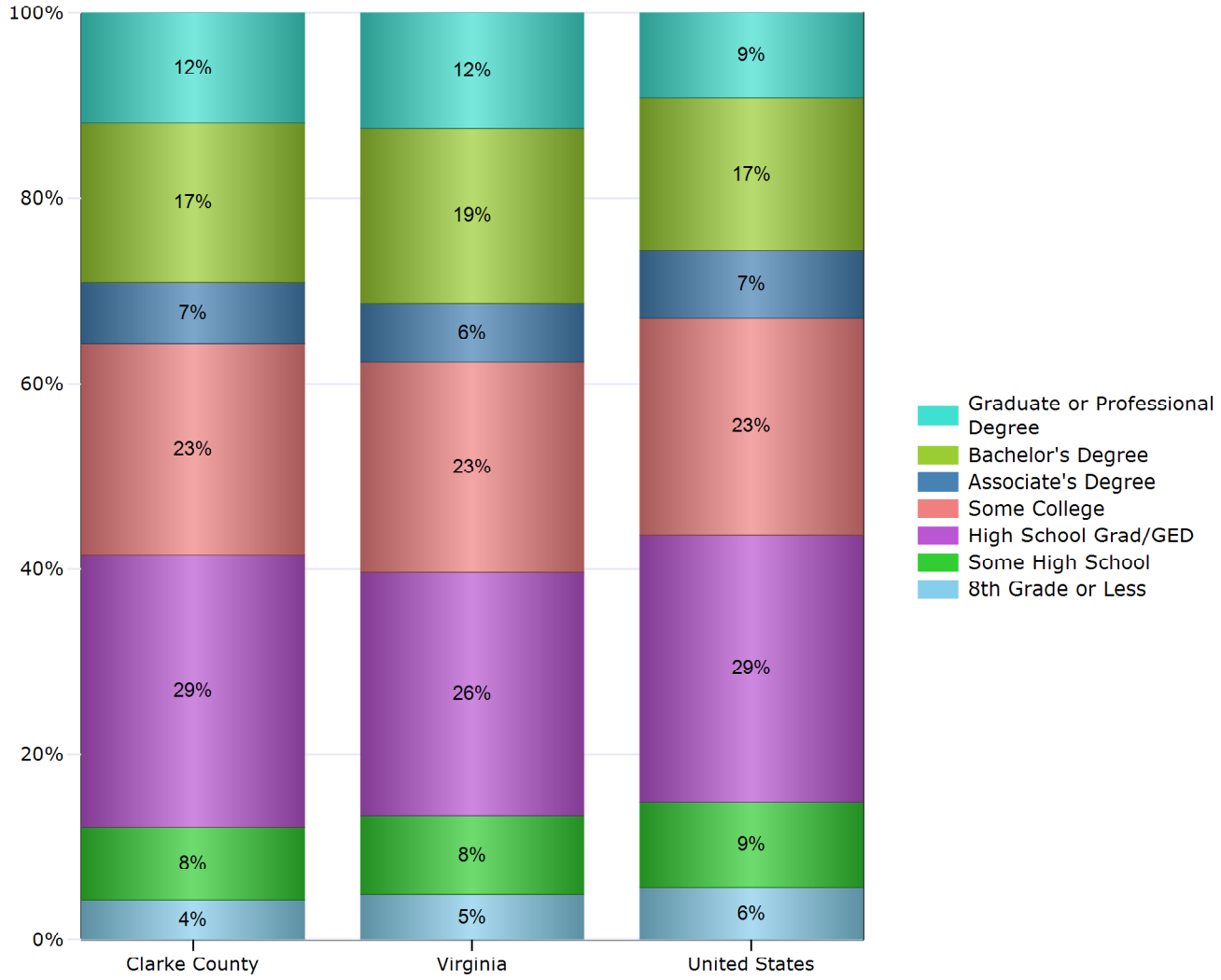
Post-master's certificate
An award that requires completion of an organized program of study equivalent to 24 semester credit hours beyond the master's degree, but does not meet the requirements of academic degrees at the doctor's level.

Doctor's degree
The highest award a student can earn for graduate study.

First-professional degree
An award that requires completion of a program that meets all of the following criteria: (1) completion of the academic requirements to begin practice in the profession; (2) at least two years of college work prior to entering the program; and (3) a total of at least six academic years of college work to complete the degree program, including prior required college work plus the length of the professional program itself.

Educational Attainment

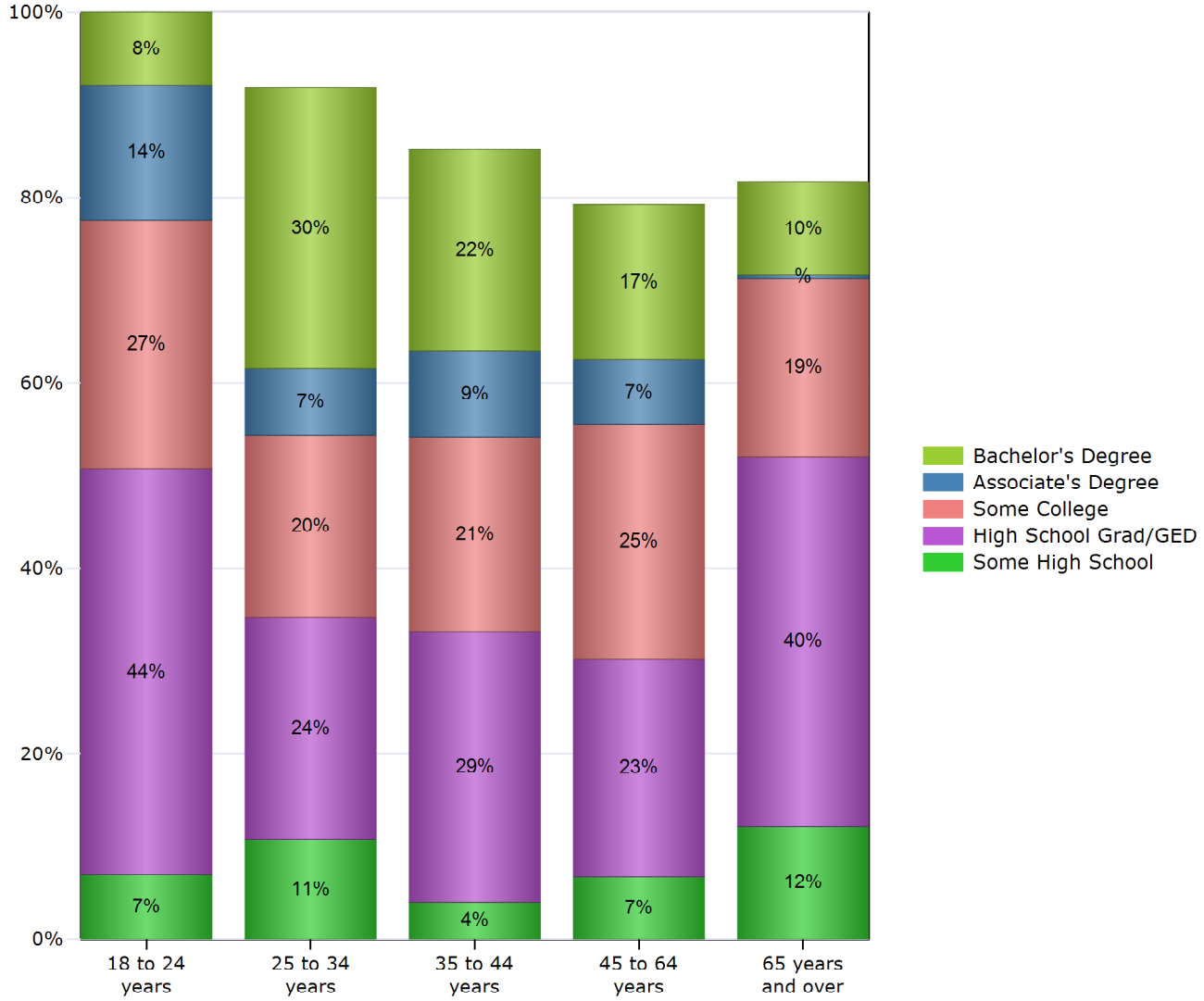
(Population 18 years and over)



	Clarke County	Virginia	United States
8th Grade or Less	465	297,540	13,124,676
Some High School	850	515,340	21,475,508
High School Grad/GED	3,191	1,601,046	67,086,675
Some College	2,462	1,375,592	54,322,434
Associate's Degree	720	386,024	16,749,576
Bachelor's Degree	1,861	1,149,525	38,480,296
Graduate or Professional Degree	1,292	757,198	21,316,854
	10,841	**6,082,265**	**232,556,019**

Source: U.S. Census Bureau
American Community Survey, 2007-2011.

Educational Attainment by Age

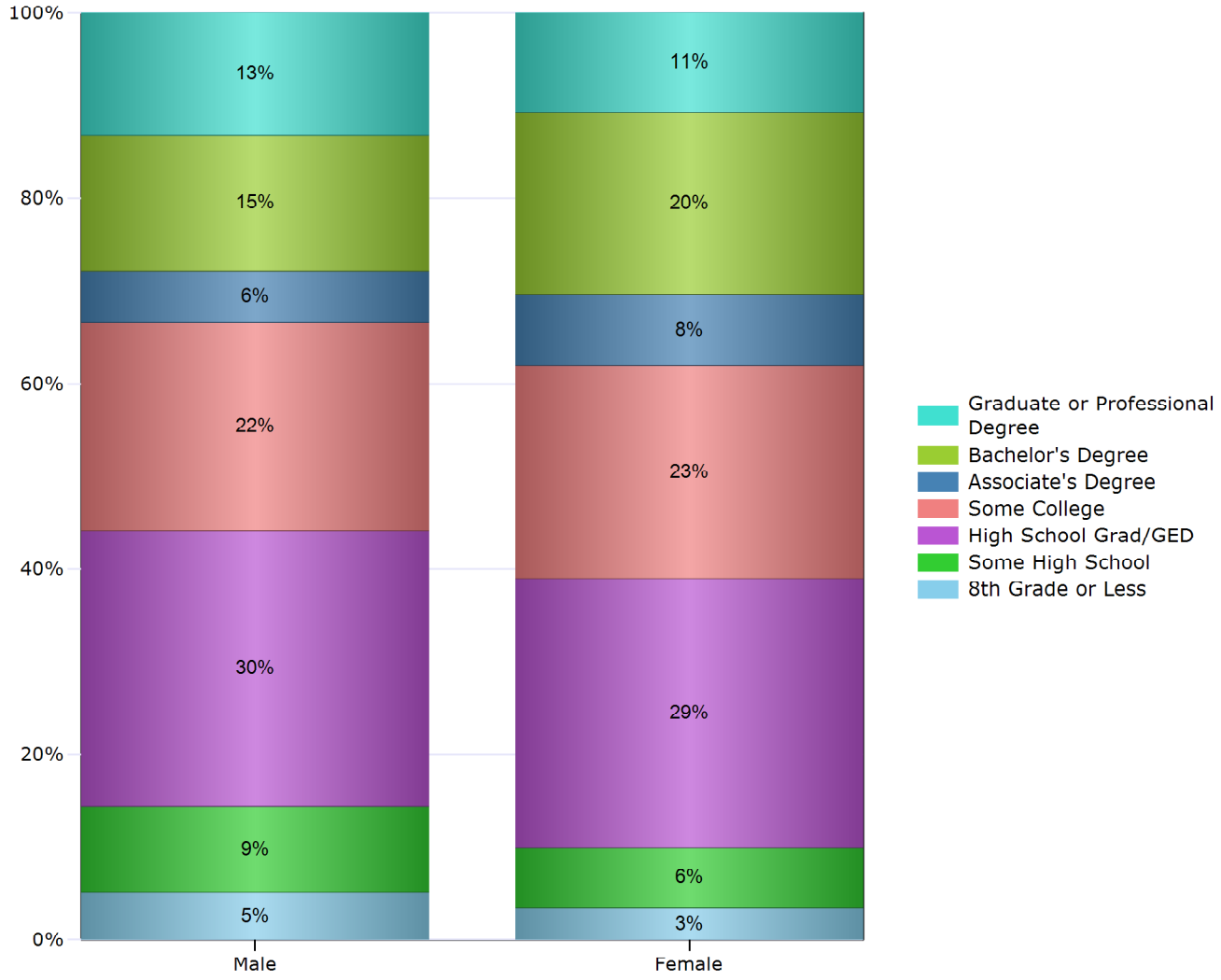


	18 - 24	25 - 34	35 - 44	45 - 64	65+	Total
8th Grade or Less		5	24	171	265	**465**
Some High School	55	132	81	310	272	**850**
High School Grad/GED	344	296	585	1,074	892	**3,191**
Some College	212	241	422	1,157	430	**2,462**
Associate's Degree	114	89	188	321	8	**720**
Bachelor's Degree	62	373	436	765	225	**1,861**
Graduate or Professional Degree		95	273	780	144	**1,292**
	787	**1,231**	**2,009**	**4,578**	**2,236**	**10,841**

Source: U.S. Census Bureau
American Community Survey, 2007-2011.

Educational Attainment by Gender

(Population 18 years and over)

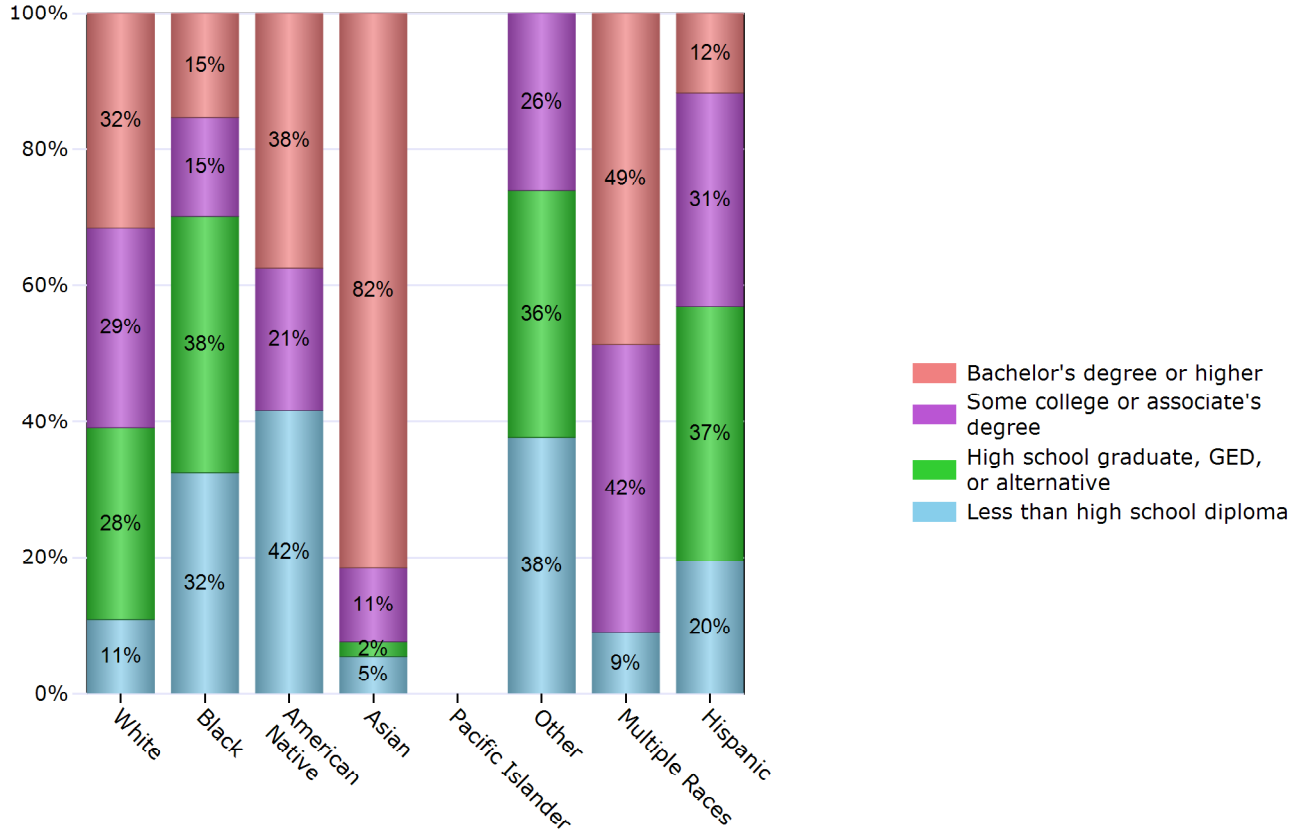


	Male	Female	Total
8th Grade or Less	274	191	**465**
Some High School	495	355	**850**
High School Grad/GED	1,598	1,593	**3,191**
Some College	1,202	1,260	**2,462**
Associate's Degree	299	421	**720**
Bachelor's Degree	783	1,078	**1,861**
Graduate or Professional Degree	705	587	**1,292**
	5,356	**5,485**	**10,841**

Source: U.S. Census Bureau
American Community Survey, 2007-2011.

Educational Attainment by Race/Ethnicity

(Population 25 years and over)



	Less than high school diploma	High school graduate, GED, or alternative	Some college or associate's degree	Bachelor's degree or higher	Total
Race					
White	996	2,574	2,687	2,879	**9,136**
Black or African American	190	221	85	90	**586**
American Indian or Alaska Native	10	0	5	9	**24**
Asian	5	2	10	75	**92**
Native Hawaiian/Pacific Islander	0	0	0	0	**0**
Other	52	50	36	0	**138**
Multiple Races	7	0	33	38	**78**
Ethnicity					
Hispanic or Latino (of any race)	58	111	93	35	**297**
	1,318	**2,958**	**2,949**	**3,126**	**10,351**

Source: U.S. Census Bureau
American Community Survey, 2007-2011.

Graduate Data Trends

Clarke County

	Cert. <1 yr.	Cert. 1-2 yrs.	Assoc.	Cert. 2-4 yrs.	BA	Cert. Post-BA	MA	Cert. Post-MA	Ph.D.	1st Prof.
1997										
1998										
2000										
2001										
2002										
2003										
2004										
2005										
2006										
2007										

Note: This table only reflects the degrees completed from institutions within Clarke County.

Virginia Statewide

	Cert. <1 yr.	Cert. 1-2 yrs.	Assoc.	Cert. 2-4 yrs.	BA	Cert. Post-BA	MA	Cert. Post-MA	Ph.D.	1st Prof.
1997	2,904	2,269	9,242	158	26,416	261	9,800	184	945	1,902
1998	3,319	2,440	8,969	259	26,648	185	9,560	184	886	1,919
2000	3,804	2,368	9,223	212	28,948	451	9,431	113	917	2,181
2001	4,710	2,419	9,581	175	30,709	339	9,424	104	871	2,134
2002	4,970	2,730	10,241	134	30,653	441	9,303	95	954	2,213
2003	5,245	3,079	11,174	97	32,635	178	9,948	447	974	2,133
2004	4,465	3,772	11,400	76	33,392	247	10,487	360	1,033	2,407
2005	3,983	3,831	11,833	77	34,615	476	11,255	251	1,268	2,496
2006	4,213	4,298	14,431	102	39,247	608	12,429	225	1,440	2,490
2007	4,478	3,686	15,519	116	40,381	650	12,781	252	1,516	2,626

Source: U.S. Department of Education,
Institute of Education Sciences (IES).

Did you know...

you can search over 2,300 school listings online provided by the U.S. Department of Education?

For this data and more, visit us on the web at:

www.VirginiaLMI.com

Training Providers

James Madison University
800 South Main Street
Harrisonburg, VA 22807-

Phone: (540) 568-6211
www.jmu.edu
Number of 2007 graduates: 4,139

Shenandoah University
1460 University Dr
Winchester, VA 22601-5195

Phone: (540) 665-4500
www.su.edu
Number of 2007 graduates: 692

Washington and Lee University
204 West Washington Street
Lexington, VA 24450-2116

Phone: (540) 458-8400
www.wlu.edu/
Number of 2007 graduates: 628

Lord Fairfax Community College
173 Skirmisher Lane
Middletown, VA 22645-

Phone: (540) 868-7000
www.lf.vccs.edu
Number of 2007 graduates: 463

Blue Ridge Community College
1 College Lane
Weyers Cave, VA 24486-0080

Phone: (540) 234-9261
www.brcc.edu
Number of 2007 graduates: 415

Virginia Military Institute

Lexington, VA 24450-0304

Phone: (540) 464-7207
www.vmi.edu
Number of 2007 graduates: 341

Mary Baldwin College
New & Frederick St
Staunton, VA 24401-

Phone: (540) 887-7000
www.mbc.edu
Number of 2007 graduates: 339

Eastern Mennonite University
1200 Park Rd
Harrisonburg, VA 22802-2462

Phone: (540) 432-4000
www.emu.edu
Number of 2007 graduates: 322

Bridgewater College
402 E College St
Bridgewater, VA 22812-1599

Phone: (540) 828-8000
www.bridgewater.edu
Number of 2007 graduates: 314

Woodrow Wilson Rehabilitation Center
64 James Anderson Road
Fishersville, VA 22939-1500

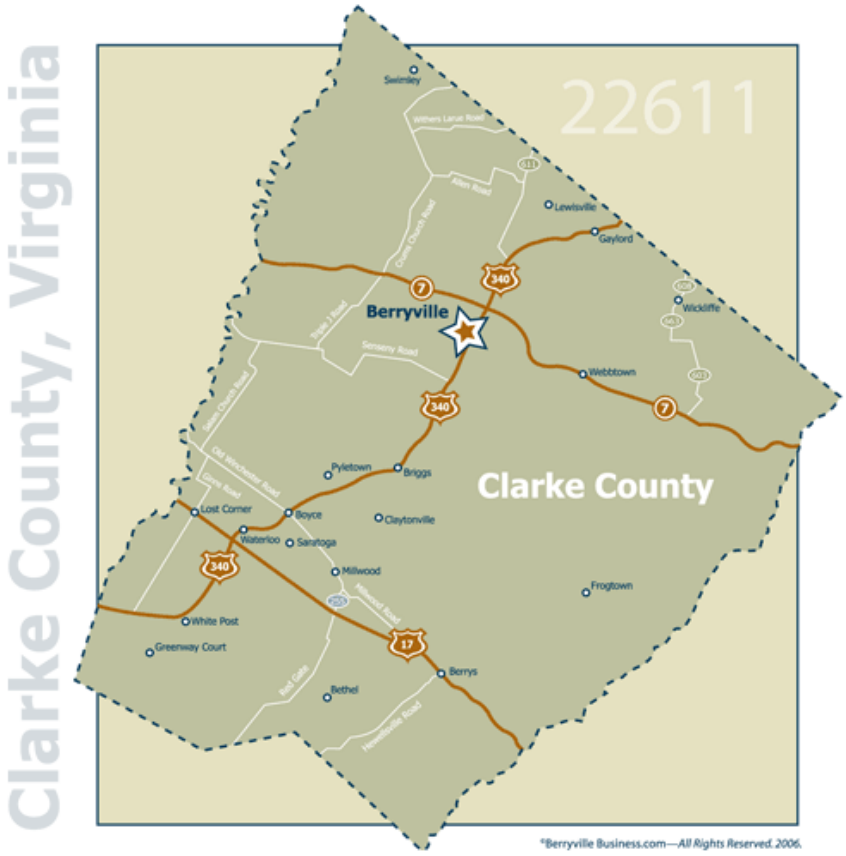
Phone: (540) 332-7265
wwrc.virginia.gov
Number of 2007 graduates: 115

Source: U.S. Department of Education, Institute of Education Sciences (IES), 2007.

5. Supply and Demand Analysis

Historical Lodging Supply and Demand Data

The subject of this lodging supply and demand study is Berryville, Clarke County, Virginia, as shown in the map below. There are currently no competitive midscale hotels located in the county.



