FEASIBILITY STUDY

Hotel Arizona

181 WEST BROADWAY BOULEVARD
TUCSON, ARIZONA

SUBMITTED TO:

Mr. Jerry Fischer
HSL Properties
3901 East Broadway Boulevard
Tucson, Arizona, 85711

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PREPARED BY:

HVS Consulting & Valuation
Division of TS Worldwide, LLC
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HVS

May 31, 2017

Mr. Jerry Fischer
HSL Properties
3901 East Broadway Boulevard, Tucson, AZ 85711

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Re: Hotel Arizona
Tucson, Arizona
HVS Reference: 2017250013, 2017020758

Dear Mr. Fischer:

Pursuant to your request, we herewith submit our feasibility study pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in the Tucson, Arizona area. We have studied the proposed project, and the results of our fieldwork and analysis are presented in this report. We have also reviewed the proposed improvements for this site. Our report was prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation.

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

Sincerely,
TS Worldwide, LLC

DRAFT DOCUMENT

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1. Executive Summary

Subject of the Feasibility Study

The subject of the feasibility study is a 155,179-square-foot (3.56-acre) full-service lodging facility; the redeveloped hotel is expected to be affiliated with the DoubleTree by Hilton or similar brand. The property, which is expected to reopen on January 1, 2019, will feature 309 total rooms, a three-meal restaurant, a signature restaurant, a lobby bar and lounge, and "made market"/grab-n-go, an outdoor pool, an outdoor whirlpool, a sundeck, a fitness center, a business center, and a gift shop. The hotel will also contain the appropriate parking capacity (350 garage) and all necessary back-of-the-house space.

The Hotel Arizona was built in conjunction with the Tucson Convention Center in the early 1970s and served as Downtown Tucson's primary convention lodging facility until its closure in 2012. The hotel originally opened as Braniff Place, and over the years it has been branded as a Marriott and Holiday Inn. The hotel is now expected to undergo a comprehensive renovation and reopen as a DoubleTree by Hilton (or similar brand), once again providing Downtown Tucson with a large, convention-oriented lodging facility. Furthermore, the hotel's reopening is expected to have a positive impact on the Tucson Convention Center, which will be discussed in more detail throughout this report. The subject site's location is 181 West Broadway Boulevard, Tucson, Arizona, 85701-1616.

Pertinent Dates

The effective date of the report is May 8, 2017. The subject site was inspected by Ryan M. Wall on April 24, 2017.

Ownership, Franchise, and Management Assumptions

The owner of the subject hotel is Pueblo Center Partners LP; the parent company of this owning partnership is HSL Properties, which is based in Tucson, Arizona. The subject site was last sold in 1984; HSL Properties has owned the site since that time, having purchased it from an unknown seller for an unknown price. The property is neither listed nor under contract for sale, and we have no knowledge of any recent listings.

Details pertaining to management terms were not yet determined at the time of this report; however, we assume that the proposed hotel will be managed by a professional hotel-operating company, with fees deducted at rates consistent with current market standards. We have assumed a market-appropriate total management fee of 3.0% of total revenues in our study.

We recommend that the proposed subject hotel operate as an upscale, full-service property. While we have placed heavy consideration on the DoubleTree by Hilton brand, which is affiliated with Hilton Hotels and Resorts, a specific franchise affiliation and/or brand has yet to be finalized. Based on our review of the agreement's terms or expected terms, the DoubleTree by Hilton franchise is reflected in our forecasts with a royalty fee of 5% of rooms revenue, and a marketing assessment of 4% of rooms revenue.

Summary of Hotel Market Trends

RevPAR first peaked for this selected set of competitive hotels in 2007, resulting in a RevPAR of nearly $80, before declining to a low point of roughly $63 by year-end 2009 because of the recession. A delayed recovery was generally experienced from 2010 through 2013, with year-over-year RevPAR fluctuations. The delayed ramp-up was largely due to group cancelations following the attempted passage of SB 1070 in 2010 and the federal government sequester in 2013. However, both occupancy and rate grew in 2014, largely driven by upticks in leisure travel during the peak spring months. This trend continued through 2016, as hotel managers in the area reported fewer cancelations in the group segment, which contributed to the overall strengthening.

Year-to-date data illustrate continued strengthening in overall RevPAR, led by stronger average rate growth. This positive trend illustrates that the market is continuing to strengthen, which was confirmed by our market interviews, indicating less rate-resistance by travelers in the year-to-date period over the prior year. The outlook for the remaining months of 2017 is positive as the local economy continues to strengthen.

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

FIGURE 1-1 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2005	1,788	652,620	—	481,528	—	73.8 %	$96.00	—	$70.83	—
2006	1,788	652,620	0.0 %	511,042	6.1 %	78.3	100.66	4.8 %	78.82	11.3 %
2007	1,788	652,620	0.0	467,599	(8.5)	71.6	110.63	9.9	79.27	0.6
2008	1,788	652,620	0.0	427,633	(8.5)	65.5	111.63	0.9	73.15	(7.7)
2009	1,788	652,620	0.0	406,840	(4.9)	62.3	101.54	(9.0)	63.30	(13.5)
2010	1,785	651,396	(0.2)	432,269	6.3	66.4	97.65	(3.8)	64.80	2.4
2011	1,780	649,700	(0.3)	426,237	(1.4)	65.6	94.97	(2.7)	62.31	(3.8)
2012	1,667	608,450	(6.3)	403,335	(5.4)	66.3	94.28	(0.7)	62.50	0.3
2013	1,746	637,300	4.7	414,087	2.7	65.0	95.38	1.2	61.97	(0.8)
2014	1,784	651,160	2.2	424,453	2.5	65.2	96.99	1.7	63.22	2.0
2015	1,784	651,160	0.0	433,329	2.1	66.5	99.06	2.1	65.92	4.3
2016	1,784	651,160	0.0	433,771	0.1	66.6	102.55	3.5	68.32	3.6
Year-to-Date Through March										
2016	1,784	160,560	—	130,483	—	81.3 %	$119.08	—	$96.77	—
2017	1,784	160,560	0.0 %	126,531	(3.0) %	78.8	125.42	5.3 %	98.84	2.1 %
Average Annual Compounded Change:										
2005 - 2016			(0.0) %		(0.9) %			0.6 %		(0.3) %
2005 - 2007			0.0		(1.5)			7.4		5.8
2007 - 2010			(0.1)		(2.6)			(4.1)		(6.5)
2010 - 2016			(0.0)		0.1			0.8		0.9

Hotels Included in Sample	Competitive Status	Number of Rooms	Year Affiliated	Year Opened	Comments
Hilton Tucson East	*Primary*	232	Upper Upscale Class	Feb 1987	
Radisson Suites Tucson	*Not Competitive*	299	Upscale Class	Dec 1985	
Doubletree Tucson @ Reid Park	*Primary*	287	Upscale Class	Nov 1974	
DoubleTree Suites Tucson Williams Center	*Primary*	142	Upscale Class	Jun 1975	*Converted from Embassy Suites in July 2015
Sheraton Hotel & Suites Tucson	*Primary*	216	Upper Upscale Class	Jun 1985	
Tucson Hotel	*Primary*	250	Midscale Class	Dec 1996	*Converted from Marriott in March 2017
aloft Hotel Tucson University	*Primary*	154	Upscale Class	Jun 1971	*Converted to Aloft in April 2013
DoubleTree Tucson Airport	*Secondary*	204	Upscale Class	Jan 1982	
	Total	**1,784**			

Source: STR

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

FIGURE 1-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2015				Estimated 2016					
Property	Number of Rooms	Commercial/Government	Meeting and Group	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
DoubleTree Suites by Hilton Tucson Williams Center	142	50 %	30 %	20 %	142	50 - 55 %	$105 - $110	$55 - $60	142	60 - 65 %	$110 - $115	$70 - $75	90 - 95 %	95 - 100 %
DoubleTree by Hilton Tucson Reid Park	287	50	25	25	287	70 - 75	90 - 95	65 - 70	287	75 - 80	95 - 100	70 - 75	100 - 110	95 - 100
Tucson University Park Hotel	250	40	30	30	250	75 - 80	130 - 140	100 - 105	251	75 - 80	130 - 140	105 - 110	110 - 120	140 - 150
Hilton Tucson East	232	55	25	20	232	65 - 70	85 - 90	60 - 65	232	70 - 75	85 - 90	60 - 65	100 - 110	85 - 90
Sheraton Hotel & Suites Tucson	216	40	30	30	216	60 - 65	80 - 85	50 - 55	216	55 - 60	85 - 90	45 - 50	75 - 80	65 - 70
Aloft Tucson University	154	45	20	35	154	70 - 75	120 - 125	85 - 90	154	70 - 75	125 - 130	90 - 95	100 - 110	120 - 130
Sub-Totals/Averages	**1,281**	**47 %**	**27 %**	**27 %**	**1,281**	**69.8 %**	**$104.14**	**$72.66**	**1,282**	**71.4 %**	**$107.13**	**$76.54**	**101.0 %**	**102.4 %**
Secondary Competitors	503	50 %	15 %	35 %	163	58.0 %	$93.00	$53.94	163	65.0 %	$93.00	$60.45	91.9 %	80.9 %
Totals/Averages	**1,784**	**47 %**	**25 %**	**27 %**	**1,444**	**68.4 %**	**$103.07**	**$70.54**	**1,445**	**70.7 %**	**$105.66**	**$74.72**	**100.0 %**	**100.0 %**

** Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.*

FIGURE 1-3 SECONDARY COMPETITORS – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation: Commercial/Government	Est. Segmentation: Meeting and Group	Est. Segmentation: Leisure	Total Competitive Level	Estimated 2015: Weighted Annual Room Count	Estimated 2015: Occ.	Estimated 2015: Average Rate	Estimated 2015: RevPAR	Estimated 2016: Weighted Annual Room Count	Estimated 2016: Occ.	Estimated 2016: Average Rate	Estimated 2016: RevPAR
DoubleTree Suites by Hilton Tucson Airport	204	50	15	35	80	163	55 - 60	90 - 95	50 - 55	163	60 - 65	90 - 95	60 - 65
Radisson Suites Tucson	299	30	40	30	0	0	55 - 60	75 - 80	40 - 45	0	45 - 50	80 - 85	35 - 40
Totals/Averages	**503**	**50 %**	**15 %**	**35 %**	**32 %**	**163**	**58.0 %**	**$93.00**	**$53.94**	**163**	**65.0 %**	**$93.00**	**$60.45**

** Specific occupancy and average rate data was utilized in our analysis, but is presented in ranges in the above table for the purposes of confidentiality.*

Summary of Forecast Occupancy and Average Rate

Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, we have chosen to use a stabilized occupancy level of 68% and a base-year rate position of $125.00 for the proposed subject hotel. The following table reflects a summary of our market-wide and proposed subject hotel occupancy and average rate projections.

FIGURE 1-4 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

Calendar Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Market ADR	$105.66	$110.42	$114.83	$118.28	$121.83	$125.48	$129.24	$133.12	$137.12
Projected Market ADR Growth Rate	—	4.5%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject Property ADR (Before Discount)	**$125.00**	$130.63	$135.85	$139.93	$144.12	$148.45	$152.90	$157.49	$162.21
ADR Growth Rate	—	4.5%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject ADR Penetration (Before Discount)	118%	118%	118%	118%	118%	118%	118%	118%	118.3%

Fiscal Year	2019	2020	2021	2022	2023	2024
Proposed Subject Property Average Rate	$139.93	$144.12	$148.45	$152.90	$157.49	$162.21
Opening Discount	3.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Average Rate After Discount	**$135.73**	**$141.24**	**$148.45**	**$152.90**	**$157.49**	**$162.21**
Real Average Rate Growth	—	4.1%	5.1%	3.0%	3.0%	3.0%
Market ADR	$118.28	$121.83	$125.48	$129.24	$133.12	$137.12
Proposed Subject ADR Penetration (After Discount)	115%	116%	118%	118%	118%	118%
ADR Expressed in Base-Year Dollars Deflated @ Inflation Rate	$127.34	$127.34	$129.94	$129.94	$129.94	$129.94

Summary of Forecast Income and Expense Statement

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

FIGURE 1-5 DETAILED FORECAST OF INCOME AND EXPENSE

	2019	(Calendar Year)			2020				2021				Stabilized				2023			
Number of Rooms:	309				309				309				309				309			
Occupancy:	54%				63%				67%				68%				68%			
Average Rate:	$135.73				$141.24				$148.45				$152.90				$157.49			
RevPAR:	$73.29				$88.98				$99.46				$103.97				$107.09			
Days Open:	365				365				365				365				365			
Occupied Rooms:	60,904	%Gross	PAR	POR	71,055	%Gross	PAR	POR	75,566	%Gross	PAR	POR	76,694	%Gross	PAR	POR	76,694	%Gross	PAR	POR
OPERATING REVENUE																				
Rooms	$8,266	59.1 %	$26,751	$135.72	$10,036	60.7 %	$32,479	$141.24	$11,218	61.7 %	$36,304	$148.45	$11,727	61.8 %	$37,951	$152.91	$12,078	61.8 %	$39,087	$157.48
Food	3,883	27.8	12,567	63.76	4,469	27.0	14,464	62.90	4,818	26.5	15,593	63.76	5,018	26.4	16,240	65.43	5,169	26.4	16,728	67.40
Beverage	1,337	9.6	4,328	21.96	1,493	9.0	4,833	21.02	1,591	8.7	5,150	21.06	1,653	8.7	5,348	21.55	1,702	8.7	5,509	22.19
Other Operated Departments	387	2.8	1,254	6.36	416	2.5	1,346	5.85	436	2.4	1,412	5.77	451	2.4	1,460	5.88	465	2.4	1,504	6.06
Miscellaneous Income	116	0.8	376	1.91	125	0.8	404	1.76	131	0.7	423	1.73	135	0.7	438	1.77	139	0.7	451	1.82
Total Operating Revenues	13,990	100.0	45,276	229.71	16,539	100.0	53,526	232.77	18,195	100.0	58,882	240.78	18,984	100.0	61,438	247.54	19,553	100.0	63,279	254.95
DEPARTMENTAL EXPENSES *																				
Rooms	1,871	22.6	6,055	30.72	2,038	20.3	6,597	28.69	2,150	19.2	6,959	28.46	2,228	19.0	7,210	29.05	2,295	19.0	7,427	29.92
Food & Beverage	3,439	65.9	11,131	56.47	3,701	62.1	11,979	52.09	3,885	60.6	12,573	51.41	4,020	60.3	13,011	52.42	4,141	60.3	13,401	53.99
Other Operated Departments	284	73.2	918	4.66	296	71.1	957	4.16	306	70.2	991	4.05	316	70.0	1,022	4.12	325	70.0	1,053	4.24
Total Expenses	5,594	40.0	18,104	91.85	6,036	36.5	19,533	84.94	6,342	34.9	20,524	83.92	6,564	34.6	21,244	85.59	6,761	34.6	21,881	88.16
DEPARTMENTAL INCOME	8,396	60.0	27,172	137.86	10,504	63.5	33,993	147.83	11,853	65.1	38,358	156.85	12,420	65.4	40,195	161.94	12,792	65.4	41,398	166.79
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,203	8.6	3,893	19.75	1,278	7.7	4,135	17.98	1,337	7.3	4,327	17.70	1,382	7.3	4,472	18.02	1,423	7.3	4,606	18.56
Info & Telecom Systems	190	1.4	615	3.12	202	1.2	653	2.84	211	1.2	683	2.79	218	1.1	706	2.84	225	1.1	727	2.93
Marketing	1,368	9.8	4,426	22.45	1,332	8.1	4,309	18.74	1,267	7.0	4,100	16.76	1,309	6.9	4,236	17.07	1,348	6.9	4,363	17.58
Franchise Fee	744	5.3	2,408	12.21	903	5.5	2,923	12.71	1,010	5.5	3,267	13.36	1,055	5.6	3,416	13.76	1,087	5.6	3,518	14.17
Prop. Operations & Maint.	506	3.6	1,639	8.32	605	3.7	1,959	8.52	704	3.9	2,278	9.31	727	3.8	2,353	9.48	749	3.8	2,424	9.77
Utilities	601	4.3	1,946	9.88	639	3.9	2,068	8.99	669	3.7	2,164	8.85	691	3.6	2,236	9.01	712	3.6	2,303	9.28
Total Expenses	4,612	33.0	14,926	75.73	4,958	30.1	16,047	69.78	5,197	28.6	16,819	68.77	5,382	28.3	17,419	70.18	5,544	28.3	17,941	72.28
GROSS HOUSE PROFIT	3,784	27.0	12,245	62.13	5,545	33.4	17,947	78.05	6,656	36.5	21,540	88.08	7,038	37.1	22,776	91.76	7,248	37.1	23,457	94.51
Management Fee	420	3.0	1,358	6.89	496	3.0	1,606	6.98	546	3.0	1,766	7.22	570	3.0	1,843	7.43	587	3.0	1,898	7.65
INCOME BEFORE NON-OPR. INC. & EXP.	3,364	24.0	10,887	55.24	5,049	30.4	16,341	71.06	6,110	33.5	19,773	80.86	6,468	34.1	20,933	84.34	6,662	34.1	21,559	86.86
NON-OPERATING INCOME & EXPENSE																				
Property Taxes	483	3.5	1,563	7.93	611	3.7	1,978	8.60	658	3.6	2,129	8.70	708	3.7	2,292	9.23	729	3.7	2,360	9.51
Insurance	166	1.2	538	2.73	171	1.0	555	2.41	177	1.0	571	2.34	182	1.0	588	2.37	187	1.0	606	2.44
Reserve for Replacement	280	2.0	906	4.59	496	3.0	1,606	6.98	728	4.0	2,355	9.63	759	4.0	2,458	9.90	782	4.0	2,531	10.20
Total Expenses	929	6.7	3,007	15.26	1,279	7.7	4,138	17.99	1,562	8.6	5,055	20.67	1,649	8.7	5,338	21.51	1,699	8.7	5,498	22.15
EBITDA LESS RESERVE	$2,435	17.3 %	$7,880	$39.98	$3,771	22.7 %	$12,203	$53.07	$4,548	24.9 %	$14,718	$60.18	$4,819	25.4 %	$15,595	$62.83	$4,963	25.4 %	$16,061	$64.71

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

FIGURE 1-6 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2019		2020		2021		2022		2023	
Number of Rooms:	**309**		**309**		**309**		**309**		**309**	
Occupied Rooms:	**60,904**		**71,055**		**75,566**		**76,694**		**76,694**	
Occupancy:	**54%**		**63%**		**67%**		**68%**		**68%**	
Average Rate:	**$135.73**	**% of**	**$141.24**	**% of**	**$148.45**	**% of**	**$152.90**	**% of**	**$157.49**	**% of**
RevPAR:	**$73.29**	**Gross**	**$88.98**	**Gross**	**$99.46**	**Gross**	**$103.97**	**Gross**	**$107.09**	**Gross**
OPERATING REVENUE										
Rooms	$8,266	59.1 %	$10,036	60.7 %	$11,218	61.7 %	$11,727	61.8 %	$12,078	61.8 %
Food	3,883	27.8	4,469	27.0	4,818	26.5	5,018	26.4	5,169	26.4
Beverage	1,337	9.6	1,493	9.0	1,591	8.7	1,653	8.7	1,702	8.7
Other Operated Departments	387	2.8	416	2.5	436	2.4	451	2.4	465	2.4
Miscellaneous Income	116	0.8	125	0.8	131	0.7	135	0.7	139	0.7
Total Operating Revenues	13,990	100.0	16,539	100.0	18,195	100.0	18,984	100.0	19,553	100.0
DEPARTMENTAL EXPENSES *										
Rooms	1,871	22.6	2,038	20.3	2,150	19.2	2,228	19.0	2,295	19.0
Food & Beverage	3,439	65.9	3,701	62.1	3,885	60.6	4,020	60.3	4,141	60.3
Other Operated Departments	284	73.2	296	71.1	306	70.2	316	70.0	325	70.0
Total Expenses	5,594	40.0	6,036	36.5	6,342	34.9	6,564	34.6	6,761	34.6
DEPARTMENTAL INCOME	8,396	60.0	10,504	63.5	11,853	65.1	12,420	65.4	12,792	65.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	1,203	8.6	1,278	7.7	1,337	7.3	1,382	7.3	1,423	7.3
Info & Telecom Systems	190	1.4	202	1.2	211	1.2	218	1.1	225	1.1
Marketing	1,368	9.8	1,332	8.1	1,267	7.0	1,309	6.9	1,348	6.9
Franchise Fee	744	5.3	903	5.5	1,010	5.5	1,055	5.6	1,087	5.6
Prop. Operations & Maint.	506	3.6	605	3.7	704	3.9	727	3.8	749	3.8
Utilities	601	4.3	639	3.9	669	3.7	691	3.6	712	3.6
Total Expenses	4,612	33.0	4,958	30.1	5,197	28.6	5,382	28.3	5,544	28.3
GROSS HOUSE PROFIT	3,784	27.0	5,545	33.4	6,656	36.5	7,038	37.1	7,248	37.1
Management Fee	420	3.0	496	3.0	546	3.0	570	3.0	587	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	3,364	24.0	5,049	30.4	6,110	33.5	6,468	34.1	6,662	34.1
NON-OPERATING INCOME & EXPENSE										
Property Taxes	483	3.5	611	3.7	658	3.6	708	3.7	729	3.7
Insurance	166	1.2	171	1.0	177	1.0	182	1.0	187	1.0
Reserve for Replacement	280	2.0	496	3.0	728	4.0	759	4.0	782	4.0
Total Expenses	929	6.7	1,279	7.7	1,562	8.6	1,649	8.7	1,699	8.7
EBITDA LESS RESERVE	$2,435	17.3 %	$3,771	22.7 %	$4,548	24.9 %	$4,819	25.4 %	$4,963	25.4 %

	2024		2025		2026		2027		2028	
Number of Rooms:	**309**		**309**		**309**		**309**		**309**	
Occupied Rooms:	**76,694**		**76,694**		**76,694**		**76,694**		**76,694**	
Occupancy:	**68%**		**68%**		**68%**		**68%**		**68%**	
Average Rate:	**$162.21**	**% of**	**$167.08**	**% of**	**$172.09**	**% of**	**$177.25**	**% of**	**$182.57**	**% of**
RevPAR:	**$110.30**	**Gross**	**$113.61**	**Gross**	**$117.02**	**Gross**	**$120.53**	**Gross**	**$124.15**	**Gross**
OPERATING REVENUE										
Rooms	$12,441	61.8 %	$12,814	61.8 %	$13,198	61.8 %	$13,594	61.8 %	$14,002	61.8 %
Food	5,324	26.4	5,484	26.4	5,648	26.4	5,818	26.4	5,992	26.4
Beverage	1,753	8.7	1,806	8.7	1,860	8.7	1,916	8.7	1,973	8.7
Other Operated Departments	479	2.4	493	2.4	508	2.4	523	2.4	539	2.4
Miscellaneous Income	144	0.7	148	0.7	152	0.7	157	0.7	162	0.7
Total Operating Revenues	20,140	100.0	20,744	100.0	21,366	100.0	22,007	100.0	22,668	100.0
DEPARTMENTAL EXPENSES *										
Rooms	2,364	19.0	2,435	19.0	2,508	19.0	2,583	19.0	2,660	19.0
Food & Beverage	4,265	60.3	4,393	60.3	4,525	60.3	4,661	60.3	4,801	60.3
Other Operated Departments	335	70.0	345	70.0	356	70.0	366	70.0	377	70.0
Total Expenses	6,964	34.6	7,173	34.6	7,388	34.6	7,610	34.6	7,838	34.6
DEPARTMENTAL INCOME	13,176	65.4	13,571	65.4	13,978	65.4	14,398	65.4	14,830	65.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	1,466	7.3	1,510	7.3	1,555	7.3	1,602	7.3	1,650	7.3
Info & Telecom Systems	231	1.1	238	1.1	246	1.1	253	1.1	260	1.1
Marketing	1,389	6.9	1,430	6.9	1,473	6.9	1,517	6.9	1,563	6.9
Franchise Fee	1,120	5.6	1,153	5.6	1,188	5.6	1,223	5.6	1,260	5.6
Prop. Operations & Maint.	772	3.8	795	3.8	818	3.8	843	3.8	868	3.8
Utilities	733	3.6	755	3.6	778	3.6	801	3.6	825	3.6
Total Expenses	5,710	28.3	5,881	28.3	6,058	28.3	6,240	28.3	6,427	28.3
GROSS HOUSE PROFIT	7,466	37.1	7,690	37.1	7,920	37.1	8,158	37.1	8,403	37.1
Management Fee	604	3.0	622	3.0	641	3.0	660	3.0	680	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	6,862	34.1	7,068	34.1	7,279	34.1	7,498	34.1	7,723	34.1
NON-OPERATING INCOME & EXPENSE										
Property Taxes	751	3.7	774	3.7	797	3.7	821	3.7	846	3.7
Insurance	193	1.0	199	1.0	205	1.0	211	1.0	217	1.0
Reserve for Replacement	806	4.0	830	4.0	855	4.0	880	4.0	907	4.0
Total Expenses	1,750	8.7	1,802	8.7	1,856	8.7	1,912	8.7	1,969	8.7
EBITDA LESS RESERVE	$5,112	25.4 %	$5,265	25.4 %	$5,423	25.4 %	$5,586	25.4 %	$5,754	25.4 %

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

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

Feasibility Conclusion

The Feasibility Analysis chapter of this report converts these cash flows into a net present value indication assuming set-forth debt and equity requirements. The conclusion of this analysis indicates that an equity investor contributing $19,167,000 (roughly 35% of the $54,800,000 redevelopment cost) could expect to receive a 14.8% internal rate of return over a ten-year holding period, assuming that the investor obtains financing at the time of the project's completion at the loan-to-value ratio and interest rate set forth. While the redeveloped subject hotel has an opportunity to serve an underserved niche in the market, our market analysis indicates a gap in the project's overall feasibility. A feasibility gap can be defined as the difference between a project's cost and its value. If a project's cost is greater than its value, then it is not feasible and subsidies may be required. Hotel funding typically includes an equity component and a loan component. As different developers have access to different sources of equity and loan financing, the funding aspect of a hotel development can play a crucial role in determining a developer's total project cost. Alternative types of funding can take many forms, including upfront cash subsidies or debt service guarantees or even a rebate of site-specific taxes. Our conclusions are based primarily on the long-term strength of this hotel market and conventional financing methods. A review of investor surveys indicates equity returns ranging from 10.3% to 22.7%, with an average of 17.7%. Based on these parameters, the calculated return to the equity investor, 14.8%, is below the average of market-level returns given the anticipated cost of approximately $54,800,000.

Assignment Conditions

"Extraordinary Assumption" is defined in USPAP as follows:

> An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.[1]

The analysis is based on the extraordinary assumption that the described improvements have been renovated as of the stated date of opening. The reader should understand that the subject property's structure does exist as of the date of

[1] The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice*, 2016–2017 ed.

this report. Our feasibility study does not address unforeseeable events that could alter the redevelopment project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, shall take place between the date of inspection and stated date of opening. The use of this extraordinary assumption may have affected the assignment results. We have made no other extraordinary assumptions specific to this feasibility study. However, several important general assumptions have been made that apply to this feasibility study and our studies of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

Intended Use of the Feasibility Study

This feasibility report is being prepared for use in the redevelopment of the proposed subject hotel.

Identification of the Client and Intended User(s)

The client for this engagement is HSL Properties. This report is intended for the addressee firm, and may not be distributed to or relied upon by other persons or entities.

Scope of Work

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels,*[2] *Hotels, Motels and Restaurants: Valuations and Market Studies,*[3] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[4] *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations,*[5] and *Hotels and Motels – Valuations and Market Studies.*[6]

1. All information was collected and analyzed by the staff of TS Worldwide, LLC. Information was supplied by the client and/or the property's development team.

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

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

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

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

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

2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
3. The subject property's proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.
4. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.
7. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
8. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.
9. A feasibility analysis is performed, in which the market equity yield an investor would expect is compared to the equity yield an investor must accept.

2. Description of the Site and Neighborhood

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

The subject site is located in Downtown Tucson, in the southeast quadrant of the intersection formed by Granada Avenue and Congress Street/Broadway Boulevard. This site is in the city of Tucson, Arizona.

Physical Characteristics

The subject site measures approximately 3.56 acres, or 155,179 square feet. The parcel's adjacent uses are set forth in the following table.

FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES

Direction	Adjacent Use
North	Congress Street; Broadway Boulevard
South	Tucson Music Hall
East	La Placita
West	Granada Avenue

The subject site comprises two separate parcels. The main parcel (Parcel 1), located along Congress Street/Broadway Boulevard, measures 144,056 square feet and features the hotel and a parking structure. The second parcel (Parcel 2) is located on the southeast side of hotel structure; this parcel is improved with an asphalt traffic circle providing access to the hotel's lower-level ballroom and adjacent meeting space.

HVS

PLAT MAP

Topography and Site Utility

The topography of the site gently slopes from north to south, and the shape should permit efficient use of the site for building and site improvements, including ingress and egress. Upon completion of hotel's redevelopment, the subject site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. It is expected that the site will be developed fully with building and site improvements, thus contributing to the overall profitability of the hotel.

AERIAL PHOTOGRAPH

VIEW FROM SITE TO THE NORTH

VIEW FROM SITE TO THE SOUTH

VIEW FROM SITE TO THE EAST

VIEW FROM SITE TO THE WEST

Access and Visibility

It is important to analyze the site with respect to regional and local transportation routes and demand generators, including ease of access. The subject site is readily accessible to a variety of local and county roads, as well as state and interstate highways.

MAP OF REGIONAL ACCESS ROUTES

Primary regional access through the area is provided by east/west Interstate 10, which extends to such cities as Las Cruces, New Mexico, to the east and Phoenix to the northwest. North/south Interstate 19 provides access to the city of Nogales and Mexico to the south, while State Highway 77 provides access to the Oro Valley to the north. The subject market is served by a variety of additional local highways, which are illustrated on the map.

Primary vehicular access to the subject site will be provided by Broadway Boulevard. Access will also be available from Granada Avenue. The subject site is located at a busy intersection and is relatively simple to locate from Interstate 10, which is the nearest major highway. The proposed subject hotel is anticipated to have adequate signage at the street, as well as on its façade. Overall, the subject site benefits from very good accessibility, and the proposed hotel is expected to enjoy very good visibility from within its local neighborhood.

HVS

Airport and Metrorail Access

The proposed subject hotel will be served by the Tucson International Airport, which is located approximately six miles to the southwest of the subject site. The Sun Link light-rail system began service in July 2014. The $196-million streetcar system traverses four miles through Tucson, connecting the Banner - University Medical Center Tucson, the University of Arizona campus, and Downtown Tucson. The Sun Link Streetcar is the Tucson area's largest construction project to date, creating 500 construction jobs in addition to 1,500 long-term positions. The closest Sun Link rail stop to the subject site is the Broadway Boulevard and Granada Avenue Station, one block to the west.

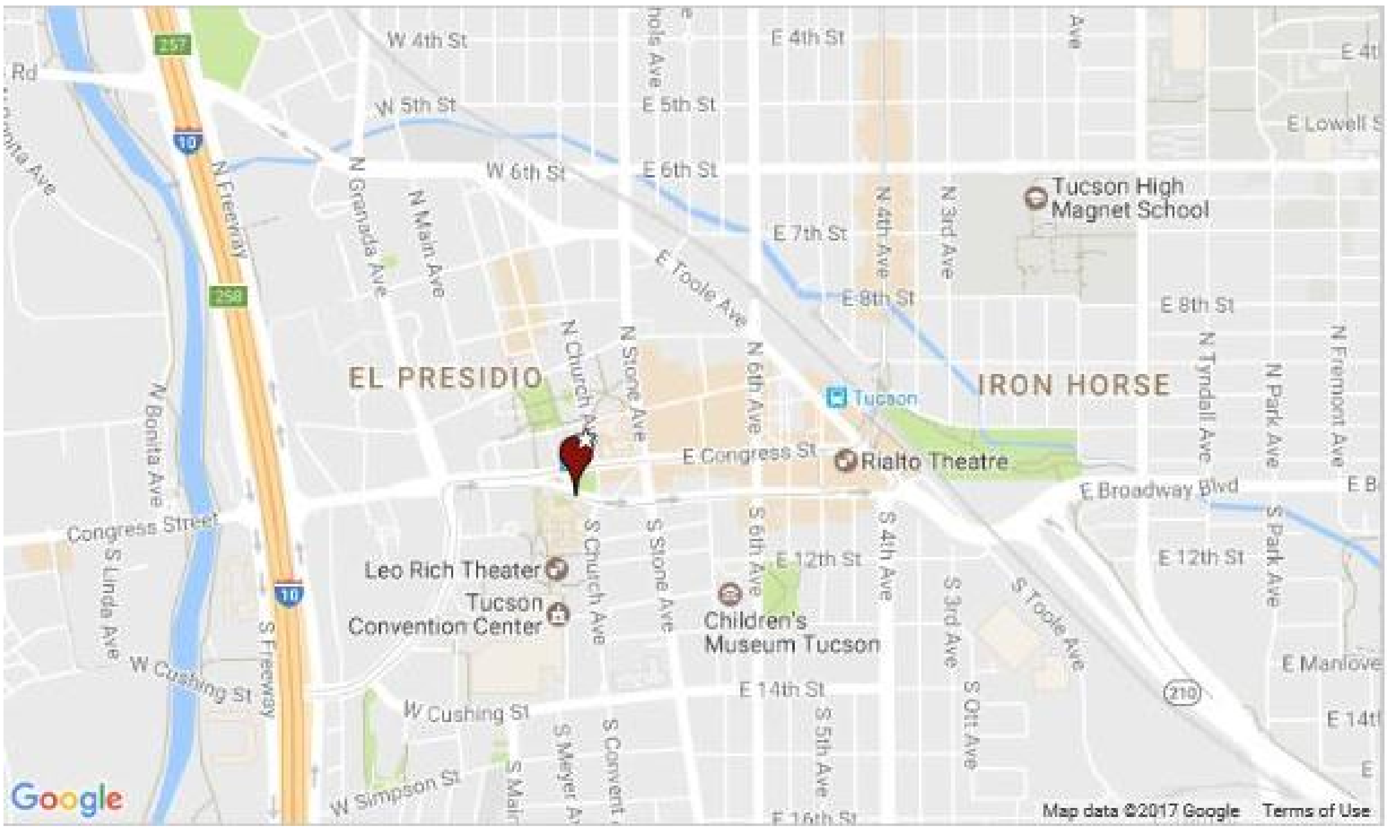
Neighborhood

The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a particular market segment. This section of the report investigates the subject neighborhood and evaluates any pertinent location factors that could affect its future occupancy, average rate, and overall profitability.

