Proposed Downtown Berryville Hotel

Berryville, Virginia 22611-1315
NKF Job No.: 19-0004412

Feasibility Study Prepared For:

Mr. Nathan Stalvey
President
Berryville Main Street
23 East Main Street
Berryville, VA 22611-1315

Prepared By:

Newmark Knight Frank
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Valuation & Advisory
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July 19, 2019

Mr. Nathan Stalvey
President
Berryville Main Street
23 East Main Street
Berryville, VA 22611-1315

RE: Feasibility Study of a Proposed Downtown Berryville Hotel
Downtown Berryville , Berryville, Virginia

NKF Job No.: 19-0004412

Newmark Knight Frank Valuation & Advisory, LLC has prepared a feasibility study of the referenced property in the following report.

Summary of the Proposed Subject Property

The feasibility study considers development of a proposed hotel in Downtown Berryville on or proximate to Main Street. The subject site has average access to major roadway (State Route 7) because of its proposed location in downtown Berryville's Main Street district, limiting its visibility and ease of ingress and egress from a major roadway. While the proposed site is proximate to some demand generators, the low density of commercial developments in the area is projected to be a weakness. Leisure attractions in Berryville and Clarke County including vineyards, historic manors and event venues, and Barns of Rose Hill will help mitigate this weakness. Visibility is considered to be average, relative to other historic downtown locations, due to its proposed multi-level configuration, assumed signage, and on or proximate to Main Street. State Route 7, which connects Berryville to neighboring Winchester and Leesburg, is less than a mile north from central downtown. The proposed hotel is recommended to contain 50 rooms and affiliate with a limited-service national chain like Ascend Collection, Best Western, Cobblestone, or similar brand. The subject property should feature all basic services for a property of this type, and offer amenities including a breakfast room, fitness center, lobby pantry and bar, meeting space, and ice machines. Development costs have not been estimated since the proposed hotel is in the preliminary planning stages. Based on industry averages and known development costs of similar properties, we estimate development costs of approximately $6.5 million to $7.5 million or roughly $130,000 to $150,000 per room.

Key Investment Considerations

Strengths

- We assume the proposed subject hotel remains affiliated with Ascend Collection, Best Western, Cobblestone or a similar brand throughout the projection period.

- There are no traditional, competitive hotels in the Town of Berryville or Clarke County to serve visiting travelers. Those visiting the market must either stay in Winchester, Virginia (roughly 8 miles west); Leesburg, Virginia (roughly 25 miles east); or Charles Town, West Virginia (roughly 14 miles north).

- Several wedding and event venues are in the greater Berryville area that generate strong leisure room night demand on Friday and Saturdays between early spring and late fall. Additionally, fall foliage generates strong leisure demand during the week and weekends in mid to late fall.

- The recommended facilities like meeting space and bar will help manufacture room night demand during the week (Monday through Wednesday) and shoulder days (Sunday and Thursday) and improve the proposed property's competitiveness with hotels in neighboring markets.

- There are numerous events held in Berryville throughout the year that have the potential to generate room night demand on weekends and in the summer. Research indicated visitors to these events use accommodations in neighboring markets, including Winchester and Leesburg.

Weaknesses

- While there are several industrial and manufacturing companies based in Berryville, these companies generate approximately 500 commercial room nights annually, which does not provide enough demand alone to fill a hotel during the week (Monday through Thursday). This weakness could be mitigated by the proposed subject hotel attracting commercial travelers from neighboring markets, including Winchester, Leesburg, and Charles Town.

- From an investment perspective, the proposed subject could face challenges in the current market environment as it competes for debt and equity investment against properties with superior location, franchise and/or physical characteristics. Partially offsetting this feature, though, is this property type's ability to draw more opportunistic yield-seeking capital.

Opportunities

- The proposed subject's room rate structure is expected to be below average in the marketplace. We believe the proposed subject will be able to post above-average increases in ADR prior to the date of stabilization, with gains approximately representative of inflation each year thereafter.

Threats

- Three hotel supply additions totaling 270 rooms in neighboring Winchester and the reopening of Battletown Inn with 10 rooms will place downward pressure on rate growth, limiting how much the overall market can raise rates despite an increase in demand from ongoing developments. Such adverse rate pressure is likely to impact the proposed subject hotel, as well. This threat is partially mitigated by the proposed subject property's location in Berryville where fewer accommodations exist.

- The Federal Reserve increased the Federal Funds Rate eight times since December 2016, from 0.50% to 2.50%. In the first half of 2019, consensus among analysts was that an additional 50-basis rate increase would occur by year's end; however, in early June 2019, the Federal Reserve Chairman, Jerome Powell, commented that a decrease of the Federal Funds Rate was in play should the U.S. economy show signs of slowing due to ongoing trade disputes between the U.S. and China. Impacts of the steady increase between 2016 and 2018 have not directly translated into any material changes in commercial real estate capitalization rates. A potential decrease likely will not affect capitalization rates, either. It is worth noting a potential slowdown in investments over the next 12 months as a result of a slowing U.S. and global economy.

The Extraordinary Assumptions and/or Hypothetical Conditions that were made during the feasibility study process to arrive our opinions of value are fully discussed below. We urge the client to consider these issues carefully given the intended use of this feasibility study, as their use might have affected the assignment results.

Extraordinary Assumptions

We assume the proposed subject property achieves stabilization as of our prospective date. We assume no material change in the physical characteristics described, condition of the subject property, or in overall market conditions between the date of inspection and effective dates, except for those identified within the report. Furthermore, we assume quality workmanship on the hotel's proposed construction, that all aspects of the hotel will be adequate for the property to be fully competitive within the market, that said aspects are sufficient for the property be fully compliant with all branding requirements, and that it will be completed on or before the date stipulated in the report.

Hypothetical Conditions

This feasibility study does not employ any hypothetical conditions.

Compliance Remarks

The intended use and user of our report are specifically identified in our report as agreed upon in our contract for services and/or reliance language found in the report. No other use or user of the report is permitted by any other party for any other purpose. Dissemination of this report by any party to non-client, non-intended users does not extend reliance to any other party, and Newmark Knight Frank will not be responsible for unauthorized use of the report, its conclusions or its contents used partially or in their entirety.

The feasibility study was developed based on, and this report has been prepared in conformance with, the guidelines and recommendations set forth in the *Uniform Standards of Professional Appraisal Practice* (USPAP) and the requirements of the *Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute*.

CERTIFICATION

We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in in the property that is the subject of this report and no personal interest in with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this feasibility study.
7. This feasibility study assignment was not based upon a requested minimum valuation, a specific valuation, or the approval of a loan.
8. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*, as well as the requirements of the State of Virginia.
9. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the *Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.*
10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
11. As of the date of this report, Laurel A. Keller, MAI completed the continuing education program for Designated Members of the Appraisal Institute.
12. As of the date of this report, John Kelley, CHIA completed the continuing education program for Candidates of the Appraisal Institute.
13. John Kelley, CHIA made a personal inspection of the property that is the subject of this report. Laurel A. Keller, MAI has not personally inspected the subject.
14. Alexandra Chapekis, CHIA provided significant real property appraisal assistance (general market research, editorial assistance, etc.) to the persons signing this certification.
15. Valuation & Advisory operates as an independent economic entity within NKF. Although employees of other NKF divisions may be contacted as a part of our routine market research investigations, absolute client confidentiality and privacy were maintained at all times in regard to this assignment without conflict of interest.

16. Within this report, "Newmark Knight Frank", “NKF Valuation & Advisory”, “NKF, Inc.”, and similar forms of reference refer only to the appraiser/consultant(s) who have signed this certification and any persons noted above as having provided significant real property appraisal assistance to the persons signing this report.

17. We have not provided any services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

John Kelley, CHIA
Vice President
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Expires June 10, 2020
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Laurel A. Keller, MAI
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Subject Property Photographs

AERIAL IMAGE

East View on Main Street

Intersection of Main and Church Streets (View North)

West View on Main Street

Intersection of Main and Church Streets (View West)

Barns of Rose Hill

Rose Hill Park

Summary of Facts and Conclusions

EXECUTIVE SUMMARY

Property Overview	The feasibility study considers development of a proposed hotel in Downtown Berryville on or proximate to Main Street. The subject site has average access to major roadway (State Route 7) because of its proposed location in downtown Berryville's Main Street district, limiting its visibility and ease of ingress and egress from a major roadway. While the proposed site is proximate to some demand generators, the low density of commercial developments in the area is projected to be a weakness. Leisure attractions in Berryville and Clarke County including vineyards, historic manors and event venues, and Barns of Rose Hill will help mitigate this weakness. Visibility is considered to be average, relative to other historic downtown locations, due to its proposed multi-level configuration, assumed signage, and on or proximate to Main Street. State Route 7, which connects Berryville to neighboring Winchester and Leesburg, is less than a mile north from central downtown. The proposed hotel is recommended to contain 50 rooms and affiliate with a limited-service national chain like Ascend Collection, Best Western, Cobblestone, or similar brand. The subject property should feature all basic services for a property of this type, and offer amenities including a breakfast room, fitness center, lobby pantry and bar, meeting space, and ice machines. Development costs have not been estimated since the proposed hotel is in the preliminary planning stages. Based on industry averages and known development costs of similar properties, we estimate development costs of approximately $6.5 million to $7.5 million or roughly $130,000 to $150,000 per room.

PROPOSED IMPROVEMENT DESCRIPTION

Year of Construction	2021
Number of Rooms	50

Meeting and Event Space	We recommend the proposed hotel offer approximately 5,000 square feet of meeting space. The meeting space should include one ballroom and pre-function space and smaller breakout rooms. The latest audio visual and technology hookups should be available to cater to corporate, social, and non-social meetings and events.
Recommended Brands	**Cobblestone Hotels -** an upper midscale brand that focuses on filling the lodging needs of smaller communities. The brand umbrella includes Cobblestone Hotel and Suites and Cobblestone Inn and Suites (new construction) and Boarders Inn & Suites (conversion). New construction prototypes range from 35 to 60 rooms with king or double queen beds, and the brand caters to leisure and business demand. Brand standards include free high-speed internet, fitness room, on-property laundry facilities, beer and wine bar, indoor or outdoor pool, business center, free hot breakfast, and convenience store. The first property opened in January 2008. Currently, the brand is in 17 states with 82 hotels open or under construction. The brand offers a guest loyalty program. Cobblestone franchisees pay franchise fees of $3 per room/per day and a marketing fee of 50 cents per room/per day. The brand achieved an overall average occupancy of 58.71% and ADR of $89.71 in calendar year 2017. **Best Western** – a midscale, limited-service brand that has been in existence for nearly seven decades, with more than 4,100 affiliated hotels worldwide. Phoenix-based Best Western Hotels & Resorts has 16 brands, including traditional and soft brands. According to the brand, the Best Western prototype features a time-proven blend of tradition, with a cost-efficient, flexible design that investors can easily adapt to size, room type, location, and style to meet the local market's needs. Best Western North American properties achieved an average $98.80 ADR and 64.4% occupancy in calendar-year 2017. **Ascend Collection** – the soft brand is part of Choice Hotels International and credited as one of the first soft brands to come known in the industry. The brand has more than 330 hotels open or under development globally, with 225 in the United States. According to the brand, Ascend Collection hotels are designed for travelers pursuing distinct experiences

	in unforgettable surroundings. Development opportunities include conversions, adaptive-reuse, or new construction. Owners can keep operational and design freedom while also benefiting from Choice Privileges®, the award-winning loyalty program of Choice Hotels. The Ascend Collection brand achieved an average 58.0% occupancy and $126.86 ADR in calendar-year 2018, according to the Choice's 2019 10-K Annual Report.

DEVELOPMENT COSTS

Development Cost Estimate	A development budget has not been prepared and the proposed hotel is in the preliminary planning stages. Based on industry averages and known development costs of similar properties, we estimate development costs of approximately $6.5 million to $7.5 million or roughly $130,000 to $150,000 per room.

FEASIBILITY CONCLUSIONS

Feasibility Assessment	Our analysis indicates that the development of the proposed 50-room limited-service hotel affiliated with Ascend Collection, Best Western, Cobblestone, or a similar brand may require incentives to attract a developer. A key component of a feasibility study is to determine whether the projected value created as shown from the Discounted Cash Flow analysis equals or exceeds the development cost for the proposed project. We estimate development costs of approximately $6.5 million to $7.5 million or roughly $130,000 to $150,000 per room. A development budget has not been formalized and the proposed property is in the preliminary planning stages. The value created by the property upon completion is within the estimated development cost range, indicating the project may require incentives to be feasible depending on actual development costs incurred. The value estimates are not meant to represent market value because there are still many unknown variables concerning the subject project. Rather, they are presented as an analysis of value utilizing typical parameters performed in the income capitalization approach for an appraisal. In addition, details are

not yet available concerning the actual construction costs and site improvement costs incurred. NKF reserves the right to amend our feasibility conclusion as additional information is obtained.

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General Information

GENERAL DESCRIPTION

The feasibility study considers development of a proposed hotel in Downtown Berryville on or proximate to Main Street. The subject site has average access to major roadway (State Route 7) because of its proposed location in downtown Berryville's Main Street district, limiting its visibility and ease of ingress and egress from a major roadway. While the proposed site is proximate to some demand generators, the low density of commercial developments in the area is projected to be a weakness. Leisure attractions in Berryville and Clarke County including vineyards, historic manors and event venues, and Barns of Rose Hill will help mitigate this weakness. Visibility is considered to be average, relative to other historic downtown locations, due to its proposed multi-level configuration, assumed signage, and on or proximate to Main Street. State Route 7, which connects Berryville to neighboring Winchester and Leesburg, is less than a mile north from central downtown. The proposed hotel is recommended to contain 50 rooms and affiliate with a limited-service national chain like Ascend Collection, Best Western, Cobblestone, or similar brand. The subject property should feature all basic services for a property of this type, and offer amenities including a breakfast room, fitness center, lobby pantry and bar, meeting space, and ice machines. Development costs have not been estimated since the proposed hotel is in the preliminary planning stages. Based on industry averages and known development costs of similar properties, we estimate development costs of approximately $6.5 million to $7.5 million or roughly $130,000 to $150,000 per room.

OPERATIONAL ASSUMPTIONS

Property Management

We assume that the subject will be managed by an efficient and knowledgeable third-party hotel operator. Additionally, management fees are projected to equate to 3.0% percent of total revenue annually throughout the holding period.

Franchise and Licensing

We assume that the proposed subject will be affiliated with a national hotel franchise. Additionally, we project franchise fees (royalties) to be equal to 5.0% of rooms revenue annually throughout the holding period.

General Assumptions

For the purposes of this study, we assumed that the proposed subject will be operated as a limited-service and chain-affiliated hotel with a centralized national or regional reservation system that is fully-integrated with well-known third-party marketing platforms (i.e. online travel agencies, reservation systems, etc.). We further assumed that the proposed subject will be operated by competent and experienced management familiar with the operation of limited-service hotels in the United States, and more specifically, in Berryville, Virginia. If any of the above conditions are not consistent with the proposed subject's actual status, it could have an impact on our operating projections and results within this study.

DESCRIPTION OF THE FEASIBILITY STUDY

Client Identification

The client for this feasibility study is Berryville Main Street.

Intended Use

The intended use of this feasibility study is to determine the proposed hotel's financial feasibility.

Intended Users

The intended user of this feasibility report is Berryville Main Street.

Client Reliance Statement

Per the engagement contract, there is no reliance language specific to the client's intended use.

SCOPE OF WORK

This feasibility study report incorporates practical explanation of the data, reasoning, and analysis that were used to develop the opinion(s) of value.

Extent to Which the Property is Identified

The property is identified through various sources such as:

- Physical inspection
- Owner-related documents
- Client-related documents

Extent to Which the Property is Inspected

The subject was fully inspected by:

- John Kelley, CHIA

Type and Extent of the Data Researched

- Exposure and marking time;
- Neighborhood and land use trends;
- Demographic trends;
- Market trends relative to the proposed subject property type;
- Flood zone status;
- Zoning requirements and compliance;
- Real estate tax data;
- Cost data via *Marshall Valuation Service*;
- Comparable listing and sales data; and
- Comparable income and expense data.

Type and Extent of Analysis Applied

We analyzed the property and market data gathered through appropriate, relevant, and accepted market-derived methods and procedures. Further, we employed the appropriate and relevant approaches to value, and correlated and reconciled the results into an estimate of value, as demonstrated within the feasibility study report.

Methodology

We based our financial analyses primarily on the probable operating experience of the proposed property relative to gross operating revenues, typical expense levels, and resultant net cash flow. We estimated operating revenues utilizing market data relative to industry standards and comparable properties. We estimated expense levels based on industry standards and operating histories of similar properties. We estimated the financial projections for the proposed subject facility for 11 years, beginning June 10, 2022

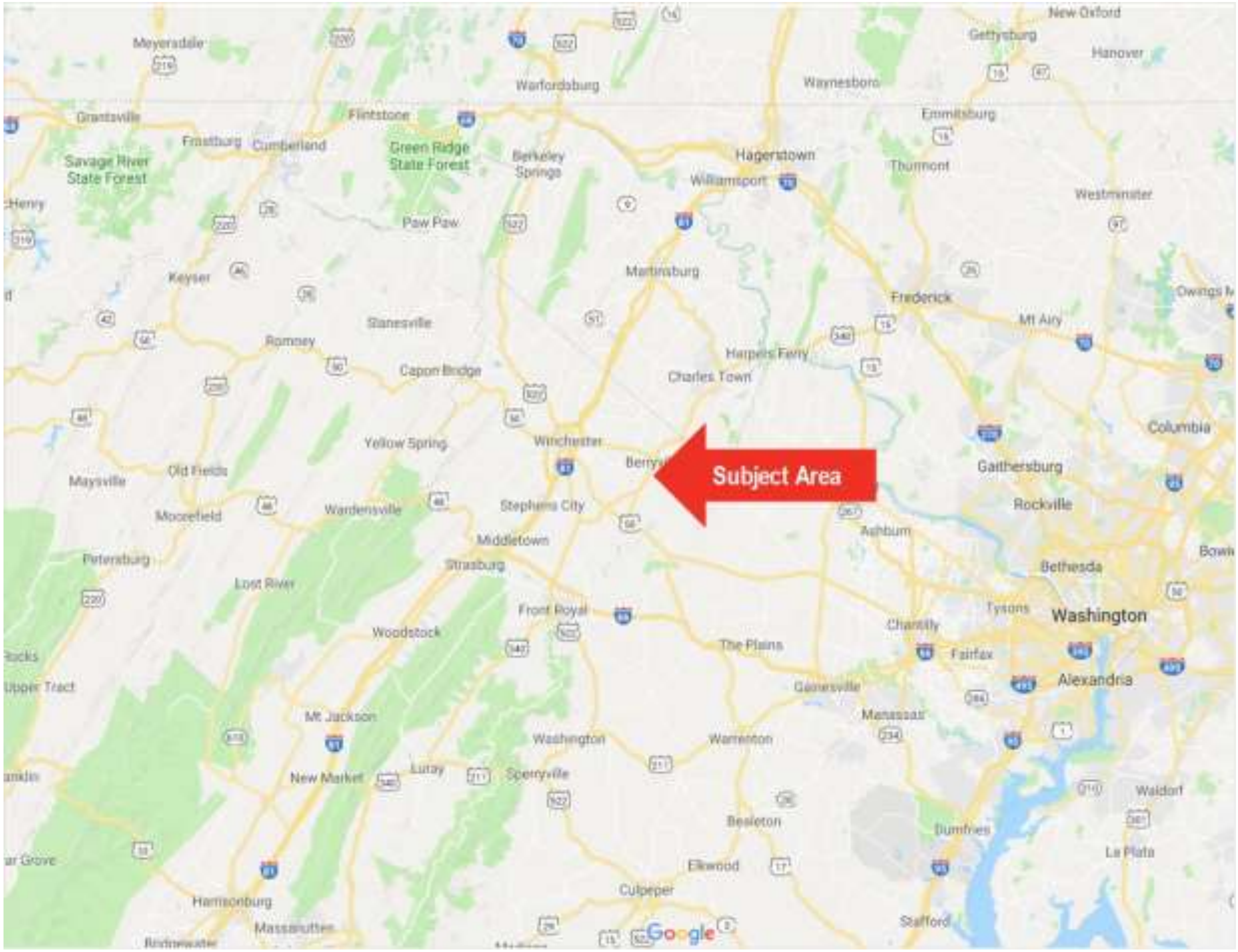
Availability of Information

Overall, the consultants received adequate information to produce credible results, as reflected in this feasibility study report; however, we call your attention to all the extraordinary conditions, standard conditions, and assumptions that are discussed throughout this report.

Economic Analysis

REGIONAL AREA ANALYSIS

Regional Area Map



Demographics Snapshot: Moody's Analytics

Though the subject site is in Clarke County, which is part of the Washington, DC MSA, we analyzed the Winchester, VA-WV MSA since the subject's area is more comparable to Winchester in terms of economy, cost of living, demographics, and proximity to demand generators. The following regional profile of the MSA was prepared by Moody's Analytics, which is a subsidiary of Moody's Corporation established to focus on non-rating activities, separate from Moody's Investors Service. It provides economic research regarding risk, performance and financial modeling, as well as consulting, training and software services. Concise and timely economic research by Moody's Analytics supports firms and policymakers in strategic planning, product and sales forecasting, credit risk and sensitivity management, and investment research. The analysis tracks and forecast economic growth and covers specialized topics such as labor markets, housing, consumer spending and credit, output and income, mortgage activity, demographics, central bank behavior, and prices. As such, it is considered a reliable source for determining the health of the subject's region.

Recent Performance

The Winchester MSA's economy is growing by leaps and bounds. The metro area is outperforming the state and the nation in most key gauges, and job growth is accelerating. Healthy in-migration and labor force gains are enabling firms to expand more quickly in an economy that is well into the late-cycle phase of its expansion. Stronger net hiring over the last six months has nudged the year-ago rate back above 2%, putting the greater Winchester economy at the front of the Virginia pack. Goods-producing industries are holding their own and the public sector is showing signs of life, but it is private services that are stepping on the accelerator, led by consumer services. In addition, the Winchester MSA population grew the fastest of any Virginia metro area in 2018.

The following table presents a summary of demographic and economic data for the Winchester, VA-WV MSA.

ECONOMIC SURVEY - WINCHESTER, VA-WV MSA												
2013	**2014**	**2015**	**2016**	**2017**	**2018**	**INDICATORS**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
6.1	6.2	6.5	6.5	6.7	7.1	**Gross metro product (C12$ bil)**	7.3	7.4	7.5	7.7	7.9	8.0
3.1	*2.1*	*4.1*	*0.2*	*4.2*	*4.7*	*% change*	*2.8*	*1.6*	*1.9*	*2.4*	*1.9*	*1.8*
58.8	59.7	61.0	62.3	63.4	64.3	**Total employment (ths)**	65.5	66.3	66.2	66.6	66.9	67.2
2.5	*1.5*	*2.2*	*2.1*	*1.8*	*1.4*	*% change*	*1.8*	*1.2*	*-0.1*	*0.7*	*0.5*	*0.4*
5.6	5.0	4.3	3.8	3.4	3.0	**Unemployment rate (%)**	2.6	2.8	3.7	4.1	4.2	4.2
0.2	4.6	6.0	4.5	4.8	3.7	**Personal income growth (%)**	4.1	4.0	3.4	4.7	4.4	4.5
51.8	56.1	58.1	62.3	65.3	66.7	**Median household income ($ ths)**	68.3	70.1	71.7	73.9	76.0	78.1
132	133	134	136	138	140	**Population (ths)**	141	142	143	144	145	146
1.0	*1.0*	*0.5*	*1.0*	*1.7*	*1.3*	*% change*	*0.8*	*0.7*	*0.7*	*0.7*	*0.7*	*0.7*
0.9	0.9	0.4	1.0	1.9	1.4	**Net migration (ths)**	0.8	0.6	0.6	0.7	0.7	0.7
421	523	637	877	637	595	**Single-family permits (#)**	604	789	969	1,030	1,017	988
0.0	2.0	137.0	5.0	251.0	197.7	**Multifamily permits (#)**	344.5	43.5	16.8	8.0	5.7	6.1
177	186	191	199	208	216	**FHFA house price (1995Q1=100)**	234	251	264	275	286	298

Source: Moody's

Cost of Living Index

The following cost of living index presents the subject's regional area relative to other regional areas in the United States. An index score of 100 represents the highest cost (New York City).

COST OF LIVING INDEX					
City	Cost of Living Index	Rent Index	Groceries Index	Restaurant Price Index	Local Purchasing Power Index
New York, NY	100	100	100	100	100
Honolulu, HI	95.67	61.58	106.64	85.75	101.03
Washington, DC	**91.99**	**70.51**	**98.45**	**86.55**	**126.08**
San Francisco, CA	91.67	106.05	94.22	92.11	134.05
Brooklyn, NY	90.29	79.99	87.17	94.34	87.19
Oakland, CA	84.24	75.55	84.69	81.94	134.28
Baltimore, MD	75.24	39.95	73.03	77.31	125.36
Rochester, NY	75.01	30.40	80.12	71.84	82.22
Portland, OR	74.93	48.76	72.12	72.44	123.51
Pittsburgh, PA	74.79	36.44	71.15	70.18	109.13
San Diego, CA	72.67	60.65	66.20	79.01	136.48
Atlanta, GA	72.26	46.18	68.38	72.08	145.47
Buffalo, NY	71.07	28.28	63.90	78.68	109.47
Denver, CO	70.72	51.64	66.83	76.76	126.76
Tampa, FL	70.46	38.84	70.98	72.07	123.80
Asheville, NC	70.44	37.76	71.94	68.24	98.34
Cleveland, OH	70.36	28.39	64.56	71.54	110.12
Jacksonville, FL	69.00	30.45	68.39	69.92	133.31
Dallas, TX	66.95	43.46	62.43	71.92	158.15
Fort Worth, TX	66.91	34.89	60.17	69.09	133.67
Saint Louis, MO	66.77	29.84	63.07	69.81	137.40
Phoenix, AZ	65.88	34.65	62.10	68.95	143.14
Columbus, OH	65.79	34.86	59.70	65.31	127.33
Richmond, VA	65.52	32.88	63.91	68.71	128.64
Memphis, TN	64.35	26.00	57.93	65.41	130.46
Albuquerque, NM	64.20	27.13	64.70	64.83	122.06
Knoxville, TN	64.06	29.07	67.40	58.36	105.74
Boise, ID	58.85	30.39	52.20	63.55	119.32

Source: Numbeo 2019 Report

Washington, DC was selected as the most comparable city since Berryville and Winchester are not listed, but Washington DC is proximate to the subject region.

Major Employers

The following table lists the top 20 employers by employee count in the Winchester, VA-WV MSA.

MAJOR EMPLOYERS - WINCHESTER, VA-WV MSA		
Rank	Employer	Employees
1	Winchester Medical Center	2,607
2	Navy Federal Credit Union	>1,000
3	Wal-Mart Stores Inc.	500-999
4	Ignite Holdings LLC / Rubbermaid Commercial Products	500-999
5	U.S. Department of Homeland Defense	500-999
6	Home Depot	500-999
7	H.P. Hood	500-999
8	Trex Co.	500-999
9	U.S. Federal Bureau of Investigation	500-999
10	Shockey Brothers Inc.	500-999
11	Shenandoah University	474
12	Lord Fairfax Community College	376
13	Martin's Food Market	250-499
14	Axiom Staffing Group	250-499
15	Kraft Heinz Co.	250-499
16	American Woodmark Corp.	250-499
17	Kohl's	250-499
18	Lowe's	250-499
19	Thermo Fisher Scientific	250-499
20	U.S. Department of Defense	250-499

Source: *Winchester Star Book of Lists, 2018*
Winchester-Frederick County Economic Development Commission, 12/2017
WV Chamber of Commerce

The economy of Clarke County, Virginia employs roughly 7,000 people. The largest industries in the county are Construction (835 people), Retail Trade (739 people), and Educational Services (733 people). The highest paying industries are Professional, Scientific, and Technical Services ($91,375); Public Administration ($76,298); and Utilities ($65,256). The following heat map, published by Data USA, summarizes the types of jobs in Clarke County based on 2017 data.

Population Trends

The following table presents population trends for the subject area.

POPULATION GROWTH TRENDS					
Area	2010 Census	2018 Estimate	2023 Projection	% Change '10-'18	% Change '18-'23
Town of Berryville, Virginia	4,093	4,354	4,531	6.4%	4.1%
Clarke County, Virginia	14,034	14,973	15,462	6.7%	3.3%
Winchester, VA-WV MSA	128,472	144,283	156,373	12.3%	8.4%
Virginia	8,001,024	8,632,203	8,982,126	7.9%	4.1%

Household Trends

The following table presents household trends for the subject area. A household is defined as one or more persons living in a housing unit.

HOUSEHOLD GROWTH TRENDS					
Area	2010 Census	2018 Estimate	2023 Projection	% Change '10-'18	% Change '18-'23
Town of Berryville, Virginia	1,618	1,721	1,786	6.4%	3.8%
Clarke County, Virginia	5,509	5,869	6,047	6.5%	3.0%
Winchester, VA-WV MSA	49,066	54,345	58,590	10.8%	7.8%
Virginia	3,056,058	3,276,286	3,399,022	7.2%	3.7%

Source: ESRI

Household Income Trends

The following table lists median household income for the subject area.

MEDIAN HOUSEHOLD INCOME ESTIMATES			
Area	2018 Estimate	2023 Projection	% Change '18-'23
Town of Berryville, Virginia	$69,657	$86,495	24.2%
Clarke County, Virginia	$82,346	$93,257	13.3%
Winchester, VA-WV MSA	$60,938	$68,870	13.0%
Virginia	$73,549	$81,569	10.9%

Source: ESRI

Minimum Wage Trends

The federal minimum wage is $7.25 per hour and was last changed in July 2009. Though, 29 states and the District of Columbia have minimum wage rates above the federal rate, according to the Economic Policy Institute. Over the past several years, there has been a concerted effort across the United States by many politicians, organizations, and labor unions to increase the hourly minimum wage. An hourly minimum wage rate of $15 has been commonly called to action by proponents of wage increases. A variety of states, counties, and cities have passed legislation that enact minimum wage escalator rate increases over a set period.

In Virginia, such legislation has not been enacted despite legislation being introduced to increase the minimum wage from $7.25 to $10 per hour by July 1, 2019, then to $13 an hour by 2020, and to $15 an hour by 2021. The senate voted on this bill in January 2019, with 21 state senators voting against and 19 in favor. There is a chance another minimum-wage increase bill could be sent to the Virginia state legislature for a vote; however, it remains uncertain if such legislation will pass in the near term.

Unemployment Rate Trends

The following table shows the historical unemployment rates in the subject area for 2013 through 2018.

HISTORICAL UNEMPLOYMENT RATES						
Area	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Clarke County, Virginia	4.7%	4.4%	4.0%	3.6%	3.4%	2.9%
Winchester, VA-WV MSA	5.6%	5.0%	4.3%	3.8%	3.4%	2.9%
Virginia	5.7%	5.2%	4.5%	4.1%	3.7%	3.0%

Since the U.S. Bureau of Labor Statistics does not track employment data in towns or cities with fewer than 25,000 residents, unemployment data is unavailable for the Town of Berryville.

Non-Farm Payroll Trends

The following table shows the total annual non-farm employment in the subject area for 2013 through 2018.

TOTAL NON-FARM PAYROLL EMPLOYMENT								
Year	**Bettendorf, Florida**	**% Change**	**Sarasota County, Florida**	**% Change**	**North Port-Sarasota-Bradenton MSA**	**% Change**	**Florida**	**% Change**
2012	352,234	-	352,234	-	580,994	-	1,891,162	-
2013	356,481	1.2%	356,481	1.2%	589,753	1.5%	1,890,879	0.0%
2014	354,329	-0.6%	354,329	-0.6%	592,261	0.4%	1,874,516	-0.9%
2015	356,476	0.6%	356,476	0.6%	600,246	1.3%	1,872,326	-0.1%
2016	366,245	2.7%	366,245	2.7%	618,103	3.0%	1,909,158	2.0%
2017	376,784	2.9%	376,784	2.9%	633,120	2.4%	1,952,066	2.2%
December 2017	379,349	-	379,349	-	636,325	-	1,949,108	-
December 2018, Preliminary	381,942	0.7%	381,942	0.7%	641,415	0.8%	1,974,188	1.3%

Source: U.S. Bureau of Labor Statistics

Since the U.S. Bureau of Labor Statistics does not track employment data in towns or cities with fewer than 25,000 residents, total employment data is unavailable for the Town of Berryville.

Bedroom Community

Commuters to the nation's capital and its suburbs will propel the metro area economy. Costs of living in the Winchester MSA are substantially lower than in DC, which will keep net migration healthy. The Winchester MSA is greatly impacted by economic trends in the U.S. capital region. Increased federal spending that will pave the way for new federal employees and contractors and the arrival of the first employees tied to Amazon's second headquarters in Crystal City suggest significant upside for the Winchester MSA as the commuter workforce rapidly expands. The large number of new high-paying jobs will raise living costs in the DC area, leading workers to seek out more affordable bedroom communities such as those in and around the Winchester MSA. The economy will also benefit from an unleashing of pent-up household formation by the DC area's above-average share of 25- to 34-year-olds. Further, a substantial increase in investment in infrastructure tied to Amazon's HQ2 will improve access to public transportation and shorten commute times for those who work in DC and live in the suburbs.

Economic Drivers

Healthcare and manufacturing will take a back seat to logistics and consumer services, which will spearhead growth in the near term. Cyclical restraint tied to weaker trade and manufacturing poses little threat to transportation and warehousing in the Winchester MSA. Amazon recently opened a new warehouse and distribution operation in the metro area, which is a magnet for logistics investment thanks to its low costs and location along the I-95 corridor and proximity to Washington DC and Baltimore. Development is shifting to the Winchester MSA because costs are increasingly prohibitive in Northern Virginia. In addition to lower rents, energy is much cheaper; the cost of electricity for commercial and industrial uses is 13% below average. Meanwhile, though brick-and-mortar retail faces pressure from online shopping, the influx of high-earning prime-age workers into the Winchester MSA will ensure that spending and job gains in retail are above average. Moreover, the region will look forward to outsize gains in leisure/hospitality since it does not rely on tourism like DC, where a weaker global economy will mean fewer international travelers.

Residential Real Estate

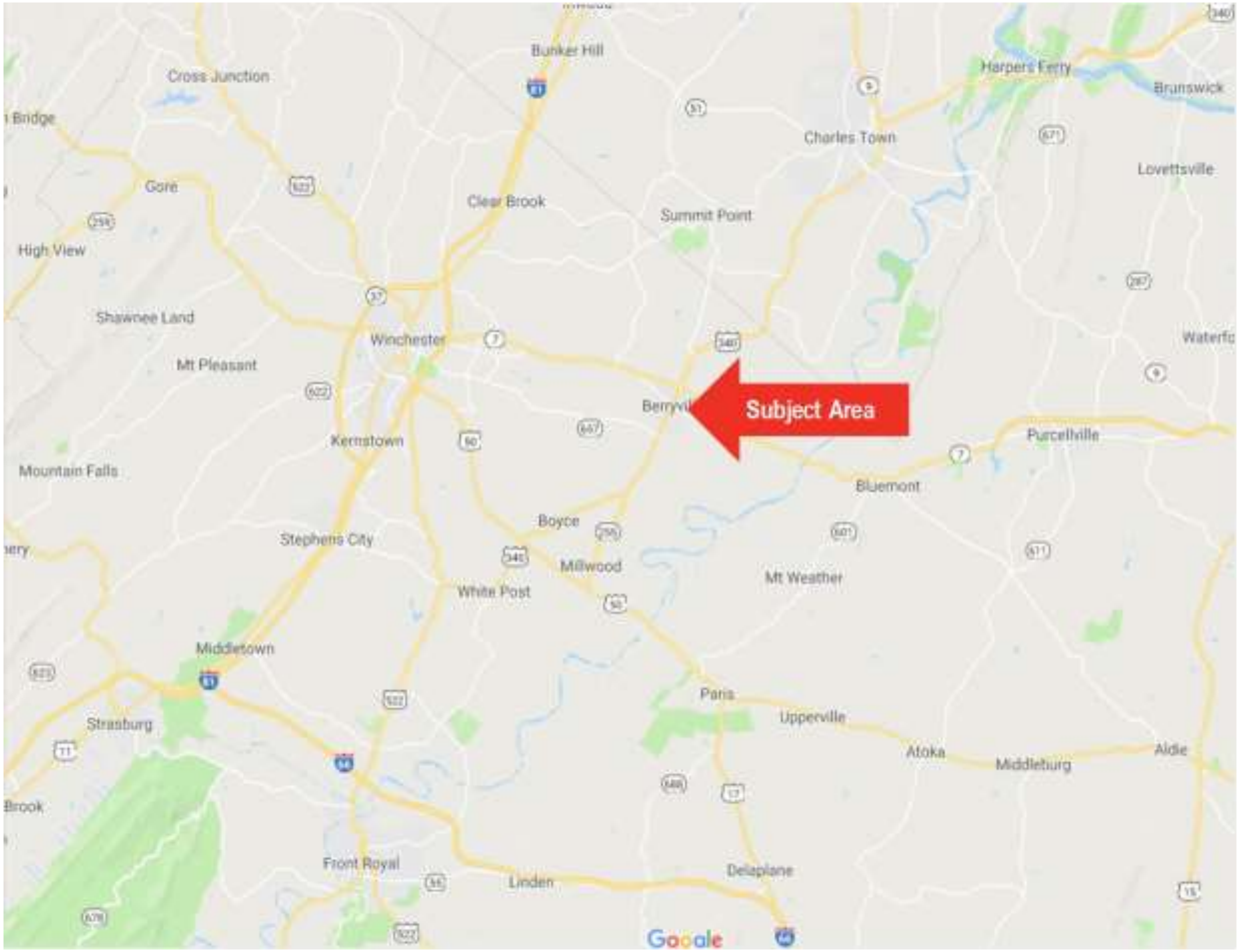
The Winchester MSA can also count on more support from housing in the near term. Builders have responded to increased demand for rentals by increasing multifamily starts to a multidecade high. The completion of more units under construction in coming quarters will keep rental inflation in check. Yet, with single-family homes modestly undervalued relative to fundamentals and more affordable than in DC, more newly formed households will look to buy versus rent, especially with mortgage rates closing in on a two-year low.

Regional Conclusion

Winchester will have its second-best year of the expansion in 2019, and robust in-migration and spillover effects from DC are behind an upgrade to the 2020 outlook. Commuters earning income in and around the nation's capital will boost consumer industries and residential real estate. New investment will help logistics sustain positive momentum despite less cyclical support. Longer term, the Winchester MSA will perform in line with the U.S.

LOCAL AREA ANALYSIS

Local Area Map



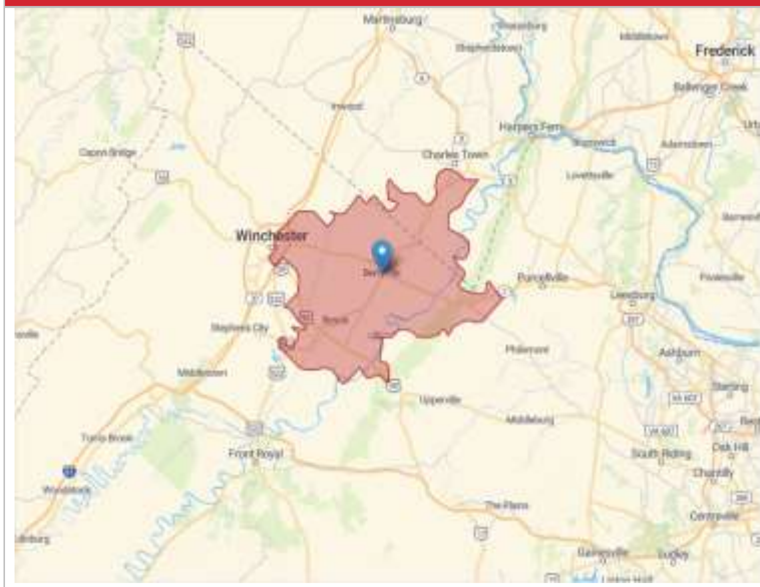
Location Description

The feasibility study assumes the proposed hotel would be developed on or proximate to downtown Berryville. State Route 7, which connects Berryville to neighboring Winchester and Leesburg, is less than a mile north from central downtown.

Drive Times from Subject Property

The following image illustrates the approximate distance from the subject property a motorist could reach at average traffic speeds over a 10-minute period.

10-Minute Drive Time from Subject

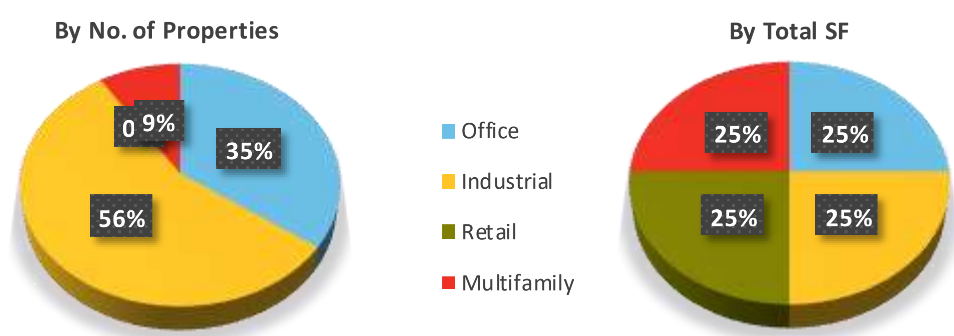


LOCAL COMMERCIAL REAL ESTATE TRENDS

This section discusses uses and development trends in the immediate area that directly and indirectly impact the performance and appeal of the proposed subject property. Signs of stability, growth, or decline in the demand for local commercial real estate has an impact on hospitality-based businesses like the subject property. Low office, industrial, and retail property vacancies indicates the area has stable or growing employment. Low multifamily property vacancies indicate an area's population is stable or growing. Higher property vacancies indicate employment and population levels are unstable. Since many hospitality-based businesses rely on stable or growing populations with disposable income to use their services or buy their products, it is important to analyze broader commercial real estate trends in the subject market, which provide insight to how much demand there is for such businesses.

The local area's commercial uses are shown in the following pie graphs.

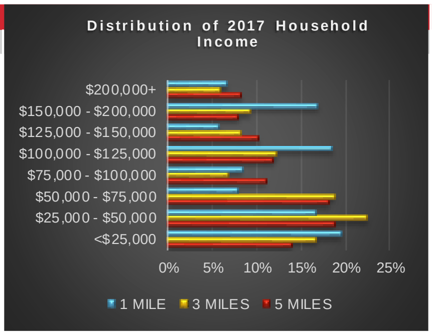
PROPERTY MIX

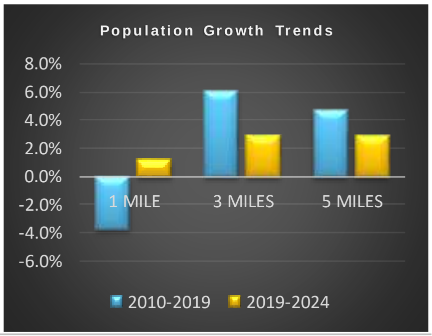


Demographic Profile

The following table details a demographic study of the area, sourced by CoStar, an online resource center that provides information used to analyze and compare the past, present, and future trends of properties and geographical areas.