The current lodging supply in the county consists primarily of a half dozen small upscale country inns and bed & breakfast establishments; there is also the 20-room Mountain View Motel in Boyce, an older economy motel which provides primarily inexpensive weekly rentals. None of these facilities are considered competitive with the subject proposed branded midscale hotel.

The largest of the country inns are the 11-room Rosemont Manor in Berryville (which also offers extensive event space); the 13-room L'Auberge Provencale Inn (11 rooms in White Post and 2 rooms in the Villa in Boyce); the 7-room Battletown Inn in Berryville; and the 5-room Smithfield

Farm Bed & Breakfast, just east of Berryville off Rt. 608. These luxurious properties cater primarily to weekend leisure business, although both Rosemont Manor and L'Auberge Provencale attract group demand, especially weddings and corporate retreats. These small inns appeal to a very specific market niche – primarily the high end weekend leisure market, at average daily rates in the $150 to $250 range. The country inns and B&Bs can be considered a "tourist attraction" in and of themselves; many of their guests choose them for their desirable and unique experience (featuring historic structures, unique theme, or fine cuisine), not merely for overnight accommodations.

Our research indicates that existing commercial, leisure, and group/meeting demand generated locally is currently accommodated primarily in chain-affiliated hotels located in Winchester (and to a lesser extent, Charles Town, Front Royal and Leesburg) and could be attracted to a midscale branded hotel in Berryville.

A word about how hotels are determined to be 'competitive' is in order here. While factors such as location, brand (or lack of), amenities, and management all factor into competitiveness, the industry generally recognizes the concept of "chain scales" as one of the most relevant competitive ranking factors. Smith Travel Research, Inc. (STR), the nation's leading lodging industry research firm, annually presents its "STR U.S. Chain Scales" which ranks hotel brands or chains based on the previous year's annual system wide (global) Average Daily Rate (ADR), with the highest ADR achieved by hotels categorized as Luxury. There are six chain classifications, with the lowest ADR reflected by Economy properties. Bed and breakfast establishments are unique in the product offered, markets served, and operational strategy, and are not considered competitive with hotels, especially chain-affiliated midscale hotels.

The widest range of travelers across all market demand segments are accommodated by Upper Midscale and Midscale hotels, via such major brands as Hilton's Hampton Inn & Suites, Country Inn & Suites, Holiday Inn Express & Suites, Comfort Suites, and Marriott's Fairfield Inn & Suites.

The table on the following page presents the 2013 STR Chain Scales.

2013 STR CHAIN SCALES

Luxury

14	Affina
21	AKA
71	Andaz
194	Capella
295	Conrad
369	Dorchester Collection
373	Doyle Collection
490	Fairmont
489	Firmdale
510	Four Seasons
761	Grand Hyatt
645	Helmsley Hotel
800	InterContinental
991	JW Marriott
862	Langham
930	Loews
945	Luxury Collection
965	Mandarin Oriental
1066	Mokara Hotel & Spa
1046	Montage
1086	Orient Express
759	Park Hyatt
1560	Ritz-Carlton
1283	RockResorts
1296	Rosewood
730	Sofitel
1325	St Regis
1500	Taj
1118	The Peninsula
1930	The Prince
1107	Thompson Hotels
1605	Trump Hotel Collection
1642	Viceroy
1646	W Hotel
1652	Waldorf=Astoria

Upper Upscale

55	Ace Hotel
17	Autograph Collection
205	Camino Real
249	Club Quarters
365	Dolce
392	Dream
450	Embassy Suites
529	Gaylord
638	Hard Rock
670	Hilton
674	Hilton Grand Vacations

Upper Upscale cont.

760	Hyatt
803	Joie De Vivre
845	Kimpton
1020	Le Meridien
990	Marriott
992	Marriott Conference Center
994	Marriott Executive Apartments
1045	Millennium
1072	New Otani
1075	Nikko
1080	Omni
1091	Pan Pacific
1183	Radission Blu
1217	Red Carnation
1220	Renaissance
1360	Sheraton Hotel
1430	Sonesta Hotel
1452	St Giles Hotel
1445	Starhotels
1498	Swissotel
1670	Warwick Hotels
1680	Westin
1710	Wyndham

Upscale

6	aloft Hotel
11	Ascend
87	Aston Hotel
134	Best Western Premier
207	Cambria Suites
209	Canad Inn
235	Club Med
265	Coast Hotel
308	Courtyard
330	Crowne Plaza
368	Disney
380	DoubleTree
423	element
508	Four Points
910	Grand America
561	Great Wolf Lodge
309	Hilton Garden Inn
685	Homewood Suites
702	Hotel Indigo
753	Hyatt House
762	Hyatt Place
823	Jolly
847	Larkspur

Upscale cont.

213	Legacy Vacation Club
1015	Melia
1051	Miyako Hotels & Resorts
720	Novotel
869	NYLO Hotel
1038	O'Callaghan
1090	Outrigger
1093	Park Plaza
1153	Prince Hotel
1180	Radission
1270	Residence Inn
1294	Room Mate
1436	Sonesta ES Suites
1438	Springhill Suites
1447	Staybridge Suites

Upper Midscale

1950	3 Palms
86	Ayres
133	Best Western Plus
183	Boarders Inn & Suites
125	Boulders Inn & Suites
216	Chase Suites
230	Clarion
280	Comfort Inn
282	Comfort Suites
306	Country Inn & Suites
290	Doubletree Club
400	Drury Inn
402	Drury Inn & Suites
403	Drury Lodge
401	Drury Plaza Hotel
404	Drury Suites
485	Fairfield Inn
545	Golden Tulip
610	Hampton Inn
611	Hampton Inn & Suites
680	Holiday Inn
683	Holiday Inn Express
681	Holiday Inn Select
709	Home2 Suites by Hilton
706	Isle of Capri
846	Larkspur Landing
900	Lexington
1965	Night
1082	OHANA
1094	Park Inn
1125	Phoenix Inn

Upper Midscale cont.

1202	Ramada Plaza
1407	Silver Cloud
1467	Sunspree Resorts
1623	Tryp by Wyndham
1595	TownePlace Suites
1350	Westmark
1715	Wyndam Garden Hotel
90	Xanterra

Midscale

42	A Victory Hotels
115	America's Best Suites
60	AmericInn
180	Baymont Inn & Suites
130	Best Western
200	Cabot Lodge
195	Candlewood Suites
246	Centerstone Hotels
240	ClubHouse
263	Cobblestone
320	Crossings by GrandStay
334	Crystal Inn
557	GrandStay Residential Suites
644	Hawthorn Suites by Wyndham
740	Howard Johnson
790	InnSuites Hotel
865	Lakeview Distinctive Hotels
882	La Quinta Inn & Suites
955	MainStay Suites
1033	Oak Tree Inn
1160	Quality Inn
1200	Ramada
1240	Red Lion
1281	Rode Inn
1354	Settle Inn
1380	Shilo Inn
1400	Signature Inn
1423	Sleep Inn
1630	Vagabond Inn
1641	Vista
1687	Wingate by Wyndham

Economy

33	Affordable Suite of America
110	America's Best Inn
120	Americas Best Value Inn
150	Budget Host
163	Budget Suites of America

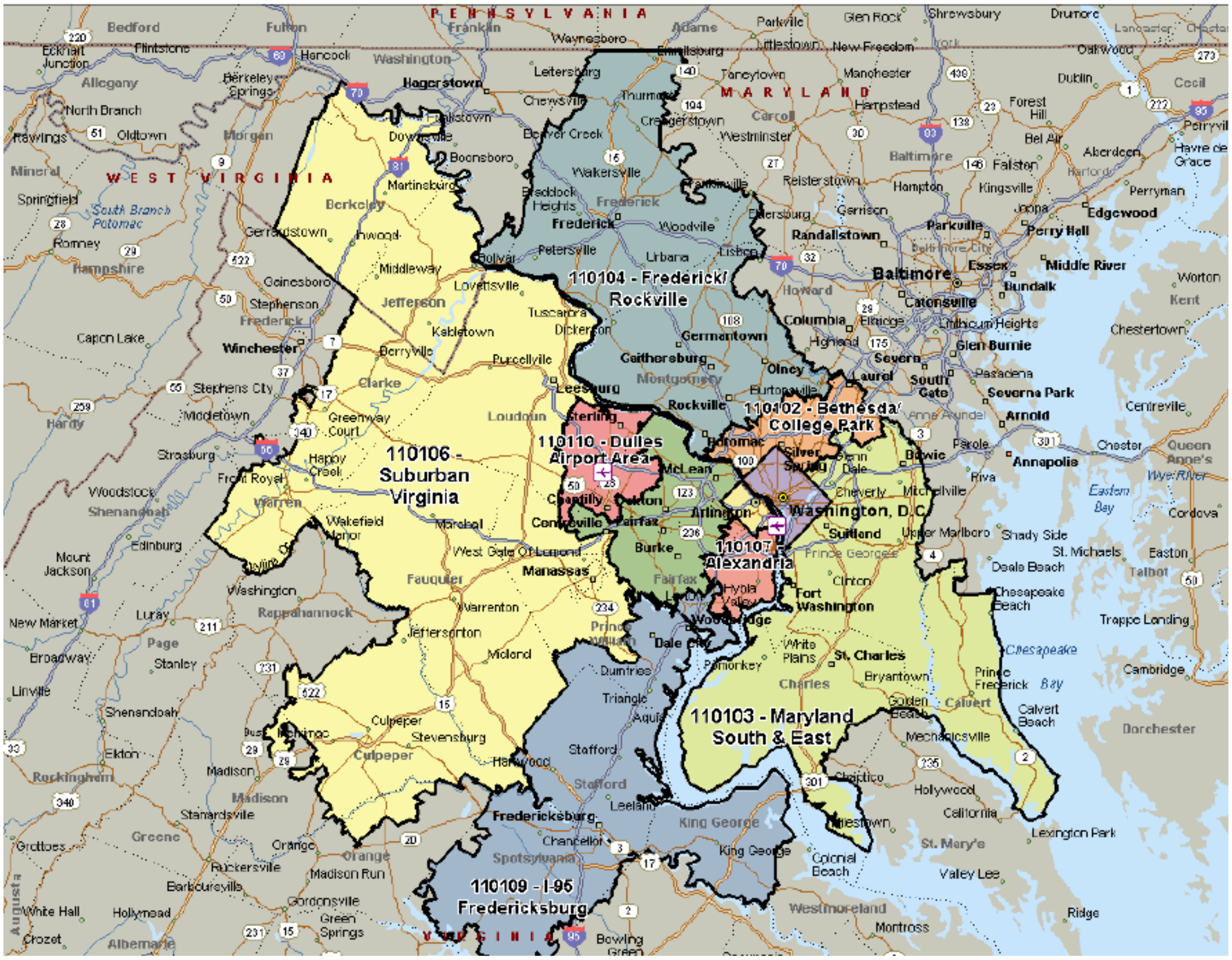
Economy cont.

117	Budgetel
305	Country Hearth Inn
312	Crestwood Suites
317	Crossland Suites
350	Days Inn
390	Downtowner Inn
440	Econo Lodge
483	Extended Stay America
484	Extended Stay Deluxe
410	E-Z 8
500	Family Inns of America
548	Good Nite Inn
560	Great Western
575	GuestHouse Inn
686	HomeGate
687	Homestead
659	Home-Towne Suites
678	Howard Johnson Express
795	InTown Suites
822	Jameson Inn
832	Key West Inn
840	Knights Inn
885	Lees Inn of America
1000	Master Hosts Inn
1005	Masters Inn
1030	Microtel Inn
1060	Motel 6
1065	National 9
1110	Passport Inn
1115	Pear Tree Inn
1235	Red Carpet Inn
1250	Red Roof Inn
1280	Road Star Inn
1290	Rodeway Inn
1322	Savannah Suites
1345	Scottish Inn
1347	Select Inn
1456	Studio 6
1455	Studio Plus
1457	Suburban Extended Stay
1463	Sun Suites Extended Stay Hotel
1470	Super 8
1615	Travelodge
1632	Value Place
1725	Yotel

Brands/ Chains are slotted by Chain Scale based on the previous year's annual system wide (global) Average Daily Rate. Rate ranges defining each Chain Scale are determined by STR & STR Global. The U.S. Chain Scale list is a subset of the larger Global Chain Scale list. Brand Chain Scale pairings are consistent with each list. If you have questions about the Chain Scales, please email support@str.com. Copyright 2013. Smith Travel Research, Inc. Publishing or reproducing this information is strictly prohibited. www.str.com +1 (615) 824 8664. Last updated March 2013.

To evaluate lodging trends in the greater region, which contains midscale and upscale lodging properties similar to the proposed subject hotel, data provided by VTC was reviewed. The Research Section of the Virginia Tourism Corporation (VTC) has contracted with the leading national lodging industry research firm, Smith Travel Research (STR) to provide monthly and annual lodging data for the State of Virginia, broken down by six major lodging regions and 26 submarkets throughout the state. The relevant lodging data for the area that includes Clarke

County is reflected in the "Suburban Virginia Area" submarket of the Washington, DC-MD-VA region, as shown below.



As shown in the following table, lodging performance in the Washington, DC-MD-VA region is overall very strong, as compared to the US average. However, performance was down for the year-to-date through 3Q 2013 compared to the same period in 2012, with occupancy down -2.0% from 69.8% in 2012 to 68.4% in 2013, while ADR increased 0.8% from $144.09 in 2012 to $145.24 in 2013. For the Suburban Virginia Area submarket of the DC-MD-VA region, occupancy was down -8.5% for the year-to-date through 3Q 2013 compared to the same period in 2012, at 51.9% in 2013 compared to 56.7% in 2012, while ADR declined -1.8% from $90.46 in 2012 to $88.87 in 2013. The region saw a 0.9% supply increase, which put downward pressure on both occupancy and ADR, but demand growth slowed as well. In fact, the State of Virginia saw a -1.9% decline in lodging demand overall, compared to a 2.2% increase for the United States as a whole.

The Suburban Virginia Area is too broad (ranging from Culpepper to the south and Martinsburg to the north) to provide meaningful data, but this area's overall lodging industry performance lags the nation and State of Virginia in terms of occupancy and ADR, not surprising given its rural character.

	Room Demand	Room Supply	Average Room Rates (1/01-9/30)			Room Revenue	Occupancy Percent		
	% Change	% Change	2013	2012	% Change	% Change	2013	2012	% Change
United States	2.2	0.7	110.38	106.10	4.0	6.3	63.9	62.9	1.5
Virginia	-1.9	0.1	99.19	98.65	0.6	-1.4	59.4	60.6	-2.1
Washington, DC-MD-VA	-1.1	0.9	145.24	144.09	0.8	-0.4	68.4	69.8	-2.0
Arlington, VA	0.9	1.0	153.16	158.08	-3.1	-2.3	75.5	75.7	-0.2
Alexandria	-0.7	2.8	126.02	131.28	-4.0	-4.7	67.2	69.6	-3.5
Fairfax/Tysons Corner	-1.9	1.6	129.93	131.30	-1.0	-2.9	64.2	66.5	-3.4
Suburban Virginia Area	-7.7	0.9	88.87	90.46	-1.8	-9.3	51.9	56.7	-8.5
I-95 Fredericksburg	-3.3	3.4	78.78	79.14	-0.4	-3.8	58.1	62.2	-6.5
Dulles Airport Area	-2.5	-0.0	105.55	107.54	-1.9	-4.3	70.9	72.7	-2.5
Norfolk-Virginia Beach, VA	-3.8	-0.8	92.71	89.91	3.1	-0.8	56.4	58.2	-3.0
Chesapeake/ Suffolk	-5.9	-0.2	71.32	70.22	1.6	-4.4	61.4	65.1	-5.7
Newport News/Hampton	-1.8	-0.3	64.78	63.31	2.3	0.5	58.7	59.5	-1.4
Norfolk/ Portsmouth	-4.3	-0.0	81.39	81.62	-0.3	-4.5	59.6	62.3	-4.2
Virginia Beach	-4.3	1.6	127.38	122.45	4.0	-0.5	59.0	62.7	-5.8
Williamsburg	-3.0	-5.1	92.34	87.20	5.9	2.7	45.7	44.7	2.2
Virginia Area	0.5	-0.5	84.84	82.76	2.5	3.0	54.9	54.3	1.0
Virginia Area	0.7	-0.5	82.21	80.04	2.7	3.4	50.7	50.1	1.2
Lynchburg MSA	1.2	-4.7	85.99	81.14	6.0	7.2	61.1	57.5	6.2
Blacksburg/Wytheville	-1.8	1.0	82.95	80.57	3.0	1.1	52.8	54.3	-2.7
Staunton/Harrisonburg	-2.2	-0.3	78.75	77.53	1.6	-0.6	55.7	56.8	-1.9
Roanoke MSA	3.7	-0.5	78.07	78.48	-0.5	3.2	56.7	54.4	4.2
Charlottesville MSA, VA	0.6	0.1	110.84	107.07	3.5	4.2	71.3	70.9	0.5
Richmond-Petersburg, VA	-3.2	-0.2	79.55	77.14	3.1	-0.2	57.1	58.9	-3.0
Petersburg/Chester	-19.6	0.3	68.84	69.05	-0.3	-19.9	53.2	66.4	-19.9
Richmond Downtown/Airport	0.6	-1.0	92.40	90.71	1.9	2.5	62.2	61.2	1.6
Richmond North/Glen Allen	4.8	-0.0	80.92	77.46	4.5	9.5	55.6	53.0	4.9
Richmond West/Midlothian	-0.4	-0.2	68.74	67.48	1.9	1.4	60.5	60.6	-0.2
Bristol-Kingsport MSA	2.9	-0.0	80.81	79.61	1.5	4.4	49.0	47.6	2.9

Competitive Lodging Supply

An integral component of the supply and demand relationship that has a direct impact on the availability of lodging demand is the current and anticipated supply of competitive lodging facilities. To evaluate the area's competitive environment, the following steps were taken:

- Identify the area's lodging facilities and determine which are directly and indirectly competitive with the subject property.
- Determine whether additional hotel rooms will enter the market in the foreseeable future (net of attrition).
- Quantify the number of existing and proposed competitive hotel rooms available in the market.
- Review the rate structure, occupancy levels, market orientation, facilities, and amenities of each competitor.

Based on an evaluation of the ADR/rate structure, market orientation, location, facilities, and amenities of area hotels, there are currently no lodging properties in Clarke County or Berryville that are considered direct or primary competitors to the subject proposed midscale, chain-affiliated hotel.

Due to the lack of midscale or moderately priced, branded hotels in Berryville, most regional lodging demand is served by chain-affiliated properties in several municipalities located within about 15 to 30 minutes' drive from Berryville, including Winchester (Wyndham, Holiday Inn, Fairfield Inn & Suites, Country Inn & Suites, Aloft, TownePlace Suites, Courtyard, Comfort Inn, Sleep Inn & Suites, and Holiday Inn Express); Charles Town, WV (Inn at Charles Town, Hampton Inn & Suites); Harper's Ferry, WV (Quality Inn Hotel & Conference Center); Leesburg (Comfort Suites, Hampton Inn & Suites); and Front Royal (Hampton Inn, Holiday Inn & Suites). The 90-room upper upscale, historic George Washington Wyndham Grand Hotel, and 99-room upscale Aloft are also utilized by Berryville and Clarke County businesses at corporate and discounted Internet rates in the $65 to $85 range, making them competitive with midscale hotels at that price point.

It is important for the reader to understand what Average Daily Rate (ADR) reflects. It is a true measure of room rate achieved, reflected by total rooms revenue divided by total room nights accommodated (including complimentary room nights). This statistic provides a much truer picture of a hotel's operating performance than its published or "rack" rates, which are often heavily discounted. ADR is the industry standard room rate statistic for performance comparison purposes.

Smith Travel Research (STR) is a leading, independent research firm that compiles data on the lodging industry; its published data is routinely used by typical hotel investors and industry experts. A custom STR report was commissioned for this study by Nichols Hospitality Consulting, Inc. to highlight operating characteristics of selected regional midscale and upscale chain-affiliated properties that are considered secondary competitors to the subject proposed Berryville hotel, since there are no direct, primary competitors in Clarke County.

This information is presented herein, along with the marketwide occupancy, ADR, and *rooms revenue per available room (RevPAR)*. RevPAR is calculated by multiplying occupancy by average rate, and provides an indication of how well rooms revenue is being maximized; RevPAR is a standard industry performance measure which is widely utilized by hotel managers and investors.

The following tables summarize the selected secondarily competitive properties (with a total of 812 rooms), and their important operating characteristics from 2010 through October 2013.

The reader is advised that these properties present an aggregate indicator of lodging performance for similar brands at similar price points in the region, and reflect a higher occupancy performance level than that likely to be achieved by the subject proposed hotel. Market penetration levels for the subject hotel are presented in the next section of this report.

Selected Greater Market Area Secondarily Competitive Hotels

STR Code	Name of Establishment	City & State	Zip Code	Class	Aff Date	Open Date	Rooms
41078	Comfort Suites Leesburg	Leesburg, VA	20175	Upper Midscale Class	Dec 2000	Dec 2000	80
55566	Country Inn & Suites Winchester	Winchester, VA	22602	Upper Midscale Class	Apr 2007	Apr 2007	81
53035	Fairfield Inn & Suites Winchester	Winchester, VA	22602	Upper Midscale Class	Nov 2004	Nov 2004	85
60072	TownePlace Suites Winchester	Winchester, VA	22603	Upper Midscale Class	Oct 2009	Oct 2009	109
44859	Hampton Inn Front Royal	Front Royal, VA	22630	Upper Midscale Class	Jul 2002	Jul 2002	102
32429	Holiday Inn Express Winchester South Stephens City	Stephens City, VA	22655	Upper Midscale Class	Dec 1995	Dec 1995	71
61629	Hampton Inn Suites Charles Town	Charles Town, WV	25414	Upper Midscale Class	Jan 2012	Jan 2012	131
58810	The Inn @ Charles Town	Charles Town, WV	25414	Upscale Class	Jun 2008	Jun 2008	153
					Total Properties:	8	812

Source: Smith Travel Research, Inc.