The neighborhood that surrounds the subject site is generally defined by West 6th Street to the north, East Toole Avenue and State Route 210 to the east, West Cushing Street/East 14th Street to the south, and Interstate 10 to the west. The neighborhood is characterized by restaurants, office buildings, and retail shopping centers along the primary thoroughfares, with residential areas located along the secondary roadways. Some specific businesses and entities in the area include United States, Pima County, and City of Tucson government offices; National Bank of Arizona; and Caterpillar. Hotels in the vicinity include the small boutique-like Congress Hotel and the soon-to-open AC Hotel by Marriott, while restaurants located near the subject site include Christy's Corner Cafe, Nook, and Bruegger's Bagels; the proximity of these restaurants is considered supportive of the operation of a full-service convention lodging property.

In general, this neighborhood is in the growth stage of its life cycle. The 2014 opening of the Sun Link light-rail system has attracted numerous commercial investments to Downtown in recent years, including the 130-room AC Hotel by Marriott, which is under construction and set to open in July 2017. Furthermore, Downtown Tucson's revitalization has attracted large commercial users to the Downtown core; in 2016, Caterpillar began the process of relocating employees to its new regional headquarters in Downtown Tucson.

MAP OF NEIGHBORHOOD

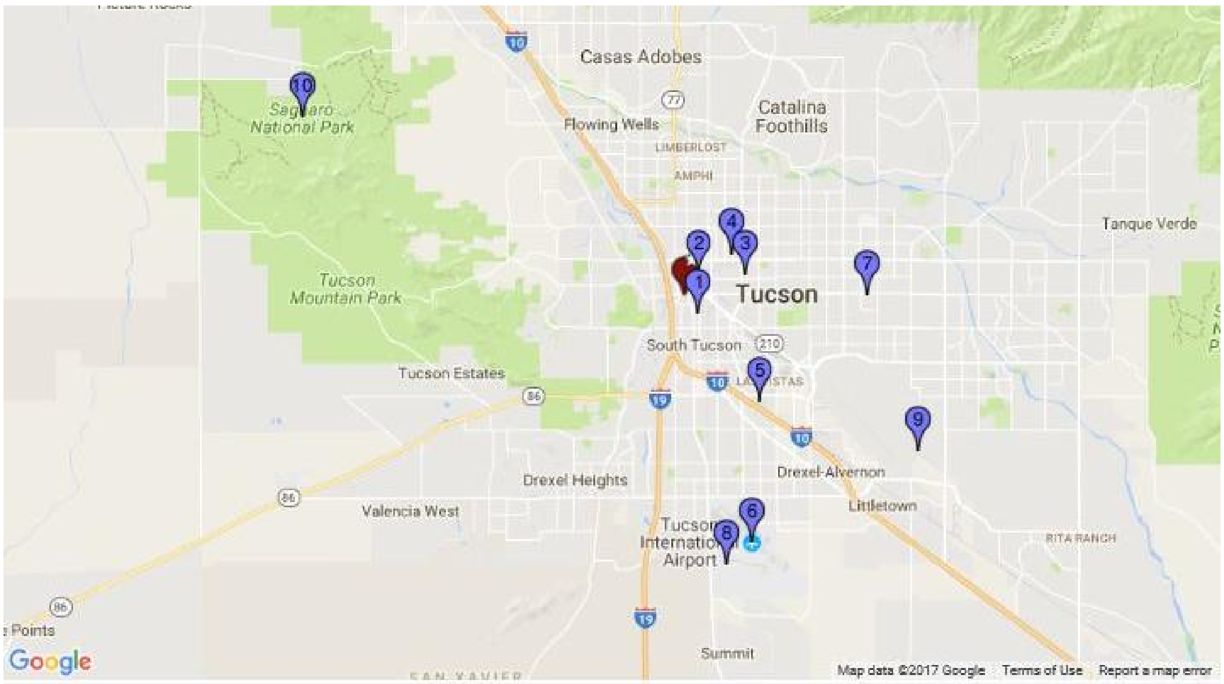


The proposed subject hotel's opening should be a positive influence on the area; the hotel will be in character with and will complement surrounding land uses. Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel.

Proximity to Local Demand Generators and Attractions

The subject site is located near the area's primary generators of lodging demand. A sample of these demand generators is reflected on the following map, including respective distances from and drive times to the subject site. Overall, the subject site is well situated with respect to demand generators.

ACCESS TO DEMAND GENERATORS AND ATTRACTIONS



Demand Generator	Approx. Driving Time/Distance from Subject Property	
Subject Property		
Tucson Convention Center	1 minute	0 mile
Caterpillar Tucson Regional Offices	2 minutes	0 mile
The University of Arizona	10 minutes	2 miles
Banner – University Medical Center Tucson Campus	10 minutes	3 miles
Kino Sports Complex	11 minutes	5 miles
Tucson International Airport	15 minutes	9 miles
Williams Center	16 minutes	6 miles
Raytheon	19 minutes	11 miles
Davis Monthan	19 minutes	10 miles
Saguaro National Park	28 minutes	16 miles

HVS

Utilities

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

Soil and Subsoil Conditions

Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by a visual inspection of the surface; no extraordinary conditions were apparent.

Nuisances and Hazards

We were not informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.

Flood Zone

According to the Federal Emergency Management Agency map illustrated below, the subject site is located in X.

COPY OF FLOOD MAP AND COVER

The flood zone definition for the X designation is as follows: areas outside the 500-year flood plain; areas of the 500-year flood; areas of the 100-year flood with average depths of less than one foot or with drainage areas less than one square mile and areas protected by levees from the 100-year flood.

Zoning

According to the local planning office, the subject property is zoned as follows: OCR-2 - Office/Commercial/Residential. Additional details pertaining to the proposed subject property's zoning regulations are summarized in the following table.

FIGURE 2-2 ZONING

Municipality Governing Zoning	City of Tucson; Rio Nuevo
Current Zoning	Office/Commercial/Residential
Current Use	Vacant Hotel
Is Current Use Permitted	Yes
Is Change in Zoning Likely	No
Permitted Uses	Yes
Hotel Allowed	Yes
Legally Non-Conforming	Not Applicable

Easements and Encroachments

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

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site is favorably located along a well-traveled commercial corridor in Downtown Tucson, within walking distance of the Tucson Convention Center and numerous shopping, dining, and entertainment establishments. In general, the site should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

3. Market Area Analysis

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

Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the city of Tucson, the county of Pima, and the state of Arizona. Tucson is a resort area, an educational and copper center, a cotton and cattle market, headquarters for the Coronado National Forest, home to the University of Arizona, and a place of business for several large industries. Known for its dry and sunny climate, Tucson is gaining a new reputation for high culture and high technology. The city's shops, restaurants, resorts, and points of interest are varied and numerous. Tucson is the primary seat of Pima County, Arizona located 115 miles southeast of Phoenix and 60 miles north of the U.S.-Mexico border. It is the largest city in southern Arizona and the second largest in the state. Much of Tucson’s economic development has been centered on the development of the University of Arizona. A cornerstone of Tucson is Davis-Monthan Air Force Base, which creates a collaborative environment for military-technology companies. Furthermore, the Sun Link light-rail system began service in July 2014. The $196-million streetcar system traverses four miles through Tucson, connecting the Banner - University Medical Center Tucson, the University of Arizona campus, and Downtown Tucson. The Sun Link Streetcar is the Tucson area's largest construction project to date, creating 500 construction jobs in addition to 1,500 long-term positions.

TUCSON

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

MAP OF MARKET AREA

Economic and Demographic Review

A primary source of economic and demographic statistics used in this analysis is the *Complete Economic and Demographic Data Source* published by Woods & Poole Economics, Inc.—a well-regarded forecasting service based in Washington, D.C. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Historical statistics are based on census data and information published by the Bureau of Economic Analysis. Projections are formulated by Woods & Poole, and all dollar amounts have been adjusted for inflation, thus reflecting real change.

These data are summarized in the following table.

FIGURE 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2016	2020	Average Annual Compounded Change 2000-10	2010-16	2016-20
Resident Population (Thousands)							
Pima County	848.0	981.9	1,029.1	1,081.8	1.5 %	0.8 %	1.3 %
Tucson, AZ MSA	848.0	981.9	1,029.1	1,081.8	1.5	0.8	1.3
Tucson-Nogales, AZ CSA	886.6	1,029.3	1,077.3	1,133.0	1.5	0.8	1.3
State of Arizona	5,160.6	6,412.0	6,948.7	7,415.5	2.2	1.3	1.6
United States	282,162.4	309,347.1	324,506.9	336,690.4	0.9	0.8	0.9
Per-Capita Personal Income*							
Pima County	$30,165	$33,062	$34,998	$37,197	0.9	1.0	1.5
Tucson, AZ MSA	30,165	33,062	34,998	37,197	0.9	1.0	1.5
Tucson-Nogales, AZ CSA	29,767	32,760	34,714	36,886	1.0	1.0	1.5
State of Arizona	31,942	33,629	35,985	38,485	0.5	1.1	1.7
United States	36,812	39,622	43,613	46,375	0.7	1.6	1.5
W&P Wealth Index							
Pima County	87.1	85.4	83.0	82.9	(0.2)	(0.5)	(0.0)
Tucson, AZ MSA	87.1	85.4	83.0	82.9	(0.2)	(0.5)	(0.0)
Tucson-Nogales, AZ CSA	86.2	84.7	82.4	82.3	(0.2)	(0.5)	(0.0)
State of Arizona	90.2	86.2	84.2	84.6	(0.5)	(0.4)	0.1
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Pima County	$1,069	$1,314	$1,612	$1,750	2.1	3.5	2.1
Tucson, AZ MSA	1,069	1,314	1,612	1,750	2.1	3.5	2.1
Tucson-Nogales, AZ CSA	1,112	1,355	1,658	1,800	2.0	3.4	2.1
State of Arizona	6,682	8,764	10,897	11,984	2.7	3.7	2.4
United States	368,829	447,728	562,999	602,635	2.0	3.9	1.7
Total Retail Sales (Millions)*							
Pima County	$11,066	$11,771	$13,163	$14,248	0.6	1.9	2.0
Tucson, AZ MSA	11,066	11,771	13,163	14,248	0.6	1.9	2.0
Tucson-Nogales, AZ CSA	11,602	12,332	13,705	14,842	0.6	1.8	2.0
State of Arizona	71,246	85,453	99,155	109,013	1.8	2.5	2.4
United States	3,902,830	4,130,414	4,846,834	5,181,433	0.6	2.7	1.7

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The U.S. population has grown at an average annual compounded rate of 0.8% from 2010 through 2016. The county's population has grown more slowly than the nation's population; the average annual growth rate of 0.8% between 2010 and 2016 reflects a gradually expanding area. Following this population trend, per-capita personal income increased slowly, at 1.0% on average annually for the county between 2010 and 2016. Local wealth indexes have remained stable in recent years, registering a relatively modest 83.0 level for the county in 2016.

Food and beverage sales totaled $1,612 million in the county in 2016, versus $1,314 million in 2010. This reflects a 3.5% average annual change, which is stronger than the 2.1% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 2.1%, which is forecast through 2020. The retail sales sector demonstrated an annual increase of 0.6% registered in the decade 2000 to 2010, followed by an increase of 1.9% in the period 2010 to 2016. An increase of 2.0% average annual change is expected in county retail sales through 2020.

Workforce Characteristics

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate-sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the county workforce distribution by business sector in 2000, 2010, and 2016, as well as a forecast for 2020.

FIGURE 3-2 HISTORICAL AND PROJECTED EMPLOYMENT (000S)

Industry	2000	Percent of Total	2010	Percent of Total	2016	Percent of Total	2020	Percent of Total	Average Annual Compounded Change 2000-2010	2010-2016	2016-2020
Farm	1.0	0.2 %	1.2	0.2 %	1.4	0.3 %	1.4	0.3 %	1.6 %	2.6 %	0.9 %
Forestry, Fishing, Related Activities And Other	0.4	0.1	0.4	0.1	0.4	0.1	0.4	0.1	(0.7)	(0.4)	1.0
Mining	2.4	0.5	3.3	0.7	5.0	1.0	5.1	0.9	3.2	7.1	0.9
Utilities	1.6	0.4	2.1	0.4	2.0	0.4	2.1	0.4	3.1	(0.6)	1.3
Construction	28.5	6.4	22.5	4.6	23.9	4.6	26.2	4.7	(2.3)	1.1	2.3
Manufacturing	35.1	7.9	26.0	5.4	25.6	4.9	26.6	4.8	(3.0)	(0.2)	1.0
Total Trade	58.0	13.1	59.6	12.3	65.2	12.6	70.1	12.6	0.3	1.5	1.8
Wholesale Trade	8.6	1.9	9.8	2.0	9.8	1.9	10.4	1.9	1.4	0.0	1.4
Retail Trade	49.4	11.2	49.7	10.3	55.4	10.7	59.7	10.8	0.1	1.8	1.9
Transportation And Warehousing	9.1	2.1	9.2	1.9	11.4	2.2	11.7	2.1	0.2	3.5	0.7
Information	9.2	2.1	5.9	1.2	6.1	1.2	6.5	1.2	(4.3)	0.5	1.3
Finance And Insurance	14.4	3.3	22.4	4.6	22.8	4.4	25.2	4.6	4.5	0.3	2.6
Real Estate And Rental And Lease	21.3	4.8	28.0	5.8	28.7	5.5	31.3	5.6	2.8	0.4	2.1
Total Services	181.7	41.0	213.9	44.2	234.7	45.2	250.9	45.2	1.6	1.6	1.7
Professional And Technical Services	25.9	5.8	33.1	6.8	34.2	6.6	36.1	6.5	2.5	0.5	1.4
Management Of Companies And Enterprises	2.7	0.6	2.9	0.6	2.8	0.5	2.9	0.5	0.6	(0.6)	0.8
Administrative And Waste Services	33.3	7.5	34.4	7.1	39.1	7.5	41.4	7.5	0.3	2.2	1.4
Educational Services	4.3	1.0	7.6	1.6	9.7	1.9	11.1	2.0	5.8	4.2	3.3
Health Care And Social Assistance	44.9	10.1	62.7	12.9	67.1	12.9	73.6	13.3	3.4	1.2	2.3
Arts, Entertainment, And Recreation	10.9	2.5	11.1	2.3	11.7	2.3	12.3	2.2	0.1	0.9	1.2
Accommodation And Food Services	34.8	7.9	35.9	7.4	40.1	7.7	42.2	7.6	0.3	1.9	1.3
Other Services, Except Public Administration	24.8	5.6	26.2	5.4	29.8	5.7	31.3	5.6	0.5	2.2	1.2
Total Government	80.1	18.1	89.6	18.5	91.8	17.7	97.2	17.5	1.1	0.4	1.5
Federal Civilian Government	9.2	2.1	12.8	2.6	12.9	2.5	13.7	2.5	3.4	0.1	1.5
Federal Military	7.6	1.7	8.7	1.8	8.4	1.6	8.4	1.5	1.2	(0.4)	0.1
State And Local Government	63.3	14.3	68.1	14.1	70.5	13.6	75.1	13.5	0.7	0.6	1.6
TOTAL	442.9	100.0 %	484.0	100.0 %	519.0	100.0 %	554.8	100.0 %	0.9 %	1.2 %	1.7 %
MSA	442.9	—	484.0	—	519.0	—	554.8	—	0.9 %	1.2 %	1.7 %
U.S.	165,370.9	—	173,034.7	—	191,870.8	—	203,418.4	—	0.9	1.7	1.5

Source: Woods & Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county grew at an average annual rate of 0.9%. This trend was on par with the growth rate recorded by the MSA and also lagged the national average. More recently, the pace of total employment growth in the county accelerated to 1.2% on an annual average from 2010 to 2016, reflecting the initial years of the recovery.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2016, increasing by 20,794 people, or 9.7%, and rising from 44.2% to 45.2% of total employment. Of the various service sub-sectors, Health Care And Social Assistance and Accommodation And Food Services were the largest employers. Strong growth was also recorded in the Total Trade sector, as well as the Total Government sector, which expanded by 9.5% and -1.4%, respectively, in the period 2010 to 2016. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.7% on average annually through 2020. The trend is above the forecast rate of change for the U.S. as a whole during the same period.

Radial Demographic Snapshot

The following table reflects radial demographic trends for our market area measured by three points of distance from the subject site.

HVS

FIGURE 3-3 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2022 Projection	12,244	110,504	282,254
2017 Estimate	11,982	108,475	277,356
2010 Census	11,681	106,470	275,209
2000 Census	10,430	99,661	264,969
Growth 2017 - 2022	2.2%	1.9%	1.8%
Growth 2010 - 2017	2.6%	1.9%	0.8%
Growth 2000 - 2010	12.0%	6.8%	3.9%
Households			
2022 Projection	5,697	42,477	114,879
2017 Estimate	5,546	41,324	111,965
2010 Census	5,413	40,277	109,676
2000 Census	4,917	37,662	106,603
Growth 2017 - 2022	2.7%	2.8%	2.6%
Growth 2010 - 2017	2.5%	2.6%	2.1%
Growth 2000 - 2010	10.1%	6.9%	2.9%
Income			
2017 Est. Average Household Income	$45,031	$43,739	$45,461
2017 Est. Median Household Income	27,979	28,930	31,500
2017 Est. Civ. Employed Pop 16+ by Occupation	5,496	45,679	117,483
Architect/Engineer	59	612	1,838
Arts/Entertainment/Sports	204	1,187	2,558
Building Grounds Maintenance	285	3,001	8,044
Business/Financial Operations	107	1,049	2,879
Community/Social Services	145	772	2,017
Computer/Mathematical	157	905	2,265
Construction/Extraction	232	2,681	7,489
Education/Training/Library	618	3,908	8,176
Farming/Fishing/Forestry	13	41	174
Food Prep/Serving	753	5,111	11,522
Health Practitioner/Technician	308	1,875	5,137
Healthcare Support	41	1,056	3,291
Maintenance Repair	118	1,158	3,492
Legal	67	426	874
Life/Physical/Social Science	170	1,167	2,180
Management	474	2,564	6,876
Office/Admin. Support	666	5,773	16,009
Production	124	1,713	4,801
Protective Services	99	1,305	3,038
Sales/Related	479	5,128	13,071
Personal Care/Service	178	2,179	5,675
Transportation/Moving	200	2,067	6,077

Source: The Nielsen Company

This source reports a population of 277,356 within a five-mile radius of the subject site, and 111,965 households within this same radius. Average household income within a five-mile radius of the subject site is currently reported at $45,461, while the median is $31,500.

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

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

Year	Total Employment	% Chg	Office Employment	% Chg	Industrial Employment	% Chg	Households	% Chg	Population	% Chg	Household Avg. Income	% Chg
2004	362,770	—	111,493	—	42,346	—	374,950	—	910,510	—	$71,098	—
2005	371,030	2.3 %	113,590	1.9 %	43,285	2.2 %	384,310	2.5 %	930,980	2.2 %	76,022	6.9 %
2006	383,270	3.3	119,472	5.2	42,585	(1.6)	387,880	0.9	948,930	1.9	81,729	7.5
2007	385,030	0.5	120,920	1.2	43,441	2.0	388,900	0.3	962,260	1.4	85,341	4.4
2008	375,970	(2.4)	118,459	(2.0)	41,683	(4.0)	390,480	0.4	972,110	1.0	86,417	1.3
2009	356,000	(5.3)	114,651	(3.2)	38,196	(8.4)	389,970	(0.1)	978,760	0.7	83,341	(3.6)
2010	353,070	(0.8)	113,539	(1.0)	36,381	(4.8)	390,090	0.0	985,020	0.6	84,182	1.0
2011	357,470	1.2	114,739	1.1	36,157	(0.6)	393,800	1.0	990,680	0.6	86,166	2.4
2012	361,330	1.1	116,210	1.3	36,258	0.3	396,920	0.8	995,020	0.4	89,903	4.3
2013	363,670	0.6	116,683	0.4	35,668	(1.6)	400,880	1.0	1,000,640	0.6	89,741	(0.2)
2014	366,300	0.7	117,579	0.8	35,271	(1.1)	404,990	1.0	1,007,590	0.7	93,718	4.4
2015	373,000	1.8	119,742	1.8	35,867	1.7	411,420	1.6	1,017,700	1.0	94,141	0.5
2016	379,070	1.6	121,587	1.5	36,583	2.0	418,510	1.7	1,033,210	1.5	96,829	2.9
Forecasts												
2017	388,990	*2.6 %*	124,334	*2.3 %*	37,006	*1.2 %*	426,090	*1.8 %*	1,048,500	*1.5 %*	$100,465	*3.8 %*
2018	399,520	*2.7*	127,231	*2.3*	37,899	*2.4*	433,930	*1.8*	1,063,610	*1.4*	104,675	*4.2*
2019	406,260	*1.7*	129,263	*1.6*	38,329	*1.1*	441,760	*1.8*	1,078,610	*1.4*	108,548	*3.7*
2020	407,620	*0.3*	129,784	*0.4*	38,169	*(0.4)*	449,410	*1.7*	1,093,710	*1.4*	111,710	*2.9*
2021	407,570	*(0.0)*	129,965	*0.1*	37,740	*(1.1)*	457,150	*1.7*	1,109,300	*1.4*	114,361	*2.4*
Average Annual Compound Change												
2004 - 2016		0.4 %		0.7 %		(1.2) %		0.9 %		1.1 %		2.6 %
2004 - 2007		2.0		2.7		0.9		1.2		1.9		6.3
2007 - 2010		(2.8)		(2.1)		(5.7)		0.1		0.8		(0.5)
2010 - 2016		1.2		1.1		0.1		1.2		0.8		3.6
Forecast 2017 - 2021		*1.2 %*		*1.1 %*		*0.5 %*		*1.8 %*		*1.4 %*		*3.3 %*

Source: REIS Report, 1st Quarter, 2017

For the Tucson market, of the roughly 400,000 persons employed, 32% are categorized as office employees, while 10% are categorized as industrial employees. Total employment decreased by an average annual compound rate of -2.8% during the recession of 2008 to 2011, followed by an increase of 1.2% from 2011 to 2016. By comparison, office employment reflected compound change rates of -2.1% and 1.1%, during the same respective periods. Total employment is expected to expand by 2.6% in 2017, while office employment is forecast to expand by 2.3% in 2017. From 2016 through 2021, REIS anticipates that total employment will expand at an average annual compound rate of 1.2%, while office employment will expand by 1.1% on average annually during the same period.

The number of households is forecast to expand by 1.8% on average annually between 2016 and 2021. Population is forecast to expand during this same period, at an average annual compounded rate of 1.4%. Household average income is forecast to grow by 3.3% on average annually from 2016 through 2021.

Radial Demographic Snapshot

The following table reflects radial demographic trends for our market area measured by three points of distance from the subject site.

HVS

FIGURE 3-5 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2022 Projection	12,244	110,504	282,254
2017 Estimate	11,982	108,475	277,356
2010 Census	11,681	106,470	275,209
2000 Census	10,430	99,661	264,969
Growth 2017 - 2022	2.2%	1.9%	1.8%
Growth 2010 - 2017	2.6%	1.9%	0.8%
Growth 2000 - 2010	12.0%	6.8%	3.9%
Households			
2022 Projection	5,697	42,477	114,879
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Growth 2010 - 2017	2.5%	2.6%	2.1%
Growth 2000 - 2010	10.1%	6.9%	2.9%
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2017 Est. Median Household Income	27,979	28,930	31,500
2017 Est. Civ. Employed Pop 16+ by Occupation	5,496	45,679	117,483
Architect/Engineer	59	612	1,838
Arts/Entertainment/Sports	204	1,187	2,558
Building Grounds Maintenance	285	3,001	8,044
Business/Financial Operations	107	1,049	2,879
Community/Social Services	145	772	2,017
Computer/Mathematical	157	905	2,265
Construction/Extraction	232	2,681	7,489
Education/Training/Library	618	3,908	8,176
Farming/Fishing/Forestry	13	41	174
Food Prep/Serving	753	5,111	11,522
Health Practitioner/Technician	308	1,875	5,137
Healthcare Support	41	1,056	3,291
Maintenance Repair	118	1,158	3,492
Legal	67	426	874
Life/Physical/Social Science	170	1,167	2,180
Management	474	2,564	6,876
Office/Admin. Support	666	5,773	16,009
Production	124	1,713	4,801
Protective Services	99	1,305	3,038
Sales/Related	479	5,128	13,071
Personal Care/Service	178	2,179	5,675
Transportation/Moving	200	2,067	6,077

Source: The Nielsen Company

This source reports a population of 277,356 within a five-mile radius of the subject site, and 111,965 households within this same radius. Average household income within a five-mile radius of the subject site is currently reported at $45,461, while the median is $31,500.

Unemployment Statistics

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

FIGURE 3-6 UNEMPLOYMENT STATISTICS

Year	County	MSA	State	U.S.
2007	3.7 %	3.7 %	3.9 %	4.6 %
2008	5.8	5.8	6.2	5.8
2009	9.1	9.1	9.9	9.3
2010	9.3(r)	9.3(r)	10.4	9.6
2011	8.5(r)	8.5(r)	9.5	8.9
2012	7.4(r)	7.4(r)	8.3(d)	8.1
2013	6.8(r)	6.8(r)	7.7(d)	7.4
2014	6.0(r)	6.0(r)	6.8(d)	6.2
2015	5.4(r)	5.4(r)	6.0(d)	5.3
2016	4.9(r)	4.9(r)	5.3(d)	4.9
Recent Month - Feb				
2016	4.9 %	4.9 %	5.3 %	4.9 %
2017	4.7	4.7	5.0	4.7

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

After the U.S. unemployment rate declined to an annual average of 4.6% in 2006 and 2007, the Great Recession, which spanned December 2007 through June 2009, resulted in heightened unemployment rates. The unemployment rate peaked at 10.0% in October 2009, after which job growth resumed; the national unemployment rate has steadily declined since 2010. Total nonfarm payroll employment increased by 216,000, 219,000, and 98,000 jobs in January, February, and March, respectively. The strongest gains in March were recorded in the professional and business services and mining sectors. The national unemployment rate remains low, at 4.8% in January, 4.7% in February, and 4.5% in March; it has remained near the 5.0% mark since August 2015, reflecting a trend of relative stability and the overall strength of the U.S. economy.

Locally, the unemployment rate was 4.9(r)% in 2016; for this same area in 2017, the most recent month's unemployment rate was registered at 4.7%, versus 4.9% for the same month in 2016. Unemployment began to rise in 2008 as the region entered an economic slowdown, and this trend continued through 2010 as the height of the national recession took hold. However, unemployment declined in 2011 as the economy rebounded, a trend that continued through 2016. The most recent comparative period illustrates continued improvement, indicated by the lower unemployment rate in the latest available data. Local officials noted that the Tucson metro area is finally gaining economic momentum, and job growth is expected to increase at a faster pace 2017 and 2018. Most new jobs during the next few years are expected to be in the education and health services sector, the leisure and hospitality industry, and the professional and business services, as well as trade, transportation, and utilities. These positive projections are supported by recent expansions at Raytheon Missile Systems and Caterpillar.

Major Business and Industry

Providing additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in the subject property's market.

FIGURE 3-7 MAJOR EMPLOYERS

Rank	Firm	Number of Employees
1	University of Arizona	11,251
2	Raytheon Missile Systems	9,600
3	State of Arizona	8,580
4	Davis-Monthan Air Force Base	8,406
5	Pima County	7,023
6	Tucson Unified School District	6,770
7	Banner Health	6,272
8	U.S. Customs and Border Protection	5,739
9	Freeport-McMoRan, Inc.	5,530
10	Wal-Mart Stores, Inc.	5,500

Source: Pima County Comprehensive Report, 2016

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

- The City of Tucson, Pima County, the State of Arizona, and the private sector have each made commitments to create a growing, healthy economy and to support high-tech industries. Advanced technology companies like Raytheon Missile Systems (RMS), Texas Instruments, IBM, and Universal Avionics all have a significant presence in Tucson. About 150 Tucson companies are in the optics industry, earning Tucson the nickname "Optics Valley." RMS began in Tucson in 1951. Through the defense industry consolidation in the 1990s, the business has grown to offer a wide array of missile systems designed, developed, and produced for the U.S. military services and the allied forces of more than 80 countries. In 2016, Raytheon was awarded a $291-million missile contract from the U.S. Navy. Furthermore, State and County officials broke ground on a new access road near the Tucson International Airport in 2015, which will keep RMS from moving almost 10,000 jobs to Alabama. The $12.7-million Aerospace Parkway will extend five miles between Nogales Highway and Alvernon Way, providing RMS with a bigger buffer from urban development and leaving space for future expansion. It also will allow for other high-tech companies, including Raytheon suppliers, to locate along Aerospace Parkway. Funding for the second phase, a two-lane road connecting Aerospace Parkway and Interstate 10 at Rita Road, is still in the early stages of planning.

- Much of Tucson's economic development has been centered on the development of the University of Arizona, which is currently the second-largest employer in the city. The University of Arizona (UA) was the first university in the state of Arizona, founded in 1885 when Arizona was still a territory, and the institution is considered a Public Ivy. The University of Arizona produces more than $530 million in annual research and is the state's only member of the prestigious Association of American Universities. In January 2015, the Arizona Board of Regents approved a $1-billion merger between Banner Health and the University of Arizona Health Network. Once the merger is complete, Banner Heath committed to spend more than $950 million to buy hospital land, build new clinical sites, and support the UA's medical education programs and faculty recruitment. Furthermore, a recent study indicated that the University of Arizona Science and Technology Park (UA Tech Park) has an annual economic impact of $2.3 billion on Pima County's economy. As one of the largest employment centers in the region, the UA Tech Park includes 45 companies and organizations, including IBM, Raytheon, Citigroup, and United Health, employing nearly 6,500 workers.
- Davis-Monthan Air Force Base (DM), located on the southeastern edge of the city, provides many jobs for Tucson residents. Davis-Monthan, which became a military base in 1925, is a key Air Combat Command installation. Its presence, as well as the presence of a U.S. Army Intelligence Center (Fort Huachuca, the largest employer in the region in nearby Sierra Vista), has led to the development of a significant number of high-tech industries, including government contractors, in the area. In 2015, the Department of Defense announced that the A-10 Thunderbolt fighter jet would be retired, which is considered a fixture for DM; the decision is a result of a series of recent cuts to the defense budget. Nonetheless, the Air Force is expected to vastly expand its

drone program over the next five years by creating five new drone centers. Davis-Monthan Air Force Base is mentioned as a possible site for the expanded drone program. The five new drone operations centers would cost about $1.5 billion to build and are expected to require 400 to 500 pilots and crew personnel at each base.

Although the area's economy is diversified across a multitude of sectors, including a number of healthcare and medical research businesses, the Tucson area has been negatively affected by the loss of Major League Baseball spring training, previous controversy over the state's immigration law, decreasing number of citywide events, the most recent national recession, and the recent sequester. However, local officials have tried to mitigate the impact of Major League Baseball's departure by attracting Major League Soccer spring training to the Tucson area, along with an increased number of amateur, college, and high school softball and soccer tournaments. Moreover, ongoing infrastructure improvements near Raytheon, the ongoing merger of Banner Health and the University of Arizona Health Network, and the recent announcement of Caterpillar's regional headquarters' move to Downtown Tucson bode well for future economic growth in the region. Our interviews with local tourism officials and hotel representatives revealed that the market is beginning to show signs of recovery, albeit at a slower pace than expected; however, marketing campaigns such as "Vamos a Tucson" and "Free Yourself" have been successfully launched in Mexico and the United States.