DEMOGRAPHIC SNAPSHOT	1 MILE	3 MILES	5 MILES
Population:			
2024 Projection	**1,115**	**5,958**	**12,048**
2019 Estimate	**1,102**	**5,787**	**11,706**
2010 Census	1,145	5,456	11,182
Growth 2019-2024	1.18%	2.95%	2.92%
Growth 2010-2019	-3.76%	6.07%	4.69%
Households:			
2024 Projection	426	2,336	4,606
2019 Estimate	421	2,268	4,477
2010 Census	440	2,122	4,264
Growth 2019 - 2024	1.19%	3.00%	2.88%
Growth 2010 - 2019	-4.32%	6.88%	5.00%
Owner Occupied	317	1,522	3,293
Renter Occupied	104	745	1,184
2019 Avg Household Income	**$99,435**	**$87,007**	**$96,382**
2019 Med Household Income	**$93,214**	**$65,384**	**$74,032**
2019 Households by Household Inc:			
<$25,000	82	379	623
$25,000 - $50,000	70	509	839
$50,000 - $75,000	33	426	811
$75,000 - $100,000	35	152	495
$100,000 - $125,000	78	277	529
$125,000 - $150,000	24	185	457
$150,000 - $200,000	71	209	354
$200,000+	28	132	369





Source: CoStar

Multi-Family Development

The following table shows a summary of multifamily residential data by type in the immediate area, as published by CoStar.

SUMMARY OF MULTIFAMILY DEVELOPMENTS					
CLASS	Number of Properties	NRA (SF)	Average Year Built	Reported Occupancy	Monthly Rent (Ask)
A	0	0	-	-	-
B	1	0	1997	95%	-
C	5	0	1943	94%	$658
TOTAL	**6**	**1**	**1952**	94%	$549

Source: CoStar

Retail Development

The following table shows a summary of retail data by type in the immediate area, as published by CoStar.

SUMMARY OF RETAIL DEVELOPMENTS					
Property Type	Number of Properties	NRA (SF)	Average Year Built	Reported Occupancy	Reported Rent (Ask)
Auto Dealership	-	-	-	-	-
Bank	2	-	1982	100%	-
Convenience Store	2	-	1962	100%	-
Department Store	-	-	-	-	-
Drug Store	-	-	-	-	-
Restaurant	1	-	1802	100%	-
Freestanding	11	-	1947	100%	-
Health Club	-	-	-	-	-
Storefront	30	-	1923	100%	-
Supermarket	2	-	1984	100%	-
General Retail	-48	0	-	-	-
TOTAL/AVERAGE	**0**	**1**	**#DIV/0!**	**#DIV/0!**	**#DIV/0!**

Source: CoStar

Most of the retail properties are along Main Street. Users tend to be stand-alone retail businesses such as restaurants, gas stations, and retail stores.

OFFICE MARKET ANALYSIS

There is a strong correlation between commercial lodging demand and performance of office real estate in an area. As such, we have analyzed the local office market in an effort to ascertain reasonable lodging demand growth rates for the proposed subject and the competitive market.

The following is an analysis of operating data of office properties located within 4.0 miles of the subject using information provided by CoStar, a well-known supplier of market statistics. The table below presents historical data for key market indicators.

HISTORICAL STATISTICS - OFFICE PROPERTIES WITHIN 4 MILES OF SUBJECT						
Period	Existing Office Supply	Buildings U/C	New Supply	Net Absorption	Vacancy	Office Base Rent ($/SF)
2010 Q2	508,397	0	0	3,150	1.6%	$9.91
2011 Q2	508,397	0	0	1,210	1.3%	$12.13
2012 Q2	508,397	0	0	1,659	0.0%	$12.57
2013 Q2	508,397	0	0	0	0.0%	-
2014 Q2	508,397	0	0	0	0.3%	-
2015 Q2	508,397	0	0	-3,160	1.0%	$10.76
2016 Q2	508,397	0	0	4,910	0.0%	$11.40
2017 Q2	508,397	0	0	0	0.0%	$10.80
2018 Q2	508,397	0	0	-450	0.4%	$17.28
2019 Q2	508,397	0	0	-2,142	0.9%	$13.23
CAGR	**0.0%**				**-6.2%**	**3.3%**

Source: Costar

Though vacancy is low among offices buildings in Berryville, there has been no supply increases over the past decade to add to supply. The lack of growth in office properties signals there is limited commercial transient demand generated at the micro level.

Nearby Office Development

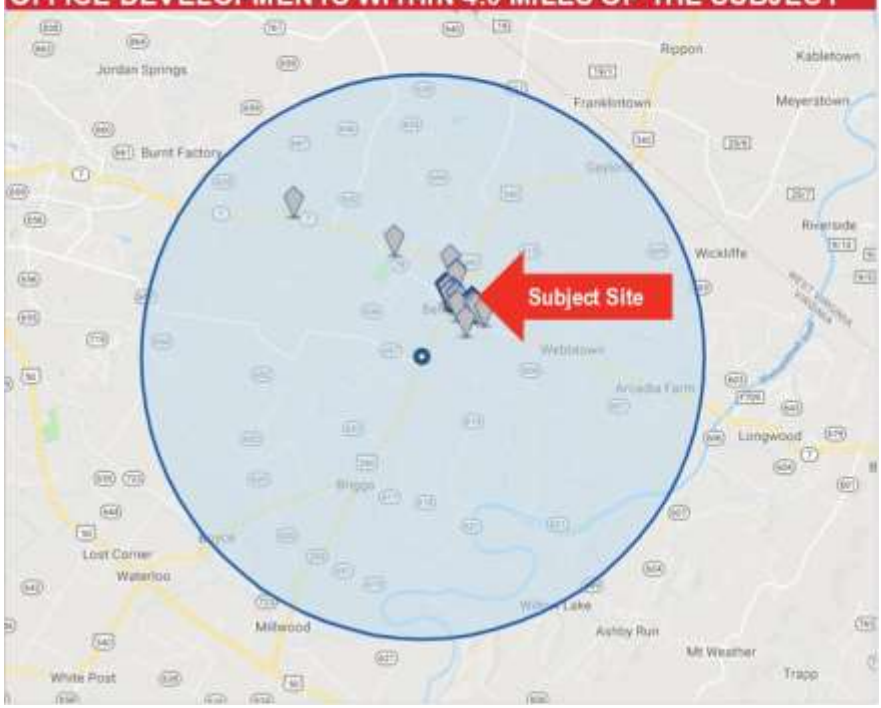
The following table shows a summary of office data by class in the immediate area, as published by CoStar.

SUMMARY OF OFFICE DEVELOPMENTS (SUBMARKET)					
Office Class	**Number of Properties**	**NRA (SF)**	**Average Year Built**	**Reported Occupancy**	**Reported Rent (Ask)**
A	0	0	-		-
B	8	0	1940	100%	-
C	15	0	1911	93%	-
TOTAL/AVERAGE	**23**	**1**	**1921**	**95%**	**-**

Source: CoStar

The subject is in an area that has a relatively low density of office structures. The following table shows the subject property and the largest office properties in the immediate area tracked, as published by CoStar.

OFFICE DEVELOPMENTS WITHIN 4.0 MILES OF THE SUBJECT



Office Market Summary & Commercial Demand Segment Conclusion

Overall, we believe that the market will not generate enough room night demand on its own to support the local hotel market with enough annual corporate-related demand. We considered the local and regional office market trends in the area when concluding future commercial demand growth, which will be discussed in greater detail later in this report.

ADDITIONAL ECONOMIC FORCES

Higher Education

Institutions of higher learning are typically demand generators for leisure facilities and they help to provide an area with a stable employment base. These institutions often serve as important research centers and contribute significantly to an area's cultural landscape. The Berryville area is not home to any public and private colleges and universities; however, neighboring Winchester has one institution, Shenandoah University. There are more than 2,000 undergraduate students and

Corporate Demand Generators

Commercial/corporate travelers are generally less rate sensitive and represent a very desirable and lucrative market that provides a consistent level of demand at relatively high room rates. Commercial/corporate demand in the subject's market area is generated by a diverse base of corporate tenants in the surrounding area. Some of the largest generators of commercial room night demand in the area reportedly include the following:

COMMERCIAL DEMAND GENERATORS	
American Woodmark*	Green Bay Packaging*
Berryville Graphics	Lear Corporation*
Bank of Clarke County	Mount Weather/FEMA
Blandy Experiment Farm (UVA)	Trelleborg Marine Systems
Cives Steel*	Winchester Medical Center*

*Based outside of Berryville and Clarke County

Recreation and Regional Attractions

Recreational facilities and regional attractions enhance an area's quality of life. These activities also have a significant economic impact on an area by increasing the demand on weekends, holidays and summer months, offsetting commercial visitations during weaker periods.

The following table shows local leisure attractions in the subject area.

LEISURE DEMAND GENERATORS	
Barns of Roses	Harper's Ferry - Potomac River
Charles Tow n Races and Gaming	Shenandoah National Park
Clarke County Historical Association Museum	Shenadoah University
Clarke County Public Schools (sports)	Tree Farms

Convention Facilities

Large event facilities, such as convention centers, exposition centers, fairgrounds, theaters, stadiums, and arenas, play a major role in attracting visitors to an area. These visitors frequently make use of paid overnight accommodations and patronize local restaurants, retail stores, and tourist attractions.

In the greater Berryville and Winchester area, there are no conference and convention centers that cater to medium or large groups. Though, there are various unique venues throughout the area that host various types of social, non-social, and corporate events.

Healthcare Forces

Healthcare has become a significant economic driver for many cities, providing necessary medical services that improve a region's quality of life and employing hundreds, if not thousands, of professionals, and attracting visitors to the region to receive specialized care. A diverse healthcare network bodes well for an area, reducing independence on one provider, fostering an environment for competition that encourages long-term capital investments, and attracts a talented workforce. Additionally, large-scale healthcare providers attract ancillary economic activity, including research and development facilities, startup businesses, suppliers, and government-sponsored initiatives.

Governmental Forces

Governmental considerations relate to the laws, regulations, and property taxes that affect properties in the market area and the administration and enforcement of these constraints, such as zoning laws, building codes, and housing and sanitary codes. The property tax burden associated with the benefits provided and the taxes charged for similar benefits in other areas are considered. The enforcement of applicable codes, regulations, and restrictions should be equitable and effective. Governmental characteristics that should be considered in the analysis of a market area include property tax burden relative to services provided, special assessments, zoning and building codes, quality of public services, and environmental regulations.

Environmental Forces

Environmental influences consist of any natural or man-made features that are contained in or affect the market area and its location. These include a building's type and size, topographical features, such as terrain and vegetation, changes in property use and land use patterns, and the adequacy of public utilities.

Highway Transportation

Highway accessibility is a primary consideration in planning an area's future growth and development. Interstate 81, the nearest highway to Berryville, provides direct access north to Harrisburg, Pennsylvania and points southwest through Virginia and Tennessee. Interstate 66, which provides access to Washington, DC, is south of Berryville. State Route 7, also known as Harry Byrd Highway, is the main thoroughfare connecting Berryville to Winchester (to the west) and Leesburg (to the east).

The following map illustrates the population within a 300-mile radius of Berryville, Virginia, according to the U.S. Economic Development Administration.

Approximately 69.3 million people lived within a 300-mile radius of Berryville, Virginia in 2018. Berryville's proximity to Washington, DC and regional interstates systems provides relatively convenient access to several major metropolitan areas north, including Baltimore, Maryland; Pittsburg, Pennsylvania; Philadelphia, Pennsylvania; New York, New York; and Columbus, Ohio.

Air Transportation

The closest airport to Berryville is Winchester Regional Airport (OKV), roughly 12 miles west. The regional airport has a variety of users, including public corporations, law enforcement, agriculture, and lifesaving services. According to the airport's website, corporate users include American Woodmark, Bank of America, Catawba Management Corporation, Exec Jet, Family Dollar, Green Bay Packaging, Gulf States Toyota, Jetall Holdings Corporation, Marin Air, NetJets, Newell Rubbermaid, and Valley Proteins.

Dulles International Airport (IAD) is about 40 miles east of Berryville, the closest commercial airport. Dulles International Airport is served by 39 domestic and international commercial carriers, with non-stop service to more than 140 domestic and international destinations.

Visitors to the Berryville area generate a significant economic impact on the local and regional economy. A large portion of people arriving by plane are in the region for business or leisure purposes. An increase in passenger enplanements signals healthy growth in a market that will positively impact various industries. Hospitality- and retail-based businesses like hotels, entertainment venues, restaurants, and shops usually benefit more to visitor increases relative to other industries because visitors require accommodations, eating and drinking places, and/or entertainment.

The following table shows historical passenger activity at Dulles International Airport.

ENPLANEMENTS - DULLES INTERNATIONAL AIRPORT (IAD)		
Year	Passenger Enplanements	% Change
2013	10,570,993	-
2014	10,415,948	-1.5%
2015	10,363,974	-0.5%
2016	10,596,942	2.2%
2017	11,024,243	4.0%

Source: Federal Aviation Administration

Dulles International Airport supports the Washington, DC and surrounding markets, which relies heavily on federal government spending. Fluctuations in enplanements at the airport are likely caused by decreased or increased federal spending. Additionally, government employees and contractors usually cease travel during federal government shutdowns, which has occurred several times in the past decade. Those travelers that prefer an airport closer to Washington, DC would use Reagan National Airport.

A multi-billion-dollar expansion of the Washington DC Metro will extend a line of service to Dulles International Airport, providing direct transit access to and throughout Washington, DC. The project was initially planned for completion in mid-2020; however, delays have resulted in an opening in fall 2020. The 11-mile extension will also provide new stops in Loudon County and along the Dulles Toll Road.

SPECIAL HAZARDS OR ADVERSE INFLUENCES

Generally, properties in the subject neighborhood appear to be functional for their intended use and they exhibit minimal deferred maintenance and sufficient occupancy. No special hazards or detrimental influences were identified that are expected to affect local value levels.

LOCAL AREA OUTLOOK

The subject's competitive market area is characterized as a retail, commercial, and residential district. There have been modest developments in and around Berryville in the past several years; however, most new commercial and residential developments are in neighboring cities including Winchester and Leesburg. The increase in developments in neighboring markets has the potential to benefit real estate in Berryville.

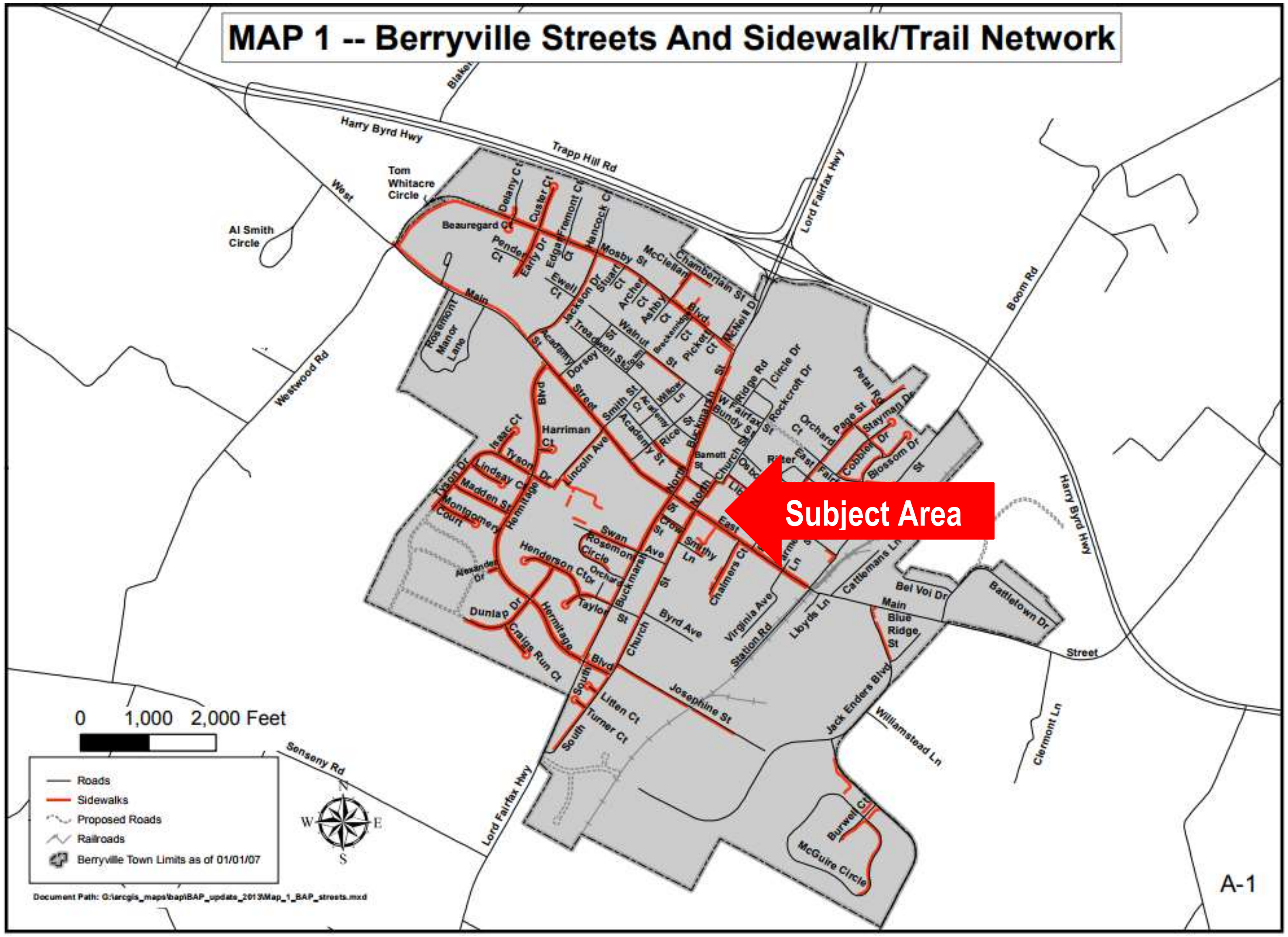
Proposed Site Description

GENERAL DESCRIPTION

Location	The feasibility study assumes the proposed hotel would be developed on or proximate to downtown Berryville. State Route 7, which connects Berryville to neighboring Winchester and Leesburg, is less than a mile north from central downtown.
Frontage	The subject would have frontage on or proximate to downtown Berryville's Main Street.
Topography	The area is level at street grade and topography does not appear to bear any limitations.
Drainage	No drainage problems were observed in the area at the time of field inspection and none were disclosed to the consultants. Please note we assume surface water collection, both on-site, off-site and in public streets, will be adequate.
Environmental Hazards	An environmental assessment report was not provided and during our inspection we did not observe any obvious signs of contamination on or near the subject area. However, environmental issues are beyond our scope of expertise.
Ground Stability	A soils report was not provided for our review. Based on our inspection of the subject area and observation of development on nearby sites, there are no apparent ground stability problems. However, we are not experts in soils analysis. We assume that the subject's soil bearing capacity is sufficient to support the proposed subject improvements.
Utilities	Utilities to the site are assumed to be all available.
Other Land Use Regulations	We are not aware of any other land use regulations that would affect the property.

BERRYVILLE AREA MAP

The following map shows Berryville's street, sidewalk, and trail network relative to the area for the proposed subject hotel.



Recommended Improvements Description

OVERVIEW

The description within this section is intended to provide an overview of the physical improvements. The sources of the information in this analysis are generally viewed as reliable (we call your attention to the extraordinary conditions, other conditions, and assumptions contained in this report).

Summary Description	The feasibility study considers development of a proposed hotel in Downtown Berryville on or proximate to Main Street. The subject site has average access to major roadway (State Route 7) because of its proposed location in downtown Berryville's Main Street district, limiting its visibility and ease of ingress and egress from a major roadway. While the proposed site is proximate to some demand generators, the low density of commercial developments in the area is projected to be a weakness. Leisure attractions in Berryville and Clarke County including vineyards, historic manors and event venues, and Barns of Rose Hill will help mitigate this weakness. Visibility is considered to be average, relative to other historic downtown locations, due to its proposed multi-level configuration, assumed signage, and on or proximate to Main Street. State Route 7, which connects Berryville to neighboring Winchester and Leesburg, is less than a mile north from central downtown. The proposed hotel is recommended to contain 50 rooms and affiliate with a limited-service national chain like Ascend Collection, Best Western, Cobblestone, or similar brand. The subject property should feature all basic services for a property of this type, and offer amenities including a breakfast room, fitness center, lobby pantry and bar, meeting space, and ice machines. Development costs have not been estimated since the proposed hotel is in the preliminary planning stages. Based on industry averages and known development costs of similar properties, we estimate development costs of approximately \$6.5 million to \$7.5 million or roughly \$130,000 to \$150,000 per room.
Hotel Chain Scales	Chain scale segments are a method by which branded hotels are grouped based on the actual average room rates. Independent hotels, regardless of their average room rates, are included as a separate chain-scale category. Brands' placement in the scales is reviewed

annually and based on the previous year's annual system wide (global) Average Daily Rate. Following is STR's most-recent chain scale listing:

STR Chain Scales

Luxury	Upper-Upscale	Upscale	Upper-Midscale	Midscale	Economy
21c Museum Hotel	Ace Hotel	AC Hotels by Marriott	Best Western Plus	3 Palms	Affordable Suites of America
AKA	Affinia Hotel	aloft Hotel	Boarders Inn & Suites	AmericInn	America`s Best Inn
Andaz	Alila	Ascend Collection	Boulders Inn & Suites	Baymont	Americas Best Value Inn
Conrad	Autograph Collection	Best Western Premier	Clarion	Best Western	AmeriVu Inn & Suites
Destination Hotels	Canopy by Hilton	BW Premier Collection	Cobblestone	Candlewood Suites	Budget Host
Dreams Resorts & Spas	Club Quarters	Cambria hotel & suites	Comfort Inn	City Express Suites	Budgetel
Edition	Curio Collection	citizenM	Comfort Suites	FairBridge Inn	City Express Junior
Fairmont	Delta Hotel	Club Med	Country Inn & Suites	GuestHouse Inn	Country Hearth Inn
Firmdale	Dolce Hotels & Resorts	Courtyard	Drury Inn & Suites	Hawthorn Suites by Wyndham	Crossland Economy Studios
Four Seasons	Dream Hotels	Crowne Plaza	Drury Plaza Hotel	ibis	Days Inn
Grand Hyatt	Embassy Suites	Dazzler	Drury Suites	ibis Styles	Econo Lodge
InterContinental	Gaylord	Disney Hotels	Fairfield Inn	InnSuites Hotel	Extended Stay America
JW Marriott	Hard Rock	DoubleTree	GrandStay Hotels	La Quinta Inns & Suites	E-Z 8
Kempinski	Hilton	element	Hampton Inn	MainStay Suites	Family Inn
Langham	Hilton Grand Vacations	EVEN Hotels	Holiday Inn	Oak Tree Inn	Good Nite Inn
Loews	Hotel Indigo	Four Points by Sheraton	Holiday Inn Express	Quality Inn	GreenTree Inn
Luxury Collection	Hyatt	Graduate Hotel	Home2 Suites	Ramada	Home Inn
Mandarin Oriental	Hyatt Centric	Grand America	Mama Shelter	Red Lion Inn & Suites	Home-Towne Suites
Montage	Hyatt Regency	Great Wolf Lodge	MOXY	Rode Inn	Howard Johnson
Nobu Hotels	Joie De Vivre	Hilton Garden Inn	My Place	Sandman	InTown Suites
One & Only	Kimpton	Homewood Suites	Park Inn	Settle Inn	Jameson Inn
Palace Resort	Le Meridien	Hotel RL	Quality	Sleep Inn	Key West Inn
Paradisus	Marriott	Hyatt House	Real Inn	SureStay Plus	Knights Inn
Park Hyatt	Millennium	Hyatt Place	Red Lion Hotel	SureStay Signature Collection	Lite Hotels
Ritz-Carlton	NH Collection	Melia	Shilo Inn	Tru by Hilton	Master Hosts Inns
RockResorts	Omni	NH	Sonesta ES Suites	Uptown Suites	Masters Inn
Rosewood	Outrigger Resorts	Novotel	TownePlace Suites	Vagabond Inn	Microtel Inn & Suites by Wyndham
Shangri-La	Pullman	Radisson	Trademark Hotel Collection	Wingate by Wyndham	Motel 6
Sixty Hotels	Radisson Blu	Residence Inn	Tryp by Wyndham		National 9
Sofitel	Radisson RED	Sandals	Wyndham Garden Hotel		Passport Inn
St Regis	Red Carnation	Sandman Signature	Yotel		Pear Tree Inn
Taj	Renaissance	Sawridge			Red Carpet Inn
The Peninsula	Sheraton Hotel	Sonesta Hotel			Red Roof Inn
The Unbound Collection	Swissotel	Springhill Suites			Rodeway Inn
Thompson Hotels	Time Hotels	Staybridge Suites			Scottish Inn
Trump Hotel Collection	Tribute Portfolio	Tapestry Collection			Select Inn
Valencia Group	Warwick Hotel	Travel Inn			Studio 6
Viceroy	Westin	Wyndham			Suburban Extended Stay
W Hotel	Wyndham Grand	Wyndham Vacation Resorts			
Waldorf Astoria					

Source: STR

Approximately 70% of all lodging facilities in the United States are affiliated with a hotel brand, which helps to provide a level of recognition for the traveling public. Brands often target different market segments – some target the hip and trendy, while others target business clientele, or extended-stay guests – and are segmented by their service level.

The subject hotel is recommended to be branded as a SpringHill Suites by Marriott. Alternative recommended brands are Holiday Inn Express or Comfort Suites.

Recommended Brands	**Cobblestone Hotels -** an upper midscale brand that focuses on filling the lodging needs of smaller communities. The brand umbrella includes Cobblestone Hotel and Suites and Cobblestone Inn and Suites (new construction) and Boarders Inn & Suites (conversion). New construction prototypes range from 35 to 60 rooms with king or double queen beds, and the brand caters to leisure and business demand. Brand standards include free high-speed internet, fitness room, on-property laundry facilities, beer and wine bar, indoor or outdoor pool, business center, free hot breakfast, and convenience store. The first property opened in January 2008. Currently, the brand is in 17 states with 82 hotels open or under construction. The brand offers a guest loyalty program. Cobblestone franchisees pay franchise fees of $3 per room/per day and a marketing fee of 50 cents per room/per day. The brand achieved an overall average occupancy of 58.71% and ADR of $89.71 in calendar year 2017. **Best Western** – a midscale, limited-service brand that has been in existence for nearly seven decades, with more than 4,100 affiliated hotels worldwide. Phoenix-based Best Western Hotels & Resorts has 16 brands, including traditional and soft brands. According to the brand, the Best Western prototype features a time-proven blend of tradition, with a cost-efficient, flexible design that investors can easily adapt to size, room type, location, and style to meet the local market's needs. Best Western North American properties achieved an average $98.80 ADR and 64.4% occupancy in calendar-year 2017. **Ascend Collection** – the soft brand is part of Choice Hotels International and credited as one of the first soft brands to come known in the industry. The brand has more than 330 hotels open or under development globally, with 225 in the United States. According to the brand, Ascend Collection hotels are designed for travelers pursuing distinct experiences in unforgettable surroundings. Development opportunities include conversions, adaptive-reuse, or new construction. Owners can keep operational and design freedom while also benefiting from Choice Privileges®, the award-winning loyalty program of Choice Hotels. The Ascend Collection brand achieved an average 58.0% occupancy and $126.86 ADR in calendar-year 2018, according to the Choice's 2019 10-K Annual Report.

Food and Beverage	The subject property should provide complimentary breakfast and have an on-site bar that serves a variety of beers, wine, and spirits.
Meeting and Event Space	We recommend the proposed hotel offer approximately 5,000 square feet of meeting space. The meeting space should include one ballroom and pre-function space and smaller breakout rooms. The latest audio visual and technology hookups should be available to cater to corporate, social, and non-social meetings and events.

CAPITAL IMPROVEMENTS

Estimated Development Costs	A development budget has not been prepared and the proposed hotel is in the preliminary planning stages. Based on industry averages and known development costs of similar properties, we estimate development costs of approximately $6.5 million to $7.5 million or roughly $130,000 to $150,000 per room.
Reserve for Replacements	To preserve the competitive position of the proposed subject hotel throughout the holding period, a reserve for replacements equal to 4.0% of total revenue per year is deducted within the cash flows. This estimate of capital reserves is anticipated to be sufficient to account for all typical future capital expenditures throughout the holding period.

OTHER PROPERTY CONSIDERATIONS

ADA Compliance	Based on our inspection and information provided, we are not aware of any ADA areas of non-compliance for the proposed subject, and a compliance assessment is beyond the scope of this assignment. Further study by an appropriately qualified professional would be recommended to assess ADA compliance. Any areas of potential non-compliance of the comprehensive requirements of the ADA were not considered in developing an opinion of value of the proposed subject property.
Hazardous Substances	An environmental assessment report was not provided for review and environmental issues are beyond our scope of expertise. No hazardous substances were observed during our inspection of the

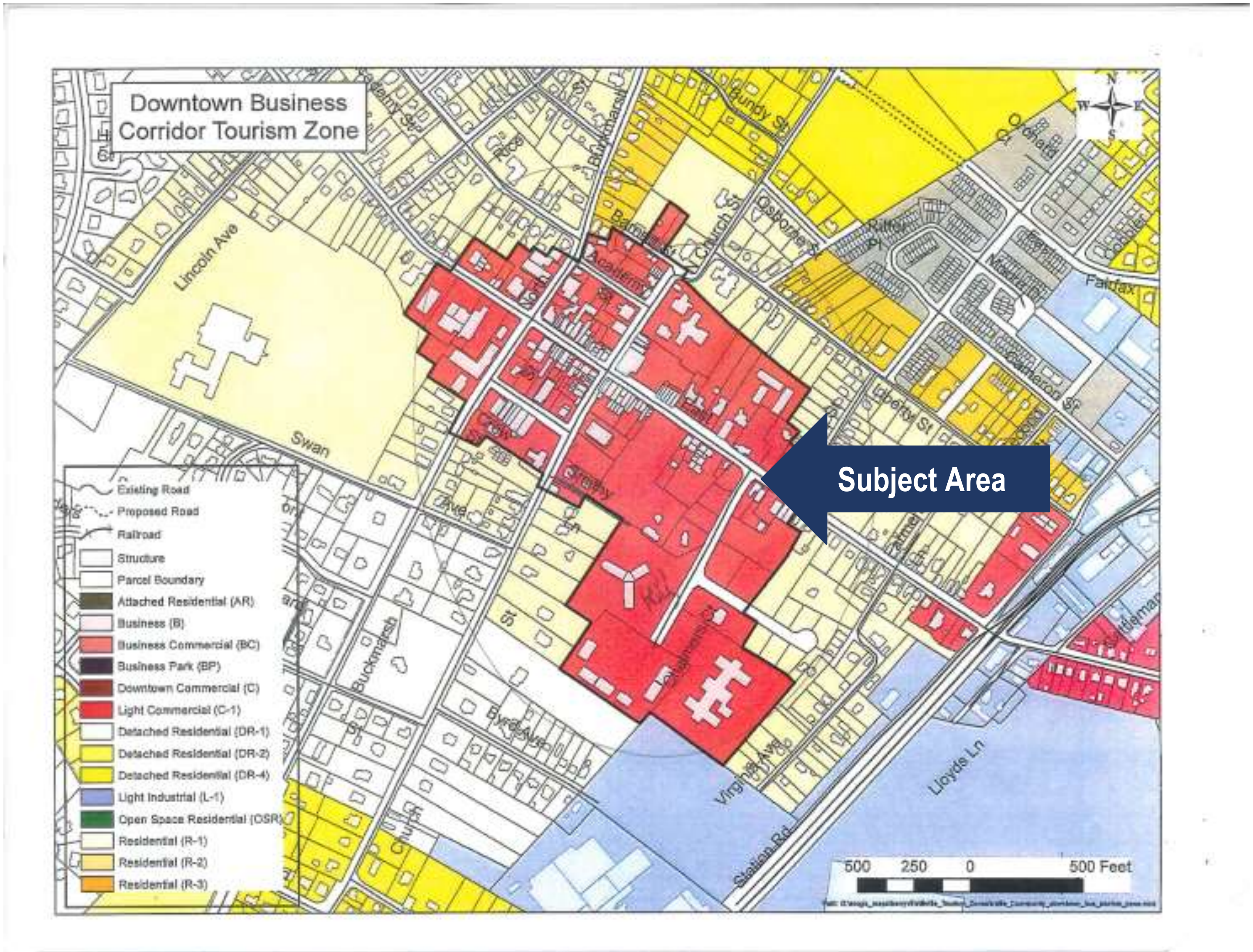
	improvements; however, we are not qualified to detect such substances. Unless otherwise stated, we assume no hazardous conditions exist on or near the subject.
Concealed Faults	We assume that there are no concealed faults nor structural defects for the proposed subject. All structural elements are assumed to be functional and operational except for those specifically noted. The consultants are not qualified structural or mechanical engineers; any concerns relating to the integrity of the improvements are beyond the scope of this assignment and may warrant a consultation with appropriate experts.

ZONING

The applicable zoning information for the subject are is summarized as follows:

ZONING SUMMARY	
Zoning Municipality	Town of Berryville
Zoning Name	C (Downtown Commercial)
Permitted Uses	According to the Town of Berryville's zoning ordinance, as of July 2018, the C General Commercial District covers that portion of the community intended for the conduct of general business to which the public requires direct and frequent access, but which is not characterized either by constant heavy trucking other than stocking and delivery of retail goods, or by any nuisance factors other than occasioned by incidental light and noise of congregation of people and passenger vehicles. This includes such uses as retail stores, banks, theaters, business offices, newspaper offices, printing presses, restaurants and taverns, garages and services stations, and multi-family dwellings. Hotels are a permitted use by special permit.
Setback Regulations	No requirements, except for townhouses and apartments
Frontage Regulations	No requirements, unless adjacent to a residential district
Height Regulations	Maximum 35 feet in height from grade

ZONING MAP


Downtown Business Corridor Tourism Zone
Subject Area
Existing Road
Proposed Road
Railroad
Structure
Parcel Boundary
Attached Residential (AR)
Business (B)
Business Commercial (BC)
Business Park (BP)
Downtown Commercial (C)
Light Commercial (C-1)
Detached Residential (DR-1)
Detached Residential (DR-2)
Detached Residential (DR-4)
Light Industrial (L-1)
Open Space Residential (OSR)
Residential (R-1)
Residential (R-2)
Residential (R-3)
500 250 0 500 Feet
Lincoln Ave
Swan
Liberty St
Cameron St
Fairfax
Lloyds Ln
Station Rd
Virginia Ave
Byrd Ave
Buckmarsh
Church St
Osborne St
Bundy St

Real Estate Taxes

Real estate taxes and assessments for the current tax year, and hypothetical taxes as if the property were open and operational, are shown in the following table.

PROPERTY ASSESSMENT INFORMATION		
Location:		Dow ntow n Berryville
Assessing Authority:		County of Clarke County
Current Tax Year:		2019
Assessment Ratio (% of market Value):		100.00%
Projected Assessment Information		**Totals**
Total Real Property Assessment:		$2,750,000
Personal Property:		$650,000
Total Effective Taxable Assm't:		$3,400,000
Hypothetical Base-Year Tax Liability	**Rate**	**Totals**
Taxes due Real Estate	0.20%	$5,500
Taxes due Personal Property	1.25%	$8,125
Total Property Taxes	**0.40%**	**$13,625**
Number of Units:		50
Property Taxes per Unit		$273

LOCAL TAXATION METHODOLOGY

Real property in the State of Virginia is assessed at 100% of market value. Tax bills are based on the real property assessment and the real property tax rate, which is set annually by the Board of Supervisors. The Town of Berryville calculates real and personal property taxes using assessments provided by the Clarke County Commissioner of Revenue.

The millage rate for real property, according to the Town of Berryville in July 2019, is 0.002 per $1,000 in value and the rate for personal property is 0.0125 per $1,000.

TAX COMPARABLES

To estimate the projected tax burden of the proposed subject, we considered information from similar properties in the market. There are no hotels similar to the proposed property in Clarke County; therefore, we considered the assessed value of hotels in Winchester, the closest city to Berryville. They are illustrated in the table below.

REAL ESTATE TAX ASSESSMENT COMPARABLES			
Property (Year Built)	**Rooms**	**Total Assm't**	**Assm't per Room**
Country Inn & Suites by Radisson Winchester (2007)	81	$4,952,100	$61,137
Hampton Inn by Hilton Winchester North/Conference Center (1999)	100	$5,596,700	$55,967
Wingate by Wyndham Winchester (1998)	84	$3,484,700	$41,485
La Quinta Inns & suites Winchester (2010)	100	$5,052,000	$50,520
Fairfield Inn & Suites Winchester (2004)	85	$4,498,600	$52,925
Holiday Inn Express & Suites Winchester (2004)	81	$4,101,900	$50,641
Survey Low	81	$3,484,700	$41,485
Survey High	100	$5,596,700	$61,137
Survey Average	89	$4,614,333	$52,112
Subject's Hypothetical Base-Year Assessment:	**50**	**$2,750,000**	**$55,000**
Hypothetical Assessments will be:			At market levels

TAX PROJECTION

Real Property Assessment Estimate

Based on the assessed levels at the comparable properties as well as the development budget of the subject (to be discussed), we estimated that the hypothetical base-year tax assessment level would have been about $55,000 per room, or $2,750,000 had it been open and operational during the base year. Our estimate is based on current assessment levels at properties in Winchester, which are regarded to be the most comparable in terms of class, quality, and condition. The overall tax expense is estimated to have been $13,625 if the subject hotel was open now.

Personal Property Assessment Estimate

The personal property assessment of the subject property was estimated based on the depreciated replacement cost new of the FF&E. Although hotel FF&E typically have a useful life of five to ten years, depreciation of these assets occurs at an accelerated depreciation rate, often faster than straight-line depreciation. Further, as depreciation and replacement of FF&E results in year-to-year fluctuations in the assessment, this figure is considered to reflect the average value of the personal property throughout the projection period.

Specifically; we estimate the personal property to have an effective age of zero years with an economic life of 7.0 years upon opening. We concluded that the value of the FF&E as new is approximately $13,000 per unit, or a total replacement cost of $650,000.

The following table illustrates our estimate of value basis of the FF&E, which are applied against the tax rate presented earlier in this section.

FF&E: VALUE BASIS AND DEPRECIATION		
Summary	**Upon Completion**	**Upon Stabilization**
Replacement Cost New	$650,000	$710,000
Per Room	$13,000	$14,200
Elapsed Time (years)	1.0	3.0
Effective Age (years)	1.0	5.0
Useful Life (years)	7.0	7.0
Percent Depreciated	14.3%	71.4%
Estimated Value	$557,000	$203,000

Tax Projection

To project the likely tax costs on a going-forward basis following completion of construction, we have considered a variety of factors including the amount of capital that is expected to be committed to the physical plant and the FF&E in the holding period, the assessment levels at comparable properties in the area, the expected quality of the property, and, most prominently, the anticipated operational performance of the property through the date of stabilization.

We observe that there is a strong correlation between the trends of a hotel's certain operational metrics and those of its actual tax costs. This is because the value of the tangible components of a hotel are more elastic relative to other property types due to the seasonality and cyclical nature of its revenue sources, notwithstanding there is a higher propensity for intangible value to exist in a hotel which, in the subject's jurisdiction, is not taxed.

The most relevant line item of comparison, therefore, is house profit. It is at this level of the business activity where all (or at least a substantial amount) of a property's intangible value has already been accounted for and stripped from the ownership position. (We call your attention to the Reconciliation section of this document, which describes the rationale behind the absence of any business value associated with this report.) Any swings in operating activities by way of, for example, a renovation would have a commensurate impact on the property's market value. Therefore, there is an intuitive relationship between a hotel's taxable value and its operating characteristics.

Since the house profit line item calculation is dependent on various individual revenue and expense components - each of which possesses certain fixed and variable characteristics that will be discussed later in this report - it is logical to conclude that a portion of any of its dependent variables (tax expense in this case) will be variable. However, given the level of expenses that have already been deducted prior to the calculation of house profit, most of the tax expense as it relates to house profit will be fixed.

CONCLUSION

The following table summarizes our tax projection as measured against house profit over the first five projection years following inception. Please note that, because we modeled there to be some degree of fixed behavior in the tax burden projection, the nominal percentage change in the tax projection (or, the growth rate's disparity from the inflation rate of 3.0%) is tempered relative to the house profit line item.

TAX PROJECTION - FIRST FIVE YEARS				
Period	**House Profit**	**Pct. Change**	**Tax Projection***	**Pct. Change**
Base Year - 2018**	$433,903	-	$13,625	-
Year 1 - 2021/22	$499,048	15.0%	$15,150	11.2%
Year 2 - 2022/23	$551,969	10.6%	$15,737	3.9%
Year 3 - 2023/24	$603,259	9.3%	$16,324	3.7%
Year 4 - 2024/25	$654,665	8.5%	$16,920	3.7%
Year 5 - 2025/26	$674,288	3.0%	$17,428	3.0%

**We modeled the fixed/variable components of the tax expense line item to be 80% and 20% respectively.*
***Base Year House Profit adjusted to account for market-oriented income and expenses.*

National Lodging Market Summary

Macroeconomic market conditions are key considerations that affect the market area of a subject and its property value. The supply and demand conditions are essential factors for consideration, as they affect the proposed subject property and its competitive position in the market.

Lodging fundamentals and their surrounding trends are aspects that are specific to the market. Demand for hotels and motels in the subject's local market area are influenced by national market trends, which will be examined in this section. This analysis includes excerpts and information from IBISWorld Industry Report: *Hotels & Motels in the U.S.,* PricewaterhouseCoopers: *Hospitality Directions in the U.S*. and *Emerging Trends in Real Estate 2019*, and STR, Inc.

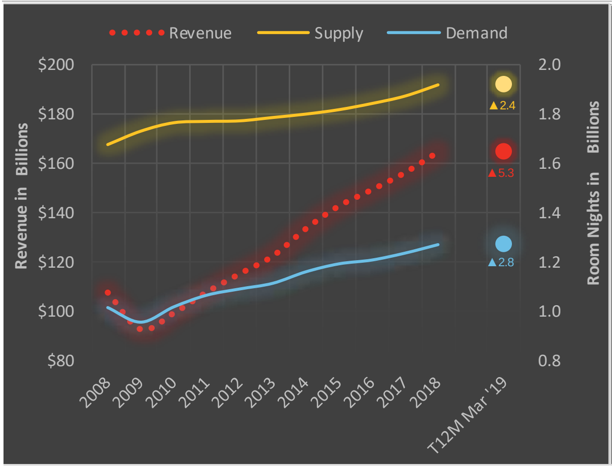
The following summary offers a high-level overview of trends in the lodging industry on a national level. A more thorough narrative is presented in the *Addenda* of this report.