Selected Greater Market Area Hotels Key Performance Indicators 2010 - 2013, STR Data

Date	Occupancy		ADR		RevPar		Supply		Demand		Revenue		Census & Sample %		
	This Year	% Chg	This Year	% Chg	This Year	% Chg	This Year	% Chg	This Year	% Chg	This Year	% Chg	Census Props	Census Rooms	% Rooms STAR Participants
Jan 10	51.4	-5.1	89.55	-3.1	46.02	-8.0	20,274	20.0	10,420	13.9	933,064	10.4	7	654	100.0
Feb 10	54.8	-4.9	85.32	-6.6	46.75	-11.2	18,312	20.0	10,035	14.2	856,147	6.6	7	654	100.0
Mar 10	59.6	-7.2	86.17	-7.0	51.38	-13.7	20,274	20.0	12,090	11.3	1,041,760	3.5	7	654	100.0
Apr 10	65.8	-3.2	86.39	-7.4	56.85	-10.4	20,430	25.0	13,445	20.9	1,161,478	11.9	7	681	100.0
May 10	70.9	-8.5	87.08	-7.9	61.77	-15.7	21,111	25.0	14,974	14.4	1,303,959	5.4	7	681	100.0
Jun 10	76.5	-7.2	87.06	-6.4	66.64	-13.2	20,430	25.0	15,638	15.9	1,361,413	8.5	7	681	100.0
Jul 10	84.5	7.2	90.53	-5.8	76.47	1.0	21,111	25.0	17,831	33.9	1,614,327	26.2	7	681	100.0
Aug 10	74.1	-7.3	90.58	-2.9	67.12	-10.0	21,111	25.0	15,643	15.9	1,416,919	12.5	7	681	100.0
Sep 10	70.6	-10.7	91.30	1.5	64.46	-9.3	20,430	25.0	14,424	11.6	1,316,884	13.3	7	681	100.0
Oct 10	79.3	3.1	91.73	1.8	72.76	5.0	21,111	4.1	16,745	7.4	1,535,973	9.3	7	681	100.0
Nov 10	60.1	6.9	89.32	-2.5	53.64	4.2	20,430	4.1	12,269	11.3	1,095,825	8.5	7	681	100.0
Dec 10	45.0	-1.6	91.77	-0.3	41.29	-1.9	21,111	4.1	9,499	2.5	871,765	2.1	7	681	100.0
Oct YTD 2010	69.0	-4.2	88.80	-4.2	61.30	-8.2	204,594	21.0	141,245	15.9	12,541,924	11.1			
Total 2010	66.2	-2.6	89.01	-3.8	58.95	-6.4	246,135	17.8	163,013	14.7	14,509,514	10.3			
Jan 11	45.4	-11.8	90.94	1.6	41.24	-10.4	21,111	4.1	9,575	-8.1	870,707	-6.7	7	681	100.0
Feb 11	51.0	-7.0	91.09	6.8	46.42	-0.7	19,068	4.1	9,716	-3.2	885,078	3.4	7	681	100.0
Mar 11	61.6	3.3	90.43	5.0	55.69	8.4	21,111	4.1	13,000	7.5	1,175,643	12.9	7	681	100.0
Apr 11	68.4	3.9	92.82	7.4	63.50	11.7	20,430	0.0	13,975	3.9	1,297,204	11.7	7	681	100.0
May 11	70.5	-0.6	92.74	6.5	65.36	5.8	21,111	0.0	14,879	-0.6	1,379,909	5.8	7	681	100.0
Jun 11	79.1	3.4	91.41	5.0	72.32	8.5	20,430	0.0	16,163	3.4	1,477,455	8.5	7	681	100.0
Jul 11	83.1	-1.7	92.59	2.3	76.91	0.6	21,111	0.0	17,534	-1.7	1,623,544	0.6	7	681	100.0
Aug 11	77.5	4.6	92.81	2.5	71.92	7.2	21,111	0.0	16,359	4.6	1,518,318	7.2	7	681	100.0
Sep 11	72.7	3.0	92.55	1.4	67.31	4.4	20,430	0.0	14,858	3.0	1,375,157	4.4	7	681	100.0
Oct 11	77.4	-2.4	93.02	1.4	72.01	-1.0	21,111	0.0	16,342	-2.4	1,520,149	-1.0	7	681	100.0
Nov 11	65.9	9.7	88.61	-0.8	58.38	8.8	20,430	0.0	13,461	9.7	1,192,713	8.8	7	681	100.0
Dec 11	53.8	19.7	89.99	-1.9	48.45	17.3	21,111	0.0	11,367	19.7	1,022,924	17.3	7	681	100.0
Oct YTD 2011	68.8	-0.4	92.16	3.8	63.39	3.4	207,024	1.2	142,401	0.8	13,123,164	4.6			
Total 2011	67.3	1.6	91.72	3.1	61.71	4.7	248,565	1.0	167,229	2.6	15,338,801	5.7			
Jan 12	52.7	16.2	86.45	-4.9	45.58	10.5	25,172	19.2	13,271	38.6	1,147,247	31.8	8	812	83.9
Feb 12	55.4	8.8	91.33	0.3	50.64	9.1	22,736	19.2	12,607	29.8	1,151,389	30.1	8	812	100.0
Mar 12	64.8	5.2	92.47	2.3	59.89	7.5	25,172	19.2	16,303	25.4	1,507,541	28.2	8	812	100.0
Apr 12	74.7	9.2	89.90	-3.2	67.14	5.7	24,360	19.2	18,194	30.2	1,635,608	26.1	8	812	100.0
May 12	76.9	9.1	93.35	0.7	71.76	9.8	25,172	19.2	19,351	30.1	1,806,430	30.9	8	812	100.0
Jun 12	85.8	8.4	94.33	3.2	80.93	11.9	24,360	19.2	20,900	29.3	1,971,488	33.4	8	812	100.0
Jul 12	84.7	2.0	92.37	-0.2	78.22	1.7	25,172	19.2	21,315	21.6	1,968,962	21.3	8	812	100.0
Aug 12	84.1	8.5	91.84	-1.0	77.21	7.4	25,172	19.2	21,163	29.4	1,943,648	28.0	8	812	100.0
Sep 12	79.9	9.9	92.82	0.3	74.16	10.2	24,360	19.2	19,462	31.0	1,806,478	31.4	8	812	100.0
Oct 12	80.0	3.3	92.29	-0.8	73.82	2.5	25,172	19.2	20,134	23.2	1,858,250	22.2	8	812	100.0
Nov 12	69.0	4.7	90.05	1.6	62.10	6.4	24,360	19.2	16,799	24.8	1,512,798	26.8	8	812	100.0
Dec 12	56.9	5.7	91.29	1.4	51.94	7.2	25,172	19.2	14,323	26.0	1,307,549	27.8	8	812	100.0
Oct YTD 2012	74.0	7.6	91.94	-0.2	68.05	7.3	246,848	19.2	182,700	28.3	16,797,041	28.0			
Total 2012	72.1	7.2	91.75	0.0	66.19	7.3	296,380	19.2	213,822	27.9	19,617,388	27.9			
Jan 13	55.0	4.2	90.08	4.2	49.50	8.6	25,172	0.0	13,834	4.2	1,246,111	8.6	8	812	100.0
Feb 13	59.9	8.1	91.27	-0.1	54.71	8.0	22,736	0.0	13,629	8.1	1,243,966	8.0	8	812	100.0
Mar 13	72.2	11.4	91.34	-1.2	65.93	10.1	25,172	0.0	18,168	11.4	1,659,474	10.1	8	812	100.0
Apr 13	74.4	-0.4	93.80	4.3	69.76	3.9	24,360	0.0	18,115	-0.4	1,699,252	3.9	8	812	100.0
May 13	73.1	-5.0	97.05	4.0	70.91	-1.2	25,172	0.0	18,392	-5.0	1,784,914	-1.2	8	812	100.0
Jun 13	80.8	-5.9	95.20	0.9	76.89	-5.0	24,360	0.0	19,675	-5.9	1,873,011	-5.0	8	812	100.0
Jul 13	81.1	-4.2	93.32	1.0	75.68	-3.2	25,172	0.0	20,416	-4.2	1,905,122	-3.2	8	812	100.0
Aug 13	81.5	-3.1	95.83	4.3	78.07	1.1	25,172	0.0	20,508	-3.1	1,965,201	1.1	8	812	100.0
Sep 13	73.2	-8.4	94.37	1.7	69.03	-6.9	24,360	0.0	17,820	-8.4	1,681,602	-6.9	8	812	100.0
Oct 13	75.0	-6.3	95.21	3.2	71.38	-3.3	25,172	0.0	18,872	-6.3	1,796,741	-3.3	8	812	81.2
Oct YTD 2013	72.7	-1.8	93.94	2.2	68.28	0.3	246,848	0.0	179,429	-1.8	16,855,394	0.3			

Operating Summary, Selected Greater Market Area Hotels

	2007	2008	2009	2010	2011	2012	Year-To-Date October 2012	Year-To-Date October 2013	2007-2012 Change
Selected Greater Market Area Hotels									
Avg Daily Room Count	372	482	572	674	681	812	809	809	
Change	—	29.6 %	18.7 %	17.8 %	1.0 %	19.2 %	—	0.0 %	118.3 %
Avg Occupied Room Nights	93,870	121,807	142,130	163,013	167,229	213,822	182,700	179,429	
Change	—	29.8 %	16.7 %	14.7 %	2.6 %	27.9 %	—	(1.8) %	127.8 %
Occupancy	69.1 %	69.3 %	68.0 %	66.2 %	67.3 %	72.1 %	74.0 %	72.7 %	
Change	—	0.3 %	(1.9) %	(2.6) %	1.7 %	7.1 %	—	(1.8) %	4.3 %
Average Rate	$90.30	$92.08	$92.56	$89.01	$91.72	$91.75	$91.94	$93.94	
Change	—	2.0 %	---- %	(3.8) %	3.0 %	0.0 %	—	2.2 %	1.6 %
RevPAR	$62.40	$63.81	$62.94	$58.92	$61.73	$66.15	$68.04	$68.29	
Change	—	2.3 %	(1.4) %	(6.4) %	4.8 %	7.2 %	—	0.4 %	6.0 %

Source: Smith Travel Research

The charts reveal the following important operating characteristics:

1. Rooms supply increased 118.3% since 2007; this very high supply increase reflects the desirability of the market to hotel developers. However, the temporary oversupply and the absorption of new rooms, along with the national recession, depressed both occupancy levels and room rates from 2009 through 2011.

2. Occupancy peaked at 72.1% in 2012, after dropping to a low of 66.2% in 2010 during the recession, and may be down slightly for year-end 2013 based on year-to-date occupancy, with 4Q expected to be lower due in part to the government shut down Oct 1-16, 2013. This strong level of occupancy despite a 118% supply increase reflects a vibrant and growing lodging market, as well as the cyclical nature of the lodging industry.

3. Average daily rate (ADR) increased only 1.6% between 2007 and 2012, reflecting the impact of the recession and a 118% increase in supply, which exerted downward pressure on room rates. In 2013, ADR is up 2.2% for the year-to-date through October.

4. RevPAR (rooms revenue per available room, an industry standard performance indicator which takes into account both occupancy and ADR) increased a total of 6.0% between 2007 and 2012, and is up only 0.4% through October 2013. This low level of RevPAR growth reflects the negative impact of a 118% supply increase, the national recession, and the recent government shutdown.

Additions to Supply

Our research yielded two additional new properties in the early stages of development at this time. In Front Royal, Marriott International has approved an 80-room TownePlace Suites, but it is unlikely to open before 2Q 2017, according to the developer, Aikens Group. The Aikens Group is also developing a 111-room Hilton Garden Inn (with 5,000 square feet of meeting space) in Martinsburg, to open in 2Q 2015; this property is an upscale, full-service hotel and is considered a tertiary competitor. The midscale TownePlace Suites is considered a secondary competitor to the subject proposed Berryville hotel.

While reasonable steps have been taken to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the operating performance of the subject property may be positively or negatively affected.

Lodging Demand Analysis

Lodging demand is analyzed by dividing the overall market into individual segments based on the nature of travel. Although a market may have various segments, the three primary classifications occurring in the subject market area are commercial, leisure, and meeting & group.

Market segmentation is a useful procedure because individual classifications often exhibit unique characteristics in terms of growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the

room night demand by market segment and analyzing the characteristics of each segment, the demand for transient accommodations can be projected. Based on fieldwork and analysis of the selected local lodging market (which reflects the eight regional midscale hotels identified earlier), the distribution of accommodated room night demand is as follows.

Accommodated Room Night Demand – Estimated Current Distribution

	Competitive Set	
Market Segment	**Accommodated Room Nights**	**Percentage of Total**
Commercial	78,067	37 %
Leisure	108,415	51
Meeting & Group	25,143	12
Total	**211,625**	**100 %**

Source: Nichols Hospitality Consulting, Inc.

Using the distribution of accommodated hotel demand as a starting point, the characteristics of each market segment have been analyzed in an effort to determine future trends in room night demand, and determine how much of this demand can be accommodated by the subject proposed Berryville hotel.

Commercial Demand Segment

The **commercial segment** consists of individual businesspeople who are visiting various companies or clients in the subject property's greater market area. This demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday. The typical length of stay for commercial guests ranges from one to three days, and the rate of double occupancy is a low 1.2 to 1.3 people per room. Commercial demand is relatively constant throughout the year, although declines are noticeable in December and during other holiday periods.

The commercial segment includes numerous smaller classifications; however, the primary categories considered in this analysis are individual business travelers and high-volume corporate accounts. Their lodging choices are influenced by brand loyalty (and frequent traveler programs in particular), as well as location and convenience with respect to businesses and complementary amenities such as restaurants. High-volume corporate accounts may be generated by regional companies; demand in this sub-segment may include employees of the firm or its affiliates, and often consists of training groups. These companies typically designate hotels as “preferred” accommodations; in return, the selected lodging facilities generally offer a significant discount from their published rates. Typically, these rates are negotiated on an annual basis, and the size of the discount is tied to the number of room nights produced. Many commercial travelers and corporate employers tend to prefer Marriott or Hilton brands with their desirable frequent guest programs and reliable products and service.

Clarke County employers with the potential to generate commercial lodging demand include some of the following:

50 Largest Employers

1. Berryville Graphics
2. Clarke County School Board
3. Grafton School, Inc.
4. Clarke County
5. Ggnsc Berryville LLC
6. Project Hope
7. Gsm Consulting Inc
8. Bank of Clarke County
9. Powhatan School
10. Food Lion
11. Greenfield Assisted Living
12. Virginia Division of Community Corrections
13. Dutch Haven Adult Home
14. American Woodmark Corporation
15. The Red Gate Group Limited
16. Cochrans Lumber & Millwork Inc
17. McDonald's
18. Caldwell & Santmyer
19. Town of Berryville
20. Have A Blessed Day
21. Ethicon Inc
22. University of Virginia / Blue Ridge Hospital
23. Postal Service
24. Roseville Veterinary Clinic
25. Waterloo Incorporated
26. Diversified Educational Systems
27. Handy Mart
28. Stuart M. Perry Inc.
29. The Heritage Child Develo
30. Rosemont Manor LLC
31. L. Auberge Provencale
32. Moore and Dorsey
33. Veramar Vineyards LLC
34. Berryville Medical Associates
35. Champion Iron Works Inc
36. Christopher Hansen
37. Harris Contracting Company
38. Mr. Gary P. Haines
39. White Post Dairy LLC
40. Audley Farm
41. Battletown Inn & Restaurant
42. Camino Real Nexican Restaurant
43. Quercus LLC
44. Rivers Edge Landscapes
45. Staffing Concepts Nationa
46. The Makar Company LLC
47. VDOT
48. Starkey Construction
49. Telephone Components
50. 7-Eleven

Source: Virginia Employment Commission,
Quarterly Census of Employment and Wages (QCEW), 1st Quarter (January, February, March) 2013.

*#14 on the list, American Woodmark Corporation, is closed.

The consultant surveyed employers who are commercial lodging demand generators in Clarke County, and found that some have corporate accounts with hotels located in Winchester. Several companies indicated that they would consider utilizing a new midscale hotel in Berryville, as long as it offered amenities preferred by business travelers, including complimentary continental breakfast, exercise facility and swimming pool, a lobby bar, snacks, and free WiFi. The need for meeting space was also indicated.

Several employers stated that the attraction of a larger metropolitan area such as Winchester includes extensive restaurant and night time entertainment options, and that the ability to be able to walk to restaurants from the hotel was important. Marketing and advertising could highlight the fact that downtown Berryville is walkable (one-half mile) from the site, and has more to offer travelers than may be currently perceived, with a dozen restaurants, interesting shops, and live entertainment most weekends at the Barns of Rose Hill.

Section 4 Market Area of this report details economic drivers with the potential to generate business travel. Potential commercial lodging demand generated by sales reps, corporate office personnel, government officials, bank examiners, professionals such as attorneys, accountants and/or consultants traveling for business purposes has been factored into this analysis, with the subject proposed Berryville hotel expected to garner a smaller share of this lodging demand than the eight selected regional hotels (Berryville and Clarke County overall currently lag the region in commercial lodging demand generation).

Leisure Demand Segment

The **leisure segment** consists of individuals and families who are spending time vacationing in the region, and there is an excellent array of attractions and entertainment for tourists in Clarke County. Their travel purposes may include visiting numerous historic sites and attractions; local wineries (there are currently two in Clarke County, with three more planned); sightseeing/mountain scenery; outdoor adventures such as biking Clarke County scenic country roads, hiking the Appalachian Trail, horse country pleasure riding or events, and fishing, tubing or kayaking on the Shenandoah River; Blandy Experimental Farm-The State Arboretum of Virginia; Dinosaur Land; Long Branch Historic House and Farm; the Holy Cross Monastery; special events/entertainment, such as the Berryville Main Street Summer Crafts and Farmers Market, art shows at the Burwell-Morgan Mill, or Barns of Rose Hill live music events; antiquing; attending an event at the Ruritan Fair Grounds in Berryville; visiting friends and relatives (in some cases, to attend a funeral, wedding, family reunion, or visiting elderly relatives at one of the local assisted living facilities), and numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer and fall seasonal color months. The typical length of stay ranges from one to three days, depending on the destination and travel purpose, and the rate of double occupancy typically ranges from 1.5 to 2.5 people per room.

It is important to note that some B&B's are open only for weekend business (it is not statistically meaningful to estimate their occupancy on a 365-day basis), and most are at a luxury price point above what the average leisure traveler will pay. A significant share of existing leisure demand is forced to seek accommodations outside of Clarke County.

The following information provides an indicator of potential leisure lodging demand in the region and Clarke County in particular:

- The Blandy Experimental Farm – State Arboretum of Virginia offers 170 acres open to the public at no charge 365 days of the year. This facility is part of the University of Virginia, and offers numerous environmental education programs and special events throughout the year. It is a popular tourist destination, as well as a wedding location, and offers several meeting rooms onsite as well as overnight accommodations for up to 24 people in The Quarters, a historic landmark. The Director indicated that attendance has grown from 40,000 per year in 1997 to 170,000 in 2013; school children on buses account for only about 3% of the total. Visitor vehicle counts are utilized in a formula to reliably measure attendance. Visitors are from all over the country.

- According to the National Forest Service, there are about 370,000 visitors annually to the Shenandoah National Park at the Front Royal northern entrance, a popular recreation area. The VTC reports that the Blue Ridge Parkway and Shenandoah National Park are the top two Virginia attractions most frequently visited by travelers.

- The Appalachian Trail (AT) Conservancy reports its first ever scientific count of AT hikers for the total Trail reveals 1.9 million users annually, about half of what was previously estimated. The region between Harper's Ferry, WV and Damascus, VA includes the Shenandoah National Park, the Blue Ridge Parkway, and McAfee Knob, with the almost 200 miles of central and southwest VA west of I-81 some of the least-travelled portions of the entire AT. In 2012, a record 2,500 "2,000 Milers" were recorded

as hiking the entire Trail from south (Springer Mountain, GA) to north (Katahdin, Maine).

- According to the owner of Dinosaur Land, located at White Post, this nostalgic attraction has been in business for 50 years and is very popular with families with children, attracting an average of 70,000 visitors annually, with about 30% of attendance reflected by school children bus tours. Many are day trippers (not requiring overnight lodging) from nearby Washington DC metro area.

- According to the Virginia Tourism Corporation, Winchester (14%) and Front Royal (12%) are the most frequently visited cities in the Shenandoah Valley Region (which includes Berryville and Clarke County), and July (12%), August (12%) and October (11%) are the peak travel months. The primary purpose of the trip for 55% of travelers was visit friends/relatives; 25% traveled for pleasure/personal; 19% traveled for entertainment/sightseeing; and 17% traveled for outdoor recreation. For 60% of travelers, their stay included a Friday or Saturday overnight stay in Virginia. Most visitors drive to the region in their own auto/truck (86%), and spend an average of two nights in a hotel (45%), with the most popular brand Hampton Inn & Suites (12%). The most common travel party size was two people (41%). Favorite activities/attractions visited in Virginia include: rural sightseeing (17%); shopping (14%); state/national park (13%); historic sites/churches (13%); museums (10%); fine dining (10%); hiking/backpacking (8%); old homes/mansions (7%); wildlife viewing (7%); wine tasting/winery tour (3%); biking, fishing, horseback riding (2% or less).

- The Clarke County Community Calendar reflects numerous events and festivals throughout the year that draw out-of-town visitors and vendors, including spring and fall plant shows at Blandy (included in total attendance presented above); spring and fall art shows at Burwell-Morgan Mill; numerous shows and events throughout the year at Ruritan Fairgrounds in Berryville; Watermelon Park music festivals in summer and fall; Berryville Town Wide Yard Sale in spring and fall, and other shows, events, and festivals throughout the year.

- Barns of Rose Hill is a performing arts venue, visitor center and art gallery located in Berryville. The Barns reflect two early 20th-century dairy barns that were renovated and converted to their current use as a center for community, arts and education via a 501 (c)(3) non-profit organization formed in September 2004. The Barns are available for public rental for weddings, receptions, parties and meetings. Educational offerings include classes and workshops in dance, song, pottery and painting; public concerts throughout the year feature bluegrass, classical, soul & folk, and jazz & swing; and a stage for shows including films, dramas, stories and puppets. The Great Hall can accommodate up to 200 people for seated stage performances; the fire Marshall's maximum capacity for the building is 265.

- Another business and leisure travel lodging demand generator is the Clarke County Ruritan Fair Grounds in Berryville, which hosts numerous events throughout the year, in addition to the annual Clarke County Fair. Some of the events are a week long and include out-of-town vendors and collectors, such as antique shows; auctions; the Shenandoah Valley Steam Engine Show for steam engine owners and vendors from all over the East Coast; the Shenandoah Valley Fiber Fest with dozens of out-of-state

vendors; and the Ham Radio Festival. The facility is widely rented for private group functions such as reunions, anniversaries, receptions, parties, etc., which generate varying amounts of lodging demand.

- Funeral homes generate lodging room nights due to out-of-town family and friends attending local funerals. There are also several elder care facilities located adjacent to the hotel site which may generate lodging demand from visiting friends and family.

- The Hollywood Casino at Charles Town Races is a popular tourist attraction located about 20 minutes north of Berryville in Charles Town, West Virginia. Vegas-style casino gaming is offered, along with horse racing throughout the year, including the $1.5 million Charles Town Classic and West Virginia Breeders Classic. Simulcast horse and dog racing from around the country is offered 365 days a year. The hotels in Charles Town often fill during peak periods of demand; this overflow could be accommodated by the proposed Berryville hotel.

Meeting and Group Demand Segment

The **meeting and group segment** includes meetings, seminars, corporate incentive groups, wedding parties, family or other reunions, and similar gatherings of ten or more people. The flexibility of this segment allows hotels to book groups to help build up occupancy during periods of off-peak leisure or commercial demand. Hotels find group patronage to be quite profitable and beneficial to the bottom line. Although room rates are sometimes discounted for large groups, the property benefits from the use of meeting space.

For the subject property, potential meeting and group demand is limited to small corporate groups and social groups. Due to the property's recommended 1,200-square-foot divisible meeting room, it is expected to attract small wedding parties (especially if marketed in conjunction with the premier wedding destination in Berryville, Rosemont Manor), receptions, family reunions, board meetings, business training, corporate meetings, social functions, and catered banquets for local organizations countywide. The large adjacent green space to the hotel could be tented to accommodate large groups, and catered reception functions could be held on the pool deck and patio area. The hotel could also be marketed in conjunction with events at the Barns of Rose Hill, which hosts numerous group events throughout the year.

The following information provides an indicator of potential meeting and group lodging demand generated in or near Clarke County:

- The Carter Hall Conference Center at Project Hope in Millwood offers 33 guest rooms in several buildings on the former plantation with accommodations for up to 57 overnight guests. Overflow is sent to regional hotels such as the Aloft and Wingate Inn in Winchester (Project Hope negotiates discounted rates of $65 to $75 per night). Carter Hall offers several meeting rooms to accommodate from 12 to 80 people, with the Great Hall accommodating a maximum of 80 participants. Complete meeting packages are provided, including catered meals. Most groups are under 60 participants and are accommodated on site, with Carter Hall participants getting first priority for onsite lodging. Project Hope employees and volunteers from around the world typically arrive from Dulles without a vehicle, so offsite lodging must be within walking distance of restaurants and entertainment. The subject hotel site is about one-half mile from W.

Main Street and numerous restaurants, shops, and entertainment such as the Barns of Rose Hill, which should appeal to carless international visitors. Project Hope officials estimate that currently about 30 to 50 annual offsite room nights are generated that could be accommodated at the subject proposed hotel.