Office Space Statistics

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

FIGURE 3-8 OFFICE SPACE STATISTICS – MARKET OVERVIEW

	Submarket	Inventory: Buildings	Inventory: Square Feet	Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
1	Eastside	62	2,384,000	1,957,300	17.9 %	$21.99
2	Northwest	78	1,701,000	1,471,400	13.5	22.31
3	**Downtown**	**17**	**1,122,000**	**884,100**	**21.2**	**21.50**
4	Central	26	442,000	335,000	24.2	17.90
	Totals and Averages	**183**	**5,649,000**	**4,647,800**	**17.7 %**	**$21.67**

Source: REIS Report, 1st Quarter, 2017

The greater Tucson market comprises a total of 5.6 million square feet of office space. For the 1st Quarter of 2017, the market reported a vacancy rate of 17.7% and an average asking rent of $21.67. The subject property is located in the Downtown submarket, which houses 1,122,000 square feet of office space. The submarket's vacancy rate of 21.2% is above the overall market average. The average asking lease rate of $21.50 is on par with the average for the broader market.

The following table illustrates a trend of office space statistics for the overall Tucson market and the Downtown submarket.

FIGURE 3-9 HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET VS. SUBMARKET

	Tucson Market							Downtown Submarket						
Year	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2004	5,847,000	—	5,029,000	—	14.0 %	$19.42	—	1,572,000	—	1,342,000	—	14.6 %	$19.00	—
2005	5,823,000	(0.4) %	5,228,000	4.0 %	10.2	19.88	2.4 %	1,572,000	0.0 %	1,357,000	1.1 %	13.7	19.55	2.9 %
2006	5,772,000	(0.9)	5,162,000	(1.3)	10.6	20.67	4.0	1,389,000	(11.6)	1,172,000	(13.6)	15.6	19.92	1.9
2007	5,700,000	(1.2)	5,094,000	(1.3)	10.6	21.49	4.0	1,291,000	(7.1)	1,103,000	(5.9)	14.6	20.87	4.8
2008	5,740,000	0.7	5,031,000	(1.2)	12.4	21.79	1.4	1,291,000	0.0	1,117,000	1.3	13.5	21.36	2.3
2009	5,814,000	1.3	4,968,000	(1.3)	14.6	21.75	(0.2)	1,291,000	0.0	1,119,000	0.2	13.3	21.44	0.4
2010	5,814,000	0.0	4,945,000	(0.5)	14.9	21.21	(2.5)	1,291,000	0.0	1,062,000	(5.1)	17.7	20.63	(3.8)
2011	5,814,000	0.0	4,925,000	(0.4)	15.3	21.50	1.4	1,291,000	0.0	1,024,000	(3.6)	20.7	20.84	1.0
2012	5,814,000	0.0	4,911,000	(0.3)	15.5	21.38	(0.6)	1,291,000	0.0	985,000	(3.8)	23.7	20.89	0.2
2013	5,840,000	0.4	4,886,000	(0.5)	16.3	21.35	(0.1)	1,317,000	2.0	988,000	0.3	25.0	21.05	0.8
2014	5,840,000	0.0	4,809,000	(1.6)	17.7	21.42	0.3	1,317,000	0.0	997,000	0.9	24.3	21.34	1.4
2015	5,860,000	0.3	4,805,000	(0.1)	18.0	21.66	1.1	1,317,000	0.0	1,029,000	3.2	21.9	21.48	0.7
2016	5,649,000	(3.6)	4,647,000	(3.3)	17.7	21.67	0.0	1,122,000	(14.8)	884,000	(14.1)	21.2	21.50	0.1
Forecasts														
2017	5,649,000	*0.0 %*	4,747,000	*2.2 %*	16.0 %	$21.93	*1.2 %*	1,122,000	*0.0 %*	903,000	*2.1 %*	19.6 %	$21.99	*2.3 %*
2018	5,694,000	*0.8*	4,843,000	*2.0*	14.9	22.37	*2.0*	1,132,000	*0.9*	925,000	*2.4*	18.3	22.71	*3.3*
2019	5,759,000	*1.1*	4,964,000	*2.5*	13.8	22.99	*2.8*	1,146,000	*1.2*	953,000	*3.0*	16.9	23.60	*3.9*
2020	5,831,000	*1.3*	5,121,000	*3.2*	12.2	23.52	*2.3*	1,161,000	*1.3*	990,000	*3.9*	14.7	24.45	*3.6*
2021	5,903,000	*1.2*	5,272,000	*2.9*	10.7	24.13	*2.6*	1,175,000	*1.2*	1,026,000	*3.6*	12.7	25.38	*3.8*
Average Annual Compound Change														
2004 - 2016		(0.3) %		(0.7) %			0.9 %		(2.8) %		(3.4) %			1.0 %
2004 - 2007		(0.8)		0.4			3.4		(6.4)		(6.3)			3.2
2007 - 2010		0.7		(1.0)			(0.4)		(0.0)		(1.3)			(0.4)
2010 - 2016		(0.5)		(1.0)			0.4		(2.3)		(3.0)			0.7
Forecast 2017 - 2021		*1.1 %*		*2.1 %*			*2.4 %*		*1.2 %*		*3.2 %*			*3.6 %*

Source: REIS Report, 1st Quarter, 2017

The inventory of office space in the Tucson market contracted at an average annual compound rate of -0.3% from 2004 through 2016, while occupied office space contracted at an average annual rate of -0.7% over the same period. During the period of 2004 through 2008, occupied office space expanded at an average annual compound rate of 0.4%. From 2008 through 2011, occupied office space contracted at an average annual compound rate of -1.0%, reflecting the impact of the recession. The continued market contraction is reflected in the -1.0% average annual change in occupied office space from 2011 to 2016. From 2016 through 2021, the inventory of occupied office space is forecast to increase at an average annual compound rate of 2.1%, with available office space expected to increase 1.1%, thus resulting in an anticipated vacancy rate of 10.7% as of 2021. Tucson is a mid-sized city, which is primarily driven by major entities in government, military, and higher technology, as well as a state university. According to REIS, the greater Tucson market offers over 5.6 million square feet of Class A and B office space, with only 442,000 square feet located in the Downtown submarket due to the region's sprawling nature. The Downtown office submarket realized minimal increases in both demand and average lease rate in 2016, with modest improvements expected over the near term. On a favorable note, Caterpillar's decision to locate its headquarters in Downtown Tucson will bring 600 jobs to the city. REIS expects the firm's 200,000-square-foot office facility to break ground in January 2018.

Convention Activity

A convention center serves as a gauge of visitation trends to a particular market. Convention centers also generate significant levels of demand for area hotels and serve as a focal point for community activity. Typically, hotels within the closest proximity to a convention center—up to three miles away—will benefit the most. Hotels serving as headquarters for an event benefit the most by way of premium rates and hosting related banquet events. During the largest of conventions, peripheral hotels may benefit from compression within the city as a whole.The Tucson Convention Center (TCC) is located in historic Downtown Tucson. The 205,000-square-foot center has three Exhibition Halls (A, B, and C) that can share a total space of 89,760 square feet. The North Exhibition Hall comprises 24,180 square feet. The 21,000-square-foot Grand Ballroom features tiered ceilings with elegant chandeliers, and the Grand Lobby offers 11,236 square feet of multipurpose space. The center's eight meeting rooms range in size from 700 to 1,800 square feet. A courtyard adds space for outdoor activities and leads to the adjacent Leo Rich Theatre and the Music Hall, both of which have large stages and support facilities. According to Convention and Visitors Bureau officials, the convention center is dated and in need of cosmetic upgrades; consequently, bookings and event attendance have reportedly suffered. In 2012, the Tucson Arena at the TCC underwent a $1-million renovation that included a new seating area in Section 100. In 2014 and 2015, an $8-million renovation included new seats, updated concession stands, and new sound and visual aids. Furthermore, the facility underwent a management change in 2014 when SMG overtook the day-to-day operations from the City of Tucson. The shift to a private management company was done in the hopes of reducing the City's costs and generating greater profits.

CONVENTION CENTER

A more detailed analysis of the historical and projected performance of the Tucson Convention Center is located in the Induced Demand Analysis section of the addenda.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

Tucson International Airport (TUS) is serviced by several major commercial airlines; Southwest Airlines is the largest carrier serving the airport. In September 2012, a $19.5-million grant was awarded to the Tucson Airport Authority for the reconstruction of the main terminal apron. Additionally, a $5.7-million grant was awarded for the design and construction of a solar array over the main parking facility. In 2015, the City of Tucson began construction on its Terminal Renovation Improvement Project (TRIP), which is expected to improve passenger flow, optimize space usage, and increase revenues for the airport. While there is no specific timetable for its completion, a number of projects will reportedly be completed in phases, totaling $18 million to $23 million in improvements. In 2014, the Federal Aviation Administration broke ground on a new $26-million air-traffic-control tower at TUS, which opened in late 2016.

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

FIGURE 3-10 AIRPORT STATISTICS - TUCSON INTERNATIONAL AIRPORT

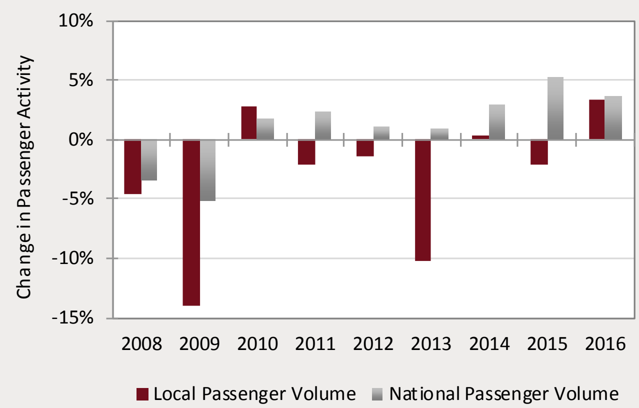
Year	Passenger Traffic	Percent Change*	Percent Change**
2007	4,429,905	—	—
2008	4,225,869	(4.6) %	(4.6) %
2009	3,637,458	(13.9)	(9.4)
2010	3,740,675	2.8	(5.5)
2011	3,658,199	(2.2)	(4.7)
2012	3,605,682	(1.4)	(4.0)
2013	3,237,319	(10.2)	(5.1)
2014	3,247,678	0.3	(4.3)
2015	3,178,210	(2.1)	(4.1)
2016	3,283,243	3.3	(3.3)
Year-to-date, Mar			
2016	1,137,388	—	—
2017	1,210,844	6.5 %	—

*Annual average compounded percentage change from the previous

**Annual average compounded percentage change from first year of

Source: Tucson International Airport

FIGURE 3-11 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND



Source: HVS, Local Airport Authority

This facility recorded 3,283,243 passengers in 2016. The change in passenger traffic between 2015 and 2016 was 3.3%. The average annual change during the period shown was -3.3%. In May 2016, American Airlines announced a nonstop flight to/from New York JFK International Airport starting on October 7. This new route will be the first direct flight to New York since 2008 and is considered the area's initial step toward creating better connectivity to its primary feeder markets in the northeast.

Tourist Attractions

Consistently pleasant weather and a beautiful desert setting continue to make Tucson a popular tourist destination. The peak season for tourism in this area is from January to April. During other times of the year, weekend demand comprises travelers passing through en route to other destinations, people visiting friends or relatives, and other similar weekend demand generators. Primary attractions in the area include the following:

- Reid Park Zoo features over 500 animals across 17 acres and contains two championship golf courses, a nationally recognized tennis center, and Hi Corbett Field. In 2012, the Reid Park Zoo underwent a $9.6-million, seven-acre expansion known as "Expedition Tanzania."
- The Pima Air & Space Museum houses one of the largest aircraft collections in the world, including World War II combat gliders, experimental aircraft, a B-17 "Flying Fortress," and other military and commercial aircraft. In 2013, the newly revamped B-17 bomber museum housed within the Pima Air & Space Museum

reopened. The $2.4-million renovation included a new grand entryway and the addition of 12,000 square feet, including a new 7,500-square-foot mezzanine level.

- The warm climate in Tucson allows for year-round outdoor activities such as hiking, cycling, horseback riding, swimming, tennis, and golf. Tucson is also home to several high-end scenic golf courses and resorts, including the Mountain at Ventana Canyon, the Golf Club at Vistoso, and the Westin La Paloma Golf Course. The city also benefits from yearly events such as the Tour de Tucson and Chrysler Classic of Tucson golf tournament.
- Saguaro National Park in southern Arizona consists of two geographically distinct districts, one east and the other west of Tucson. The park preserves Sonoran Desert landscapes, fauna, and flora, including the giant saguaro cactus. The park offer more than 165 miles of hiking trails between the two districts. In 2016, the park welcomed over 800,000 visitors.

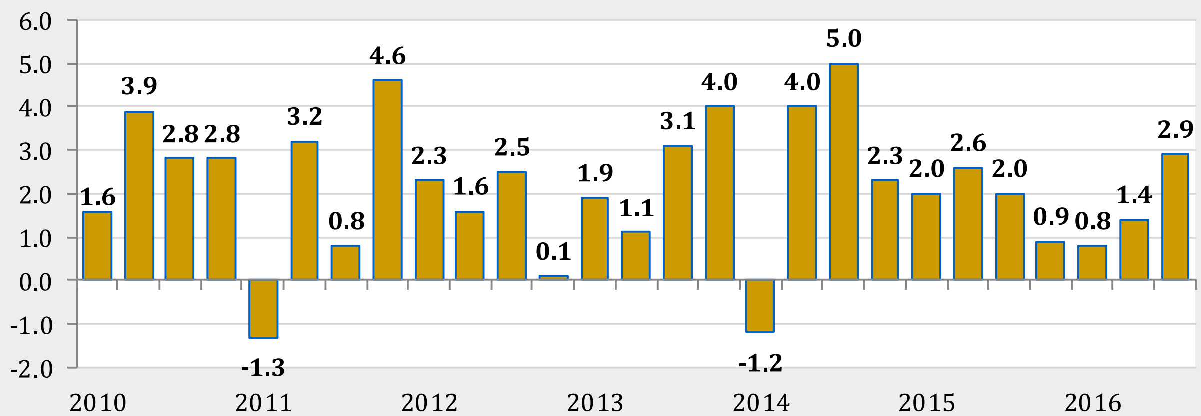
SAGUARO NATIONAL PARK

Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. While slow to recover in recent years, Tucson is beginning to experience steady growth. Our market interviews and research revealed that although the Tucson area lost Major League Baseball spring training as a seasonal demand generator, the stability of the healthcare sector and growth in student enrollment at the University of Arizona have helped support the region. Furthermore, many of the corporations or institutions within this area, such as the University of Arizona, IBM, and Raytheon Missile Systems, are world-renowned entities working with a multitude of clients or partners. The recent announcements of Caterpillar's new regional headquarters and nonstop flights to/from New York further illustrate the market's ongoing resurgence. The overall outlook is optimistic.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy expanded during the last ten quarters, with a relative low point in growth occurring during the fourth quarter of 2015 and the first quarter of 2016. The economy then expanded by 1.4% and 2.9% in the second and third quarters of 2016, respectively. In recent months, increases in personal consumption expenditures, exports, private inventory investment, federal government spending, and nonresidential fixed investment were the primary factors in the net gain.

FIGURE 3-12 UNITED STATES GDP GROWTH RATE



Source: tradingeconomics.com, Bureau of Economic Analysis

U.S. economic growth continues to support expansion of lodging demand; however, demand growth was not as robust in 2016 as in the last several years. As will be reflected in the following chapter, nationwide demand growth just slightly surpassed supply growth in 2016. Nevertheless, the stability in the U.S. economy is maintaining strong interest in hotel investments by a diverse array of market participants.

4. Supply and Demand Analysis

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

Definition of Subject Hotel Market

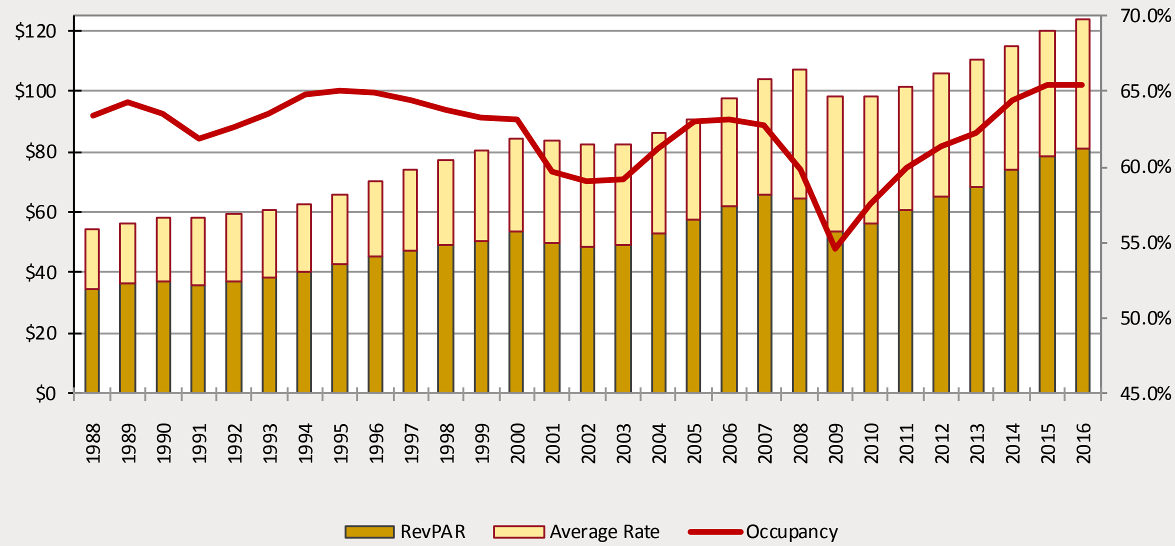
The subject site is located in the greater Tucson lodging market. This greater lodging market spans nearly 150 open and operating lodging facilities totaling almost 16,000 guestrooms. Within this greater market, the direct submarket that will encompass the proposed subject hotel is known as Downtown Tucson. The proposed subject hotel is expected to compete with six hotels on a primary level based on their similar full-service product types and/or national brand affiliations. We have considered an additional hotel as a future secondary competitor given differences in location.

National Trends Overview

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

STR is an independent research firm that compiles and publishes data on the lodging industry, and this information is routinely used by typical hotel buyers. The following STR diagram presents annual hotel occupancy and average rate data since 1987. The next two tables contain information that is more recent; the data are categorized by geographical region, price point, type of location, and chain scale, and the statistics include occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

FIGURE 4-1 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS



Source: STR

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

	Occupancy - YTD February			Average Rate - YTD February			RevPAR - YTD February			Percent Change	
	2016	2017	% Change	2016	2017	% Change	2016	2017	% Change	Rms. Avail.	Rms. Sold
United States	57.5 %	57.4 %	(0.1) %	$119.10	$122.02	2.4 %	$68.44	$70.08	2.4 %	1.9 %	1.8 %
Region											
New England	49.8 %	49.9 %	0.3 %	$124.50	$123.97	(0.4) %	$61.94	$61.86	(0.1) %	1.6 %	1.9 %
Middle Atlantic	53.2	54.0	1.6	134.04	134.10	0.0	71.31	72.47	1.6	3.4	5.0
South Atlantic	61.6	62.3	1.1	122.65	125.74	2.5	75.54	78.32	3.7	1.6	2.7
East North Central	48.7	48.2	(0.9)	94.23	95.78	1.6	45.85	46.17	0.7	1.9	1.0
East South Central	52.3	51.2	(2.2)	87.15	89.53	2.7	45.61	45.82	0.5	1.9	(0.4)
West North Central	47.0	46.2	(1.8)	89.51	90.63	1.3	42.11	41.89	(0.5)	1.5	(0.3)
West South Central	57.8	57.4	(0.6)	98.23	102.08	3.9	56.75	58.64	3.3	3.1	2.6
Mountain	59.6	59.4	(0.3)	122.06	127.35	4.3	72.72	75.65	4.0	1.0	0.7
Pacific	67.5	67.4	(0.2)	153.80	157.19	2.2	103.77	105.90	2.0	1.3	1.2
Class											
Luxury	64.9 %	65.0 %	0.1 %	$279.10	$284.95	2.1 %	$181.18	$185.14	2.2 %	3.0 %	3.1 %
Upper Upscale	65.7	65.7	0.0	172.31	176.40	2.4	113.25	115.97	2.4	1.6	1.6
Upscale	64.8	64.8	0.0	133.10	135.15	1.5	86.30	87.61	1.5	4.1	4.0
Upper Midscale	57.9	57.8	(0.2)	106.72	108.33	1.5	61.82	62.62	1.3	4.0	3.7
Midscale	50.5	50.7	0.4	86.53	87.86	1.5	43.68	44.54	2.0	0.3	0.7
Economy	50.7	50.3	(0.8)	64.29	66.14	2.9	32.61	33.27	2.0	(0.1)	(0.9)
Location											
Urban	64.3 %	64.7 %	0.5 %	$155.17	$159.83	3.0 %	$99.78	$103.34	3.6 %	3.3 %	3.9 %
Suburban	59.4	58.9	(0.9)	102.08	103.98	1.9	60.62	61.20	1.0	1.8	0.9
Airport	67.9	68.2	0.5	111.40	114.38	2.7	75.63	78.02	3.2	1.6	2.1
Interstate	46.5	46.1	(0.7)	77.72	78.91	1.5	36.10	36.41	0.9	1.4	0.7
Resort	64.5	65.1	1.0	181.19	184.92	2.1	116.84	120.42	3.1	1.3	2.3
Small Metro/Town	46.1	46.2	0.2	90.26	92.01	1.9	41.64	42.52	2.1	1.6	1.8
Chain Scale											
Luxury	69.4 %	69.1 %	(0.4) %	$314.85	$323.62	2.8 %	$218.52	$223.62	2.3 %	2.9 %	2.4 %
Upper Upscale	67.7	67.6	(0.1)	173.11	177.02	2.3	117.13	119.71	2.2	1.8	1.8
Upscale	67.2	66.6	(0.9)	132.68	134.62	1.5	89.14	89.62	0.5	6.1	5.1
Upper Midscale	58.0	57.9	(0.2)	104.29	105.72	1.4	60.53	61.22	1.1	3.1	2.9
Midscale	50.0	50.2	0.5	79.45	80.35	1.1	39.69	40.33	1.6	0.7	1.2
Economy	50.2	49.5	(1.4)	55.91	56.98	1.9	28.08	28.21	0.5	0.2	(1.2)
Independents	53.9	54.2	0.5	116.78	120.36	3.1	62.94	65.19	3.6	0.4	0.9

Source: STR - February 2017 Lodging Review

FIGURE 4-3 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – CALENDAR YEAR DATA

	Occupancy			Average Rate			RevPAR			Percent Change	
	2015	2016	% Change	2015	2016	% Change	2015	2016	% Change	Rms. Avail.	Rms. Sold
United States	65.4 %	65.5 %	0.1 %	$120.30	$123.97	3.1 %	$78.68	$81.19	3.2 %	1.6 %	1.7 %
Region											
New England	64.5 %	64.3 %	(0.4) %	$146.41	$150.70	2.9 %	$94.49	$96.89	2.5 %	1.3 %	1.0 %
Middle Atlantic	67.3	67.3	0.0	162.29	163.41	0.7	109.22	109.99	0.7	2.8	2.8
South Atlantic	66.5	67.2	1.1	116.65	119.77	2.7	77.53	80.44	3.8	1.3	1.3
East North Central	61.3	61.2	(0.2)	105.20	108.09	2.7	64.45	66.10	2.6	1.6	1.4
East South Central	61.0	61.4	0.7	90.91	94.87	4.4	55.43	58.26	5.1	1.7	2.5
West North Central	59.6	59.1	(0.8)	93.28	95.91	2.8	55.58	56.68	2.0	1.5	0.7
West South Central	62.9	61.5	(2.3)	98.43	98.66	0.2	61.93	60.63	(2.1)	2.7	0.3
Mountain	65.0	65.5	0.7	108.77	114.24	5.0	70.68	74.79	5.8	0.8	1.5
Pacific	73.2	73.9	0.9	151.10	158.44	4.9	110.57	117.04	5.8	0.9	1.9
Class											
Luxury	70.8 %	71.0 %	0.3 %	$278.39	$283.05	1.7 %	$196.98	$200.95	2.0 %	2.8 %	3.1 %
Upper Upscale	72.7	72.6	(0.1)	173.53	177.77	2.4	126.08	129.07	2.4	1.2	1.2
Upscale	72.0	72.0	0.1	135.70	139.47	2.8	97.72	100.49	2.8	3.9	3.9
Upper Midscale	67.1	67.1	0.0	110.95	113.84	2.6	74.48	76.38	2.6	3.3	3.2
Midscale	59.9	59.9	0.1	90.13	92.61	2.7	53.96	55.50	2.9	0.4	0.6
Economy	58.6	58.6	0.0	67.60	70.17	3.8	39.63	41.13	3.8	(0.4)	(0.4)
Location											
Urban	73.0 %	73.1 %	0.1 %	$173.99	$177.37	1.9 %	$127.04	$129.69	2.1 %	2.9 %	3.0 %
Suburban	66.7	66.8	0.2	101.91	105.70	3.7	67.97	70.63	3.9	1.4	1.6
Airport	73.6	73.4	(0.2)	109.78	113.56	3.4	80.78	83.40	3.3	1.0	0.8
Interstate	57.2	56.6	(1.1)	81.35	83.04	2.1	46.53	46.97	0.9	1.5	0.4
Resort	67.9	68.6	0.9	164.10	168.76	2.8	111.51	115.76	3.8	0.9	1.8
Small Metro/Town	56.9	56.9	0.1	96.63	99.45	2.9	54.95	56.64	3.1	1.4	1.5
Chain Scale											
Luxury	75.2 %	74.9 %	(0.3) %	$317.58	$322.84	1.7 %	$238.70	$241.82	1.3 %	2.8 %	2.4 %
Upper Upscale	74.3	74.2	(0.2)	174.98	178.82	2.2	130.08	132.63	2.0	1.6	1.4
Upscale	74.3	73.8	(0.6)	134.82	138.50	2.7	100.13	102.27	2.1	5.6	5.0
Upper Midscale	67.5	67.4	(0.2)	108.75	111.43	2.5	73.46	75.14	2.3	2.1	1.9
Midscale	59.4	59.4	(0.1)	83.32	85.43	2.5	49.52	50.74	2.5	1.2	1.1
Economy	58.1	57.9	(0.4)	58.82	60.84	3.4	34.16	35.20	3.1	0.3	(0.1)
Independents	61.8	62.3	0.8	118.73	123.22	3.8	73.36	76.75	4.6	0.2	1.0

Source: STR - December 2016 Lodging Review

Following the significant RevPAR decline experienced during the last recession, demand growth resumed in 2010, led by select markets that had recorded growth trends in the fourth quarter of 2009. A return of business travel and some group activity contributed to these positive trends. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half of 2010. These discounting policies were largely phased out in the latter half of the year, balancing much of the early rate loss. Demand growth remained strong, but decelerated from 2011 through 2013, increasing at rates of 4.7%, 2.8%, and 2.0%, respectively. Demand growth then surged to 4.0% in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors. By 2014, occupancy had surpassed the 64% mark. Average rate rebounded similarly during this time, bracketing 4.0% annual gains from 2011 through 2014.

In 2015, demand growth continued to outpace supply growth, a relationship that has been in place since 2010. With a 2.9% increase in room-nights, the nation's occupancy level reached a record high 65.4% in 2015. Supply growth intensified, but remained at 1.1%, following annual supply growth levels of 0.7% and 0.9% of 2013 and 2014, respectively. Average rate posted another strong year of growth, at 4.4% in 2015, in pace with the annual growth of the last four years. Robust job growth, intensified group and leisure travel, and waning price-sensitivity all contributed to the gains. In 2016, occupancy moved slightly higher (by 0.1 percentage point) to 65.5%, as demand growth slightly exceeded supply growth. Average rate increased 3.1% for the year, and the net change in RevPAR was 3.2%, reflecting a healthy lodging market overall. Year-to-date February 2017 data illustrate that occupancy decreased 0.1 of a point, while average rate increased by nearly $3.00, resulting in RevPAR growth of 2.4% thus far in 2017.

Historical Supply and Demand Data

As previously noted, STR is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. HVS has ordered and analyzed an STR Trend Report of historical supply and demand data for a group of hotels considered applicable to this analysis for the proposed subject hotel. This information is presented in the following table, along with the market-wide occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

FIGURE 4-4 HISTORICAL SUPPLY AND DEMAND TRENDS

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2005	1,788	652,620	—	481,528	—	73.8 %	$96.00	—	$70.83	—
2006	1,788	652,620	0.0 %	511,042	6.1 %	78.3	100.66	4.8 %	78.82	11.3 %
2007	1,788	652,620	0.0	467,599	(8.5)	71.6	110.63	9.9	79.27	0.6
2008	1,788	652,620	0.0	427,633	(8.5)	65.5	111.63	0.9	73.15	(7.7)
2009	1,788	652,620	0.0	406,840	(4.9)	62.3	101.54	(9.0)	63.30	(13.5)
2010	1,785	651,396	(0.2)	432,269	6.3	66.4	97.65	(3.8)	64.80	2.4
2011	1,780	649,700	(0.3)	426,237	(1.4)	65.6	94.97	(2.7)	62.31	(3.8)
2012	1,667	608,450	(6.3)	403,335	(5.4)	66.3	94.28	(0.7)	62.50	0.3
2013	1,746	637,300	4.7	414,087	2.7	65.0	95.38	1.2	61.97	(0.8)
2014	1,784	651,160	2.2	424,453	2.5	65.2	96.99	1.7	63.22	2.0
2015	1,784	651,160	0.0	433,329	2.1	66.5	99.06	2.1	65.92	4.3
2016	1,784	651,160	0.0	433,771	0.1	66.6	102.55	3.5	68.32	3.6
Year-to-Date Through March										
2016	1,784	160,560	—	130,483	—	81.3 %	$119.08	—	$96.77	—
2017	1,784	160,560	0.0 %	126,531	(3.0) %	78.8	125.42	5.3 %	98.84	2.1 %
Average Annual Compounded Change:										
2005 - 2016			(0.0) %		(0.9) %			0.6 %		(0.3) %
2005 - 2007			0.0		(1.5)			7.4		5.8
2007 - 2010			(0.1)		(2.6)			(4.1)		(6.5)
2010 - 2016			(0.0)		0.1			0.8		0.9

Hotels Included in Sample	Competitive Status	Number of Rooms	Year Affiliated	Year Opened	Comments
Hilton Tucson East	*Primary*	232	Upper Upscale Class	Feb 1987	
Radisson Suites Tucson	*Not Competitive*	299	Upscale Class	Dec 1985	
Doubletree Tucson @ Reid Park	*Primary*	287	Upscale Class	Nov 1974	
DoubleTree Suites Tucson Williams Center	*Primary*	142	Upscale Class	Jun 1975	*Converted from Embassy Suites in July 2015
Sheraton Hotel & Suites Tucson	*Primary*	216	Upper Upscale Class	Jun 1985	
Tucson Hotel	*Primary*	250	Midscale Class	Dec 1996	*Converted from Marriott in March 2017
aloft Hotel Tucson University	*Primary*	154	Upscale Class	Jun 1971	*Converted to Aloft in April 2013
DoubleTree Tucson Airport	*Secondary*	204	Upscale Class	Jan 1982	
	Total	**1,784**			

Source: STR

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample; furthermore, not every property reports data in a consistent and timely manner. These factors can influence the overall quality of the information by skewing the results, and these inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel in the previous table.

The STR data for the competitive set reflect a market-wide occupancy level of 2016 in 66.6%, which compares to 66.5% for 2015. The overall average occupancy level for the calendar years presented equates to 65.9%. The STR data for the competitive set reflect a market-wide average rate level of $102.55 in 2016, which compares to $99.06 For 2015. The average across all calendar years presented for average rate equates to $97.26. These occupancy and average rate trends resulted in a RevPAR level of $68.32 in 2016.

RevPAR first peaked for this selected set of competitive hotels in 2007, resulting in a RevPAR of nearly $80, before declining to a low point of roughly $63 by year-end 2009 because of the recession. A delayed recovery was generally experienced from 2010 through 2013, with year-over-year RevPAR fluctuations. The delayed ramp-up was largely due to group cancelations following the attempted passage of SB 1070 in 2010 and the federal government sequester in 2013. However, both occupancy and rate grew in 2014, largely driven by upticks in leisure travel during the peak spring months. This trend continued through 2016, as hotel managers in the area reported fewer cancelations in the group segment, which contributed to the overall strengthening.