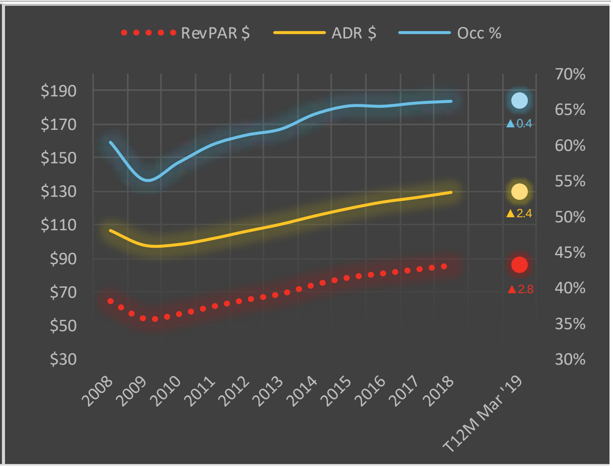
National Trends Snapshot

As an asset class, hotels appear to be holding their own with investors, both from a return-on-investment perspective as well as a development perspective. While development cost and acquisition pricing concerns remain top-of-mind for most of the investors surveyed, strong operating fundamentals continue to balance the overall view on the sector. Comparisons to prior cycles remain a focal point of many conversations, albeit with investors tending to coalesce around the sustained strength of the current cycle. Other trends, including the changing lodging sector landscape and changing physical programming, have also become subjects of investor interest.

The following charts illustrate historical performance trends through T12M Mar 2019, along with trailing three-month and six-month performance:

Historical Market Performance: United States												
Year	**Supply**	Δ%	**Demand**	Δ%	**Revenue**	Δ%	**Occ %**	Δ%	**ADR $**	Δ%	**RevPAR $**	Δ%
2008	1,673,991,040	-	1,011,561,443	-	$107,706,669,450	-	60.4%	-	$106.48	-	$64.34	-
2009	1,728,062,260	▲3.2%	952,266,656	▼5.9%	$92,819,617,581	▼13.8%	55.1%	▼8.8%	$97.47	▼8.5%	$53.71	▼16.5%
2010	1,762,020,903	▲2.0%	1,014,568,881	▲6.5%	$99,372,859,129	▲7.1%	57.6%	▲4.5%	$97.95	▲0.5%	$56.40	▲5.0%
2011	1,767,355,160	▲0.3%	1,062,135,606	▲4.7%	$107,877,712,567	▲8.6%	60.1%	▲4.4%	$101.57	▲3.7%	$61.04	▲8.2%
2012	1,769,610,554	▲0.1%	1,087,435,148	▲2.4%	$115,320,771,630	▲6.9%	61.5%	▲2.3%	$106.05	▲4.4%	$65.17	▲6.8%
2013	1,783,137,587	▲0.8%	1,110,527,243	▲2.1%	$122,499,628,183	▲6.2%	62.3%	▲1.3%	$110.31	▲4.0%	$68.70	▲5.4%
2014	1,796,907,059	▲0.8%	1,157,230,900	▲4.2%	$133,537,859,249	▲9.0%	64.4%	▲3.4%	$115.39	▲4.6%	$74.32	▲8.2%
2015	1,814,674,194	▲1.0%	1,189,614,896	▲2.8%	$142,717,142,071	▲6.9%	65.6%	▲1.8%	$119.97	▲4.0%	$78.65	▲5.8%
2016	1,839,582,345	▲1.4%	1,205,133,146	▲1.3%	$149,315,822,576	▲4.6%	65.5%	▼0.1%	$123.90	▲3.3%	$81.17	▲3.2%
2017	1,869,428,066	▲1.6%	1,233,203,792	▲2.3%	$156,234,286,952	▲4.6%	66.0%	▲0.7%	$126.69	▲2.3%	$83.57	▲3.0%
2018	1,914,729,390	▲2.4%	1,267,780,860	▲2.8%	$164,582,097,095	▲5.3%	66.2%	▲0.4%	$129.82	▲2.5%	$85.96	▲2.9%
CAGR 2008-18	**1.4%**		**2.3%**		**4.3%**		**0.9%**		**2.0%**		**2.9%**	
T3M Mar '18	473,210,516	-	267,704,562	-	$32,811,007,786	-	56.6%	-	$122.56	-	$69.34	-
T3M Mar '19	483,983,949	▲2.3%	274,602,071	▲2.6%	$34,284,772,941	▲4.5%	56.7%	▲0.3%	$124.85	▲1.9%	$70.84	▲2.2%
T6M Mar '18	948,700,175	-	600,348,087	-	$75,674,706,443	-	63.3%	-	$126.05	-	$79.77	-
T6M Mar '19	970,960,646	▲2.3%	616,056,893	▲2.6%	$79,389,144,828	▲4.9%	63.4%	▲0.3%	$128.87	▲2.2%	$81.76	▲2.5%
T12M Mar '18	1,873,245,611	-	1,235,682,955	-	$156,735,730,219	-	66.0%	-	$126.84	-	$83.67	-
T12M Mar '19	1,917,997,564	▲2.4%	1,270,160,447	▲2.8%	$164,965,145,983	▲5.3%	66.2%	▲0.4%	$129.88	▲2.4%	$86.01	▲2.8%



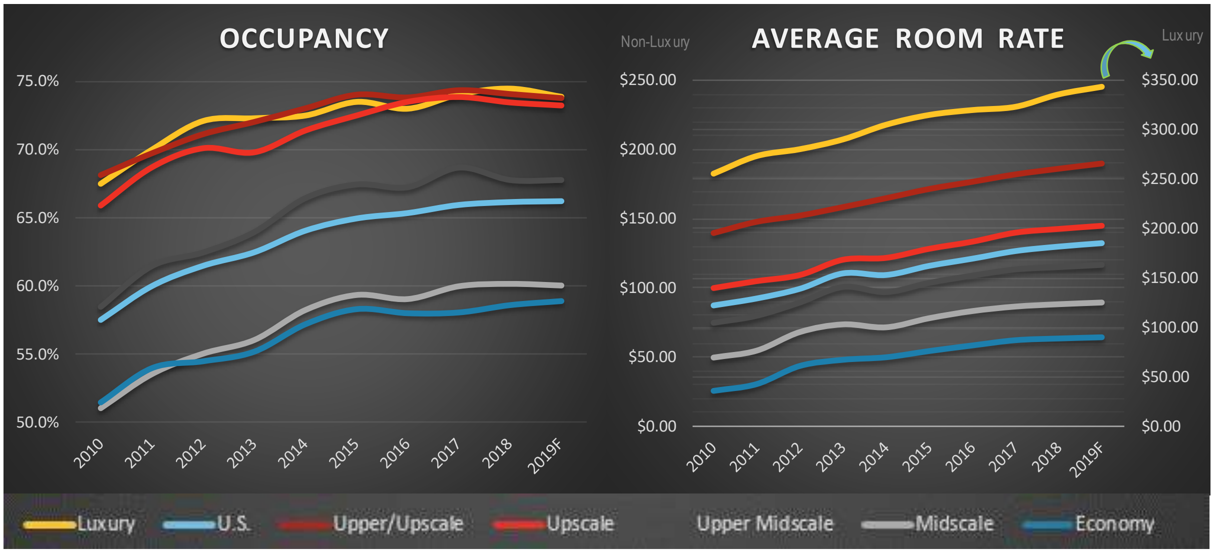


Operating Strength

Looking ahead to 2019, the U.S. lodging outlook remains stable, driven by steady economic fundamentals, including a continued increase in consumer spending; increasing, albeit decelerating business investment; and relatively strong consumer confidence. Lodging supply is expected to increase at a rate close to its long-term average; however, tightening financing conditions and further increasing costs for labor and construction may create a drag on supply growth. Overall, RevPAR in 2019 is expected to increase at a decelerating pace, driven exclusively by growth in ADR.

Counterbalances to this outlook that bear watching include continued trade tensions and effects from tariff-rate implementation, political uncertainty amid partisanship, and increasing interest rates.

The following graphic summarizes occupancy and ADR trends amongst the major lodging segments.



Changing Landscape

At present, the U.S. lodging sector is going through an accelerated pace of transition, characterized by ongoing consolidation, an evolving role of lodging brands, and the nascent use of a platform approach to customer acquisition and retention. Key trends to watch out for include the following:

- The role of lodging brands is expected to continue to evolve, as lodging companies seek to increasingly focus on franchising as the primary driver of their growth. Recent footprint growth points in that direction, with franchised rooms at three large U.S.-based hotel chains increasing by over 40 percent between the fourth quarter of 2014 and the first quarter of 2018, albeit with hotel management still expected to remain an integral part of the growth strategy for some lodging companies. Driven by the franchising focus, lodging brands may seek to further dissect lodging demand through brand introductions in select niche segments, with a focus on capitalizing on the experiential travel trend. Furthermore, the concept of loyalty and what that entails for guests and owners may evolve in the near term, with points-based loyalty programs evolving into more pervasive, experiential programs.

- Focused, independent hotels and their operators are expected to focus on expanding their customer base by following a platform approach to managing the customer journey using a unified technology platform. Leveraging a unified technology platform that extracts data from various systems (CRM, PMS, CRS, revenue management) and creates a single view on guests is expected to be a powerful differentiator for many smaller-scale players. Select companies are already experimenting with the platform approach, albeit in initial stages and with isolated components.

Changing Physical Programming

The modification of a hotel's physical layout and programming to use space more efficiently is another emerging trend noted by hotel investors surveyed. Recently, more emphasis has been placed on ensuring that more space inside the "box" generates revenue, with an understanding that while an obvious need exists for non-revenue-generating support space, it should be value engineered. Two areas noted include food and beverage (F&B) outlets and meeting space.

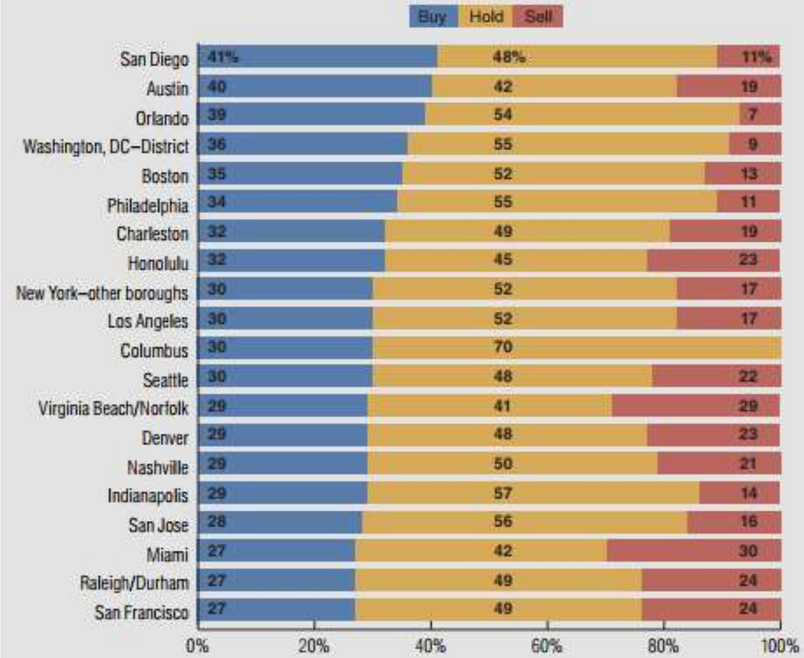
Regarding F&B, hotels are shifting from a separate restaurant and bar model to an integrated restaurant/bar model; standalone restaurants are being replaced with sophisticated lobby bars that offer an amplified bar menu and an open seating layout. This type of setup makes more efficient use of space and entices people in the lobby to purchase a drink or food. It also helps save on labor costs since the bar staff also serves the food.

Over the past few years, the meeting industry has experienced a shift from larger general sessions to smaller, more informal networking and breakout sessions—a trend that is expected to continue. Large convention/headquarters hotels are responding to this changing event profile by modifying the building program to develop more flexible meeting space that can easily adapt to meeting organizer needs.

Hotel investors could look to their meeting venue counterparts for guidance on how they are planning to modify their building program and enhance the venues' features and capabilities.

- Large convention centers are planning to increase ballroom and meeting room space. They are also focusing on enriching the center's image (e.g., with grand entrances and natural lighting).
- Small- and medium-sized centers are planning to increase meeting room and pre-function space. They are also focusing on adding features that will enhance the attendee experience (e.g., charging stations, interactive videoboards, and social areas). At the opposite end of the spectrum, some hotels have decided to remove ballroom space altogether, deciding instead to replace it with additional hotel room inventory or other uses that generate higher revenue. This is more prevalent in markets like New York City and others that have consistently high occupancy rates.

U.S. Buy/Hold/Sell Recommendation



Source: *Emerging Trends in Real Estate 2019* survey.
Note: Cities listed are the top 20 rated for investment in the hotel sector; cities are ordered according to the percentage of "buy" recommendations.

Investment Activity

The hotel market woke up to a harsh scene in January 2019, with double-digit declines in deal volume from a year earlier. The headline figures mask some positive trends in the limited-service segments and healthier signs for individual asset sales. Portfolio and entity-level sales can sometimes lift deal volumes to artificial highs. Such a boost happened in January 2018 which was the all-time high for portfolio sales in the hotel sector for a January. The pace set in January this year is more in line with usual January deal volume.

Looking at trends in the sale of individual assets eliminates the noise from portfolio and entity-level transactions and provides the clearest picture of investor appetite for hotels. These sales were down 7% YOY in January. Still, sales fell across all property sectors in January, so perceived hotel sector challenges were not the driver of declines. Furthermore, this 7% decline was the second strongest performance for individual asset sales across all property sectors.

The decline in commercial property sales in January is more likely a pause rather than a sign of a broader calamity underway. Investors are likely taking stock of the financial turmoil seen in Q4’18. That turmoil led to greater investor caution for a time with a growing spread between corporate bonds and the 10yr UST. That spread has eased so far in Q1’19 which may lead to improvements in deal volume.

The positive stories for the month come from the limited service segment of the hotel market which posted a 38% YOY increase in deal volume. This increase came from the strength of individual asset sales as well, indicating a broadbased increase in investor appetite for these assets. Further to this notion that the January sales figures were not as harsh as the headline figures suggest, hotel property prices continued to grow in the month. The RCA CPPI for hotel properties grew at a 3.0% annual pace.

Source: Real Capital Analytics

Future Outlook

Private capital sources represented the largest block of buyers of existing assets in the hotel market for 2018 but the sum of acquisitions by REITs, institutional investors and cross-border investors was larger; private capital sources were also far more dominant with regards to new developments in the hotel market. Looking ahead to 2019, there is an expectation of continued operating performance strength by hotel owners as increases in room rates continue to become a bigger driver of RevPAR growth, providing a better flow-through to the bottom line.

Regional Hotel Market Analysis

Operating Performance

Due to there being no reporting hotels the Town of Berryville, we show operating statistics for the Winchester market since it is proximate to the Town of Berryville and most representative of how a hotel would perform in the area. The Winchester area has 32 hotels, according to The Winchester Star. The following table presents operating performance statistics for the Winchester-Frederick County for year-end 2018, trailing-twelve-month May 2019, and 2019 year-to-date through May.

WINCHESTER - HISTORICAL OPERATING PERFORMANCE			
Year-End	**Occ %**	**ADR**	**RevPAR**
2018	66.2%	$85.00	$56.27
May TTM	**Occ %**	**ADR**	**RevPAR**
2019	65.0%	$85.00	$55.25
May YTD	**Occ %**	**ADR**	**RevPAR**
2019	73.0%	$88.00	$64.24

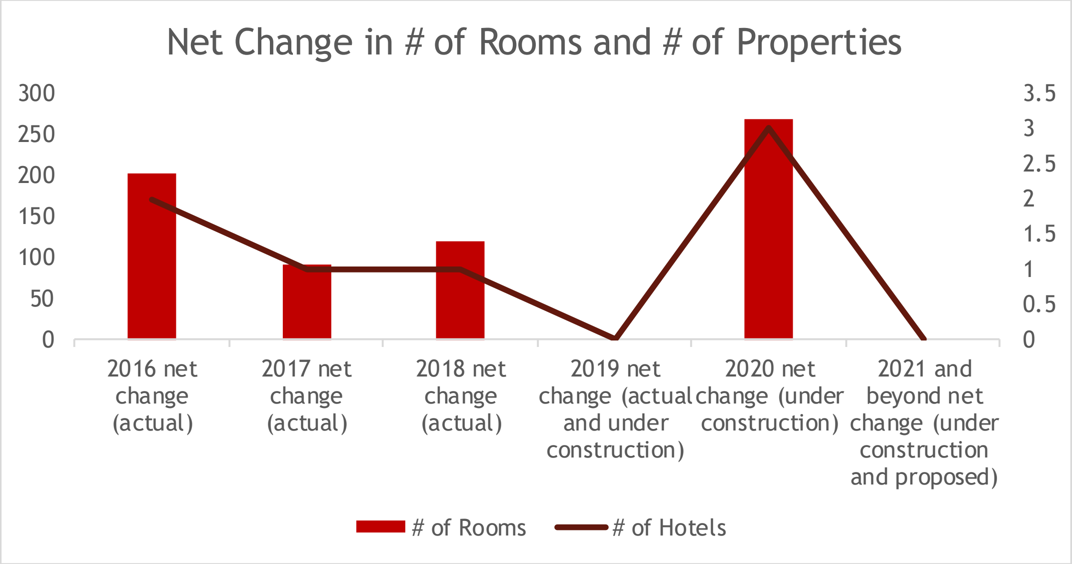
Source: STR

SUPPLY CHANGES

The following table presents recent supply changes to the lodging market in Berryville, VA, Winchester, VA, Leesburg, VA, Front Royal, VA, Charles Town, WV, and the surrounding small towns.

BERRYVILLE MARKET SUPPLY UPDATE					
Property	**Brand**	**Parent Company**	**City**	**Room Count**	**Open Date**
DoubleTree by Hilton Hotel Sterling Dulles Airport	DoubleTree	Hilton	Sterling, VA	171	Apr 2010
La Quinta Inn & Suites Winchester	La Quinta Inn & Suites	Wyndham	Winchester, VA	100	Jun 2010
Hampton Inn Charles Town	Hampton	Hilton	Charles Town, WV	131	Jun 2012
Salamander Resort & Spa	Independent Full-Service	Independent	Middleburg, VA	168	Sep 2013
Fairfield Inn & Suites Martinsburg	Fairfield Inn	Marriott	Martinsburg, WV	92	Oct 2016
Hilton Garden Inn Martinsburg	Hilton Garden Inn	Hilton	Martinsburg, WV	111	Nov 2016
Home2 Suites by Hilton Charles Town	Home2 Suites	Hilton	Charles Town, WV	91	Aug 2017
Home2 Suites by Hilton Chantilly Dulles Airport	Home2 Suites	Hilton	Chantilly, VA	120	Oct 2018
Comfort Inn Winchester	Comfort Inn	Choice	Winchester, VA	84	Q1 2020
SpringHill Suites Winchester	SpringHill Suites	Marriott	Winchester, VA	96	Q1 2020
Tru by Hilton Winchester	Tru by Hilton	Hilton	Winchester, VA	90	Q1 2020

There were 414 rooms that entered the market from 2010 to present, and another 270 hotels are expected to open in Winchester. The following graph shows the aggregate net change in available rooms in the region.



PEER-TO-PEER ACCOMMODATIONS

Peer-to-peer accommodations, such as AirBNB, VRBO, and Flipkey, have become increasingly popular in the last decade. Berryville has multiple bed and breakfasts that use peer-to-peer platforms as one of their reservation systems. The bed and breakfasts will advertise one bedroom in the house for rent. There are also homes that are not bed and breakfasts that Berryville residents will rent out when they are away. Prices in Berryville range from $65 to $185 and range from one bedroom to a full house; however, most are one bedroom in bed and breakfasts. There are approximately three to five listings at one time in Berryville.

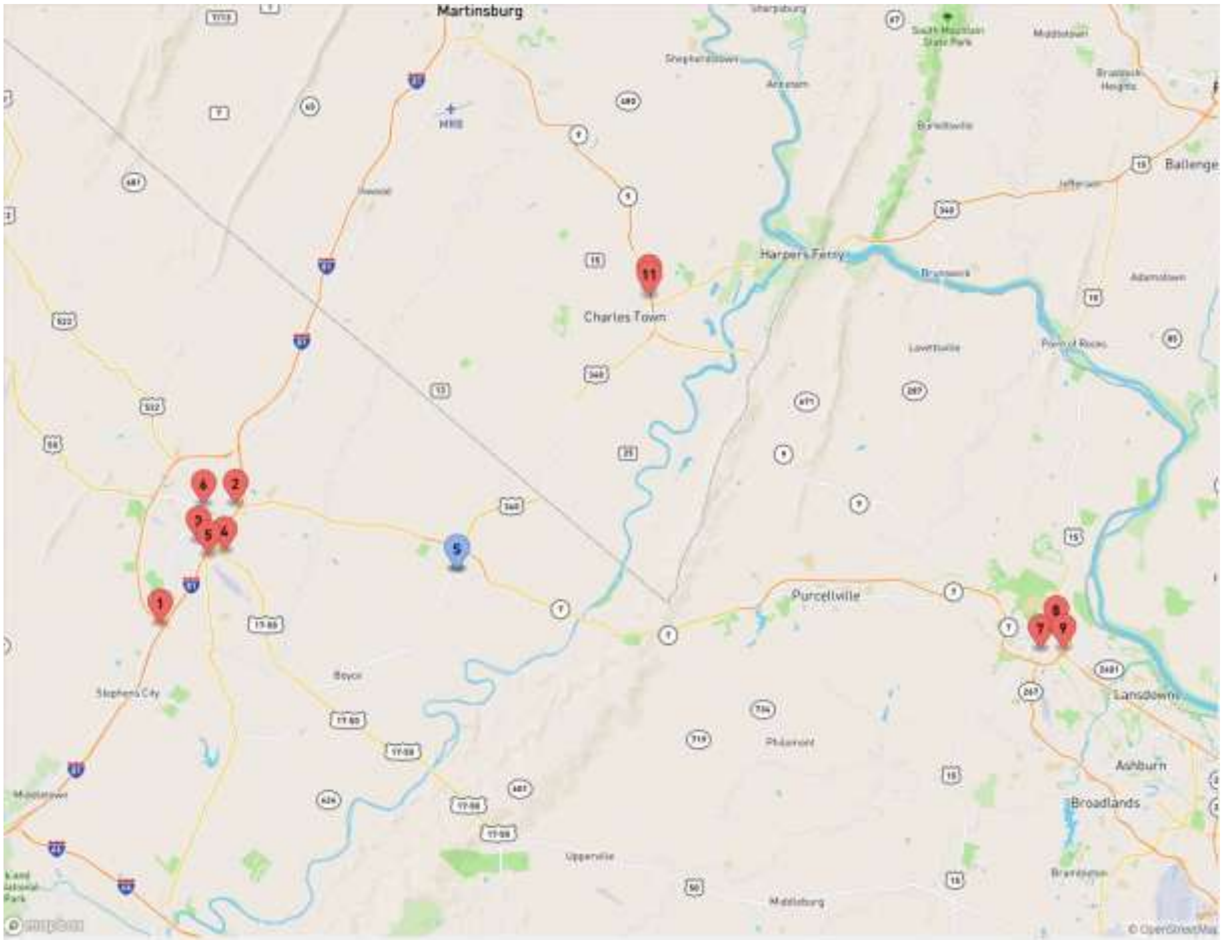
Supply and Demand Analysis

CURRENT COMPETITIVE SUPPLY

The following table summarizes the physical characteristics of the subject hotel and its competitors and is followed by a map of their locations. The tables after the map summarize pertinent operating data for the subject and competitors. The information is estimated based on data obtained from third-party sources, as well as our understanding of competitive forces at each brand and type. Due to the proprietary nature of this sort of information, it cannot be positively confirmed with source documentation.

COMPETITIVE PROPERTY FACILITIES OVERVIEW											
General Property Information						Amenities and Other Characteristics					
Property Name / Address	Number of Rooms	Year Opened	Competitor Type	Meeting Space (Total SF)	Meeting Space (per Room)	Restaurants	Bistro / Lounge / Breakfast Café	Swimming Pool	Business Center	Fitness Room	Other
Country Inn & Suites by Radisson Winchester 141 Kernstown Commons Boulevard, Winchester, VA	**81**	**2007**	**Primary**	**540**	**6.7**	None	Comp. Breakfast	Indoor	X	X	Pet Friendly
Hampton Inn by Hilton Winchester North/Confere 1204 Berryville Avenue, Winchester, VA	**100**	**1999**	**Secondary**	**4,971**	**49.7**	None	Comp. Breakfast	Outdoor	X	X	Outdoor Patio
Wingate by Wyndham Winchester 150 Wingate Drive, Winchester, VA	**84**	**1998**	**Secondary**	**1,039**	**12.4**	None	Comp. Breakfast	Indoor	X	X	Pet Friendly
La Quinta Inns & suites Winchester 1055 Millwood Pike, Winchester, VA	**100**	**2010**	**Secondary**	**680**	**6.8**	None	Comp. Breakfast	Indoor	X	X	Outdoor Patio, Pet Friendly
Fairfield Inn & Suites Winchester 250 Front Royal Pike, Winchester, VA	**85**	**2004**	**Primary**	**315**	**3.7**	None	Comp. Breakfast	Indoor	X	X	Outdoor Patio
Holiday Inn Express & Suites Winchester 142 Rox Ridge Lane, Winchester, VA	**81**	**2004**	**Secondary**	**300**	**3.7**	None	Comp. Breakfast	Indoor	X	X	
Best Western Leesburg Hotel & Conference Cent 726 E Market Street, Leesburg, VA	**99**	**1986**	**Secondary**	**3,000**	**30.3**	None	Comp. Breakfast	Outdoor	X	X	Outdoor Patio, Electric Parking, Shuttle
Comfort Suites Leesburg 80 Prosperity Avenue SE, Leesburg, VA	**80**	**2000**	**Secondary**	**720**	**9.0**	None	Comp. Breakfast	Indoor	X	X	Guest Laundry
Hampton Inn & Suites Leesburg 117 Fort Evans Road NE, Leesburg, VA	**101**	**2002**	**Secondary**	**1,008**	**10.0**	None	Comp. Breakfast	Indoor	X	X	
Holiday Inn Express Charles Town 681 Flowing Springs Road, Ranson, WV	**145**	**2006**	**Secondary**	**1,250**	**8.6**	None	Comp. Breakfast	Outdoor	X	X	
Hampton Inn & Suites Charles Town 157 Pimlico Drive, Charles Town, WV	**131**	**2012**	**Primary**	**600**	**4.6**	None	Comp. Breakfast	Indoor	X	X	

MAP OF COMPETITIVE HOTELS



COMPETITION MAP KEY				
Property Name	Location	Pin No.	Distance (mi)	Latitude, Longitude
Proposed Downtown Berryville Hotel	Berryville, VA	S	-	39.15045,-77.9804
Country Inn & Suites by Radisson Winchester	Winchester, VA	A	11.6	39.12057,-78.194318
Hampton Inn by Hilton Winchester North/Conference Center	Winchester, VA	B	8.9	39.186079,-78.140045
Wingate by Wyndham Winchester	Winchester, VA	C	10.0	39.165882,-78.166889
La Quinta Inns & suites Winchester	Winchester, VA	D	9.0	39.160268,-78.147979
Fairfield Inn & Suites Winchester	Winchester, VA	E	9.6	39.158162,-78.159649
Holiday Inn Express & Suites Winchester	Winchester, VA	F	10.1	39.1858,-78.1631
Best Western Leesburg Hotel & Conference Center	Leesburg, VA	G	22.7	39.10682,-77.5599
Comfort Suites Leesburg	Leesburg, VA	H	23.3	39.116935,-77.548477
Hampton Inn & Suites Leesburg	Leesburg, VA	I	23.6	39.107082,-77.543396
Holiday Inn Express Charles Town	Ranson, WV	J	12.9	39.3037,-77.84195
Hampton Inn & Suites Charles Town	Charles Town, WV	K	12.7	39.299931,-77.841813

DISCUSSION OF COMPETITIVE PROPERTIES

Country Inn & Suites by Radisson Winchester

Country Inn & Suites by Radisson Winchester

Country Inn & Suites by Radisson Winchester is an 81-room limited-service property located at 141 Kernstown Commons Boulevard in Winchester, Virginia. We interviewed individuals who are familiar with the target markets of this hotel and researched the facilities and amenities that are offered at this property (namely with respect to the inventory of meeting facilities, suites, etc.) We also reviewed the actual segmentation results of hotels that have a similar brand and service orientation and estimated that the hotel's market mix is 45% Commercial, 5% Group and 50% Leisure. This property is not competitive within the Extended-Stay segment.

Hampton Inn by Hilton Winchester North/Conference Center

Hampton Inn by Hilton Winchester North/Conference Ce

Hampton Inn by Hilton Winchester North/Conference Center is a 100-room limited-service property located at 1204 Berryville Avenue in Winchester, Virginia. After interviewing individuals who are familiar with the target markets of this hotel and reviewing the facilities offered at this property (meeting facilities, suites, etc.), and after researching actual segmentation results of similarly-branded hotels, we have determined that this property's market mix is 50% Commercial, 20% Group and 30% Leisure. This property is not competitive within the Extended-Stay segment.

Wingate by Wyndham Winchester

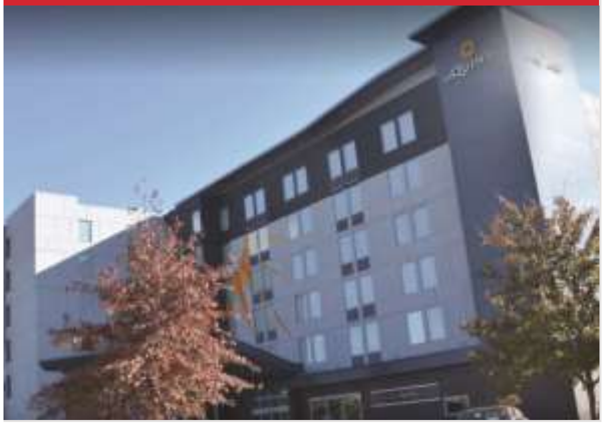
Wingate by Wyndham Winchester is an 84-room limited-service property located at 150 Wingate Drive in Winchester, Virginia. Based on discussions with property representatives and reviewing the facilities offered at this property (meeting facilities, suites, etc.), and after researching actual segmentation results of similarly-branded hotels, we have determined that this property's market mix is 35% Commercial, 5% Group and 60% Leisure. This property is not competitive within the Extended-Stay segment.

Wingate by Wyndham Winchester

La Quinta Inns & suites Winchester

La Quinta Inns & suites Winchester is a 100-room limited-service property located at 1055 Millwood Pike in Winchester, Virginia. We interviewed individuals who are familiar with the target markets of this hotel and researched the facilities and amenities that are offered at this property (namely with respect to the inventory of meeting facilities, suites, etc.) We also reviewed the actual segmentation results of hotels that have a similar brand and service orientation and estimated that the hotel's market mix is 35% Commercial, 5% Group and 60% Leisure. This property is not competitive within the Extended-Stay segment.

La Quinta Inns & suites Winchester



Fairfield Inn & Suites Winchester

Fairfield Inn & Suites Winchester is an 85-room limited-service property located at 250 Front Royal Pike in Winchester, Virginia. After interviewing individuals who are familiar with the target markets of this hotel and reviewing the facilities offered at this property (meeting facilities, suites, etc.), and after researching actual segmentation results of similarly-branded hotels, we have determined that this property's market mix is 50% Commercial, 5% Group and 45% Leisure. This property is not competitive within the Extended-Stay segment.

Fairfield Inn & Suites Winchester

Holiday Inn Express & Suites Winchester

Holiday Inn Express & Suites Winchester is an 81-room limited-service property located at 142 Rox Ridge Lane in Winchester, Virginia. Based on discussions with property representatives and reviewing the facilities offered at this property (meeting facilities, suites, etc.), and after researching actual segmentation results of similarly-branded hotels, we have determined that this property's market mix is 50% Commercial, 5% Group and 45% Leisure. This property is not competitive within the Extended-Stay segment.

Holiday Inn Express & Suites Winchester

Best Western Leesburg Hotel & Conference Center

Best Western Leesburg Hotel & Conference Center

Best Western Leesburg Hotel & Conference Center is a 99-room limited-service property located at 726 E Market Street in Leesburg, Virginia. We interviewed individuals who are familiar with the target markets of this hotel and researched the facilities and amenities that are offered at this property (namely with respect to the inventory of meeting facilities, suites, etc.) We also reviewed the actual segmentation results of hotels that have a similar brand and service orientation and estimated that the hotel's market mix is 35% Commercial, 20% Group and 45% Leisure. This property is not competitive within the Extended-Stay segment.

Comfort Suites Leesburg

Comfort Suites Leesburg

Comfort Suites Leesburg is an 80-room limited-service property located at 80 Prosperity Avenue SE in Leesburg, Virginia. After interviewing individuals who are familiar with the target markets of this hotel and reviewing the facilities offered at this property (meeting facilities, suites, etc.), and after researching actual segmentation results of similarly-branded hotels, we have determined that this property's market mix is 30% Commercial, 5% Group and 65% Leisure. This property is not competitive within the Extended-Stay segment.

Hampton Inn & Suites Leesburg

Hampton Inn & Suites Leesburg

Hampton Inn & Suites Leesburg is a 101-room limited-service property located at 117 Fort Evans Road NE in Leesburg, Virginia. Based on discussions with property representatives and reviewing the facilities offered at this property (meeting facilities, suites, etc.), and after researching actual segmentation results of similarly-branded hotels, we have determined that this property's market mix is 55% Commercial, 5% Group and 40% Leisure. This property is not competitive within the Extended-Stay segment.

Holiday Inn Express Charles Town

Holiday Inn Express Charles Town

Holiday Inn Express Charles Town is a 145-room limited-service property located at 681 Flowing Springs Road in Ranson, West Virginia. We interviewed individuals who are familiar with the target markets of this hotel and researched the facilities and amenities that are offered at this property (namely with respect to the inventory of meeting facilities, suites, etc.) We also reviewed the actual segmentation results of hotels that have a similar brand and service orientation and estimated that the hotel's market mix is 55% Commercial, 5% Group and 40% Leisure. This property is not competitive within the Extended-Stay segment.

Hampton Inn & Suites Charles Town

Hampton Inn & Suites Charles Town is a 131-room limited-service property located at 157 Pimlico Drive in Charles Town, West Virginia. After interviewing individuals who are familiar with the target markets of this hotel and reviewing the facilities offered at this property (meeting facilities, suites, etc.), and after researching actual segmentation results of similarly-branded hotels, we have determined that this property's market mix is 55% Commercial, 5% Group and 40% Leisure. This property is not competitive within the Extended-Stay segment.

Hampton Inn & Suites Charles Town

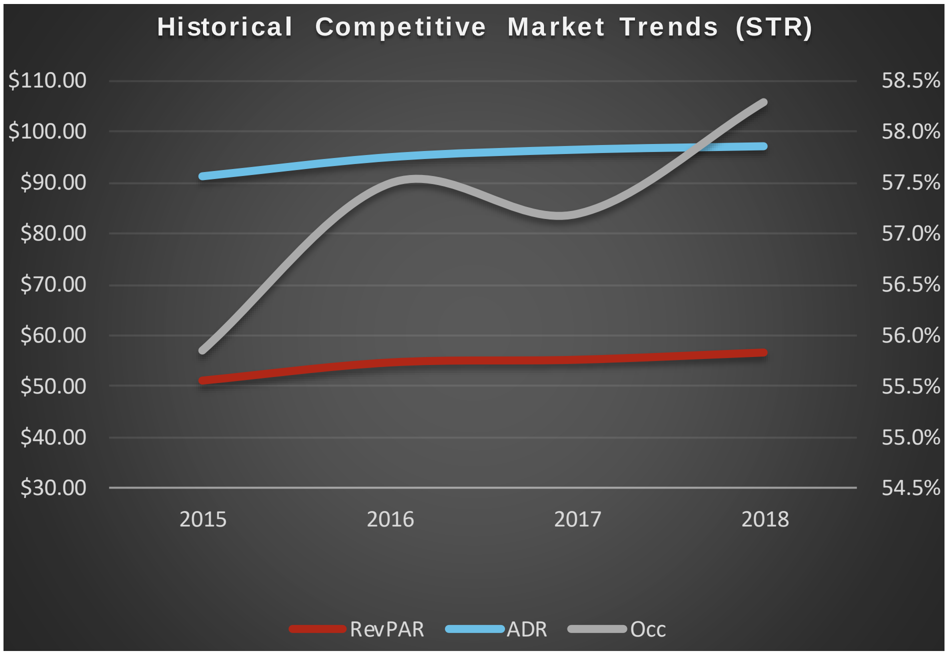
STR

STR is an independent research company that is known within the lodging industry as a reliable aggregator and provider of hotel operating data. The competitors in the report are generally similar to what is reported by the management of the proposed subject hotel; however, not all hotels that report to STR do so consistently and timely creating potential for some discrepancies within the data. Even so, the reports are relied on by market participants for assessing property performance, forecasts, and other purposes. As such, the STR report is utilized and relied on for this assignment.

Since the proposed subject hotel will capture demand from multiple markets, we considered a wider competitive set than those properties described earlier. We project the subject property will capture demand from existing properties in Clarke, Frederick, and Loudon counties. Additionally, we considered hotel performance in comparable markets outside of the three counties. The aggregated operating data for the surrounding region known as Virginia Area Market according to STR, which we use in our analysis, is presented in the following table.

HISTORICAL COMPETITIVE MARKET TRENDS

Year	Rooms	Supply	% Change	Demand	% Change	Occ	% Change	ADR	% Change	RevPAR	% Change
2015	13,137,445	13,137,445	-	7,338,311	-	55.9%	-	$91.22	-	$50.95	-
2016	13,368,855	13,368,855	1.8%	7,687,092	4.8%	57.5%	2.9%	$94.94	4.1%	$54.59	7.1%
2017	13,571,430	13,571,430	1.5%	7,762,858	1.0%	57.2%	-0.5%	$96.40	1.5%	$55.14	1.0%
2018	14,106,885	14,106,885	3.9%	8,224,314	5.9%	58.3%	1.9%	$97.07	0.7%	$56.59	2.6%
CAGR:			2.4%		3.9%		1.4%		2.1%		3.6%



Occupancy generally increased over the trend history. In the most recent period (2018), occupancy improved by 1.9%. During the same trend history, average rates generally increased. In 2018, ADR improved by 0.7% to $97.07. Overall, rooms revenue within the competitive set posted positive growth over the trend period achieving a RevPAR metric of $56.59 during 2018.

Supply in the Virginia Area market, as defined by STR, recorded modest supply increases between 2015 and 2018, with most new additions occuring in 2018. New supply has primarily consisted of upper-midscale and upscale properties. Though supply growth has been steady, demand growth has been higher, resulting in increased occupancy levels over the same four-year period. The growth in demand is attributed to the increase in commercial and leisure demand throughout the Virginia Area market. Industial and manufacturing developments have driven local economies and a healthy consumer has led to increased leisurely travel. The market's rate growth was strong earlier in the four-year period, and has showed signs of slowing. The increase of upper-midscale and upscale properties helped drive rate early in the cycle, but increased competition has tempered rate growth later in the cycle. Overall, the Virginia Area market recorded RevPAR growth throughout the four-year period, maintaining a CAGR RevPAR of nearly 4%.

ADDITIONS TO SUPPLY

We have identified additions to the guestroom supply that are proposed/under construction which will place competitive pressure on the subject property. The following list summarizes the identity, number of rooms, anticipated opening date and expected level of competitiveness of the new supply which has been identified during the course of this assignment.

NEW SUPPLY ANALYSIS

		Anticipated Segmentation				
Property Name	**Service Orientation**	**Commercial**	**Group**	**Leisure**	**Extended-Stay**	**Segment Overlap**
Comfort Inn	Limited-Service	50%	3%	47%	0%	**83%**
SpringHill Suites	Limited-Service	50%	3%	47%	0%	**83%**
Tru by Hilton	Limited-Service	47%	9%	44%	0%	**84%**
Independent - Midscale Limited-Service	Limited-Service	10%	25%	65%	0%	**91%**
Total/Average						

**Index measures approximate room rate of new competitor as if complete relative to subject's actual achieved room rate during the 2018 base year.*
***Competitive Quotient*

A summary table of supply additions in the market is provided in the Regional Hotel Market Analysis. These hotels were determined not to be directly competitive with the proposed subject hotel due to distance from the subject, brand affiliations and/or service scale, and expected market segmentation mix.

It is noted that while the potential for other new hotel inventory has been considered as a part of the market research and reasonable efforts were made to determine which new hotels might be added to the market, it is neither possible to ascertain every property that might be developed in the future, nor the potential impact on the competitors and/or subject property. New supply may have a negative impact on the estimated market value of the proposed subject hotel. As such, the characteristics of the local market and the potential for unexpected inventory additions within the market are both considered in the selection of the stabilized occupancy rate and appropriate investment parameters.

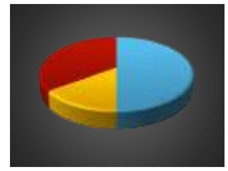
ANALYSIS OF DEMAND SEGMENTS

The total room demand within the competitive set is comprised of the total number of rooms occupied by all demand segments during a full year. Operators within this market recognize multiple main demand segments; the distribution of accommodated hotel room night demand for the competitive set in aggregate is delineated into the following market segments:

- Commercial
- Group
- Leisure

Illustrated in the following table is the estimated market mix of the proposed subject hotel and the composite of the competitive properties during the 2018 base year.

DISTRIBUTION OF DEMAND



Segment	Subject (Yr. 3)	Market
Commercial	38%	50%
Group	17%	15%
Leisure	45%	35%

The proposed subject hotel's estimated market mix will have a higher percentage of the leisure and group segments compared to the competitive set because of its location and market positioning. We noted the following characteristics of the proposed subject hotel:

- The proposed subject hotel is anticipated to be affiliated with a limited-service hotel such as Ascend Collection, Best Western, or Cobblestone throughout the holding period, and is expected to command a moderate percentage of commercial demand. Management of the subject hotel is expected to target this segment with significant marketing efforts to compete with existing hotels. The commercial demand percentage is projected to be lower than the average of the market because of the subject property's proposed location away from a major roadway and low density of commercial developments in the vicinity.

- The proposed subject property has a modest amount of meeting and event space as compared to its competitors, with approximately 5,000 square feet. The hotel is positioned to appeal to SMERFE (Social/Sport, Military, Educational, Religious, Fraternal, and Entertainment/Ethnic) and tour-and-travel guests over the long term. Management's expected focus on attracting group demand, particularly on shoulder nights (Sunday and Thursdays) is anticipated to result in a demand mix percentage that is higher than the average of the competitive set.

- The leisure demand mix percentage is expected to be somewhat higher than the average of the competitive set based on the subject property's proposed location in downtown Berryville and proximity to various wedding venues and leisurely attractions.

As will be further discussed, we believe the proposed subject will improve its competitive position in the three market segments as the property ramps its operation. As a result, the subject's market mix percentages will change somewhat, but still be generally similar to base year levels. The proposed subject hotel is anticipated to be most competitive in the leisure segment upon stabilization.

The primary segments are discussed in the following paragraphs along with our projections of future growth rates in each segment. Further discussion of the segments is presented in the ***Glossary*** section beginning on page 103 of this report.