- The 11-room historic Rosemont Manor hosted 113 weddings and large events in 2012, achieving over 50% annual occupancy and selling out most weekends, with significantly increased performance in 2013. During 2012, Rosemont directed over 500 wedding guest room nights to Winchester hotels, and estimates that its corporate event guests generated an additional 500 room nights outside of Berryville, for a total of 1,000 potential annual room nights for the subject proposed hotel. In addition, Rosemont management estimates that it could increase the number of corporate business meetings and retreats if additional hotel rooms were available nearby.

- Other group events are hosted in Clarke County venues such as Long Branch Historic House and Farm, Veramar Winery, Barns of Rose Hill in Berryville, and Blandy Experimental Farm – The State Arboretum of Virginia, estimated to generate thousands of group room-nights.

- The new Clarke County High School was completed in 2011 and hosts many sports and cultural events, as well as graduations and meetings which generate lodging demand.

- The Summit Point Motorsports Park is a road racing and driver training facility located about ten minutes north of Berryville in Jefferson County, West Virginia which hosts numerous group events at its facility, including US State Department driver training; corporate events; bachelor parties; and Motocross events. Summit Point features three road racing circuits that are used for amateur automobile, kart, and motorcycle racing, high-performance driver education and emergency training for local and federal law enforcement, as well as foreign service officers who may be posted to dangerous locales. Accommodations in Winchester are most commonly used currently, but the proposed Berryville hotel would be much closer and could accommodate much of this lodging demand.

- According to the Clarke County Equine Alliance, there are 130 – 150 horse farms in the county, including thoroughbred racing, quarter horse, hunter/jumpers and event horses, carriage horses, and trail riding horses. There are dozens of horse shows and equestrian related events throughout the year in Clarke County. There are approximately 25 horse boarding farms in the county, with horses from as far away as New York. Equine-related economic activity in the county generates lodging demand (groups, leisure, and business) that is not currently accommodated within the county.

Demand Conclusion

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of potential lodging demand in the area, three segments were defined as representing the subject property's lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. An increase in

meeting & group demand accommodated is based on the new availability of the subject proposed hotel to attract this demand, marketed in conjunction with existing meeting facilities as well as its recommended 1,200-square-foot meeting room. Based on this procedure, the following average annual compounded market segment growth rates have been forecasted.

Average Annual Compounded Market Segment Growth Rates

	Annual Compounded Growth Rate				
Market Segment	**2013 to 2016**	**2017**	**2018**	**2019**	**2020**
Commercial	12.0 %	3.0 %	2.0 %	2.0 %	2.0 %
Leisure	9.0	4.0	3.0	2.0	2.0
Meeting & Group	20.0	10.0	5.0	2.0	2.0
Occupied Room Night Growth	**11.4 %**	**4.4 %**	**2.9 %**	**2.0 %**	**2.0 %**

Source: Nichols Hospitality Consulting, Inc.

These growth rates will be used in subsequent sections of this report to forecast changes in lodging demand. Total potential demand as a result of forecasted demand growth is shown in the following table, with 2016 reflecting Projection Year One, and 2019 reflecting the Stabilized Year.

Potential Annual Demand

	Potential Room Nights			
Market Segment	**2016**	**2017**	**2018**	**2019**
Commercial	87,435	90,058	91,859	93,697
Leisure	118,172	122,899	126,586	129,117
Meeting & Group	30,172	33,189	34,849	35,546
Total	**235,779**	**246,146**	**253,294**	**258,360**

Source: Nichols Hospitality Consulting, Inc.

Based upon a review of the market dynamics in the subject property's competitive environment, growth rates have been forecast for each market segment. The existence of unaccommodated demand in the market has been analyzed, as well as the potential for induced demand to occur in the future.

Using the calculated potential demand for the market, marketwide usable demand has been determined, based on the inherent limitations of demand fluctuations and other factors in the market area. The following table details the projections of market demand growth and resulting selected market forecasted occupancy. Demand growth reflected in the table under 2016 reflects cumulative growth from 2013 to 2016, or three years. This data provides a baseline for the forecast of occupancy for the subject proposed hotel, presented in the next chapter of this report.

Forecast of Supply and Demand, Selected Regional Lodging Market

	Actual 2013	Forecast 2016	2017	2018	2019
Commercial					
Occupied Room Nights	78,067	87,435	90,058	91,859	93,697
Accommodated Demand Growth	—	12.0 %	3.0 %	2.0 %	2.0 %
Leisure					
Occupied Room Nights	108,415	118,172	122,899	126,586	129,117
Accommodated Demand Growth	—	9.0 %	4.0 %	3.0 %	2.0 %
Meeting & Group					
Occupied Room Nights	25,143	30,172	33,189	34,849	35,546
Accommodated Demand Growth	—	20.0 %	10.0 %	5.0 %	2.0 %
Totals					
Occupied Room Nights	211,625	235,779	246,146	253,294	258,360
Accommodated Demand Growth	—	11.4 %	4.4 %	2.9 %	2.0 %
Available Room Nights per Year	296,015	312,440	334,440	341,640	341,640
Available Room Night Growth		5.5 %	7.0 %	2.2 %	0.0 %
Competitive Market Area Lodging Supply	811	811	811	811	811
Proposed Additions to Supply					
Branded Inn & Suites Berryville		45	45	45	45
TownePlace Suites Front Royal			60	80	80
Available Rooms per Night	811	856	916	936	936
Nights per Year	365	365	365	365	365
Total Annual Supply	296,015	312,440	334,360	341,640	341,640
Rooms Supply Growth	—	5.5 %	7.0 %	2.2 %	0.0 %
Projected Greater Market Occupancy	**71.1 %**	**75.5 %**	**73.6 %**	**74.1 %**	**75.6 %**

Source: Nichols Hospitality Consulting, Inc.

6. Projection of Occupancy and Average Rate

This section will present the consultant's forecast of occupancy and average daily rate (ADR) for the subject property, based on market research as presented previously in this report, and application of market penetration methodology. Market penetration methodology is based on the assumption that existing lodging demand in a subject market area is accommodated by certain "competitive" hotels (primary and/or secondary, as defined in the previous section of this report), and is therefore reflected in the accommodated demand (occupied room nights) of the selected hotels. The forecast presented herein reflects an operating strategy that would be implemented by a competent hotel management team to achieve an optimal mix of occupancy and ADR (i.e., yield management) as measured by Revenue per Available Room. RevPAR is calculated by multiplying occupancy by average rate, and provides an indication of how well rooms revenue is being maximized; RevPAR is a standard industry performance measure which is widely utilized by hotel managers and investors.

National Lodging Highlights

Assuming the US Congress and Obama Administration can achieve a fiscal policy resolution in early 2014 and avoid another government shutdown, improving economic conditions are expected to support continued hotel performance gains. The US lodging industry experienced continued recovery in 2013 amid gradual improvement in the US economy from the recent recession, despite lingering economic uncertainty in Europe and other nations throughout the world. According to hospitality consulting and accounting firm PricewaterhouseCoopers (PwC), lodging industry recovery began during the fourth quarter of 2010, when occupied room nights were 8.5% higher than the same period in 2009; in 2011, RevPAR rose 8.1%, its highest year-over-year increase since 2005. In 2012, occupancy rose to 61.3%, ADR grew 4.2%, resulting in RevPAR growth of 6.7% for the year.

PwC's lodging forecast anticipates continued but more modest recovery for year-end 2013, resulting in an average 5.5% increase in RevPAR for the year. Three factors support this outlook; first, a strengthening economy (while modest) is expected to fuel further growth in both leisure and commercial lodging demand. Second, as business travel increases, so will commercial group demand, which has been suppressed due to companies cutting meetings and convention attendance due to the recession. Third, hotel construction activity has remained low and supply growth has slowed, reducing the impact of new hotel openings on existing properties and allowing them to build both occupancy and room rates (and resulting RevPAR) at a faster pace.

In 2013, PwC expects lodging demand to increase 2.0 percent, which combined with still-restrained supply growth of 0.9 percent by year-end, is anticipated to boost average occupancy levels to 62.2 percent, the highest since 2007. Demand gains are primarily being led by the business and leisure transient segments, which have benefited from activity in sectors such as technology, finance and insurance, healthcare, and professional and business services, in part due to gains in household wealth, lower household debt burdens, and gradual improvement in

labor markets, supporting growth in leisure travel. However, the subject Washington, DC greater metro area and other markets impacted most severely by the government shutdown in October 2013 are not expected to fare as well, with occupancy, ADR and RevPAR declines likely in 4Q 2013.

Although business leaders remain cautious, investment spending continues to grow, and companies are planning meetings, with stronger bookings in place for 2014. Increased occupancy levels are expected to give operators further confidence to increase room rates, resulting in a solid 4.6 percent increase in ADR in 2014.

The following tables present trends in key performance indicators by PwC and Smith Travel Research for the US lodging industry.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**	**2014**
Occupancy	59.2%	61.3%	63.0%	63.2%	62.8%	59.8%	54.6%	57.5%	59.9%	61.3%	**62.2%**	**62.9%**
ADR Growth	0.2%	4.3%	5.6%	7.5%	6.7%	2.9%	-8.6%	0.0%	3.8%	4.2%	**4.1%**	**4.6%**
RevPAR Growth	0.4%	7.9%	8.6%	7.7%	6.1%	-2.0%	-16.6%	5.4%	8.1%	6.7%	**5.5%**	**5.9%**
Source: PwC and Smith Travel Research.												

Market Penetration Analysis for the Subject Proposed Hotel

The subject's occupancy is forecasted by estimating the proposed hotel's occupancy penetration by market segment (commercial, leisure, and meeting & group) for each year of the forecast period. Penetration rates for the subject and each of the selected hotels have been projected based upon the historical performance of each property and the changes foreseen in the marketplace going forward. Considerations such as brand versus independent status, location, facilities and amenities offered, age or condition, and management have been weighed.

The consultant has weighed the potential competitive strengths and weaknesses of the subject in order to forecast its market penetration levels (and resulting occupancy) as compared to existing hotels that have been identified as currently accommodating varying degrees of Clarke County lodging demand, with the following primary considerations for the subject proposed Branded Inn & Suites Berryville:

1. Newness of the Facility: Hotel guests tend to prefer to stay at the newest properties they can find within their desired geographic area to suit their travel budget. The subject midscale hotel will offer the latest and most desirable competitive features travelers prefer, at rates lower than comparable properties in nearby Winchester or Charles Town. The hotel should benefit from its "newness" for its first 2 to 3 years of operation. However, the drawback to the property's newness is the unfamiliarity consumers may have with the location of the new hotel, and it may take time to build awareness in the market area and in

feeder markets. *The consultant recommends that the property's pre-opening marketing should commence at least six months prior to opening.*

2. Brand and Marketing Support: The selected brand should offer support for reservations, marketing (website and representation on all four major GDS travel booking systems), and management. The brand affiliation should be tailored to small hotels to help maximize profits with lower overhead and franchise costs than major brands. However, the subject will be at a competitive disadvantage compared to the much stronger marketing support and consumer appeal of Hilton, Marriott, and other major brands.

3. Locational Attributes: While the subject property is at a disadvantage in its small town location as compared to the many locational attributes of regional cities with Interstate highway access, the subject site is well located within Berryville. The neighborhood is positively influenced by its proximity to shopping, restaurants and support services in downtown Berryville that visitors find attractive. The subject proposed hotel is expected to have good visibility and accessibility from both US Route 340 and SR 7, the most highly trafficked route in the county that offers good highway access to regional tourist attractions, recreation areas, businesses, retail outlets, restaurants, and support services that characterize the greater market area.

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive position within its designated competitive set, as quantified by the occupancy penetration rate. The occupancy penetration rate is the ratio of a property's market share to its fair share of market demand accommodated by its competitive set. In this equation, market share represents that portion of total market demand accommodated by a property and fair share represents the subject hotel's portion of the total supply (calculated as the subject's room count divided by the total supply of the market at large). A property achieving 100% of its fair share will achieve occupancy on par with that achieved by its competitive set; if its market share falls above or below its fair share, its corresponding market penetration rate will be above or below 100%. Penetration rates can be calculated for each market segment of a property, and for the property as a whole.

In the following table, the occupancy penetration rates attained by the selected hotels are set forth for the base year, 2013. The results are used as a basis for the forecast of occupancy penetration rates for the subject and each selected hotel into the future.

Historical Occupancy Penetration Factors Selected Hotels

Property	Number of Rooms	Fair Share	Estimated Penetration	Estimated Market Share	Estimated Captured Room Nights
Country Inn & Suites Winchester	80	9.9 %	102.6 %	9.9 %	21,321
Fairfield Inn & Suites Winchester	85	10.5	94.2	10.1	21,767
TownePlace Suites Winchester	109	13.4	92.8	12.9	27,882
Comfort Suites Leesburg	80	9.9	105.4	10.4	22,448
Hampton Inn Front Royal	102	12.6	102.6	12.9	27,834
Holiday Inn Express Stephens City	71	8.8	91.4	8.2	17,600
Hampton Inn & Suites Charles Town	131	16.2	101.2	16.0	34,521
The Inn at Charles Town	153	18.9	105.4	19.6	42,187
Totals	**811**	**100.0 %**	**100.0 %**	**100.0 %**	**215,560**

Source: Nichols Hospitality Consulting, Inc.

The highest overall occupancy penetration in the market area corresponds to the Comfort Suites Leesburg and The Inn at Charles Town, both at approximately 105%, followed by the Country Inn & Suites Winchester and Hampton Inn Front Royal at approximately 103%. These properties benefit from their respective major brand affiliations and their locational attributes such as Interstate highway access, larger metro areas, or in the case of The Inn at Charles Town, its proximity to the Hollywood Casino at Charles Town Races.

Penetration rates for the subject and each of the competitive hotels have been projected for each market segment based upon the historical performance of each property and the changes foreseen in the marketplace going forward. The following tables set forth, by market segment, the projected stabilized penetration rates for the subject property and each hotel in the competitive set.

Commercial Segment Occupancy Penetration Rates (Stabilized Year 4)

Property	Number of Rooms	Fair Share	Projected Penetration	Projected Market Share	Adjusted Penetration	Projected Capture
Country Inn & Suites Winchester	80	8.5 %	95.0 %	8.4 %	97.9 %	7,836
Fairfield Inn & Suites Winchester	85	9.1	117.0	10.9	120.5	10,254
TownePlace Suites Winchester	109	11.6	135.0	16.2	139.1	15,173
Comfort Suites Leesburg	80	8.5	100.0	8.8	103.0	8,249
Hampton Inn Front Royal	102	10.9	85.0	9.5	87.6	8,940
Holiday Inn Express Stephens City	71	7.6	90.0	7.0	92.7	6,589
Hampton Inn & Suites Charles Town	131	14.0	90.0	13.0	92.7	12,157
The Inn at Charles Town	153	16.3	70.0	11.8	72.1	11,043
Branded Inn & Suites Berryville	**45**	**4.8**	**50.0**	**2.5**	**51.5**	**2,320**
TownePlace Suites Front Royal	80	8.5	135.0	11.9	139.1	11,136
Totals	**936**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**93,697**

Source: Nichols Hospitality Consulting, Inc.

The subject property is forecasted to achieve a stabilized commercial segment penetration rate of about 52% in Forecast Year 4, garnering an estimated 2,320 commercial room nights. The proposed hotel's low penetration of commercial demand is about half of its fair share of 100%

and the lowest commercial penetration of the competitive set, which reflect its less advantageous small town location, and its weaker brand as compared to the major brands preferred by commercial travelers, as discussed previously in this report. However, Clarke County offers many businesses and government offices, and there are regional business parks which are expected to generate a modest amount of commercial lodging demand. The largest manufacturing employer in Clarke County, Berryville Graphics, Inc., does not generate significant lodging demand, currently estimated at five to ten room nights per month, on average, according to management. However, because of the planned facilities, which will offer amenities that commercial travelers prefer, at highly competitive room rates, and the proposed hotel's central location with ease of access to Winchester, Charles Town, Front Royal and Leesburg, it is anticipated that a modest share of existing regional commercial demand will be accommodated by the subject proposed hotel.

Leisure Segment Adjusted Occupancy Penetration Rates (Stabilized Year 4)

Property	Number of Rooms	Fair Share	Projected Penetration	Projected Market Share	Adjusted Penetration	Projected Capture
Country Inn & Suites Winchester	80	8.5 %	110.0 %	10.0 %	117.4 %	12,959
Fairfield Inn & Suites Winchester	85	9.1	105.0	10.2	112.1	13,143
TownePlace Suites Winchester	109	11.6	80.0	9.9	85.4	12,841
Comfort Suites Leesburg	80	8.5	113.2	10.3	120.8	13,334
Hampton Inn Front Royal	102	10.9	100.0	11.6	106.8	15,021
Holiday Inn Express Stephens City	71	7.6	105.0	8.5	112.1	10,978
Hampton Inn & Suites Charles Town	131	14.0	90.0	13.4	96.1	17,362
The Inn at Charles Town	153	16.3	80.0	14.0	85.4	18,025
Branded Inn & Suites Berryville	**45**	**4.8**	**91.0**	**4.7**	**97.1**	**6,030**
TownePlace Suites Front Royal	80	8.5	80.0	7.3	85.4	9,425
Totals	**936**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**129,117**

Source: Nichols Hospitality Consulting, Inc.

The subject property is forecasted to achieve a stabilized leisure segment penetration rate of 97% in Forecast Year 4, garnering 6,030 leisure room nights. This penetration estimate reflects the growing popularity of the greater region as a tourist destination, and Clarke County's many leisure attractions as depicted earlier in this report, along with the appeal of the subject hotel's midscale price point, branded features, and 'newness' to leisure travelers.

The subject hotel will offer the only competitive midscale hotel rooms in Clarke County, and will be able to capture leisure demand that is currently forced to stay outside of Clarke County while attending Clarke County events and attractions. It is assumed that a Tourism Strategic Plan will be adopted and an aggressive leisure travel marketing campaign will be implemented by the Town of Berryville and Clarke County, with the assistance of the VTC, as previously recommended in this report.

Meeting & Group Segment Occupancy Penetration Rates (Stabilized Year 4)

Property	Number of Rooms	Fair Share	Projected Penetration	Projected Market Share	Adjusted Penetration	Projected Capture
Country Inn & Suites Winchester	80	8.5 %	43.2 %	3.8 %	44.7 %	1,358
Fairfield Inn & Suites Winchester	85	9.1	39.6	3.7	41.0	1,325
TownePlace Suites Winchester	109	11.6	78.1	9.4	80.9	3,347
Comfort Suites Leesburg	80	8.5	44.4	3.9	45.9	1,396
Hampton Inn Front Royal	102	10.9	86.4	9.7	89.4	3,464
Holiday Inn Express Stephens City	71	7.6	38.4	3.0	39.8	1,074
Hampton Inn & Suites Charles Town	131	14.0	127.8	18.5	132.3	6,582
The Inn at Charles Town	153	16.3	210.0	35.5	217.5	12,635
Branded Inn & Suites Berryville	**45**	**4.8**	**140.0**	**7.0**	**145.0**	**2,477**
TownePlace Suites Front Royal	80	8.5	60.0	5.3	62.1	1,888
Totals	**936**	**100.0 %**	**100.0 %**	**100.0 %**	**100.0 %**	**35,546**

Source: Nichols Hospitality Consulting, Inc.

The subject property is forecasted to achieve a stabilized meeting & group segment penetration rate of 140% in Forecast Year 4, garnering 2,477 meeting and group room nights. This penetration estimate reflects the positive impact of the subject hotel's recommended 1,200-square-foot meeting room (divisible by two). It is expected to become the premier Berryville and Clarke County location for small receptions, family reunions, board meetings, corporate meetings, training seminars, social functions, small group tours, and catered banquets for local organizations countywide. Adjacent green space to the hotel could be tented to accommodate large groups, and catered reception functions could be held on the pool deck and patio area.

Based on the preceding analysis, the subject property is projected to achieve an overall occupancy penetration level of 72% in 2016, stabilizing at 85% in 2019 (year 4) and thereafter. The following table presents the summary market penetration and occupancy levels for the subject proposed hotel.

Forecast of Subject Property's Market Penetration and Occupancy

Market Segment	2016	2017	2018	Stabilized 2019
Commercial				
Demand	87,435	90,058	91,859	93,697
Market Share	2.1 %	2.2 %	2.4 %	2.5 %
Capture	1,855	1,991	2,230	2,320
Penetration	40.4 %	45.0 %	50.5 %	51.5 %
Leisure				
Demand	118,172	122,899	126,586	129,117
Market Share	4.5 %	4.5 %	4.6 %	4.7 %
Capture	5,320	5,580	5,850	6,030
Penetration	85.6 %	92.4 %	96.1 %	97.1 %
Meeting & Group				
Demand	30,172	33,189	34,849	35,546
Market Share	6.3 %	6.5 %	7.0 %	7.0 %
Capture	1,890	2,169	2,429	2,477
Penetration	119.1 %	133.1 %	145.0 %	145.0 %
Total Room Nights Captured	**9,065**	**9,740**	**10,509**	**10,828**
Available Room Nights	16,425	16,425	16,425	16,425
Subject Property Occupancy	**55 %**	**59 %**	**64 %**	**66 %**
Marketwide Available Room Nights	312,440	334,440	341,640	341,640
Fair Share	**5 %**	**5 %**	**5 %**	**5 %**
Marketwide Occupied Room Night	235,779	246,146	253,294	258,360
Market Share	**4 %**	**4 %**	**4 %**	**4 %**
Marketwide Occupancy	**75 %**	**74 %**	**74 %**	**76 %**
Total Occupancy Penetration	**73 %**	**81 %**	**86 %**	**87 %**

Source: Nichols Hospitality Consulting, Inc.

This forecast results in year one occupancy of 55%; year two, 59%; year three, 64%; and year four (stabilized) 66%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, it is equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

For the purpose of forecasting income and expense, the preceding occupancy levels will be utilized. The following table summarizes the proposed subject property’s projected market segmentation.

Subject Property's Market Segmentation

	2016	2017	2018	2019
Commercial	20 %	20 %	21 %	21 %
Leisure	59	57	56	56
Meeting & Group	21	22	23	23
Total	100 %	100 %	100 %	100 %

Source: Nichols Hospitality Consulting, Inc.

In the stabilized year of operations, it is anticipated that the subject property will generate 21% of its total accommodated lodging demand from the commercial segment, 56% from the leisure segment, and 23% from the meeting and group segment. While the subject proposed hotel is expected to be primarily reliant on leisure demand, the mix is diversified and reflects its appeal to the various market segments accommodated in the market area. *Factors which could help boost leisure lodging demand throughout the year, and increase the economic impact of tourism in the county, include adoption and implementation of a Tourism Strategic Plan, and increasing the local lodging tax to provide staffing, advertising and promotion funds.*

Average Daily Rate Analysis

Average daily rate (ADR) is calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold or occupied during the same period. A hotel's average room rate is the weighted average of the various amounts charged to different market segments, such as rack rates, published rates, commercial rates, government per diem rates, contract rates, and complimentary rooms are factored in as well. The average rate also takes into account differentials during peak and off-peak periods, including various seasons of the year, holidays, and weekends. Different types of rooms may also command varying rates, and thus have an impact on the overall average rate.

The property’s average rate will be projected using a competitive positioning method. The average rates achieved by the subject property, similar properties, and/or its competitors are analyzed. These rates establish a range that reflects certain characteristics of the specific market, such as price sensitivity, demand orientation, and occupancy. The subject property's average rate is then forecast based on analysis of such factors as size, quality, facilities, amenities, market orientation, location, management, image, and affiliation, in comparison to its competitors.

The selected market area hotels achieved an estimated composite ADR of approximately $94.00 in 2013, setting the upper level for the range of rates likely to be achieved by the subject, since travelers will generally pay more to stay in major branded hotels located in the region, which have numerous competitive advantages, as previously discussed. These hotels achieved ADRs in the range of $77 to $118. It is recommended that the subject attract commercial and leisure demand by offering room rates 15% to 20% lower than the major brand hotels in the region, indicating a reasonable target ADR of approximately $75 to $80, in 2013 dollars.