Year-to-date data illustrate continued strengthening in overall RevPAR, led by stronger average rate growth. This positive trend illustrates that the market is continuing to strengthen, which was confirmed by our market interviews, indicating less rate-resistance by travelers in the year-to-date period over the prior year. The outlook for the remaining months of 2017 is positive as the local economy continues to strengthen.

Seasonality

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

FIGURE 4-5 MONTHLY OCCUPANCY TRENDS

Month	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
January	73.3 %	75.6 %	77.4 %	64.9 %	60.4 %	65.9 %	64.2 %	64.7 %	66.7 %	63.2 %	66.6 %	73.8 %	66.2 %
February	86.1	88.0	85.0	78.9	73.0	76.4	76.6	80.8	82.2	80.5	84.3	82.2	84.2
March	89.7	91.0	89.2	78.7	72.3	81.5	76.2	80.1	83.0	79.9	85.5	87.9	86.5
April	80.0	80.7	78.2	72.0	69.1	72.2	72.2	69.3	72.2	70.3	69.1	73.6	—
May	71.1	78.8	72.8	66.2	64.8	63.8	63.4	69.3	62.5	62.8	64.5	63.1	—
June	76.4	75.6	76.0	70.7	64.8	64.0	68.8	65.9	59.1	61.6	66.0	61.9	—
July	67.9	72.6	68.0	57.9	57.3	63.2	58.3	54.9	54.7	65.6	58.4	59.3	—
August	62.5	81.3	64.0	62.0	56.7	61.7	60.4	61.6	63.4	61.5	60.3	61.7	—
September	65.5	74.0	62.5	55.4	53.4	60.7	64.2	58.0	54.3	51.3	57.5	58.7	—
October	76.0	80.4	70.6	69.8	66.0	69.5	67.9	68.7	59.0	64.5	66.4	62.7	—
November	74.1	78.4	65.3	56.0	58.3	62.5	61.1	63.5	68.2	61.7	63.2	60.2	—
December	64.0	63.8	51.9	54.7	53.1	55.7	55.1	57.6	59.0	60.4	58.3	55.5	—
Annual Occupancy	**73.8 %**	**78.3 %**	**71.6 %**	**65.5 %**	**62.3 %**	**66.4 %**	**65.6 %**	**66.3 %**	**65.0 %**	**65.2 %**	**66.5 %**	**66.6 %**	**—**

Source: STR

FIGURE 4-6 MONTHLY AVERAGE RATE TRENDS

Month	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
January	$103.63	$114.85	$133.28	$124.73	$115.01	$104.90	$106.17	$102.51	$103.00	$100.33	$101.22	$111.86	$124.49
February	131.26	137.17	155.39	153.31	136.04	125.35	118.65	111.46	125.37	125.92	130.36	133.17	136.86
March	118.80	124.77	137.45	135.52	120.87	113.02	113.45	105.92	105.84	110.72	111.77	113.22	116.08
April	102.20	103.66	108.03	118.81	106.66	104.95	98.72	98.47	97.59	101.82	99.88	100.71	—
May	87.40	93.96	98.25	112.30	96.71	97.23	97.82	94.01	95.42	95.81	99.22	98.47	—
June	74.84	78.59	86.01	83.63	79.21	79.73	76.31	75.55	77.91	80.76	81.92	86.56	—
July	71.43	71.81	80.76	80.79	76.43	75.53	74.86	75.15	75.51	76.51	77.72	80.04	—
August	77.25	79.56	87.19	85.73	83.12	81.67	81.11	80.66	83.45	85.29	91.01	92.73	—
September	89.06	92.44	97.89	102.18	94.99	95.09	92.86	89.89	91.58	91.03	92.54	95.86	—
October	98.90	104.47	113.47	117.75	106.37	102.04	94.03	101.17	99.54	102.87	106.68	111.75	—
November	94.98	102.77	110.56	106.58	100.02	93.59	92.74	94.33	93.90	98.92	94.40	100.40	—
December	87.89	95.43	99.75	100.90	91.55	87.82	83.58	87.80	85.96	83.20	86.78	90.27	—
Annual Average Rate	**$96.00**	**$100.66**	**$110.63**	**$111.63**	**$101.54**	**$97.65**	**$94.97**	**$94.28**	**$95.38**	**$96.99**	**$99.06**	**$102.55**	**—**

Source: STR

FIGURE 4-7 SEASONALITY

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
High Season - February, March													
Occupancy	88.0 %	89.6 %	87.2 %	78.8 %	72.6 %	79.1 %	76.4 %	80.4 %	82.6 %	80.2 %	84.9 %	85.2 %	85.4 %
Average Rate	$124.58	$130.55	$145.75	$143.97	$128.11	$118.68	$115.93	$108.56	$115.05	$117.96	$120.53	$122.36	$125.80
RevPAR	109.66	117.01	127.12	113.45	93.00	93.83	88.56	87.28	95.06	94.61	102.37	104.25	107.46
Shoulder Season - January, April, May, October													
Occupancy	75.1 %	78.9 %	74.7 %	68.2 %	65.0 %	67.8 %	66.9 %	67.9 %	65.0 %	65.1 %	66.6 %	68.2 %	
Average Rate	$98.18	$104.13	$113.52	$118.37	$106.04	$102.36	$99.11	$99.06	$98.81	$100.26	$101.77	$105.78	
RevPAR	73.70	82.15	84.82	80.75	68.96	69.39	66.31	67.25	64.22	65.31	67.80	72.19	
Low Season - June, July, August, September, November, December													
Occupancy	68.3 %	74.3 %	64.6 %	59.4 %	57.2 %	61.3 %	61.3 %	60.2 %	59.8 %	60.4 %	60.6 %	59.5 %	
Average Rate	$82.52	$86.55	$93.10	$92.61	$87.23	$85.37	$83.52	$83.87	$84.91	$85.65	$87.35	$90.93	
RevPAR	56.39	64.27	60.11	55.04	49.92	52.32	51.16	50.51	50.75	51.71	52.90	54.13	

Source: Smith Travel Research

The illustrated monthly occupancy and average rates patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate. The peak season for Tucson extends from late February through April. During this time, the number of scheduled events throughout the area spikes, drawing thousands of travelers to the area. The month of May and the fall months represent shoulder periods, but still attract strong levels of visitation given the favorable climate. The hot summer months and the cooler period from December through early January are considered the area's off-seasons. During the off-season, weekend occupancy can still remain high; however, hotel operators typically offer significant rate discounts and group incentives to attract travelers.

Patterns of Demand

A review of the trends in occupancy and average rate by day of the week provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by STR, are illustrated in the following table(s).

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FIGURE 4-8 OCCUPANCY BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Nov - 15	45.9 %	66.7 %	72.2 %	75.7 %	68.5 %	77.8 %	78.2 %	68.4 %
Dec - 15	29.9	40.7	46.1	47.0	50.2	53.0	56.0	46.3
Jan - 16	32.2	51.4	61.8	66.1	53.8	53.3	57.5	53.2
Feb - 16	45.4	49.5	64.6	75.5	71.8	60.4	69.1	61.9
Mar - 16	35.6	54.0	64.3	62.2	56.6	64.1	61.1	57.3
Apr - 16	37.1	55.8	66.0	71.3	66.4	69.5	70.3	62.8
May - 16	50.3	58.3	72.6	82.4	80.4	81.1	78.1	70.8
Jun - 16	49.0	67.7	77.5	75.7	60.3	62.6	66.3	65.7
Jul - 16	39.4	50.2	58.7	62.3	58.7	55.9	63.9	55.3
Aug - 16	42.4	45.3	54.0	56.0	56.9	64.1	72.1	55.4
Sep - 16	51.0	63.0	77.3	81.1	69.6	68.6	74.5	69.3
Oct - 16	39.6	53.8	81.8	91.8	79.6	63.9	66.0	66.6
Average	**41.5 %**	**54.7 %**	**66.0 %**	**70.0 %**	**64.1 %**	**64.3 %**	**67.5 %**	**61.1 %**

Source: STR

FIGURE 4-9 AVERAGE RATE BY DAY OF WEEK (TRAILING 12 MONTHS)

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Nov - 15	$144.18	$161.17	$166.45	$163.17	$152.25	$137.01	$139.02	$152.08
Dec - 15	125.78	139.40	145.36	147.31	146.34	127.43	124.73	137.67
Jan - 16	131.95	150.75	154.54	154.45	142.09	122.99	119.84	139.05
Feb - 16	135.02	144.84	152.56	151.59	148.49	126.13	131.95	142.17
Mar - 16	136.95	159.63	157.92	149.19	140.81	125.16	122.70	142.61
Apr - 16	139.08	149.68	156.98	158.24	153.88	133.59	131.96	145.49
May - 16	134.98	148.57	154.55	155.26	153.14	141.16	131.09	146.09
Jun - 16	145.31	155.45	155.54	154.03	148.77	132.43	131.52	147.02
Jul - 16	132.51	141.55	146.62	143.53	136.14	125.86	127.48	135.57
Aug - 16	134.48	140.18	145.26	141.84	140.27	136.34	135.27	139.30
Sep - 16	138.64	154.95	162.27	162.80	153.12	141.24	140.24	150.99
Oct - 16	150.88	162.09	176.02	177.20	174.64	153.39	145.95	164.18
Average	**$138.22**	**$151.71**	**$157.11**	**$155.99**	**$150.35**	**$134.22**	**$132.44**	**$146.06**

Source: STR

FIGURE 4-10 OCCUPANCY, AVERAGE RATE, AND REVPAR BY DAY OF WEEK (MULTIPLE YEARS)

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Nov 13 - Oct 14	52.2 %	67.5 %	78.9 %	80.1 %	73.5 %	75.9 %	80.3 %	72.6 %
Nov 14 - Oct 15	50.8	60.9	70.8	74.0	66.0	69.4	75.1	66.7
Nov 15 - Oct 16	41.5	54.7	66.0	70.0	64.1	64.3	67.5	61.1
Change (Occupancy Points)								
FY 15 - FY 16	(1.4)	(6.6)	(8.1)	(6.2)	(7.5)	(6.5)	(5.2)	(5.9)
FY 16 - FY 17	(9.3)	(6.2)	(4.8)	(4.0)	(1.8)	(5.0)	(7.6)	(5.6)

ADR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Nov 13 - Oct 14	$135.76	$149.88	$156.11	$155.74	$148.60	$130.94	$130.85	$144.26
Nov 14 - Oct 15	141.87	155.70	160.88	160.84	152.77	135.41	136.70	149.27
Nov 15 - Oct 16	138.22	151.71	157.11	155.99	150.35	134.22	132.44	146.06
Change (Dollars)								
FY 15 - FY 16	$6.11	$5.82	$4.78	$5.10	$4.16	$4.47	$5.85	$5.01
FY 16 - FY 17	(3.65)	(3.99)	(3.78)	(4.85)	(2.42)	(1.19)	(4.27)	(3.21)
Change (Percent)								
FY 15 - FY 16	4.5 %	3.9 %	3.1 %	3.3 %	2.8 %	3.4 %	4.5 %	3.5 %
FY 16 - FY 17	(2.6)	(2.6)	(2.3)	(3.0)	(1.6)	(0.9)	(3.1)	(2.2)

RevPAR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Nov 13 - Oct 14	$70.81	$101.12	$123.09	$124.81	$109.26	$99.39	$105.03	$104.77
Nov 14 - Oct 15	72.01	94.77	113.87	118.99	100.79	93.92	102.64	99.58
Nov 15 - Oct 16	57.30	82.99	103.72	109.21	96.44	86.35	89.37	89.22
Change (Dollars)								
FY 15 - FY 16	$1.20	($6.35)	($9.22)	($5.82)	($8.47)	($5.47)	($2.39)	($5.19)
FY 16 - FY 17	(14.71)	(11.78)	(10.15)	(9.77)	(4.36)	(7.57)	(13.27)	(10.36)
Change (Percent)								
FY 15 - FY 16	1.7 %	(6.3) %	(7.5) %	(4.7) %	(7.7) %	(5.5) %	(2.3) %	(5.0) %
FY 16 - FY 17	(20.4)	(12.4)	(8.9)	(8.2)	(4.3)	(8.1)	(12.9)	(10.4)

Source: STR

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights.

HVS

SUPPLY

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are expected to be primarily competitive with the proposed subject hotel. If applicable, additional lodging facilities may be judged only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primary competitive supply, they are expected to compete with the proposed subject hotel to some extent.

Primary Competitiors

The following table summarizes the important operating characteristics of the future primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, online resources, and our in-house database of operating and hotel facility data.

FIGURE 4-11 PRIMARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2015				Estimated 2016					
Property	Number of Rooms	Commercial/Government	Meeting and Group	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
DoubleTree Suites by Hilton Tucson Williams Center	142	50 %	30 %	20 %	142	50 - 55 %	$105 - $110	$55 - $60	142	60 - 65 %	$110 - $115	$70 - $75	90 - 95 %	95 - 100 %
DoubleTree by Hilton Tucson Reid Park	287	50	25	25	287	70 - 75	90 - 95	65 - 70	287	75 - 80	95 - 100	70 - 75	100 - 110	95 - 100
Tucson University Park Hotel	250	40	30	30	250	75 - 80	130 - 140	100 - 105	251	75 - 80	130 - 140	105 - 110	110 - 120	140 - 150
Hilton Tucson East	232	55	25	20	232	65 - 70	85 - 90	60 - 65	232	70 - 75	85 - 90	60 - 65	100 - 110	85 - 90
Sheraton Hotel & Suites Tucson	216	40	30	30	216	60 - 65	80 - 85	50 - 55	216	55 - 60	85 - 90	45 - 50	75 - 80	65 - 70
Aloft Tucson University	154	45	20	35	154	70 - 75	120 - 125	85 - 90	154	70 - 75	125 - 130	90 - 95	100 - 110	120 - 130
Sub-Totals/Averages	**1,281**	**47 %**	**27 %**	**27 %**	**1,281**	**69.8 %**	**$104.14**	**$72.66**	**1,282**	**71.4 %**	**$107.13**	**$76.54**	**101.0 %**	**102.4 %**
Secondary Competitors	503	50 %	15 %	35 %	163	58.0 %	$93.00	$53.94	163	65.0 %	$93.00	$60.45	91.9 %	80.9 %
Totals/Averages	**1,784**	**47 %**	**25 %**	**27 %**	**1,444**	**68.4 %**	**$103.07**	**$70.54**	**1,445**	**70.7 %**	**$105.66**	**$74.72**	**100.0 %**	**100.0 %**

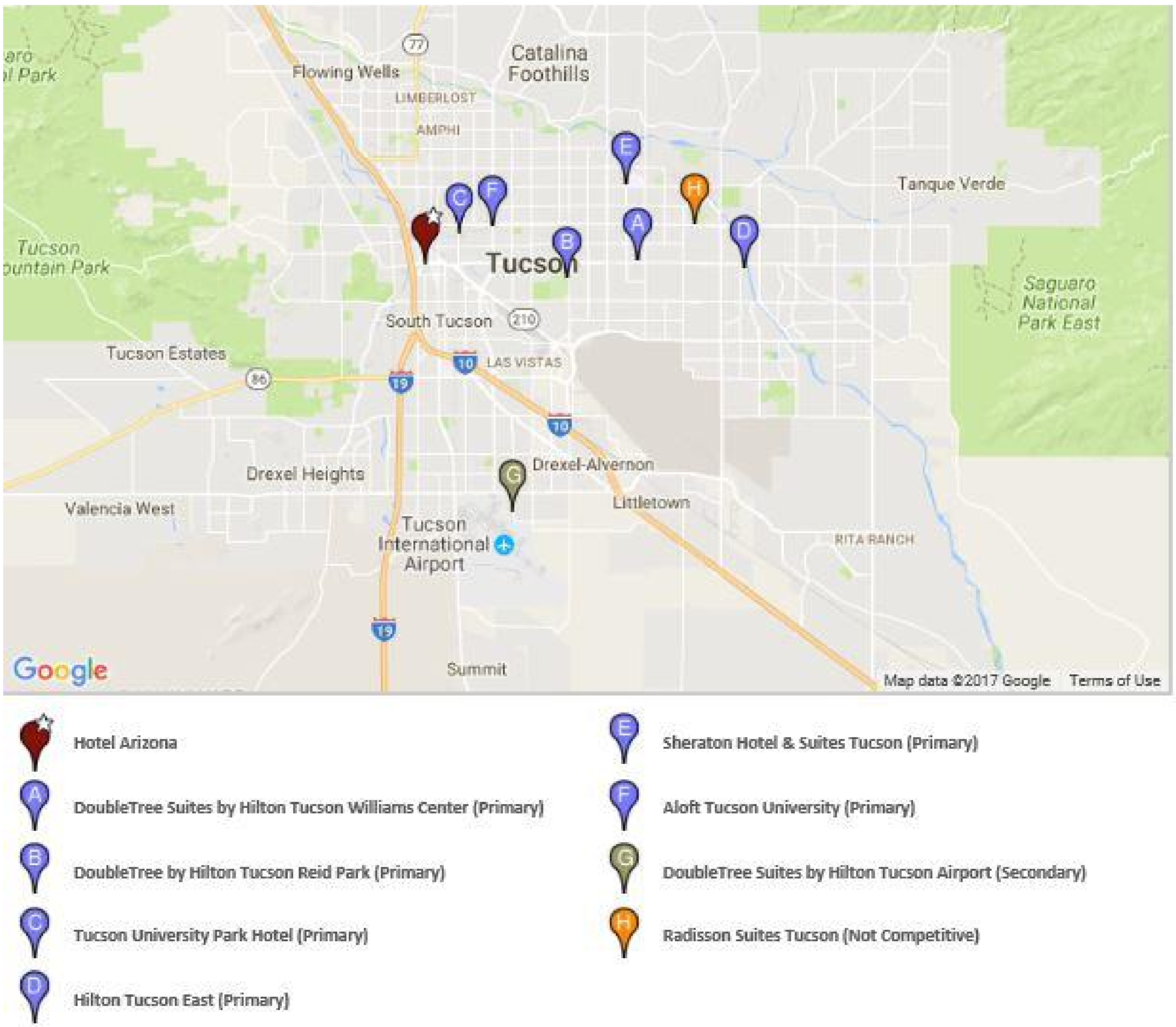
** Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.*

FIGURE 4-12 PRIMARY COMPETITORS – FACILITY PROFILES

Property	Number of Rooms	Year Opened	Last Major Renovation(s)	Approx. Miles To Subject Property	Food and Beverage Outlets	Indoor Meeting Space (SF)	Meeting Space per Room	Facilities & Amenities
DoubleTree Suites by Hilton Tucson Williams Center 5335 East Broadway Boulevard	142	1975	2015	5.5	Los Arboles Bar & Grill	1,800	12.7	Outdoor Swimming Pool; Outdoor Whirlpool; Fitness Room; Lobby Workstations; Market Pantry; Vending Area(s);
DoubleTree by Hilton Tucson Reid Park 445 South Alvernon Way	287	1974	—	3.7	Cactus Rose; Javelina Cantina; Lobby Bar	17,685	61.6	Gift Shop; Outdoor Swimming Pool; Tennis Court(s); Fitness Room; Hair Salon; Lobby Workstation; Vending Area(s); Outdoor Whirlpool
Tucson University Park Hotel 880 East 2nd Street	250	1996	—	1.2	Saguaro Grill; Sedona Lounge	24,000	96.0	Outdoor Swimming Pool; Outdoor Whirlpool; Fitness Room; Business Center; Market Pantry; Vending Area(s);
Hilton Tucson East 7600 East Broadway	232	1987	2017	8.3	Vistas Bar and Grill	10,743	46.3	Business Center; Guest Laundry Area; Gift Shop; Outdoor Swimming Pool; Fitness Room; Vending Area(s)
Sheraton Hotel & Suites Tucson 5151 East Grant Road	216	1985	2016/17	5.6	Fire + Spice; Coffee Shop	14,164	65.6	Outdoor Swimming Pool; Fitness Room; Lobby Workstation; Market Pantry; Vending Area(s); Outdoor Patio & Fire Pit; Outdoor Whirlpool
Aloft Tucson University 1900 East Speedway Boulevard	154	1971	2012/13	2.0	w xyz bar; re:fuel	1,200	7.8	Business Center; Guest Laundry Area; Room Service; Outdoor Swimming Pool; Indoor Whirlpool; Fitness Room; Outdoor Whirlpool

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

MAP OF COMPETITION



Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities. Each primary competitor was inspected and evaluated. Descriptions of our findings are presented below.

PRIMARY COMPETITOR #1 - DOUBLETREE SUITES BY HILTON TUCSON WILLIAMS CENTER

DoubleTree Suites by Hilton Tucson Williams Center
5335 East Broadway Boulevard
Tucson, AZ

FIGURE 4-13 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	142	65 - 70 %	$105 - $110	$65 - $70	95 - 100 %	100 - 110 %
Est. 2015	142	50 - 55	105 - 110	55 - 60	75 - 80	80 - 85
Est. 2016	142	60 - 65	110 - 115	70 - 75	90 - 95	95 - 100

This hotel benefits from its recent property-wide renovations and Williams Center location near several corporate entities. Overall, the property appeared to be in very good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Hotel Arizona.

PRIMARY COMPETITOR #2 - DOUBLETREE BY HILTON TUCSON REID PARK

DoubleTree by Hilton Tucson Reid Park
445 South Alvernon Way
Tucson, AZ

FIGURE 4-14 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	287	65 - 70 %	$90 - $95	$65 - $70	100 - 110 %	95 - 100 %
Est. 2015	287	70 - 75	90 - 95	65 - 70	100 - 110	95 - 100
Est. 2016	287	75 - 80	95 - 100	70 - 75	100 - 110	95 - 100

This hotel benefits from its strong Hilton brand affiliation, but is somewhat disadvantaged by its lack of recent property-wide renovations. Overall, the property appeared to be in good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Hotel Arizona.

PRIMARY COMPETITOR #3 - TUCSON UNIVERSITY PARK HOTEL

Tucson University Park Hotel
880 East 2nd Street
Tucson, AZ

FIGURE 4-15 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	250	75 - 80 %	$125 - $130	$95 - $100	110 - 120 %	140 - 150 %
Est. 2015	250	75 - 80	130 - 140	100 - 105	110 - 120	140 - 150
Est. 2016	251	75 - 80	130 - 140	105 - 110	110 - 120	140 - 150

This hotel benefits from its adjacent location to the University of Arizona, but is somewhat disadvantaged by its lack of a nationally recognized brand affiliation. Overall, the property appeared to be in good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Hotel Arizona.

PRIMARY COMPETITOR #4 - HILTON TUCSON EAST

Hilton Tucson East
7600 East Broadway
Tucson, AZ

FIGURE 4-16 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	232	65 - 70 %	\$85 - \$90	\$55 - \$60	95 - 100 %	80 - 85 %
Est. 2015	232	65 - 70	85 - 90	60 - 65	100 - 110	80 - 85
Est. 2016	232	70 - 75	85 - 90	60 - 65	100 - 110	85 - 90

This hotel benefits from its strong Hilton brand affiliation and ongoing property-wide renovations. Overall, the property appeared to be in good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Hotel Arizona.

PRIMARY COMPETITOR #5 - SHERATON HOTEL & SUITES TUCSON

Sheraton Hotel & Suites Tucson
5151 East Grant Road
Tucson, AZ

FIGURE 4-17 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	216	60 - 65 %	$80 - $85	$45 - $50	90 - 95 %	70 - 75 %
Est. 2015	216	60 - 65	80 - 85	50 - 55	90 - 95	75 - 80
Est. 2016	216	55 - 60	85 - 90	45 - 50	75 - 80	65 - 70

This hotel benefits from its strong Marriott brand affiliation and recent guestroom renovations. Overall, the property appeared to be in very good condition. Its accessibility is similar to the accessibility attributes of the subject site, while its visibility is similar to the expected visibility of the Hotel Arizona.

PRIMARY COMPETITOR #6 - ALOFT TUCSON UNIVERSITY

Aloft Tucson University
1900 East Speedway Boulevard
Tucson, AZ

FIGURE 4-18 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2014	154	65 - 70 %	$115 - $120	$80 - $85	100 - 110 %	110 - 120 %
Est. 2015	154	70 - 75	120 - 125	85 - 90	100 - 110	120 - 130
Est. 2016	154	70 - 75	125 - 130	90 - 95	100 - 110	120 - 130

This hotel benefits from its adjacent location to the University of Arizona and strong Marriott brand affiliation. Overall, the property appeared to be in very good condition. Its accessibility is similar to the accessibility attributes of the subject site, while its visibility is similar to the expected visibility of the Hotel Arizona.

Secondary Competitors

We have also reviewed other area lodging facilities to determine whether any may compete with the proposed subject hotel on a secondary basis. The room count of each secondary competitor has been weighted based on its assumed degree of competitiveness in the future with the proposed subject hotel. By assigning degrees of competitiveness, we can assess how the proposed subject hotel and its future competitors may react to various changes in the market, including new supply, changes to demand generators, and renovations or franchise changes of existing supply. The following table sets forth the pertinent operating characteristics of the secondary competitors.

FIGURE 4-19 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE

		Est. Segmentation				Estimated 2015				Estimated 2016			
Property	Number of Rooms	Commercial/Government	Meeting and Group	Leisure	Total Competitive Level	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
DoubleTree Suites by Hilton Tucson Airport	204	50	15	35	80	163	55 - 60	90 - 95	50 - 55	163	60 - 65	90 - 95	60 - 65
Radisson Suites Tucson	299	30	40	30	0	0	55 - 60	75 - 80	40 - 45	0	45 - 50	80 - 85	35 - 40
Totals/Averages	**503**	**50 %**	**15 %**	**35 %**	**32 %**	**163**	**58.0 %**	**$93.00**	**$53.94**	**163**	**65.0 %**	**$93.00**	**$60.45**

** Specific occupancy and average rate data was utilized in our analysis, but is presented in ranges in the above table for the purposes of confidentiality.*

We have identified one hotel that is expected to compete with the proposed subject hotel on a secondary level. The DoubleTree Suites by Hilton Tucson Airport is anticipated to be competitive based on its shared DoubleTree by Hilton brand affiliation; however, this hotel has been weighted secondarily competitive given its location in the airport submarket. We note that the Radisson Suites Tucson has been excluded from our analysis given its midscale brand affiliation and lower price point.

Supply Changes

It is important to consider any new hotels that may have an impact on the proposed subject hotel's operating performance. The following chart sets forth the hotels that have recently opened, are under construction, or are in the stages of early development in the Tucson area. The list is categorized by the principal submarkets within the city.

FIGURE 4-20 AREA DEVELOPMENT ACTIVITY

Proposed Hotel Name	Estimated Number of Rooms	Hotel Product Tier	Development Stage	Expected Qtr. & Year of Opening	Address
Downtown					
AC Hotels by Marriott	130	Upscale	Under Construction	Q3 '17	151 E Broadway Blvd, Tucson, AZ 85701
Proposed Hampton Inn & Suites Marana	100	Upper-Midscale	Approved	Q2 '18	6401 W Marana Center Blvd, Tucson, AZ 85742
Residence Inn by Marriott Main Gate	140	Upscale	Approved	Q4 '18	North Tyndall Avenue and East Second Street
Moxy by Marriott	110	Upper-Midscale	Due Diligence Period	—	45 N. Fifth Ave., near East Congress Street.
Proposed Convention Center Hotel	125	Upper-Midscale	Due Diligence Period	—	
Hampton Inn & Suites Convention Center	157	Upper-Midscale	Due Diligence Period	—	411 W. Congress St., Tucson, AZ 85711

Of the hotels listed in the preceding chart, we have identified the following new supply that is expected to have some degree of competitive interaction with the proposed subject hotel, based on location, anticipated market orientation and price point, and/or operating profile.

FIGURE 4-21 NEW SUPPLY

Proposed Property	Number of Rooms	Total Competitive Level	Weighted Room Count	Estimated Opening Date	Development Stage
Proposed Subject Property	309	100 %	309	January 1, 2019	Early Development
AC Hotels by Marriott	130	80	104	August 1, 2017	Under Construction
Totals/Averages	**439**		**413**		

The proposed AC Hotel by Marriott will be similar to the subject property in terms of its full-service orientation and anticipated service level; however, this property has been weighted secondarily competitive in our analysis given its expected higher price point and lifestyle product type. It should be noted that other hotel projects are currently in the initial planning phases for Downtown Tucson and the area surrounding the University of Arizona. However, as these projects are still in the initial development stages and no confirmed information is available, they have only been considered qualitatively in our analysis.

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

Supply Conclusion

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

DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the competitors discussed previously in this section; performance results are estimated, rounded for the competition, and in some cases weighted if there are secondary competitors present. In this respect, the information in the table differs from the previously presented STR data and is consistent with the supply and demand analysis developed for this report.

FIGURE 4-22 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2014	353,327	—	527,133	—	67.0 %	$101.60	—	$68.10	—
Est. 2015	360,783	2.1 %	527,133	0.0 %	68.4	103.07	1.5 %	70.54	3.6 %
Est. 2016	373,055	3.4	527,537	0.1	70.7	105.66	2.5	74.72	5.9
Avg. Annual Compounded Chg., Est. 2014-Est. 2016:		2.8 %		0.0 %			2.0 %		4.7 %

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2016 distribution of accommodated-room-night demand as follows.

FIGURE 4-23 ACCOMMODATED ROOM-NIGHT DEMAND

	Marketwide	
Market Segment	Accommodated Demand	Percentage of Total
Commercial/Government	175,881	47 %
Meeting and Group	94,880	25
Leisure	102,294	27
Total	**373,055**	**100 %**

The market's demand mix comprises commercial/government demand, with this segment representing roughly 47% of the accommodated room nights in this Tucson submarket. The remaining portion comprises meeting and group at 25%, with the final portion leisure in nature, reflecting 27%.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room-night demand.

Commercial/ Government Segment

Commercial/government demand consists mainly of individual businesspeople passing through the subject market or visiting commercial firms or government institutions in the area, in addition to high-volume accounts generated by local agencies. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as "preferred" accommodations in return for significantly discounted rates, including government per-diem rates; negotiated rates are discounted in proportion to the number of room nights produced by a corporate client. Government per-diem rates are established annually. Demand within this segment is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

Commercial/government travel in the Tucson area is generated by the various companies and government entities located in the region. Corporate travel is generated by companies such as Raytheon, IBM, Ventana Medical Systems, Freeport-McMoRan Copper & Gold, Caterpillar, and Banner - University Medical Center Tucson. Commercial demand is also derived from the University of Arizona and firms doing business with this institution. Government-related business is provided by Davis-Monthan Air Force Base, Pima County, the State of Arizona, and the U.S. Government, including entities such as the National Park Service and U.S. Border Patrol. Commercial travel to Tucson has steadily increased in recent years, and this trend has reportedly continued in 2017.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week, most commonly in the spring and fall months. These groups tend to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food and beverage and/or banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and during the summer months or holiday season, when greater discounts are usually available; these groups generate limited ancillary revenues. Association demand is generally divided on a geographical basis, with national, regional, and state associations representing the most common sources. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends. The profile and revenue potential of associations varies depending on the group and the purpose of the meeting or event.

Meeting and group demand in this market represents a significant portion of overall demand and is generated by the extensive meeting space available within the competitive hotels and numerous resorts throughout Tucson. This segment is primarily driven by corporate groups, including those with locations in Tucson such as Raytheon and IBM, as well as national and local associations and SMERFE-related groups. This segment is also driven by larger national and local associations, government groups, and SMERFE groups. We note that these larger groups are currently being hosted at resort properties throughout the market because the closure of the subject property in 2012 has hindered the competitiveness of the Tucson Convention Center in recent years. We anticipate this segment to continue to improve as the national and local economies strengthen. Furthermore, the reopening of the subject property is expected to have a positive impact on the meeting and group segment, which will be detailed later in this report. We note that meetings and similar events are booked in advance; thus, growth in this segment is expected to intensify in the coming years.

Leisure Segment

Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites such as Expedia, Hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest Friday and Saturday nights, and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels.

A number of attractions in the Tucson market area contribute to transient leisure demand, particularly the array of world-class golf courses. Many leisure travelers come from colder, northern climates in search of a more temperate climate and mild winter. During the summer months, leisure-oriented travelers from Arizona, California, and other Southwestern states are more common, as these visitors tend to be price-sensitive and take advantage of Tucson's comparatively cooler summer temperatures relative to Phoenix, which sits at a lower elevation. The national economic recession caused significant decreases in leisure travel and activities such as golfing. However, this segment began to recover in 2010, as leisure guests were taking advantage of the significant rate discounts. More recently, Tucson's Visitors Bureau launched television campaigns in Mexico and North America called "Vamos a Tucson" and "Free Yourself" to increase the number of travelers to the area. Demand related to these transient sources should remain strong, tapering to more modest levels throughout the projection period as properties seek to replace some lower-rated transient demand with higher-rated corporate group business.