Commercial Demand

The following includes a list of major commercial-oriented demand generators in the subject's market:

COMMERCIAL DEMAND GENERATORS	
American Woodmark*	Green Bay Packaging*
Berryville Graphics	Lear Corporation*
Bank of Clarke County	Mount Weather/FEMA
Blandy Experiment Farm (UVA)	Trelleborg Marine Systems
Cives Steel*	Winchester Medical Center*

*Based outside of Berryville and Clarke County

Based on the latest growth trends in the local and national economies, as well as our observations formed during the due diligence process, commercial demand within the competitive set is projected to grow in accordance with the following table. The greater area, particularly in Winchester, has recorded strong growth in the past couple of years. Developments in the area that will result in commercial room night demand include the construction of a new FBI records facility, expansion of American Woodmark and Navy Federal Credit Union, and the opening of a new Amazon distribution facility. North in Berkley County, West Virginia, Proctor and Gamble is developing a new manufacturing facility that will also benefit the greater region. Similar economic activity has been ongoing in the Virginia Area market; however, it has not been as robust as Winchester and neighboring areas.

COMMERCIAL SEGMENT GROWTH RATES	2018	2019	2020	2021	2022	2023
Annual Growth	-	2.0%	1.0%	1.0%	1.0%	0.5%
Base Demand	*4,112,157*	4,194,400	4,236,344	4,278,707	4,321,494	4,343,101

Group Demand

Based on the recent performance of the local, regional, and national group-related markets, meeting and group hotel demand within the competitive set is forecast grow in accordance with the following table. Though the Virginia Area market excludes Washington, DC and Northern Virginia, there is still a significant amount of group demand that uses accommodations in the subject region due to lower room rates and ease of accessing other historical sites in Virginia and neighboring states. Washington DC recorded 21.9 million domestic visitors in 2018, up 1.1 million from 2017, according to Destination DC, the city's tourism bureau. International visitation totaled about two million in 2017, which was 2.5% increase from 2016 (data for 2018 was not available at the time of research). The popularity of Washington, DC, Civil War battle sites, and other historic landmarks in Clarke County and surrounding counties will continue to provide a strong base of group demand.

GROUP SEGMENT GROWTH RATES	2018	2019	2020	2021	2022	2023
Annual Growth	-	0.5%	0.5%	0.5%	0.5%	0.0%
Base Demand	*1,233,647*	1,239,815	1,246,014	1,252,244	1,258,505	1,258,505

Leisure Demand

In the Berryville area, travelers visiting area attractions and friends and relatives of local residents comprise much of the leisure demand. The following summarizes some of the major leisure demand generators in the market:

LEISURE DEMAND GENERATORS	
Barns of Roses	Harper's Ferry - Potomac River
Charles Tow n Races and Gaming	Shenandoah National Park
Clarke County Historical Association Museum	Shenadoah University
Clarke County Public Schools (sports)	Tree Farms

Based on the Regional Analysis of tourism in the Berryville area, as well as economic fluctuations occurring locally and, in the nation, and the recent performance in the market, leisure demand is forecast to change in accordance of the following table. We considered the robust visitor growth figures described in the Group Demand projections as well as the subject site's proximity to various historical sites. Consumers' increase of discretionary spending has benefited the regional tourism industry as well as the shift in consumers' preference of more experiential purchases.

LEISURE SEGMENT GROWTH RATES	2018	2019	2020	2021	2022	2023
Annual Growth	-	2.0%	1.0%	1.0%	1.0%	0.5%
Base Demand	*2,878,510*	2,936,080	2,965,441	2,995,095	3,025,046	3,040,171

LATENT DEMAND

Demand captured by the subject and the competitive set considers only those room nights sold. Latent demand considers the potential guests that could not be accommodated by the existing competitive supply for a variety of reasons. Latent demand can be divided into induced demand and displaced demand.

A more thorough discussion of Latent Demand is presented in the ***Glossary*** section beginning on page 103 of this report.

Induced Demand

Although we believe that there may be new development and/or economic impact events which could induce some amount of demand into the market in the future, we have not identified any such events that are measureable today. Therefore, we have modeled there to be no induced demand in the subject's market.

Displaced Demand

Although we believe that there may be some degree of displaced demand in some of the market segments during peak periods, we have accounted for this demand in our base demand growth rates. Therefore, we have modeled there to be no displaced demand in the subject's market.

MARKET OCCUPANCY PROJECTION

The characteristics of the local market are factored into the projection of occupancy for the competitive set with future growth rates that are specific to each individual market segment as detailed earlier in the report.

The projection of room night supply, demand, and subsequent occupancy rates for the proposed subject hotel's competitive market is shown in the following table.

PROJECTION OF BASE ROOM NIGHT DEMAND AND ANNUAL GROWTH

*Note: subject opening in June 2021. However, for comparison purposes, full year of 2021 data is shown.

Segment	Base Year 2018	2019	2020	(Inception) 2021	2022	2023	2024
Commercial							
Annual Growth	-	2.0%	1.0%	1.0%	1.0%	0.5%	0.0%
Base Demand	*4,112,157*	4,194,400	4,236,344	4,278,707	4,321,494	4,343,101	4,343,101
Total Market Segment Demand	*4,112,157*	4,194,400	4,236,344	4,278,707	4,321,494	4,343,101	4,343,101
Group							
Annual Growth	-	0.5%	0.5%	0.5%	0.5%	0.0%	0.0%
Base Demand	*1,233,647*	1,239,815	1,246,014	1,252,244	1,258,505	1,258,505	1,258,505
Total Market Segment Demand	*1,233,647*	1,239,815	1,246,014	1,252,244	1,258,505	1,258,505	1,258,505
Leisure							
Annual Growth	-	2.0%	1.0%	1.0%	1.0%	0.5%	0.0%
Base Demand	*2,878,510*	2,936,080	2,965,441	2,995,095	3,025,046	3,040,171	3,040,171
Total Market Segment Demand	*2,878,510*	2,936,080	2,965,441	2,995,095	3,025,046	3,040,171	3,040,171
Total							
Annual Base Demand Growth	-	1.8%	0.9%	0.9%	0.9%	0.4%	0.0%
Base Demand	*8,224,314*	8,370,295	8,447,799	8,526,046	8,605,045	8,641,777	8,641,777
Total Market Segment Demand	***8,224,314***	**8,370,295**	**8,447,799**	**8,526,046**	**8,605,045**	**8,641,777**	**8,641,777**
% Change	**-**	**1.8%**	**0.9%**	**0.9%**	**0.9%**	**0.4%**	**0.0%**
Market Statistics							
Total Rooms Supply	*39,208*	39,208	39,484	39,538	39,538	39,538	39,538
Total Available Room Nights	*14,310,920*	14,310,920	14,411,660	14,431,370	14,431,370	14,431,370	14,431,370
% Change	-	0.0%	0.7%	0.1%	0.0%	0.0%	0.0%
MARKETWIDE OCCUPANCY	***57.5%***	**58.5%**	**58.6%**	**59.1%**	**59.6%**	**59.9%**	**59.9%**

SUBJECT HOTEL OCCUPANCY PROJECTION

To derive the occupancy projection of the proposed subject hotel, a room night analysis is completed that quantifies and projects overall room night demand for the proposed subject property. This analysis is based on the competitiveness of the proposed subject hotel with the other hotels in the competitive set and its penetration into the various demand segments previously discussed. A more detailed discussion of the methodology associated with occupancy projection is presented in the ***Glossary*** section beginning on page 103 of this report.

In the following paragraphs, the rationale supporting the penetration index projections is discussed for each demand segment.

Commercial Demand Penetration

The proposed subject hotel is anticipated to be affiliated with Ascend Collection, Best Western, Cobblestone or similar limited-service brand throughout the holding period. The proposed subject's competitive advantages would include its new construction, proximity to a historic downtown neighborhood, recommended on-site amenities, and national brand affiliation. The low density of commercial developments in the area and distance from a major roadway will reduce the proposed subject hotel's commercial demand competitiveness with other hotels in the greater market.

Overall, we forecast the commercial penetration index to increase to 82.0% into the stabilized year. Based on our estimated penetration levels, the stabilized commercial market mix will equate to roughly 38.0%.

Group Demand Penetration

We recommend and have assumed a moderate amount of meeting event space totaling 5,000 square feet be available at the proposed subject property, which will be positioned to attract small corporate meetings, SMERFE demand, and tour-and-travel patronage over the long-term. Similar to the commercial segment, penetration levels for this segment are forecast to increase to a stabilized level of 130.0%. The group penetration index is projected to stabilize at 17.5% of the proposed subject's business mix.

Leisure Demand Penetration

The leisure traveler segment is somewhat rate sensitive relative to the other segments and the proposed subject hotel's anticipated rate structure is noted to be below average in the marketplace during the base year. Overall, leisure penetration is expected to increase to a stabilized level of 137.0%, resulting in market segmentation of approximately 44.5% of occupied room nights.

SUBJECT'S PROJECTED PENETRATION, MARKET SHARE AND TOTAL CAPTURE

*Note: subject opening in June 2021. However, for comparison purposes, full year of 2021 data is shown.

	Base Year 2018	2019	2020	(Inception) 2021	2022	2023	2024
Subject Property Fair Share							
Market Room Supply	-	39,208	39,484	39,538	39,538	39,538	39,538
Subject Property Room Count	-	-	-	50	50	50	50
Fair Share	**-**	**-**	**-**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
Room Nights Captured by Subject							
Commercial							
Fair Share	-	-	-	0.1%	0.1%	0.1%	0.1%
Penetration Index	-	-	-	74.0%	76.0%	78.0%	82.0%
Market Share	-	-	-	0.1%	0.1%	0.1%	0.1%
Market Segment Demand	-	4,194,400	4,236,344	4,278,707	4,321,494	4,343,101	4,343,101
Market Share	-	-	-	0.1%	0.1%	0.1%	0.1%
Segment Room Nights Accommodated	-	-	-	4,004	4,153	4,284	4,504
Group							
Fair Share	-	-	-	0.1%	0.1%	0.1%	0.1%
Penetration Index	-	-	-	115.0%	120.0%	125.0%	130.0%
Market Share	-	-	-	0.1%	0.2%	0.2%	0.2%
Market Segment Demand	-	1,239,815	1,246,014	1,252,244	1,258,505	1,258,505	1,258,505
Market Share	-	-	-	0.1%	0.2%	0.2%	0.2%
Segment Room Nights Accommodated	-	-	-	1,821	1,910	1,989	2,069
Leisure							
Fair Share	-	-	-	0.1%	0.1%	0.1%	0.1%
Penetration Index	-	-	-	125.0%	129.0%	133.0%	137.0%
Market Share	-	-	-	0.2%	0.2%	0.2%	0.2%
Market Segment Demand	-	2,936,080	2,965,441	2,995,095	3,025,046	3,040,171	3,040,171
Market Share	-	-	-	0.2%	0.2%	0.2%	0.2%
Segment Room Nights Accommodated	-	-	-	4,735	4,935	5,113	5,267
Total Capture	**-**	**0**	**0**	**10,560**	**10,998**	**11,387**	**11,840**
Overall Penetration Index	**-**	**-**	**-**	**97.9%**	**101.1%**	**104.2%**	**108.3%**

SUBJECT PROPERTY PROJECTED OCCUPANCY

*Note: subject opening in June 2021. However, for comparison purposes, full year of 2021 data is shown.

Calendar Years	Base Year 2018	2019	2020	2021	2022	2023	2024
Room Nights Accommodated	-	-	-	10,560	10,998	11,387	11,840
Available Room Nights	-	-	-	18,250	18,250	18,250	18,250
Occupancy	-	-	-	57.9%	60.3%	62.4%	64.9%

Fiscal Year Adjustment	2019/20	2020/21	2021/22 (Inception)	2022/23	2023/24	2024/25 (Stabilized)
First Calendar Year %	-	-	56.16%	56.16%	56.16%	56.16%
Second Calendar Year %	-	-	43.84%	43.84%	43.84%	43.84%
Fiscalized Room Nights Accommodated	-	-	10,752	11,168	11,585	11,840
Fiscalized Room Nights Available	-	-	18,250	18,250	18,250	18,250
Occupancy	-	-	58.9%	61.2%	63.5%	64.9%
Rounded Occupancy	**-**	**-**	**59%**	**61%**	**63%**	**65%**
Overall Market Share	-	-	0.1%	0.1%	0.1%	0.1%
Overall Penetration Index	-	-	99.3%	102.4%	106.0%	108.3%

The overall captured room nights metric is anticipated to increase beyond the stabilized date as illustrated in the previous table; however, the stabilized occupancy figure is intended to reflect the projected occupancy level over the remaining economic life. An occupancy rate of 65.0% is selected as of the stabilized date of June 10, 2024. As of the stabilized date, penetration level of the proposed subject hotel is estimated at 108.3%.

AVERAGE DAILY RATE PROJECTION

After the proposed subject's occupancy level has been forecast, the next step is to estimate the average daily rate (ADR) of the proposed subject hotel to determine the Rooms department revenue. A detailed discussion of the subject's ADR projection is presented in the ***Glossary*** section beginning on page 103 of this report.

The following table summarizes the rate history at each of the competitors.

HISTORICAL COMPETITIVE AVERAGE DAILY ROOM RATES (ESTIMATED)			
Property	**2016**	**2017**	**2018**
Virginia Area Hotels	$94.94	$96.40	$97.07
Average Excluding Subject	**$94.94**	**$96.40**	**$97.07**
Smith Travel Research Trend Report	**$94.94**	**$96.40**	**$97.07**
Subject's Positioned ADR:			**$97.00**

The preceding table illustrates the subject's positioned base year ADR of $97.00, which is below the average calculated from the competitive properties. The positioned ADR is considered appropriate despite the hotel's brand-new condition because the property will need to lure some room night demand away from the hotel clusters positioned in the surrounding markets. Our average rate forecast considers the subject property's projected chain scale, anticipated market segmentation mix (majority leisure-related demand), minimal room night demand drivers, location in a low-density commercial area, and distance from a major roadway.

ADR Growth Projections

Rate growth trends in the competitive set, as well as the local and national economic trends, influence the forecasted ADR growth as illustrated in the following table. The Virginia Area market's revenue growth has slowed in the past couple of years because of increased competition. We project the proposed subject hotel will offer promotional rates and discounts in the first year of operation, but then ramp its room rates slightly above inflation until it stabilizes. At this point, the proposed hotel is expected to have established itself in the regional market and the three hotel supply additions in Winchester and Battletown Inn in Berryville will have been absorbed by the market.

Projections are first shown on a calendar-year basis, then on a fiscal-year basis which reflects a projection period commencing on June 10, 2019.

SUBJECT'S PROJECTED ADR						
Analysis Year	Calendar Year	Assumed Growth Rate	ADR	Projection Year	ADR Projection	Resulting Growth Rate
Hypothetical Base Year ADR	2018	-	$97.00	**-**	$98.28	**-**
1	2019	3.0%	$99.91	2019/20	**$101.22**	3.0%
2	2020	3.0%	$102.91	2020/21	**$104.26**	3.0%
3	2021	3.0%	$105.99	2021/22 *(Inception)*	**$107.85**	3.4%
4	2022	4.0%	$110.23	2022/23	**$111.93**	3.8%
5	2023	3.5%	$114.09	2023/24	**$115.59**	3.3%
6	2024	3.0%	$117.52	2024/25 *(Stabilized)*	**$119.06**	3.0%
7	2025	3.0%	$121.04	2025/26	**$122.63**	3.0%

Conclusion

The concluded room revenue is derived from the occupancy and ADR as forecast earlier in this section and is shown in the following table.

PROJECTED ROOMS DEPARTMENT REVENUE							
Projection Year	Hypothetical 2018	Year 1 2019/20	Year 2 2020/21	(Inception) 2021/22	Year 4 2022/23	Year 5 2023/24	(Stabilized) 2024/25
Number of Days	*365*	-	-	365	365	365	365
Number of Rooms	*50*	-	-	50	50	50	50
Rounded Occupancy	*58%*	-	-	59%	61%	63%	65%
Occupied Rooms (Rounded)	*10,585*	-	-	10,768	11,133	11,498	11,863
Average Rate	*$97.00*	-	-	$107.85	$111.93	$115.59	$119.06
RevPAR	*$56.26*	-	-	$63.63	$68.28	$72.82	$77.39
Rooms Department Revenue	**$1,026,745**	**-**	**-**	**$1,161,329**	**$1,246,117**	**$1,329,054**	**$1,412,409**

Local Survey Analysis

The following analysis is a summary of responses received to an online survey administered through SurveyMonkey and completed by local businesses in Berryville, Virginia. The full results of the study are included in the addenda of this study.

**Out of the 17 respondents to the survey, 16 or fewer responded to the question.*

ROOM NIGHT DEMAND GENERATION

The following graph illustrates the number of people requiring accommodations on an annual basis at local companies.

Out of the 16 respondents, 12 recorded they have five or fewer visitors to their business that need accommodations. Several recorded their business requires no accommodations for visitors to their business because they are close enough to travel back to their home destination on the same day. This indicates many businesses in the Berryville area are not in need of or have limited need for accommodations for business guests.

The following graph illustrates the average length of stay for those visiting local companies.

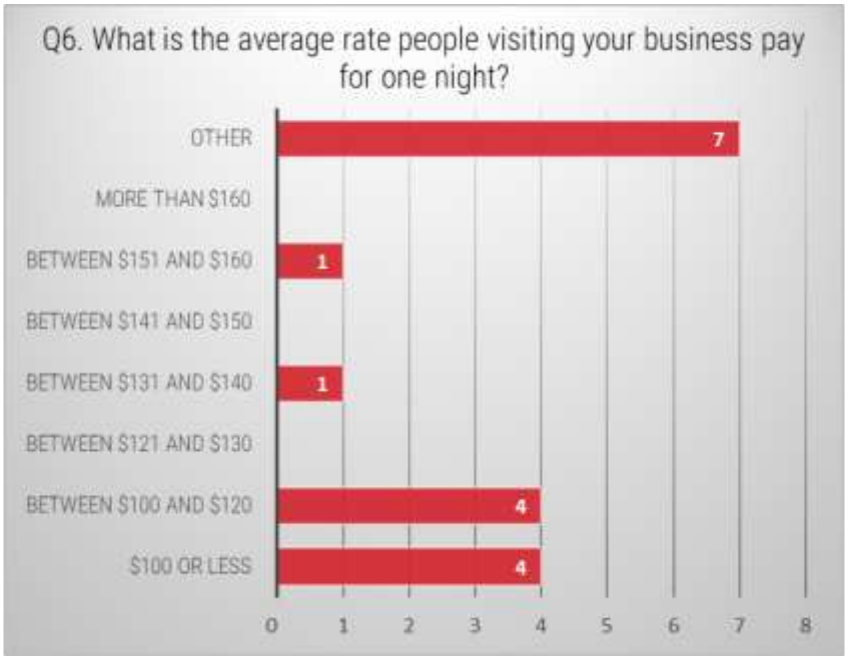
Out of the 16 respondents, 10 recorded the typical length of stay for visitors to their business is one day. This includes the respondents that may have no business visitors during the year. In the previous survey question, three respondents said there are more than 20 visitors to their business that require travel accommodations; however, their length of stay does not exceed four to five days, and most are between one and three days.

EXISTING ACCOMMODATIONS

The following graph illustrates where local business visitors to Berryville stay currently.

Winchester is the most popular destination for business travelers in the Berryville area. Winchester is approximately 10 miles west of Berryville and has 32 hotels. Of the six that responded "Other," five stated they are not in need of lodging accommodations because their visitors live locally. Visitors to the businesses in Berryville are willing to travel from Winchester to Berryville due to the variety of restaurants and other amenities in the area and the proximity to Berryville.

The following graph illustrates the average room rates visitors to Berryville pay for one night's accommodation.



The average rate business visitors to Berryville pay is less than $120. Of the seven "Other" votes, three said they do not need hotel accommodations for their visitors, and four said they do not know the rate paid. Many Berryville business need no lodging accommodations or few lodging accommodations for visitors to their business; therefore, demand in the Berryville area (including Winchester) keeps the rates low.

PREFERRED AMENITIES

The following graph illustrates the preferred amenities of visitors to Berryville.

There were 13 respondents to the above question. The above amenities were ranked from one to nine in order of importance then scored based on where they were ranked. If the amenity was ranked as most important, it would receive nine points per respondents, eight points per respondent if ranked second, and so on until the least important amenity received one point per respondent. The total score was then divided by the number of respondents that responded to that amenity. Most responses stated the location of the hotel relative to the business was most important. The closest hotel to Berryville (other than bed and breakfasts) is in Winchester, 10 miles west of Berryville; however, affiliation with rewards and loyalty programs were second to least important to visitors. Since the closest hotels with loyalty programs are in Winchester, business visitors may choose to stay at a bed and breakfast in Berryville rather than travel to Winchester.

CONCLUSION

Many respondents stated they are not in need of lodging accommodations for visitors to their business, mostly because the visitors are from the local area. Few respondents stated they have more than 20 visitors that need accommodations. These visitors stay an average of one to three nights. For visitors that need accommodations, many stay in Winchester due to the abundance of hotels and amenities. In summation, business-related demand alone is unlikely to adequately support a hotel in Berryville.

Demand Interviews

LOCAL BUSINESSES

We interviewed several individuals that represent local companies in Berryville and other parts of Clarke County, Virginia. The following is a summary of those interviews.

- **Bank of Clarke County**: According to a Bank of Clarke County representative, most room nights generated by the bank originate from visiting consultants and Federal Reserve Bank examiners. The frequency of these visitors vary year to year. Consultants visiting the bank have the potential to generate up to 48 room nights annually. Federal Reserve Bank examiners visit roughly every 18 months, during which time the examiners may generate up to 100 room nights. Past visitors of the usually used hotels in Winchester and preferred staying at national chain hotels to collect reward points.

- **Barns of Rose Hill** – This event venue opened in 2011 and consists of two barns. The largest room has a maximum capacity of 175 people. A representative of Barns of Rose Hill stated the event venue hosted between 6,000 and 7,000 people in 2018, with an average of 100 people per venue spending an average of $15 to $18 per ticket. Those visiting attended a concert, art exhibit, or other show hosted at the venue. Programming at Barns of Rose Hill attracts predominately locals and those in Frederick and Loudon counties, but there are visitors from farther distances, including outside of the state, that require overnight accommodations.

- **Blandy Experiment Farm** – A representative from Blandy Experiment Farm, which is affiliated with the University of Virginia, stated most visiting faculty, students, and other professionals stay on campus. Dormitories on campus provide temporary housing, and rarely do those visiting the facility stay in hotels in the area.

- **Clarke County Public Schools** – The largest annual event held by Clarke County Public Schools is graduation in June. According to a representative at the school system, attendance to June graduation ranges from 3,000 to 4,000 people. Regional sporting events hosted at the school's sports fields and courts also have potential to generate room night demand. The representative explained such events are not guaranteed, rather dependent on the performance of the school's teams. When a team qualifies for playoffs or another tournament, the school then becomes a host, which attracts people from outside the county.

- **Historic Rosemont Manor** – This event venue is proximate to downtown Berryville and very popular among wedding parties. A representative of the Historic Rosemont Manor stated demand for room nights is primarily on weekends (Fridays and Saturdays), with moderate amounts of demand on Thursdays and Sundays. Historically, the venue hosted about 50 weddings annually; however, after renovating a barn to expand event space, the venue is projected to host 90 weddings in 2019. Once stabilized, the venue is projected to host roughly 140 weddings annually. On-site accommodations allow the facility to accommodate a portion of guests, but it is projected about 2,350 room nights annually overflows to hotels in Winchester and peer-to-peer accommodations in Clarke County.

In addition to those summarized, we attempted to interview Berryville Graphics, Mount Weather, and Trelleborg; however, we were unable to speak with anyone from these firms. Despite this, our research confirmed these local companies generate a varying degree of demand for room nights throughout the year.

REGIONAL FESTIVALS AND EVENTS

We researched events held in the Town of Berryville and neighboring communities that have the potential to generate room night demand. The following summarizes large-scale events that occur annually in the region.

Lucketts Store Spring Market Antique Fair – Berryville, VA

The Lucketts Spring Market is a popular event for Northern Virginia that showcases "vintage hip" vendors from the East Coast. It is hosted at the Clarke County Ruritan Fairgrounds in Berryville, Virginia. For the last 20 years, the fair featured painted furniture, vintage garden gems, architectural salvage, and other antiques. There is also live music, beer gardens, food trucks, and workshops. More than 10,000 people attend this festival over three days. Tickets range from $15 to $40. VIP Passes give access at 8:30 a.m. on the opening Friday, before it is open to the public for $15 at 12:00 p.m.

Shenandoah Apple Blossom Festival – Winchester, VA

The Shenandoah Apple Blossom Festival is a week-long festival in late April/early May in Winchester, Virginia in the Northern Shenandoah Valley. The festival includes more than 40 events, which includes band competitions, dances, parades, carnivals, dinners, luncheons, wine festival, 10K race, and the Coronation of Queen Shenandoah. More than 250,000 people attend the festival each year, which has continuously grown over the 92 years it has been running. Tickets are needed for entering the festival.

Shenandoah Valley Fiber Festival – Berryville, VA

The Shenandoah Valley Fiber Festival is held at the Clarke County Fairgrounds in Berryville, Virginia in late-September. The festival showcases fibers from animals, such as alpacas, goats, llamas, rabbits, and sheep. There are classes, events, and competitions that are held to teach the many ways fibers are used. There are demonstrations, competitions, and fleeces for sale. The 14th annual festival will be held in September 2019. Tickets are $5 for adults, and children are free.

Additional festivals and events with potential to generate room night demand include:

- Clarke County Fair – Berryville, VA (Mid-August)
- Watermelon Park Festival – Berryville, VA (Mid- to Late-September)
- American Conservation Film Festival – Berryville, VA (Mid-September)
- Belle Grove Wine Festival – Middletown, VA (Late-August)
- Winchester Greek Festival – Winchester, VA (Mid-August)
- Shenandoah Valley Apple Harvest Festival – Clear Brook, VA (Late-September)
- World Heritage Festival – Leesburg, VA (Late-August)
- Loudoun County Fair – Leesburg, VA (Late-July)
- Wine, Arts & Food Festival – Leesburg, VA (September)
- Beer, Bourbon & BBQ Festival – Leesburg, VA (Mid-October)

Financial Analysis

METHODOLOGY

We based our prospective financial analysis on the results of comparable facilities, industry standards, and forecasts considering the future environment in which the hotel will operate. This includes the assumption that the property will be operated in a competent and professional manner and will be properly advertised and promoted.

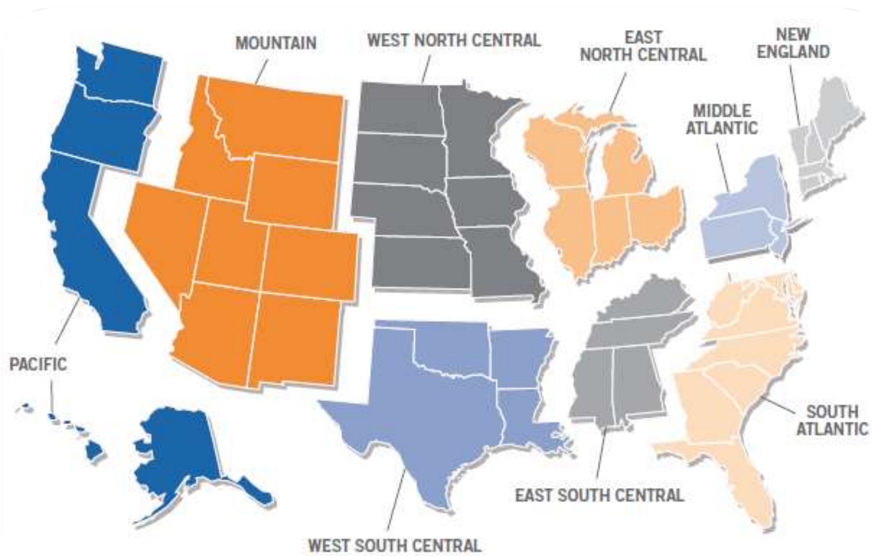
In this analysis, we used the Discounted Cash Flow (DCF) method based on the physical and economic characteristics of the proposed subject hotel. This valuation method would be considered by a typical investor of this property type. The DCF method is based on the premise that the value indication of the operating lodging property is determined by the net return to the asset, or the present value of future benefits. The future benefits of lodging properties are defined as the earnings before interest, income tax, depreciation, and amortization (EBITDA), which is determined via a projection of income and expenses, plus any reversionary proceeds from the sale of the asset at the end of a holding period. The process considers the quantity and the durability of the income stream in determining the appropriate rates for a lodging property. The projection period begins on June 10, 2022.

Comparable Operating Data

To further support our forecasts for the subject property, we have analyzed the operating performance of the subject against hotel industry averages and the actual operations of various comparable hotels. We have carefully analyzed all the relevant ratios, and have considered the data presented and, in our files, to prepare a well-supported forecast of revenue and expenses for each line item.

The following page details averages for five selected property descriptive categories from the most recent *HOST Report*, published by STR, Inc. A map depicting the regions as defined by STR that were analyzed is below. Those comparative categories include:

CATEGORIES - STR, Inc.	
Orientation	Limited Service Properties
Affiliation	Chain-Affiliated
Geographic Region	South Atlantic
Market Type	Small Metro/Tow n
Price Category	Midscale/Economy Class



The second following page summarizes the operating results of various competitive assets that are known to have similar physical and/or economic characteristics.

HOST REPORT - STR, Inc.													2019 HOST Report, Based on 2018 Da		
Limited Service Properties															
Category:	**Limited Service Properties (All)**			**Chain-Affiliated**			**South Atlantic**			**Small Metro/Town**			**Midscale/Economy Class**		
Days Open:	365			365			365			365			365		
Number of Rooms:	125			125			119			98			116		
Occupied Rooms:	34,634			34,492			33,042			24,965			30,236		
Occupancy Rate:	75.6%			75.6%			75.9%			69.5%			71.7%		
Average Daily Room Rate (ADR):	$128.20			$125.20			$115.71			$112.39			$78.50		
Revenue Per Available Room (RevPAR):	$96.94			$94.66			$87.81			$78.12			$56.28		
DEPARTMENTAL REVENUES	**% Total**	**$ PAR**	**$ POR**	**% Total**	**$ PAR**	**$ POR**	**% Total**	**$ PAR**	**$ POR**	**% Total**	**$ PAR**	**$ POR**	**% Total**	**$ PAR**	**$ POR**
Rooms	95.9%	$35,335	$128.03	96.4%	$34,503	$125.02	96.2%	$31,997	$115.51	97.9%	$28,533	$112.46	98.3%	$20,578	$78.63
Other Operated Dept. Revenue	2.3%	$863	$3.13	2.3%	$839	$3.04	2.6%	$874	$3.16	1.2%	$354	$1.40	1.4%	$287	$1.10
Miscellaneous Income	1.7%	$638	$2.31	1.2%	$434	$1.57	1.1%	$378	$1.36	0.9%	$249	$0.98	0.4%	$74	$0.28
Total Operating Revenue	**100.0%**	**$36,835**	**$133.46**	**100.0%**	**$35,776**	**$129.63**	**100.0%**	**$33,249**	**$120.03**	**100.0%**	**$29,137**	**$114.84**	**100.0%**	**$20,939**	**$80.01**
DEPARTMENTAL EXPENSES															
Rooms	25.0%	$8,824	$31.97	24.1%	$8,324	$30.16	23.6%	$7,548	$27.25	25.0%	$7,129	$28.10	21.4%	$4,400	$16.81
Other Operated Dept. Expense	63.6%	$549	$1.99	60.6%	$508	$1.84	58.9%	$515	$1.86	82.3%	$291	$1.15	37.4%	$107	$0.41
Total Departmental Expenses	**25.4%**	**$9,373**	**$33.96**	**24.7%**	**$8,832**	**$32.00**	**24.2%**	**$8,063**	**$29.11**	**25.5%**	**$7,421**	**$29.25**	**21.5%**	**$4,507**	**$17.22**
TOTAL DEPARTMENTAL INCOME	**74.6%**	**$27,462**	**$99.50**	**75.3%**	**$26,944**	**$97.63**	**75.8%**	**$25,186**	**$90.93**	**74.5%**	**$21,716**	**$85.59**	**78.5%**	**$16,432**	**$62.79**
UNDISTRIBUTED OPERATING EXPENSES															
Administrative & General	8.4%	$3,078	$11.15	8.3%	$2,977	$10.79	8.5%	$2,832	$10.22	8.5%	$2,478	$9.77	9.6%	$2,005	$7.66
Marketing	5.2%	$1,928	$6.99	5.3%	$1,887	$6.84	5.4%	$1,793	$6.47	4.8%	$1,408	$5.55	4.7%	$980	$3.75
Royalty/Franchise Fees	4.7%	$1,716	$6.22	5.0%	$1,796	$6.51	4.8%	$1,588	$5.73	6.6%	$1,935	$7.63	2.9%	$616	$2.35
Property Operations & Maintenance	4.6%	$1,682	$6.09	4.5%	$1,621	$5.88	4.9%	$1,628	$5.88	4.8%	$1,403	$5.53	5.8%	$1,216	$4.65
Utilities	3.6%	$1,333	$4.83	3.7%	$1,306	$4.73	3.8%	$1,276	$4.61	4.1%	$1,195	$4.71	4.8%	$1,005	$3.84
Information & Telecomm Systems	1.2%	$425	$1.54	1.1%	$404	$1.47	1.1%	$371	$1.34	1.3%	$387	$1.53	1.1%	$238	$0.91
Total Undistributed Operating Expenses	**27.6%**	**$10,162**	**$36.82**	**27.9%**	**$9,992**	**$36.21**	**28.5%**	**$9,489**	**$34.26**	**30.2%**	**$8,806**	**$34.71**	**28.9%**	**$6,060**	**$23.16**
MANAGEMENT FEES															
Base Management Fee	3.2%	$1,182	$4.28	3.2%	$1,143	$4.14	3.2%	$1,078	$3.89	3.5%	$1,007	$3.97	1.9%	$400	$1.53
HOUSE PROFIT (IBNOIE)	**43.8%**	**$16,117**	**$58.40**	**44.2%**	**$15,808**	**$57.28**	**44.0%**	**$14,619**	**$52.78**	**40.8%**	**$11,902**	**$46.91**	**47.6%**	**$9,971**	**$38.10**
NON-OPERATING INCOME & EXPENSES															
Property Taxes	5.2%	$1,927	$6.98	5.2%	$1,847	$6.69	3.8%	$1,249	$4.51	3.6%	$1,041	$4.10	5.2%	$1,083	$4.14
Insurance	1.0%	$368	$1.34	1.0%	$356	$1.29	1.2%	$404	$1.46	1.2%	$358	$1.41	1.5%	$306	$1.17
Reserve for Replacement	1.8%	$664	$2.41	1.8%	$649	$2.35	1.8%	$592	$2.14	1.2%	$359	$1.42	0.4%	$89	$0.34
Total Non-Operating Charges	**8.0%**	**$2,960**	**$10.72**	**8.0%**	**$2,852**	**$10.34**	**6.8%**	**$2,245**	**$8.10**	**6.0%**	**$1,758**	**$6.93**	**7.1%**	**$1,477**	**$5.65**
NET OPERATING INCOME (EBITDA-LR)	**35.7%**	**$13,158**	**$47.67**	**36.2%**	**$12,956**	**$46.95**	**37.2%**	**$12,374**	**$44.67**	**34.8%**	**$10,144**	**$39.98**	**40.6%**	**$8,494**	**$32.46**
OPERATING RATIOS	%			%			%			%			%		
Food & Beverage to Rooms	0.0%			0.0%			0.0%			0.0%			0.0%		
Miscellaneous Expense to Rooms	1.8%			1.3%			1.2%			0.9%			0.4%		
Royalty/Franchise Fees to Rooms	4.9%			5.2%			5.0%			6.8%			3.0%		

**Note: moderate rounding and re-allocation to some line items have been applied.*

COMPARABLE OPERATING STATEMENTS

Comp #																		
Property Number:	1			2			3			4			5			6		
Property Type:	Limited-Service			Limited-Service			Limited-Service			Limited-Service			Limited-Service			Limited-Service		
Days Open:	365			365			365			365			365			365		
Number of Rooms:	80			104			60			83			64			102		
Occupied Rooms:	14,311			22,838			13,337			16,250			15,891			28,901		
Occupancy Rate:	49.0%			60.2%			60.9%			53.6%			68.0%			77.6%		
Average Daily Room Rate (ADR):	$99.35			$78.16			$127.02			$89.63			$91.07			$112.08		
Revenue Per Available Room (RevPAR):	$48.69			$47.02			$77.35			$48.08			$61.95			$87.01		
DEPARTMENTAL REVENUES	**% Total**	**PAR**	**POR**	**% Total**	**PAR**	**POR**	**% Total**	**PAR**	**POR**	**% Total**	**PAR**	**POR**	**% Total**	**PAR**	**POR**	**% Total**	**PAR**	**POR**
Rooms	99.7%	$17,773	$99.35	99.4%	$17,163	$78.16	94.7%	$28,233	$127.02	98.6%	$17,548	$89.63	99.3%	$22,612	$91.07	99.3%	$31,758	$112.08
Other Operated Dept. Revenue	0.2%	$27	$0.15	0.3%	$58	$0.26	5.3%	$1,583	$7.12	0.9%	$152	$0.78	0.4%	$94	$0.38	0.4%	$142	$0.50
Miscellaneous Income	0.1%	$18	$0.10	0.2%	$38	$0.18	0.0%	$0	$0.00	0.6%	$101	$0.52	0.3%	$62	$0.25	0.3%	$95	$0.33
Total Operating Revenue	**100.0%**	**$17,818**	**$99.60**	**100.0%**	**$17,260**	**$78.60**	**100.0%**	**$29,817**	**$134.14**	**100.0%**	**$17,801**	**$90.92**	**100.0%**	**$22,768**	**$91.70**	**100.0%**	**$31,994**	**$112.92**
DEPARTMENTAL EXPENSES																		
Rooms	30.0%	$5,332	$29.81	31.4%	$5,389	$24.54	24.0%	$6,783	$30.52	29.8%	$5,229	$26.71	25.9%	$5,857	$23.59	26.6%	$8,448	$29.81
Other Operated Dept. Expense	333.3%	$89	$0.50	266.7%	$154	$0.70	75.8%	$1,200	$5.40	8.0%	$12	$0.06	240.2%	$225	$0.91	16.3%	$23	$0.08
Total Departmental Expenses	**30.4%**	**$5,421**	**$30.31**	**32.1%**	**$5,543**	**$25.24**	**26.8%**	**$7,983**	**$35.92**	**29.4%**	**$5,242**	**$26.77**	**26.7%**	**$6,081**	**$24.49**	**26.5%**	**$8,471**	**$29.90**
TOTAL DEPARTMENTAL INCOME	**69.6%**	**$12,396**	**$69.30**	**67.9%**	**$11,716**	**$53.35**	**73.2%**	**$21,833**	**$98.22**	**70.6%**	**$12,560**	**$64.15**	**73.3%**	**$16,687**	**$67.20**	**73.5%**	**$23,523**	**$83.02**
UNDISTRIBUTED OPERATING EXPENSES																		
Administrative & General	11.1%	$1,981	$11.08	13.7%	$2,372	$10.80	10.1%	$3,000	$13.50	15.3%	$2,720	$13.89	12.5%	$2,840	$11.44	9.3%	$2,979	$10.51
Marketing	8.4%	$1,497	$8.37	3.8%	$656	$2.99	5.9%	$1,750	$7.87	4.0%	$712	$3.64	12.8%	$2,914	$11.74	7.0%	$2,240	$7.90
Royalty/Franchise Fees	5.0%	$891	$4.98	4.0%	$690	$3.14	3.7%	$1,100	$4.95	3.9%	$694	$3.55	4.5%	$1,025	$4.13	6.0%	$1,920	$6.77
Property Operations & Maintenance	5.7%	$1,016	$5.68	7.0%	$1,208	$5.50	4.4%	$1,300	$5.85	7.3%	$1,299	$6.64	8.7%	$1,981	$7.98	4.6%	$1,472	$5.19
Utilities	4.8%	$855	$4.78	7.1%	$1,225	$5.58	4.0%	$1,200	$5.40	11.0%	$1,958	$10.00	4.9%	$1,116	$4.49	3.8%	$1,216	$4.29
Information & Telecomm Systems	1.2%	$210	$1.18	1.5%	$252	$1.15	1.0%	$300	$1.35	1.6%	$289	$1.48	1.3%	$302	$1.21	1.0%	$316	$1.12
Total Undistributed Operating Expenses	**36.2%**	**$6,450**	**$36.06**	**37.1%**	**$6,403**	**$29.16**	**29.0%**	**$8,650**	**$38.91**	**43.1%**	**$7,672**	**$39.19**	**44.7%**	**$10,177**	**$40.99**	**31.7%**	**$10,142**	**$35.79**
MANAGEMENT FEES																		
Base Management Fee	3.0%	$535	$2.99	1.0%	$173	$0.79	4.0%	$1,200	$5.40	4.1%	$730	$3.73	2.7%	$615	$2.48	5.0%	$1,600	$5.65
HOUSE PROFIT (IBNOIE)	**30.4%**	**$5,412**	**$30.25**	**29.8%**	**$5,141**	**$23.41**	**40.2%**	**$11,983**	**$53.91**	**23.4%**	**$4,158**	**$21.24**	**25.9%**	**$5,895**	**$23.74**	**36.8%**	**$11,782**	**$41.58**
NON-OPERATING INCOME & EXPENSES																		
Property Taxes	6.1%	$1,087	$6.08	6.9%	$1,191	$5.42	8.0%	$2,383	$10.72	6.8%	$1,210	$6.18	4.0%	$911	$3.67	7.0%	$2,240	$7.90
Insurance	1.7%	$303	$1.69	1.1%	$190	$0.86	1.3%	$400	$1.80	1.6%	$285	$1.45	2.4%	$546	$2.20	0.7%	$224	$0.79
Reserve for Replacement	4.0%	$713	$3.98	0.0%	$0	$0.00	2.0%	$600	$2.70	0.0%	$0	$0.00	0.0%	$0	$0.00	4.0%	$1,280	$4.52
Total Non-Operating Charges	**11.8%**	**$2,103**	**$11.75**	**8.0%**	**$1,381**	**$6.29**	**11.3%**	**$3,383**	**$15.22**	**8.4%**	**$1,495**	**$7.64**	**6.4%**	**$1,457**	**$5.87**	**11.7%**	**$3,743**	**$13.21**
NET OPERATING INCOME (EBITDA-LR)	**18.6%**	**$3,309**	**$18.50**	**21.8%**	**$3,760**	**$17.12**	**28.8%**	**$8,600**	**$38.69**	**15.0%**	**$2,662**	**$13.60**	**19.5%**	**$4,437**	**$17.87**	**25.1%**	**$8,038**	**$28.37**
OPERATING RATIOS	%			%			%			%			%			%		
Other Operated Dept. Expense to Rooms	0.2%			0.3%			5.6%			0.9%			0.4%			0.4%		
Miscellaneous Expense to Rooms	0.1%			0.2%			0.0%			0.6%			0.3%			0.3%		
Royalty/Franchise Fees to Rooms	0.0%			0.0%			0.0%			0.0%			0.0%			0.0%		

**Note: moderate rounding and re-allocation to some line items have been applied.*

FINANCIAL PROJECTIONS

The projection of revenue and expenses reflects the expectations of a well-informed and prudent buyer pertaining to the subject property's operating results. Anticipated economic benefits may be adjusted upward or downward relative to actual operating results based on the local market dynamics, which has been incorporated into this analysis. The following table illustrates the relationships of each line item.