Based on the previous tables and analysis, the subject hotel's forecasted year one (2016) average rate is projected at $81.75, based on $75.00 in 2013 dollars, and 9.0% total estimated marketwide ADR growth between 2013 and 2016. Average rate growth of 3.0% to 4.0% is forecasted in 2017 and 2018. A base underlying inflation rate of 2.5% has been applied upon stabilization in year four and thereafter.

A unique advantage of hotel properties over other types of real estate is the ability for hotel operators to raise or lower hotel room rates quickly in response to market pressures. Room rate increases do not necessarily conform to inflation rates, because lodging facilities are influenced by market conditions such as the relationship between supply and demand; property specific improvements such as extensive renovation or addition of needed facilities; and conversely, the deference of needed renovations which may erode room rates.

Based on the preceding analysis, the following table presents the forecast of occupancy and average rate to stabilized year 2019, which will be utilized in the financial forecast.

Subject Property Forecast of Occupancy and Average Rate to Stabilization

Year	Occupancy Forecast	Average Rate Forecast	RevPAR
2016	55 %	$81.75	$45.26
2017	59 %	$85.02	$50.41
2018	64 %	$87.57	$56.30
2019	66 %	$89.76	$59.33

Source: Nichols Hospitality Consulting, Inc.

7. Financial Forecast

Analysis of Comparable Operating Statements

In order to prepare statements of income and expense for the subject proposed hotel, actual income and expense statements for comparable hotel properties were analyzed, along with the Smith Travel Research *HOST 2012 US Hotel Operating Statistics Study*.

Comparable *HOST* Operating Data

	2012 HOST Under 75 Rooms				2012 HOST Small Metro/Town			
Number of Rooms:	**61**				**85**			
Occupied Rooms:	**14,850**				**20,197**			
Days Open:	**365**				**365**			
Occupancy:	**66.7%**		**Amount per**	**Amount per**	**65.1%**		**Amount per**	**Amount per**
Average Rate:	**$82.61**	**Percentage**	**Available**	**Occupied**	**$83.95**	**Percentage**	**Available**	**Occupied**
RevPAR:	**$55.10**	**of Revenue**	**Room**	**Room**	**$54.65**	**of**	**Room**	**Room**
REVENUE								
Rooms	$1,225	97.3 %	$20,075	$82.46	$1,695	98.1 %	$19,947	$83.95
Telephone	1	0.1	21	0.09	1	0.1	16	0.07
Other Operated Departments	12	1.0	198	0.81	14	0.8	163	0.69
Rentals & Other Income (Net	20	1.6	329	1.35	18	1.1	215	0.90
Total	1,258	100.0	20,623	84.71	1,729	100.0	20,341	85.61
DEPARTMENTAL EXPENSES*								
Rooms	336	27.5	5,512	22.64	431	25.4	5,070	21.34
Telephone	11	866.5	182	0.75	11	793.8	127	0.53
Other Operated Departments	14	118.7	235	0.97	18	133.1	217	0.91
Total	362	28.7	5,929	24.35	460	26.6	5,414	22.79
DEPARTMENTAL INCOME	896	71.3	14,694	60.36	1,269	73.4	14,927	62.82
OPERATING EXPENSES								
Administrative & General	133	10.6	2,182	8.96	161	9.3	1,897	7.98
Marketing	49	3.9	803	3.30	97	5.6	1,136	4.78
Energy	70	5.6	1,149	4.72	95	5.5	1,120	4.71
Repairs & Maintenance	78	6.2	1,282	5.27	94	5.5	1,110	4.67
Complimentary Breakfast	0	0.0	0	0.00	0	0.0	0	0.00
Franchise Fees	60	4.8	990	4.07	72	4.1	842	3.54
Total	391	31.1	6,406	26.31	519	30.0	6,105	25.69
HOUSE PROFIT	506	40.2	8,288	34.05	750	43.4	8,822	37.13
Management Fee	44	3.5	715	2.94	61	3.5	720	3.03
FIXED EXPENSES								
Property Taxes	56	4.5	920	3.78	61	3.5	722	3.04
Property Insurance	16	1.3	266	1.09	20	3.5	722	1.01
Reserve for Replacement	14	1.1	234	0.96	23	1.3	266	1.12
Total	87	6.9	1,420	5.83	104	6.0	1,229	5.17
NET OPERATING INCOME	$375	29.8 %	$6,153	$25.28	$584	33.8 %	$6,873	$28.93

HOST data provided by Smith Travel Research (STR).

Note: Revenue and expense whole dollar amounts expressed in thousands (,000).

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

The statements are organized in accordance with the *Uniform System of Accounts for Hotels* (USAH). For comparability purposes, whole dollar amounts (presented in thousands) have been analyzed and presented as **PAR** (Per Available Room) and **POR** (Per Occupied Room).

Premise of Forecast

The forecasts of income and expense are intended to reflect the consultant's subjective estimate of how a knowledgeable hotel investor would project the subject property's future operating results, including consideration of the dynamics of the local market and national economy.

Fixed and Variable Component Analysis

A fixed and variable component model is used to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then held constant, while the variable component is adjusted for the percent change between the projected occupancy and facility usage and that which produced the known level of revenue or expense.

The following table illustrates the revenue and expense categories that can be projected using this fixed and variable component model. These percentages show the portion of each category that is typically fixed and variable; the middle column describes the basis for calculating the percentage of variability while the last column sets forth the fixed percentage for this forecast.

Range of Fixed and Variable Ratios

Category	Percent Fixed	Percent Variable	Index of Variability	Selected Fixed Ratio
Revenues				
Rooms	30 - 50	50 - 70	Occupancy	50 %
Telephone	20 - 40	60 - 80	Occupancy	20 %
Bar/Vending	20 - 40	60 - 80	Occupancy	30
Departmental Expenses				
Rooms	50 - 70	30 - 50	Occupancy	60
Telephone	70 - 90	10 - 30	Telephone Revenue	80
Bar/Vending	40 - 70	30 - 60	Other Income (Net)	70
Undistributed Operating Expenses				
Administrative & General	65 - 85	15 - 35	Total Revenue	70
Marketing	65 - 85	15 - 35	Total Revenue	80
Franchise Fees	0	100	Occupancy	0
Repairs & Maintenance	25 - 75	25 - 75	Total Revenue	60
Energy	25 - 75	25 - 75	Occupancy	70
Complimentary Breakfast	55 - 85	35 - 45	Total Revenue	60
Fixed Expenses				
Management Fee	0	100	Total Revenue	0
Property Taxes	100	0	Total Revenue	100
Property Insurance	100	0	Total Revenue	100
Reserve for Replacement	0	100	Total Revenue	0

Source: Nichols Hospitality Consulting, Inc.

This forecast of revenue and expense is accomplished through a step-by-step approach, following the format of the *Uniform System of Accounts for Hotels*. Each category of revenue

and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

A general rate of inflation must be established that will be applied to most revenue and expense categories. The following table shows inflation as estimated by the Consumer Price Index (CPI-U). Because the value of real estate is predicated on cash flows over a relatively long period, inflation should be considered from a long-term perspective.

Inflation Estimates

Year	National Consumer Price Index	Percent Change from Previous Year
1987	113.6	— %
1997	160.5	2.3
1998	163.0	1.6
1999	166.6	2.2
2000	172.2	3.4
2001	177.0	2.8
2002	179.9	1.6
2003	184.0	2.3
2004	188.9	2.7
2005	195.3	3.4
2006	201.8	3.3
2007	207.3	2.7
2008	215.3	3.8
2009	214.5	(0.4)
2010	218.1	1.7
2011	224.9	3.2
2012	229.6	2.1
Avg. Annual Comp. Change,		
1987-2012		2.9 %
2002-2012		2.5

Source: Bureau of Labor Statistics, US City Average (CPI-U)

From 1987 to 2012, the national CPI increased at an average annual compounded rate of 2.9%; and from 2002 to 2012, the national CPI increased at an average annual compounded rate of 2.5%. In consideration of these historical trends, the projections set forth above, and assessment of probable property appreciation levels, an underlying inflation rate of 2.5% for all revenue and expense items has been applied for each projection year after stabilized year three.

Forecast of Income and Expense

It is estimated that it will take four years for the subject property to reach a stabilized level of operations after completion. Each revenue and expense item has been forecast based upon a review of comparable income and expense statements. The following forecast is based upon calendar years beginning January 1, 2016, expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate, as previously analyzed and detailed in this report. Following a four-year ramp up period, the subject hotel is expected to stabilize at 66% with an average rate of approximately $89.76 in 2019. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

Telephone Revenue

Telephone or communications revenue is primarily generated by hotel guests who charge Internet access (most hotels now offer this service at no charge) and telephone long distance charges to their rooms. In recent years, most hotels have experienced declining or minimal telephone revenue as the use of cell phones and smart phones has increased dramatically. Based on analysis of comparable data, and assuming complimentary Internet service, telephone revenue has been forecast at $0.07 POR in Forecast Year One.

Bar/Vending Revenue

Revenue accruing to this category includes income generated by a small lobby lounge serving beer and wine, convenience store selling snacks and incidentals, and revenue from vending machines. Based on analysis of comparable data, bar/vending revenue has been forecast at $1.99 POR in Forecast Year One.

Other Income (Net)

Revenue accruing to this category includes income generated by meeting room rentals, business center charges, laundry and valet commissions, in-room movies, miscellaneous charges, and short-term interest income. Based on analysis of comparable data, other income (net of expenses) has been forecast at $1.26 POR in Forecast Year One.

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy (the manager can schedule housekeeping staff according to demand requirements), much of a hotel's rooms department payroll is fixed. Employees such as front desk personnel, public area cleaners, executive housekeeper, and/or other supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy. Commissions and reservations are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. Guest toiletry supplies vary 100% with occupancy; linens, towels and other operating expenses are only slightly affected by volume.

Stabilized rooms expense for comparable *STR HOST* properties typically ranges from 25.4% to 27.5% of rooms revenue (<u>including</u> complimentary breakfast expense), at a typical occupancy of 65.1% to 66.7% for properties in small towns ranging from an average 61 to 85 rooms, slightly

larger than the subject proposed hotel. The consultant analyzed several actual Cobblestone Inn & Suites operating statements as well, noting that rooms expenses run significantly lower at Cobblestone properties due to a small staff with overlapping duties and lower pay typical in the micro markets it targets. Based on analysis of comparable data, and considering the subject's projected stabilized occupancy of 66%, rooms expense (excluding complimentary breakfast expense, which has been forecasted separately) has been projected to decrease from 25.0% of rooms revenue in Year 1 to stabilize at 22.0% of rooms revenue in Year 4.

Telephone Expense

The bulk of the telephone or communications expense consists of the cost of local and long-distance telephone service and Internet access billed by the companies that provide these services. In recent years, the costs of providing Internet services and the increased use of cellular telephones (and corresponding decline in telephone revenue) has increased communication expense as a percentage of communication revenue for hotels, with this trend likely to continue. This department is considered a necessary guest service, not a profit center. Based on the comparable data, this expense has been projected to stabilize at 1,200% of telephone revenue in Year 4 or approximately $9,000.

Bar/Vending Expense

This expense category includes cost of goods sold and other direct costs associated with income generated by the lobby lounge serving beer and wine plus convenience store sales. Based on analysis of comparable data, bar/vending expense has been forecast at $1.69 POR in Forecast Year One. This reflects 84.9% of bar/vending revenue, which decreases to 80% of bar/vending revenue in Forecast Year 4. The lobby bar is not projected to be highly profitable, but it is viewed as an important feature to help sell guest rooms due to its strong appeal to travelers, especially commercial travelers.

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category. Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume. Comparable properties indicate A&G expense typically ranging from 8.0% to 11.0% of total revenue. Based on the subject property's projected revenue, this expense has been forecast at 10.6% of total revenue in Forecast Year One, declining to and stabilizing at 9.3% of total revenue in Forecast Year 4.

Marketing Expense

Marketing expense (which is in addition to any marketing contribution portion of franchise fee expense) consists of all in-house costs associated with advertising, sales, and promotions to attract and retain customers, especially group sales. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities, especially its meeting space. An adequately funded and targeted marketing plan executed by

hotel sales professionals will be essential to facilitate the successful marketing of a proposed hotel. Comparable properties indicate stabilized marketing expense (excluding franchise brand marketing contribution fee) ranging from 2.5% to 5.0% of total revenue. Marketing expense for the subject property has been projected at 4.4% of total revenue in Forecast Year One, decreasing to a stabilized level of 3.8% of total revenue in Year 4.

Franchise Fee/Membership Expense

This report assumes that the subject property will be affiliated via franchise fee/membership agreement with a brand such as Best Western Plus or Cobblestone Inn & Suites brand, which both allow properties under 50 rooms in their systems. This fee is estimated at 5.3% of room revenue per year. These terms are suggested but not contractual as of the date of this report.

Repairs and Maintenance Expense

Newly constructed properties such as the subject are protected for several years by modern equipment and manufacturers' warranties. The quality of initial construction can also have a direct impact on future maintenance requirements, and the use of high-quality building materials and construction methods can reduce maintenance expenditures over the long term. This expense has been forecast at 3.7% of total revenue in Year One and achieving a stabilized level of 3.3% of total revenue in Year Four.

Energy Expense

This expense is typically comprised of electricity (60% to 65% of total expense), water & sewer (17% to 23% of total), gas (10% to 15%), and waste disposal (3% to 7%). Typical hotel equipment usage is dominated by cooling/heating (46% of KWh); internal lighting (19%); water heating/cooking/refrigeration (11%); motors/air compressors (5%); external lighting (4%); and office equipment/miscellaneous (9%). While energy expense varies due to local energy costs, electricity and water are generally the two dominant expenses. Comparable stabilized properties indicate typical energy expense ranging from 4.5% to 5.5% of total revenue, or approximately $900 to $1,200 per available room. Total energy expense for the subject is estimated to reflect 6.3% in Year One, decreasing to a stabilized level of 5.5% of total revenue. This equates to $1,068 PAR in Year One. Energy expense is projected to be slightly higher due to the heating/cooling of the recommended 1,200-square-foot meeting room, which reflects more meeting space than is typical for a small hotel like the subject.

Complimentary Breakfast Expense

Complimentary breakfast expense includes all food costs associated with providing a complimentary hot breakfast. Based on breakfast cost data reviewed by the consultant, complimentary breakfast expense is projected at $3.50 POR in base year dollars. This results in Year One breakfast expense of $3.87 POR or $35,000.

Management Fee Expense

Management expense consists of the basic fee paid to a professional hotel management company to operate the subject property. Although most hotel management companies employ a fee schedule that includes a basic fee (usually a percentage of total revenue) and an incentive

fee (usually a percentage of defined profit), the incentive portion is generally subordinated to debt service and does not appear in this forecast of net income before debt service. Fees paid to hotel management companies which provide management expertise but no brand identity for small hotel properties typically range from 3.5% to 6.0% of total revenue. A market-oriented base management fee of 3.5% has been applied in this forecast.

Property Tax Expense

The Clarke County Commissioner of Revenue's Office is responsible for the assessments for all real property located in Clarke County. The 2013 millage rate relative to the subject property is $0.63 per $100 assessed value for real estate, and $4.496 per $100 for personal property (the hotel's furniture, fixtures and equipment). The personal property component is generally taxed at 75% of cost in year one, decreasing to 60% in year two, 50% in year three, and 40% in year four, but increasing when furniture, fixtures or equipment is replaced with new. The following tables provide an indication of total property assessment per room, and the forecasted property tax assessment for the subject property, based on this analysis.

Property Tax Forecast

Year	Assessment Estimate per Room	Total Property Assessment	Tax Rate per $100 Assd.	Tax Forecast
Real Estate	$60,000	$2,640,000	$0.630	$16,632
Personal Property	$5,000	$220,000	$4.496	$9,891
Total				$26,523

Source: Estimated by Nichols Hospitality Consulting, with tax data from Clarke County Commissioner of Revenue

Based on the proposed 45-room hotel, this reflects a base year annual property tax expense estimated at roundly $27,000 which will be applied in this forecast in year one, decreasing in years two to four, and stabilized in year four, increasing at an inflationary rate of 2.5% thereafter.

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage. Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, flood zone, and the area's fire experience. Comparable properties' insurance expense ranges from approximately $266 to $722 PAR. Based on this data, and considering its newness and quality of construction and assumed non-flood zone location, the subject property's insurance expense is estimated at $323 per available room in Forecast Year One.

Reserve for Replacement

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

Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service and limited-service hotels. The findings of the study were published in the report, *Cap Ex, A Study of Capital Expenditure in the US Hotel Industry*. The historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. Hotel lenders, franchisors and investors typically require reserves for replacement ranging from 3% to 5% of total revenue. Reserves for replacement have been forecasted to step up from 2% per year in 2016, 3% in 2017 and stabilized at 4% per year thereafter.

Forecast of Income and Expense

Based on the preceding analysis, a forecast of income and expense has been formulated for the subject proposed hotel for ten operating years beginning January 1, 2016 and are expressed in inflated dollars for each year. The subject proposed hotel is projected to achieve stabilized occupancy in year 4, 2019. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given any and all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, it is equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

The table on the following page presents a detailed forecast through the stabilized year four, including amounts per available room (PAR) and per occupied room (POR). The second table illustrates the ten-year forecast of income and expense, presented with a lesser degree of detail.

Detailed Forecast of Income and Expense to Stabilized Year, Proposed Branded Inn & Suites, Berryville, VA

	2016				2017				2018				Stabilized			
Number of Rooms:	**45**				**45**				**45**				**45**			
Occupancy:	**55%**				**59%**				**64%**				**66%**			
Average Rate:	**$81.75**				**$85.02**				**$87.57**				**$89.76**			
RevPAR:	**$44.96**				**$50.16**				**$56.05**				**$59.24**			
Days Open:	**365**				**365**				**365**				**365**			
Occupied Rooms:	**9,034**	**%Gross**	**PAR**	**POR**	**9,691**	**%Gross**	**PAR**	**POR**	**10,512**	**%Gross**	**PAR**	**POR**	**10,841**	**%Gross**	**PAR**	**POR**
REVENUE																
Rooms	$739	96.1 %	$16,422	$81.80	$824	96.3 %	$18,311	$85.03	$921	96.4 %	$20,467	$87.61	$973	96.4 %	$21,622	$89.76
Telephone	1	0.1	14	0.07	1	0.1	15	0.07	1	0.1	16	0.07	1	0.1	17	0.07
Bar/Vending	18	2.3	400	1.99	19	2.2	428	1.99	21	2.2	462	1.98	22	2.2	483	2.00
Other Income (Net)	11	1.5	252	1.26	12	1.4	269	1.25	13	1.4	289	1.24	14	1.3	302	1.25
Total Revenues	769	100.0	17,088	85.12	856	100.0	19,022	88.33	955	100.0	21,233	90.90	1,009	100.0	22,423	93.08
DEPARTMENTAL EXPENSES *																
Rooms	185	25.0	4,106	20.45	198	24.0	4,395	20.41	212	23.0	4,707	20.15	214	22.0	4,757	19.75
Telephone	8	1326.8	184	0.92	9	1277.0	190	0.88	9	1220.8	197	0.84	9	1200.0	203	0.84
Bar/Vending	15	84.9	339	1.69	16	83.0	355	1.65	17	80.8	373	1.60	17	80.0	386	1.60
Total	208	27.1	4,628	23.06	222	26.0	4,939	22.94	237	24.9	5,277	22.59	241	23.8	5,346	22.19
DEPARTMENTAL INCOME	561	72.9	12,459	62.06	634	74.0	14,083	65.40	718	75.1	15,956	68.31	768	76.2	17,078	70.89
OPERATING EXPENSES																
Administrative & General	82	10.6	1,816	9.05	86	10.0	1,909	8.86	90	9.5	2,011	8.61	94	9.3	2,082	8.64
Marketing	34	4.4	750	3.74	35	4.1	782	3.63	37	3.8	816	3.49	38	3.8	842	3.50
Franchise Fees	41	5.3	903	4.50	45	5.3	1,007	4.68	51	5.3	1,136	4.86	54	5.3	1,189	4.94
Repairs & Maintenance	29	3.7	639	3.18	30	3.6	678	3.15	32	3.4	720	3.08	34	3.3	748	3.10
Energy	48	6.3	1,068	5.32	51	5.9	1,123	5.21	53	5.6	1,183	5.06	55	5.5	1,225	5.08
Complimentary Breakfast	35	4.5	776	3.87	37	4.3	822	3.82	39	4.1	874	3.74	41	4.0	908	3.77
Total	268	34.8	5,953	29.65	284	33.2	6,320	29.35	303	31.7	6,740	28.85	315	31.2	6,993	29.03
HOUSE PROFIT	293	38.1	6,506	32.41	349	40.8	7,763	36.05	415	43.4	9,216	39.45	454	45.0	10,085	41.86
Management	27	3.5	598	2.98	30	3.5	666	3.09	33	3.5	743	3.18	35	3.5	785	3.26
FIXED EXPENSES	266	34.6	5,908	29.43	319	37.3	7,097	32.95	381	39.9	8,473	36.27	418	41.5	9,300	38.60
FIXED EXPENSES																
Property Taxes	27	3.5	598	2.98	26	3.0	571	2.65	25	2.6	552	2.36	24	2.4	538	2.23
Property Insurance	15	1.9	323	1.61	15	1.7	331	1.54	15	1.6	339	1.45	16	1.6	348	1.44
Reserve for Replacement	15	2.0	342	1.70	26	3.0	571	2.65	38	4.0	849	3.64	40	4.0	897	3.72
Total	57	7.4	1,263	6.29	66	7.7	1,472	6.84	78	8.2	1,741	7.45	80	8.0	1,783	7.40
NET OPERATING INCOME	$209	27.2 %	$4,645	$23.14	$253	29.6 %	$5,624	$26.12	$303	31.7 %	$6,732	$28.82	$338	33.5 %	$7,517	$31.20

Note: Revenue and expense whole dollar amounts expressed in thousands (,000).

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

Source: Nichols Hospitality Consulting, Inc.