Base Demand Growth Rates

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

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FIGURE 4-24 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

	Annual Growth Rate					
Market Segment	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Commercial/Government	2.5 %	3.0 %	3.0 %	2.5 %	1.5 %	0.5 %
Meeting and Group	1.0	2.0	4.0	3.0	2.0	1.0
Leisure	2.0	2.5	3.0	2.5	1.5	0.5
Base Demand Growth	**2.0 %**	**2.6 %**	**3.3 %**	**2.6 %**	**1.6 %**	**0.6 %**

Latent Demand

A table presented earlier in this section illustrated the accommodated-room-night demand in the subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room-night demand that has not been realized by the existing competitive supply, further classified as either unaccommodated demand or induced demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historical accommodated-room-night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests will be able to secure hotel rooms in the future, and it is therefore necessary to quantify this demand.

Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 70%, the market may sell out certain nights during the year. To evaluate the incidence of unaccommodated demand in the market, we have reviewed the average occupancy by the night of the week for the past twelve months for the competitive set, as reflected in the STR data. This is set forth in the following table.

FIGURE 4-25 OCCUPANCY BY NIGHT OF THE WEEK

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Nov - 15	45.9 %	66.7 %	72.2 %	75.7 %	68.5 %	77.8 %	78.2 %	68.4 %
Dec - 15	29.9	40.7	46.1	47.0	50.2	53.0	56.0	46.3
Jan - 16	32.2	51.4	61.8	66.1	53.8	53.3	57.5	53.2
Feb - 16	45.4	49.5	64.6	75.5	71.8	60.4	69.1	61.9
Mar - 16	35.6	54.0	64.3	62.2	56.6	64.1	61.1	57.3
Apr - 16	37.1	55.8	66.0	71.3	66.4	69.5	70.3	62.8
May - 16	50.3	58.3	72.6	82.4	80.4	81.1	78.1	70.8
Jun - 16	49.0	67.7	77.5	75.7	60.3	62.6	66.3	65.7
Jul - 16	39.4	50.2	58.7	62.3	58.7	55.9	63.9	55.3
Aug - 16	42.4	45.3	54.0	56.0	56.9	64.1	72.1	55.4
Sep - 16	51.0	63.0	77.3	81.1	69.6	68.6	74.5	69.3
Oct - 16	39.6	53.8	81.8	91.8	79.6	63.9	66.0	66.6
Average	**41.5 %**	**54.7 %**	**66.0 %**	**70.0 %**	**64.1 %**	**64.3 %**	**67.5 %**	**61.1 %**

Source: STR

Our interviews with market participants found that the market generally sells out on Monday through Saturday nights during the peak travel season, as well as sporadically within other periods throughout the year. Special events, such as Tucson Gem & Mineral Show , regularly sell out competitive hotels. A portion of this demand, which is currently turned away, should return to the market concurrent with the supply increase. The following table presents our estimate of unaccommodated demand in the subject market.

FIGURE 4-26 UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Commercial/Govern	175,881	2.3 %	3,969
Meeting and Group	94,880	2.1	1,962
Leisure	102,294	0.8	828
Total	**373,055**	**1.8 %**	**6,759**

Accordingly, we have forecast unaccommodated demand equivalent to 1.8% of the base-year demand, resulting from our analysis of monthly and weekly peak demand and sell-out trends.

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Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. The following table summarizes our estimate of induced demand.

FIGURE 4-27 INDUCED DEMAND CALCULATION

	Induced Room Nights					
Market Segment	2017	2018	2019	2020	2021	2022
Commercial/Government	0	0	0	0	0	0
Meeting and Group	0	0	4,800	7,500	10,100	10,100
Leisure	0	0	0	0	0	0
Total	**0**	**0**	**4,800**	**7,500**	**10,100**	**10,100**

The reopening of the proposed subject property and subsequent benefit to the Tucson Convention Center should induce meeting and group demand into this market. The hotel's reactivation should draw new groups to this market, as these groups with planned meetings would have likely chosen an alternate destination if it were not for the availability of the subject property's rooms. Further discussion related to the induced demand assumption is located in the addenda of this report. Accordingly, we have incorporated 10,000 room nights (rounded) into our analysis, phased in over an appropriate ramp-up period.

Accommodated Demand and Market-wide Occupancy

Based upon a review of the market dynamics in the subject property's competitive environment, we have forecast growth rates for each market segment. Using the calculated potential demand for the market, we have determined market-wide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.

FIGURE 4-28 FORECAST OF MARKET OCCUPANCY

		2019	2020	2021	2022
Commercial/Government					
Base Demand		191,257	196,038	198,979	199,974
Unaccommodated Demand		4,316	4,424	4,491	4,513
Total Demand		195,573	200,463	203,470	204,487
Growth Rate		3.0 %	2.5 %	1.5 %	0.5 %
Meeting and Group					
Base Demand		101,655	104,705	106,799	107,867
Unaccommodated Demand		2,102	2,165	2,208	2,230
Induced Demand		4,800	7,500	10,100	10,100
Total Demand		108,557	114,370	119,107	120,197
Growth Rate		8.8 %	5.4 %	4.1 %	0.9 %
Leisure					
Base Demand		110,157	112,911	114,604	115,177
Unaccommodated Demand		892	914	928	932
Total Demand		111,048	113,825	115,532	116,110
Growth Rate		3.0 %	2.5 %	1.5 %	0.5 %
Totals					
Base Demand		403,069	413,654	420,383	423,018
Unaccommodated Demand		7,310	7,503	7,627	7,676
Induced Demand		4,800	7,500	10,100	10,100
Total Demand		415,179	428,657	438,109	440,794
less: Residual Demand		0	0	0	0
Total Accommodated Demand		415,179	428,657	438,109	440,794
Overall Demand Growth		5.8 %	3.2 %	2.2 %	0.6 %
Market Mix					
Commercial/Government		47.1 %	46.8 %	46.4 %	46.4 %
Meeting and Group		26.1	26.7	27.2	27.3
Leisure		26.7	26.6	26.4	26.3
Existing Hotel Supply		1,444	1,444	1,444	1,444
Proposed Hotels					
Proposed Subject Property	[1]	309	309	309	309
AC Hotels by Marriott	[2]	104	104	104	104
Available Room Nights per Year		677,878	677,878	677,878	677,878
Nights per Year		365	365	365	365
Total Supply		1,857	1,857	1,857	1,857
Rooms Supply Growth		20.0 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy		**61.2 %**	**63.2 %**	**64.6 %**	**65.0 %**

[1] Opening in January 2019 of the 100% competitive, 309-room Proposed Subject Property

[2] Opening in August 2017 of the 80% competitive, 130-room AC Hotels by Marriott

The defined competitive market of hotels should experience consistent demand growth through the stabilized year although the entry of new supply will cause occupancy levels to fluctuate as the new hotels are absorbed in the market. Over the long term, the expected positive impact of the subject property's reopening on the Tucson Convention Center, coupled with the ongoing revitalization of Downtown Tucson, should contribute to steady demand increases. Based on historical occupancy levels in this market, and taking into consideration typical supply and demand cyclicality, market occupancy is forecast to stabilize in the mid-60s.

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5. Description of the Proposed Improvements

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

Project Overview

The Hotel Arizona will be a full-service lodging facility containing 309 rentable units. The 13-story property will reopen on January 1, 2019. The Hotel Arizona was built in conjunction with the Tucson Convention Center in the early 1970s and served as Downtown Tucson's primary convention lodging facility until its closure in 2012. The hotel originally opened as Braniff Place, and over the years it has been branded as a Marriott and Holiday Inn. The hotel is now expected to undergo a comprehensive renovation and reopen as a DoubleTree by Hilton (or similar brand), once again providing Downtown Tucson with a large, convention-oriented lodging facility. Furthermore, the hotel's reopening is expected to have a positive impact on the Tucson Convention Center, which will be discussed in more detail throughout this report.

EXISTING HOTEL ARIZONA EXTERIOR

Summary of the Facilities

Based on information provided by the proposed subject hotel's development representatives, the following table summarizes the facilities that are expected to be available at the redeveloped subject hotel.

FIGURE 5-1 PROPOSED FACILITIES SUMMARY

Guestroom Configuration	Number of Units
Existing	
Queen/Queen	160
King	120
Parlor	28
Presidential Suite	1
Total	309
Proposed	
Queen/Queen	160
King	120
One-Bedroom Suite	14
Parlor	14
Presidential Suite	1
Total	309

Food & Beverage Facilities
Three Meal Restaurant
Signature Restaurant
Lobby Bar and Lounge
"Made Market"/Grab-n-Go

Indoor Meeting & Banquet Facilities	Square Footage
Lower Level	
Grand Ballroom	10,000
Meeting Rooms 1-6 (600 SF each)	3,600
Lobby Level	
Starlight Ballroom	5,500
Meeting Room A	3,000
Meeting Room B	1,300
Meeting Room C	800
Meeting Room D	600
Mezzanine Level	
Meeting Room	1,200
Board Room	500
Total	26,500
Pre-Function Space	8,500

Amenities & Services	
Outdoor Swimming Pool	Business Center
Outdoor Whirlpool	Gift Shop
Fitness Center	Vending Area(s)

Infrastructure	
Parking Spaces	350
Elevators	3 Guest, 1 Service, 2 Freight
Life-Safety Systems	Sprinklers, Smoke Detectors
Construction Details	Reinforced Steel, Concrete

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Site Improvements and Hotel Structure

Once guests enter the site, ample parking will be available in the stand-alone parking structure to the west of the hotel. We note that the hotel and parking structure are connected via two skywalks, which provide access from the fourth floor of the parking structure to the second floor of the hotel building. Site improvements should include monument signage, which is expected to be located on the northern and western sides of the site (additional signage is anticipated to be placed on the exterior of the building). We assume that all signage will adequately identify the property and meet brand standards. Planned landscaping should allow for a positive guest impression and competitive exterior appearance. Sidewalks will be present along the front entrance and around the perimeter of the hotel and parking structure. Other site improvements will include a third-story outdoor pool with sundeck and a loading dock/service area toward the rear of the property. Overall, the planned and existing site improvements for the property appear adequate.

The hotel structure comprises one hotel building and one parking structure, both constructed of steel and reinforced concrete. The hotel's stucco exterior and the parking structure's concrete exterior will be refurbished to provide an aesthetically appealing exterior. Multiple stairways, three guest elevators, one service elevator, and two freight elevators will provide internal vertical transportation within the main hotel structure. Multiple stairways will provide vertical transportation within the parking structure. The hotel's roof is constructed of concrete and a rubber-membrane roofing system. Portions of the roof are expected to be replaced as part of the hotel's redevelopment. Several of the hotel's windows are expected to be replaced to reduce noise transmission into the rooms. Heating and cooling will continue to be provided by through-the-wall units and several large units for the public areas; however, these systems are expected to receive a comprehensive overhaul as part of the hotel's redevelopment. Overall, the planned and existing building components appear normal for a hotel of this type and should meet the standards for this market. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that would affect the future operating potential of the hotel or delay its assumed opening date.

Lobby

Guests will enter the hotel's Broadway Boulevard entrance through a single set of automatic doors on the second floor of the property. Similar entrances will be available on either the first or second levels of the west, east, and south sides of the hotel. The lobby will be spacious, appropriate for a DoubleTree by Hilton or similar upscale, full-service brand. A grand staircase will connect guests to the main meeting space area on the hotel's lower level and additional meeting space and select guestrooms on the mezzanine (third) level. The lobby walls should be attractively refinished with an upscale material that is in line with brand standards. The new front desk should feature a stone countertop, installed with appropriate property management and telephone systems. The all new furnishings and finishes in this space should offer an appropriate first impression, and the design of the space should lend itself to adequate efficiency. The specific design concept will be finalized with input from the pursued future brand for the redeveloped subject property. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

EXISTING HOTEL ARIZONA LOBBY

Food and Beverage Facilities

The hotel is expected to include a fully renovated signature restaurant and a three-meal restaurant, as well as a lobby bar and lounge. All three outlets will be located on the east side of the reception area on the second-floor lobby. A major focus in the food and beverage department will be the banquet operations, given the hotel's extensive offering of indoor meeting space. Each area's existing size and layout appear appropriate for the hotel. The furnishings of the spaces will be of a similar style and finish as lobby and guestroom furnishings.

EXISTING HOTEL ARIZONA DINING AREA

Overall, the hotel is expected to provide a competitive offering of food and beverage facilities for an upscale, full-service convention property.

Meeting and Banquet Space

The subject property will offer a significant amount of renovated meeting space throughout the property. Indoor meeting space, exclusive of pre-function areas, is planned to span approximately 26,500 square feet. The hotel's primary ballroom, six breakout meeting rooms, and an appropriate complement of pre-function space will be located on the lower level. Additional meeting space is located on the lobby and mezzanine levels. All existing meeting rooms and adjacent public spaces will be comprehensively renovated as part of the hotel's planned redevelopment.

EXISTING HOTEL ARIZONA BALLROOM

Recreational Amenities

The hotel will offer a fitness center, tentatively planned for a vacant space adjacent to the hotel's front desk. The hotel will also offer a third-story outdoor pool, outdoor whirlpool, and sundeck. This area was reportedly in operable condition; however, renovations are expected to take place to meet the selected brand's standards.

Additional Amenities

Other fully renovated amenities are expected to include a full-service business center with various workstations, a gift shop (featuring a grab-n-go market), wireless Internet access in the public areas, and possible retail boutiques. Ice machines are anticipated to be located on all guestroom floors. Overall, the supporting facilities appear to be appropriate for a hotel of this type, and we assume that they will meet brand standards.

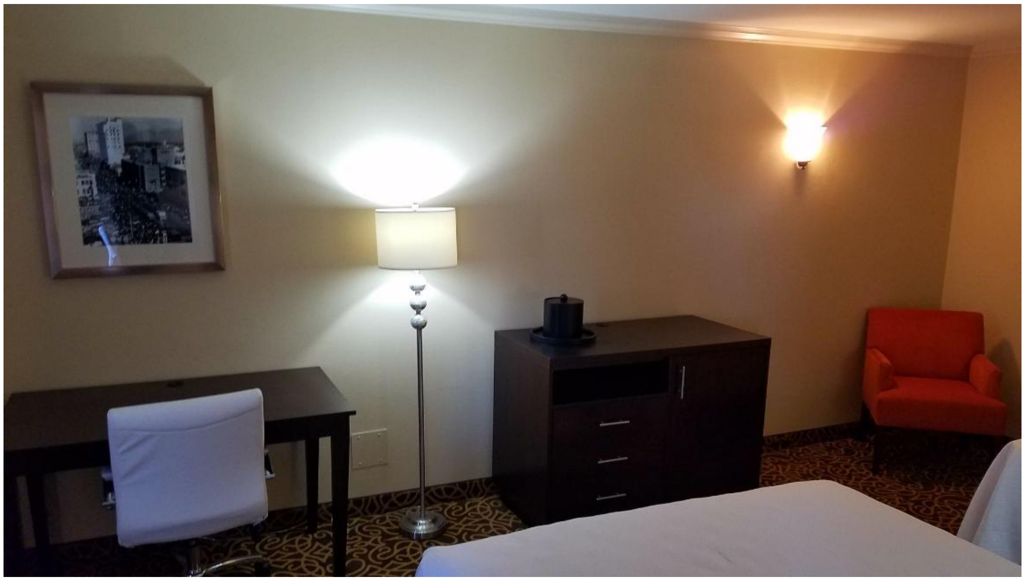
Guestrooms

The hotel currently features standard guestroom configurations and parlor-style rooms. We note that a presidential suite is located on the thirteenth floor of the hotel. The hotel's parlor rooms are located throughout the structure; each parlor serves as a living room that can be connected to standard guestrooms on either side to create a one- or two-bedroom suite. HVS recommends that a portion of these parlor-style rooms be converted to one-bedroom suites as part of the hotel's redevelopment. This is expected to provide future management with the ability to better leverage its rentable inventory, while still maintaining the flexibility of the remaining parlor-style rooms. We note that parlor rooms should feature bathrooms and hide-away beds, allowing them to be used as sellable guestrooms during high-occupancy periods. All guestrooms will offer typical amenities for this upscale product type. In addition to the standard furnishings, rooms are expected to feature an iron and ironing board, a coffeemaker, an alarm clock with iPod docking station, and high-speed Internet access. Overall, the guestrooms should offer a competitive product for this Downtown Tucson neighborhood.

Guestroom bathrooms are of a standard size, with either a shower-in-tub or stand-alone shower, commode, and single sink with vanity area, featuring a stone countertop. As part of the property-wide renovation, the floors should be finished with tile, and the walls should be finished with an upscale material that is in line with brand standards. Bathroom amenities will include a hairdryer and complimentary toiletries. Overall, the bathroom design should be appropriate for a product of this type.

EXISTING HOTEL ARIZONA SHOWROOM

EXISTING HOTEL ARIZONA SHOWROOM CONT.



EXISTING HOTEL ARIZONA SHOWROOM CONT.

HVS

EXISTING HOTEL ARIZONA SHOWROOM CONT.

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

Back-of-the-House

The hotel will be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a full-service kitchen (lobby level) and prep kitchen (lower level) to serve the needs of the restaurants and banquet operations. These spaces will be comprehensively renovated and should be adequate for a hotel of this type, allowing for the efficient operation of the property under competent management.

ADA and Environmental

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

Capital Expenditures

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

Construction Budget

The construction budget for the 309-room subject hotel, as provided by the project developer, is illustrated in the following table.

FIGURE 5-2 SUBJECT PROPERTY CONSTRUCTION BUDGET

Component	Cost	Cost per Room
General/Fire Safety		
General	$525,000	$1,699
Fire Safety	410,000	1,327
Subtotal General/Fire Safety	$935,000	$3,026
Basic Standard Issues		
Structure	$400,000	$1,294
Mechanical/Electrical/Plumbing	350,000	1,133
Technology	645,000	2,087
Subtotal Basic Standard Issues	1,395,000	$4,515
Site		
Signage	$115,000	$372
Grounds	75,000	243
Parking	342,000	1,107
Subtotal Site	$532,000	$1,722
Building Exterior		
Building	$170,000	$550
Porte Cochere	25,000	81
Doors	100,000	324
Windows	800,000	2,589
Subtotal Exterior	$1,095,000	$3,544
Public Areas		
Entrance/Lobby/Registration Area	$455,000	$1,472
Retail Shop	20,000	65
Public Restrooms	320,000	1,036
Subtotal Public Areas	$795,000	$2,573
Food and Beverage Facilities		
Lounge Facilities	$250,000	$809
Restaurant Facilities	150,000	485
Kitchens	500,000	1,618
Subtotal Food and Beverage Facilities	$900,000	$2,913
Meeting Spaces		
General	$335,000	$1,084
Ballroom Pre-Function	72,500	235
Ballrooms	150,000	485
Meeting Room Pre-Function	50,000	162
Meeting Rooms	100,000	324
Board Rooms	60,000	194
Subtotal Meeting Spaces	$767,500	$2,484
Recreational Areas		
Fitness Center	$150,000	$485
Pool Areas	310,000	1,003
Subtotal Recreational Areas	$460,000	$1,489
Back of House		
General	$250,000	$809
Main Laundry	250,000	809
Storage Rooms	57,500	186
Service Corridors	75,000	243
Subtotal Back of House	$632,500	$2,047
Guest Support and Circulation Areas		
Vending	$66,000	$214
Guest Laundry	15,000	49
Corridors	510,000	1,650
Elevator Lobbies	130,000	421
Elevators	150,000	485
Stairwells	60,000	194
Subtotal Guest Support and Circulation Areas	$931,000	$3,013
Guest Rooms		
Guestrooms	$6,545,000	$21,181
Specialty Suites	55,000	178
Guest Bathrooms	2,397,000	7,757
Subtotal Guest Rooms	$8,997,000	$29,117
Total	$17,440,000	$56,440

Conclusion

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

6. Projection of Occupancy and Average Rate

Along with average rate results, the occupancy levels achieved by a hotel are the foundation of the property's financial performance and market value. Most of a lodging facility's other revenue sources (such as food, beverages, other operated departments, and rentals and other income) are driven by the number of guests, and many expense levels vary with occupancy. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical, professional hotel management team to achieve an optimal mix of occupancy and average rate.

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive position within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share.

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competitors are set forth for each segment for the base year.

FIGURE 6-1 HISTORICAL PENETRATION RATES

Property	Commercial/ Government	Meeting and Group	Leisure	Overall
DoubleTree Suites by Hilton Tucson Williams Center	97 %	108 %	67 %	92 %
DoubleTree by Hilton Tucson Reid Park	114	106	98	107
Tucson University Park Hotel	95	132	122	112
Hilton Tucson East	122	103	76	105
Sheraton Hotel & Suites Tucson	68	95	88	81
Aloft Tucson University	99	81	132	103
Secondary Competition	97	54	117	92

The Hilton Tucson East achieved the highest penetration rate within the commercial/government segment. The highest penetration rate in the meeting and group segment was achieved by the Tucson University Park Hotel, while the Aloft Tucson University led the market with the highest leisure penetration rate.

Forecast of Subject Property's Occupancy

Because the supply and demand balance for the competitive market is dynamic, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market, and consequently upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (when a poorly maintained or marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply, or a change in the relative penetration performance of one or more hotels in the competitive market. Our projections of penetration, demand capture, and occupancy performance for the subject property account for these types of adjustments to market share within the defined competitive market.

The proposed subject hotel's occupancy forecast is set forth as follows, with the adjusted projected penetration rates used as a basis for calculating the amount of captured market demand.

FIGURE 6-2 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2019	2020	2021	2022
Commercial/Government				
Demand	195,573	200,463	203,470	204,487
Market Share	12.6 %	15.1 %	15.9 %	15.9 %
Capture	24,661	30,231	32,298	32,459
Penetration	76 %	91 %	95 %	95 %
Meeting and Group				
Demand	108,557	114,370	119,107	120,197
Market Share	22.2 %	23.4 %	24.0 %	24.6 %
Capture	24,053	26,779	28,619	29,606
Penetration	133 %	141 %	144 %	148 %
Leisure				
Demand	111,048	113,825	115,532	116,110
Market Share	11.1 %	11.9 %	12.7 %	12.7 %
Capture	12,316	13,550	14,677	14,751
Penetration	67 %	72 %	76 %	76 %
Total Room Nights Captured	**61,030**	**70,560**	**75,594**	**76,816**
Available Room Nights	112,785	112,785	112,785	112,785
Subject Occupancy	**54 %**	**63 %**	**67 %**	**68 %**
Market-wide Available Room Nights	677,878	677,878	677,878	677,878
Fair Share	**17 %**	**17 %**	**17 %**	**17 %**
Market-wide Occupied Room Nights	415,179	428,657	438,109	440,794
Market Share	**15 %**	**16 %**	**17 %**	**17 %**
Market-wide Occupancy	**61 %**	**63 %**	**65 %**	**65 %**
Total Penetration	**88 %**	**99 %**	**104 %**	**105 %**

The redeveloped subject hotel is expected to stabilize with a strong penetration rate due to its new facility, its expected strong nationally recognized brand affiliation, and its favorable location adjacent to the Tucson Convention Center in Downtown Tucson. As such, the subject property is anticipated to stabilize with a penetration level above 100%. Additional insights by segment are presented as follows:

- Within the commercial segment, the proposed subject hotel's occupancy penetration is positioned at a slightly below-market-average level by the stabilized period due to its overall marketing focus on meeting and group demand. Nonetheless, travelers seeking an upscale, full-service hotel, as well as convenient access to several major employers in Downtown Tucson, will be drawn to the revitalized subject property. The proposed subject hotel will be favorably suited for corporate demand given the hotel's anticipated affiliation with a nationally recognized brand, which should assist in capturing corporate demand associated with travelers loyal to the selected brand.

- The revitalized subject hotel's penetration level in the meeting and group segment is positioned well-above its existing competitors. The subject hotel's adjacent location to the Tucson Convention Center should allow it to become the foremost choice for meetings and events taking place at the facility. Furthermore, the subject hotel is expected to offer a considerable amount of in-house meeting space, which should increase its ability to capture large meetings and events. The subject hotel's ability to capture this demand will be supported by the anticipated experience and sophistication of the selected brand's sales and marketing operation.

- The redeveloped subject hotel is forecast to realize a leisure penetration level below fair share by the stabilized year. Nonetheless, the subject hotel should benefit from a strong amount of leisure demand during the peak season and weekends, considering its proximity to the University of Arizona and several retail outlets, restaurants, and entertainment venues throughout Downtown Tucson.

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

FIGURE 6-3 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2019	2020	2021	2022
Commercial/Government	40 %	43 %	43 %	42 %
Meeting and Group	39	38	38	39
Leisure	20	19	19	19
Total	100 %	100 %	100 %	100 %

Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 68%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

Average Rate Analysis

One of the most important considerations in estimating the value of a lodging facility is a supportable forecast of its attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

Competitive Position

Although the average rate analysis presented here follows the occupancy projection, these two statistics are highly correlated; in reality, one cannot project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the historical average rate and the RevPAR of the subject property’s future primary competitors.

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FIGURE 6-4 BASE-YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS

Property	Estimated 2016 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
DoubleTree Suites by Hilton Tucson Williams Center	$110 - $115	100 - 110 %	$70 - $75	95 - 100 %
DoubleTree by Hilton Tucson Reid Park	95 - 100	85 - 90	70 - 75	95 - 100
Tucson University Park Hotel	130 - 140	130 - 140	105 - 110	140 - 150
Hilton Tucson East	85 - 90	80 - 85	60 - 65	85 - 90
Sheraton Hotel & Suites Tucson	85 - 90	80 - 85	45 - 50	65 - 70
Aloft Tucson University	125 - 130	110 - 120	90 - 95	120 - 130
Average - Primary Competitors	$107.13	101.4 %	$76.54	102.4 %
Average - Secondary Competitors	93.00	88.0	60.45	80.9
Overall Average	**$105.66**		**$74.72**	

The defined primarily competitive market realized an overall average rate of $107.13 in the 2016 base year, improving from the 2015 level of $104.14. The Tucson University Park Hotel (formerly the Marriott) achieved the highest estimated average rate in the local competitive market, by a significant margin, because of its previous strong Marriott brand affiliation and advantageous location next to the University of Arizona. An important rate aspect of this market is the strong demand during February and March and special events at the University of Arizona, which allow area hotels to charge premium rates. The selected rate position for the redeveloped subject hotel, in base-year dollars, takes into consideration factors such as its anticipated national brand affiliation and its location in Downtown Tucson near the Tucson Convention Center and shopping and entertainment venues.

To arrive at a base year average rate conclusion for the subject property, we analyzed the estimated performance of the primary competitors. We chose to benchmark the subject properties average rate potential against the 2016 calendar year performance of the Tucson Unversity Park Hotel, which operated as a Marriott hotel that year. The former Marriott is perceived to represent the market's average rate ceiling for upscale, full-service accomodations. The below tables illustrate the market and locational adjustments applied to the former Marriott's 2016 performance, allowing us to arrive at a base year average rate assumption for the redeveloped subject property.

FIGURE 6-5 SUBJECT PROPERTY AVERAGE RATE POSITIONING

Marriott Hotel Brand Average	$172.00
Tucson University Park Hotel (Former Marriott)	140.00
Percent Correction for Tucson Market	-18.6 %
DoubleTree by Hilton Brand Average	$136.00
Less: Tucson Market Correction	-18.6 %
DoubleTree ADR with Market Correction	**$110.70**
(Say)	$111.00

**2016 calendar year average rate indications have been estimated for the purpose of analysis*

FIGURE 6-6 SUBJECT PROPERTY AVERAGE RATE POSITIONING CONT.

Aloft Tucson University	$125.00	
Tucson University Park Hotel (Former Marriott)	138.00	
Average Rate for Superior Location near U of A	$131.50	
DoubleTree Suites by Hilton Tucson Williams Center	$112.00	
DoubleTree by Hilton Tucson Reid Park	95.00	
Hilton Tucson East	90.00	
Sheraton Hotel & Suites Tucson	90.00	
Average Rate for Inferior Location in Tucson	$96.75	
Average Rate for Superior Location near U of A	$131.50	
Average Rate for Inferior Location in Tucson	$96.75	
Percent Premium for Superior Location near U of A	**26.4**	%
(Say)	26.0	

**2016 calendar year average rate indications have been estimated for the purpose of analysis*

Percent Premium for Superior Location near U of A	26.0	%
Less: Correction for Inferior Downtown Location (50% reduction)	-13.0	
Downtown Tucson Percent Premium Assumption	13.0	%

FIGURE 6-7 SUBJECT PROPERTY AVERAGE RATE POSITIONING CONT.

DoubleTree ADR with Market Correction	$111.00	
Plus: Downtown Tucson Percent Premium Assumption	13.0	%
Subject Property ADR Positioning	**$125.43**	
(Say)	$125.00	

We have selected the rate position of $125.00, in base-year dollars, for the proposed subject hotel.

Market-wide rates began to trend upward in 2013, with stronger increases taking place in 2015 and 2016. We expect average rates to continue to grow because of an improving job market in the metropolitan area, supported by the relocation or expansion of many companies, as well as the gradual return of high-rated groups to the market and less rate-resistance from leisure travelers.

Based on these considerations, the following table illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied underlying inflation rates of 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2016.

FIGURE 6-8 COMPARISON OF HISTORICAL AND PROJECTED OCCUPANCY, AVERAGE RATE, AND REVPAR – PROPOSED SUBJECT PROPERTY AND MARKET

				Projected					
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Hotel Arizona									
Occupancy				—	—	54.1 %	62.6 %	67.0 %	68.1 %
Change in Points				—	—	—	8.4	4.5	1.1
Occupancy Penetration				—	—	88.4 %	98.9 %	103.7 %	104.7 %
Average Rate			$125.00	$130.63	$135.85	$139.93	$144.12	$148.45	$152.90
Change				—	4.0 %	3.0 %	3.0 %	3.0 %	3.0 %
Average Rate Penetration				118.3 %	118.3 %	118.3 %	118.3 %	118.3 %	118.3 %
RevPAR				—	—	$75.72	$90.17	$99.50	$104.14
Change				—	—	—	19.1 %	10.3 %	4.7 %
RevPAR Penetration				—	—	104.5 %	117.0 %	122.7 %	123.9 %

	Historical (Estimated)			Projected					
	2015	2015	2016	2017	2018	2019	2020	2021	2022
Tucson Submarket									
Occupancy	67.0 %	68.4 %	70.7 %	70.2 %	69.5 %	61.2 %	63.2 %	64.6 %	65.0 %
Change in Points	—	1.4	2.3	(0.5)	(0.8)	(8.2)	2.0	1.4	0.4
Average Rate	$101.60	$103.07	$105.66	$110.42	$114.83	$118.28	$121.83	$125.48	$129.24
Change	—	1.5 %	2.5 %	4.5 %	4.0 %	3.0 %	3.0 %	3.0 %	3.0 %
RevPAR	$68.10	$70.54	$74.72	$77.53	$79.75	$72.44	$77.04	$81.10	$84.04
Change	—	3.6 %	5.9 %	3.8 %	2.9 %	(9.2) %	6.3 %	5.3 %	3.6 %

** The forecast for the proposed subject property does not include rate discounts that are expected to occur during the initial year(s) of operation.*

The final forecast reflects years beginning on January 1, 2019 and corresponds with our financial projections, as shown below.

FIGURE 6-9 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

Calendar Year	2016	2017	2018	2019	2020	2021	2022	2023	2024
Market ADR	$105.66	$110.42	$114.83	$118.28	$121.83	$125.48	$129.24	$133.12	$137.12
Projected Market ADR Growth Rate	—	4.5%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject Property ADR (Before Discount)	$125.00	$130.63	$135.85	$139.93	$144.12	$148.45	$152.90	$157.49	$162.21
ADR Growth Rate	—	4.5%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject ADR Penetration (Before Discount)	118%	118%	118%	118%	118%	118%	118%	118%	118.3%

Fiscal Year	2019	2020	2021	2022	2023	2024
Proposed Subject Property Average Rate	$139.93	$144.12	$148.45	$152.90	$157.49	$162.21
Opening Discount	3.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Average Rate After Discount	**$135.73**	**$141.24**	**$148.45**	**$152.90**	**$157.49**	**$162.21**
Real Average Rate Growth	—	4.1%	5.1%	3.0%	3.0%	3.0%
Market ADR	$118.28	$121.83	$125.48	$129.24	$133.12	$137.12
Proposed Subject ADR Penetration (After Discount)	115%	116%	118%	118%	118%	118%
ADR Expressed in Base-Year Dollars Deflated @ Inflation Rate	$127.34	$127.34	$129.94	$129.94	$129.94	$129.94

As illustrated above, a 4.5%% rate of change is expected for the proposed subject hotel's positioned 2016 room rate in 2017. This is followed by growth rates of 4.0%% and 3.0%% in 2018 and 2019, respectively. The Tucson market should experience rate growth through the near term. The proposed subject hotel's rate position should reflect growth similar to market trends because of the proposed hotel's renovated facility, anticipated strong brand affiliation, and location in Downtown Tucson next to the Tucson Convention Center. The proposed subject hotel’s penetration rate is forecast to reach 118.3% by the stabilized period.