Please note that a more detailed discussion of inflation assumptions, fixed/variable components, etc. is presented in the ***Glossary*** section beginning on page 103 of this report.

SUMMARY OF FIXED AND VARIABLE COMPONENTS

DEPARTMENTAL REVENUES	% Fixed	% Variable	Dependent Variable
Rooms	0.0%	100.0%	Rooms
Other Operated Dept. Revenue	50.0%	50.0%	Rooms
Miscellaneous Income	50.0%	50.0%	Rooms
DEPARTMENTAL EXPENSES			
Rooms	60.0%	40.0%	Rooms
Other Operated Dept. Expense	75.0%	25.0%	Other Operated Dept. Revenue
UNDISTRIBUTED OPERATING EXPENSES			
Administrative & General	75.0%	25.0%	Total Revenue
Marketing	60.0%	40.0%	Total Revenue
Royalty/Franchise Fees	0.0%	100.0%	Rooms, F&B
Property Operations & Maintenance	75.0%	25.0%	Total Revenue
Utilities	75.0%	25.0%	Total Revenue
Information & Telecomm Systems	50.0%	50.0%	Total Revenue
MANAGEMENT FEES			
Base Management Fee	0.0%	100.0%	Total Revenue
NON-OPERATING INCOME & EXPENSES			
Property Taxes	80.0%	20.0%	House Profit
Insurance	100.0%	0.0%	Total Revenue
Reserve for Replacement	0.0%	100.0%	Total Revenue

DETAILED RATIO ANALYSIS

The following narrative involves a brief discussion of the subject's operating data and our accompanying assumptions for each line item. A more detailed discussion of the relevant line items is presented in the ***Glossary*** section beginning on page 103 of this report.

Departmental Revenue

Room Revenue

The revenue from the Rooms department was developed earlier in this report based on the room night analysis and market-oriented ADR projections. The summary of this revenue stream is reiterated in the following table. It is noted that occupied room nights are presented after the occupancy figure has been rounded to the nearest full percentage point.

PROJECTED ROOMS DEPARTMENT REVENUE

Projection Year	Hypothetical 2018	Year 1 2019/20	Year 2 2020/21	(Inception) 2021/22	Year 4 2022/23	Year 5 2023/24	(Stabilized) 2024/25
Number of Days	*365*	-	-	365	365	365	365
Number of Rooms	*50*	-	-	50	50	50	50
Rounded Occupancy	*58%*	-	-	59%	61%	63%	65%
Occupied Rooms (Rounded)	*10,585*	-	-	10,768	11,133	11,498	11,863
Average Rate	*$97.00*	-	-	$107.85	$111.93	$115.59	$119.06
RevPAR	*$56.26*	-	-	$63.63	$68.28	$72.82	$77.39
Rooms Department Revenue	**$1,026,745**	**-**	**-**	**$1,161,329**	**$1,246,117**	**$1,329,054**	**$1,412,409**

Other Operating Departmental Revenue

In addition to rooms, the subject also accrues notable revenue from meeting room rental, lobby pantry, and lobby bar revenue. The bar and lobby pantry should be adjacent to the front desk to allow front desk employees to manage both areas, reducing labor expenses.

The following table summarizes our projections in this category.

Other Operated Dept. Revenue

Source	RATIO	PAR	POR
Operating Comparables			
Low	0.2%	$27	$0.15
High	5.3%	$1,583	$7.12
Average	1.3%	$343	$1.53
STR HOST Study			
All Limited Service Properties	2.3%	$863	$3.13
Chain-Affiliated	2.3%	$839	$3.04
South Atlantic	2.6%	$874	$3.16
Small Metro/Town	1.2%	$354	$1.40
Midscale/Economy Class	1.4%	$287	$1.10
First Projection Year (2021/22)	**3.4%**	**$829**	**$3.85**
Stabilized Year (2024/25)	**3.2%**	**$956**	**$4.03**

Our stabilized projections are within the range of the operating comparables on a per occupied room and per available room basis as well as a percentage of total revenue. The projections are higher than the industry averages because of the recommended lobby bar as well as meeting room rental.

Miscellaneous Income

The miscellaneous income line item revenue is derived from all sources other than the primary categories discussed above and below, and typically includes pet and cancellation fees, certain commissions, business interruption insurance payouts, unused or forfeited gift certificates, certain interest income, and other miscellaneous revenue sources. Overall, we observed that there is a moderate percentage of variable components in this department.

After considering the property's expected performance as well as the performance of comparable hotels and industry averages, we believe that our assumptions of operating ratios within the Miscellaneous Income department are market-oriented and that its variable components will continue to correlate with fluctuations in the subject's occupancy level throughout the projection period.

The following table summarizes our projections in this category.

Miscellaneous Income			
Source	RATIO	PAR	POR
Operating Comparables			
Low	0.0%	$0	$0.00
High	0.6%	$101	$0.52
Average	0.2%	$52	$0.23
STR HOST Study			
All Limited Service Properties	1.7%	$638	$2.31
Chain-Affiliated	1.2%	$434	$1.57
South Atlantic	1.1%	$378	$1.36
Small Metro/Tow n	0.9%	$249	$0.98
Midscale/Economy Class	0.4%	$74	$0.28
First Projection Year (2021/22)	**0.9%**	**$213**	**$0.99**
Stabilized Year (2024/25)	**0.8%**	**$246**	**$1.04**

Our stabilized projections are within the range of the industry averages on a per occupied room and per available room basis as well as a percentage of total revenue.

Departmental Expenses

Departmental expenses are based on expense line items that correlate to a specific revenue department. A more detailed discussion of the core expense line items is presented in the ***Glossary*** section beginning on page 103 of this report.

Rooms Expenses

This expense generally represents costs associated with the various guest services and operations of the guestrooms. Expenses within this department range from reservation/registration activities to the settlement of guest accounts upon checkout, as well as the wages of the rooms division manager, assistant managers, registration clerks, cashiers, and uniform service personnel.

After considering the expected performance as well as the performance of comparable hotels and industry averages, we believe that our assumptions of operating ratios within the Rooms department are market-oriented and that its variable components will continue to correlate with fluctuations in the respective departmental line item figures throughout the projection period.

Trends and assumptions associated with the projection of this line item are illustrated in the following table.

Rooms Expenses

Source	RATIO	PAR	POR
Operating Comparables			
Low	24.0%	$5,229	$23.59
High	31.4%	$8,448	$30.52
Average	28.0%	$6,173	$27.50
STR HOST Study			
All Limited Service Properties	25.0%	$8,824	$31.97
Chain-Affiliated	24.1%	$8,324	$30.16
South Atlantic	23.6%	$7,548	$27.25
Small Metro/Tow n	25.0%	$7,129	$28.10
Midscale/Economy Class	21.4%	$4,400	$16.81
First Projection Year (2021/22)	**25.5%**	**$5,916**	**$27.47**
Stabilized Year (2024/25)	**23.9%**	**$6,751**	**$28.45**

Our stabilzied projections are within the range of the operating comparables and industry averages on a per occupied room and per available room basis as well as a percentage of total revenue.

Other Operated Departmental Expenses

These expenses are a result of their related revenue items, and these line items assume a relatively even balance of fixed and variable components. Trends and assumptions associated with the projection of this line item are illustrated in the following tables.

Other Operated Dept. Expense			
Source	**RATIO**	**PAR**	**POR**
Operating Comparables			
Low	8.0%	$12	$0.06
High	333.3%	$1,200	$5.40
Average	156.7%	$284	$1.27
STR HOST Study			
All Limited Service Properties	63.6%	$549	$1.99
Chain-Affiliated	60.6%	$508	$1.84
South Atlantic	58.9%	$515	$1.86
Small Metro/Tow n	82.3%	$291	$1.15
Midscale/Economy Class	37.4%	$107	$0.41
First Projection Year (2021/22)	**59.7%**	**$495**	**$2.30**
Stabilized Year (2024/25)	**58.1%**	**$556**	**$2.34**

Our stabilzied projections are within the range of the operating comparables and industry averages as a percentage of departmental revenue. We project this departmental expense to be at the lower range of the comparables and industry averages since the property is recommended to have a bar that is adjacent to the front desk. The large range of the operating comparables is due to some properties not allocating information and technology expenses to the designated line item, “Information & Telecomm Systems.”

Undistributed Operating Expenses

Undistributed or “non-direct” operating expenses are costs shouldered by the overall hotel operation and not attributable to any one specific department or profit center.

Administrative and General (A&G)

Based on expected performance as well as the performance of comparable hotels and industry averages, we believe that our assumptions of operating ratios within the Administrative & General department are market-oriented and that its variable components will continue to correlate with fluctuations in the total revenue figures throughout the projection period.

Trends and assumptions associated with the projection of this line item are illustrated in the following table:

Administrative & General Expenses			
Source	**RATIO**	**PAR**	**POR**
Operating Comparables			
Low	9.3%	$1,981	$10.51
High	15.3%	$3,000	$13.89
Average	12.0%	$2,649	$11.87
STR HOST Study			
All Limited Service Properties	8.4%	$3,078	$11.15
Chain-Affiliated	8.3%	$2,977	$10.79
South Atlantic	8.5%	$2,832	$10.22
Small Metro/Tow n	8.5%	$2,478	$9.77
Midscale/Economy Class	9.6%	$2,005	$7.66
First Projection Year (2021/22)	**9.2%**	**$2,226**	**$10.34**
Stabilized Year (2024/25)	**8.5%**	**$2,499**	**$10.53**

Our stabilzied projections are within the range of the operating comparables and industry averages on a per occupied room and per available room basis.

Marketing Expenses

After considering the expected performance as well as the performance of comparable hotels and industry averages, we believe that our assumptions of operating ratios within the Marketing department are market-oriented and that its variable components will continue to correlate with fluctuations in the total revenue figures throughout the projection period.

Trends and assumptions associated with the projection of this line item are illustrated in the following table:

Marketing Expenses			
Source	**RATIO**	**PAR**	**POR**
Operating Comparables			
Low	3.8%	$656	$2.99
High	12.8%	$2,914	$11.74
Average	7.0%	$1,628	$7.08
STR HOST Study			
All Limited Service Properties	5.2%	$1,928	$6.99
Chain-Affiliated	5.3%	$1,887	$6.84
South Atlantic	5.4%	$1,793	$6.47
Small Metro/Tow n	4.8%	$1,408	$5.55
Midscale/Economy Class	4.7%	$980	$3.75
First Projection Year (2021/22)	**5.5%**	**$1,340**	**$6.22**
Stabilized Year (2024/25)	**5.2%**	**$1,528**	**$6.44**

	Our stabilized projections are within the range of the operating comparables and industry averages on a per occupied room and per available room basis.
Franchise Fee (Royalties)	We assume that the proposed subject will be affiliated with a national hotel franchise. Additionally, we project franchise fees (royalties) to be equal to 5.0% of rooms revenue annually throughout the holding period. Only royalty fees are included in this line item; advertising/marketing contribution fees have been included in Marketing expenses and reservation fees have been included in Rooms expenses, respectively. Any other fees, depending on the nature of their use and application, have been included in the Rooms, Marketing, and/or A&G line items, as appropriate. *It should be noted, however, that the HOST report retains the marketing assessment costs in the Franchise Fee line item.* We call your attention to the Assumptions and Limiting Conditions of this report. Additional details behind the development of Franchise Fees is presented in the ***Glossary*** section beginning on page 103 of this report.
Property Operations and Maintenance	Based on expected performance as well as the performance of comparable hotels and industry averages, we believe that our assumptions of operating ratios within the Property Operations & Maintenance department are market-oriented and that its variable components will continue to correlate with fluctuations in the total revenue figures throughout the projection period. Trends and assumptions associated with the projection of this line item are illustrated in the following table:

Property Operations & Maintenance Expenses			
Source	RATIO	PAR	POR
Operating Comparables			
Low	4.4%	$1,016	$5.19
High	8.7%	$1,981	$7.98
Average	6.3%	$1,379	$6.14
STR HOST Study			
All Limited Service Properties	4.6%	$1,682	$6.09
Chain-Affiliated	4.5%	$1,621	$5.88
South Atlantic	4.9%	$1,628	$5.88
Small Metro/Town	4.8%	$1,403	$5.53
Midscale/Economy Class	5.8%	$1,216	$4.65
First Projection Year (2021/22)	**4.6%**	**$1,113**	**$5.17**
Stabilized Year (2024/25)	**4.2%**	**$1,249**	**$5.27**

Our stabilized projections are within the range of the operating comparables and industry averages on a per occupied room and per available room basis.

Utilities

After considering the expected performance as well as the performance of comparable hotels and industry averages, we believe that our assumptions of operating ratios within the Utilities department are market-oriented and that its variable components will continue to correlate with fluctuations in the total revenue figures throughout the projection period.

Trends and assumptions associated with the projection of this line item are illustrated in the following table:

Utilities Expenses			
Source	RATIO	PAR	POR
Operating Comparables			
Low	3.8%	$855	$4.29
High	11.0%	$1,958	$10.00
Average	5.9%	$1,262	$5.76
STR HOST Study			
All Limited Service Properties	3.6%	$1,333	$4.83
Chain-Affiliated	3.7%	$1,306	$4.73
South Atlantic	3.8%	$1,276	$4.61
Small Metro/Town	4.1%	$1,195	$4.71
Midscale/Economy Class	4.8%	$1,005	$3.84
First Projection Year (2021/22)	**4.1%**	**$1,002**	**$4.65**
Stabilized Year (2024/25)	**3.8%**	**$1,124**	**$4.74**

Our stabilized projections are within the range of the operating comparables and industry averages on a per occupied room and per available room basis.

Information and Telecomm. Systems Expense

Based on the performance of comparable hotels and industry averages, as well as what we believe would be expected by a potential investor of the subject property, we project the subject's expenses from the Information & Telecomm Systems department will increase in the near term on a per-available-room basis, but then normalize with its variable components correlating to changes in the subject's future total revenues.

Trends and assumptions associated with the projection of this line item are illustrated in the following table:

Information & Telecomm Systems Expenses			
Source	**RATIO**	**PAR**	**POR**
Operating Comparables			
Low	1.0%	$210	$1.12
High	1.6%	$316	$1.48
Average	1.3%	$278	$1.25
STR HOST Study			
All Limited Service Properties	1.2%	$425	$1.54
Chain-Affiliated	1.1%	$404	$1.47
South Atlantic	1.1%	$371	$1.34
Small Metro/Tow n	1.3%	$387	$1.53
Midscale/Economy Class	1.1%	$238	$0.91
First Projection Year (2021/22)	**1.3%**	**$308**	**$1.43**
Stabilized Year (2024/25)	**1.2%**	**$355**	**$1.49**

Our stabilized projections are within the range of the operating comparables and industry averages on a per occupied room basis.

Management Fee

We assume that the subject will be managed by an efficient and knowledgeable third-party hotel operator. Additionally, management fees are projected to equate to 3.0% percent of total revenue annually throughout the holding period.

It is important to note that the effectiveness of management is not being evaluated and we are not responsible for future marketing efforts and other management actions upon which actual results may depend.

Non-Operating (Fixed) Expenses

Fixed expenses include any expenses that relate to the ownership of the hotel, including property taxes, building and contents insurance, reserve for replacements, and any applicable land, building, or equipment rent.

Property Taxes

A discussion of the proposed subject 's real estate tax burden was included in an earlier section of this report. Our forecast of the proposed subject's property taxes per year is reiterated as follows.

Property Taxes Expenses			
Source	RATIO	PAR	POR
Operating Comparables			
Low	4.0%	$911	$3.67
High	8.0%	$2,383	$10.72
Average	6.5%	$1,504	$6.66
STR HOST Study			
All Limited Service Properties	5.2%	$1,927	$6.98
Chain-Affiliated	5.2%	$1,847	$6.69
South Atlantic	3.8%	$1,249	$4.51
Small Metro/Tow n	3.6%	$1,041	$4.10
Midscale/Economy Class	5.2%	$1,083	$4.14
First Projection Year (2021/22)	1.2%	$303	$1.41
Stabilized Year (2024/25)	1.1%	$338	$1.43

Insurance

Based on expected performance as well as the performance of comparable hotels and industry averages, we believe that our assumptions of operating ratios within the Insurance department are market-oriented and that its variable components will continue to correlate with fluctuations in the total revenue figures throughout the projection period. The proposed subject property's insurance expenses are projected as follows.

Insurance Expenses			
Source	RATIO	PAR	POR
Operating Comparables			
Low	0.7%	$190	$0.79
High	2.4%	$546	$2.20
Average	1.5%	$325	$1.47
STR HOST Study			
All Limited Service Properties	1.0%	$368	$1.34
Chain-Affiliated	1.0%	$356	$1.29
South Atlantic	1.2%	$404	$1.46
Small Metro/Tow n	1.2%	$358	$1.41
Midscale/Economy Class	1.5%	$306	$1.17
First Projection Year (2021/22)	1.3%	$304	$1.41
Stabilized Year (2024/25)	1.1%	$333	$1.40

Our stabilized projections are within the range of the operating comparables and industry averages on a per occupied room and per available room basis.

Capital Improvements and Reserves

Reserve for Replacements

It is assumed that the subject hotel's facilities will be well maintained and will remain fully competitive throughout the projection period. The subject property is not expected to undergo capital improvements within the early portion of the projection period which are in excess of reserves for replacement. Specifically, our estimate of year one reserves is $24,269, or $485 per room. A reserve for replacements equal to 2% of total revenue in Year 1, 3% in Year 2, and 4.0% in Year3 is deducted from the operating cash flow, which should be adequate to account for all typical future capital expenditures throughout the holding period following completion of construction.

Net Operating Income

Net Operating Income is synonymous with Earnings Before Interest, Taxes, Depreciation and Amortization Less Reserves, or EBITDA-LR. The overall calculated conclusion of net operating income is illustrated in the following table.

NET OPERATING INCOME (EBITDA-LR)

Source	RATIO	PAR	POR
Operating Comparables			
Low	15.0%	$2,662	$13.60
High	28.8%	$8,600	$38.69
Average	21.5%	$5,135	$22.36
STR HOST Study			
All Limited Service Properties	35.7%	$13,158	$47.67
Chain-Affiliated	36.2%	$12,956	$46.95
South Atlantic	37.2%	$12,374	$44.67
Small Metro/Tow n	34.8%	$10,144	$39.98
Midscale/Economy Class	40.6%	$8,494	$32.46
First Projection Year (2021/22)	**36.6%**	**$8,888**	**$41.27**
Stabilized Year (2024/25)	**38.2%**	**$11,244**	**$47.39**

PROJECTION OF REVENUE AND EXPENSES

On the following pages, the forecast of revenue and expenses for the proposed subject property is presented on a detailed basis for the first five years of operation, along with a summary presentation of the same line items over the entire 10-year holding period. The projection begins June 10, 2019. As discussed, stabilization is anticipated to occur on or about June 10, 2024. The statements are expressed in future values for each projection year.

DETAILED FORECAST OF INCOME AND EXPENSE - FIRST FIVE PROJECTION YEARS

Proposed Downtown Berryville Hotel

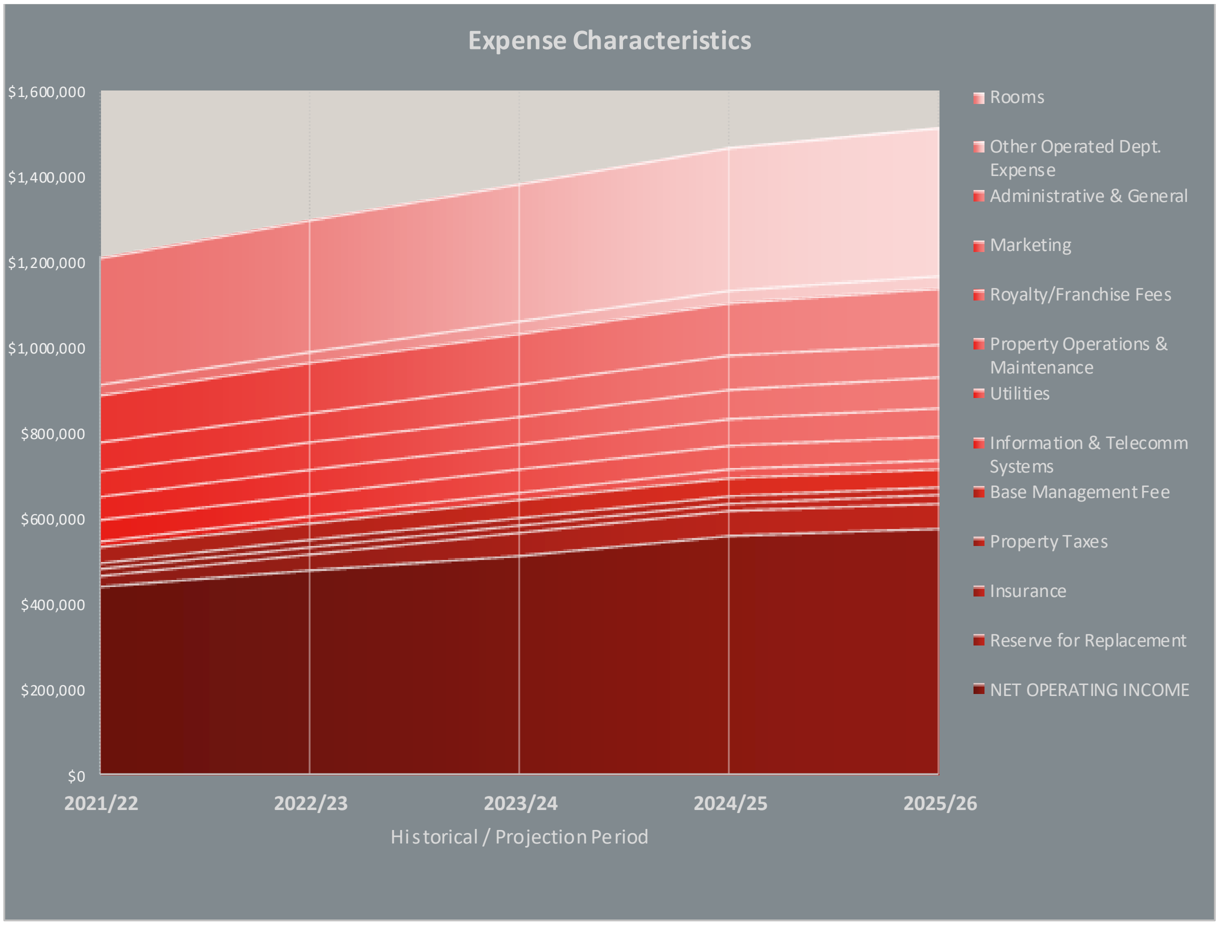
Period:	2021/22 (Inception)				2022/23				2023/24				2024/25 (Stabilized)				2025/26			
Analysis Year:	3				4				5				6				7			
Projection Year:	1				2				3				4				5			
Days Open	365				365				365				365				365			
Number of Rooms	50				50				50				50				50			
Occupied Rooms	10,768				11,133				11,498				11,863				11,863			
Occupancy Rate	59.0%				61.0%				63.0%				65.0%				65.0%			
Average Daily Room Rate (ADR)	$107.85				$111.93				$115.59				$119.06				$122.63			
Revenue Per Avail. Room (RevPAR)	$63.63				$68.28				$72.82				$77.39				$79.71			
DEPARTMENTAL REVENUES	$	% Total	$ PAR	$ POR	$	% Total	$ PAR	$ POR	$	% Total	$ PAR	$ POR	$	% Total	$ PAR	$ POR	$	% Total	$ PAR	$ POR
Rooms	$1,161,329	95.7%	$23,227	$107.85	$1,246,117	95.8%	$24,922	$111.93	$1,329,054	95.9%	$26,581	$115.59	$1,412,409	95.9%	$28,248	$119.06	$1,454,760	95.9%	$29,095	$122.63
Other Operated Dept. Revenue	$41,458	3.4%	$829	$3.85	$43,593	3.4%	$872	$3.92	$45,698	3.3%	$914	$3.97	$47,817	3.2%	$956	$4.03	$49,251	3.2%	$985	$4.15
Miscellaneous Income	$10,661	0.9%	$213	$0.99	$11,210	0.9%	$224	$1.01	$11,751	0.8%	$235	$1.02	$12,296	0.8%	$246	$1.04	$12,664	0.8%	$253	$1.07
Total Operating Revenue	$1,213,448	100.0%	$24,269	$112.69	$1,300,920	100.0%	$26,018	$116.85	$1,386,503	100.0%	$27,730	$120.59	$1,472,521	100.0%	$29,450	$124.13	$1,516,675	100.0%	$30,333	$127.85
DEPARTMENTAL EXPENSES																				
Rooms	$295,801	25.5%	$5,916	$27.47	$309,764	24.9%	$6,195	$27.82	$323,586	24.3%	$6,472	$28.14	$337,529	23.9%	$6,751	$28.45	$347,652	23.9%	$6,953	$29.31
Other Operated Dept. Expense	$24,741	59.7%	$495	$2.30	$25,750	59.1%	$515	$2.31	$26,757	58.6%	$535	$2.33	$27,779	58.1%	$556	$2.34	$28,612	58.1%	$572	$2.41
Total Departmental Expenses	$320,542	26.4%	$6,411	$29.77	$335,513	25.8%	$6,710	$30.14	$350,344	25.3%	$7,007	$30.47	$365,308	24.8%	$7,306	$30.79	$376,265	24.8%	$7,525	$31.72
TOTAL DEPARTMENTAL INCOME	$892,905	73.6%	$17,858	$82.92	$965,407	74.2%	$19,308	$86.72	$1,036,159	74.7%	$20,723	$90.12	$1,107,214	75.2%	$22,144	$93.33	$1,140,410	75.2%	$22,808	$96.13
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	$111,291	9.2%	$2,226	$10.34	$115,801	8.9%	$2,316	$10.40	$120,333	8.7%	$2,407	$10.47	$124,928	8.5%	$2,499	$10.53	$128,675	8.5%	$2,573	$10.85
Marketing	$66,986	5.5%	$1,340	$6.22	$70,124	5.4%	$1,402	$6.30	$73,253	5.3%	$1,465	$6.37	$76,409	5.2%	$1,528	$6.44	$78,701	5.2%	$1,574	$6.63
Royalty/Franchise Fees	$58,066	4.8%	$1,161	$5.39	$62,306	4.8%	$1,246	$5.60	$66,453	4.8%	$1,329	$5.78	$70,620	4.8%	$1,412	$5.95	$72,738	4.8%	$1,455	$6.13
Property Operations & Maintenance	$55,646	4.6%	$1,113	$5.17	$57,900	4.5%	$1,158	$5.20	$60,167	4.3%	$1,203	$5.23	$62,464	4.2%	$1,249	$5.27	$64,337	4.2%	$1,287	$5.42
Utilities	$50,081	4.1%	$1,002	$4.65	$52,110	4.0%	$1,042	$4.68	$54,150	3.9%	$1,083	$4.71	$56,217	3.8%	$1,124	$4.74	$57,904	3.8%	$1,158	$4.88
Information & Telecomm Systems	$15,383	1.3%	$308	$1.43	$16,169	1.2%	$323	$1.45	$16,949	1.2%	$339	$1.47	$17,735	1.2%	$355	$1.49	$18,267	1.2%	$365	$1.54
Total Undistributed Operating Expenses	$357,454	29.5%	$7,149	$33.20	$374,410	28.8%	$7,488	$33.63	$391,305	28.2%	$7,826	$34.03	$408,373	27.7%	$8,167	$34.42	$420,622	27.7%	$8,412	$35.46
MANAGEMENT FEES																				
Base Management Fee	$36,403	3.0%	$728	$3.38	$39,028	3.0%	$781	$3.51	$41,595	3.0%	$832	$3.62	$44,176	3.0%	$884	$3.72	$45,500	3.0%	$910	$3.84
HOUSE PROFIT (IBNOIE)	$499,048	41.1%	$9,981	$46.35	$551,969	42.4%	$11,039	$49.58	$603,259	43.5%	$12,065	$52.47	$654,665	44.5%	$13,093	$55.19	$674,288	44.5%	$13,486	$56.84
NON-OPERATING INCOME & EXPENSES																				
Property Taxes	$15,150	1.2%	$303	$1.41	$15,737	1.2%	$315	$1.41	$16,324	1.2%	$326	$1.42	$16,920	1.1%	$338	$1.43	$17,428	1.1%	$349	$1.47
Insurance	$15,222	1.3%	$304	$1.41	$15,678	1.2%	$314	$1.41	$16,149	1.2%	$323	$1.40	$16,633	1.1%	$333	$1.40	$17,132	1.1%	$343	$1.44
Reserve for Replacement	$24,269	2.0%	$485	$2.25	$39,028	3.0%	$781	$3.51	$55,460	4.0%	$1,109	$4.82	$58,901	4.0%	$1,178	$4.97	$60,667	4.0%	$1,213	$5.11
Total Non-Operating Charges	$54,640	4.5%	$1,093	$5.07	$70,443	5.4%	$1,409	$6.33	$87,933	6.3%	$1,759	$7.65	$92,454	6.3%	$1,849	$7.79	$95,227	6.3%	$1,905	$8.03
NET OPERATING INCOME (EBITDA-LR)	$444,407	36.6%	$8,888	$41.27	$481,526	37.0%	$9,631	$43.25	$515,327	37.2%	$10,307	$44.82	$562,210	38.2%	$11,244	$47.39	$579,061	38.2%	$11,581	$48.81
OPERATING RATIOS																				
Other Operated Dept. Revenue to Rooms	3.6%				3.5%				3.4%				3.4%				3.4%			
Miscellaneous Income to Rooms	0.9%				0.9%				0.9%				0.9%				0.9%			
Royalty/Franchise Fees to Rooms	5.0%				5.0%				5.0%				5.0%				5.0%			

TEN-YEAR PROJECTION OF INCOME AND EXPENSE

Proposed Downtown Berryville Hotel

Period:	2021/22 (Inception)		2022/23		2023/24		2024/25 (Stabilized)		2025/26		2026/27		2027/28		2028/29		2029/30		2030/31	
Analysis Year:	3		4		5		6		7		8		9		10		11		12	
Projection Year:	1		2		3		4		5		6		7		8		9		10	
Days Open	365		365		365		365		365		365		365		365		365		365	
Number of Rooms	50		50		50		50		50		50		50		50		50		50	
Occupied Rooms	10,768		11,133		11,498		11,863		11,863		11,863		11,863		11,863		11,863		11,863	
Occupancy Rate	59.0%		61.0%		63.0%		65.0%		65.0%		65.0%		65.0%		65.0%		65.0%		65.0%	
Average Daily Room Rate (ADR)	$107.85		$111.93		$115.59		$119.06		$122.63		$126.31		$130.10		$134.00		$138.02		$142.16	
Revenue Per Avail. Room (RevPAR)	$63.63		$68.28		$72.82		$77.39		$79.71		$82.10		$84.57		$87.10		$89.72		$92.41	
DEPARTMENTAL REVENUES	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total
Rooms	$1,161,329	95.7%	$1,246,117	95.8%	$1,329,054	95.9%	$1,412,409	95.9%	$1,454,760	95.9%	$1,498,416	95.9%	$1,543,376	95.9%	$1,589,642	95.9%	$1,637,331	95.9%	$1,686,451	95.9%
Other Operated Dept. Revenue	$41,458	3.4%	$43,593	3.4%	$45,698	3.3%	$47,817	3.2%	$49,251	3.2%	$50,728	3.2%	$52,250	3.2%	$53,817	3.2%	$55,432	3.2%	$57,095	3.2%
Miscellaneous Income	$10,661	0.9%	$11,210	0.9%	$11,751	0.8%	$12,296	0.8%	$12,664	0.8%	$13,044	0.8%	$13,436	0.8%	$13,839	0.8%	$14,254	0.8%	$14,682	0.8%
Total Operating Revenue	$1,213,448	100.0%	$1,300,920	100.0%	$1,386,503	100.0%	$1,472,521	100.0%	$1,516,675	100.0%	$1,562,188	100.0%	$1,609,063	100.0%	$1,657,298	100.0%	$1,707,017	100.0%	$1,758,228	100.0%
DEPARTMENTAL EXPENSES																				
Rooms	$295,801	25.5%	$309,764	24.9%	$323,586	24.3%	$337,529	23.9%	$347,652	23.9%	$358,083	23.9%	$368,827	23.9%	$379,888	23.9%	$391,285	23.9%	$403,023	23.9%
Other Operated Dept. Expense	$24,741	59.7%	$25,750	59.1%	$26,757	58.6%	$27,779	58.1%	$28,612	58.1%	$29,471	58.1%	$30,355	58.1%	$31,265	58.1%	$32,203	58.1%	$33,169	58.1%
Total Departmental Expenses	$320,542	26.4%	$335,513	25.8%	$350,344	25.3%	$365,308	24.8%	$376,265	24.8%	$387,554	24.8%	$399,181	24.8%	$411,153	24.8%	$423,488	24.8%	$436,192	24.8%
TOTAL DEPARTMENTAL INCOME	$892,905	73.6%	$965,407	74.2%	$1,036,159	74.7%	$1,107,214	75.2%	$1,140,410	75.2%	$1,174,635	75.2%	$1,209,881	75.2%	$1,246,145	75.2%	$1,283,529	75.2%	$1,322,035	75.2%
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	$111,291	9.2%	$115,801	8.9%	$120,333	8.7%	$124,928	8.5%	$128,675	8.5%	$132,535	8.5%	$136,512	8.5%	$140,606	8.5%	$144,824	8.5%	$149,169	8.5%
Marketing	$66,986	5.5%	$70,124	5.4%	$73,253	5.3%	$76,409	5.2%	$78,701	5.2%	$81,062	5.2%	$83,494	5.2%	$85,998	5.2%	$88,578	5.2%	$91,236	5.2%
Royalty/Franchise Fees	$58,066	4.8%	$62,306	4.8%	$66,453	4.8%	$70,620	4.8%	$72,738	4.8%	$74,921	4.8%	$77,169	4.8%	$79,482	4.8%	$81,867	4.8%	$84,323	4.8%
Property Operations & Maintenance	$55,646	4.6%	$57,900	4.5%	$60,167	4.3%	$62,464	4.2%	$64,337	4.2%	$66,268	4.2%	$68,256	4.2%	$70,303	4.2%	$72,412	4.2%	$74,585	4.2%
Utilities	$50,081	4.1%	$52,110	4.0%	$54,150	3.9%	$56,217	3.8%	$57,904	3.8%	$59,641	3.8%	$61,430	3.8%	$63,273	3.8%	$65,171	3.8%	$67,126	3.8%
Information & Telecomm Systems	$15,383	1.3%	$16,169	1.2%	$16,949	1.2%	$17,735	1.2%	$18,267	1.2%	$18,815	1.2%	$19,379	1.2%	$19,961	1.2%	$20,559	1.2%	$21,176	1.2%
Total Undistributed Operating Expenses	$357,454	29.5%	$374,410	28.8%	$391,305	28.2%	$408,373	27.7%	$420,622	27.7%	$433,242	27.7%	$446,240	27.7%	$459,623	27.7%	$473,412	27.7%	$487,614	27.7%
MANAGEMENT FEES																				
Base Management Fee	$36,403	3.0%	$39,028	3.0%	$41,595	3.0%	$44,176	3.0%	$45,500	3.0%	$46,866	3.0%	$48,272	3.0%	$49,719	3.0%	$51,211	3.0%	$52,747	3.0%
HOUSE PROFIT (IBNOIE)	$499,048	41.1%	$551,969	42.4%	$603,259	43.5%	$654,665	44.5%	$674,288	44.5%	$694,527	44.5%	$715,369	44.5%	$736,803	44.5%	$758,907	44.5%	$781,674	44.5%
NON-OPERATING INCOME & EXPENSES																				
Property Taxes	$15,150	1.2%	$15,737	1.2%	$16,324	1.2%	$16,920	1.1%	$17,428	1.1%	$17,951	1.1%	$18,489	1.1%	$19,044	1.1%	$19,615	1.1%	$20,204	1.1%
Insurance	$15,222	1.3%	$15,678	1.2%	$16,149	1.2%	$16,633	1.1%	$17,132	1.1%	$17,646	1.1%	$18,175	1.1%	$18,721	1.1%	$19,282	1.1%	$19,861	1.1%
Reserve for Replacement	$24,269	2.0%	$39,028	3.0%	$55,460	4.0%	$58,901	4.0%	$60,667	4.0%	$62,488	4.0%	$64,363	4.0%	$66,292	4.0%	$68,281	4.0%	$70,329	4.0%
Total Non-Operating Charges	$54,640	4.5%	$70,443	5.4%	$87,933	6.3%	$92,454	6.3%	$95,227	6.3%	$98,084	6.3%	$101,027	6.3%	$104,056	6.3%	$107,178	6.3%	$110,394	6.3%
NET OPERATING INCOME (EBITDA-LR)	$444,407	36.6%	$481,526	37.0%	$515,327	37.2%	$562,210	38.2%	$579,061	38.2%	$596,442	38.2%	$614,342	38.2%	$632,746	38.2%	$651,729	38.2%	$671,280	38.2%
Pct. Change	-		8.4%		7.0%		9.1%		3.0%		3.0%		3.0%		3.0%		3.0%		3.0%	
OPERATING RATIOS																				
Other Operated Dept. Revenue to Rooms	3.6%		3.5%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%	
Miscellaneous Income to Rooms	0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%	
Royalty/Franchise Fees to Rooms	5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%	

The following is a graphical analysis of the proposed subject property's operating expense characteristics. The top of the graph represents total revenue, while the bottom represents net operating income.



The following sections discuss how this cash flow (net operating income) projection is converted into market value for the proposed subject property.

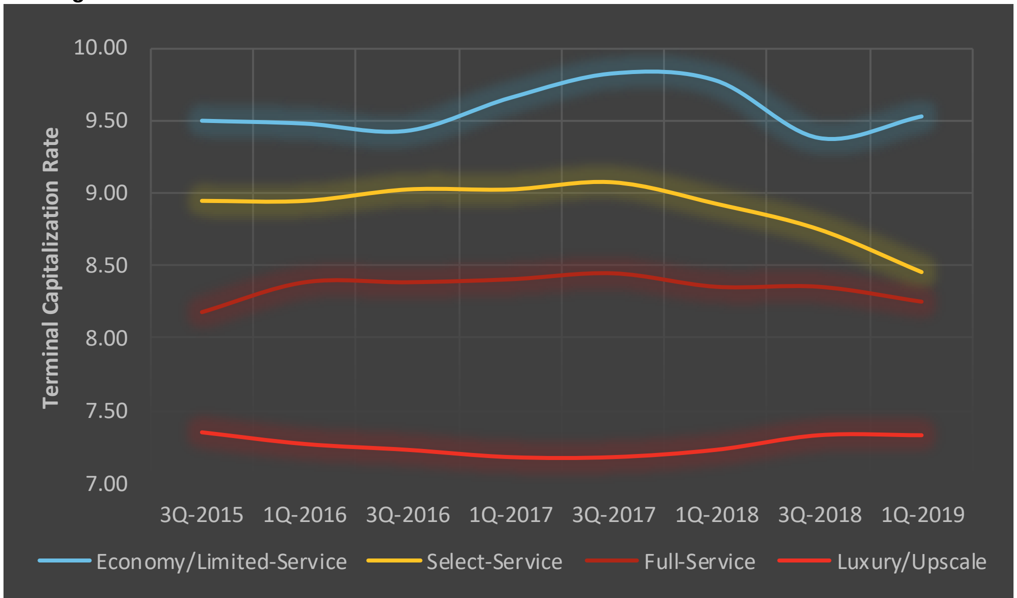
YIELD CAPITALIZATION

Yield capitalization is a method of converting future income from an investment into present value by discounting each year's income using an appropriate discount rate or by using one overall rate that reflects the investment. A more detailed discussion of the underlying process is presented in the ***Glossary*** section beginning on page 103 of this report.

Terminal Capitalization Rate

The following table provides a historical illustration of terminal capitalization rate statistics as surveyed by PricewaterhouseCoopers that we believe are relevant to the proposed subject property.

Terminal Capitalization Rate Surveys – Hotel Properties				
1Q-2019	Economy/Ltd Svc	Select-Service	Full-Service	Luxury/Upscale
Range	7.75%-12.00%	7.00%-10.00%	7.00%-10.00%	5.50%-9.50%
Average	9.53%	8.45%	8.25%	7.33%



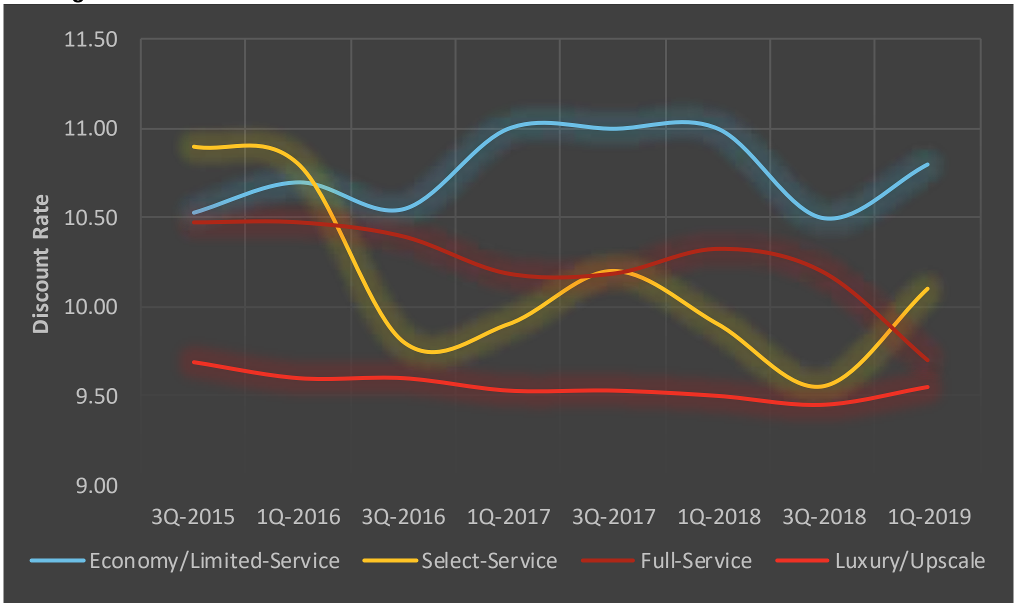
Source: Real Estate Investor Survey, 1Q-2019, published by PwC

Discount Rate

The following graph provides a historical illustration of discount rate statistics as surveyed by PricewaterhouseCoopers that we believe are relevant to the proposed subject property.