Ten-Year Forecast of Income and Expense, Proposed Branded Inn & Suites, Berryville, VA

	2016		2017		2018		2019		2020		2021		2022		2023		2024		2025	
Number of Rooms:	**45**		**45**		**45**		**45**		**45**		**45**		**45**		**45**		**45**		**45**	
Occupied Rooms:	**9,034**		**9,691**		**10,512**		**10,841**		**10,841**		**10,841**		**10,841**		**10,841**		**10,841**		**10,841**	
Occupancy:	**55%**		**59%**		**64%**		**66%**		**66%**		**66%**		**66%**		**66%**		**66%**		**66%**	
Average Rate:	**$81.75**	**% of**	**$85.02**	**% of**	**$87.57**	**% of**	**$89.76**	**% of**	**$92.00**	**% of**	**$94.30**	**% of**	**$96.66**	**% of**	**$99.08**	**% of**	**$101.56**	**% of**	**$104.09**	**% of**
RevPAR:	**$44.96**	**Gross**	**$50.16**	**Gross**	**$56.05**	**Gross**	**$59.24**	**Gross**	**$60.72**	**Gross**	**$62.24**	**Gross**	**$63.80**	**Gross**	**$65.39**	**Gross**	**$67.03**	**Gross**	**$68.70**	**Gross**
REVENUE																				
Rooms	$739	96.1 %	$824	96.3 %	$921	96.4 %	$973	96.4 %	$997	96.4 %	$1,022	96.4 %	$1,048	96.4 %	$1,074	96.4 %	$1,101	96.4 %	$1,128	96.4 %
Telephone	1	0.1	1	0.1	1	0.1	1	0.1	1	0.1	1	0.1	1	0.1	1	0.1	1	0.1	1	0.1
Bar/Vending	18	2.3	19	2.2	21	2.2	22	2.2	22	2.2	23	2.2	23	2.2	24	2.2	25	2.2	25	2.2
Other Income (Net)	11	1.5	12	1.4	13	1.4	14	1.3	14	1.3	14	1.3	15	1.3	15	1.3	15	1.3	16	1.3
Total	769	100.0	856	100.0	955	100.0	1,009	100.0	1,034	100.0	1,060	100.0	1,087	100.0	1,114	100.0	1,142	100.0	1,170	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	185	25.0	198	24.0	212	23.0	214	22.0	219	22.0	225	22.0	231	22.0	236	22.0	242	22.0	248	22.0
Telephone	8	1326.8	9	1277.0	9	1220.8	9	1200.0	9	1200.0	10	1200.0	10	1200.0	10	1200.0	10	1200.0	11	1200.0
Bar/Vending	15	84.9	16	83.0	17	80.8	17	80.0	18	80.0	18	80.0	19	80.0	19	80.0	20	80.0	20	80.0
Total	208	27.1	222	26.0	237	24.9	241	23.8	246	23.8	253	23.8	259	23.8	266	23.8	272	23.8	279	23.8
DEPARTMENTAL INCOME	561	72.9	634	74.0	718	75.1	768	76.2	787	76.2	807	76.2	828	76.2	848	76.2	870	76.2	891	76.2
OPERATING EXPENSES																				
Administrative & General	82	10.6	86	10.0	90	9.5	94	9.3	96	9.3	98	9.3	101	9.3	103	9.3	106	9.3	109	9.3
Marketing	34	4.4	35	4.1	37	3.8	38	3.8	39	3.8	40	3.8	41	3.8	42	3.8	43	3.8	44	3.8
Franchise Fees	41	5.3	45	5.3	51	5.3	54	5.3	55	5.3	56	5.3	58	5.3	59	5.3	61	5.3	62	5.3
Repairs & Maintenance	29	3.7	30	3.6	32	3.4	34	3.3	34	3.3	35	3.3	36	3.3	37	3.3	38	3.3	39	3.3
Energy	48	6.3	51	5.9	53	5.6	55	5.5	56	5.5	58	5.5	59	5.5	61	5.5	62	5.5	64	5.5
Complimentary Breakfast	35	4.5	37	4.3	39	4.1	41	4.0	42	4.0	43	4.0	44	4.0	45	4.0	46	4.0	47	4.0
Total	268	34.8	284	33.2	303	31.7	315	31.2	323	31.2	331	31.2	339	31.2	347	31.2	356	31.2	365	31.2
HOUSE PROFIT	293	38.1	349	40.8	415	43.4	454	45.0	465	45.0	477	45.0	489	45.0	501	45.0	514	45.0	526	45.0
Management Fee	27	3.5	30	3.5	33	3.5	35	3.5	36	3.5	37	3.5	38	3.5	39	3.5	40	3.5	41	3.5
FIXED EXPENSES	266	34.6	319	37.3	381	39.9	418	41.5	429	41.5	440	41.5	451	41.5	462	41.5	474	41.5	485	41.5
FIXED EXPENSES																				
Property Taxes	27	3.5	26	3.0	25	2.6	24	2.4	25	2.4	25	2.4	26	2.4	27	2.4	27	2.4	28	2.4
Property Insurance	15	1.9	15	1.7	15	1.6	16	1.6	16	1.6	16	1.6	17	1.6	17	1.6	18	1.6	18	1.6
Reserve for Replacement	15	2.0	26	3.0	38	4.0	40	4.0	41	4.0	42	4.0	43	4.0	45	4.0	46	4.0	47	4.0
Total	57	7.4	66	7.7	78	8.2	80	8.0	82	8.0	84	8.0	86	8.0	89	8.0	91	8.0	93	8.0
NET OPERATING INCOME	$209	27.2 %	$253	29.6 %	$303	31.7 %	$338	33.5 %	$347	33.5 %	$355	33.5 %	$364	33.5 %	$373	33.5 %	$383	33.5 %	$392	33.5 %

Note: Revenue and expense whole dollar amounts expressed in thousands (,000).

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

Source: Nichols Hospitality Consulting, Inc.

Forecast Conclusion

Based on the preceding analysis, the subject property is projected to generate Net Operating Income Available for Debt Service of $209,000 in Year One (2016), increasing to $338,000 in Year 4 (2019). At current income capitalization rates, utilizing a discounted cash flow analysis, this indicates a prospective market value for the hotel in the range of $3,100,000 to $3,300,000. Total development costs (land plus construction and soft costs) were not available to the consultant, but if the cost to develop the hotel is less than the estimated value of the hotel, the project can be considered financially feasible.

If analysis of development costs indicates that the hotel does not appear to be financially feasible, incentives such as reduced real estate taxes could be offered by Clarke County officials in order to attract a developer to assume the financial risk of developing the hotel.

In addition to generating jobs and increased tourism-related spending, the hotel would offer substantial benefits to Clarke County in terms of lodging excise tax, which is paid by hotel guests. At the current 2% rate, a total of $23,851 was collected countywide in 2012 (see VTC table below); the subject hotel alone is projected to generate $20,180 in 2019 (stabilized year). Increasing the local lodging excise tax to 5% (more in line with other regional counties) would increase the hotel's projected excise tax generated by travelers to $50,450.

Virginia *is for Lovers*

Clarke

	2008	2009	2010	2011	2012	Percent Change
Population	14,562	14,588	14,052	14,232	14,323	0.6 %

	2008	2009	2010	2011	2012	Percent Change
Travel Economic Impacts						
Employment	180	180	181	181	181	0.0%
Expenditures	$ 15,944,303	$ 15,093,236	$ 16,297,022	$ 17,282,927	$ 17,705,339	2.4%
Local Tax Receipts	$ 477,935	$ 457,590	$ 481,908	$ 487,221	$ 493,174	1.2%
Payroll	$ 3,132,265	$ 3,136,138	$ 3,281,407	$ 3,319,652	$ 3,380,703	1.8%
State Tax Receipts	$ 675,852	$ 683,694	$ 716,234	$ 725,100	$ 738,348	1.8%
Local Excise Tax Rates						
Admissions Excise Tax Rate	0 %	0 %	0 %	0 %	0 %	n/a
Food Service Excise Tax Rate	0 %	0 %	0 %	0 %	0 %	n/a
Lodging Excise Tax Rate	2 %	2 %	2 %	2 %	2 %	n/a
Local Excise Tax Collection						
Admissions Excise Tax Collected	$ 0	$ 0	$ 0	$ 0	$ 0	n/a
Food Service Excise Tax Collected	$ 0	$ 0	$ 0	$ 0	$ 0	n/a
Lodging Excise Tax Collected	$ 17,562	$ 15,225	$ 16,058	$ 15,759	$ 23,851	51.3%

Source: Virginia Travel Corporation

8. Certification

I certify to the best of my knowledge and belief:

1. The statements of fact presented in this report are true and correct.
2. The reported analyses, opinions, and conclusions presented in this report are limited only by the assumptions and limiting conditions set forth, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no current or contemplated interest in or bias with respect to the real estate that is the subject of this report, nor the parties involved.
4. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
5. This report is not based on a requested minimum value, a specific value, or the approval of a loan.
6. I have made a personal inspection of the site that is the subject of this report.
7. I have extensive experience in the analysis and valuation of hotels.
8. No one other than the undersigned prepared the analyses, conclusions, and opinions set forth herein.
9. As of the date of this report, Jan L. Nichols, CHA, CRE has completed the requirements of the continuing education programs of the American Hotel & Motel Association (CHA), The Counselors of Real Estate (CRE), and of the Florida Department of Business & Professional Regulation/Real Estate Appraisal Board (#RZ1877).

Jan L. Nichols, CHA, CRE

State-Certified General Real Estate Appraiser #RZ1877

9. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. No responsibility is assumed for matters of a legal nature, nor do I render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements.
3. The consultant has assumed that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would render the property more or less valuable. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
4. The consultant has not considered the presence of potentially hazardous materials such as asbestos, urea formaldehyde foam insulation, PCBs, any form of toxic waste, polychlorinated biphengyls, pesticides, or lead-based paints. The consultant is not qualified to detect hazardous substances, and urges the client to retain an expert in this field if desired.
5. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. The consultant has conducted no specific compliance survey to determine whether the subject property is operating now, or in the future, in accordance with the various detailed requirements of the ADA. If the property does not conform to the requirements of the act, this could have an unfavorable effect on value.
6. The consultant has made no survey of the property, and assumes no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the land and improvements is within the boundaries of the property described, and that there is no encroachment or trespass unless noted.
7. All information, financial operating statements, estimates, and opinions obtained from parties not employed by Nichols Hospitality Consulting, Inc. are assumed to be true and correct. The consultant assumes no liability resulting from misinformation.
8. Unless noted, the consultant assumes that there are no encroachments, zoning violations, or building violations encumbering the subject property.
9. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a potential purchaser.
10. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.

11. None of this material may be reproduced in any form without the expressed written permission of Nichols Hospitality Consulting, Inc., and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media. The use of this report is subject to the terms and conditions set forth in the engagement letter with the client.
12. The consultant is not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when the consultant's standard per diem fees and travel costs are paid prior to the appearance.
13. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact the consultant.
14. The consultant takes no responsibility for any events or circumstances that take place subsequent to either the date of this report or the date of the field inspection, whichever occurs first.
15. It is agreed that any liability to the client is limited to the amount of the fee paid as liquidated damages. The consultant's responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in the engagement letter with the client.
16. This study was prepared by Jan L. Nichols as an employee of Nichols Hospitality Consulting, Inc. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered as an employee, rather than as an individual.

Qualifications of Jan Nichols

Career Summary

Ms. Nichols has been a real estate consultant serving primarily the hospitality industry for thirty years, and has conducted over a thousand valuations, appraisals, and feasibility studies of hotels and resorts (including condo hotels) for REITS, lenders, pension fund advisors, life companies, and investors throughout the United States, Mexico, Central America, Canada, the Caribbean, and Europe. Full qualifications may be viewed at www.nicholsconsulting.biz.

Employment

2001-Present
NICHOLS HOSPITALITY CONSULTING, INC.
President
DeLand, Florida

1998-2001
HVS INTERNATIONAL
Associate Managing Director, Orlando, Florida
Director of Consulting Services, Miami, Florida

1992-1998
RESORT & URBAN PROPERTY CONSULTANTS, INC.
Vice President
Tampa, Florida

1990-1991
KPMG PEAT MARWICK
Senior Manager/Director of Hospitality Consulting Services
Atlanta, Georgia

1984-1989
MERRILL LYNCH ADVISORY & APPRAISAL,
INVESTMENT BANKING REAL ESTATE GROUP
Manager of Hospitality Consulting & Appraisal Services
Atlanta, Georgia
New York, New York

1980-1983
LAVENTHOL & HORWATH
Senior Consultant
Atlanta, Georgia
Washington, DC

1978-1980
U.S. TRAVEL DATA CENTER
Research Analyst
Washington, DC

Education

B.S., Hotel Administration, University of Wisconsin-Stout, Cum Laude, 1978. Minor in Tourism Development. Successfully completed Appraisal Institute course work in Principals of Appraisal, Capitalization Theory & Technique, Standards of Professional Practice, Report Writing & Valuation Analysis, and Advanced Applications, as well as annual appraisal education as required by the State of Florida Dept. of Business & Professional Regulation, Real Estate Appraisal Board.

Professional Affiliations

- Member, The Counselors of Real Estate (CRE), since 2005. This invitation-only international organization recognizes professionals who have demonstrated excellence, knowledge, and integrity in real estate counseling.
- Certified Hotel Administrator (CHA), American Hotel & Lodging Association, since 2000. This certification reflects professional competence in all aspects of hotel management and marketing.
- FL State Certified General Real Estate Appraiser #RZ1877 since 1993.
- Member, US Green Building Council, Central FL Chapter, since 2007.
- Subject Matter Expert, Real Estate Appraiser License Examinations, Bureau of Education & Testing, FL Dept. of Bus. & Prof. Reg., 2002 to 2006.
- Travel & Tourism Research Association, member from 1977 to 1990. Formerly chaired U.S. chapters in Atlanta and Washington, DC, and served on the international board of directors.

Speeches and Publications

"CRE Nichols Consults on One of First Green Hotels in Florida" published by the Counselors of Real Estate Newsletter, 2007.

"Hotel Sales and Development Trends in Florida" speech presented at the Florida Hotel Conference 2000, Florida International University, Miami, 2000.

"Spa Facilities – A Required Resort Amenity?" HVS International Journal, June 2000.

"What's Driving Miami Beach's Resurgence – Supply or Demand?" HVS/BDO Hospitality Newsletter, 1999.

"Trends in Hotel Values" speech presented at the Florida Multicultural Tourism Economic Summit, Hollywood, Florida, 1998.

"If We Build It, Will They Come?" article on proposed Tampa Convention Center Hotel, Metro Newspapers Inc., 1996.

"Investment Opportunities in the U.S. Tourism Industry", speech presented at the International Association of Amusement Parks and Attractions, Orlando, 1992.

"Dawn of the Workout Decade" The Goodkin Report, 1991.

THE POWER OF TRAVEL PROMOTION

SPURRING GROWTH, CREATING JOBS

U.S. TRAVEL
ASSOCIATION

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U.S. TRAVEL ASSOCIATION

The U.S. Travel Association is the national, non-profit organization representing all components of the travel industry that generates $2.0 trillion in economic output. It is the voice for the collective interests of the U.S. travel industry and the association's more than 1,300 member organizations. U.S. Travel's mission is to increase travel to and within the United States. U.S. Travel is proud to be a partner in travel and payments with American Express®.

For more information, visit **USTravel.org** or **traveleffect.com**.

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EXECUTIVE SUMMARY

During an era when tight budgets have become the "new normal" in state capitals and city halls across America, the pressure to cut even critical programs is often intense. Legislators and other policymakers need to be armed with the facts when making tough decisions about budget priorities. Over the past few decades, one of the clearest, most compelling facts that has emerged is that travel promotion represents one of the best investments a state or city can make.

AMONG THE KEY FACTS THIS REPORT DOCUMENTS

Travel and tourism is a **cash-generating machine** for state and local governments. In 2012, travel generated $129 billion in tax revenue to government at all levels and $58.4 billion to state and local governments – enough to pay the wages of **every** firefighter and police officer in the country.

Wise strategic investments in travel promotion by destinations kick off a **virtuous cycle** of increased traveler visits, greater traveler spending in local communities, faster job creation and higher tax revenues that far surpass the initial investment.

Like other valuable brands, travel destinations require **consistent engagement and investment.** States and cities that fail to invest will quickly lose market share to competitors that can take years to recover, while those that invest strategically to build brand appeal generate a **strong return on investment.**

In the aftermath of the Great Recession, the travel industry has stepped forward as one of the key drivers of the American economy, a leading employer in communities across the U.S., and a highly efficient, proven revenue generator for state and local governments. States and cities that treat travel promotion budgets like strategic investments will be rewarded with more visitors, more jobs and higher tax revenues.

THE POWER OF BRANDS

Most people associate brands with iconic names like Coca-Cola, Apple, McDonald's or Google. Yet nearly all products that compete successfully in the global marketplace have a compelling brand identity – including travel destinations.

In recent years, brand awareness has extended well into the political arena, with parties and individual candidates spending heavily to communicate their "brands" to voters.

During the 2012 election cycle, candidates for U.S. Congress spent approximately $1.8 billion[5] on a variety of marketing activities, rivaling Ford Motor Company, which spent $2.1 billion in advertising and promotional spending.[6]

Like the iPhone or a Diet Coke®, each destination has an identity that evokes emotion, imagery and reactions that inspire travelers to visit. From "I [Heart] New York®" to "Virginia is for Lovers®," and from "Pure Michigan®" to "What happens in Vegas, stays in Vegas®" – all have developed as unique, exciting and valuable brands that draw millions of visitors to their respective regions.

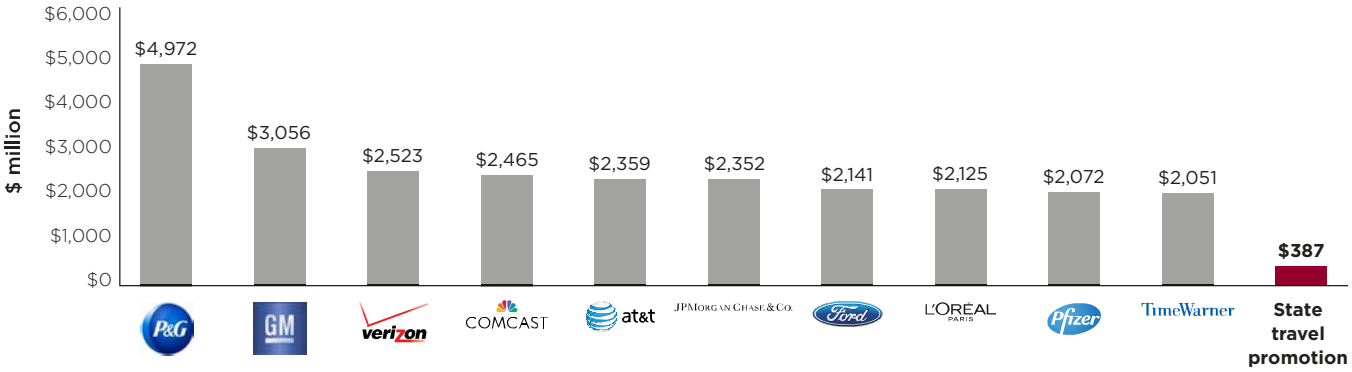
Of course, brands do not flourish in a vacuum. As Jez Frampton, global chief executive of Interbrand, recently wrote, "Only brands that stay transparent, actively engaged and true to their promises will manage to capture hearts and minds, earn trust, and command loyalty and premium."[1]

In short, brands are business assets requiring skillful marketing and extensive promotion to stay recognized and relevant. Leading companies invest billions of dollars each year on advertising campaigns, marketing materials, social media outreach and other creative brand-building tools in an effort to appeal to customers, increase market share and grow revenue.

In 2011, the top 50 national advertisers spent $75.3 billion on marketing and promoting their products.[2] By comparison, the 50 state tourism offices spent about one-half of one percent as much – or about $387 million – to market their destination brands.

State tourism offices preliminarily reported investing $407 million to market and promote their destinations to domestic and international travelers in fiscal year 2012.[3] The median marketing budget reported by states was $6.5 million.[4]

Companies Spend Billions Promoting Their Brands



SOURCE: Advertising Age and U.S. Travel Association, 2011.

PROMOTION BOOSTS ROI

Smart business leaders understand that even the best brands lose market share if advertising and promotion budgets lag behind competitors. Take two of the world's most powerful brands – Coke® and Pepsi.

In 2012, PepsiCo CEO Indra Nooyi announced a dramatic 50-percent increase in the company's advertising and marketing budget to support its soft drinks, including its flagship brand, Pepsi.[7] The reason? Between 2004 and 2010, PepsiCo's advertising budget declined from 6.0 percent of revenue to 4.0 percent of revenue – and Pepsi lost valuable market share to archrival Coke®.[8]

As one Wall Street analyst put it, "PepsiCo overall needs to step up investments behind its brands to reinvigorate them. If you go back 10 years, they have definitely been under-investing relative to Coke®." A major PepsiCo investor cheered the move, pointing to a "clear link between advertising spend and sales."[9]

The same dynamic is at work in the travel industry. While advertising and promotion spending may be seen as easy targets in a time of tight budgets, experience shows that failing to invest in promotion reduces a destination's competitiveness in the travel marketplace. States and cities that neglect their promotion budgets weaken their destination brands and lose market share, just as sure as Pepsi or Coke®.

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PURE MICHIGAN
Your trip begins at michigan.org

Virginia ♥ is for Lovers®

LAS Vegas™

TRAVEL PROMOTION STRENGTHENS ECONOMIC VITALITY

Wise and strategic investments in travel promotion feed a virtuous cycle of economic benefits. Travel promotion programs spur interest in visiting destinations among potential travelers. Stronger travel interest generates more visitors. Additional visitors spend more at local attractions, hotels, restaurants, retail stores and other businesses. Greater travel spending supports more local jobs and generates additional tax revenue for state and local governments.

TRAVEL PROMOTION'S VIRTUOUS CYCLE

As the case studies in this report clearly demonstrate, investments in travel promotion pay for themselves many times over. Conversely, indiscriminate cuts in promotional budgets represent the ultimate penny-wise, pound-foolish mistake.

According to the most recent data by the U.N. World Tourism Organization (UNWTO) and Oxford Economics, other countries' promotional spending to attract travelers averaged $11 per visitor for the 54 surveyed.[17]

At $2.95 per overnight visitor, Brand USA's investment is less than 41 of the 54 countries tracked by the UNWTO, including:[18]

AUSTRALIA

$106.7 million promotion budget or $19 per visitor.

BELGIUM

$109 million promotion budget or $14.50 per visitor.

MEXICO

$133.6 million promotion budget or nearly $6 per visitor.

UNITED KINGDOM

$139.3 million promotion budget or $4.74 per visitor.

Brand USA: Competing and Winning in the International Travel Market

States are not the only winners and losers in the travel promotion game. Countries also compete in the highly competitive – and highly lucrative – global travel market.

Between 2000 and 2010, the world travel market grew by more than 60 million annual travelers.[10] Yet in 2010, the U.S. welcomed essentially the same number of travelers as it did in 2000 – a "lost decade" for the U.S. travel industry that had severe implications for the national economy. [11] By failing to keep pace with the growth of global long-haul travel, the U.S. economy lost:

- **78 million visitors;**
- **$606 billion in travel and tourism output;**
- **467,000 jobs; and**
- **$37 billion in travel-generated tax revenue.[12]**

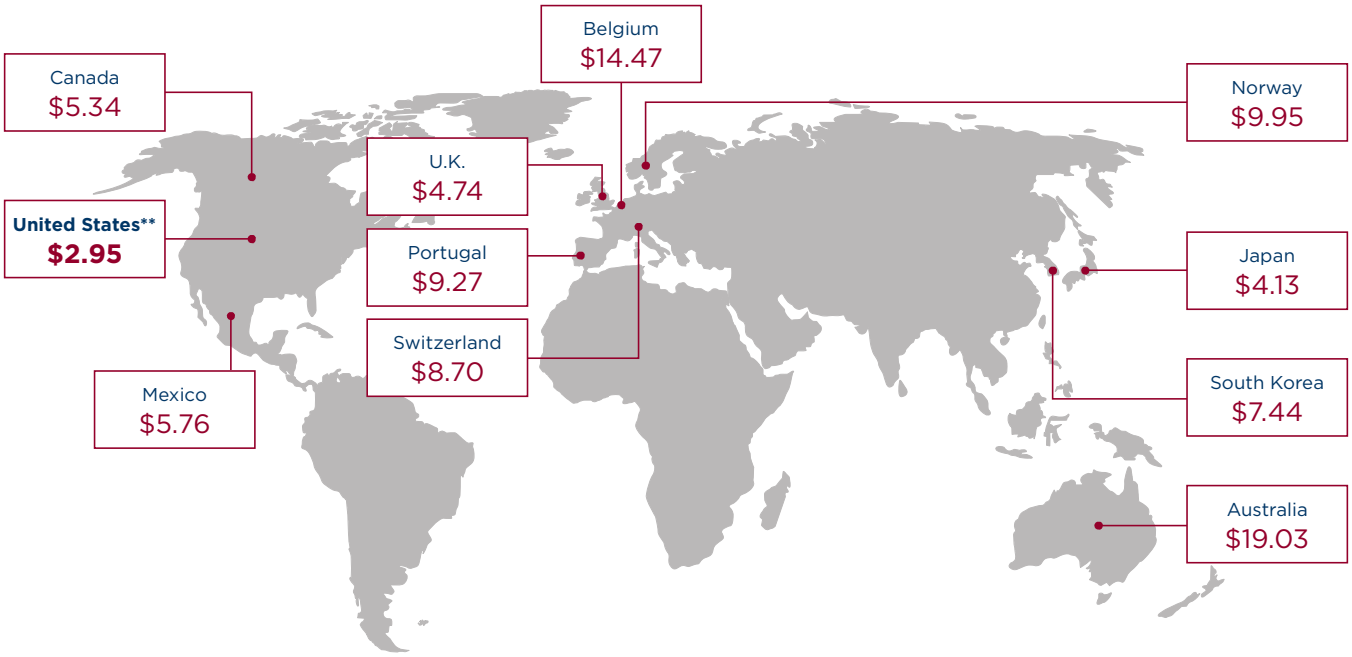
To prevent the U.S. from falling further behind, in 2010 Congress passed and President Obama signed into law the Travel Promotion Act. In 2012, the U.S. launched the first-ever National Travel and Tourism Strategy and established a national goal of attracting 100 million international travelers – and a resulting $250 billion in travel-related spending – to the U.S. by 2021.[13]

One of the most important consequences of the Travel Promotion Act was the creation of Brand USA, the public-private marketing and promotion entity aimed at helping the U.S. compete for international visitors – all at no cost to U.S. taxpayers. After just more than a year of operation, Brand USA is already demonstrating the positive impact of travel promotion.