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the proposed subject hotel’s average rates in the initial operating period have been discounted to reflect this likelihood. We forecast 3.0% and 2.0% discounts to the proposed subject hotel’s forecast room rates in the first two operating years, which would be typical for a new operation of this type.

7. Projection of Income and Expense

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

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

Comparable Operating Statements

In order to project future income and expense for the proposed subject hotel, we have included a sample of individual comparable operating statements from our database of hotel statistics. All financial data are presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense.

FIGURE 7-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2015/16**	**2015/16**	**2015**	**2014/15**	**2015/16**	**2016**
Meeting Space:	**26,215**	**27,900**	**30,000**	**33,000**	**16,000**	**26,500**
F&B Outlets:	**3**	**2**	**3**	**4**	**2**	**3**
Number of Rooms:	**340 to 430**	**220 to 280**	**300 to 370**	**300 to 380**	**320 to 400**	**309**
Days Open:	**365**	**365**	**363**	**365**	**365**	**365**
Occupancy:	**69%**	**80%**	**69%**	**64%**	**64%**	**68%**
Average Rate:	**$145**	**$138**	**$131**	**$132**	**$143**	**$130**
RevPAR:	**$100**	**$110**	**$90**	**$84**	**$92**	**$88**
REVENUE						
Rooms	67.0 %	69.2 %	63.8 %	64.2 %	65.0 %	61.8 %
Food & Beverage	25.1	30.1	34.3	35.1	34.2	35.1
Other Operated Departments	7.2	0.6	0.0	0.3	0.2	2.4
Miscellaneous Income	0.7	0.2	1.9	0.4	0.5	0.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	17.8	18.0	21.2	23.0	22.2	19.0
Food & Beverage	62.7	68.7	54.9	60.7	53.5	60.3
Other Operated Departments	58.4	77.9	0.0	258.6	43.5	70.0
Total	31.9	33.5	33.0	36.9	32.8	34.6
DEPARTMENTAL INCOME	68.1	66.5	67.0	63.1	67.2	65.4
OPERATING EXPENSES						
Administrative & General	7.8	9.2	7.7	5.9	4.7	7.3
Info. and Telecom. Systems	1.2	0.5	0.0	0.0	1.5	1.1
Marketing	9.2	9.2	11.4	8.0	6.0	6.9
Franchise Fee	3.1	5.1	3.2	4.1	4.8	5.6
Property Operations & Maintenance	3.7	5.3	4.1	4.4	2.8	3.8
Utilities	6.7	4.7	4.0	5.7	3.5	3.6
Total	31.7	34.0	30.5	28.1	23.2	28.4
HOUSE PROFIT	36.4	32.5	36.5	35.0	44.0	37.1
Management Fee	3.0	3.5	2.8	2.8	2.9	3.0
INCOME BEFORE FIXED CHARGES	33.4	28.9	33.7	32.3	41.1	34.1

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

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

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2015/16**	**2015/16**	**2015**	**2014/15**	**2015/16**	**2016**
Meeting Space:	**26,215**	**27,900**	**30,000**	**33,000**	**16,000**	**26,500**
F&B Outlets:	**3**	**2**	**3**	**4**	**2**	**3**
Number of Rooms:	**340 to 430**	**220 to 280**	**300 to 370**	**300 to 380**	**320 to 400**	**309**
Days Open:	**365**	**365**	**363**	**365**	**365**	**365**
Occupancy:	**69%**	**80%**	**69%**	**64%**	**64%**	**68%**
Average Rate:	**$145**	**$138**	**$131**	**$132**	**$143**	**$130**
RevPAR:	**$100**	**$110**	**$90**	**$84**	**$92**	**$88**
REVENUE						
Rooms	$36,551	$40,218	$32,794	$30,833	$33,443	$32,251
Food & Beverage	13,702	17,465	17,641	16,878	17,577	18,346
Other Operated Departments	3,931	333	0	143	128	1,241
Miscellaneous Income	375	90	952	186	275	372
Total	54,559	58,106	51,386	48,039	51,423	52,210
DEPARTMENTAL EXPENSES						
Rooms	6,509	7,230	6,937	7,095	7,416	6,128
Food & Beverage	8,585	11,993	9,691	10,241	9,395	11,057
Other Operated Departments	2,294	259	0	368	56	869
Total	17,387	19,482	16,936	17,704	16,867	18,053
DEPARTMENTAL INCOME	37,172	38,624	34,451	30,335	34,555	34,157
OPERATING EXPENSES						
Administrative & General	4,260	5,373	3,952	2,812	2,403	3,800
Info. and Telecom. Systems	636	308	0	0	770	600
Marketing	5,040	5,364	5,882	3,855	3,061	3,600
Franchise Fee	1,717	2,939	1,628	1,962	2,448	2,903
Property Operations & Maintenance	2,013	3,091	2,126	2,107	1,463	2,000
Utilities	3,641	2,710	2,071	2,747	1,785	1,900
Total	17,308	19,785	15,658	13,483	11,930	14,803
HOUSE PROFIT	19,864	18,839	18,793	16,852	22,625	19,354
Management Fee	1,632	2,035	1,464	1,357	1,467	1,566
INCOME BEFORE FIXED CHARGES	18,232	16,804	17,329	15,496	21,158	17,788

HVS

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

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2015/16**	**2015/16**	**2015**	**2014/15**	**2015/16**	**2016**
Meeting Space:	**26,215**	**27,900**	**30,000**	**33,000**	**16,000**	**26,500**
F&B Outlets:	**3**	**2**	**3**	**4**	**2**	**3**
Number of Rooms:	**340 to 430**	**220 to 280**	**300 to 370**	**300 to 380**	**320 to 400**	**309**
Days Open:	**365**	**365**	**363**	**365**	**365**	**365**
Occupancy:	**69%**	**80%**	**69%**	**64%**	**64%**	**68%**
Average Rate:	**$145**	**$138**	**$131**	**$132**	**$143**	**$130**
RevPAR:	**$100**	**$110**	**$90**	**$84**	**$92**	**$88**
REVENUE						
Rooms	$144.53	$137.88	$130.95	$132.38	$143.26	$129.94
Food & Beverage	54.18	59.88	70.44	72.47	75.29	73.92
Other Operated Departments	15.54	1.14	0.00	0.61	0.55	5.00
Miscellaneous Income	1.48	0.31	3.80	0.80	1.18	1.50
Total	215.73	199.21	205.19	206.26	220.27	210.36
DEPARTMENTAL EXPENSES						
Rooms	25.74	24.79	27.70	30.46	31.77	24.69
Food & Beverage	33.95	41.12	38.70	43.97	40.25	44.55
Other Operated Departments	9.07	0.89	0.00	1.58	0.24	3.50
Total	68.75	66.79	67.63	76.01	72.25	72.74
DEPARTMENTAL INCOME	146.98	132.42	137.57	130.25	148.02	137.62
OPERATING EXPENSES						
Administrative & General	16.84	18.42	15.78	12.07	10.29	15.31
Info. and Telecom. Systems	2.52	1.06	0.00	0.00	3.30	2.42
Marketing	19.93	18.39	23.49	16.55	13.11	14.50
Franchise Fee	6.79	10.08	6.50	8.42	10.49	11.69
Property Operations & Maintenance	7.96	10.60	8.49	9.05	6.27	8.06
Utilities	14.40	9.29	8.27	11.79	7.64	7.66
Total	68.44	67.83	62.53	57.89	51.11	59.64
HOUSE PROFIT	78.54	64.59	75.04	72.36	96.92	77.98
Management Fee	6.45	6.98	5.84	5.83	6.28	6.31
INCOME BEFORE FIXED CHARGES	72.09	57.61	69.20	66.53	90.63	71.67

The comparables' departmental income ranged from 63.1% to 68.1% of total revenue. The comparable properties achieved a house profit ranging from 32.5% to 44.0% of total revenue. We will refer to the comparable operating data in our discussion of each line item, which follows later in this section of the report.

Fixed and Variable Component Analysis

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a systematic approach, following the format of the *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

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

FIGURE 7-4 INFLATION ESTIMATES

Name (Sample from Survey)	Firm	Index (Annualized Rate Versus 12 Months Earlier) June 2017	Dec 2017	June 2018	Dec 2018	Dec 2016
Lewis Alexander	Nomura Securities International	2.6 %	2.4 %	2.1 %	2.2 %	2.2 %
Paul Ashworth	Capital Economics	2.8	3.0	3.2	3.3	3.3
Daniel Bachman	Deloitte LP	2.1	1.8	2.2	2.4	2.4
Bernard Baumohl	Economic Outlook Group	2.1	2.3	2.3	2.5	2.5
Nariman Behravesh	IHS Global Insight	2.5	2.2	2.4	2.4	2.4
David Berson	Nationwide Insurance	2.6	2.5	2.7	2.8	2.8
Brian Bethune	Tufts University	1.9	2.1	2.3	2.3	2.3
Steven Blitz	Pangea Market Advisory	2.2	1.9	2.5	3.0	3.0
Beth Ann Bovino	Standard and Poor's	2.5	2.1	2.2	2.3	2.3
Michael Carey	Credit Agricole CIB	2.3	2.2	2.4	2.6	2.6
Joseph Carson	AllianceBernstein	2.4	3.0	3.0	3.0	3.0
Mike Cosgrove	Econoclast	2.5	2.5	2.2	2.0	2.0
Lou Crandall	Wrightson ICAP	2.5	2.7	2.7	2.6	2.6
Amy Crews Cutts	Equifax	1.7	2.0	2.3	2.5	2.5
J. Dewey Daane	Vanderbilt University	1.8	2.0	2.3	2.5	2.5
Greg Daco	Oxford Economics	2.3	2.2	2.3	2.2	2.2
Rajeev Dhawan	Georgia State University	2.3	2.0	2.1	2.0	2.0
Robert Dietz	National Association of Home Builders	2.0	2.1	2.1	2.1	2.1
Douglas Duncan	Fannie Mae	2.5	2.3	2.2	2.1	2.1
Robert Dye	Comerica Bank	2.5	2.4	2.3	2.2	2.2
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	2.4	2.2	2.4	—	—
Mike Fratantoni	Mortgage Bankers Association	2.6	2.3	2.4	2.6	2.6
Michael Gregory	BMO Capital	2.2	2.3	2.3	2.3	2.3
Jan Hatzius	Goldman, Sachs & Co.	2.4	2.6	2.1	2.2	2.2
Stuart Hoffman	PNC Financial Services Group	2.3	2.3	2.4	2.4	2.4
Derek Holt	Scotiabank	2.0	2.3	2.3	2.3	2.3
Constance Hunter	KPMG	2.2	2.4	2.1	2.1	2.1
Nathaniel Karp	BBVA Compass	2.2	2.4	2.6	2.8	2.8
Jack Kleinhenz	National Retail Federation	2.4	2.5	2.6	2.5	2.5
Joseph LaVorgna	Deutsche Bank Securities, Inc.	1.8	2.1	2.2	2.3	2.3
Edward Leamer/David Shulman	UCLA Anderson Forecast	2.3	2.5	2.8	2.7	2.7
John Lonski	Moody's Investors Service	1.9	1.6	1.5	1.6	1.6
Aneta Markowska	Societe Generale	2.5	2.8	2.3	2.2	2.2
Jim Meil	ACT Research	1.8	2.7	3.0	2.5	2.5
Michael Moran	Daiwa Capital	2.4	2.3	2.4	2.5	2.5
Chad Moutray	National Association of Manufacturers	2.3	2.8	2.7	2.6	2.6
Joel Naroff	Naroff Economic Advisors	2.6	2.8	3.0	2.8	2.8
Mark Nielson	MacroEcon Global Advisors	1.9	2.2	2.5	2.7	2.7
Frank Nothaft	Corelogic	2.3	2.4	2.5	2.5	2.5
Jim O'Sullivan	High Frequency Economics	2.2	2.7	2.8	2.9	2.9
Lindsey Piegza	Stifel, Nicoulas and Company, Incorporated	1.8	1.3	1.2	—	—
Dr. Joel Prakken/ Chris Varvares	Macroeconomic Advisers	2.5	2.3	2.0	2.1	2.1
Russell Price	Ameriprise Financial	2.3	2.2	2.2	2.2	2.2
Lynn Reaser	Point Loma Nazarene University	1.8	2.0	2.1	2.2	2.2
Martin Regalia	Chamber of Commerce	1.8	1.8	—	—	—
Ian Shepherdson	Pantheon Macroeconomics	2.7	3.0	2.7	2.5	2.5
John Silvia	Wells Fargo & Co.	2.4	2.5	2.7	2.5	2.5
Allen Sinai	Decision Economics, Inc.	2.4	2.5	2.4	2.3	2.3
James F. Smith	Parsec Financial Management	1.6	1.6	1.7	1.8	1.8
Sean M. Snaith	University of Central Florida	3.1	3.3	3.4	3.3	3.3
Sung Won Sohn	California State University	2.3	2.3	2.3	2.4	2.4
Stephen Stanley	Pierpont Securities	2.9	3.3	3.4	3.3	3.3
Susan M. Sterne	Economic Analysis Associates Inc.	2.5	2.2	2.3	2.5	2.5
James Sweeney	CSFB	2.0	2.1	—	—	—
Kevin Swift	American Chemisty Council	2.3	2.5	2.5	2.3	2.3
Diane Swonk	Diane Swonk & Associates LLC	2.7	2.4	2.4	2.5	2.5
Carl Tannenbaum	The Northern Trust	2.0	2.0	2.0	2.0	2.0
US Economics Team	BNP Paribas	2.2	2.3	2.5	2.6	2.6
Bart van Ark	The Conference Board	2.2	2.4	—	—	—
Brian S. Wesbury/ Robert Stein	First Trust Advisors, L.P.	2.7	2.8	2.9	3.0	3.0
Lawrence Yun	National Association of Realtors	3.0	3.1	3.0	2.8	2.8
	Averages:	2.3 %	2.4 %	2.4 %	2.5 %	2.5 %

Source: Wall Street Journal Economic Forecasting Survey, December 2016

As the preceding table indicates, the financial analysts who were surveyed in December 2016 anticipated inflation rates ranging from 1.6% to 3.1% (on an annualized basis) for June 2017; the average of these data points was 2.3%. The same group expects annualized inflation rates of 2.4% for both December 2017 and June 2018, slightly lower than the 2.5% average inflation rate forecast for December 2018.

As a further check on these inflation projections, we have reviewed historical increases in the Consumer Price Index (CPI-U). Because the value of real estate is predicated on cash flows over a relatively long period, inflation should be considered from a long-term perspective.

FIGURE 7-5 NATIONAL CONSUMER PRICE INDEX (ALL URBAN CONSUMERS)

Year	National Consumer Price Index	Percent Change from Previous Year
2006	201.6	—
2007	207.3	2.8 %
2008	215.3	3.8
2009	214.5	-0.4
2010	218.1	1.6
2011	224.9	3.1
2012	229.6	2.1
2013	233.0	1.5
2014	234.8	0.8
2015	236.5	0.7
2016	241.5	2.1
Average Annual Compounded Change		
	2006 - 2016:	1.8 %
	2011 - 2016:	1.4

Source: Bureau of Labor Statistics

Between 2006 and 2016, the national CPI increased at an average annual compounded rate of 1.8%; from 2011 to 2016, the CPI rose by a slightly lower average annual compounded rate of 1.4%. In 2016, the CPI rose by 2.1%, an increase from the level of 0.7% recorded in 2015.

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied underlying inflation rates of 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2016. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Forecast of Revenue and Expense

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of income and expense. The following table presents a detailed forecast through the fifth projection year, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on January 1, 2019, expressed in inflated dollars for each year.

FIGURE 7-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2019	(Calendar Year)			2020				2021				Stabilized				2023			
Number of Rooms:	309				309				309				309				309			
Occupancy:	54%				63%				67%				68%				68%			
Average Rate:	$135.73				$141.24				$148.45				$152.90				$157.49			
RevPAR:	$73.29				$88.98				$99.46				$103.97				$107.09			
Days Open:	365				365				365				365				365			
Occupied Rooms:	60,904	%Gross	PAR	POR	71,055	%Gross	PAR	POR	75,566	%Gross	PAR	POR	76,694	%Gross	PAR	POR	76,694	%Gross	PAR	POR
OPERATING REVENUE																				
Rooms	$8,266	59.1 %	$26,751	$135.72	$10,036	60.7 %	$32,479	$141.24	$11,218	61.7 %	$36,304	$148.45	$11,727	61.8 %	$37,951	$152.91	$12,078	61.8 %	$39,087	$157.48
Food	3,883	27.8	12,567	63.76	4,469	27.0	14,464	62.90	4,818	26.5	15,593	63.76	5,018	26.4	16,240	65.43	5,169	26.4	16,728	67.40
Beverage	1,337	9.6	4,328	21.96	1,493	9.0	4,833	21.02	1,591	8.7	5,150	21.06	1,653	8.7	5,348	21.55	1,702	8.7	5,509	22.19
Other Operated Departments	387	2.8	1,254	6.36	416	2.5	1,346	5.85	436	2.4	1,412	5.77	451	2.4	1,460	5.88	465	2.4	1,504	6.06
Miscellaneous Income	116	0.8	376	1.91	125	0.8	404	1.76	131	0.7	423	1.73	135	0.7	438	1.77	139	0.7	451	1.82
Total Operating Revenues	13,990	100.0	45,276	229.71	16,539	100.0	53,526	232.77	18,195	100.0	58,882	240.78	18,984	100.0	61,438	247.54	19,553	100.0	63,279	254.95
DEPARTMENTAL EXPENSES *																				
Rooms	1,871	22.6	6,055	30.72	2,038	20.3	6,597	28.69	2,150	19.2	6,959	28.46	2,228	19.0	7,210	29.05	2,295	19.0	7,427	29.92
Food & Beverage	3,439	65.9	11,131	56.47	3,701	62.1	11,979	52.09	3,885	60.6	12,573	51.41	4,020	60.3	13,011	52.42	4,141	60.3	13,401	53.99
Other Operated Departments	284	73.2	918	4.66	296	71.1	957	4.16	306	70.2	991	4.05	316	70.0	1,022	4.12	325	70.0	1,053	4.24
Total Expenses	5,594	40.0	18,104	91.85	6,036	36.5	19,533	84.94	6,342	34.9	20,524	83.92	6,564	34.6	21,244	85.59	6,761	34.6	21,881	88.16
DEPARTMENTAL INCOME	8,396	60.0	27,172	137.86	10,504	63.5	33,993	147.83	11,853	65.1	38,358	156.85	12,420	65.4	40,195	161.94	12,792	65.4	41,398	166.79
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,203	8.6	3,893	19.75	1,278	7.7	4,135	17.98	1,337	7.3	4,327	17.70	1,382	7.3	4,472	18.02	1,423	7.3	4,606	18.56
Info & Telecom Systems	190	1.4	615	3.12	202	1.2	653	2.84	211	1.2	683	2.79	218	1.1	706	2.84	225	1.1	727	2.93
Marketing	1,368	9.8	4,426	22.45	1,332	8.1	4,309	18.74	1,267	7.0	4,100	16.76	1,309	6.9	4,236	17.07	1,348	6.9	4,363	17.58
Franchise Fee	744	5.3	2,408	12.21	903	5.5	2,923	12.71	1,010	5.5	3,267	13.36	1,055	5.6	3,416	13.76	1,087	5.6	3,518	14.17
Prop. Operations & Maint.	506	3.6	1,639	8.32	605	3.7	1,959	8.52	704	3.9	2,278	9.31	727	3.8	2,353	9.48	749	3.8	2,424	9.77
Utilities	601	4.3	1,946	9.88	639	3.9	2,068	8.99	669	3.7	2,164	8.85	691	3.6	2,236	9.01	712	3.6	2,303	9.28
Total Expenses	4,612	33.0	14,926	75.73	4,958	30.1	16,047	69.78	5,197	28.6	16,819	68.77	5,382	28.3	17,419	70.18	5,544	28.3	17,941	72.28
GROSS HOUSE PROFIT	3,784	27.0	12,245	62.13	5,545	33.4	17,947	78.05	6,656	36.5	21,540	88.08	7,038	37.1	22,776	91.76	7,248	37.1	23,457	94.51
Management Fee	420	3.0	1,358	6.89	496	3.0	1,606	6.98	546	3.0	1,766	7.22	570	3.0	1,843	7.43	587	3.0	1,898	7.65
INCOME BEFORE NON-OPR. INC. & EXP.	3,364	24.0	10,887	55.24	5,049	30.4	16,341	71.06	6,110	33.5	19,773	80.86	6,468	34.1	20,933	84.34	6,662	34.1	21,559	86.86
NON-OPERATING INCOME & EXPENSE																				
Property Taxes	483	3.5	1,563	7.93	611	3.7	1,978	8.60	658	3.6	2,129	8.70	708	3.7	2,292	9.23	729	3.7	2,360	9.51
Insurance	166	1.2	538	2.73	171	1.0	555	2.41	177	1.0	571	2.34	182	1.0	588	2.37	187	1.0	606	2.44
Reserve for Replacement	280	2.0	906	4.59	496	3.0	1,606	6.98	728	4.0	2,355	9.63	759	4.0	2,458	9.90	782	4.0	2,531	10.20
Total Expenses	929	6.7	3,007	15.26	1,279	7.7	4,138	17.99	1,562	8.6	5,055	20.67	1,649	8.7	5,338	21.51	1,699	8.7	5,498	22.15
EBITDA LESS RESERVE	$2,435	17.3 %	$7,880	$39.98	$3,771	22.7 %	$12,203	$53.07	$4,548	24.9 %	$14,718	$60.18	$4,819	25.4 %	$15,595	$62.83	$4,963	25.4 %	$16,061	$64.71

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

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

	2019		2020		2021		2022		2023	
Number of Rooms:	**309**		**309**		**309**		**309**		**309**	
Occupied Rooms:	**60,904**		**71,055**		**75,566**		**76,694**		**76,694**	
Occupancy:	**54%**		**63%**		**67%**		**68%**		**68%**	
Average Rate:	**$135.73**	**% of**	**$141.24**	**% of**	**$148.45**	**% of**	**$152.90**	**% of**	**$157.49**	**% of**
RevPAR:	**$73.29**	**Gross**	**$88.98**	**Gross**	**$99.46**	**Gross**	**$103.97**	**Gross**	**$107.09**	**Gross**
OPERATING REVENUE										
Rooms	$8,266	59.1 %	$10,036	60.7 %	$11,218	61.7 %	$11,727	61.8 %	$12,078	61.8 %
Food	3,883	27.8	4,469	27.0	4,818	26.5	5,018	26.4	5,169	26.4
Beverage	1,337	9.6	1,493	9.0	1,591	8.7	1,653	8.7	1,702	8.7
Other Operated Departments	387	2.8	416	2.5	436	2.4	451	2.4	465	2.4
Miscellaneous Income	116	0.8	125	0.8	131	0.7	135	0.7	139	0.7
Total Operating Revenues	13,990	100.0	16,539	100.0	18,195	100.0	18,984	100.0	19,553	100.0
DEPARTMENTAL EXPENSES *										
Rooms	1,871	22.6	2,038	20.3	2,150	19.2	2,228	19.0	2,295	19.0
Food & Beverage	3,439	65.9	3,701	62.1	3,885	60.6	4,020	60.3	4,141	60.3
Other Operated Departments	284	73.2	296	71.1	306	70.2	316	70.0	325	70.0
Total Expenses	5,594	40.0	6,036	36.5	6,342	34.9	6,564	34.6	6,761	34.6
DEPARTMENTAL INCOME	8,396	60.0	10,504	63.5	11,853	65.1	12,420	65.4	12,792	65.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	1,203	8.6	1,278	7.7	1,337	7.3	1,382	7.3	1,423	7.3
Info & Telecom Systems	190	1.4	202	1.2	211	1.2	218	1.1	225	1.1
Marketing	1,368	9.8	1,332	8.1	1,267	7.0	1,309	6.9	1,348	6.9
Franchise Fee	744	5.3	903	5.5	1,010	5.5	1,055	5.6	1,087	5.6
Prop. Operations & Maint.	506	3.6	605	3.7	704	3.9	727	3.8	749	3.8
Utilities	601	4.3	639	3.9	669	3.7	691	3.6	712	3.6
Total Expenses	4,612	33.0	4,958	30.1	5,197	28.6	5,382	28.3	5,544	28.3
GROSS HOUSE PROFIT	3,784	27.0	5,545	33.4	6,656	36.5	7,038	37.1	7,248	37.1
Management Fee	420	3.0	496	3.0	546	3.0	570	3.0	587	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	3,364	24.0	5,049	30.4	6,110	33.5	6,468	34.1	6,662	34.1
NON-OPERATING INCOME & EXPENSE										
Property Taxes	483	3.5	611	3.7	658	3.6	708	3.7	729	3.7
Insurance	166	1.2	171	1.0	177	1.0	182	1.0	187	1.0
Reserve for Replacement	280	2.0	496	3.0	728	4.0	759	4.0	782	4.0
Total Expenses	929	6.7	1,279	7.7	1,562	8.6	1,649	8.7	1,699	8.7
EBITDA LESS RESERVE	$2,435	17.3 %	$3,771	22.7 %	$4,548	24.9 %	$4,819	25.4 %	$4,963	25.4 %

	2024		2025		2026		2027		2028	
Number of Rooms:	**309**		**309**		**309**		**309**		**309**	
Occupied Rooms:	**76,694**		**76,694**		**76,694**		**76,694**		**76,694**	
Occupancy:	**68%**		**68%**		**68%**		**68%**		**68%**	
Average Rate:	**$162.21**	**% of**	**$167.08**	**% of**	**$172.09**	**% of**	**$177.25**	**% of**	**$182.57**	**% of**
RevPAR:	**$110.30**	**Gross**	**$113.61**	**Gross**	**$117.02**	**Gross**	**$120.53**	**Gross**	**$124.15**	**Gross**
OPERATING REVENUE										
Rooms	$12,441	61.8 %	$12,814	61.8 %	$13,198	61.8 %	$13,594	61.8 %	$14,002	61.8 %
Food	5,324	26.4	5,484	26.4	5,648	26.4	5,818	26.4	5,992	26.4
Beverage	1,753	8.7	1,806	8.7	1,860	8.7	1,916	8.7	1,973	8.7
Other Operated Departments	479	2.4	493	2.4	508	2.4	523	2.4	539	2.4
Miscellaneous Income	144	0.7	148	0.7	152	0.7	157	0.7	162	0.7
Total Operating Revenues	20,140	100.0	20,744	100.0	21,366	100.0	22,007	100.0	22,668	100.0
DEPARTMENTAL EXPENSES *										
Rooms	2,364	19.0	2,435	19.0	2,508	19.0	2,583	19.0	2,660	19.0
Food & Beverage	4,265	60.3	4,393	60.3	4,525	60.3	4,661	60.3	4,801	60.3
Other Operated Departments	335	70.0	345	70.0	356	70.0	366	70.0	377	70.0
Total Expenses	6,964	34.6	7,173	34.6	7,388	34.6	7,610	34.6	7,838	34.6
DEPARTMENTAL INCOME	13,176	65.4	13,571	65.4	13,978	65.4	14,398	65.4	14,830	65.4
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	1,466	7.3	1,510	7.3	1,555	7.3	1,602	7.3	1,650	7.3
Info & Telecom Systems	231	1.1	238	1.1	246	1.1	253	1.1	260	1.1
Marketing	1,389	6.9	1,430	6.9	1,473	6.9	1,517	6.9	1,563	6.9
Franchise Fee	1,120	5.6	1,153	5.6	1,188	5.6	1,223	5.6	1,260	5.6
Prop. Operations & Maint.	772	3.8	795	3.8	818	3.8	843	3.8	868	3.8
Utilities	733	3.6	755	3.6	778	3.6	801	3.6	825	3.6
Total Expenses	5,710	28.3	5,881	28.3	6,058	28.3	6,240	28.3	6,427	28.3
GROSS HOUSE PROFIT	7,466	37.1	7,690	37.1	7,920	37.1	8,158	37.1	8,403	37.1
Management Fee	604	3.0	622	3.0	641	3.0	660	3.0	680	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	6,862	34.1	7,068	34.1	7,279	34.1	7,498	34.1	7,723	34.1
NON-OPERATING INCOME & EXPENSE										
Property Taxes	751	3.7	774	3.7	797	3.7	821	3.7	846	3.7
Insurance	193	1.0	199	1.0	205	1.0	211	1.0	217	1.0
Reserve for Replacement	806	4.0	830	4.0	855	4.0	880	4.0	907	4.0
Total Expenses	1,750	8.7	1,802	8.7	1,856	8.7	1,912	8.7	1,969	8.7
EBITDA LESS RESERVE	$5,112	25.4 %	$5,265	25.4 %	$5,423	25.4 %	$5,586	25.4 %	$5,754	25.4 %

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

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take four years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the proposed subject hotel's operating budget and comparable income and expense statements. The forecast is based upon calendar years beginning January 1, 2019, expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. The proposed subject hotel is expected to stabilize at an occupancy level of 68% with an average rate of $152.90 in 2022. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

Food and Beverage Revenue

Food and beverage revenue is generated by a hotel's restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. With the exception of properties with active lounges or banquet facilities that draw local residents, in-house guests generally represent a substantial percentage of a hotel's food and beverage patrons. In the case of the Hotel Arizona, food and beverage department will include a three-meal restaurant, a signature restaurant, a lobby bar and lounge, and "made market"/grab-n-go; moreover, banquet space is expected to span 26,500 square feet.

Although food and beverage revenue varies directly with changes in occupancy, the small portion generated by banquet sales and outside capture is relatively fixed. The proposed subject hotel's food and beverage operation is expected to be an important component of the hotel. Therefore, based upon our review of comparable operating statements, we have positioned an appropriate revenue level given the hotel's planned facility and price point. We would anticipate future moderate growth to occur within this category after the hotel's opening.

FIGURE 7-8 FOOD AND BEVERAGE REVENUE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Food & Beverage Revenue							
Percentage of Revenue	25.1 %	30.1 %	34.3 %	35.1 %	34.2 %	37.4 %	35.1 %
Per Available Room	$13,702	$17,465	$17,641	$16,878	$17,577	$16,895	$18,346
Per Occupied Room	$54.18	$59.88	$70.44	$72.47	$75.29	$85.72	$73.92

HVS

Other Operated Departments Revenue

According to the Uniform System of Accounts, other operated departments include any major or minor operated department other than rooms and food and beverage. The proposed subject hotel's other operated departments revenue sources are expected to include the hotel's telephone charges, parking revenues, gift shop sales, valet laundry fees, and in-room movie and game charges. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel.

FIGURE 7-9 OTHER OPERATED DEPARTMENTS REVENUE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	7.2 %	0.6 %	0.0 %	0.3 %	0.2 %	2.8 %	2.4 %
Per Available Room	$3,931	$333	$0	$143	$128	$1,254	$1,241
Per Occupied Room	$15.54	$1.14	$0.00	$0.61	$0.55	$6.36	$5.00

Miscellaneous Income

The miscellaneous income sources comprise those other than guestrooms, food and beverage, and the other operated departments. The proposed subject hotel's miscellaneous income revenues are expected to be generated primarily by the hotel's commissions earned on the vending sales and other minor collections, such as cancelation fees. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

FIGURE 7-10 MISCELLANEOUS INCOME

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	7.2 %	0.6 %	0.0 %	0.3 %	0.2 %	0.8 %	0.7 %
Per Available Room	$3,931	$333	$0	$143	$128	$376	$372
Per Occupied Room	$15.54	$1.14	$0.00	$0.61	$0.55	$1.91	$1.50

Rooms Expense

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

Commissions and reservations are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. While guest supplies vary 100% with occupancy, linens and other operating expenses are only slightly affected by volume. The proposed subject hotel's rooms department expense has been positioned based upon our review of the comparable operating data and our understanding of the hotel's future service level and price point.

FIGURE 7-11 ROOMS EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	22.6 %	19.0 %
Per Available Room	$0	$0	$0	$0	$0	$6,055	$6,128
Per Occupied Room	$0.00	$0.00	$0.00	$0.00	$0.00	$30.72	$24.69

Food and Beverage Expense

Food expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. The costs associated with food sales and payroll are moderately to highly correlated to food revenues. Items such as china, linen and uniforms are less dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor. Beverage expenses consist of items necessary for the operation of a hotel’s lounge and bar areas. The costs associated with beverage sales and payroll are moderately to highly correlated to beverage revenues. The proposed subject hotel's food and beverage operation is expected to be efficiently managed and operated at an expense level that is in line with other comparable operations.

FIGURE 7-12 FOOD AND BEVERAGE EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	62.7 %	68.7 %	54.9 %	60.7 %	53.5 %	65.9 %	60.3 %
Per Available Room	$8,585	$11,993	$9,691	$10,241	$9,395	$11,131	$11,057
Per Occupied Room	$33.95	$41.12	$38.70	$43.97	$40.25	$56.47	$44.55

Other Operated Departments Expense

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories. This was previously discussed in this chapter. The proposed subject hotel's other operated departments revenue sources are expected to include the hotel's telephone charges, parking revenues, gift shop sales, valet laundry fees, and in-room movie and game charges. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel.