Discount Rate Surveys – Hotel Properties

1Q-2019	Economy/Ltd Svc	Select-Service	Full-Service	Luxury/Upscale
Range	8.50%-14.00%	8.00%-12.00%	8.00%-11.00%	6.25%-13.00%
Average	10.80%	10.10%	9.70%	9.55%



Source: Real Estate Investor Survey, 1Q-2019, published by PwC

INVESTMENT MATTERS CONSIDERED

The following remarks summarize information that we believe is consistent with the observations held by the investor pool of commercial real estate assets, particularly with respect to the trends that influence demand for hotels and motels overall. Except where noted, the following section references *IBISWorld Industry Report: Hotels & Motels in the U.S.*

Salient Industry Observations

- According to STR, Inc., fourth quarter U.S. lodging fundamentals came in slightly below expectations. RevPAR growth of 2.4% in fourth quarter 2019 (year-over-year) was driven by an average daily rate increase of 2.0%, while occupancy increased marginally (0.4%). Growth in occupancy came at somewhat of a surprise, which was supported by strong demand increases in the contract segment, while transient and group demand declined modestly on a year-over-year basis. Despite concerns about the impact of the trade tensions with China and rising construction/labor costs, the U.S. lodging industry ended 2018 on solid footing with occupancy reaching levels not seen since 1981.

- Over the five years to 2023, IBISWorld projects that the industry will continue expanding, albeit at a more moderate pace, with particularly strong growth in the extended-stay hotels, boutique hotels, spa and health retreats and resorts segments. As demand picks up, the number of industry employees is anticipated to rise at an annualized rate of 1.5% to 1.8 million workers during the five-year period. Industry players are also expected to continue expanding abroad into emerging economies such as Asia, Eastern Europe and South America. These foreign markets will somewhat detract from domestic investment, as they offer higher growth prospects for industry operators. Consequently, industry revenue is forecast to increase at an annualized rate of 1.6% to $209.8 billion over the five years to 2023.

- According to Real Capital Analytics, deal activity for hotel properties fell in the first quarter 2019 from a year earlier, but the headline figures paint a bleaker picture than some of the underlying trends. The largest source of decline was a dearth of portfolio and entity-level transactions. Portfolio and entity-level transactions made up 39% of all hotel transaction activity in 2018. By contrast, these megadeals accounted for only 16% of all deal volume in Q1’19. Portfolio sales barely passed the $1 billion mark and were down 76% YOY.

- The decline in megadeal activity was likely a function of the turmoil seen in the financial markets from Q4’18 to Q1’19. The 10yr UST hit a high of 3.2% in November and the fear that it would go higher persisted for some time into Q1’19. Such turmoil tends to limit the appetite that buyers will have for risk. Portfolio deal activity was improving somewhat late into Q1’19 compared to earlier in the quarter. Sales totaled $538m in March versus an average of only $260m per month in January and February. The turmoil in the financial markets was more pronounced early in Q1’19 so the improvement in hotel portfolio sales into March is a hopeful sign.

EXPECTED VALUE CHANGE*

Segment	Range	Average
Full Service	(4.0%) to 6.0%	+1.1%
Limited-Service Midscale and Economy	(5.0%) to 5.0%	+0.6%
Luxury / Upper Upscale	(3.0%) to 5.0%	+2.0%
Select-Service	(5.0%) to 4.0%	-0.90%

*Over Next 12 Months
Source: Real Estate Investor Survey, 1Q-2019, published by PwC

- The following graphic summarizes trends in transaction activity over the past several years, according to *NKF Research* and *Real Capital Analytics*:

Source: Real Capital Analytics

Market Participant Interviews

We continually interview market participants regarding lodging facilities of all asset classes and scales. The following table summarizes the results of recently-conducted interviews with respect to going-in capitalization rates pertaining to assets similar to the subject. The identities of individuals contacted are retained in our files.

MARKET PARTICIPANT INTERVIEWS			
Respondent	**Company**	**OAR RANGE**	**Date of Survey**
Hotel Broker	CBRE	8.00% to 9.00%	May 2019
Hotel Broker	C&W	7.50% to 9.50%	May 2019
Capital Markets Broker	NKF	8.25% to 9.25%	May 2019
Local Owner	Confidential	7.75% to 9.50%	May 2019

Compiled by NKF

Subject Property Considerations

Observations about the proposed subject property are considered and discussed below:

- The subject asset involves the Fee Simple interest with no known encumbering characteristics that would negatively impact its marketability.
- The proposed subject is expected to post improving operating performance in the coming years. While the projections are supported, they are still considered speculative and possess a certain degree of uncertainty. Such uncertainty plays a direct role in the return requirements a potential investor would command from the proposed subject property. Over the assumed 10-year holding period, more volatile changes are noted early in the projection as the proposed subject is expected to post above-average improvement prior to stabilization. Following the stabilized year,

growth rates are expected to moderate and represent growth indicative of inflation. The following table illustrates growth rates for various departmental revenue and expense line items, measured in increments that are relevant to the stabilization period and the 10-year holding period.

GROWTH RATE ANALYSIS - COMPOUNDED ANNUAL GROWTH RATES			
DEPARTMENTAL REVENUES	Year 1 to Stabilized Year	Year 1 to Year 10	Stabilized Year to Year 10
Rooms	6.7%	4.2%	3.0%
Other Operated Dept. Revenue	4.9%	3.6%	3.0%
Miscellaneous Income	4.9%	3.6%	3.0%
Total Operating Revenue	6.7%	4.2%	3.0%
DEPARTMENTAL EXPENSES			
Rooms	4.5%	3.5%	3.0%
Other Operated Dept. Expense	3.9%	3.3%	3.0%
Total Departmental Expenses	4.5%	3.5%	3.0%
TOTAL DEPARTMENTAL INCOME	7.4%	4.5%	3.0%
UNDISTRIBUTED OPERATING EXPENSES			
Administrative & General	3.9%	3.3%	3.0%
Marketing	4.5%	3.5%	3.0%
Royalty/Franchise Fees	6.7%	4.2%	3.0%
Property Operations & Maintenance	3.9%	3.3%	3.0%
Utilities	3.9%	3.3%	3.0%
Information & Telecomm Systems	4.9%	3.6%	3.0%
Total Undistributed Operating Expenses	4.5%	3.5%	3.0%
MANAGEMENT FEES			
Base Management Fee	6.7%	4.2%	3.0%
HOUSE PROFIT (IBNOIE)	9.5%	5.1%	3.0%

- Part of the reason hotel assets command higher returns relative to other asset classes is the fact that a sizable portion of the asset's overall value is comprised by furniture, fixtures, and equipment, which has a shorter economic life and needs to be replaced more often than the building components. Although hotel FF&E typically have a useful life of five to ten years, depreciation of these assets occurs at an accelerated depreciation rate, often faster than straight-line depreciation. These assets also depreciate immediately upon being placed into service. Such velocity in the depreciation of this component, along with the human labor required to maintain not only the FF&E but most public areas of the property, causes prudent investors to require higher rates of return. Since the subject is newly developed, its FF&E is estimated to have an effective age of 0.0 years with an economic life of 7.0 years upon completion.

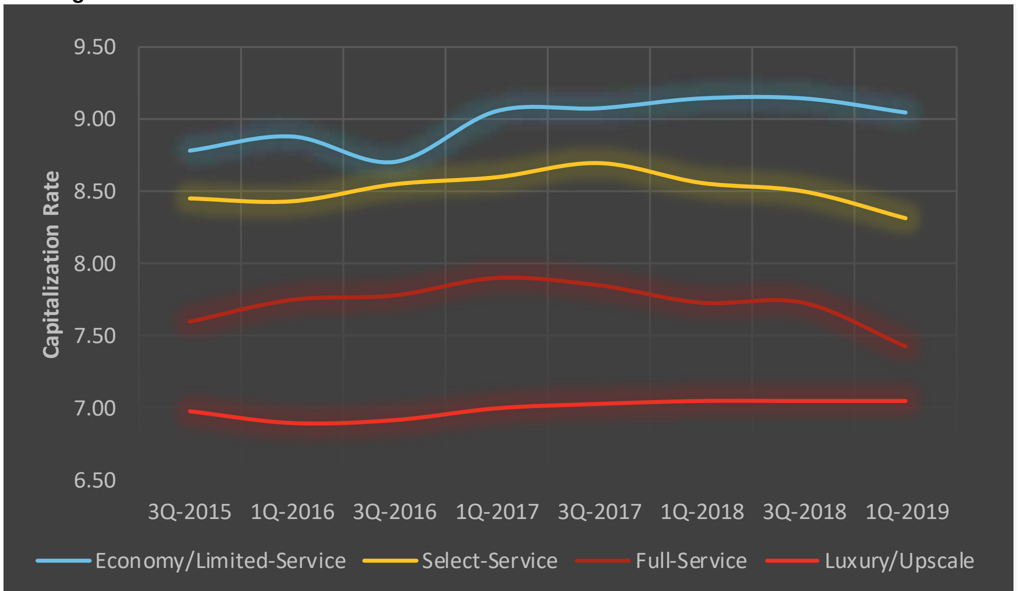
This property has an overall rating of average when measured against other properties in this marketplace after considering all the physical characteristics of the proposed subject and the risk profile associated with its anticipated economic benefits. In general, the proposed subject investment would command a discount rate of 11.00% and a terminal capitalization rate of 9.00%.

Implied Direct Capitalization Metric

As will be illustrated in greater detail later in this section, the calculated implied overall capitalization rate of the proposed subject (measured against the year-one net operating income after the application of all capital costs over and above reserves) is 7.50%. The implied rate has been cross-checked with the PwC surveys for full-service hotels and limited-service hotels. The results of the survey are as follows.

Capitalization Rate Surveys – Hotel Properties

1Q-2019	Economy/Ltd Svc	Select-Service	Full-Service	Luxury/Upscale
Range	7.50%-11.00%	7.00%-10.00%	6.00%-9.00%	4.00%-9.00%
Average	9.05%	8.31%	7.43%	7.05%



Source: Real Estate Investor Survey, 1Q-2019, published by PwC

Considering the proposed subject's Fee Simple ownership interest, overall condition, quality, expected operational performance, and all the aforementioned risk characteristics of the proposed subject and the local market, the implied overall capitalization rate and selected investment parameters are supported.

DISCOUNTED CASH FLOW

Discount Rate:	11.00% (annually)
Terminal Capitalization Rate:	9.00% (applied to the 11th year NOI)
Holding Period:	10 years
Closing Costs:	2.00% (deducted from the projected sale price)
Projection Commencement:	June 10, 2021
Date of Stabilization:	June 10, 2024 (Year 6)
Reversion Year:	2030/31 (Year 10, based on Year 11 projection)

Upon Completion

Based on our projections as detailed in the financial analysis, this event is assumed to occur on or about June 10, 2022.

On the following pages are the net operating income projections and the discounted cash flow analysis for the Prospective Value Upon Completion.

TEN-YEAR PROJECTION OF INCOME AND EXPENSE

Proposed Downtown Berryville Hotel

Period:	2021/22 (Inception)		2022/23		2023/24		2024/25 (Stabilized)		2025/26		2026/27		2027/28		2028/29		2029/30		2030/31	
Analysis Year:	3		4		5		6		7		8		9		10		11		12	
Projection Year:	1		2		3		4		5		6		7		8		9		10	
Days Open	365		365		365		365		365		365		365		365		365		365	
Number of Rooms	50		50		50		50		50		50		50		50		50		50	
Occupied Rooms	10,768		11,133		11,498		11,863		11,863		11,863		11,863		11,863		11,863		11,863	
Occupancy Rate	59.0%		61.0%		63.0%		65.0%		65.0%		65.0%		65.0%		65.0%		65.0%		65.0%	
Average Daily Room Rate (ADR)	$107.85		$111.93		$115.59		$119.06		$122.63		$126.31		$130.10		$134.00		$138.02		$142.16	
Revenue Per Avail. Room (RevPAR)	$63.63		$68.28		$72.82		$77.39		$79.71		$82.10		$84.57		$87.10		$89.72		$92.41	
DEPARTMENTAL REVENUES	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total
Rooms	$1,161,329	95.7%	$1,246,117	95.8%	$1,329,054	95.9%	$1,412,409	95.9%	$1,454,760	95.9%	$1,498,416	95.9%	$1,543,376	95.9%	$1,589,642	95.9%	$1,637,331	95.9%	$1,686,451	95.9%
Other Operated Dept. Revenue	$41,458	3.4%	$43,593	3.4%	$45,698	3.3%	$47,817	3.2%	$49,251	3.2%	$50,728	3.2%	$52,250	3.2%	$53,817	3.2%	$55,432	3.2%	$57,095	3.2%
Miscellaneous Income	$10,661	0.9%	$11,210	0.9%	$11,751	0.8%	$12,296	0.8%	$12,664	0.8%	$13,044	0.8%	$13,436	0.8%	$13,839	0.8%	$14,254	0.8%	$14,682	0.8%
Total Operating Revenue	$1,213,448	100.0%	$1,300,920	100.0%	$1,386,503	100.0%	$1,472,521	100.0%	$1,516,675	100.0%	$1,562,188	100.0%	$1,609,063	100.0%	$1,657,298	100.0%	$1,707,017	100.0%	$1,758,228	100.0%
DEPARTMENTAL EXPENSES																				
Rooms	$295,801	25.5%	$309,764	24.9%	$323,586	24.3%	$337,529	23.9%	$347,652	23.9%	$358,083	23.9%	$368,827	23.9%	$379,888	23.9%	$391,285	23.9%	$403,023	23.9%
Other Operated Dept. Expense	$24,741	59.7%	$25,750	59.1%	$26,757	58.6%	$27,779	58.1%	$28,612	58.1%	$29,471	58.1%	$30,355	58.1%	$31,265	58.1%	$32,203	58.1%	$33,169	58.1%
Total Departmental Expenses	$320,542	26.4%	$335,513	25.8%	$350,344	25.3%	$365,308	24.8%	$376,265	24.8%	$387,554	24.8%	$399,181	24.8%	$411,153	24.8%	$423,488	24.8%	$436,192	24.8%
TOTAL DEPARTMENTAL INCOME	$892,905	73.6%	$965,407	74.2%	$1,036,159	74.7%	$1,107,214	75.2%	$1,140,410	75.2%	$1,174,635	75.2%	$1,209,881	75.2%	$1,246,145	75.2%	$1,283,529	75.2%	$1,322,035	75.2%
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	$111,291	9.2%	$115,801	8.9%	$120,333	8.7%	$124,928	8.5%	$128,675	8.5%	$132,535	8.5%	$136,512	8.5%	$140,606	8.5%	$144,824	8.5%	$149,169	8.5%
Marketing	$66,986	5.5%	$70,124	5.4%	$73,253	5.3%	$76,409	5.2%	$78,701	5.2%	$81,062	5.2%	$83,494	5.2%	$85,998	5.2%	$88,578	5.2%	$91,236	5.2%
Royalty/Franchise Fees	$58,066	4.8%	$62,306	4.8%	$66,453	4.8%	$70,620	4.8%	$72,738	4.8%	$74,921	4.8%	$77,169	4.8%	$79,482	4.8%	$81,867	4.8%	$84,323	4.8%
Property Operations & Maintenance	$55,646	4.6%	$57,900	4.5%	$60,167	4.3%	$62,464	4.2%	$64,337	4.2%	$66,268	4.2%	$68,256	4.2%	$70,303	4.2%	$72,412	4.2%	$74,585	4.2%
Utilities	$50,081	4.1%	$52,110	4.0%	$54,150	3.9%	$56,217	3.8%	$57,904	3.8%	$59,641	3.8%	$61,430	3.8%	$63,273	3.8%	$65,171	3.8%	$67,126	3.8%
Information & Telecomm Systems	$15,383	1.3%	$16,169	1.2%	$16,949	1.2%	$17,735	1.2%	$18,267	1.2%	$18,815	1.2%	$19,379	1.2%	$19,961	1.2%	$20,559	1.2%	$21,176	1.2%
Total Undistributed Operating Expenses	$357,454	29.5%	$374,410	28.8%	$391,305	28.2%	$408,373	27.7%	$420,622	27.7%	$433,242	27.7%	$446,240	27.7%	$459,623	27.7%	$473,412	27.7%	$487,614	27.7%
MANAGEMENT FEES																				
Base Management Fee	$36,403	3.0%	$39,028	3.0%	$41,595	3.0%	$44,176	3.0%	$45,500	3.0%	$46,866	3.0%	$48,272	3.0%	$49,719	3.0%	$51,211	3.0%	$52,747	3.0%
HOUSE PROFIT (IBNOIE)	$499,048	41.1%	$551,969	42.4%	$603,259	43.5%	$654,665	44.5%	$674,288	44.5%	$694,527	44.5%	$715,369	44.5%	$736,803	44.5%	$758,907	44.5%	$781,674	44.5%
NON-OPERATING INCOME & EXPENSES																				
Property Taxes	$15,150	1.2%	$15,737	1.2%	$16,324	1.2%	$16,920	1.1%	$17,428	1.1%	$17,951	1.1%	$18,489	1.1%	$19,044	1.1%	$19,615	1.1%	$20,204	1.1%
Insurance	$15,222	1.3%	$15,678	1.2%	$16,149	1.2%	$16,633	1.1%	$17,132	1.1%	$17,646	1.1%	$18,175	1.1%	$18,721	1.1%	$19,282	1.1%	$19,861	1.1%
Reserve for Replacement	$24,269	2.0%	$39,028	3.0%	$55,460	4.0%	$58,901	4.0%	$60,667	4.0%	$62,488	4.0%	$64,363	4.0%	$66,292	4.0%	$68,281	4.0%	$70,329	4.0%
Total Non-Operating Charges	$54,640	4.5%	$70,443	5.4%	$87,933	6.3%	$92,454	6.3%	$95,227	6.3%	$98,084	6.3%	$101,027	6.3%	$104,056	6.3%	$107,178	6.3%	$110,394	6.3%
NET OPERATING INCOME (EBITDA-LR)	$444,407	36.6%	$481,526	37.0%	$515,327	37.2%	$562,210	38.2%	$579,061	38.2%	$596,442	38.2%	$614,342	38.2%	$632,746	38.2%	$651,729	38.2%	$671,280	38.2%
Pct. Change	*-*		*8.4%*		*7.0%*		*9.1%*		*3.0%*		*3.0%*		*3.0%*		*3.0%*		*3.0%*		*3.0%*	
OPERATING RATIOS																				
Other Operated Dept. Revenue to Rooms	3.6%		3.5%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%	
Miscellaneous Income to Rooms	0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%	
Royalty/Franchise Fees to Rooms	5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%	

DISCOUNTED CASH FLOW ANALYSIS

Calculation of Market Value, Upon Completion
Proposed Downtown Berryville Hotel

Projection Period	Projection Year	Net Operating Income (NOI)		Discount Factor	Present Value of NOI	Cash on Cash Return	Composition of Value
				11.00%			
1	2021/22 *(Inception)*	$444,407	x	0.90090	$400,367	7.53%	6.77%
2	2022/23	$481,526	x	0.81162	$390,818	8.16%	6.61%
3	2023/24	$515,327	x	0.73119	$376,803	8.73%	6.37%
4	2024/25 *(Stabilized)*	$562,210	x	0.65873	$370,345	9.53%	6.26%
5	2025/26	$579,061	x	0.59345	$343,645	9.81%	5.81%
6	2026/27	$596,442	x	0.53464	$318,883	10.11%	5.39%
7	2027/28	$614,342	x	0.48166	$295,903	10.41%	5.00%
8	2028/29	$632,746	x	0.43393	$274,565	10.72%	4.64%
9	2029/30	$651,729	x	0.39092	$254,777	11.05%	4.31%
10	2030/31	$671,280	x	0.35218	$236,415	11.38%	4.00%
Total/Net Present Value of NOI:		**$5,749,072**			**$3,262,519**	**9.74%**	**55.17%**

Reversion Analysis

Proj. Period	Projection Year	NOI (EBITDA)		Concluded Terminal Rate	Reversion Value
11	2031/32	$691,419	÷	**9.00%**	$7,682,432
Less: Transactional Costs			x	**2.00%**	-$153,649
Net Reversion					$7,528,783
Discount Factor				0.35218	
Total Present Value of Reversion					$2,651,521
Composition of Value					44.83%
Indicated Value					**$5,914,040**

Valuation Analysis: Proposed Downtown Berryville Hotel

Indicated Calculation of Market Value, Upon Completion	$5,914,040
Rounded	**$5,900,000**
Number of Rooms	50
Value Estimate Per Room	$118,000

Analysis Period:	First 2021/22	Stabilized 2024/25	Stabilized Deflated to
Projection Period:	**1**	**4**	**2021/22**
Room Revenue Multiplier	5.08	4.18	4.56
Gross Revenue Multiplier	4.86	4.01	4.38
Net Operating Income*	$444,407	$562,210	$514,502
Implied Capitalization Rate	7.51%	9.51%	8.70%

Upon Stabilization

Based on our projections as detailed in the Income Capitalization Approach, this event is assumed to occur on or about June 10, 2024. Please note that the IRR selected for the stabilized holding period is less than the IRR selection for the initial 10-year projection. The lower investment return is due to the notion that there is less ramp-up risk inherent in the cash flows once the property is stabilized. Furthermore, beyond the stabilized year, it is likely that a prudent investor would recognize that the property will have achieved a stable patron base with repeat accommodations.

On the following pages are the net operating income projections and the discounted cash flow analysis for the Prospective Value Upon Stabilization.

TEN-YEAR PROJECTION OF INCOME AND EXPENSE - PROSPECTIVE MARKET VALUE UPON STABILIZATION

Proposed Downtown Berryville Hotel

Period:	2024/25 (Stabilized)		2025/26		2026/27		2027/28		2028/29		2029/30		2030/31		2031/32		2032/33		2033/34	
Analysis Year:	6		7		8		9		10		11		12		13		14		15	
Projection Year:	4		5		6		7		8		9		10		11		12		13	
Days Open	365		365		365		365		365		365		365		365		365		365	
Number of Rooms	50		50		50		50		50		50		50		50		50		50	
Occupied Rooms	11,863		11,863		11,863		11,863		11,863		11,863		11,863		11,863		11,863		11,863	
Occupancy Rate	65.0%		65.0%		65.0%		65.0%		65.0%		65.0%		65.0%		65.0%		65.0%		65.0%	
Average Daily Room Rate (ADR)	$119.06		$122.63		$126.31		$130.10		$134.00		$138.02		$142.16		$146.43		$150.82		$155.34	
Revenue Per Avail. Room (RevPAR)	$77.39		$79.71		$82.10		$84.57		$87.10		$89.72		$92.41		$95.18		$98.04		$100.98	
DEPARTMENTAL REVENUES	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total	$	% Total
Rooms	$1,412,409	95.9%	$1,454,760	95.9%	$1,498,416	95.9%	$1,543,376	95.9%	$1,589,642	95.9%	$1,637,331	95.9%	$1,686,451	95.9%	$1,737,045	95.9%	$1,789,156	95.9%	$1,842,831	95.9%
Other Operated Dept. Revenue	$47,817	3.2%	$49,251	3.2%	$50,728	3.2%	$52,250	3.2%	$53,817	3.2%	$55,432	3.2%	$57,095	3.2%	$58,808	3.2%	$60,572	3.2%	$62,389	3.2%
Miscellaneous Income	$12,296	0.8%	$12,664	0.8%	$13,044	0.8%	$13,436	0.8%	$13,839	0.8%	$14,254	0.8%	$14,682	0.8%	$15,122	0.8%	$15,576	0.8%	$16,043	0.8%
Total Operating Revenue	$1,472,521	100.0%	$1,516,675	100.0%	$1,562,188	100.0%	$1,609,063	100.0%	$1,657,298	100.0%	$1,707,017	100.0%	$1,758,228	100.0%	$1,810,974	100.0%	$1,865,304	100.0%	$1,921,263	100.0%
DEPARTMENTAL EXPENSES																				
Rooms	$337,529	23.9%	$347,652	23.9%	$358,083	23.9%	$368,827	23.9%	$379,888	23.9%	$391,285	23.9%	$403,023	23.9%	$415,114	23.9%	$427,567	23.9%	$440,394	23.9%
Other Operated Dept. Expense	$27,779	58.1%	$28,612	58.1%	$29,471	58.1%	$30,355	58.1%	$31,265	58.1%	$32,203	58.1%	$33,169	58.1%	$34,164	58.1%	$35,189	58.1%	$36,245	58.1%
Total Departmental Expenses	$365,308	24.8%	$376,265	24.8%	$387,554	24.8%	$399,181	24.8%	$411,153	24.8%	$423,488	24.8%	$436,192	24.8%	$449,278	24.8%	$462,757	24.8%	$476,639	24.8%
TOTAL DEPARTMENTAL INCOME	$1,107,214	75.2%	$1,140,410	75.2%	$1,174,635	75.2%	$1,209,881	75.2%	$1,246,145	75.2%	$1,283,529	75.2%	$1,322,035	75.2%	$1,361,696	75.2%	$1,402,547	75.2%	$1,444,624	75.2%
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	$124,928	8.5%	$128,675	8.5%	$132,535	8.5%	$136,512	8.5%	$140,606	8.5%	$144,824	8.5%	$149,169	8.5%	$153,644	8.5%	$158,254	8.5%	$163,001	8.5%
Marketing	$76,409	5.2%	$78,701	5.2%	$81,062	5.2%	$83,494	5.2%	$85,998	5.2%	$88,578	5.2%	$91,236	5.2%	$93,973	5.2%	$96,792	5.2%	$99,696	5.2%
Royalty/Franchise Fees	$70,620	4.8%	$72,738	4.8%	$74,921	4.8%	$77,169	4.8%	$79,482	4.8%	$81,867	4.8%	$84,323	4.8%	$86,852	4.8%	$89,458	4.8%	$92,142	4.8%
Property Operations & Maintenance	$62,464	4.2%	$64,337	4.2%	$66,268	4.2%	$68,256	4.2%	$70,303	4.2%	$72,412	4.2%	$74,585	4.2%	$76,822	4.2%	$79,127	4.2%	$81,501	4.2%
Utilities	$56,217	3.8%	$57,904	3.8%	$59,641	3.8%	$61,430	3.8%	$63,273	3.8%	$65,171	3.8%	$67,126	3.8%	$69,140	3.8%	$71,214	3.8%	$73,351	3.8%
Information & Telecomm Systems	$17,735	1.2%	$18,267	1.2%	$18,815	1.2%	$19,379	1.2%	$19,961	1.2%	$20,559	1.2%	$21,176	1.2%	$21,812	1.2%	$22,466	1.2%	$23,140	1.2%
Total Undistributed Operating Expenses	$408,373	27.7%	$420,622	27.7%	$433,242	27.7%	$446,240	27.7%	$459,623	27.7%	$473,412	27.7%	$487,614	27.7%	$502,243	27.7%	$517,310	27.7%	$532,829	27.7%
MANAGEMENT FEES																				
Base Management Fee	$44,176	3.0%	$45,500	3.0%	$46,866	3.0%	$48,272	3.0%	$49,719	3.0%	$51,211	3.0%	$52,747	3.0%	$54,329	3.0%	$55,959	3.0%	$57,638	3.0%
HOUSE PROFIT (IBNOIE)	$654,665	44.5%	$674,288	44.5%	$694,527	44.5%	$715,369	44.5%	$736,803	44.5%	$758,907	44.5%	$781,674	44.5%	$805,124	44.5%	$829,278	44.5%	$854,156	44.5%
NON-OPERATING INCOME & EXPENSES																				
Property Taxes	$16,920	1.1%	$17,428	1.1%	$17,951	1.1%	$18,489	1.1%	$19,044	1.1%	$19,615	1.1%	$20,204	1.1%	$20,810	1.1%	$21,434	1.1%	$22,077	1.1%
Insurance	$16,633	1.1%	$17,132	1.1%	$17,646	1.1%	$18,175	1.1%	$18,721	1.1%	$19,282	1.1%	$19,861	1.1%	$20,457	1.1%	$21,070	1.1%	$21,702	1.1%
Reserve for Replacement	$58,901	4.0%	$60,667	4.0%	$62,488	4.0%	$64,363	4.0%	$66,292	4.0%	$68,281	4.0%	$70,329	4.0%	$72,439	4.0%	$74,612	4.0%	$76,851	4.0%
Total Non-Operating Charges	$92,454	6.3%	$95,227	6.3%	$98,084	6.3%	$101,027	6.3%	$104,056	6.3%	$107,178	6.3%	$110,394	6.3%	$113,705	6.3%	$117,116	6.3%	$120,630	6.3%
NET OPERATING INCOME (EBITDA-LR)	$562,210	38.2%	$579,061	38.2%	$596,442	38.2%	$614,342	38.2%	$632,746	38.2%	$651,729	38.2%	$671,280	38.2%	$691,419	38.2%	$712,161	38.2%	$733,526	38.2%
OPERATING RATIOS																				
Other Operated Dept. Revenue to Rooms	3.4%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%		3.4%	
Miscellaneous Income to Rooms	0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%		0.9%	
Royalty/Franchise Fees to Rooms	5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%		5.0%	

DISCOUNTED CASH FLOW ANALYSIS

Calculation of Prospective Market Value, Upon Stabilization
Proposed Downtown Berryville Hotel

Projection Period	Projection Year	Net Operating Income (NOI)		Discount Factor	Present Value of NOI	Cash on Cash Return	Composition of Value
				10.50%	(in 2024/25 dollars)		
4	2024/25 *(Stabilized)*	$562,210	x	0.90498	$508,788	8.27%	7.47%
5	2025/26	$579,061	x	0.81898	$474,242	8.52%	6.96%
6	2026/27	$596,442	x	0.74116	$442,061	8.77%	6.49%
7	2027/28	$614,342	x	0.67073	$412,060	9.03%	6.05%
8	2028/29	$632,746	x	0.60700	$384,077	9.31%	5.64%
9	2029/30	$651,729	x	0.54932	$358,008	9.58%	5.25%
10	2030/31	$671,280	x	0.49712	$333,709	9.87%	4.90%
11	2031/32	$691,419	x	0.44989	$311,059	10.17%	4.56%
12	2032/33	$712,161	x	0.40714	$289,947	10.47%	4.25%
13	2033/34	$733,526	x	0.36845	$270,267	10.79%	3.97%
Total/Net Present Value of NOI:		**$6,444,918**			**$3,784,217**	**9.48%**	**55.52%**

Reversion Analysis

Proj. Period	Projection Year	NOI (EBITDA)		Concluded Terminal Rate	Reversion Value
14	2034/35	$755,532	÷	**9.00%**	$8,394,801
Less: Transactional Costs			x	**2.00%**	-$167,896
Net Reversion					$8,226,905
Discount Factor				0.36845	
Total Present Value of Reversion					$3,031,194
Composition of Value					44.48%
Indicated Value					**$6,815,411**

Valuation Analysis and Conclusions

Indicated Prospective Market Value, Upon Stabilization	$6,815,411
Rounded	**$6,800,000**
Number of Rooms	50
Value Estimate Per Room	$136,000

Analysis Period:	First 2021/22	Stabilized 2024/25
Projection Period:	**1**	**4**
Analysis Period:	**3**	**6**
Room Revenue Multiplier	5.86	4.81
Gross Revenue Multiplier	5.60	4.62
Net Operating Income*	$444,407	$562,210
Implied Capitalization Rate	6.52%	8.25%

Feasibility Analysis

A key component of a feasibility study is to determine whether the projected value created as shown from the DCF analysis equals or exceeds the development cost for the proposed project. Our feasibility study presented the projected value created after performing a detailed analysis of the market, projected usage, and financial analysis. In some cases, the feasibility study will not have the detailed costs available and this conclusion will be determined after the client has cost estimates performed by building contractors and architects. In other cases, the client has already performed estimates of construction costs, and the feasibility study will present these estimates and compare the value created to the development costs to determine if the project is feasible. Determining the sources and uses of funds is outside the scope of this study.

We estimate development costs of approximately $6.5 million to $7.5 million or roughly $130,000 to $150,000 per room based on our recommended hotel scale, amenities, and chain. A development budget has not been formalized and the proposed property is in the preliminary planning stages. The value created by the property upon completion is within the estimated development cost range, indicating the project may require incentives to be feasible depending on the actual development cost incurred.

The value estimates are not meant to represent market value because there are still many unknown variables concerning the subject project. Rather, they are presented as an analysis of value utilizing typical parameters performed in the income capitalization approach for an appraisal. In addition, details are not yet available concerning the actual construction costs and site improvement costs incurred. NKF reserves the right to amend our feasibility conclusion as additional information is obtained.

Our opinions of value reflect current conditions and the likely actions of market participants as of the dates of value. They are based on the available information gathered and provided to us, as presented in this report, and do not predict future performance. Changing market or property conditions can and likely will influence the proposed subject 's value.

Assumptions & Limiting Conditions

The Feasibility Study contained in this Report (herein "Report") is subject to the following assumptions and limiting conditions:

1. Unless otherwise stated in this report, title to the property which is the subject of this report (herein "Property") is assumed to be good and marketable and free and clear of all liens and encumbrances and that there are no recorded or unrecorded matters or exceptions to title that would adversely affect marketability or value. No responsibility is assumed for the legal description, zoning, condition of title or any matters which are legal in nature or otherwise require expertise other than that of a professional real estate appraiser. This report shall not constitute a survey of the Property.
2. Unless otherwise stated in this report, it is assumed: that the improvements on the Property are structurally sound, seismically safe and code conforming; that all building systems (mechanical/electrical, HVAC, elevator, plumbing, etc.) are in good working order with no major deferred maintenance or repair required; that the roof and exterior are in good condition and free from intrusion by the elements; that the Property and improvements conform to all applicable local, state, and federal laws, codes, ordinances and regulations including environmental laws and regulations. No responsibility is assumed for soil or subsoil conditions or engineering or structural matters. The Property is appraised assuming that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report is based, unless otherwise stated. The physical condition of the Property reflected in this report is solely based on a visual inspection as typically conducted by a professional appraiser not someone with engineering expertise. Responsible ownership and competent property management are assumed.
3. Unless otherwise stated in this report, this report did not take into consideration the existence of asbestos, PCB transformers or other toxic, hazardous, or contaminated substances or underground storage tanks, or the cost of encapsulation, removal or remediation thereof. Real estate appraisers are not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, contaminated groundwater or other potentially hazardous materials and substances may adversely affect the value of the Property. Unless otherwise stated in this report, the opinion of value is predicated on the assumption that there is no such material or substances at, on or in the Property.
4. All statements of fact contained in this report as a basis of the analyses, opinions, and conclusions herein are true and correct to the best of the appraiser's actual knowledge and belief. The appraiser is entitled to and relies upon the accuracy of information and material furnished by the owner of the Property or owner's representatives and on information and data provided by sources upon which members of the appraisal profession typically rely and that are deemed to be reliable by such members. Such information and data obtained from third party sources are assumed to be reliable and have not been independently verified. No warranty is made as to the accuracy of any of such information and data. Any material error in any of the said information or data could have a substantial impact on the conclusions of this Report. The appraiser reserves the right to amend conclusions reported if made aware of any such error.
5. The opinion of value stated in this report is only as of the date of value stated in this report. A feasibility study is inherently subjective, and the conclusions stated apply only as of said date of value, and no representation is made as to the effect of subsequent events. This report speaks only as of the date hereof.
6. Any projected cash flows included in the analysis are forecasts of estimated future operating characteristics and are predicated on the information and assumptions contained within this report. Any projections of income, expenses and economic conditions utilized in this report are not predictions of the future. Rather, they are estimates of market expectations of future income and expenses. The achievement of any financial projections will be affected by fluctuating economic conditions and is dependent upon other future occurrences that cannot be assured. Actual results may vary from the projections considered herein. There is no warranty or assurances that these forecasts will occur. Projections may be affected by circumstances beyond anyone's knowledge or control. Any income and expense estimates contained in this report are used only for the purpose of estimating value and do not constitute predictions of future operating results.
7. The analyses contained in this report may necessarily incorporate numerous estimates and assumptions regarding Property performance, general and local business and economic conditions, the absence of

material changes in the competitive environment and other matters. Some estimates or assumptions, however, inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by the analysis will vary from estimates, and the variations may be material.

8. All prospective value opinions presented in this report are estimates and forecasts which are prospective in nature and are subject to considerable risk and uncertainty. In addition to the contingencies noted in the preceding paragraphs, several events may occur that could substantially alter the outcome of the estimates such as, but not limited to changes in the economy, interest rates, capitalization rates, behavior of consumers, investors and lenders, fire and other physical destruction, changes in title or conveyances of easements and deed restrictions, etc. In making prospective estimates and forecasts, it is assumed that conditions reasonably foreseeable at the present time are consistent or similar with the future.

9. The allocations of value for land and improvements must not be used in conjunction with any other feasibility study and are invalid if so used. This report shall be considered only in its entirety. No part of this report shall be utilized separately or out of context.

10. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or any reference to the Appraisal Institute) shall be disseminated through advertising media, public relations media, news media or any other means of communication (including without limitation prospectuses, private offering memoranda and other offering material provided to prospective investors) without the prior written consent of the Firm. Possession of this report, or a copy hereof, does not carry with it the right of publication.

11. Client and any other Intended User identified herein (should consider this report and the opinion of value contained herein as only one factor together with its own independent considerations and underwriting guidelines in making any decision or investment or taking any action regarding the Property. Client agrees that Firm shall not be responsible in any way for any decision of Client or any Intended User related to the Property or for the advice or services provided by any other advisors or contractors. The use of this report and the feasibility study contained herein by anyone other than an Intended User identified herein, or for a use other than the Intended Use identified herein, is strictly prohibited. No party other than an Intended User identified herein may rely on this report and the feasibility study contained herein.

12. Unless otherwise stated in the agreement to prepare this report, the appraiser shall not be required to participate in or prepare for or attend any judicial, arbitration, or administrative proceedings.

13. The Americans with Disabilities Act (ADA) became effective January 26, 1992. No survey or analysis of the Property has been made in connection with this report to determine whether the physical aspects of the improvements meet the ADA accessibility guidelines. No expertise in ADA issues is claimed, and the report renders no opinion regarding the Property’s compliance with ADA regulations. Inasmuch as compliance matches each owner’s financial ability with the cost to cure the non-conforming physical characteristics of a property, a specific study of both the owner’s financial ability and the cost to cure any deficiencies would be needed for the Department of Justice to determine compliance.

14. Acceptance and/or use of this report constitutes full acceptance of these Assumptions and Limiting Conditions and any others contained in this report, including any Extraordinary Assumptions and Hypothetical Conditions, and is subject to the terms and conditions contained in the agreement to prepare this report and full acceptance of any limitation of liability or claims contained therein.

15. During the course of fieldwork, the professionals within the Hospitality, Gaming, and Leisure Group at Newmark Knight Frank have understood actual segmentation data obtained by operators at the most competitive properties is problematic as the data may not be accurate for a variety of reasons. Efforts were made to ascertain the demand mix at each of the competitive hotels; however, additional industry data is utilized to enhance research collected in the competitive set. There is a correlation between the various service scales of hotels and the demand mix indicated by market participants as well as industry data. With this information, the base segmentation for each service class is estimated and additional qualitative adjustments are made in accordance with the hotel’s size, suite inventory, total inventory of meeting space, etc.

Glossary

In this section, we provide additional analysis and discussion of the terms, definitions and methodologies employed in this feasibility study. The sections are configured in the same sequence as this feasibility study report.

SUPPLY AND DEMAND ANALYSIS

Competitiveness - *(From Page 50)*

To provide an indication of the overall competitiveness of each property relative to the proposed subject hotel, the rate structure, physical attributes (such as meeting space and guest amenities), service scale, location, property condition, and operating characteristics were reviewed. Moreover, operating data of similarly-branded properties and/or similar assets were considered and reviewed. These data, as well as findings from fieldwork, were used to estimate an anticipated percentage of each demand segment that contributes to the market mix of each competitor. This determination is critical to the estimation of the competitiveness of each competitive hotel relative to the proposed subject hotel. The competitive quotient illustrates the overall competitiveness and market mix of each competitor and the proposed subject hotel.

The correlation in the market mix of the demand segments between each competitive hotel and the proposed subject hotel is applied to estimate the likely competitive overlap. Any competitive hotel that possesses a very similar market mix to the proposed subject hotel will innately show a substantially higher degree of competitiveness compared to a property that targets vastly different demand segments. The greater the degree of competitive overlap, the higher the potential competitive level.

Following the application of the quantitative measurements, the rate differential between each of the competitors and the proposed subject hotel, as well as the general price sensitivity of the local lodging market, was also considered. This assessment is used to make additional qualitative adjustments to the competitiveness of each property. In markets where the price sensitivity is high, the competitiveness between properties decreases more rapidly as the rate differential between the two hotels increases. Alternatively, in markets where there is low price sensitivity, the competitiveness will be less impacted by the rate differential. Overall, the proposed subject hotel's competitive market is viewed to have moderate price sensitivity, thereby commanding a fairly moderate adjustment to the potential competitiveness.

The estimated competitive overlap of each property within each segment compared to the proposed subject's demand levels during the base year, as well as an aggregated overlap potential amount, is estimated as part of the competitive quotient analysis. It also displays the rate differential between the proposed subject property and each of the competitors, followed by the overall competitiveness estimated for each property. In the case of the subject’s competitive set, there is a total guestroom count of 39,786 guestrooms. Once the percentage of competitiveness is applied to each competitive hotel, a base number of 39,208 guestrooms is derived rendering this competitive set as 98.5% competitive overall with the proposed subject hotel.

MARKET SEGMENTS

Commercial Demand - *(From Page 54)*

Travelers attracted to the local companies in an area comprise commercial demand. Most commercial demand patrons occupy hotel rooms from Sunday through Thursday nights, with fewer commercial travelers on Friday and Saturday nights. Duration of guest stays is typically one to three days and most often single occupancy per guestroom. These travelers are typically less rate sensitive than other travelers and provide a consistent source of demand at relatively strong room rates. This demand includes travelers visiting local companies or those passing through town. This type of traveler is usually influenced by quality of the product, brand loyalty, and location.

Rates that are pre-negotiated with local companies for their employees or those doing business with the firm create volume demand, which can result in discounted rates in return for higher occupancy. This type of business is referred to as Local Negotiated Rates, or LNRs.

In some cases, contract or “airline” demand is generated by a scheduled contract wherein an airline secures a fixed quantity of rooms for an extended period to guarantee room availability. The guarantee of room nights affords the airlines the ability to negotiate significant discounts on the room rates. The advantage for the hotel operator is the base level of occupancy the contract provides over a long period that include off-peak day and/or months; however, the boost to occupancy is countered by the discounted rates. Experienced hotel operators utilize this type of demand to fill in occupancy during off-peak periods and quickly displace this lower-rated demand during peak periods when higher-rated clientele provides a superior RevPAR mix.

Group Demand - (From Page 54)

For this report, group travelers are defined as any collection of guests that occupy five or more room nights. Most often, this demand is part the conference and trade show industry and includes demand from corporate groups, associations, SMERFE organizations, governments, non-profit entities, and professional networks. The two key elements of this demand are business-to-business (B2B) events and business-to-consumer (B2C) events, both of which are moderately rate sensitive.

Corporate marketing budgets directly impact B2B events as companies with larger budgets invest more into promotional events. Rising corporate profits in recent years have resulted in higher demand for trade show and event planning services for these events. Revenue from B2C events is driven by consumer attendance at events such as technology or car shows; these events can be correlated to employment figures, wage growth, and disposable income, which in recent years has bolstered attendance at many of these events.