In 2012, Brand USA launched the "Land of Dreams" campaign in three countries – the United Kingdom, Japan and Canada. The goal was to raise awareness about the incredible travel options in the U.S.; change perceptions about the difficulties in visiting the U.S.; and create a positive buzz about traveling to the U.S. – all designed to ultimately drive increased visitation, spur job creation and fuel economic growth.

After just six months, the number of potential travelers who reported they intend to visit the U.S. increased by 14 percent in Japan and the U.K. and by 12 percent in Canada – an early, critical metric of success.[14] Assuming Brand USA is allocated its maximum budget of $200 million – not one dime of which comes from U.S. taxpayers – this represents an investment of just $2.95 to attract each visitor.[15] Considering that each overseas traveler to the U.S. spends an average of $4,500 per trip, that $2.95 investment is well worth the return.[16]

U.S. Travel Promotion Investment Lags Behind Many Other Countries
(Spending Per Overnight Visitor*)



SOURCE: Oxford Economics and UNWTO, 2012; U.S. Travel Association, 2013
**2012 is preliminary data. **Based on 2013 forecast.*

Compared to what other countries are spending to draw travelers, this is an exceptional bargain that speaks volumes about the vast potential of the U.S. as a global travel destination.

What potential impact will Brand USA's campaign to attract more international visitors have on the U.S. economy? Every one percent increase in international travelers from the markets where Brand USA's first campaign ran (the U.K., Japan and Canada) translates into nearly 300,000 visitors, pumping more than $500 million annually into our economy and supporting more than 7,000 additional American jobs – a significant economic contribution on a relatively modest investment compared to our competitors.[19]

Many destinations and states within the U.S. are leveraging Brand USA's efforts by investing their own resources in international marketing programs. According to Destination Marketing Association International's "DMO Marketing Activities" report, one-half of all destination marketing organizations in the U.S. and more than three-quarters of state tourism offices invested in international promotion in 2012.[20] Some of these funds are now dedicated to Brand USA's cooperative marketing partnership programs, helping to boost the brand appeal of both the U.S. and participating destinations – and their respective economies – upon capturing the lucrative international visitor market.

TRAVEL DRIVES AMERICA'S ECONOMY

During the ongoing economic recovery, the travel industry has emerged as a key driver of U.S. economic growth. The data clearly demonstrate that travel has a major economic impact not only nationally, but also in practically every state in the country.

Widespread Economic Impact

In 2012, spending in various industries directly linked to travel – including transportation, lodging, food services, amusement parks and recreation, travel management and retail – generated $855.4 billion in direct economic output.[21] When indirect and induced effects are included from the travel industry's spillover to other industries – ranging from utility and energy companies to manufacturing and local farms – travel's total impact on the U.S. economy reached $2 trillion.[22] Linked to many other industries, travel generates additional demand throughout the economic supply chain, boosting job skills and spurring investment in other industries indirectly related to travel.[23]

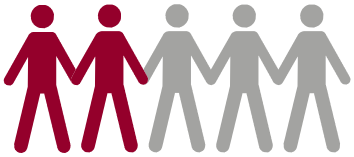
Nationwide, 14.6 million Americans – or one in eight in the private sector – are employed in jobs dependent on travel and tourism.[24] Travel is a top 10 employer in 48 states and the District of Columbia.[25] Unlike jobs in industries such as manufacturing and information technology, travel jobs cannot be shipped overseas.[26]

A Gateway to Opportunity

Travel jobs serve as a gateway to opportunity and a middle-class life for millions of Americans. In addition to teaching critical job skills and offering rewarding career paths, the travel industry also provides many employees with the flexibility they need to fulfill their higher education goals.

- Among workers who began their careers in the travel industry, one-third earned at least a bachelor's degree, compared to just 28 percent in health care, 19 percent in construction and 18 percent in manufacturing.[27]
- Of the 5.6 million Americans working part time while pursuing higher education, nearly one-third, or 1.8 million workers, work in the travel industry.[28]
- More than half of all travel industry employees – a total of four million workers – earn middle-class wages or higher.[29]
- Two out of five workers who first took a job in the travel industry are earning more than $100,000 per year.[30]

Two out of five workers who first took a job in the travel industry are earning more than $100,000 per year.



A Major Job Creator, Leading the Recovery

Since the employment recovery began in March 2010, the travel industry has created more than 440,000 new jobs (as of June 2013), making up 93 percent of the jobs lost during the recession compared to 74 percent for the rest of the economy.[31]

The most recent data show that the travel industry continues to outpace the rest of the U.S. economy when it comes to adding jobs. As of June 2013, the travel industry added jobs at a 20 percent faster rate than the rest of the economy since March 2010.[32]

The Future Looks Bright

According to a study by McKinsey Global Institute, the travel industry will continue to fuel economic growth and job creation in the coming years. One in every seven new jobs added in the next decade – up to 3.3 million – could come from the travel-driven hospitality and leisure industries.[33] International travel will play an increasingly prominent role, with the growth in overseas visitors expected to increase by approximately five percent per year for the next five years.[34]

As one of the few industries that consistently generate a trade surplus, travel has also emerged as a strong contributor to the U.S. balance of trade. Over the past decade, the U.S. trade surplus in travel improved ten-fold, from $5 billion in 2002 to $50 billion in 2012 – double the improvement in agriculture trade surplus.[35] In addition to boosting trade, spending by international travelers while visiting the U.S. also directly supported 1.1 million American jobs in 2012.

TRAVEL BUILDS STRONG TAX BASE

Travel represents an important and growing source of revenue for cash-strapped state and local governments. In 2012, travel generated $129 billion in tax revenue to government at all levels.[36] This travel-generated revenue represents the equivalent of a $1,100 tax break for each American household, which is what they would have to pay in additional taxes without travel's contribution.[37]

In 2012, travel and tourism generated

$58.4 billion in tax revenues to state and local governments

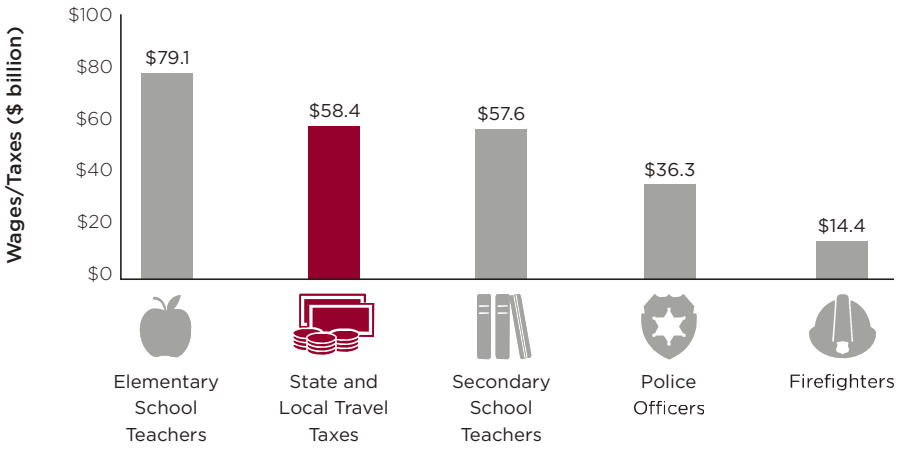
This **$58.4 billion** is enough to cover the wages of all police officers and firefighters in the entire nation.

Today, tax revenue generated by travel contributes more than five percent of the total state taxes collected in 17 states.[38] In heavily traveled destinations such as Nevada and Hawaii, travel contributed 16 and 18 percent of total tax revenues respectively.[39]

Another way to look at the contribution of travel-generated tax revenue is to consider the essential public services it can fund.

In 2012, travel and tourism generated $58.4 billion in tax revenues to state and local governments.[40] This $58.4 billion is enough to cover the wages of all police officers and firefighters in the entire nation.[41]

Travel Taxes Finance Essential Public Services



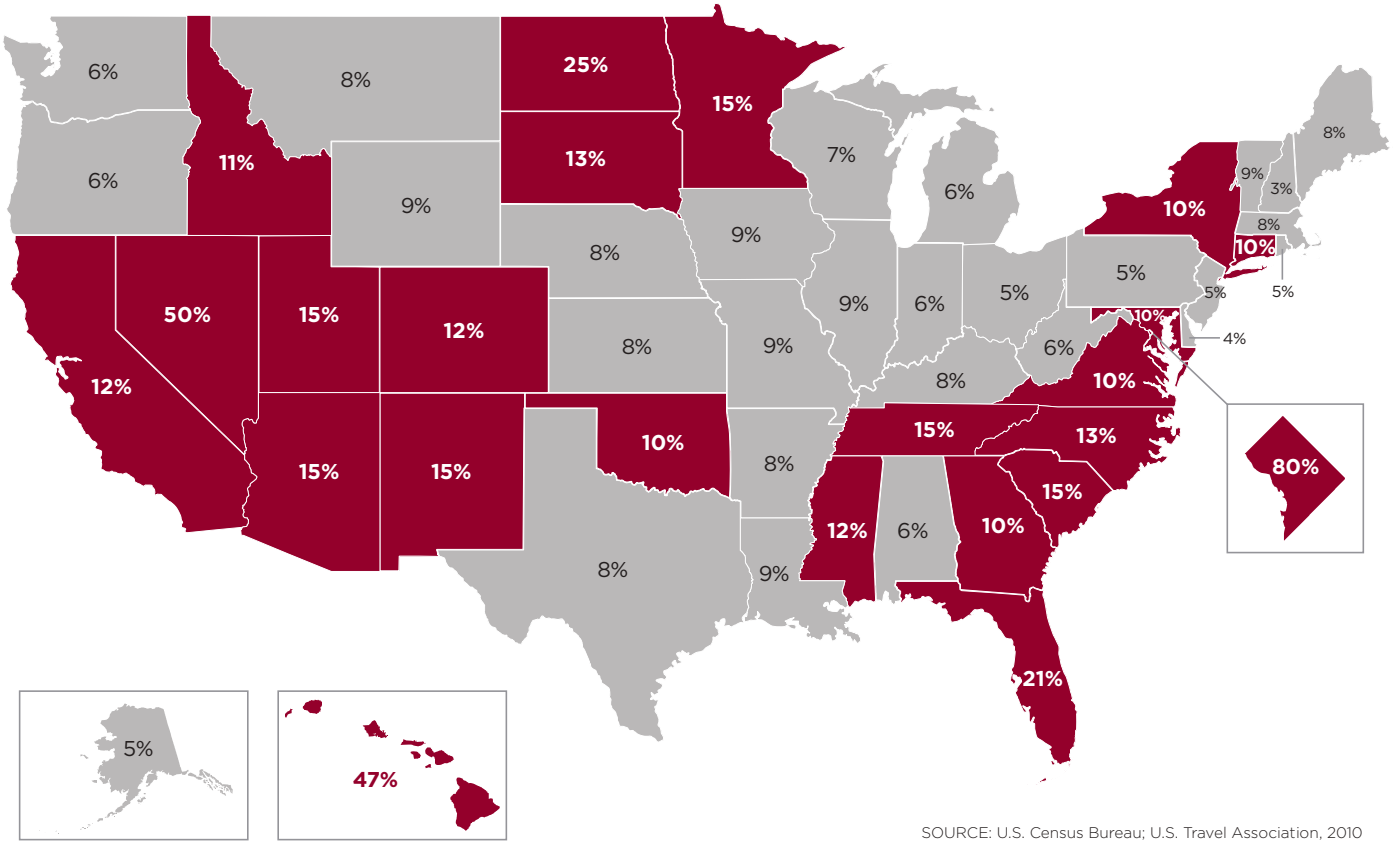
SOURCE: Bureau of Labor Statistics, 2011; U.S. Travel Association, 2012

Or consider education. State and local revenue generated by travel-related taxes could cover the salaries of nearly 100 percent of all secondary school teachers in all 50 states or about seven out of 10 elementary school teachers.[42]

Or look at it from the students' perspective. The $656 million in travel-generated taxes in Washington, D.C. is enough to educate 80 percent of the public school students in the District.[43] Nevada's $1.8 billion in state and local travel taxes is enough to cover the education of half of the state's primary and secondary school students.[44] Nationwide, travel generated enough tax revenue to cover at least 10 percent of the cost of educating our children in almost half of the 50 states.[45]

States that leverage the revenue-generating power of travel by undertaking strategic, sustained investment in travel promotion programs reap immediate returns in terms of economic benefits. States that slash their promotion budgets, on the other hand, suffer long-term negative consequences and spend many years attempting to recover the lost market share and tax revenue.

Travel Taxes Educate Our Children
(Percentage of K-12 public school students educated by state and local travel taxes)



SOURCE: U.S. Census Bureau; U.S. Travel Association, 2010

Nationwide, travel generated enough tax revenue to cover at least 10 percent of the cost of educating our children in almost half of the 50 states.

TRAVEL DESTINATIONS SPUR ECONOMIC DEVELOPMENT

In addition to helping states and localities build a strong tax base, a vibrant travel and tourism industry improves the quality of life for local residents and makes a community more attractive to potential employees and businesses.

As one recent study put it, "Public lands in the West, with rivers, lakes, mountains and recreational opportunities, serve as an attractive backdrop that has transformed the economy from dependence on resource-extractive industries to one that has seen growth from in-migration, tourism and modern economy sectors such as finance, insurance and real estate."[52]

In communities across America, attractions such as museums, historic buildings, cultural sites, sports teams, outdoor recreational opportunities, festivals, concerts and other events instill pride among local residents and create a better quality of life. These attractions are important community assets, which not only draw visitors to a region, but also appeal to businesses deciding where to locate a new plant or facility.

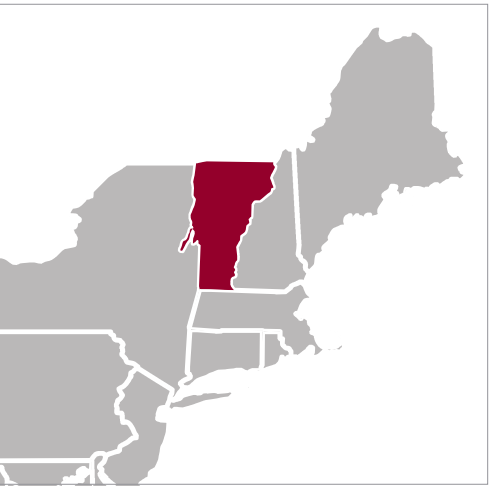
Developing a region's travel-related assets, therefore, serves the dual purpose of attracting both more visitors and more businesses – a win-win proposition for a local economy. A 2013 survey of corporate executives offers compelling evidence.[46]

- More than one-fifth (22%) of corporate executives cited "quality of life concerns" as the primary reason for the need to relocate a facility, ahead of factors such as healthcare costs (19%), poor infrastructure (17%) and labor availability (17%);[47]
- Half of corporate executives classified quality of life factors, such as cultural and recreational opportunities, as either "very important" or "important" to their site selection decisions.[48]

Not surprisingly, *Forbes* includes cultural and recreational opportunities among other critical factors, such as job and income growth, when ranking its "Best Places for Business and Careers."[49]

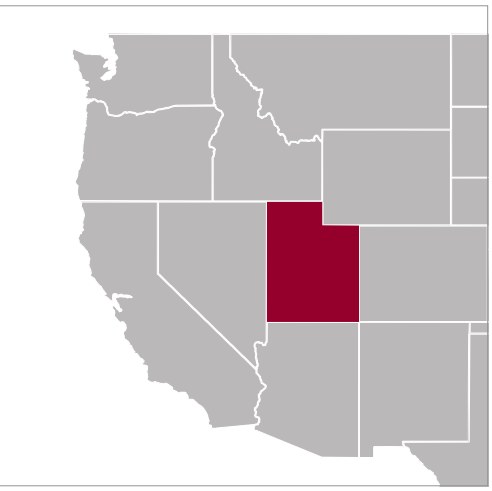
Young professionals, in particular, heavily favor locations offering diverse activities – such as outdoor recreation, arts and cultural attractions – when deciding where to start their careers.[50] Employees in flexible occupations such as law, finance, insurance, real estate and healthcare are also attracted to destinations because of their amenities, while studies have shown that natural attractions are important to drawing knowledge-based workers.[51]

The bottom line: Destinations that offer the high quality of life associated with desirable travel attractions have a significant competitive advantage when it comes to attracting business investment and dedicated employees.



Stowe, Vermont: Stowe's Slopes Entice Innovative Business

During its early days in the mid-Atlantic suburbs, high-tech, green energy startup Utility Risk Management Corporation found itself struggling to attract the talent needed to grow to the next level. With demand for its products rising, Utility Risk Management Corporation searched for a new location that would appeal to the high-tech, green energy talent pool from which the company hires. The solution? Relocate to the gorgeous ski town of Stowe, Vermont, in a state where visitors spend $2 billion, and as the No. 4 employer, travel spending generates jobs for 19,400 individuals.[53] While state incentives were obviously a plus, the company believed Stowe's slopes and amenities would appeal to potential employees.[54] In leveraging the allure of travel destinations, Utility Risk Management Corporation followed a well-tread path used by many successful technology companies. As a result of his passion for skiing, Thomas Watson led IBM to open a plant in Essex Junction, Vermont – providing easy access to his cabin in Stowe.[55]



Salt Lake City, Utah: Sports and Outdoors Appeal to Travelers and Employers Alike

Salt Lake City, Utah has been consistently ranked as a top place to live and work.[56] Certainly, the region's affordable housing, supportive government and other economic benefits have played a role. But the Salt Lake City area also offers an incredible combination of outdoor activities, cultural attractions and a pristine environment – creating a unique value proposition that appeals to both travelers and employers alike.[57] Businesses such as Huntsman Corporation, eBay, Unisys, 3M, Myriad Genetics and a Kroger subsidiary have all made Salt Lake City their home.[58] International firms like Amer Sports & Winter Outdoor Americas seek out Salt Lake City not only for its world-class skiing, running and biking trails, but also for easy access to international flights out of Salt Lake International Airport.[59] Meanwhile, a thriving travel industry is now Utah's No. 5 employer, offering jobs to 71,400 employees.[60]

INCREASED INVESTMENT DELIVERS REAL RESULTS

Sarasota, Florida: Repurposed Industrial Area Invigorates Economic Recovery

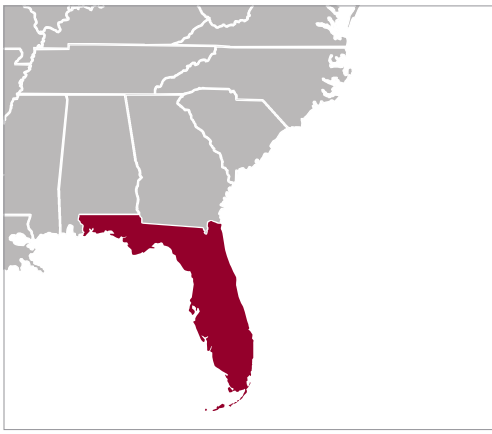
As one of the hardest hit regions during the Great Recession, Sarasota, Florida was struggling with falling housing prices and rising unemployment. Looking for ways to stimulate the region's economy, County Commissioner Joe Barbetta and other local leaders hit on a creative idea: Transform an old mining lake into the only internationally sanctioned rowing regatta facility in North America.

To get the project rolling, Sarasota reinvested $20 million from a local tourist tax, along with highway infrastructure funds and state funds, to create[61] Nathan Benderson Park, a premier 2,000-meter sprint course and regatta center.[62]

During the 2010 regatta season, the sports facility hosted four events, which generated $4.5 million in direct economic impact from 30,000 attendees, including 1,200 athletes from 62 countries.[63] Through an aggressive travel promotion campaign, the number of visitors has grown every year, including a 10-percent increase in 2012 over 2011, with a 16-percent jump in visits from Europeans.[64] And traveler-related spending nearly doubled in just one year.[65]

According to the Sarasota County Commission, from 2009 to 2011 the return on investment for Sarasota County tourism advertising increased nearly 50 percent, demonstrating the power of travel promotion to generate real economic benefits.[66]

Nathan Benderson Park is also a prime example of how travel assets create a virtuous cycle of economic development and job creation in a region. Developers in the area are investing more than $40 million to build a new regional mall, two new hotels, restaurants and other attractions on a 'regatta island' – creating an Olympic-type setting for both visitors and residents to enjoy. The 680,000-square-foot Mall at University Town Center is projected to open in 2014 and generate $500 million in annual sales revenue.[67]



Yesterday's abandoned lake is now a key driver of economic development in Sarasota and Manatee Counties, as well as the entire southwest Florida region.[68] But local governments are just beginning to tap into the potential of Nathan Benderson Park by making strategic investments in travel promotion. Collectively, Sarasota County committed $5 million to promote and market the facility in both 2012 and 2013 and is making targeted investments for specific events.[69]

In an effort to lure lucrative international visitors to the region, Sarasota has embarked on a marketing campaign, supported by a $90,000 promotion budget, to bring the 2017 World Rowing Championships to the region.[70] Attendance at the event would nearly equal the population of the city of Sarasota and pump about $13 million in direct spending into the local economy.[71] The championship's total economic impact would be nearly $25 million, according to tourism estimates, far exceeding the financial investment in promotion.[72]

"It is competitive to win this bid, but I've spent the last four years traveling the country to compare our facility with others and really understand the rowing culture. Our region is ready to take tourism to the next level – this is a huge opportunity right at our fingertips."

-Paul Blackketter, executive director of planning, Benderson Development

Jefferson City, Missouri: Unique Travel Asset Revives Local Community

The transformation of an old State Penitentiary into a major visitor attraction sparked the resurgence of an entire community in Jefferson City, Missouri.[73]

In 2009, forward-looking Jefferson City residents partnered with local investors to begin developing a decommissioned prison and its surrounding 140 acres.[74] At the unveiling of the project's plans, Cole County Presiding Commissioner Marc Ellinger sensed the opportunity for economic growth and job creation, stating, "The old prison site is a unique opportunity for economic development in our community, and this is a big step toward realizing that growth in our core."[75] Opened in late 2009, by the end of 2010 the prison was a major tourist attraction, injecting economic benefits into the community from 11,700 visitors to the attraction alone. Visitation to the Missouri State Penitentiary was nearly 20,000 in 2012.

But the rapid and immediate influx of tourists did not just happen organically – it was the outcome of savvy investments in travel promotion. Jefferson City increased visitation to the penitentiary in the first year with a strategic and targeted marketing campaign, including outdoor billboards, print and online banner ads, showcasing its latest attraction.