FIGURE 7-13 OTHER OPERATED DEPARTMENTS EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	58.4 %	77.9 %	0.0 %	258.6 %	43.5 %	73.2 %	70.0 %
Per Available Room	$2,294	$259	$0	$368	$56	$918	$869
Per Occupied Room	$9.07	$0.89	$0.00	$1.58	$0.24	$4.66	$3.50

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the administrative and general expense level at a market- and property-supported level.

FIGURE 7-14 ADMINISTRATIVE AND GENERAL EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	8.6 %	7.3 %
Per Available Room	$0	$0	$0	$0	$0	$3,893	$3,800
Per Occupied Room	$0.00	$0.00	$0.00	$0.00	$0.00	$19.75	$15.31

Information and Telecommunications Systems Expense

Information and telecommunications systems expense consists of all costs associated with a hotel's technology infrastructure. This includes the costs of cell phones, administrative call and Internet services, and complimentary call and Internet services. Expenses in this category are typically organized by type of technology, or the area benefitting from the technology solution. We expect the proposed subject hotel's information and telecommunications systems to be well managed. Expense levels should stabilize at a typical level for a property of this type.

Marketing Expense

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

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

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the marketing expense level at a market- and property-supported level.

FIGURE 7-15 MARKETING EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	1.2 %	0.5 %	0.0 %	0.0 %	1.5 %	9.8 %	6.9 %
Per Available Room	$636	$308	$0	$0	$770	$4,426	$3,600
Per Occupied Room	$2.52	$1.06	$0.00	$0.00	$3.30	$22.45	$14.50

Franchise Fee

As previously discussed, the proposed subject property is expected to be franchised under the DoubleTree by Hilton brand. Costs associated with this franchise are summarized in the introductory chapter in this report.

Property Operations and Maintenance

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure;

they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long term.

We expect the proposed subject hotel's maintenance operation to be well managed. Expense levels should stabilize at a typical level for a property of this type. Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

FIGURE 7-16 PROPERTY OPERATIONS AND MAINTENANCE EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	3.1 %	5.1 %	3.2 %	4.1 %	4.8 %	3.6 %	3.8 %
Per Available Room	$1,717	$2,939	$1,628	$1,962	$2,448	$1,639	$2,000
Per Occupied Room	$6.79	$10.08	$6.50	$8.42	$10.49	$8.32	$8.06

Utilities Expense

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

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their utility requirements with less expensive sources, such as gas and oil, for heating and cooking. The changes in this utilities line item through the projection period are a result of the application of the underlying inflation rate and projected changes in occupancy.

FIGURE 7-17 UTILITIES EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	3.7 %	5.3 %	4.1 %	4.4 %	2.8 %	4.3 %	3.6 %
Per Available Room	$2,013	$3,091	$2,126	$2,107	$1,463	$1,946	$1,900
Per Occupied Room	$7.96	$10.60	$8.49	$9.05	$6.27	$9.88	$7.66

Management Fee

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand-name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are often based on a percentage of total revenue, which means they have no fixed component. While base fees typically range from 2% to 4% of total revenue, incentive fees are deal specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity. Total management fees for the proposed subject hotel have been forecast at 3.0% of total revenue.

Property Taxes

Depending on the taxing policy of the municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property. The Arizona taxing jurisdiction governing the subject site assesses hotels for real and personal property.

Property assessments in this county are reviewed and adjusted annually at market value, referred to as "full cash value." In addition, each property also has a second "limited value" that cannot exceed the full cash value. The limited value is essentially used to buffer the impact of changes in assessment so that any change is absorbed over a multiple-year period. Properties are generally inspected every three years, with annual adjustments based upon market factors and information compiled by the Arizona Department of Revenue. The County assesses improvements for hotels with over 200 rooms using the income approach to value, while hotels under 200 rooms are assessed using the cost approach via the Marshall & Swift cost estimator. Depreciation is generally based upon age, with commercial properties having an average 50-year life span and a 60% maximum depreciation. Personal property is taxed at a similar rate as real property (less the applicable flood assessment), but full cash and limited values are calculated based on inventories submitted by the property owner; personal property is depreciated annually.

In 2012, Arizona voters approved Proposition 117, an amendment to the state constitution that provides property tax relief starting in 2015. Going forward, property taxes will be calculated only on the limited property value, and year-over-year value increases will be capped at no more than 5% per year. Annual tax burdens will be calculated by applying both the primary and secondary tax rates to the limited property value. The full cash value (i.e., market value) will continue to appear on the property tax record; however, it will no longer be used to calculate the amount of property tax owed.

Because the objective of assessed value is to maintain a specific value relationship among all properties in a taxing jurisdiction, comparable hotel assessments should be evaluated to estimate a probable future assessed value. A review of the assessed values of several comparable hotels located in the local county jurisdiction reveals the following information.

FIGURE 7-18 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Year Built	FCV	Personal	Total
Tucson University Park Hotel	1996	$19,999,000	$652,638	$20,651,638
Aloft Tucson University	1971	9,743,434	0	9,743,434
DoubleTree Suites by Hilton Tucson Williams Center	1975	7,500,000	601,103	8,101,103
DoubleTree by Hilton Tucson Reid Park	1974	14,350,000	1,690,939	16,040,939
Hilton Tucson East	1987	11,136,000	748,828	11,884,828
Sheraton Hotel & Suites Tucson	1985	10,800,000	935,670	11,735,670
Assessments per Room	*# of Rms*			
Tucson University Park Hotel	250	$79,996	$2,611	$82,607
Aloft Tucson University	154	63,269	0	63,269
DoubleTree Suites by Hilton Tucson Williams Center	142	52,817	4,233	57,050
DoubleTree by Hilton Tucson Reid Park	287	50,000	5,892	55,892
Hilton Tucson East	232	48,000	3,228	51,228
Sheraton Hotel & Suites Tucson	216	50,000	4,332	54,332
Positioned Subject - Per Room	**309**	**$65,000**	**$4,500**	**$69,500**
Positioned Subject - Total		**$20,085,000**	**$1,390,500**	**$21,475,500**

Pima County Assessors Office

We have positioned the future assessment levels of the subject site and proposed improvements, as well as the planned personal property, based upon the illustrated comparable data. We have positioned these real property assessments closest to the Aloft Tucson University given the hotel's relatively recent redevelopment, while personal property has been positioned closest to the DoubleTree Suites by Hilton Tucson Williams Center due to its recent property-wide renovations. Overall, the positioned assessments are well supported by the market data.

Tax rates are based on the city and county budgets, which change annually. The following table shows changes in the tax rate during the last several years.

FIGURE 7-19 PROPERTY TAX RATES

Tax Code: 0150

Year	Combined Real Property Tax Rate	Combined Personal Tax Rate
2014	16.76720	16.76720
2015	16.96600	16.96600
2016	16.67890	16.67890

Pima County Assessors Office

The most recent combined tax rate in this jurisdiction was reported at 16.67890% for both real and personal property. For the purposes of this appraisal, we have assumed that the tax rate will eventually increase by the underlying rate of inflation.

We have based our estimate of the subject property's market value (for tax purposes) on an analysis of county assessments of both the subject property and comparable hotel properties in the local county. The following table details the subject property's assessment history, as well as the calculated tax burden in future years.

Arizona law requires the assessor's office to identify if a change in use, addition, or deletion of an improvement to a property has occurred. When there are additional improvements due to new construction, the Rule B process is utilized to calculate the limited property value. Rule B-5 applies to structures that are more than 50% (but less than 100%) completed prior to the deadline for the current valuation year (January 31). For structures that are less than 100% completed, the full cash value (market value) is set at a percentage complete of the market value as if 100% completed. The average ratio between the limited property value and full cash value is 95% of the positioned full cash value. Rule B-6 pertains to property that had a partially completed structure for the previous valuation year but is now complete. In this case, the full cash value represents 100% of market value as completed, while the limited property value is set at a 90% ratio of the full cash value.

FIGURE 7-20 RULE B ANALYSIS – RULE B5

2019 (75% Complete)	Estimated Amount
Positioned Full Cash Value	$20,085,000
Full Cash Value @ 75% of Positioned Full Cash Value	15,063,750
Limited Property Value @ 95% ratio of Full Cash Value	14,310,563

Source: Maricopa County Assessor

FIGURE 7-21 RULE B ANALYSIS – RULE B6

2020 (100% Complete)	Estimated Amount
Positioned Full Cash Value	$20,085,000
Full Cash Value @ 100% of Positioned Full Cash Value	20,085,000
Limited Property Value @ 90% ratio of Full Cash Value	18,076,500

Source: Maricopa County Assessor

FIGURE 7-22 SUBJECT PROPERTY'S ASSESSMENT HISTORY AND FORECAST OF FUTURE TAX BURDEN

Year	Limited Property Value (LPV)	Assessment Ratio	LPV Assessed	Forecast Rate of Value Change	Base Rate of Tax Burden Increase	Combined Real Property Tax Rate	Tax Forecast - Real Property
Positioned	$18,076,500	18.0 %	$3,253,770	—	—	16.68	$542,693
2019	$14,310,563	18.0 %	$2,575,901	-20.8 %	2.0 %	—	$440,486
2020	18,076,500	18.0	3,253,770	26.3	2.5	—	567,415
2021	18,980,325	18.0	3,416,459	5.0	3.0	—	612,809
2022	19,929,341	18.0	3,587,281	5.0	3.0	—	661,833

Year	Full Cash Value (FCV)	Assessment Ratio	LPV Assessed	Forecast Rate of Value Change	Base Rate of Tax Burden Increase	Combined Real Property Tax Rate	Tax Forecast - Personal Property
Positioned	$1,390,500	18.0 %	$250,290	—	—	16.68	$41,746
2019	$1,390,500	18.0 %	$250,290	0.0 %	2.0 %	—	$42,581
2020	1,390,500	18.0	250,290	0.0	2.5	—	43,645
2021	1,390,500	18.0	250,290	0.0	3.0	—	44,954
2022	1,390,500	18.0	250,290	0.0	3.0	—	46,303

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage.

Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

FIGURE 7-23 INSURANCE EXPENSE

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2019	Deflated Stabilized
Percentage of Revenue	0.0 %	2.1 %	3.8 %	3.6 %	3.9 %	1.2 %	1.0 %
Per Available Room	$0	$1,195	$1,936	$1,706	$2,013	$538	$500
Per Occupied Room	$0.00	$4.10	$7.73	$7.32	$8.62	$2.73	$2.01

Reserve for Replacement

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

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

The International Society of Hospitality Consultants (ISHC) oversees a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent study was published in 2014.[7] Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year to year and depend upon both the actual and effective ages of a property. The results of this study showed that hotel lenders and investors are requiring reserves for replacement ranging from 4% to 5% of total revenue.

Based on the results of our analysis and on our review of the proposed subject asset and comparable lodging facilities, as well as on our industry expertise, we estimate that a reserve for replacement of 4% of total revenues is sufficient to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment. This amount has been ramped up during the initial projection period.

Forecast of Revenue and Expense Conclusion

Projected total revenue. House profit, and EBITDA less replacement reserves are set forth in the following table.

[7] The International Society of Hotel Consultants, *CapEx 2014, A Study of Capital Expenditure in the U.S. Hotel Industry*.

FIGURE 7-24 FORECAST OF REVENUE AND EXPENSE CONCLUSION

	Year	Total Revenue: Total	Total Revenue: % Change	House Profit: Total	House Profit: % Change	House Profit Ratio	EBITDA Less Replacement Reserve: Total	EBITDA Less Replacement Reserve: % Change	EBITDA Less Replacement Reserve: As a % of Ttl Rev
Projected	2019	$13,990,000	—	$3,784,000	—	27.0 %	$2,435,000	—	17.3 %
	2020	16,539,000	18.2 %	5,545,000	46.5 %	33.4	3,771,000	54.9 %	22.7
	2021	18,195,000	10.0	6,656,000	20.0	36.5	4,548,000	20.6	24.9
	2022	18,984,000	4.3	7,038,000	5.7	37.1	4,819,000	6.0	25.4
	2023	19,553,000	3.0	7,248,000	3.0	37.1	4,963,000	3.0	25.4

8. Feasibility Analysis

Return on investment can be defined as the future benefits of an income-producing property relative to its acquisition or construction cost. The first step in performing a return on investment analysis is to determine the amount to be initially invested. For a proposed property, this amount is most likely to be the development cost of the hotel. Based on the total development cost, the individual investor will utilize a return on investment analysis to determine if the future cash flow from a current cash outlay meets his or her own investment criteria and at what level above or below this amount such an outlay exceeds or fails to meet these criteria.

As an individual or company considering investment in hotel real estate, the decision to use one's own cash, an equity partner's capital, or lender financing will be an internal one. Because hotels typically require a substantial investment, only the largest investors and hotel companies generally have the means to purchase properties with all cash. We would anticipate the involvement of some financing by a third party for the typical investor or for those who may be entering the market for hotel acquisitions at this time. In leveraged acquisitions and developments where investors typically purchase or build upon real estate with a small amount of equity cash (20% to 50%) and a large amount of mortgage financing (50% to 80%), it is important for the equity investor to acknowledge the return requirements of the debt participant (mortgagee), as well as his or her own return requirements. Therefore, we will begin our rate of return analysis by reviewing the debt requirements of typical hotel mortgagees.

Construction Cost Estimate

Because the subject property is a proposed hotel, we have relied upon the actual development budget for the proposed subject hotel in performing a cost analysis. As this budget takes into consideration all of the physical, structural, and design elements specific to the property, it is believed to be the most accurate assessment of the actual cost of developing a hotel facility of this type. The details of this budget, prepared by the developers of the Hotel Arizona, are presented in the following table.

FIGURE 8-1 SUBJECT PROPERTY CONSTRUCTION BUDGET

Component	Cost	Cost per Room
General/Fire Safety		
General	$525,000	$1,699
Fire Safety	410,000	1,327
Subtotal General/Fire Safety	$935,000	$3,026
Basic Standard Issues		
Structure	$400,000	$1,294
Mechanical/Electrical/Plumbing	350,000	1,133
Technology	645,000	2,087
Subtotal Basic Standard Issues	1,395,000	$4,515
Site		
Signage	$115,000	$372
Grounds	75,000	243
Parking	342,000	1,107
Subtotal Site	$532,000	$1,722
Building Exterior		
Building	$170,000	$550
Porte Cochere	25,000	81
Doors	100,000	324
Windows	800,000	2,589
Subtotal Exterior	$1,095,000	$3,544
Public Areas		
Entrance/Lobby/Registration Area	$455,000	$1,472
Retail Shop	20,000	65
Public Restrooms	320,000	1,036
Subtotal Public Areas	$795,000	$2,573
Food and Beverage Facilities		
Lounge Facilities	$250,000	$809
Restaurant Facilities	150,000	485
Kitchens	500,000	1,618
Subtotal Food and Beverage Facilities	$900,000	$2,913
Meeting Spaces		
General	$335,000	$1,084
Ballroom Pre-Function	72,500	235
Ballrooms	150,000	485
Meeting Room Pre-Function	50,000	162
Meeting Rooms	100,000	324
Board Rooms	60,000	194
Subtotal Meeting Spaces	$767,500	$2,484
Recreational Areas		
Fitness Center	$150,000	$485
Pool Areas	310,000	1,003
Subtotal Recreational Areas	$460,000	$1,489
Back of House		
General	$250,000	$809
Main Laundry	250,000	809
Storage Rooms	57,500	186
Service Corridors	75,000	243
Subtotal Back of House	$632,500	$2,047
Guest Support and Circulation Areas		
Vending	$66,000	$214
Guest Laundry	15,000	49
Corridors	510,000	1,650
Elevator Lobbies	130,000	421
Elevators	150,000	485
Stairwells	60,000	194
Subtotal Guest Support and Circulation Areas	$931,000	$3,013
Guest Rooms		
Guestrooms	$6,545,000	$21,181
Specialty Suites	55,000	178
Guest Bathrooms	2,397,000	7,757
Subtotal Guest Rooms	$8,997,000	$29,117
Total	$17,440,000	$56,440

Mortgage Component

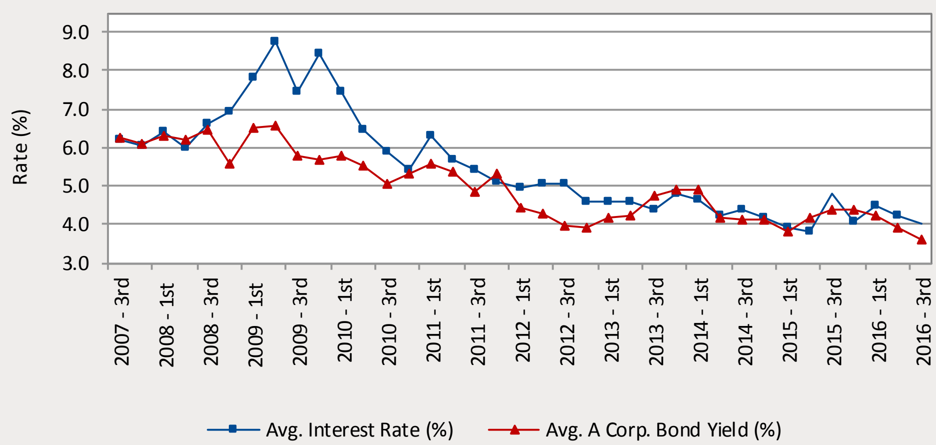
Hotel financing, while still available for most tiers of the lodging industry, has become more challenging to procure since mid-year 2015 given the concerns about rising levels of new supply and potential economic volatility. The CMBS market has been most affected because of this shifting environment. While many lenders remain active, underwriting standards are becoming more stringent. Lenders continue to be attracted to the lodging industry because of the higher yields generated by hotel financing relative to other commercial real estate, and the industry continues to perform strongly in most markets. To varying degrees and with some market selectivity, commercial banks, mortgage REITs, insurance companies, and CMBS and mezzanine lenders continue to pursue deals.

Data for the mortgage component may be developed from statistics of actual hotel mortgages made by long-term lenders. The American Council of Life Insurance, which represents 20 large life insurance companies, publishes quarterly information pertaining to the hotel mortgages issued by its member companies.

Because of the six- to nine-month lag time in reporting and publishing hotel mortgage statistics, it was necessary to update this information to reflect current lending practices. Our research indicates that the greatest degree of correlation exists between the average interest rate of a hotel mortgage and the concurrent yield on an average-A corporate bond.

The following chart summarizes the average mortgage interest rates of the hotel loans made by these lenders. For the purpose of comparison, the average-A corporate bond yield (as reported by *Moody's Bond Record*) is also shown.

FIGURE 8-2 AVERAGE MORTGAGE INTEREST RATES AND AVERAGE-A CORPORATE BOND YIELDS



Sources: American Council of Life Insurance, Moody's Bond Record, HVS

The relationship between hotel interest rates and the yields from the average-A corporate bond can be detailed through a regression analysis, which is expressed as follows.

$$Y = 0.95520400\ X + 0.77974091$$

Where: Y = Estimated Hotel Mortgage Interest Rate
X = Current Average-A Corporate Bond Yield
(Coefficient of correlation is 94%)

The April 5, 2017, average yield on average-A corporate bonds, as reported by Moody's Investors Service, was 4.17%. When used in the previously presented equation, a factor of 4.17 produces an estimated hotel/motel interest rate of 4.76% (rounded).

Despite the recent interest rate increases, hotel debt remains available at favorable interest rates, though some lenders have pulled out of the market, and underwriting standards have become more stringent. The most prevalent interest rates for single hotel assets are currently ranging from 5.0% to 7.0%, depending on the type of debt, loan-to-value ratio, and the quality of the asset and its market.

In addition to the mortgage interest rate estimate derived from this regression analysis, HVS constantly monitors the terms of hotel mortgage loans made by our institutional lending clients. Fixed-rate debt is being priced at roughly 250 to 500 basis points over the corresponding yield on treasury notes. As of April 5, 2017, the yield on the ten-year T-bill was 2.43%, indicating an interest rate range from 4.9% to 7.4%. The hotel investment market has been very active given the strong performance of this sector and low interest rates in recent years. The Federal Reserve, which raised the federal funds rate by 25 bps at the close of 2015 and another 25 bps in March 2017, is anticipated to raise interest rates two more times in 2017. Hotel mortgage interest rates have been slightly influenced by the recent rate increases by the Fed given the contraction in interest-rate spreads; however, future increases by the Fed raises the prospect of a higher cost of debt capital for hotel investors later in 2017. Hotel values have not yet been affected by the rise in the Fed rate; furthermore, debt capital is expected to remain available at favorable interest rates in the near term. At present, we find that lenders that are active in the market are using loan-to-value ratios of 60% to 75% and amortization periods of 20 to 30 years.

Based on our analysis of the current lodging industry mortgage market and adjustments for specific factors, such as the proposed property's location and conditions in the Tucson hotel market, it is our opinion that a 5.00% interest, 25-year amortization mortgage with a 0.070151 constant is appropriate for the proposed subject hotel. In the mortgage-equity analysis, we have applied a loan-to-cost ratio of 65%, which is reasonable to expect based on this interest rate and current parameters.

Equity Component

The remaining capital required for a hotel investment generally comes from the equity investor. The rate of return that an equity investor expects over a ten-year holding period is known as the equity yield. Unlike the equity dividend, which is a short-term rate of return, the equity yield specifically considers a long-term holding period (generally ten years), annual inflation- adjusted cash flows, property appreciation, mortgage amortization, and proceeds from a sale at the end of the holding period. To establish an appropriate equity yield rate, we have used two sources of data: past appraisals and investor interviews.

Hotel Sales – Each appraisal performed by HVS uses a mortgage-equity approach in which income is projected and then discounted to a current value at rates reflecting the cost of debt and equity capital. In the case of hotels that were sold near the date of our valuation, we were able to derive the equity yield rate and unlevered discount rate by inserting the ten-year projection, total investment (purchase price and estimated capital expenditure and/or PIP) and debt assumptions into a valuation model and solving for the equity yield. The overall capitalization rates for the historical income and projected first-year income are based on the sales price "as is." The following table shows a representative sample of hotels that were sold on or about the time that we appraised them, along with the derived equity return and discount rates based on the purchase price and our forecast.

FIGURE 8-3 SAMPLE OF HOTELS SOLD – FULL-SERVICE & LUXURY

Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Overall Rate Based on Sales Price: Historical Year	Overall Rate Based on Sales Price: Projected Year One
George Washington Univ. Inn	Washington, D.C.	95	Dec-16	11.2 %	18.3 %	4.5 %	4.6 %
Hilton Bellevue	Bellevue, WA	353	Dec-16	10.8	18.6	7.5	8.5
Hilton Phoenix Airport	Phoenix, AZ	259	Nov-16	9.9	17.5	7.9	8.2
Affinia Manhattan	New York, NY	618	Nov-16	8.8	14.8	5.1	4.8
Radisson	Whittier, CA	202	Oct-16	10.2	18.3	3.3	7.5
Holiday Inn Houston Webster	Webster, TX	109	Oct-16	11.3	22.1	7.0	8.0
Marriott San Francisco Airport	San Mateo, CA	476	Sep-16	10.3	16.9	8.6	8.0
Hilton Orange County Airport	Irvine, CA	306	Sep-16	10.3	18.9	7.3	7.7
Sheraton Salt Lake City Center	Salt Lake City, UT	362	Aug-16	12.6	21.8	9.4	9.5
Westin Harbour Island	Tampa, FL	299	Jul-16	8.5	14.3	5.9	6.7
Hilton	Melville, NY	305	Jul-16	10.5	18.5	8.6	8.4
Hyatt Regency Tech Center	Denver, CO	451	Jul-16	9.0	15.6	7.3	7.6
John Jeffries House	Boston, MA	46	Jul-16	7.2	10.5	3.4	—
Marriott	San Jose, CA	510	Jul-16	10.4	17.7	6.5	8.0
Hilton Suites	Phoenix, AZ	226	Jun-16	9.0	15.5	11.9	10.5
Rosewood Crescent Hotel	Dallas, TX	220	Jun-16	9.0	15.7	4.0	5.7
Hilton	Tampa, FL	521	Jun-16	9.5	17.2	6.5	7.3
NYLO	New York, NY	282	Jun-16	9.9	17.2	5.8	6.3
Marriott	Atlanta, GA	341	Jun-16	10.9	19.1	8.2	7.7
Holiday Inn Hotel & Suites	Lima, OH	116	Jun-16	12.3	22.0	13.6	12.4
DoubleTree by Hilton	Newark, NJ	504	Jun-16	9.9	15.8	5.7	6.1
Radisson Downtown	Austin, TX	413	May-16	10.5	17.2	3.9	4.3
DoubleTree by Hilton	Washington, D.C.	220	Apr-16	10.3	17.9	5.6	2.2
Wine Country Inn	Saint Helena, CA	29	Mar-16	10.9	19.2	5.9	6.3
Holiday Inn	Mobile, AL	97	Mar-16	10.2	18.4	7.9	8.0
Hilton Suites	Brentwood, TN	203	Mar-16	11.0	22.7	7.5	8.8
Hyatt Regency Rochester	Rochester, NY	338	Feb-16	10.9	17.1	10.7	5.2
Holiday Inn	Little Rock, AR	150	Feb-16	11.3	19.5	10.0	12.3
La Jolla Inn	La Jolla, CA	23	Feb-16	11.8	20.2	7.0	7.7
Sheraton	Saint Louis, MO	288	Feb-16	11.2	17.2	—	—
Equinox Golf Resort & Spa	Manchester Village, VT	195	Feb-16	10.1	19.1	7.0	7.2
Marriott	Salt Lake City, UT	217	Feb-16	11.1	19.2	8.9	10.3
Renaissance	Chicago, IL	332	Feb-16	10.3	16.7	5.8	7.0
Lambertville House	Lambertville, NJ	26	Jan-16	11.1	19.0	8.2	8.2
Strand Hotel	New York, NY	177	Jan-16	6.8	10.3	4.5	4.7
Hyatt Regency	Valencia, CA	244	Jan-16	10.7	19.8	7.2	8.6
Marriott Detroit Troy	Troy, MI	350	Jan-16	9.7	17.4	6.2	8.1
Crowne Plaza Orange County	Costa Mesa, CA	224	Jan-16	8.7	15.6	4.5	6.3

Source: HVS

Investor Interviews - During the course of our work, we continuously monitor investor equity-yield requirements through discussions with hotel investors and brokers. We find that equity-yield rates currently range from a low in the low-to-mid teens for high-barrier-to-entry "trophy assets"; the upper teens for high quality, institutional-grade assets in strong markets; and the upper teens to low 20s for quality assets in more typical markets. Equity-yield rates tend to exceed 20% for aging assets with functional obsolescence and/or other challenging property- or market-related issues. Equity return requirements also vary with an investment's level of leverage. Higher loan-to-value ratios are becoming more prevalent, allowing for increased equity returns.

The following table summarizes the range of equity yields indicated by hotel sales and investor interviews. We note that there tends to be a lag between the sales data and current market conditions, and thus, the full effect of the change in the economy and capital markets may not yet be reflected.

FIGURE 8-4 SUMMARY OF EQUITY YIELD OR INTERNAL RATE OF RETURN REQUIREMENTS

Source	Data Point Range	Average
HVS Hotel Sales - Full-Service & Luxury	10.3% - 22.7%	17.7%
HVS Hotel Sales - Select-Service & Extended-Stay	14.2% - 22.4%	19.1%
HVS Hotel Sales - Budget/Economy	15.6% - 25.3%	20.8%
HVS Investor Interviews	13% - 25%	

Based on the assumed 65% loan-to-cost ratio, the risk inherent in achieving the projected income stream, and the anticipated market position of the subject property, it is our opinion that an equity investor would expect to receive a 17.5% internal rate of return over a 10-year holding period, assuming that the investor obtains financing at the time of the project's completion at the loan-to-cost ratio and interest rate set forth.

Terminal Capitalization Rate

Inherent in this valuation process is the assumption of a sale at the end of the ten-year holding period. The estimated reversionary sale price as of that date is calculated by capitalizing the projected eleventh-year net income by an overall terminal capitalization rate. An allocation for the selling expenses is deducted from this sale price, and the net proceeds to the equity interest (also known as the equity residual) are calculated by deducting the outstanding mortgage balance from the reversion.

We have reviewed several recent investor surveys. The following chart summarizes the averages presented for terminal capitalization rates in various investor surveys during the past decade.

FIGURE 8-5 HISTORICAL TRENDS OF TERMINAL CAPITALIZATION RATES

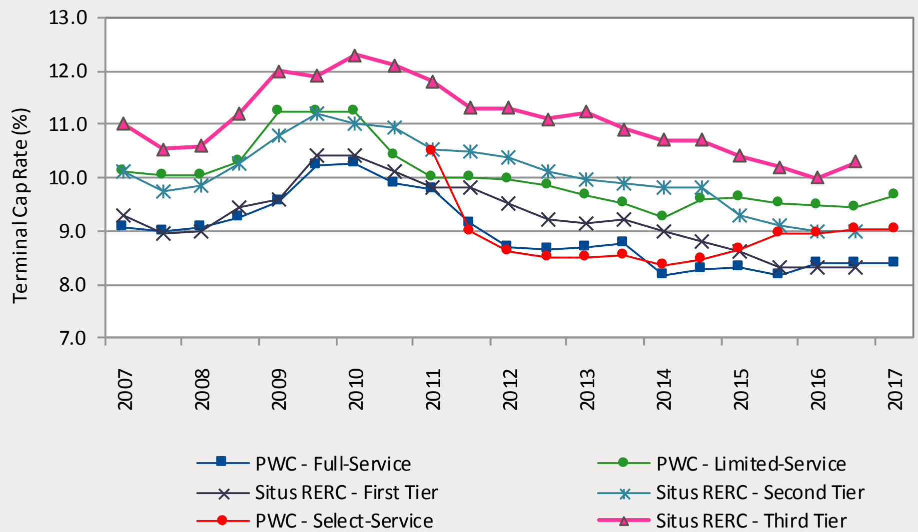


FIGURE 8-6 TERMINAL CAPITALIZATION RATES DERIVED FROM INVESTOR SURVEYS

Source	Data Point Range	Average
PWC Real Estate Investor Survey - 1st Quarter 2017		
Select-Service Hotels	7.0% - 10.75%	9.0%
Full-Service Hotels	7.0% - 10.0%	8.4%
Luxury Hotels	5.5% - 9.5%	7.2%
USRC Hotel Investment Survey - Mid-Year 2016		
Full-Service Hotels	7.5% - 9.0%	8.0%
Situs RERC Real Estate Report - 3rd Quarter 2016		
First Tier Hotels	6.5% - 10.5%	8.5%

For purposes of this analysis, we have applied a terminal capitalization rate of 9.0%. Our final position for the terminal capitalization rate reflects the current market for hotel investments. Terminal capitalization rates, which have remained stable over the past few years, have yet to reflect any change in investor expectations. Terminal cap rates are at the low end of the range for quality hotel assets in markets with high barriers to entry and at the high end of the range for older assets or for those suffering from functional obsolescence and/or weak market conditions, reflecting the market's recognition that certain assets have less opportunity for significant appreciation.

Mortgage-Equity Method

As the two participants in a real estate investment, investors and lenders must evaluate their equity and debt contributions based on their particular return requirements. After carefully weighing the risk associated with the projected economic benefits of a lodging investment, the participants will typically make their decision whether or not to invest in a hotel or resort by determining if their investment will provide an adequate yield over an established period. For the lender, this yield will typically reflect the interest rate required for a hotel mortgage over a period of what can range from seven to ten years. The yield to the equity participant may consider not only the requirements of a particular investor, but also the potential payments to cooperative or ancillary entities such as limited partner payouts, stockholder dividends, and management company incentive fees.

The return on investment analysis in a hotel acquisition would not be complete without recognizing and reflecting the yield requirements of both the equity and debt participants. The analysis will now calculate the yields to the mortgage and equity participants during a ten-year projection period.

The annual debt service is calculated by multiplying the mortgage component by the mortgage constant.

Mortgage Component	$35,594,000
Mortgage Constant	0.070151
Annual Debt Service	$2,496,948

The yield to the lender based on a 65% debt contribution equates to an interest rate of 5.00%, which is calculated as follows.

FIGURE 8-7 RETURN TO THE LENDER

Year	Total Annual Debt Service		Present Worth of $1 Factor at 4.9%		Discounted Cash Flow
2019	$2,497,000	x	0.952963	=	$2,380,000
2020	2,497,000	x	0.908138	=	2,268,000
2021	2,497,000	x	0.865421	=	2,161,000
2022	2,497,000	x	0.824714	=	2,059,000
2023	2,497,000	x	0.785922	=	1,962,000
2024	2,497,000	x	0.748954	=	1,870,000
2025	2,497,000	x	0.713725	=	1,782,000
2026	2,497,000	x	0.680153	=	1,698,000
2027	2,497,000	x	0.648161	=	1,618,000
2028	28,809,000 *	x	0.617673	=	17,795,000
			Value of Mortgage Compone		$35,593,000

*10th year debt service of $2,497,000 plus outstanding mortgage balance of $26,312,000

The following table illustrates the cash flow available to the equity position, after deducting the debt service from the projected net income.