This industry is facing constant challenges from technology-based applications and websites that allow for virtual meetings and networking, such as LinkedIn, Facebook, and others. However, trade show and conference planners have embraced new technologies, which have helped reduce wage costs and improve industry margins over the past five years. Consequently, average profit in this industry margin is currently near 8.0%, up significantly from 1.7% in 2010, according to IBISWorld.

We note that industry revenue is expected to increase at a comparatively healthy rate and remain at or above the $16 billion mark for each of the next two or three years, at a minimum. Demand will likely improve as companies continue to expand their marketing budgets and disposable income levels increase. Industry profit is projected to rise as new technologies, such as automated registration, enable operators to spend less on labor. However, technology may also pose a threat to the industry; the rising popularity of video conferencing and online events will serve as a substitute for live conferences for some patrons. Successful hotel meeting operators must leverage new technology as an asset, not as a replacement, for event attendance.

Some of the notable external drivers to the health of this industry correlate to the success of the group demand segment are as follows:

- **Corporate profit** – Declines in corporate profits cause event attendance to decrease as discretionary and unnecessary items are eliminated from budgets. Alternately, growth in corporate profits often provides an increase in event demand marketing efforts to sustain the increases in profits.
- **Disposable income** – Declines in disposable per capita income can impede event attendance as income is diverted to fixed expenses.
- **Domestic trips by U.S. residents** - The industry is sensitive to changes in domestic travel patterns from factors such as fuel prices and availability of airlift. In addition, geopolitical tensions and fears of contagious diseases can contribute to altered travel patterns.
- **Inbound trips by non- U.S. residents** – International travelers are attracted to domestic events for both business and pleasure. While international attendees comprise a small fraction of demand, an increase in inbound trips by non-U.S. residents aids event demand.

Leisure Demand - (From Page 55)

Leisure demand, also known as FIT (Free Independent Traveler) demand, consists of individual tourists and families visiting leisure attractions in an area or passing through to other locations. Friday and Saturday nights accommodate most leisure demand, with holiday periods and summer months also prominent periods. These peak periods are often inversely associated other with commercial and group demand segments. Weddings and other social activities often occur seasonally in the spring and summer months.

This demand segment is very dependent on trends in domestic leisure, international tourism, and vacation travel:

- Domestic leisure travel – Numerous factors impact travel, including changes in disposable income (influenced by changes in general employment growth), as well as adjustments to interest and tax rates. The number of trips a household takes, as well as daily travel expenditures, are impacted by changes in disposable income, which consequently impacts the tourism industry. The price of fuel may also impact household disposable income, as well as overall travel demand patterns and trends. In addition, the availability of leisure time and motivations for employees to use their holiday leave also influence domestic travel. Travel spending also competes with other leisure and recreational industries for a portion of disposable income.
- Another influence on travel patterns is the comparative cost of domestic travel relative to international trips. Exchange rate movements, discounted airfares and vacation packages, and the availability of airline seats influences travel decisions as do tourism promotions by federal and state governments and/or private

operators. It is noted that state tourism agencies typically work to influence domestic only within the specific state, rather than the entire industry.

- International tourism - International tourism is highly competitive globally and is affected by factors similar to domestic travel, as well as global economic conditions, particularly changes in economic growth. Moreover, countries that are major feeder markets to destinations in the U.S. are affected by exchange rates directly impacting the cost of travel.
- Heightened geopolitical tensions including wars, threats of war, and terrorism impact international travel plans. Governments and other organizations can improve the sentiment of a destination. Factors such as airlift are also of critical importance, as well as accommodations to and at their selected destination.
- Vacation travel –The majority of leisure travel is discretionary and, therefore, exposed to broad economic trends such as the onset of a recession or high fuel prices. According to the U.S. Travel Association, approximately half the revenue for the U.S. lodging industry is derived from domestic travelers. As such, leisure travel declines significantly during a recession when lower cost alternatives are often visited rather than higher cost destinations.

LATENT DEMAND

Demand captured by the subject and the competitive set considers only those room nights sold. Latent demand considers the potential guests that could not be accommodated by the existing competitive supply for a variety of reasons. Latent demand can be divided into induced demand and displaced demand.

Induced Demand - *(From Page 56)*

Room nights that are created by the development of a new demand generator are deemed to be induced demand as the existence of this new demand generator encourages additional business and property development, which in turn strengthens demand for lodging into the area on a long-term basis, permanently, or temporarily.

Examples of events that may induce new lodging demand into a local hotel market are:

- Development or expansion of an event or convention center
- Development and opening of a new hotel, especially of a type or service sector not currently satisfied
- Expansion or development of a theme park or sports entertainment facility, etc.
- Development or expansion of an airport facility
- Development or expansion of a major retail center
- Completion of a public transportation facility
- Implementation of a destination marketing organization or an economic development group

One method to quantify these additional room nights of induced demand is using a build-up approach. Demand generators are evaluated to estimate the potential number of room nights that may be introduced into the competitive set. The induced demand is phased-in to mimic the gradual increase of the potential room nights. The build-up method typically coincides with the opening of new hotel facilities that were developed due to the new economic driver. When induced demand is recognized to be the direct outcome of new hotel supply, the phase-in of the demand should closely match the timing of the opening of the hotel.

Displaced Demand - *(From Page 56)*

Potential guests that were unable obtain the desired accommodations in the competitive set or were not successful for a variety of reasons are considered displaced demand. This displaced demand either settles for less desirable (non-competitive) lodging options, stays in a different market area, or defers the trip completely. Displaced demand is unable to be accurately tracked and is excluded from the accommodated room nights in historical periods.

Displaced demand is opportunistic, as the local market could potentially take advantage of this demand when new hotels are constructed or as cycles shift. In many markets, there are peak periods or events that push hotel occupancies close to 100%. During these periods, it is not possible to accommodate all the demand. Displaced demand can be substantial based on seasonality and/or weekly cycles. In most markets, displaced commercial-oriented demand occurs during spring and autumn months from Monday through Thursday (during the week).

Areas where hotels reach an annual occupancy level greater than 70% on average may experience displaced demand. Many operators try to track the quantity of guests turned away when the hotel is near full capacity. The higher the average occupancy of a hotel over the threshold in the market, the greater the number of room nights that are displaced.

Displaced demand is particularly important when new supply additions are known to be entering the area. It is a reasonable assumption that displaced demand can be absorbed into the competitive set under these circumstances. Displaced demand is typically estimated as a percentage of accommodated demand in the base year and can also be phased in according to the openings of additional hotel inventory.

SUBJECT HOTEL OCCUPANCY PROJECTION

Overview - *(From Page 57)*

To derive the occupancy projection of the proposed subject hotel, a room night analysis is completed that quantifies and projects overall room night demand for the proposed subject property. This analysis is based on the competitiveness of the proposed subject hotel with the other hotels in the competitive set and its penetration into the various demand segments previously discussed. The first step in the process is to examine the occupancy, average daily rate, and corresponding RevPAR (occupancy multiplied by ADR) of the proposed subject hotel.

Operating performance of an individual hotel may be above or below the metrics of its competitive set depending on a multitude of factors such as management, physical plant, location, visibility, access, etc., as well as future opportunities or threats. A method that is commonly employed by hotel valuation professionals is to analyze the penetration of the proposed subject hotel against the competitive set via penetration indices. Relating to occupancy, this method demonstrates how well each property in a competitive set performs as compared to its competitors. The occupancy index of the proposed subject hotel, as well as the indices in each demand segment, is therefore analyzed.

Occupancy Penetration Indexes - *(From Page 57)*

The ratio between the portion of total demand accommodated by an individual property and its fair share of the market (which is represented by the portion of total supply accounted for by the same property) is the penetration index. A penetration index of 100% indicates that a property captures its fair share in a given demand segment, whereas indices above or below 100% indicates the relative strengths or weaknesses relative to the competitive set.

Average Daily Rate (ADR) Projection - *(From Page 59)*

After the proposed subject's occupancy level has been forecast, the next step is to estimate the average daily rate (ADR) of the proposed subject hotel to determine the Rooms department revenue. The market-appropriate room rates are derived via a market analysis and examination of the rates of the competitive hotels.

Rate categories between hotels of different service scales and brand affiliations can vary widely. The ADR estimate represents a blended rate of each category across all demand segments, which factors in the various characteristics of the rented rooms such as size, floor location, view, amenities, etc. The primary rate categories are discussed as follows.

- *Rack Rate* – A room rate that is not discounted and normally extended to a guest who does not qualify for a specific rate. This is typically the rate offered to walk-in guests or to patrons that are seeking accommodations during high-occupancy periods.
- *Published Rate* – The rate listed on websites and in publications. Usually this rate is displayed as a range and represents a general rate that would be charged for a room without a specific contracted price; this rate can often increase as the arrival time nears. This rate on the same date of requested accommodation might be as high as the rack rate.
- *Corporate Rate* – These rates are discounted rate for certain travelers that are members or agents of a specific company. This rate is often referred to as the LNR (Local Negotiated Rate) and, depending on the market mix, may be similar to the ADR of the property.
- *Contract Rate* – A discounted room rate based on a contracted price over a defined time frame that is available to specific travelers. This rate is generally correlated with higher volume contracts and most often part of the Group market segment, and might include airlines, convention groups, or SMERFE-oriented travelers. This rate typically reflects a block of guaranteed sold rooms.

It is important to note that an estimate of ADR correlates with the occupancy projection, and vice versa, as each individual factor cannot be held constant. Travelers almost always have some degree of price sensitivity; thus, increases in room rates by management may impact the decision to patronize a hotel thereby causing a decrease in occupancy. Characteristics that impact a hotel's rate potential include supply and demand relationships, inflationary pressures, renovations at competitive properties, and demand compression, as well as other factors.

The metric resulting from occupancy and ADR is RevPAR (Revenue per Available Room), which reflects a property's propensity to generate rooms revenue. The rate structure and the approximate average room rates for the competitive properties are analyzed to estimate the proposed subject property's market-oriented average room rate.

INCOME CAPITALIZATION APPROACH

Financial Projections - *(From Page 72)*

In order for a hotel to compete in the market, a well-coordinated marketing plan and an appropriately-crafted yield management strategy is required. It is also assumed the hotel will be maintained with all facilities in good working order, sufficient to render the property fully competitive in the relevant marketplace throughout the holding period, unless otherwise noted.

Inflation Assumptions - *(From Page 72)*

General price inflation is accounted for within the projections and is based upon economic projections from various sources, including the Bureau of Labor Statistics and the U.S. Congressional Budget Office. Observations and various accounts derived from local and national perspectives are also implemented into the projections.

To reflect potential price level changes, the consumer price index (CPI) is assumed to adequately account for inflation levels predicated to the hospitality industry, and an inflationary assumption of 3.0% per year on average is applied throughout the 10-year projection period.

Fixed and Variable Expenses - *(From Page 72)*

Fixed cost line items are expenses or overheads that are not dependent on the level of goods or services produced by the business. They tend to be time-oriented, such as salaries or rents being paid. This is contrary to variable line items, which are expenses that change in relation to the good or service that a business produces. These expenses are normal costs and are sometimes called unit-level costs as they vary with the number of units produced. In the case of hospitality properties, the units produced are the quantity of room nights sold, and therefore, the line item expenses adjust with incremental changes based on occupancy and utilization levels.

A 10-year projection of revenue and expenses is developed following a thorough review of the proposed subject property's owner-budgeted operating data, hotel industry averages, and the performances of comparable hotels. The projection period begins on June 10, 2019 and, with market factors considered as previously discussed, the subject property is anticipated to reach stabilization on or about June 10, 2024.

The projection of revenue and expenses reflects the expectations of a well-informed and prudent buyer pertaining to the subject property's operating results. Anticipated economic benefits may be adjusted upward or downward relative to actual operating results based on the local market dynamics, which has been incorporated into this analysis.

DETAILED RATIO ANALYSIS – MAJOR DEPARTMENTS

Fixed cost line items are expenses or overheads that are not dependent on the level of goods or services produced by the business. They tend to be time-oriented, such as salaries or rents being paid. This is contrary to variable line items, which are expenses that change in relation to the good or service that a business produces. These expenses are normal costs and are sometimes called unit-level costs as they vary with the number of units produced. In the case of hospitality properties, the units produced are the quantity of room nights sold, and therefore, the line item expenses adjust with incremental changes based on occupancy and utilization levels.

Food and Beverage Revenue - *(From Page **Error! Bookmark not defined.**)*

Many hotels have a full-service bar and/or restaurant that can provide substantial ancillary revenue relative to rooms (i.e., in excess of 10.0%). As the industry is highly competitive, some hotel operators position the food and beverage service as the hotel’s signature attraction with the aim of attracting travelers that would otherwise stay elsewhere. In addition, meeting and event spaces are a significant revenue stream, when considering the long-term national trends, and many hotels market their ability to hold lucrative events or conferences that attract hundreds or thousands of attendees. For these events, hotels will offer lower bulk room rates and work to offset the discounted room rates with enhanced sales within the food-and-beverage (F&B) department.

Much of this revenue is, in most cases, self-generating; however, depending on the market, F&B outlets can also attract significant patronage from local residents. Furthermore, meeting and event spaces can enable revenue from sources that would not utilize the facility for any other reason, including the rooms department. Overall, there is a relatively high percentage of variable components within this department that are dependent upon occupancy.

Rooms Expense - *(From Page 75)*

This expense generally represents costs associated with the various guest services and operations of the guestrooms. Expenses within this department range from reservation/registration activities to the settlement of guest accounts upon checkout, as well as the wages of the rooms division manager, assistant managers, registration clerks, cashiers, mail and information clerk, and uniform service personnel. Expenses included in this department include the following:

- *Commissions expenses*: This account includes payments by the hotel to authorized agents that bring room business to the hotel. Usually on a periodic basis, hotel managers and owners meet with these agents to reconcile monthly sales figures and authorize commission payment. This is usually transacted in the form of a percentage of room revenue.
- *Reservation expenses*: This expense account represents any payment to various agents contracting to bring potential room rental business to the hotel. These agents might have the form of central reservation offices (whether affiliate or non-affiliate) or online procuring entities such as Expedia, Travelocity or Egencia.
- *Contract cleaning expenses*: This expense account represents payment to contracting outside cleaning agencies. Some hotels (especially small and middle size hotels) might opt for contract cleaning due to its more efficient scale. If this is the case, these managers might not be prompted to have a housekeeping department, or it might keep housekeeping staff to a minimum. Such expenses should be determined considering the contract signed between both parties (i.e., the hotel from one side and the cleaning company from the other.)
- *Laundry and dry-cleaning expenses*: This cost applies to outside laundry and dry-cleaning costs for the Rooms department. In most cases, such contracts are signed to benefit more than one revenue generator. In this case, the Rooms department shall report the laundry and dry-cleaning expenses related only to the Rooms Division department.
- *Guest transportation expenses*: These expenses include the cost of transporting guests from and to the hotel via various means of transportation (e.g., mini-buses, buses, limousines or town cars). If the guest transportation volume costs are high and do not offer enough scale, then a separate department might be established.
- *Linen expenses*: This specific expense account includes the allocation of a portion of linen expenditure for a specific period.
- *Other expenses*: This account includes the various guest supplies provided free of charge to guests in their rooms. Some sub-accounts of guest supplies expenses might include newspaper, guest stationery, shoe cloth, coffee service, writing supplies, toiletries, flowers, hangers, ice, complementary sundries, uniforms, cleaning supplies, and items pertaining to the operation and maintenance of the business center, if any.

Many of the expenses within this department—namely commissions—are dependent on occupancy alone, or occupancy and rate. A reservation expense associated with a franchise system or a third-party booking system is a similar expense; these systems typically bill hotel owners a percentage of rooms revenue. Many of the remaining items in the preceding list (such as operating supplies, uniforms or other operating expenses) are only slightly affected by changes in volume. Overall, there is a relatively high percentage of variability this department and the forecast reflects this accordingly.

Food and Beverage Expenses - *(From Page **Error! Bookmark not defined.**)*

This expense consists of the costs necessary for the operation of the food and beverage outlets and the meeting and event space within the subject. Major items within this department include payroll, flatware, glassware, uniforms, and the cost of goods sold pertaining to food and beverages. There is a relatively high degree of variability associated with this direct expense line item.

Administrative and General - *(From Page 76)*

The A&G expense consists of payroll and related benefits for employees in operations management, finance, legal, human resources, and other support services, as well as general corporate and public company expenses. Most A&G 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).

Marketing Expenses - *(From Page 77)*

Marketing expenses reflect the costs necessary for advertising and promotional activities. Salaries and wages, employee benefits, dues and subscriptions, operating supplies, postage, telephone, trade shows, travel and entertainment, advertising and merchandising expenses, other marketing activities, and applicable fees and commissions are all within this expense category. This also includes franchise or brand associated marketing charges.

Franchise and Royalty Fees - *(From Page 78)*

A franchise affiliation can be critical in a property's ability to compete in a market, secure profits, gain recognition, achieve a certain market orientation, and benefit from repeat business. Considering the value of a hotel is most often based on the cash flow it generates (as previously discussed) and considering franchise fees can be significant relative to other expense categories, owners must maximize the benefits and services the franchise affiliation offers. Additional details behind the development of Franchise Fees is presented in the ***Glossary*** section of this report.

Fees charged by a hotel franchise company typically include the following:

- *Royalty Fee:* Usually based on a percentage of rooms revenue, the royalty fee represents compensation for the use of the brand's trade name, service marks and associated logos, goodwill, and other franchise services.
- *Advertising or Marketing Contribution Fee:* This fee covers the cost of brand-wide advertising and marketing placed in various types of media, the development and distribution of a brand directory, and marketing geared toward specific groups and segments.
- *Reservation Fee:* If the franchise brand utilizes reservation systems, the reservation fee supports the cost of operating and paying for the central office, telephone, computers, and reservation personnel.
- *Frequent Traveler Program:* Some franchisors maintain incentive programs that reward guests for frequent stays; these programs are designed to encourage loyalty to the brand. The cost of administrating the program is financed by a frequent traveler assessment.
- *Miscellaneous Fees:* Depending on the franchise agreement, the franchisor may assess a separate charge for additional services such as training programs, travel agent commissions, global distribution system fees, computer hardware and software, and IT maintenance.

Property Operations and Maintenance - *(From Page 78)*

Cost for property operations and maintenance are those expenses that have been incurred for the administration, supervision, operation, maintenance, preservation, and protection of the hotel's physical plant. These expenses normally include such items as janitorial and onsite utility upkeep; repairs and ordinary or normal alterations of buildings, furniture, and equipment; care of the grounds; maintenance and operation of buildings and other plant facilities; security; earthquake and disaster preparedness; environmental safety; hazardous waste disposal; facility planning and management; and central receiving. The projections consider whether this cost level is adequate relative to the hotel's size, position in the market, and service orientation. An inadequate amount of expenditures in this department could indicate that there are items of deferred maintenance that need to be addressed.

Utilities - *(From Page 79)*

Energy consumption expenses for a hotel typically include the cost of electricity, fuel, steam, and water. A large portion of a hotel's utility usage is relatively fixed because public spaces receive constant lighting and climate control regardless of rooms occupancy or utilization of the property. The energy usage in the rooms themselves vary in relationship to occupancy; however, the variability can be mitigated provided that the hotel operator implements sound energy-saving measures or, more importantly, the property is equipped with modern technology that better controls power usage.

In addition, utility costs tend to be very property-specific expenses, reflecting any efficiencies or inefficiencies in a building's construction, design, or layout. As such, a hotel's actual historical utility expenses are the best indication of future costs (unless energy upgrades are planned).

Information and Telecommunications Systems - *(From Page 80)*

This line item includes the cost of administrative phone calls, complimentary guest phone calls, internet connectivity, and all other telecommunications expenses (labor, maintenance, operating supplies, etc.).

Management Fee - *(From Page 80)*

A general assumption of this assignment is that the subject property is operated by a competent, third-party management company. A prudent investor would install a competent management company or, at a minimum, structure a management team that could operate the property to its maximum, albeit, practical level of profitability upon a sale. Some companies provide management services alone, while others offer both management services and a brand name affiliation. When a management company has no brand identification, the property owner can often acquire a franchise that provides the appropriate recognition within the market. Hotel management fees typically equal roughly 2.0% to 5.0% of total revenue.

Property Taxes - *(From Page 81)*

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

We note that government appraised values for lodging facilities across the United States are typically quite different from actual estimated market value. This disparity is due to the mass-appraisal techniques used by a jurisdiction to appraise a vast array of property within a very short period. Due to the high number of hotel properties in any given county, the appraiser can typically not dedicate any significant amount of time to any individual asset. For this reason, the government-appraised value should usually not be relied upon as an indication of actual market value.

Insurance Expense - *(From Page 81)*

The cost of insuring the hotel and its contents against damage or destruction by fire, weather, flood, breakage, etc., is included in this line item. General liability insurance costs are also included in this category. Over the past several years, insurance costs for many hotels have fluctuated dramatically and can depend upon previous loss runs.

Reserve for Replacement - *(From Page 82)*

Funds set aside for the periodic replacement of building components that wear out more rapidly than the building itself and therefore must be replaced during the building's economic life are known as the Reserves for Replacements. The components include furniture, fixtures, and equipment (FF&E), the replacement of which is generally funded from a hotel's cash flow. In theory, deductions are made so an enough money is available to replace FF&E at the end of its useful life. In the event the replacement fund is insufficient, a capital deduction at the point of a transaction (i.e., a property improvement plan, or PIP) might be assessed to address the shortfall.

The items a hotel's reserve account addresses are considered short-lived components, since the average economic life is less than that of the building itself. These components usually include the replacement of the roof; heating, ventilation, and air conditioning (HVAC) systems; parking lot resurfacing; hard goods and soft goods replacements; etc. Replacement reserves do not include minor repairs and maintenance, such as broken doorknobs or lightbulbs. These minor expenses are considered routine property operation and maintenance expenses, not irregular capital expenditures.

Industry data indicates that a reserve for replacements of 2.0% to 5.0% of total hotel revenue is adequate to provide for the timely completion of capital repairs and replacement of FF&E.

YIELD CAPITALIZATION

Yield capitalization is a method of converting future income from an investment into present value by discounting each year's income using an appropriate discount rate or by using one overall rate that reflects the investment. The anticipated economic benefit—which is typically the net operating income stream—is converted into a value opinion using investment rates that are applicable to investments with similar characteristics. The yield capitalization process takes into consideration the risk profile of the income stream in determining which rates are appropriate for arriving at a value conclusion for the subject hotel.

Terminal Capitalization Rate - *(From Page 86)*

A terminal capitalization rate is a rate used to estimate the resale value of a property at the end of the holding period. The expected annual net operating income (NOI) at the end of the holding period is divided by the terminal cap rate (expressed as a percentage) to get the terminal value. Terminal capitalization rates are based on forecasts and changes, remaining economic life, and risk associated with garnering future income streams as of the end of the holding period. This rate is also known as the reversionary capitalization rate.

Investor surveys, discussions with market participants, and the subject's investment characteristics were considered in developing our opinion of the terminal capitalization rate for the subject.

Discount Rate - *(From Page 87)*

The discount rate, or internal rate of return, is the rate of discount on an investment that equates the present value of the investment's cash outflows with the present value of the investment's cash inflows. The rate is expressed as the real return anticipated in the hotel investment and considers any change in value, as well as all associated risk premiums. It is the average annual rate of return necessary to attract capital based upon the overall investment characteristics.

Addenda

National Lodging Market Analysis

This analysis includes excerpts and information from IBISWorld Industry Report: *Hotels & Motels in the U.S.,* PricewaterhouseCoopers: *Hospitality Directions in the U.S.*, and STR, Inc.

NATIONAL LODGING HIGHLIGHTS

Compelling economic and industry fundamentals suggest continued momentum for 2019 as the nine-year growth cycle in the lodging industry continues.

EXPECTED VALUE CHANGE*		
Segment	**Range**	**Average**
Full Service	(4.0%) to 6.0%	+1.1%
Limited-Service Midscale and Economy	(5.0%) to 5.0%	+0.6%
Luxury / Upper Upscale	(3.0%) to 5.0%	+2.0%
Select-Service	(5.0%) to 4.0%	-0.90%

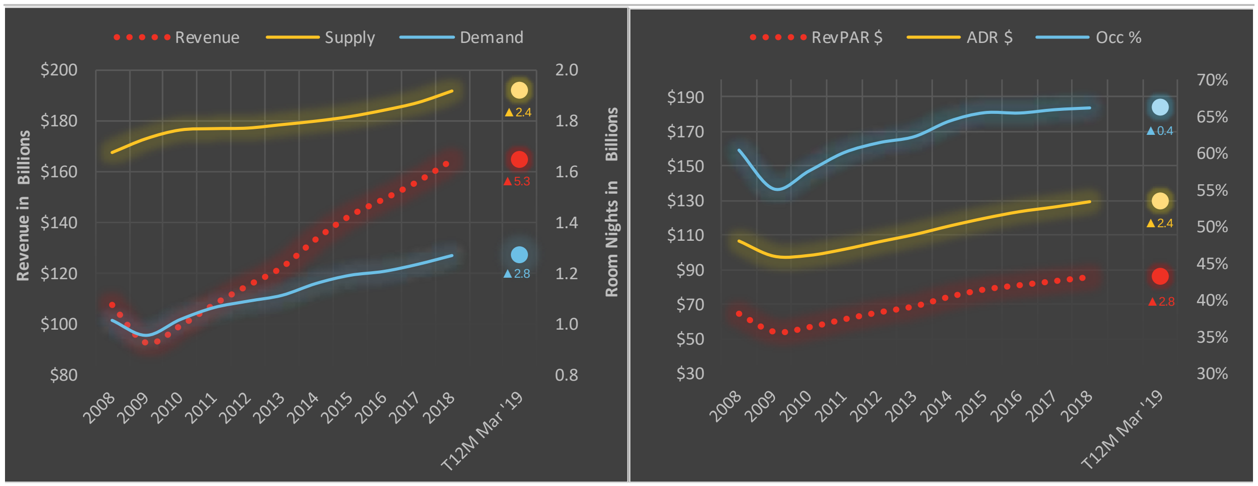
*Over Next 12 Months

Source: Real Estate Investor Survey, 1Q-2019, published by PwC

As an asset class, hotels appear to be holding their own with investors, both from a return-on-investment perspective as well as a development perspective. While development cost and acquisition pricing concerns remain top-of-mind for most of the investors surveyed, strong operating fundamentals continue to balance the overall view on the sector. Comparisons to prior cycles remain a focal point of many conversations, albeit with investors tending to coalesce around the sustained strength of the current cycle. Other trends, including the changing lodging sector landscape and changing physical programming, have also become subjects of investor interest.

The following charts illustrate historical performance trends through T12M Mar 2019, along with trailing three-month and six-month performance:

Historical Market Performance: United States												
Year	**Supply**	Δ%	**Demand**	Δ%	**Revenue**	Δ%	**Occ %**	Δ%	**ADR $**	Δ%	**RevPAR $**	Δ%
2008	1,673,991,040	-	1,011,561,443	-	$107,706,669,450	-	60.4%	-	$106.48	-	$64.34	-
2009	1,728,062,260	▲3.2%	952,266,656	▼5.9%	$92,819,617,581	▼13.8%	55.1%	▼8.8%	$97.47	▼8.5%	$53.71	▼16.5%
2010	1,762,020,903	▲2.0%	1,014,568,881	▲6.5%	$99,372,859,129	▲7.1%	57.6%	▲4.5%	$97.95	▲0.5%	$56.40	▲5.0%
2011	1,767,355,160	▲0.3%	1,062,135,606	▲4.7%	$107,877,712,567	▲8.6%	60.1%	▲4.4%	$101.57	▲3.7%	$61.04	▲8.2%
2012	1,769,610,554	▲0.1%	1,087,435,148	▲2.4%	$115,320,771,630	▲6.9%	61.5%	▲2.3%	$106.05	▲4.4%	$65.17	▲6.8%
2013	1,783,137,587	▲0.8%	1,110,527,243	▲2.1%	$122,499,628,183	▲6.2%	62.3%	▲13%	$110.31	▲4.0%	$68.70	▲5.4%
2014	1,796,907,059	▲0.8%	1,157,230,900	▲4.2%	$133,537,859,249	▲9.0%	64.4%	▲3.4%	$115.39	▲4.6%	$74.32	▲8.2%
2015	1,814,674,194	▲10%	1,189,614,896	▲2.8%	$142,717,142,071	▲6.9%	65.6%	▲18%	$119.97	▲4.0%	$78.65	▲5.8%
2016	1,839,582,345	▲14%	1,205,133,146	▲13%	$149,315,822,576	▲4.6%	65.5%	▼0.1%	$123.90	▲3.3%	$81.17	▲3.2%
2017	1,869,428,066	▲16%	1,233,203,792	▲2.3%	$156,234,286,952	▲4.6%	66.0%	▲0.7%	$126.69	▲2.3%	$83.57	▲3.0%
2018	1,914,729,390	▲2.4%	1,267,780,860	▲2.8%	$164,582,097,095	▲5.3%	66.2%	▲0.4%	$129.82	▲2.5%	$85.96	▲2.9%
CAGR 2008-18	**1.4%**		**2.3%**		**4.3%**		**0.9%**		**2.0%**		**2.9%**	
T3M Mar '18	473,210,516	-	267,704,562	-	$32,811,007,786	-	56.6%	-	$122.56	-	$69.34	-
T3M Mar '19	483,983,949	▲2.3%	274,602,071	▲2.6%	$34,284,772,941	▲4.5%	56.7%	▲0.3%	$124.85	▲19%	$70.84	▲2.2%
T6M Mar '18	948,700,175	-	600,348,087	-	$75,674,706,443	-	63.3%	-	$126.05	-	$79.77	-
T6M Mar '19	970,960,646	▲2.3%	616,056,893	▲2.6%	$79,389,144,828	▲4.9%	63.4%	▲0.3%	$128.87	▲2.2%	$81.76	▲2.5%
T12M Mar '18	1,873,245,611	-	1,235,682,955	-	$156,735,730,219	-	66.0%	-	$126.84	-	$83.67	-
T12M Mar '19	1,917,997,564	▲2.4%	1,270,160,447	▲2.8%	$164,965,145,983	▲5.3%	66.2%	▲0.4%	$129.88	▲2.4%	$86.01	▲2.8%

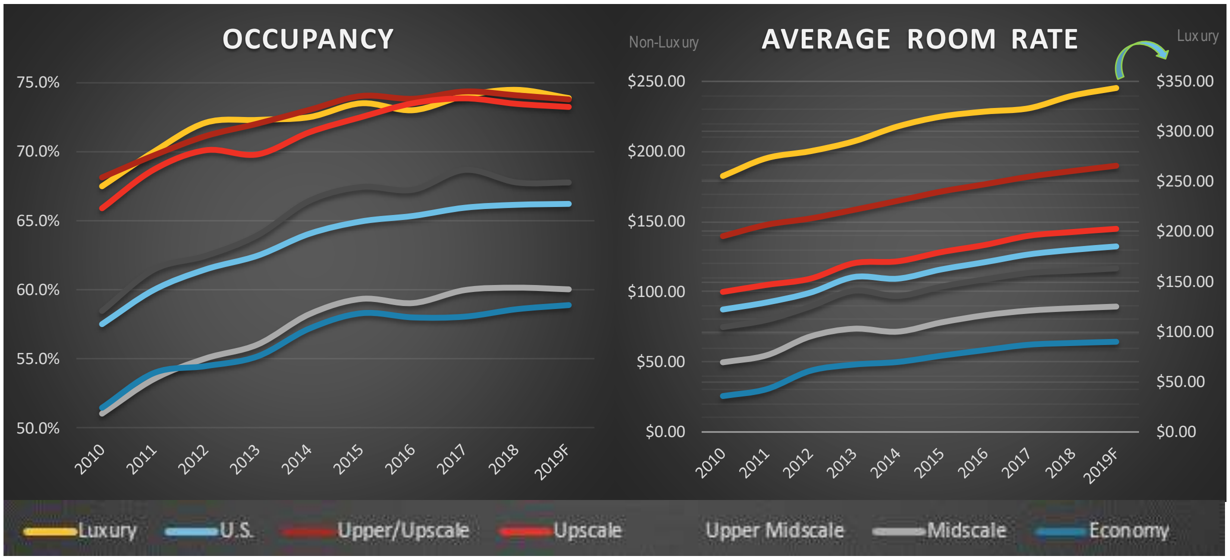


Operating Strength Continues to Balance Typical Cyclical Questions

The lodging sector continues to yield strong results for owners, and there is an expectation of continued confidence looking ahead to 2019. Hotel performance in 2018 generally yielded strong demand for hotels, outpacing increases in supply, with average daily rate (ADR) growth driving continued increases in revenue per available room (RevPAR).

Discussions with hotel investors on recent performance indicated that group demand had finally gained strength and was exceeding prior expectations. Commercial transient demand continued to increase as well, albeit at a slower pace than in the prior year.

The following graph summarizes historical performance in each of the scale segments:



Looking ahead to 2019 the U.S. lodging outlook remains stable, driven by steady economic fundamentals, including a continued increase in consumer spending; increasing, albeit decelerating business investment; and relatively strong consumer confidence. Lodging supply is expected to increase at a rate close to its long-term average; however, tightening financing conditions and further increasing costs for labor and construction may create a drag on supply growth. Overall, RevPAR in 2019 is expected to increase at a decelerating pace, driven exclusively by growth in ADR.

LODGING FORECAST

Segment		Occupancy	ADR	RevPAR
Luxury	Year-End 2019	73.9%	$343.76	$253.96
	% Chg. from 2018	-0.8%	2.3%	1.5%
Upper Upscale	Year-End 2019	73.7%	$189.68	$139.88
	% Chg. from 2018	-0.4%	2.0%	1.6%
Upscale	Year-End 2019	73.2%	$145.16	$106.30
	% Chg. from 2018	-0.3%	1.6%	1.3%
Upper Midscale	Year-End 2019	67.8%	$116.28	$78.87
	% Chg. from 2018	0.0%	1.4%	1.4%
Midscale	Year-End 2019	60.0%	$89.82	$53.89
	% Chg. from 2018	-0.2%	1.4%	1.2%
Economy	Year-End 2019	58.9%	$64.68	$38.09
	% Chg. from 2018	0.5%	1.4%	1.9%

Source: STR, Inc.

Counterbalances to this outlook that bear watching include continued trade tensions and effects from tariff-rate implementation, political uncertainty amid partisanship, and increasing interest rates.

Changing Lodging Sector Landscape

At present, the U.S. lodging sector is going through an accelerated pace of transition, characterized by ongoing consolidation, an evolving role of lodging brands, and the nascent use of a platform approach to customer acquisition and retention. Key trends to watch out for include the following:

- The role of lodging brands is expected to continue to evolve, as lodging companies seek to increasingly focus on franchising as the primary driver of their growth. Recent footprint growth points in that direction, with franchised rooms at three large U.S.-based hotel chains increasing by over 40 percent between the fourth quarter of 2014 and the first quarter of 2018, albeit with hotel management still expected to remain an integral part of the growth strategy for some lodging companies. Driven by the franchising focus, lodging brands may seek to further dissect lodging demand through brand introductions in select niche segments, with a focus on capitalizing on the experiential travel trend. Furthermore, the concept of loyalty and what that entails for guests and owners may evolve in the near term, with points-based loyalty programs evolving into more pervasive, experiential programs.

- Focused, independent hotels and their operators are expected to focus on expanding their customer base by following a platform approach to managing the customer journey using a unified technology platform. Leveraging a unified technology platform that extracts data from various systems (CRM, PMS, CRS, revenue management) and creates a single view on guests is expected to be a powerful differentiator for many smaller-scale players. Select companies are already experimenting with the platform approach, albeit in initial stages and with isolated components.

Changing Physical Programming

The modification of a hotel's physical layout and programming to use space more efficiently is another emerging trend noted by hotel investors surveyed. Recently, more emphasis has been placed on ensuring that more space inside the "box" generates revenue, with an understanding that while an obvious need exists for non-revenue-generating support space, it should be value engineered. Two areas noted include food and beverage (F&B) outlets and meeting space.

Regarding F&B, hotels are shifting from a separate restaurant and bar model to an integrated restaurant/bar model; standalone restaurants are being replaced with sophisticated lobby bars that offer an amplified bar menu and an open seating layout. This type of setup makes more efficient use of space and entices people in the lobby to purchase a drink or food. It also helps save on labor costs since the bar staff also serves the food.

Over the past few years, the meeting industry has experienced a shift from larger general sessions to smaller, more informal networking and breakout sessions—a trend that is expected to continue. Large convention/headquarters hotels are responding to this changing event profile by modifying the building program to develop more flexible meeting space that can easily adapt to meeting organizer needs.

Hotel investors could look to their meeting venue counterparts for guidance on how they are planning to modify their building program and enhance the venues' features and capabilities.

- Large convention centers are planning to increase ballroom and meeting room space. They are also focusing on enriching the center's image (e.g., with grand entrances and natural lighting).
- Small- and medium-sized centers are planning to increase meeting room and pre-function space. They are also focusing on adding features that will enhance the attendee experience (e.g., charging stations, interactive videoboards, and social areas).

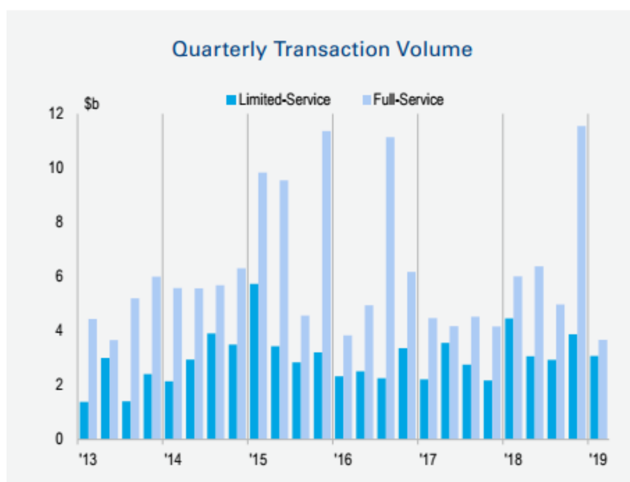
At the opposite end of the spectrum, some hotels have decided to remove ballroom space altogether, deciding instead to replace it with additional hotel room inventory or other uses that generate higher revenue. This is more prevalent in markets like New York City and others that have consistently high occupancy rates.

INVESTMENT ACTIVITY

According to Real Capital Analytics, deal activity for hotel properties fell in the first quarter from a year earlier, but the headline figures paint a bleaker picture than some of the underlying trends. The largest source of decline was a dearth of portfolio and entity-level transactions. Portfolio and entity-level transactions made up 39% of all hotel transaction activity in 2018. By contrast, these megadeals accounted for only 16% of all deal volume in Q1'19. Portfolio sales barely passed the $1b mark and were down 76% YOY.

The decline in megadeal activity was likely a function of the turmoil seen in the financial markets from Q4'18 to Q1'19. The 10yr UST hit a high of 3.2% in November and the fear that it would go higher persisted for some time into Q1'19. Such turmoil tends to limit the appetite that buyers will have for risk.

Portfolio deal activity was improving somewhat late into Q1'19 compared to earlier in the quarter. Sales totaled $538m in March versus an average of only $260m per month in January and February. The turmoil in the financial markets was more pronounced early in Q1'19 so the improvement in hotel portfolio sales into March is a hopeful sign.

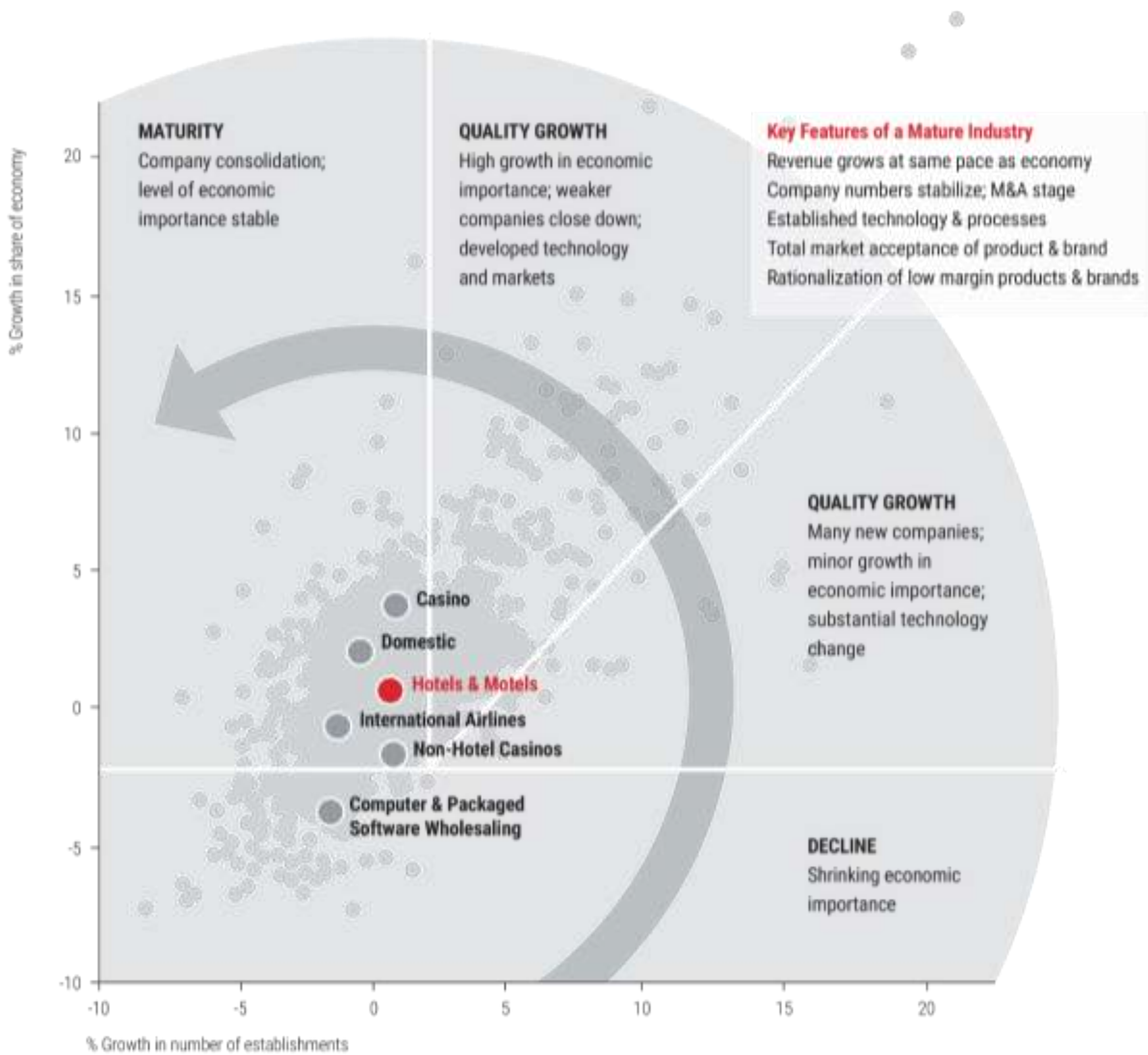


Again though, the weakness in the megadeals was not the only story behind the decline in deal activity for the quarter. The sale of individual assets was down 6% YOY in Q1'19 to $5.7b. While deal volume for single asset sales fell, the level of activity was elevated. Single asset deal volume had averaged $4.5b from 2005 to 2018 across each first quarter period.