Through a partnership with the Missouri Division of Tourism, Jefferson City invested more than $100,000 in the fiscal year 2011 campaign. By 2012, traveler spending injected $129 million and 3,600 jobs into the local economy.[76]

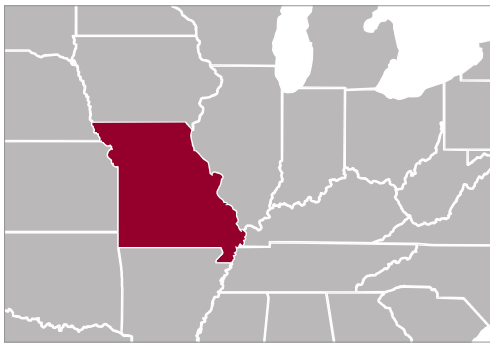
Jefferson City Economic Impact

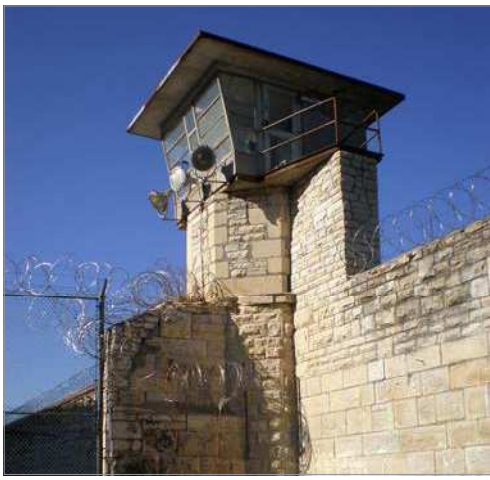
	2010	2011	2012
Missouri State Penitentiary Visitation	11,700	17,203	19,121
Marketing Budget (Fiscal year)	$115,500	$68,850	$66,750
Travel Spending	$122,000,000	$125,000,000	$129,000,000

SOURCE: Missouri Division of Tourism, 2013

Not only did the prison stimulate greater travel to Jefferson City, it spurred other economic development, including restaurants, retail stores and a new $67.7 million courthouse that opened in 2011.

MISSOURI
enjoy the show



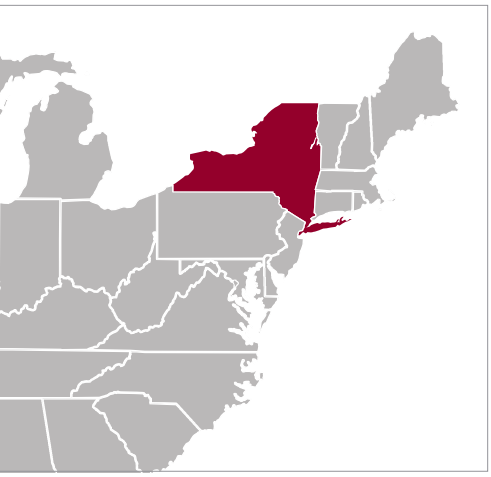


"The design of this new courthouse embraces the characteristics of Jefferson City and creates an inviting atmosphere focused on the community. Putting this new courthouse on the bluff at the old prison site represents the perfect combination of history and opportunity."

–Brad Scott, GSA regional administrator[77]

Finger Lakes, New York: Travel Promotion Transforms Rural Area Into Napa Valley East

Initially, Corning, New York – a small, rural town between New York City and Buffalo – seemed to hold little appeal as a travel destination.[78] Government officials struggled to promote economic development while the region's largest employers such as Corning Incorporated had trouble attracting talented employees.[79]



Then, in early 2000, business and government leaders turned to travel and tourism as a means of boosting the region's economy, increasing its appeal as a place to live and work, and enhancing the quality of life for people in the community.

At the time, Corning Enterprises was in the midst of a $65 million investment to enlarge and enhance The Corning Museum of Glass, turning it into a prime cultural attraction.[80] To create a true brand identity for the region and to promote local restaurants, winemaking and other attractions, Corning Enterprises joined forces with three counties to launch a coordinated campaign – "Finger Lakes, Wine, and Much More." In March 2000, the Finger Lakes Wine Country Tourism Marketing Association was established with a mission of promoting the region as a unique destination.

In the first year of operation, a $156,000 investment in media and advertising generated an incremental $11.4 million in travel spending – a $21 return for each $1 invested.[81] The following year, the organization's budget increased to $680,000 with additional funding from wineries, wine trails, hotels, Coach USA and a local trust company.[82] In 2001, 149,000 travelers visited the region, injecting $14.7 million into the local economy.[83]

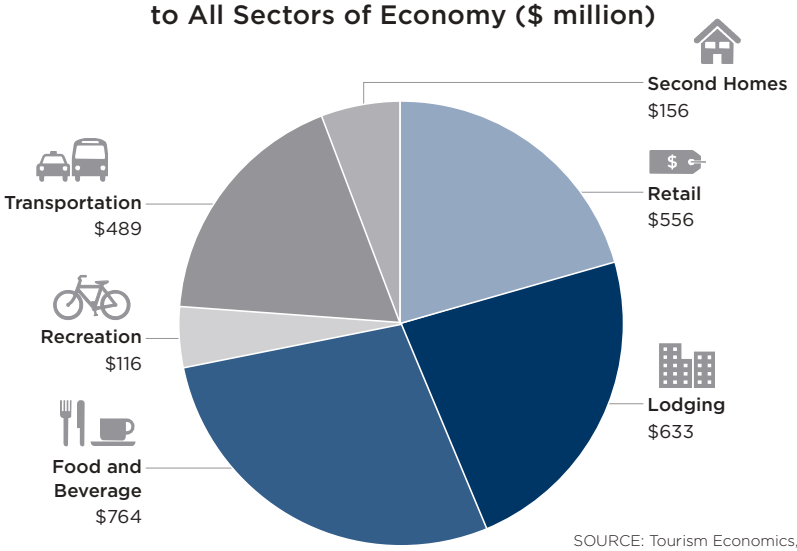
More than a decade later, travel continues to deliver proven economic benefits. Finger Lakes Wine Country continues to invest in travel promotion, advertising and marketing to develop the value of its brand and draw new visitors. According to a December 2012 study by Longwoods International, with a $873,000 promotion budget, the Finger Lakes Wine Country 2012 marketing campaign resulted in:

- 301,000 incremental day and overnight trips to the region in just a seven-month period;
- $38 million spent by visitors in the local economy, up 16 percent from 2010;
- $3.4 million in taxes; and
- An ROI of $44 in trip spending for $1 invested in marketing the region, up 10 percent from 2010.[84]

The travel industry in Finger Lakes Wine Country has a significant impact. In 2011, total travelers to the region:

- Supported 59,000 total jobs;
- Directly contributed $346 million in state and local tax revenues;
- Spent $2.7 billion, up six percent from 2010, on local goods and services, supporting a variety of businesses as seen in the chart below. [85]

Finger Lakes Travelers Significantly Contribute to All Sectors of Economy ($ million)



SOURCE: Tourism Economics, 2011

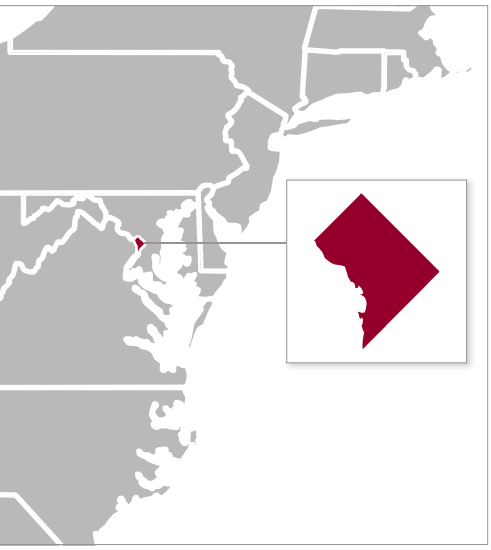
Today, Finger Lakes Wine Country is the second-largest wine region in the U.S., boasting more than 100 wineries spread across 900 square miles and 11 Finger Lakes. Travelers to the region enjoy and support not only area wineries and the landmark Corning Museum of Glass, but also 400 registered historic sites, 300 B&Bs, more than 100 restaurants, 26 state parks and 2,000 miles of hiking and biking trails.[86]

"Finger Lakes Wine Country provides a concentrated marketing effort that one entity alone could not accomplish. This public-private partnership has enabled our region to attract and welcome hundreds of thousands of visitors from more than 35 countries, and provides an attractive economy and community for those who live here. Our regional tourism industry provides job opportunities for full-time employment as well as wonderful employment opportunities for students and seniors."

-Beth Duane, director, marketing & community relations, The Corning Museum of Glass

"We're reminded time after time that New York is, at heart, a tourism state. I'm especially proud that the Finger Lakes region plays such a prominent role in this leading statewide industry. Our wine country and our countless visitor attractions are second to none. The most effective investments we make are usually aimed at strengthening these tourism foundations and promoting our strengths to keep attracting more and more visitors, and to continue building new tourism-related opportunities for economic growth and job creation in the future."

-New York State Senator Tom O'Mara



Washington, D.C.: Capital Investment Pays Monumental Dividends

Despite a strong local economy and growing tourism assets, Washington, D.C. faced a significant challenge competing against other top destinations with larger marketing budgets. The city recognized the importance of travel to its economy but lagged behind other cities that could afford to invest heavily in marketing and promotion programs. Washington's 2012 travel budget of $13.8 million paled next to New York's budget of $35.2 million and Orlando's $49.8 million.[87]

About 13 percent of the budget for Destination DC, the official convention and tourism corporation for Washington, D.C., was invested in direct marketing, limiting the scope of its advertising campaigns and promotion.[88]

Recognizing the economic benefits of increased visitation and travel spend to the city, the D.C. City Council boosted Destination DC's budget by 20 percent, approving an additional $3 million for 2013. This investment was dedicated specifically for marketing, allowing the city to aggressively court potential travelers at a level previously unseen in the nation's capital.[89]

By removing obstacles to efficient and effective promotion efforts, and by boosting the promotion budget, the city will now be able to leverage these unmistakably positive travel trends into additional growth.

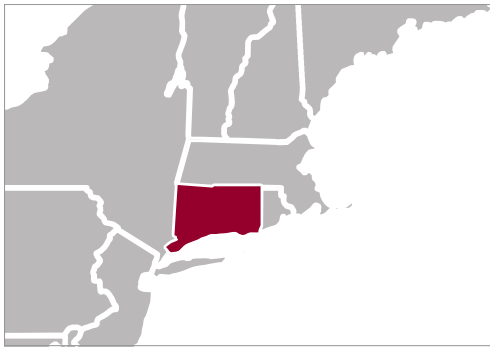
"Every visitor to the District of Columbia plays a vital role in sustaining our local economy since they stay in our hotels, dine in our restaurants, visit our attractions and shop in our stores. An estimated $6.2 billion of visitor spending last year supported more than 75,300 jobs, with wages increasing 3.4 percent. It's important that we continue to invest in tourism and keep D.C. at the forefront of the consumer's mind."[90]

-D.C. Mayor Vincent Gray

WHAT HAPPENS WITHOUT PROMOTION?

Connecticut: Budget Cuts Equal "Gigantic Mistake"

Connecticut
still revolutionary



Early in 2010, an ominous report from the Connecticut Office of Legislative Research signaled downward trends in nearly all travel-related categories, including major attraction visitation, air passengers, casino slot revenue and travel-related employment.[91] Travel is a significant contributor to Connecticut's economy. In 2010, travelers visiting Connecticut spent $8.9 billion, supporting jobs for 60,400 people and generating $774 million in state and local tax revenues. Although the report optimistically predicted a rebound in 2011, the turnaround never materialized. Why? One main reason: Connecticut eliminated its entire tourism budget.

After just one year of this disastrous experiment, Connecticut's travel-related tax revenue growth slowed to half the pace it achieved even during the deep recession of 2009-2010.[92] To reverse this decline, the travel industry helped lead a campaign to educate state and local officials about the virtuous cycle of travel promotion in terms of its positive impact on tax revenues, jobs and economic development.

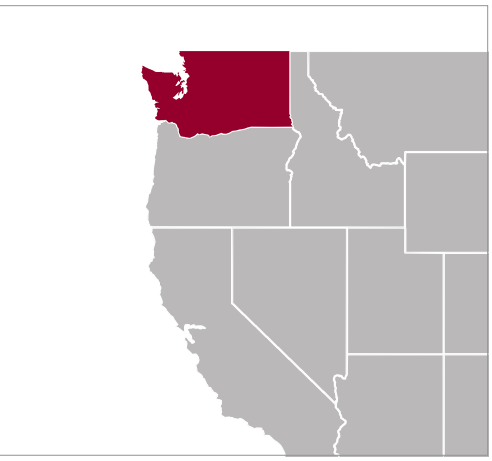
During his successful 2010 campaign for governor, Daniel P. Malloy proposed to reinvigorate the state's travel promotion budget as part of his platform.

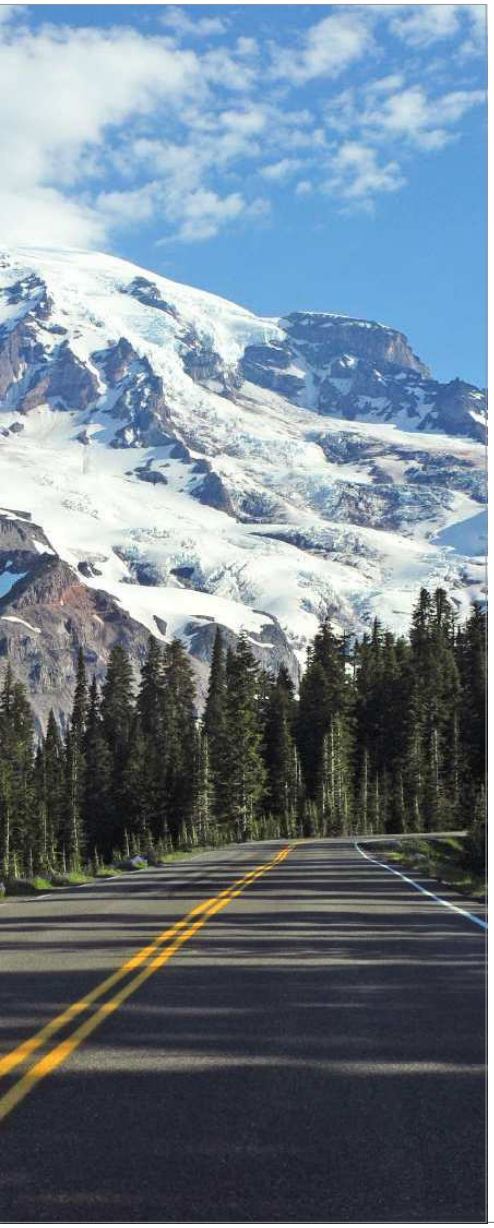
"[Connecticut] made a gigantic mistake, in my opinion, of doing what we've been doing over the past couple of years in cutting back, cutting back, and cutting back with respect to culture and tourism. It's going to take us a few years to undo that damage unfortunately."[93]

-Connecticut Governor Daniel P. Malloy

In June 2011, more than 4,000 active and engaged travel industry stakeholders with the support of newly elected Governor Malloy, Connecticut committed to investing $15 million into travel promotion at a time when many other state programs were being cut. The revived campaign included television and radio advertisements, upgrades to the travel website CTVisit.com and improved visitor guides.[94]

Connecticut was fortunate to reverse course quickly. By 2013, the economic outlook from Connecticut Economic Digest forecasted a quick recovery for travel in Connecticut and a much-needed injection into the state's economy – propelled by a two-year, multimillion dollar marketing initiative to develop, foster and stimulate the state's brand identify and bolster travel and tourism.[95]

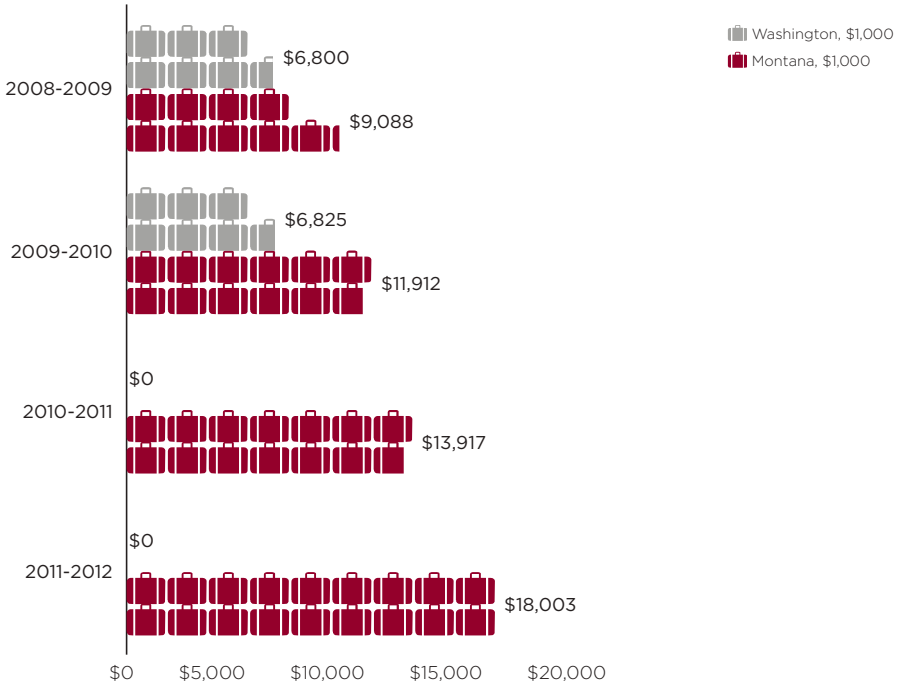




Washington State: Competitors Cannibalize Travel Market

In 2011, the state of Washington took the radical step of completely shutting down its tourism office. Perhaps sensing an opportunity to increase market share, Washington's neighbors increased their promotion budgets, including a 30-percent increase in Montana during the most recent budget cycle.[96]

Washington State's Competitors are Gaining an Edge with Travel Promotion Investment
($ thousands)



SOURCE: U.S. Travel Association, 2013

The results were predictable.

In 2011, traveler spending in competing Montana grew 70% faster than in Washington state. Travel-related tax revenues also grew at a far faster rate in Montana compared to Washington.

Not only is Washington state lagging seriously behind its nearby competitors when it comes to travel spending and tax revenue, it is falling behind the rest of the country as well. In 2011, the growth in traveler spending in Washington state was 13 percent slower than national growth,[97] while growth in state and local taxes generated by travel was 26 percent slower than the nation overall.[98]

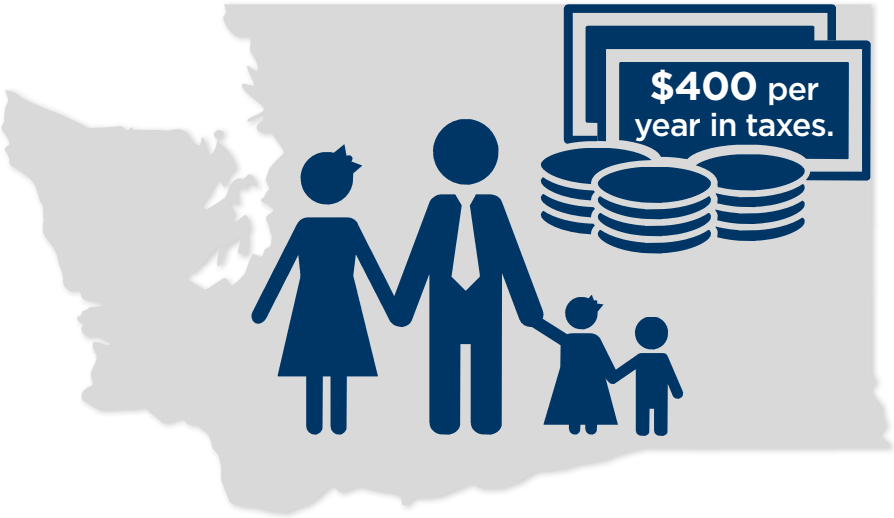
With zero state support, the travel industry has tried to fill the void by creating the Washington Tourism Alliance (WTA) – a group formed by industry stakeholders to keep alive some critical tourism programs. The WTA has been able to keep the state's official travel website, www.experiencewa.com, and a mobile app, VisitWA, up and running, and continues to publish the Official Washington State Visitors Guide on an annual basis.

Nevertheless, with a WTA budget of just $481,000, Washington state continues to fall behind other states in the region, which fund tourism budgets ranging from $10 million to $60 million.[99]

In order to stay competitive, the support of both the private and public sectors is essential, says WTA Executive Director Louise Stanton-Masten.[100] The WTA is currently working to establish a long-range transition into a sustainable, industry-led and industry-funded tourism promotion organization so that Washington State is marketed in a competitive manner.

Tax revenue generated by out-of-state visitors saves Washington state families approximately $400 per year in taxes.[101] Yet, those tax savings will decline over time, as competing states invest in travel promotion efforts to seize market share from Washington state. What happened in Connecticut before that state reinstated its promotion program could happen in Washington state: continued loss of visitors, travel spending and tax revenue – at least until political leaders recognize travel promotion generates a positive return on investment.

Tax generated by out-of-state visitors saves Washington families approximately



THE BOTTOM LINE

Legislators and policymakers often face a hard task in balancing the desire for fiscal responsibility with the need to make strategic investments that produce long-term benefits for states and communities. When it comes to investing in travel promotion efforts, however, the decision should not be difficult. Wise investments in travel promotion programs feed a virtuous cycle of economic benefits – growing the number of travelers boosts spending at community businesses, which supports more jobs and increases tax revenue.

The data and case studies in this report yield several clear lessons for state and local government leaders:

- **Travel is a vital contributor toward local communities.** Travel spending not only sustains local jobs and businesses, it represents a critical source of tax revenue for funding local services such as fire and police protection and education. Additionally, it creates an appealing environment to recruit even more travel- and non-travel-related businesses.
- **Investment in travel promotion is crucial to maintaining market share.** Destinations that view travel promotion budgets as easy savings rather than strategic investments pay the price in the self-defeating form of fewer visitors, less travel spending and lower tax revenue.
- **Enhanced travel-related offerings produce dividends for destinations.** Destinations with stronger travel assets and more developed product offerings improve the quality of life for local residents, attract new businesses and skilled employees, and increase the appeal to potential visitors.
- **Brand USA provides important support to state and destination marketing efforts.** For the first time ever, the U.S. has finally joined the competition for highly lucrative international travelers through a promotional program that does not cost U.S. taxpayers a dime. By supporting Brand USA, states and destinations can leverage their own efforts to attract international visitors.

ENDNOTES

[1] "Best Global Brands The Human Issue," ***Interbrand***, 2012. http://www.interbrand.com/en/best-global-brands/2012/the-human-issue.aspx

[2] "100 Leading National Advertisers 2012," ***Advertising Age***, June 25, 2012.

[3] "2012-2013 Survey of State Tourism Budgets," U.S. Travel Association, March 2013. NB: Total does not include data for Connecticut, Kansas, New Jersey, New York or Washington state tourism offices.

[4] Ibid.

[5] "2012 Election Spending Will Reach $6 Billion," **OpenSecrets blog**, October 31, 2012. http://www.opensecrets.org/news/2012/10/2012-election-spending-will-reach-6.html

[6] "100 Leading National Advertisers 2012," ***Advertising Age***, June 25, 2012.

[7] "Marketing Budgets Rise for Some Giants," ***New York Times***, February 20, 2012. http://www.nytimes.com/2012/02/21/business/media/marketing-budgets-rise-for-some-giants.html

[8] "PepsiCo May Boost Marketing Budget to Take on Coca-Cola: Retail," ***Bloomberg***, January 27, 2012. http://www.bloomberg.com/news/2012-01-27/pepsico-may-boost-marketing-budget-to-take-on-a-surging-coca-cola-retail.html

[9] Ibid.

[10] "Ready for Takeoff," U.S. Travel Association, 2011. http://www.smartervisapolicy.org/site/documents/VisaReport.pdf

[11] Ibid.

[12] Ibid.

[13] "National Travel and Tourism Strategy," The Department of Commerce and Interior, 2012.

[14] The Brand USA, 2013.

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