FIGURE 8-8 NET INCOME TO EQUITY

Year	Net Income Available for Debt Service		Total Annual Debt Service		Net Income to Equity
2019	$2,434,840	-	$2,497,000	=	($62,160)
2020	3,770,691	-	2,497,000	=	1,273,691
2021	4,547,836	-	2,497,000	=	2,050,836
2022	4,818,942	-	2,497,000	=	2,321,942
2023	4,962,876	-	2,497,000	=	2,465,876
2024	5,112,279	-	2,497,000	=	2,615,279
2025	5,265,467	-	2,497,000	=	2,768,467
2026	5,423,102	-	2,497,000	=	2,926,102
2027	5,585,842	-	2,497,000	=	3,088,842
2028	5,753,559	-	2,497,000	=	3,256,559

In order for the present value of the equity investment to equate to the $19,167,000 capital outlay, the investor must accept a 14.8% return, as shown in the following table.

FIGURE 8-9 EQUITY COMPONENT YIELD

Year	Net Income to Equity		Present Worth of $1 Factor at 14.8%		Discounted Cash Flow
2019	-$62,160	x	0.871082	=	-$54,000
2020	1,273,691	x	0.758784	=	966,000
2021	2,050,836	x	0.660963	=	1,356,000
2022	2,321,942	x	0.575753	=	1,337,000
2023	2,465,876	x	0.501528	=	1,237,000
2024	2,615,279	x	0.436873	=	1,143,000
2025	2,768,467	x	0.380552	=	1,054,000
2026	2,926,102	x	0.331492	=	970,000
2027	3,088,842	x	0.288757	=	892,000
2028	40,815,559 *	x	0.251531	=	10,266,000
			Value of Equity Component		$19,167,000

*10th year net income to equity of $3,256,559 plus sales proceeds of $37,559,000

Conclusion

In determining the potential feasibility of the proposed Hotel Arizona, we analyzed the lodging market, researched the area's economics, reviewed the estimated development cost, and prepared a ten-year forecast of income and expense, which was based on our review of the current and historical market conditions, as well as comparable income and expense statements.

The conclusion of this analysis indicates that an equity investor contributing $19,167,000 (roughly 35% of the $54,800,000 development cost) could expect to receive a 14.8% internal rate of return over a ten-year holding period, assuming that the investor obtains financing at the time of the project's completion at the loan-to-value ratio and interest rate set forth. While the redeveloped subject hotel has an opportunity to serve an underserved niche in the market, our market analysis indicates a gap in the project's overall feasibility. A feasibility gap can be defined as the difference between a project's cost and its value. If a project's cost is greater than its value, then it is not feasible and subsidies may be required. Hotel funding typically includes an equity component and a loan component. As different developers have access to different sources of equity and loan financing, the funding aspect of a hotel development can play a crucial role in determining a developer's total project cost. Alternative types of funding can take many forms, including upfront cash subsidies or debt service guarantees or even a rebate of site-specific taxes. Our conclusions are based primarily on the long-term strength of this hotel market and conventional financing methods. A review of investor surveys indicates equity returns ranging from 10.3% to 22.7%, with an average of 17.7%. Based on these parameters, the calculated return to the equity investor, 14.8%, is below the average of market-level returns given the anticipated cost of approximately $54,800,000.

The analysis is based on the extraordinary assumption that the described improvements have been renovated as of the stated date of opening. The reader should understand that the subject property's structure does exist as of the date of this report. Our feasibility study does not address unforeseeable events that could alter the redevelopment project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, shall take place between the date of inspection and stated date of opening. The use of this extraordinary assumption may have affected the assignment results. We have made no other extraordinary assumptions specific to this feasibility study. However, several important general assumptions have been made that apply to this feasibility study and our studies of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

9. Statement of Assumptions and Limiting Conditions

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

11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.

12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.

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

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

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

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

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

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

19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.

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

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

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

10. Certification

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

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Ryan M. Wall personally inspected the property described in this report;
9. no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report; Ryan M. Wall has not performed services, as an appraiser or in any other capacity, on the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment;
10. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;
11. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and

12.

DRAFT REPORT

Ryan M. Wall
Vice President
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A. Induced Demand Analysis

HVS conducted an induced demand analysis for the Tucson Convention Center ("TCC") considering the reopening of the 309-room Hotel Arizona on a site adjacent to the TCC. As a part of this analysis, HVS performed the following tasks.

1. Compiled data on 14 competitive convention centers and hotels in the southwestern U.S.,
2. Analyzed four years of historical demand for the TCC and lost business reports,
3. Prepared a forecast of event demand for the TCC assuming the reopening of the proposed hotel, and
4. Projected the incremental room nights in the Tucson market associated with the increases in TCC demand.

The Tucson Convention Center

The TCC is the main convention and trade show venue in the market. The venue is centrally located in downtown Tucson, Arizona. Owned by the city of Tucson and operated by a private management company, the convention complex includes the exhibit, banquet and meeting space, as well as an arena and two performing arts venues. Constructed in 1971, the TCC has 205,000 square feet of event space. In 2014, the facility underwent a $7.8 million renovation funded through the Rio Nuevo Multipurpose District. The renovation focused on enhancing arena patron amenities, including new concession stands, seats, and lighting and speaker systems, along with improvements to arena entrances and restrooms. After securing a minor-league hockey tenant, a 2016 renovation featured $3.7 million in new locker rooms, team weight room, and team offices.

The following figure presents the floor plan of the TCC complex.

FIGURE A-1 TUCSON CONVENTION CENTER

Source: Tucson Convention Center

TCC's exhibit space is located on the lower level of the convention center. The main exhibit hall measures approximately 90,000 square feet and is divisible into two sections measuring approximately 30,000 and 60,000 square feet. The adjacent Galleria connects the exhibit hall and the grand ballroom. The 24,000-square foot North Hall is adjacent to the TCC Arena, which can also accommodate additional 30,000 square feet of exhibition when necessary.

Located on the Mezzanine Level of the TCC, the 20,000-square foot Grand Ballroom is divisible into three sections and can accommodate up to 1,200 persons in a banquet setting. The adjacent Grand Lobby provides approximately 11,000 square feet of multi-purpose space. Meeting planners use this space for pre-event registration, merchandise sales, and receptions. The Galleria allows access to the lower level and the main exhibit hall.

TCC meeting rooms are located on the concourse level overlooking the Arena. The center's eight meeting rooms provide 700 to 1800 square feet of breakout space appropriate for meetings, training sessions, and other small group events. The TCC arena has capacity for 7,440 attendees. Primary tenants include the University of Arizona hockey teams and the Tucson Roadrunners of the American Hockey League ("AHL").

In addition to previously described exhibit hall, banquet, meeting space, and arena the TCC also has an two performing arts facilities accessible from the main building via an outdoor walkway. The outdoor area provides additional space for receptions and outdoor events. The Tucson Music Hall seats 2,289 and is home to the Tucson Symphony Orchestra and hosts local and touring dance and music shows. The Leo Rich Theater can seat 511 patrons and is the smallest performing venue at the TCC. The Theater is often used for opening ceremonies and presentations for large events; it also hosts a wide range of local and touring performing arts groups like the Arizona Friend of Chamber of Music and the Tucson Academy of Ballet.

Comparable Venues

This analysis of comparable venues provides a basis for developing program recommendations and forecasts of event demand and financial operations. Event planners select host cities for their events based the overall package that a city may offer. Several factors determine a city's overall strength and potential in the meetings market. These factors include the attributes of the convention facilities, lodging supply, the economic and demographic profile of the community, transportation access, tourism amenities, and overall destination appeal. HVS compares the function spaces, adjacent hotel capacities, and other characteristics of the markets relevant to the success of the venues. We conclude with an assessment of the relative strengths and weaknesses of the TCC.

HVS analyzed two sets of venues:

- Hotels and resorts in the Tucson metropolitan area that offer significant amounts of function space for events that compete with the TCC for conferences and large meetings, and
- Convention centers in Arizona and other medium-sized markets throughout the southwestern U.S. that compete with the TCC for state and regional business.

HVS analyzed the comparable venues listed in the figure below.

FIGURE A-2 COMPARABLE PROPERTIES

Name of Venue	Location	Total Function Space
Tucson Area Competitors		
Tucson Convention Center		**145,524**
Westin La Paloma Resort & Spa		46,524
Hilton Tucson El Conquistador		42,062
JW Marriott Tucson Resort		41,170
Casino Del Sol Resort		19,642
DoubleTree Tucson Reid Park		16,297
Loews Ventana Canyon Resort		15,542
Regional Competitors		
Phoenix Convention Center	Phoenix, AZ	870,690
Albuquerque Convention Center	Albuquerque, NM	238,205
Cox Business Center	Tulsa, OK	194,103
Tucson Convention Center	**Tucson, AZ**	**145,524**
Palm Springs Convention Center	Palm Springs, CA	132,190
Fresno Convention Center	Fresno, CA	123,738
Ontario Convention Center	Ontario, CA	115,187
El Paso Convention Center	El Paso, TX	94,900
Mesa Convention Center	Mesa, AZ	29,377

Sources: Respective Venues

Each of the above properties offer meeting and conference space for a variety of group event types, including small conventions, conferences, meetings, weddings, and other social events. An analysis of the sizes and capacities of the various components of the properties help inform a competitive assessment of the TCC. As the primary convention venue in the state of Arizona, we include the Phoenix Convention Center. But, due to its size, the TCC is only partially competitive with the Phoenix venue.

Exhibit Space Assessment

Critical for several types of events such as conventions, tradeshows, and consumer shows, the amount and quality of exhibition space determines the size and type of events that a venue can accommodate. The following figure compares exhibit capacity in the regional competitors.

FIGURE A-3 EXHIBIT SPACE COMPARABLE PROPERTIES

Phoenix Convention Center	Phoenix	584,500	13
Albuquerque Convention Center	Albuquerque	160,646	4
Tucson Convention Center	**Tucson**	**113,940**	2
Cox Business Center	Tulsa	102,600	3
Palm Springs Convention Center	Palm Springs	92,545	5
El Paso Convention Center	El Paso	80,000	3
Ontario Convention Center	Ontario	69,325	2
Fresno Convention Center	Fresno	67,000	3
Mesa Convention Center	Mesa	15,000	1
Average		142,840	4

Sources: Respective Venues

The TCC has the only exhibition hall in the local market, and its exhibit capacity compares favorably with most of its regional competitors.

Ballroom Space Assessment

Banquet space is important for convention centers as facility operators attempt to grow food service revenues at their facilities and event planners seek a higher level of service for their attendees. In addition to social events (such as weddings and fundraisers) that host banquets, several other types of events, such as conventions and tradeshows, typically require food services in a ballroom setting. Consequently, the size of the ballroom can determine a venue's event size capacity. Divisibility of the ballroom determines a venue's capability to host simultaneous events that require banquet space. The figure below compares of available banquet space in the comparable properties.

FIGURE A-4 BALLROOM SPACE IN COMPARABLE PROPERTIES

Tucson Area Competitors		sf	# divisions
JW Marriott Tucson Resort		34,506	22
Westin La Paloma Resort & Spa		30,927	7
Hilton Tucson El Conquistador		23,540	8
Tucson Convention Center		**20,164**	3
Casino Del Sol Resort		18,000	5
Loews Ventana Canyon Resort		12,014	10
DoubleTree Tucson Reid Park		9,278	8
Average		21,204	9
Regional Competitors			
Phoenix Convention Center	Phoenix	118,800	9
Albuquerque Convention Center	Albuquerque	31,164	3
Cox Business Center	Tulsa	21,388	3
Tucson Convention Center	**Tucson**	**20,164**	3
Palm Springs Convention Center	Palm Springs	20,016	4
Ontario Convention Center	Ontario	19,626	3
Fresno Convention Center	Fresno	13,129	7
Mesa Convention Center	Mesa	5,100	2
El Paso Convention Center	El Paso	0	0
Average		31,173	4

Sources: Respective Venues

Many local properties have large, flexible ballroom spaces suitable for a variety of corporate and social events. The TCC has an average amount of banquet capacity and divisibility when compared to the competitive sets.

Meeting/Break-out Room Assessment

Meeting rooms can accommodate sub-groups as they break out of larger general sessions at conventions and conferences. Additionally, these smaller rooms can accommodate self-contained meetings, training sessions, seminars, classes, and a variety of small meeting functions. The optimum amount of meeting space can vary depending on a facility's target market. The following figure presents a comparison of available meeting space in the comparable properties and the TCC.

FIGURE A-5 MEETING SPACE IN COMPARABLE PROPERTIES

Tucson Area Competitors		sf	# rooms
Hilton Tucson El Conquistador		18,522	19
Westin La Paloma Resort & Spa		15,597	17
Tucson Convention Center		**11,420**	10
DoubleTree Tucson Reid Park		7,019	9
JW Marriott Tucson Resort		6,664	8
Loews Ventana Canyon Resort		3,528	6
Casino Del Sol Resort		1,642	3
Average		9,199	10
Regional Competitors			
Phoenix Convention Center	Phoenix	167,390	107
Albuquerque Convention Center	Albuquerque	46,395	30
Cox Business Center	Tulsa	42,415	35
Ontario Convention Center	Ontario	26,236	24
Palm Springs Convention Center	Palm Springs	19,629	15
El Paso Convention Center	El Paso	14,900	17
Fresno Convention Center	Fresno	11,609	11
Tucson Convention Center	**Tucson**	**11,420**	10
Mesa Convention Center	Mesa	9,277	11
Average		38,808	29

Sources: Respective Venues

Greater amounts of meeting space and a greater number of meeting rooms, increase a venue's ability to host larger events and simultaneous smaller functions. Venues with smaller amounts of dedicated meeting space often rely on flexible ballroom space for breakout meetings. The TCC has an above average amount of meeting space in the local market, but falls well below the average when compared regionally.

Adjacent Hotel Capacity

The quality and proximity of hotel supply represents one of the most important selection factors for facility users in recent years. To attract out-of-town groups, an adequate supply of nearby hotel rooms should support the lodging needs of delegates, exhibitors, and other attendees. Event planners consider proximity and connectivity as critical factors when evaluating the overall hotel packages available in competing communities. The number of rooms offered at hotels adjacent or connected to the convention center is the key point of comparison. Other important factors include hotel brands, service levels, building ages, management, ease of access, and available meeting and banquet spaces in these hotels. The figure below compares the number adjacent hotel rooms in the comparable venues.

FIGURE A-6 ADJACENT HOTEL CAPACITY IN COMPARABLE PROPERTIES

Tucson Area Competitors		
JW Marriott Tucson Resort		575
Westin La Paloma Resort & Spa		487
Hilton Tucson El Conquistador		428
Loews Ventana Canyon Resort		398
DoubleTree Tucson Reid Park		287
Casino Del Sol Resort		215
Tucson Convention Center		**0**
Average		398
Regional Competitors		
Phoenix Convention Center	Phoenix	1,000
Ontario Convention Center	Ontario	484
Cox Business Center	Tulsa	417
Palm Springs Convention Center	Palm Springs	410
Fresno Convention Center	Fresno	320
Albuquerque Convention Center	Albuquerque	295
Mesa Convention Center	Mesa	275
Tucson Convention Center	**Tucson**	**0**
El Paso Convention Center	El Paso	0
Average		457

Sources: Respective Venues

For integrated facilities, function space is typically proportional to the number of guest rooms it serves. Depending on the market and the ability to host city-wide events which require multiple hotel properties, the amount of function space per attached guest rooms can vary greatly. The TCC currently lacks an attached or adjacent hotel property. Most comparable convention centers have 300 to 500 attached rooms.

Market Population and Income

Local area population data can provide evidence of a community's overall economic size and ability to support public services and visitor amenities for convention center users. Because most convention centers primarily target out-of-town users, local area population figures rarely have a direct correlation with overall demand potential. However, population and income data can provide a basis for understanding a community's ability to support and sustain a convention center, the surrounding neighborhood and market. Additionally, population can determine the demand potential for certain types of events such as locally generated meetings, banquets, religious events, graduation ceremonies, and consumer shows. The following figures present metropolitan area population and median household income data for the markets surrounding the regionally competitive set.

FIGURE A-7 METRO POPULATION OF COMPARABLE MARKETS

Market	2016 Population
Phoenix	4,584,155
Mesa	4,584,155
Ontario	4,460,387
Palm Springs	4,460,387
Tucson	1,023,093
Tulsa	992,640
Fresno	976,043
Albuquerque	915,897
El Paso	868,683

Sources: Esri

FIGURE A-8 MEDIAN HOUSEHOLD INCOME OF COMPARABLE MARKETS

Market	2016 Median HH Income
Ontario	56,973
Palm Springs	56,973
Phoenix	54,993
Mesa	54,993
Tulsa	51,532
Albuquerque	49,651
Fresno	47,405
Tucson	46,092
El Paso	40,447

Sources: Esri

While the Phoenix-Mesa and Riverside-Ontario metro areas have significantly higher population bases, Tucson ranks favorably among the remaining competitive markets with just over one million residents. Tucson's median household income is below average.

Corporate Comparison

The density and breadth of a city's corporate base indicates demand potential in the meetings industry. Businesses generate demand for conventions, conferences, training, and other industry-specific events. The following figures demonstrate how the area compares with the competitive markets with respect to the total number of business establishments.

FIGURE A-9 BUSINESS ESTABLISHMENTS IN COMPARABLE MARKETS

Market	2016 Business Establishments
Phoenix	150,364
Mesa	150,364
Ontario	130,514
Palm Springs	130,514
Tulsa	39,996
Albuquerque	36,866
Tucson	**34,432**
Fresno	33,377
El Paso	23,372

Sources: Esri

Roughly following population, the number of business establishments in the Phoenix-Mesa and Riverside-Ontario metro areas are significantly higher. Compared to Tucson, most competitors have larger corporate bases from which to generate local event demand.

Air Service Capacity

Transportation links, including airports, play a critical role in the success of convention centers that target regional and national user groups. As one of the best indicators of an airport's ability to enhance a convention center's draw, air service capacity, generally measured as total annual passenger volume, indicates the relative convenience of a destination. The following figure presents 2016 passenger traffic data for the primary airports serving the competitive sets

FIGURE A-10 PASSENGER VOLUME IN COMPARABLE MARKETS

Market	Primary Airport	Annual Passengers
Phoenix	Phoenix Sky Harbor International Airport	43,383,528
Mesa	Phoenix Sky Harbor International Airport	43,383,528
Albuquerque	Albuquerque International Sunport	4,775,098
Ontario	LA/Ontario International Airport	4,251,903
Palm Springs	LA/Ontario International Airport	4,251,903
Tucson	Tucson International Airport	3,283,243
Tulsa	Tulsa International Airport	2,810,537
El Paso	El Paso International Airport	2,807,734
Fresno	Fresno Yosemite International Airport	1,538,802

Sources: Respective Airports

The passenger counts at Tucson International Airport indicate a moderate level of capacity for out-of-state travel. Removing Phoenix Sky Harbor as an outlier, Tucson's passenger volume suggests easier access from a greater number of destinations than several of its regional competitors.

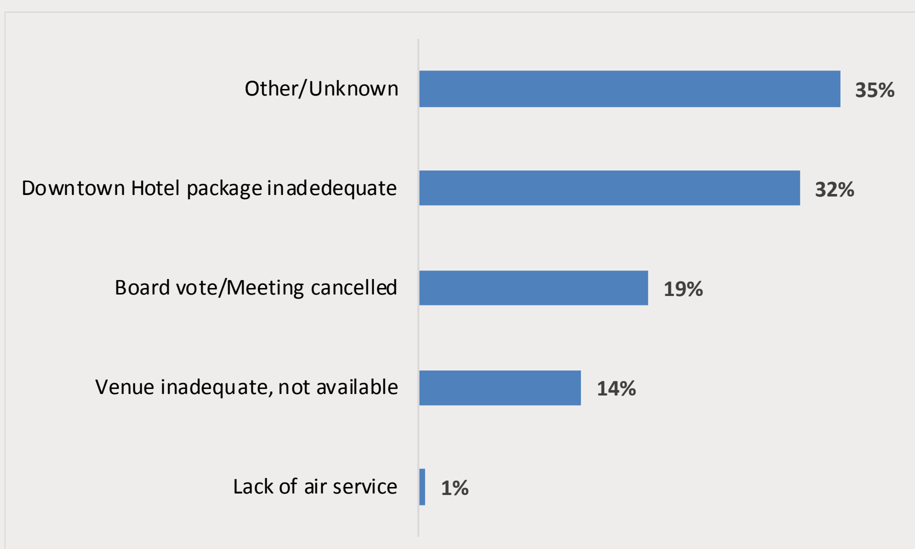
Conclusion and Implications for Tucson

A study of comparable cities and venues indicates the competitiveness of the TCC in the local and regional group meetings markets. Tucson has several large resort properties that compete on a regional and national level for conferences and meetings. The TCC offers exhibit capacity not found in other local venues. When compared to the regional market, the TCC's event function spaces are about average in size and flexibility. The comparable destination analysis suggests that Tucson's overall market size and demographics reflect a mid-sized market with a slightly below average demand potential compared to the regional markets with which it will compete for group meetings business.

Lost Business Analysis and Destination Assessment

HVS reviewed lost business reports compiled prior to the closure of the Hotel Arizona in 2012. Since that time, the TCC has not participated actively in the group meetings market, focusing primarily on the annual Tucson Gem, Mineral & Fossil Showcase, religious conferences, and local events. Lost business data is not available for any year after 2012. Nonetheless, the historical lost business reports provide insight into event planner preferences and reasons for not selecting the TCC for their events. The following figure provides a summary of lost room nights by reason.

FIGURE A-11 PERCENTAGE OF LOST ROOM NIGHTS BY REASON



Source: Visit Tucson

The majority of event planners did not indicate a reason for not selecting the TCC, but for those events that did specify a reason, most of the lost room nights could be attributed to the inadequacy of the downtown hotel package. This indicates that events could be recaptured with proper hotel development.

Destination Marketing Association International ("DMAI") conducted a survey of Tucson community and government leaders, customers, DMO management, and other stakeholders. The survey identified the importance of destination criteria, such as air access and meeting infrastructure, and quantified Tucson's performance in these criteria. For each criteria, a score of five indicates excellence while a score of 1 indicates that Tucson performs poorly. Key findings include following.

- Hotel accommodations received a 3.24 rating with low ratings on both the location and number of hotels serving the TCC.
- Convention and meeting facilities received a 2.79 rating with high marks for unique venues for special events and low ratings for the convention center meeting spaces. Respondents feel that the city does not have the necessary facilities to compete today and for the next 25 years.
- Domestic air access received an average rating of 2.68 on a five-point scale. International air access is notably inferior in terms of flights, capacity, and cost.
- Attractions and entertainment receive a 3.72 rating with respondents noting many high-quality dining and cultural attractions, but a shortage of retail opportunities.

The DMAI study identifies several areas for improvement in Tucson destination marketing efforts, including the development of a headquarters hotel as one of the most important objectives to address in the next three to five years. Other ongoing initiatives to improve tourism amenities and communications will improve knowledge of Tucson as an event destination and help the TCC secure events.

Historical Demand

The TCC provided HVS with detailed event information on events that occurred at the facility for calendar years 2013 through 2016. Event information included event name, type of event, start and end dates, and attendance. Based on this information HVS categorized events into standard event categories that will be used throughout the remainder of this report. The following figure presents the detailed event and attendance history at the TCC for the past four years.

FIGURE A-12 TCC HISTORICAL DEMAND

Event Type	2013	2014	2015	2016
Events				
Tucson Gem & Mineral Show	1	1	1	1
Conventions & Conferences	3	3	1	1
Tradeshows	7	5	5	7
Consumer Shows	16	18	23	31
Meetings	51	35	43	54
Banquets	22	19	38	49
Religious Conferences	10	9	8	9
Assemblies	29	27	32	41
Sports/Competitions	2	4	7	3
Tenant Sports	13	14	13	32
Concerts & Entertainment	97	82	100	104
Other	4	1	8	7
Total	255	218	279	339
Total Attendance				
Tucson Gem & Mineral Show	21,800	21,800	21,800	21,800
Conventions & Conferences	2,500	3,600	2,000	1,800
Tradeshows	12,400	9,400	6,100	5,200
Consumer Shows	66,600	51,300	64,000	50,800
Meetings	23,300	11,000	7,700	13,400
Banquets	15,400	13,400	14,200	20,500
Religious Conferences	51,500	57,000	44,000	59,000
Assemblies	50,700	65,800	40,500	70,300
Sports/Competitions	5,000	13,000	16,300	13,800
Tenant Sports	-	-	3,800	72,100
Concerts & Entertainment	236,900	158,000	207,300	175,100
Other	8,600	6,000	10,700	18,100
Total	494,700	410,300	438,400	521,900

Source: TCC, restated by HVS

The TCC currently hosts a variety of events, including two events for the Tucson Gem & Mineral show. Most events attract a local base of attendees who do not require lodging. The number of events and number of attendees has increased in recent years, primarily due to a new minor league hockey tenant and increases in other local uses.

The TCC does not currently compete for regional and national conventions and conferences. While the function spaces at the TCC are suitable for these events, the inability to provide adequate lodging for event attendees impedes booking these high impact events. According to Visit Tucson and TCC management, the introduction of a quality hotel adjacent to the TCC would significantly increase the center's ability to attract more conventions and conferences.

Demand Projections

Assuming the reopening of the 309-room Hotel Arizona in January of 2019, HVS projected event demand projections on the following research and analysis:

- Historical TCC event demand,
- Industry data and trends reports,
- Key market and economic indicators,
- Comparable venue program and demand data, and
- Discussions with representatives from the TCC and Visit Tucson.

HVS estimates that event demand would ramp up and stabilize in 2021. The figure below breaks out event projections through stabilization by the type of event. Total and average attendance figures represent individual event attendees. A brief description of the event types and explanation of demand projections follows.

FIGURE A-13 DEMAND PROJECTIONS

Event Type	Historical	2019	2020	2021
Events				
Tucson Gem & Mineral Show	1	1	1	1
Conventions & Conferences	1	6	9	12
Tradeshows	7	7	7	7
Consumer Shows	31	31	31	31
Meetings	54	54	54	54
Banquets	49	49	49	49
Religious Conferences	9	9	9	9
Assemblies	41	41	41	41
Sports/Competitions	3	4	5	6
Tenant Sports	32	32	32	32
Concerts & Entertainment	104	104	104	104
Other	7	7	7	7
Total	339	345	349	353
Average Attendance				
Tucson Gem & Mineral Show	21,800	21,800	21,800	21,800
Conventions & Conferences	1,800	1,000	1,000	1,000
Tradeshows	700	700	700	700
Consumer Shows	1,600	1,600	1,600	1,600
Meetings	200	200	200	200
Banquets	400	400	400	400
Religious Conferences	6,600	6,600	6,600	6,600
Assemblies	1,700	1,700	1,700	1,700
Sports/Competitions	4,600	4,600	4,600	4,600
Tenant Sports	2,300	2,300	2,300	2,300
Concerts & Entertainment	1,700	1,700	1,700	1,700
Other	2,600	2,600	2,600	2,600
Total Attendance				
Tucson Gem & Mineral Show	21,800	21,800	21,800	21,800
Conventions & Conferences	1,800	6,000	9,000	12,000
Tradeshows	5,200	5,200	5,200	5,200
Consumer Shows	50,800	50,800	50,800	50,800
Meetings	13,400	13,400	13,400	13,400
Banquets	20,500	20,500	20,500	20,500
Religious Conferences	59,000	59,000	59,000	59,000
Assemblies	70,300	70,300	70,300	70,300
Sports/Competitions	13,800	18,500	23,100	27,700
Tenant Sports	72,100	72,100	72,100	72,100
Concerts & Entertainment	175,100	175,100	175,100	175,100
Other	18,100	18,100	18,100	18,100
Total	521,900	530,800	538,400	546,000

Tucson Gem & Mineral Show—The Tucson Gem, Mineral & Fossil Showcase is an annual event that includes 40 separate events in venues throughout Tucson. In total, the event attracts 48,000 attendees and generates 150,000 room nights in the market. The two largest shows, the American Gem Trade Association GemFair ("AGTA") and the Tucson Gem & Mineral Society ("TGMS") are held in the TCC. For the demand analysis, we combined these two events into a single event.

Conventions & Conferences—Conventions require a combination of exhibition, banquet, and meeting space. Conferences are multi-day events like conventions that require a mix of banquet and breakout space set-up and occasional assembly space, but they do not require any exhibit hall set-up. Conventions are typically multi-day events that require daily food service for their attendees.

Tradeshows—Tradeshows provide a means for wholesalers and retailers to transact business with industry buyers. As such, tradeshows are typically exhibit-oriented events in which people display and demonstrate products. Tradeshows require some meeting and meal space; however, they require much less space than conventions.

Consumer Shows—Consumer shows are ticketed public events that attract local and regional attendees, such as home and garden shows and car shows. These events require some meeting space for support and back of house uses. Food and beverage services would be limited to concessions.

Meetings—Meetings require breakout meeting space but would not use banquet or exhibit space. Food service is limited to coffee breaks, breakfasts, or luncheons in meeting rooms. A variety of groups host meetings and conferences, including, corporations, associations, civic organizations, religious groups, and government agencies. Meetings and conferences can take place in breakout meeting space. In addition to meals, ballrooms and multipurpose rooms can also handle larger meetings or several smaller simultaneous meetings as needed.

Banquets—Banquets are stand-alone social events, luncheons, and other meals typically booked by local corporations, social and civic organizations, and private clients. Flexible ballroom spaces allow for a variety of banquet sizes and multiple simultaneous events.

Religious Conferences—Religious conferences are meetings and assemblies that attract out-of-town attendees. The primary source of religious conferences are the seven annual Christian Congregation for Jehovah's Witness events.

Assemblies—Assemblies include graduations, religious services, and lectures. Produced by any type of organization, assemblies are always public events. Additionally, assemblies only require a plenary set-up.

Sports & Competitions—Sports and competitions events include sports tournaments, gaming events, dance and cheerleading events, and other competitions that may set up courts, mats, tables, and other playing surfaces in the arena, exhibit halls or ballrooms depending on space needs. Sports can attract regional base but typically attract local attendees.

Tenant Sports—Tenant sports include games featuring the University of Arizona hockey teams and the Tucson Roadrunners AHL team.

Concerts & Entertainment Events—The TCC is home to two music tenants, the Tucson Symphony Orchestra and the Arizona Friends of Chamber Music. Other entertainment events include touring concerts, comedy shows, and family shows.

Other—Other events include support for local sports competitions, press conferences, photo shoots, and ancillary uses by tenant sport teams.

Room Night Projections

HVS calculated the potential generation of room nights by the TCC events. These room nights represent the total room nights generated in the Tucson market. The following figure presents the assumptions used to generate room night estimates. HVS based room night assumptions on historical Visit Tucson data and other industry research. The figure includes only those events that generate rooms nights in the market.

FIGURE A-14 DEMAND PROJECTIONS

Type of Event	Length of Stay	Percent Lodgers
Tucson Gem & Mineral Show	3.50	90%
Conventions & Conferences	3.00	5%
Consumer Shows	2.00	3%
Religious Conferences	1.00	95%
Sports/Competitions	2.00	5%
Tenant Sports	1.00	2%

The introduction of the Hotel Arizona would result in a greater number of higher impact conventions, conferences, and sports competitions in Tucson. The following figure presents an estimate of historical room nights and the resulting incremental room nights generated after the proposed hotel development through a stabilized year of demand.

FIGURE A-15 ROOM NIGHT PROJECTIONS

Event Type	Historical	2019	2020	2021
Tucson Gem & Mineral Show	68,600	68,600	68,600	68,600
Conventions & Conferences	200	4,800	7,200	9,600
Consumer Shows	3,000	3,000	3,000	3,000
Religious Conferences	32,000	32,000	32,000	32,000
Sports/Competitions	700	900	1,200	1,400
Tenant Sports	1,000	1,000	1,000	1,000
Total	105,500	110,300	113,000	115,600

In a stabilized year, HVS estimates that the expanded TCC would generate 115,600 room nights in the local area market, approximately 10,000 more than currently generated by TCC events. Some of these room nights would result from contract blocks with groups and others would result from individual hotel reservations.

HVS intends for demand projections to show the expected levels of event numbers and attendance. Projections show smooth growth over time. However, event demand may vary significantly from year to year. Unpredictable local and national economic factors can affect businesses. Event demand often moves in cycles based on rotation patterns and market conditions. Therefore, HVS recommends interpreting the demand projections as a mid-point of a range of possible outcomes and over a multi-year period, rather than relying on projections for any one specific year.