Hotel property prices continued to grow in the quarter, though at a pace only 200 bps faster than the pace of inflation. The RCA CPPI for the hotel sector was up only 3.9% YOY. This growth underperformed the market overall, with the All-Property RCA CPPI – which does not include hotel prices – up 5.8% YOY.

INDUSTRY LIFE CYCLE

The hotels and motels industry has reached the maturity phase of its life cycle. As the sector is heavily dependent on tourism and aggregate consumption levels, overall increases in these demand drivers have contributed to steady revenue growth over the long term. Over the 10 years to 2023, industry value added (IVA), which measures an industry's contribution to GDP, is forecast to grow at an annualized rate of 3.0%, above annualized GDP growth of 2.2% during the same period.

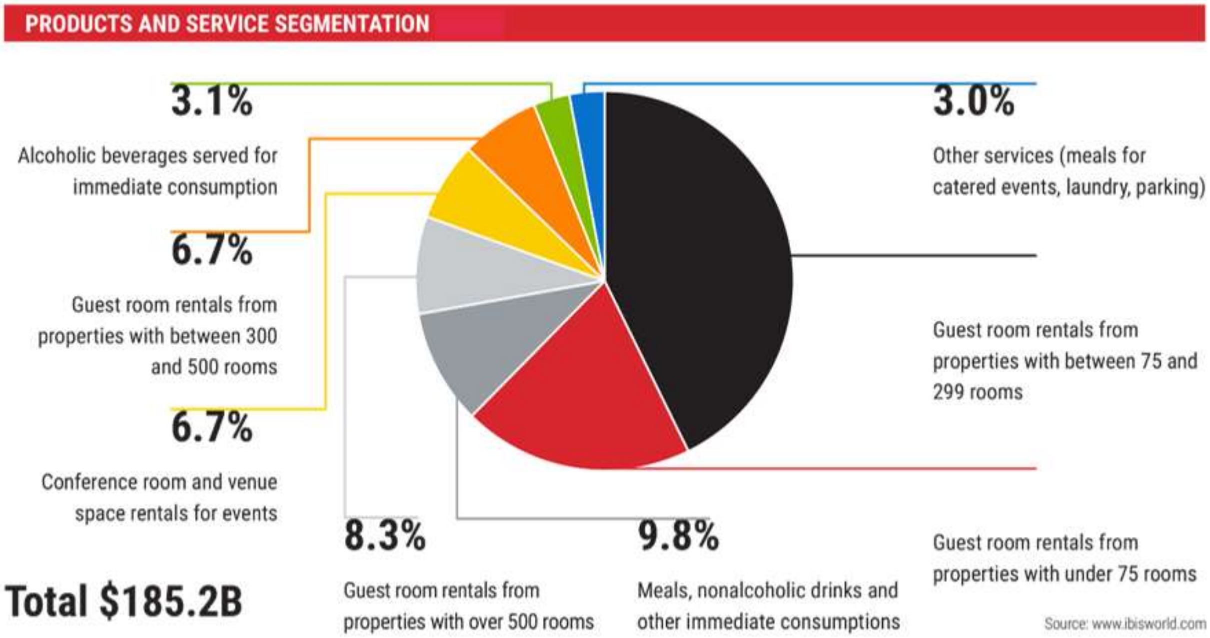


As domestic travel potentially continues its upward trajectory over the next five years (although at a slower rate than international tourism), businesses' travel needs, and consumers' increased leisure time and income will contribute to the trend. New hotel investment is also expected to see a surge in the industry, which would follow a period of historically low development (a low was established in 2011 with only 346 new hotel openings, from a peak of 1,341 in 2008, according to Lodging Econometrics). However, several large operators are also seeking to extend their operations internationally into new growth markets, including countries and regions such as Latin America, Russia, Eastern Europe, China, India, and the Middle East. With global operators focusing on emerging economies, this may tie up capital and restrict domestic investment.

Technology plays an increasingly important role in the industry and has contributed to the industry's growth. Direct bookings on the websites of major operators have increased rapidly over the past five years, emerging as the number one channel through which traveler's book accommodations, representing 33.0% of all bookings, according to TravelClick. The other channels, through which guests can book are via calls to a hotel's 800-number, which make up 12.7% of hotel bookings, calls right to the hotel property and walk-in customers estimated at 12.2% of all bookings and online travel agents make up the remaining 21.6%. It is also increasingly common for hotel groups to release their excess rooms with short notice at deeply discounted prices to other web-based hotel accommodation sellers like Booking.com or Expedia. Web-based bookings in all forms are expected to continue to expand rapidly.

PRODUCTS & SERVICES

A hotel is an establishment that provides lodging and, often, meals and additional services for travelers and other paying guests. Alternatively, a *motel* provides lodging for motorists in rooms that typically have direct access to an open parking area. A hotel or motel can be classified by several characteristics, including whether it provides full or limited service, whether it is in a metropolitan area, its state or regional location, its pricing structure, its number of rooms, and its classification as independent or as part of a chain operation.



Hotels and motels can also be segmented by room-price rates. Upscale or luxury establishments feature room rates in the highest 30th percentile and are in local or metropolitan markets. The middle-30 percentile is identified as mid-priced, and the lowest 40th percentile is either economy or budget.

Overall, sales from hotels and motels accounted for approximately 77.4% of industry revenue in 2018. Properties with more than 75 rooms accounted for about 57.7% of revenue and 74.6% of industry establishments, according to data provided by the American Hotel and Lodging Association (AHLA) as well as IBISWorld estimates.

IN-ROOM TECHNOLOGY

The modern hotel includes high-speed internet access via wired connection or Wi-Fi, both in-room and throughout the building. Internet access is a necessity for any business traveler and is also increasingly important for leisure travelers. The primary challenge for hoteliers is obtaining the ability to offer guests the same level of internet service in a hotel room as they have at home.

For this reason, some hotels offer tiered bandwidth service, with pricing depending on the level of service. A high-definition television with satellite pay-TV services is often the focal point of a hotel room, with other in-room technology encompassing phone docking stations, radio-frequency identification for keyless entry, personalized lighting and climate control, and abundant and convenient power sources. New hotel refurbishment projects often include the addition of integrated in-room technology that can be controlled by one single touch-screen. Other technology incorporated into the modern hotel includes executive lounges, high-tech boardrooms, and meeting rooms with ergonomic leather chairs, discreet projection facilities and wide-screen television sets, and other advanced technological features and equipment.

Some hotels are even pioneering technology that allows guests to check in and out of rooms without the involvement of human staff members and using smartphone applications. While the adoption of this technology can be expensive, due to the necessity of outfitting room doors with new locks compatible with the systems, it illustrates a clear picture of how the industry is willing to adapt to make a guest's stay as convenient and seamless as possible.

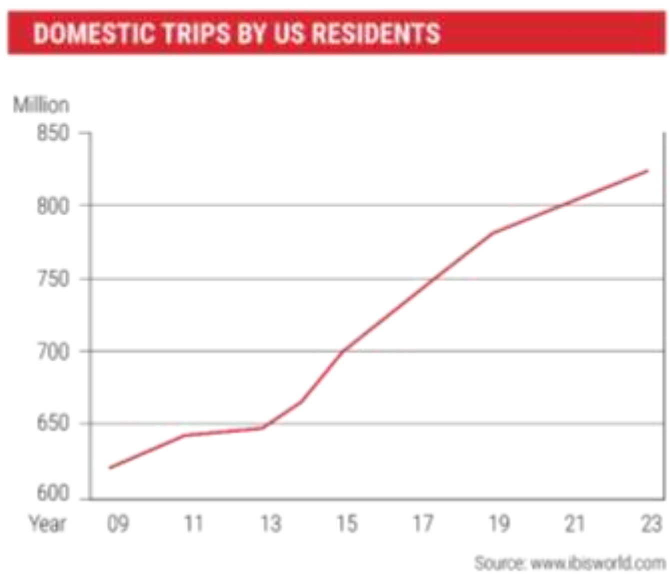
DEMAND DETERMINANTS

Hotel and motel demand is derived from both domestic and international visitor markets.

Domestic Leisure Travel

Demand for hotel and motel accommodations depends on a range of factors that may affect travel, such as alterations in disposable household income (influenced by changes in general employment growth), as well as movements in interest and tax rates. Changes in disposable income will typically affect trip quantity for a household, as well as its expenditures while traveling, which in turn affects the growth and economic impact of the tourism industry.

The price of fuel is another essential aspect to consider. Fuel prices affect household disposable income, as well as the general demand for travel, which has its own varying flows and patterns. As the availability of leisure time changes, and the reluctance of those in the labor market to use their holiday leave due to family and work commitments grows, the impact on the hotels and motels industry becomes more significant. Other leisure and recreational industries are also competing with the propensity of individuals and families to spend their hard-earned money on travel, and they compete intensely for a share of household disposable income.



A longer-term trend in travel patterns and spending is affected by the comparison of taking a domestic trip rather than an international one. The difference is influenced by exchange-rate movements, the availability of affordable airfares and holiday packages, and airline-seat supply.

Lastly, private operators and federal and state governments employ tourism promotions (typically via vehicles such as TV programs and special sporting events) that generally stimulate travel. However, individual state government promotions typically aim to favor only their state when attempting to influence domestic travel patterns, rather than the entire industry.

Domestic Business Travel

Business travel is an industry segment that is significantly influenced by economic changes, as well as the national levels of business confidence and corporate profit. Economic conditions directly affect the number of business trips taken, the length of a consumer's stay, and his or her budgeted travel spending. Technologies such as teleconferencing and video conferencing are increasingly taking the place of in-person meetings, reducing the amount of necessary business travel.

International Tourism

One of the most competitive industries across the globe is international tourism. This segment is similarly affected by factors that also influence domestic travel, as well as global economic conditions - especially changes in economic growth. Further, particularly in major visitor-origin countries/regions, international tourism is affected by changes in the U.S. dollar against other major currencies. This trend has an impact on the cost of travel, as well as the relative attractiveness of trips to competing destinations.

Additional factors, such as heightened geopolitical tensions encompassing wars and terrorism (whether feared or realized), affect international travel plans. Promotional expenditures and activities on behalf of governments and other organizations, such as major or special events, can raise awareness and interest in travel. Finally, supply factors are also of critical importance, including the availability of airline flights and seats at the times people want to travel, as well as accommodations to and at their selected destination.

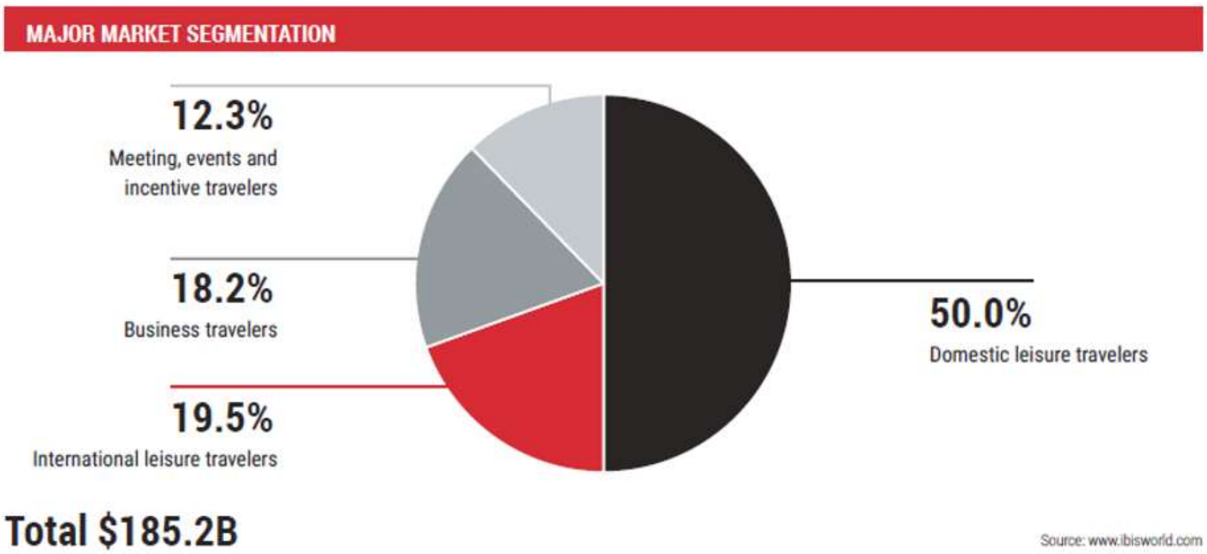
Investment Abroad

Over the next five years, investment in new hotel and motel rooms will gradually accelerate due to a sustained boost in demand for tourist accommodation. Investment will likely be heavier during the early part of the five-year period as operators compensate for the dramatic decline in investment that occurred at the beginning of the previous decade. Hotel development throughout the United States has consistently outpaced other top global regions; more specifically, research company Lodging Econometrics listed the United States as the top country in terms of the number of projects in development in 2018. IBISWorld expects the number of industry establishments to increase at an annualized rate of 1.4% to 98,454 locations over the five years to 2023. This new supply of rooms will temper industry revenue growth to some degree, as existing operators will be hesitant to increase room rates to stay price-competitive.

Overall, growth in international arrivals in emerging economies is expected to consistently surpass the arrivals in advanced economies over the coming years. According to the UNWTO, in 2030, 44.5% of international arrivals will be in emerging-economy destinations, compared with 41.9% in 2005, and 55.5% in advanced-economy destinations, compared with 57.1% in 2005. As a result, international hotel chains are anticipated to experience most of their revenue growth through emerging economies, meaning investment will shift away from the United States. This trend will also have ramifications for operators in the domestic tourism sector, as they will experience greater competition in an increasingly competitive global tourism market, putting pressure on industry revenue growth.

Major Markets

Several factors (including age, income, purpose of travel, and locational origin) directly influence this industry's major markets.



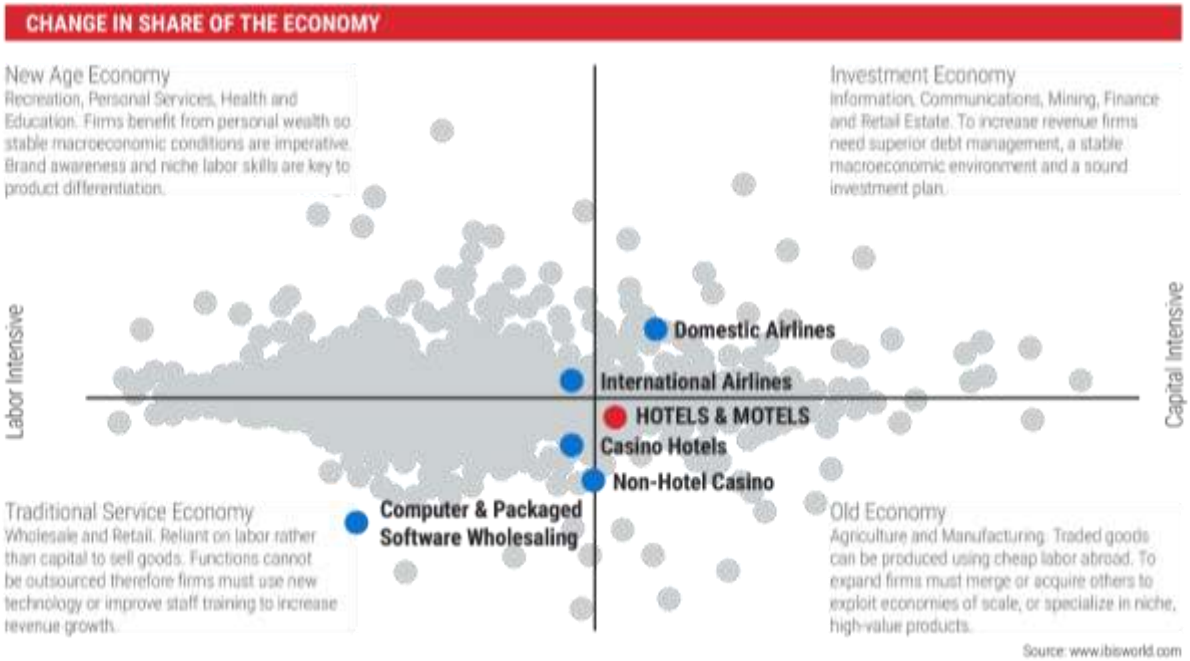
OPERATING CONDITIONS

Capital Intensity

The hotels and motels industry is subject to a moderate-to-high level of capital intensity. Based on data from 2018, each dollar the average hotel in the industry spends on wages, it will spend an estimated $0.36 on the use and replacement of capital. Both labor and capital play important roles in the industry.

The hotels and motels segment represents a service-based industry and, therefore, hotel and resort operators are highly dependent on direct labor input across all areas of operation encompassing a wide range of services including: front-desk service, reservations, room service and cleaning, food preparation, liquor and beverage service, and back-of-house operational management. Due to the nature of the industry, many of these labor-intensive functions cannot be substituted by technology or machinery. To meet customers' expectations and for operators to provide a truly hospitable stay, trained staff are essential. Labor costs are appropriately managed by bringing on a reasonable number of trained, part-time staff during peak guest periods. Because capital costs are also high, operators are exposed to a reciprocal level of depreciation. Investments in buildings, fixtures and fittings, restaurant equipment, and capital improvements contribute to higher capital costs. However, a greater percentage of hotel operators are choosing to rent rather than own the property they manage, preferring to outsource the property-risk to investors and thus lowering their capital costs.

The following table summarizes this industry's position relative to other industries, comparing their growth strategies.



Technology & Systems

The industry has experienced a moderate level of technological change over the past five years. Technology is now being utilized in entirely new ways for internal communication. For example, buying supplies online, guest management software, and providing visitors access to internet-based booking and reservation system are all methods that are becoming more and more common in the sector. The booking and reservation system typically incorporates room management, in addition to a linked accounting and management information system package for operators, as well as direct approval and payment from credit and debit card facilities.

GLOBAL TRAVEL COMMUNITIES

The lodging industry supports itself through a variety of marketing and booking channels, and while various online travel agencies (OTAs) have proliferated and expanded options to consumers, they have placed downward pressure on the profitability of hotels. OTAs keep up to twenty percent of a room rate, compelling hotel companies to further develop direct-booking options. However, in recent years, global travel communities—namely Airbnb—have sprouted and are giving travelers an easy alternative to hotels altogether. There are mixed positions by industry figureheads as to how these companies are impacting their businesses; however, Airbnb is already one of the world's largest travel-related companies and is still growing at a rapid pace.

Though interest and use of sharing-economy accommodations have increased significantly since 2015, new research published in MMGY Global's Portrait of American Travelers 2018 study showed 33% of respondents were interested in such accommodations compared to 41% in 2017 and 37% in 2016. Millennial travelers are the most interested in home-sharing accommodations (46%), followed by Generation X (31%), baby boomers (22%), and mature travelers (14%).

Airbnb

Perhaps the most disruptive force to the lodging industry includes global travel communities, the largest and most progressive of which is Airbnb. This is an American-based company which operates an online marketplace and hospitality service for people to lease or rent short-term lodging including hotel rooms, homes, holiday cottages, apartments, and hostel beds. The company does not own any real estate or conduct tours; it is a conduit which receives percentage service fees in conjunction with every booking. Like most hospitality services, Airbnb is an example of collaborative consumption and sharing.

The short-term rental and lower cost of staying in a private residence has triggered much opposition from the hotels; which allege they are losing tourists and other kinds of guests to Airbnb. It is also alleged that the hotels have been forced to bring down their prices to compete with the company. Hotel associations in response, have lobbied against the company, alleging unfair treatment of having to go through several safety standards and certifications as opposed to Airbnb and its lodging. This was followed by immense lobbying from the associations and unions to implement laws imposing restrictions on Airbnb and its hosts.

Nevertheless, the company has over 4 million lodging listings in 65,000 cities and 191 countries and has facilitated over 260 million check-ins as of year-end 2017. The company generates its revenue through service fees to hosts and guests and was valued at 31 billion U.S. dollars in mid-2017. Airbnb is ranked among the five most valuable startup companies in the world, and until Marriott merged with Starwood, was larger than any other hotel company in existence.

HomeAway

HomeAway, Inc. is a major competitor to Airbnb; similarly, it is a vacation rental marketplace with more than 2,000,000 vacation rentals in 190 countries. It operates through 50 websites in 23 languages. The company offers a comprehensive selection of rentals for families and groups to find accommodations such as cabins, condos, castles, villas, barns and farm houses.

Founded in February 2005 and headquartered in Austin, the company became a publicly traded company in 2011. Expedia, Inc.—one of the world's largest online travel agency—acquired HomeAway on December 15, 2015. Websites under the HomeAway umbrella include VRBO, VacationRentals.com, Homelidays, Toprural, Bookabach and stayz.

Direct Internet Bookings

Direct bookings on major operators' websites have increased rapidly over the past six years and represent the most used channel through which travelers book accommodations. According to the same data, bookings that are completed directly via hotel websites increased. Other channels through which guests can book reservations include calls to a hotel's 800-number, the Global Distribution System used by travel agents, direct calls to the hotel property, walk-in customers, and online travel agents. It is also increasingly common for hotel groups to release their excess rooms at deep-discount prices and at short notice to other web-based hotel accommodation sellers. Web-based bookings in all forms are expected to continue to expand rapidly.

Many booking-service websites are linked with Google Maps and other online-map providers that allow travelers to identify establishments by street location, by star rating, or by proximity to their business, convention, or holiday destination. There are also many user-generated online review and rating service websites that provide comments on travelers' experiences with individual hotel facilities and services.

EXTENDED-STAY MARKET

This overview contains excerpts from the 2019 U.S. Extended-Stay Lodging Report prepared by The Highland Group.

Despite record levels of new room construction adding more than 83,000 new rooms over the last three years, some of the strongest demand growth ever reported has kept extended-stay occupancy above its long-term average for eight consecutive years. Rising construction costs and a tight construction labor market has lengthened the development process and for the first time in seven years extended-stay rooms under construction at year end declined from the prior year. Despite the decline, the timing of the 47,000 extended-stay rooms under construction will be a major factor in the segment's performance in 2019.

The following list includes pertinent highlights if the most recent report:

Extended-Stay Highlights

- Room nights available up 5.9% compared to 2017
- Room night demand up 6.3% over the last year
- Rooms under construction down 5% compared to one year ago
- Room revenue grows $1.1 billion in 2018
- Occupancy remains above 76%

US Extended-Stay Lodging Supply and Distribution

Annualized extended-stay room nights available increased 5.9% in 2018 compared to 2017. The 24,005-net increase in rooms open was the slowest since 2015 and less than three quarters of the net change in rooms open in 2017 compared to 2016. The mid-price segment is adding supply at the fastest pace and the 14,569-net gain in rooms in 2018 was the greatest we have ever reported for mid-price extended-stay hotels.

The upscale segment added 8,942 rooms compared to one year ago. This was the segment's lowest net gain in rooms since 2015. The economy segment's net change in rooms was the slowest since 2014, partly due to acquisitions and rebranding. Construction in this segment is forecast to increase significantly in 2019 and beyond.

Occupancy								Year-End
Segment	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Economy	78.0%	79.0%	77.6%	78.9%	78.0%	76.5%	76.8%	78.1%
% Chg	4.4%	13%	-18%	17%	-1.1%	-19%	0.4%	17%
Mid-Price	72.0%	70.7%	71.7%	73.3%	73.1%	72.9%	73.5%	73.6%
% Chg	2.1%	-18%	14%	2.2%	-0.3%	-0.3%	0.8%	0.1%
Upscale	75.1%	75.7%	76.3%	77.9%	78.6%	78.2%	78.7%	78.6%
% Chg	2.9%	0.8%	0.8%	2.1%	0.9%	-0.5%	0.6%	-0.1%
Average	***74.5%***	***74.4%***	***74.8%***	***76.3%***	***76.4%***	***75.8%***	***76.3%***	***76.5%***
% Chg	**2.9%**	**-0.1%**	**0.5%**	**2.0%**	**0.1%**	**-0.8%**	**0.7%**	**0.3%**

Room Nights Sold (Thousands)								Year-End
Segment	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Economy	21,236	21,772	22,098	22,571	23,043	23,567	24,515	25,138
% Chg	5.9%	2.5%	15%	2.1%	2.1%	2.3%	4.0%	2.5%
Mid-Price	35,369	35,421	36,296	38,264	39,600	41,700	45,190	48,956
% Chg	4.1%	0.1%	2.5%	5.4%	3.5%	5.3%	8.4%	8.3%
Upscale	36,298	37,314	38,676	41,322	44,705	47,865	53,039	54,954
% Chg	4.9%	2.8%	3.7%	6.8%	8.2%	7.1%	10.8%	3.6%
Total	***92,903***	***94,507***	***97,070***	***102,157***	***107,348***	***113,132***	***122,744***	***129,048***
% Chg	**4.8%**	**1.7%**	**2.7%**	**5.2%**	**5.1%**	**5.4%**	**8.5%**	**5.1%**

ADR								Year-End
Segment	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Economy	$30.53	$32.01	$33.82	$36.27	$39.08	$40.93	$43.78	$45.94
% Chg	2.6%	4.8%	5.7%	7.2%	7.7%	4.7%	7.0%	4.9%
Mid-Price	$57.88	$62.76	$66.87	$71.85	$77.61	$81.49	$85.06	$88.16
% Chg	6.6%	8.4%	6.5%	7.4%	8.0%	5.0%	4.4%	3.6%
Upscale	$112.37	$117.56	$121.64	$127.71	$134.39	$137.88	$140.49	$142.66
% Chg	2.6%	4.6%	3.5%	5.0%	5.2%	2.6%	19%	15%
Average	***$72.62***	***$77.00***	***$80.85***	***$86.27***	***$92.65***	***$96.52***	***$100.27***	***$103.14***
% Chg	**3.3%**	**6.0%**	**5.0%**	**6.7%**	**7.4%**	**4.2%**	**3.9%**	**2.9%**

RevPAR								Year-End
Segment	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Economy	$23.83	$25.28	$26.25	$28.63	$3,049.00	$31.30	$33.64	$35.86
% Chg	7.2%	6.1%	3.8%	9.1%	10549.7%	-99.0%	7.5%	6.6%
Mid-Price	$41.66	$44.64	$47.94	$52.66	$56.72	$59.40	$62.50	$64.91
% Chg	8.9%	7.2%	7.4%	9.8%	7.7%	4.7%	5.2%	3.9%
Upscale	$84.39	$89.04	$92.75	$99.49	$105.68	$107.86	$110.55	$112.17
% Chg	5.5%	5.5%	4.2%	7.3%	6.2%	2.1%	2.5%	15%
Average	***$54.33***	***$57.55***	***$60.69***	***$66.09***	***$71.01***	***$73.44***	***$76.91***	***$78.95***
% Chg	**6.8%**	**5.9%**	**5.5%**	**8.9%**	**7.4%**	**3.4%**	**4.7%**	**2.7%**

Source: STR, The Highland Group

Construction and Supply Projections

Extended-stay rooms under construction declined about 5% over the last year to 46,819. Less than half of the rooms reported under construction at year end 2017 opened in 2018. Over the last five years, an average 70% of the rooms reported under construction at the end of the year opened at some time during the following year.

Estimating in which months all the rooms will open and their consequent impact on the annualized change in supply is challenging. Furthermore, the annualized rate of increase in supply should accelerate as the pipeline of rooms under development grows. Early indications are that the annualized increase in extended-stay room supply should be around 7% in 2019.

US Extended-Stay Rooms Under Construction								Year-End
Segment	2011	2012	2013	2014	2015	2016	2017	2018
Economy	298	124	941	1,628	2,673	3,385	3,092	3,452
% Chg	-43.9%	-58.4%	658.9%	73.0%	64.2%	26.6%	-8.7%	11.6%
Mid-Price	2907	3805	6011	10,373	14,743	17,747	26,701	24,115
% Chg	5.0%	30.9%	58.0%	72.6%	42.1%	20.4%	50.5%	-9.7%
Upscale	2,795	7,719	9,957	14,697	17,281	19,138	19,757	19,252
% Chg	-11.5%	176.2%	29.0%	47.6%	17.6%	10.7%	3.2%	-2.6%
Total	**6,000**	**11,648**	**16,909**	**26,698**	**34,697**	**40,270**	**49,550**	**46,819**
% Chg	**-7.1%**	**94.1%**	**45.2%**	**57.9%**	**30.0%**	**16.1%**	**23.0%**	**-5.5%**

Source: STR, The Highland Group

Extended-Stay Industry Outlook

Extended-stay hotel RevPAR deceleration and closer alignment with the overall hotel industry's RevPAR growth is usual at this stage of the hotel business cycle. Extended-stay room supply growth should be in the 6% to 7% range in 2019. Assuming strong economic fundamentals result in demand growth similar to the 6% average over the last five years, there should be little change in occupancy in 2019. Even if demand fails to keep up with supply, occupancy was at an 18 year high in 2018 so it should remain above its long-term average. ADR and RevPAR growth are likely to be slower in 2019 compared to 2018 but the near-term outlook remains good for extended-stay hotels.

INDUSTRY CONCLUSION

Over the five years through 2023, IBISWorld projects that the industry will continue expanding, albeit at a more moderate pace, with particularly strong growth in the extended-stay hotels, boutique hotels, spa and health retreats and resorts segments. As demand picks up, the number of industry employees is anticipated to rise at an annualized rate of 1.5% to 1.8 million workers during the five-year period. Industry players are also expected to continue expanding abroad into emerging economies such as Asia, Eastern Europe and South America. These foreign markets will somewhat detract from domestic investment, as they offer higher growth prospects for industry operators. Consequently, industry revenue is forecast to increase at an annualized rate of 1.6% to $209.8 billion over the five years to 2023.

Still, as global markets experience volatility surrounding specific events, such as China's economic slowdown, we could see demand from international travel waning somewhat for industry operators within certain regions. Further, recent instability of commodity prices, alarming levels of Canadian household debt, and continuing issues in the eurozone have also contributed to this hesitation. These factors could hamper demand from visitors both domestic and international over the next five years, as consumer confidence leans toward the possibility of waning slightly during the outlook period.

Qualifications of the Hospitality, Gaming and Leisure Specialty Practice

MEET OUR **TEAM**

Newmark Knight Frank Valuation & Advisory's (V&A) Hospitality, Gaming & Leisure practice is focused exclusively on providing superior valuation and consulting services for a broad range of hotels, casinos and leisure properties.

Our team differentiates itself through a holistic, consulting-driven approach that goes far beyond the physical asset; by analyzing every aspect of a property's business and real estate operations, we identify all components of value for owners and investors.

Our mission is to be the foremost global resource, providing defensible expertise in hospitality, leisure, gaming, sports and entertainment real estate. We approach every challenge with dedicated focus, innovative methodologies and hands-on collaboration to consistently deliver reliable solutions for each client.

DEDICATED **EXPERTISE**

Newmark Knight Frank V&A's Hospitality, Gaming & Leisure group completes assignments nationwide for a vast range of complex assets—from bed-and-breakfasts to luxury hotels, off-track betting facilities to Las Vegas casinos, bowling alleys to mega sports complexes, and municipal aquatic centers to indoor waterpark resorts. Our senior appraisers, each of whom possesses more than 15 years of dedicated experience, are hands on throughout every phase of the process and actively involved with all reports and client deliverables.

As widely recognized experts in the Hospitality, Gaming & Leisure sector, our team are frequent contributors to national industry publications, and are regularly featured speakers at industry events. We are also called upon as a trusted resource for other hospitality, gaming and leisure industry professionals.

OUR CORE **DISCIPLINES**

The team's core disciplines substantially exceed traditional valuation services, and are all handled exclusively by our subject experts.

- **Economic Impact:** We guide owners and operators on how to maximize economic incentives, and advise government entities regarding the impact of incentives on a community or development.
- **Feasibility:** We take feasibility studies to the next level, combining market knowledge with expert economic impact analysis and acumen in cash-on-cash, ROI and other metrics.
- **Financial Reporting:** We fulfill clients' financial reporting requirements seamlessly, without seeking assistance from outside parties.
- **Litigation:** Our experts bring a strategic perspective to this role, which goes beyond the depth and scope of typical litigation services.
- **Portfolio Analytics:** We supplement traditional analytics by benchmarking against industry averages and trends, thereby ensuring comprehensive due diligence.
- **Property Tax:** Understanding every aspect of a property's operations enables us to deliver particularly effective tax strategies.

PROPERTY **TYPES**

- **Hotels and Resorts**
- **Gaming Facilities**
- **Arenas, Stadiums and Sports Facilities**
- **Conference, Expo and Convention Centers**
- **Golf Courses**
- **Marinas**
- **Ski and Village Resorts**
- **Waterparks, Amusement Parks and Attractions**

AN INTEGRATED **REAL ESTATE PLATFORM**

Newmark Knight Frank Valuation & Advisory is the industry's newest innovator, comprising an extensive team of the most trusted and recognized names in the valuation industry. Headquartered in New York and Houston, Newmark Knight Frank's V&A professionals serve clients from more than 50 offices throughout the Americas. Our valuation and advisory practice is supported by Newmark Knight Frank's industry-leading offerings including research, leasing, corporate advisory services, consulting, project and development management, property and corporate facilities management services, and capital markets services provided through its NKF Capital Markets brand—allowing us to add significant value for clients that goes beyond mere reporting.

NKF VALUATION & ADVISORY OFFICE LOCATIONS

NEW YORK HQ
125 Park Avenue
New York, NY 10017
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HOUSTON HQ
1700 Post Oak Blvd, 2 BLVD Place, Suite 250
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OKLAHOMA
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Assignment Specific Addenda Items

JOHN A. KELLEY III, CHIA

Vice President

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M 301.801.5620

Years of Experience

9 Years

Areas of Specialization

- Valuation of Hospitality and Leisure Assets for Development and Lending
- Economic Impact and Impact Studies for Hospitality and Leisure Assets
- Operational Performance Reviews for Hospitality and Leisure Properties
- Property Tax Appeals for Hotels

Professional Background

John A. Kelley III, CHIA, joined Newmark Knight Frank Valuation & Advisory in 2018 and currently serves as vice president in the Cleveland, Ohio, office. A nine-year hospitality and leisure real estate veteran, Mr. Kelley has substantial expertise in the valuation and advisory of amusements, convention and conference centers, hotels and resorts, waterparks and other leisure-related assets. He has completed appraisals and studies on assets ranging from less than $1 million to more than $500 million throughout the United States and the Middle East.

Mr. Kelley joined Newmark Knight Frank after serving as a senior associate for about three years with Hotel & Leisure Advisors, a Cleveland-based hospitality and leisure appraisal and consulting firm. In this capacity, Mr. Kelley was responsible for completing appraisals, feasibility studies, economic impact studies, impact studies and operational reviews for various hospitality-related assets. Some unique assets included indoor waterpark resorts, aquariums, municipal aquatic centers and mixed-use developments.

Prior to Hotel & Leisure Advisors, Mr. Kelley was a senior quality assurance consultant with LRA Worldwide (now LRA by Deloitte). During his tenure there, he traveled to more than 20 countries completing hotel and resort quality assessments for some of the largest brands. He managed Westin Hotels in Providence, Rhode Island, and Baltimore, Maryland, prior to joining LRA Worldwide.

Professional Affiliations

Mr. Kelley is an active member of the International Association of Amusement Parks and Attractions (IAAPA), Ohio Hotel & Lodging Association, Urban Land Institute (ULI) Cleveland and World Waterpark Association. He also is an adjunct instructor teaching and developing courses related to hospitality management at Bryant & Stratton College.

In recent years, Mr. Kelley has shared his expertise through articles appearing in highly respected hospitality trade publications, including:

- “In Ohio Markets, Occupancy Doesn’t Tell Whole Story,” *Hotel News Now*, March 2018
- "Convention Center Hotels Boost Both Supply, Demand,” *Hotel News Now*, June 2017
- "Measuring the Economic Benefits of Tourism,” *Hotel News Now*, July 2016
- "How Hoteliers Can Handle Minimum-Wage Jump,” *Hotel News Now*, December 2015

Licenses and Designations

- Certified general appraiser in Indiana, Kentucky, Michigan, and Ohio
- Candidate for MAI designation, the Appraisal Institute

Education

Mr. Kelley earned a Master of Business Administration degree and a Master of Science degree in finance from Northeastern University. He previously earned a Bachelor of Science degree in international hotel and tourism management from Johnson & Wales University. Additionally, Mr. Kelley holds a certificate in hotel real estate investment and asset management from Cornell University.

COMMONWEALTH of VIRGINIA

Department of Professional and Occupational Regulation

Ralph S. Northam
Governor

Brian Ball
Secretary of
Commerce and Trade

June 10, 2019

JOHN ALOYSIUS KELLEY III

1350 EUCLID AVE STE 300
CLEVELAND, OH 44115

Re: License Number: 4005018932
License Expiration Date: June 10, 2020

Dear JOHN ALOYSIUS KELLEY III:

Your application for original licensure as a Temporary Real Estate Appraiser was approved on June 10, 2019 and your license is enclosed. Please note that this license is valid only to appraise the projects listed below. **Please keep this letter with your temporary real estate appraiser license.**

Project Name of Business	Address of Assignment
BERRYVILLE MAIN STREET	23 EAST MAIN ST, BERRYVILLE, VA 22611

COMMONWEALTH of VIRGINIA
Department of Professional and Occupational Regulation
9960 Mayland Drive, Suite 400, Richmond, VA 23233
Telephone: (804) 367-8500

EXPIRES ON
06-10-2020

NUMBER
4005018932

REAL ESTATE APPRAISER BOARD
TEMPORARY CERTIFIED GENERAL REAL ESTATE APPRAISER
VALID ONLY TO APPRAISE SPECIFIC PROJECTS
BERRYVILLE MAIN STREET 23 EAST MAIN ST, BERRYVILLE, VA 22611

JOHN ALOYSIUS KELLEY III
1350 EUCLID AVE STE 300
CLEVELAND, OH 44115

DPOR

Mary Broz-Vaughan, Acting Director

Status can be verified at http://www.dpor.virginia.gov

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Department of Professional and Occupational Regulation

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BERRYVILLE MAIN STREET 23 EAST MAIN ST, BERRYVILLE, VA 22611
NUMBER: 4005018932 EXPIRES: 06-10-2020

JOHN ALOYSIUS KELLEY III
1350 EUCLID AVE STE 300
CLEVELAND, OH 44115

(FOLD)

LAUREL A. KELLER, MAI

Senior Vice President

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Years of Experience

20+ Years

Areas of Specialization

- Valuation of Hospitality and Leisure Assets for Development and Lending
- Economic Impact and Brand-on-Brand Impact Studies for Hospitality and Leisure Assets
- Operational Performance Reviews for Hospitality and Leisure Properties
- Property Tax Appeals for Hospitality and Leisure Real Estate
- Speaker and panel moderator at Hospitality Industry Conferences

Professional Background

Laurel A. Keller, MAI, joined Newmark Knight Frank Valuation & Advisory in 2018 and serves as a senior vice president in the Cleveland, Ohio, office, where she is a member of the V&A team's Hospitality, Gaming & Leisure specialty practice. Ms. Keller has substantial expertise in the valuation and advisory of hotels and resorts, amusement and theme parks, waterparks, family entertainment centers, golf courses, casinos, campgrounds and other leisure-related assets. She has completed appraisal and consulting studies for existing and proposed properties in 34 states and the Middle East. Ms. Keller has appraised individual assets ranging in value from less than $1 million to well over one half billion dollars. She has worked with various major hospitality brands and management companies as part of numerous assignments and has extensive knowledge of brand criteria, best practices and current market trends. She has also provided litigation support related to tax appeals.

Ms. Keller joined NKF after more than 12 years at Hotel & Leisure Advisors, a Cleveland-based hospitality and leisure appraisal and consulting firm, where she was vice president. At H&LA, Ms. Keller was responsible for completing appraisals, feasibility studies, economic impact studies, brand-on-brand impact studies and operational reviews for various hospitality-related assets throughout the United States. Unique property types included high ropes courses and zip lines, indoor waterpark resorts, simulated golf entertainment centers, brew pubs and artificial ski slopes.

Prior to Hotel & Leisure Advisors, Ms. Keller served in a similar capacity with Columbus, Ohio-based US Realty Consultants, where she was a senior associate. During her four-year tenure at USRC, Ms. Keller completed a variety of hospitality and leisure-related valuation and consulting assignments throughout the United States.

Ms. Keller began her hospitality career as dining operations manager at the 100-year-old Onwentsia Club in Chicago and as revenue manager and front office manager for Sheraton hotels in Cleveland.

Affiliations

- Board member, Ohio Chapter of the Appraisal Institute; public relations committee chair
- Member, Ohio Hotel and Lodging Association
- Member, Purdue Alumni Club of Cleveland
- Member, World Waterpark Association (WWA)
- Member, International Association of Amusement Parks & Attractions (IAAPA)

Certifications

- Certified general real estate appraiser, states of Michigan, Indiana, and Ohio; the Commonwealth of Pennsylvania, and Commonwealth of Kentucky
- MAI designation, Appraisal Institute

Speaking Engagements, Publications and Media

- Panelist, “Graduates that Win: Creating a Life in Hospitality that Works,” Castell Project at Purdue University, West Lafayette, Indiana; March 2019
- Featured Speaker, “What is my hotel worth? An expert and entertaining explanation of the appraisal process” Cobblestone Annual Conference; Denver, Colorado; March 2019
- Panel moderator, “Fee for all: How hotels are maximizing ancillary charges.” STR Hotel Data Conference, Nashville, Tennessee; August 2018
- Panelist, “Hotel Feasibility Study Industry Leaders” Cobblestone Annual Conference; Minneapolis, Minnesota; March 12, 2018
- “In Ohio Markets, Occupancy Doesn’t Tell Whole Study” *Hotel News Now*, March 2018
- Panel moderator, “The current pipeline: Building momentum or a developing problem?” STR Hotel Data Conference, Nashville, Tennessee; August 2017
- "The Financial Impact of Hotel Renovations,” *Hotel News Now*, December 2016
- Panel moderator, “Reinventing Obsolete Hotels,” STR Hotel Data Conference, Nashville, September 2016
- "Cleveland a 'City of Choice' for Development," *Hotel News Now*, August 2014
- “Convenience Shops: Cash-Flowing Amenity Creep,” *Hotel News Now*, October 2013
- "Weight Loss Resorts are Boon to Developers,” *Hotel News Now* and *Hotel-Online*, August 2012
- "Lower-Tier Sale Prices Plummet; Upper-Tier Prices Soar: An Analysis of 431 Recent U.S. Hotel Sales," *Hotel News Now* and *Hotel-Online*, March 2011
- "Value Place - A Hotel/Apartment Fusion," *Hotel-Online*, July 2009
- "Unique Ways for Resorts to Radically Increase Revenue," *Developments* magazine, April 2008
- "Ohio's Lodging Market: Historical Analysis & 2006 Forecast," *Hotel-Online*, March 2006
- "Indoor Waterpark Resorts Continue Impressive Growth in '05," *Hotel-Online*, January 2005
- "Hotel Capitalization Rates Drop," Hotel-Online, March 2004
- "Cleveland Market at Bottom with Improvement Predicted," Hotel-Online, January 2004

In addition, Ms. Keller has been quoted in other publications, including Crain’s Cleveland Business and the Cleveland Plain Dealer, and she has been featured on television segments for Fox News.

Education

Ms. Keller earned a Bachelor of Science degree in hospitality management from Purdue University.