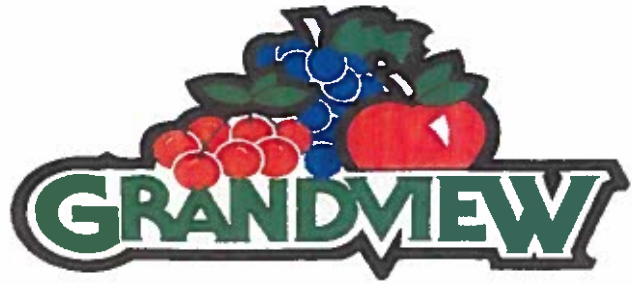


**GRANDVIEW CITY COUNCIL  
COMMITTEE-OF-THE-WHOLE  
MEETING AGENDA  
TUESDAY, APRIL 23, 2019**



**COMMITTEE-OF-THE-WHOLE MEETING – 6:00 PM**

**PAGE**

- 1. CALL TO ORDER**
- 2. ROLL CALL**
- 3. PUBLIC COMMENT** – At this time the public may address the Council on any topic whether on the agenda or not, except those scheduled for public hearing.
- 4. NEW BUSINESS**
  - A. Hotel Feasibility Study – Casey Kidd, NaviRetail 1-164
  - B. Hotel/Motel Taxes to Chamber of Commerce 165-166
  - C. Ordinance amending the 2019 Annual Budget 167-171
  - D. Ordinance prohibiting the distribution of plastic straws and polystyrene-based food containers and requiring retail establishments to collect a pass-through charge from customers for the distribution of plastic bags, and adding a new chapter to the Grandview Municipal Code entitled 8.44–Carryout Bag and Food Container Regulation 172-202
- 5. OTHER BUSINESS**
- 6. ADJOURNMENT**



FEASIBILITY STUDY

---

# Proposed Limited-Service Hotel Grandview

WINE COUNTRY ROAD  
GRANDVIEW, Washington

**SUBMITTED TO:**

Mr. Casey Kidd  
NaviRetail  
5100 Poplar Avenue, Suite 2700  
Memphis, Tennessee, 38137

+1 (901)-654-0790

**PREPARED BY:**

HVS Consulting & Valuation  
Division of TS Worldwide, LLC  
1816 Stonewater Drive  
Hermitage, Tennessee, 37076

+1 (970) 381-9794



March 12, 2019

Mr. Casey Kidd  
NaviRetail  
5100 Poplar Avenue, Suite 2700  
Memphis, Tennessee, 38137

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[www.hvs.com](http://www.hvs.com)

Re: Proposed Limited-Service Hotel Grandview  
Grandview, Washington  
HVS Reference: 2019020158

Dear Mr. Kidd:

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 Grandview, Washington 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

Desiree M. Flanary, MAI, Senior Vice President  
dflanary@hvs.com, +1 (970) 381-9794  
State Appraiser License (WA) 1102154



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#### Addenda

Qualifications  
Copy of Appraisal License  
Legal Descriptions for Site Parcels  
STR Trend Report 2019



# 1. Executive Summary

## Subject of the Feasibility Study

The subject of the feasibility study is a 911,710-square-foot (20.93-acre) site to be improved with a limited-service lodging facility; the hotel will be associated with a nationally recognized, limited-service brand; however, a specific one has not been determined as of our date of inspection. The property, which is expected to open on January 1, 2021, will feature 65 rooms, a breakfast dining area, an outdoor pool, a fitness room, a lobby workstation, a market pantry, a guest laundry room, and vending areas. The hotel will also contain the appropriate parking capacity (estimated 67) and all necessary back-of-the-house space.

The proposed limited-service hotel is expected to be part of a 20-acre mixed-use development in Grandview with frontage along Interstate 82. Following its opening, the proposed subject hotel would be the first nationally branded hotel in Grandview and the only hotel within a 25-mile radius. Retail and restaurant space is also expected to be constructed along Wine Country Road as part of the larger development. The subject site's location is Wine Country Road, Grandview, Washington, 98930.

## Pertinent Dates

The effective date of the report is March 12, 2019. The subject site was inspected by Eileen Bosworth on February 5, 2019. In addition to the inspection, Eileen Bosworth participated in the research for this assignment and assisted in the report's preparation. Desiree M. Flanary, MAI, participated in the analysis and reviewed the findings but did not personally inspect the property.

## Ownership, Franchise, and Management Assumptions

The subject site consists of three parcels, which are all owned by Grandview Investments LLC. The site's 16.93-acre parcel was purchased by Mary and Tim Nelson in 1997 from an undisclosed third party for a reported price of \$151,800. In 2013, this parcel was transferred at no cost to Grandview Investments LLC. Furthermore, the 2.2-acre parcel of the site was last sold in 2007 by Denton Morrow at a reported price of \$546,000 and then transferred to Grandview Investments LLC at no cost in 2008. Similarly, Morrow transferred another 1.8-acre parcel at no cost to Grandview Investments LLC in 1997. No other transfers of the parcels have reportedly occurred since 1997. The subject site is not under contract for purchase, but is listed for sale at an undisclosed price.

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 upper-midscale, limited-service property. While we have placed heavy consideration on the Fairfield Inn by Marriott brand, which is affiliated with Marriott, a specific franchise affiliation and/or brand has yet to be finalized. Based on our assumption that the property will be franchised with a nationally recognized brand, our franchise fee is reflected in our forecasts with a royalty fee of 5% of rooms revenue, and a marketing assessment of 2.5% of rooms revenue.

#### Summary of Hotel Market Trends

During the illustrated historical period, occupancy first peaked for this selected set of competitive hotels in 2016, with average rate growth since 2015. As a result, RevPAR peaked at nearly \$52 in 2016. Subsequent to the opening of the 75-room Holiday Inn Express in Prosser, occupancy began to decline in 2017. As this new supply was absorbed, the occupancy decline continued in 2018, and RevPAR dropped to nearly \$47 that year after also declining in 2017. Conversely, average rates continued to rise in 2017 and 2018, with rate growth driven largely by the entrance of the Holiday Inn Express, which operates at a higher price point and allows other market hotels to command higher rates. The entrance of this nationally branded hotel and the overall growing local economy have contributed to the latest trend. The near-term outlook is cautionary as the competitive market further adjusts to the new supply. Notable expansions and relocations of companies to the area in 2018 bode well for Grandview, which seeks to attract additional businesses in the future. However, it is important to note that no major business expansions were in the pipeline at the time of this report.

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
2015	300	109,500	—	66,715	—	60.9 %	\$79.35	—	\$48.35	—
2016	300	109,500	0.0 %	68,398	2.5 %	62.5	82.13	3.5 %	51.30	6.1 %
2017	331	120,975	10.5	71,623	4.7	59.2	83.68	1.9	49.54	(3.4)
2018	375	136,875	13.1	75,187	5.0	54.9	86.14	2.9	47.32	(4.5)
Average Annual Compounded Change: 2015 - 2018			7.7		4.1			2.8		(0.7)
Hotels Included in Sample			Class		Competitive Status	Number of Rooms	Year Affiliated	Year Opened	Comments	
Rodeway Inn Sunnyside			Economy Class		Primary	69	Dec 2014	Jan 1979	Lobby is undergoing renovation.	
Quality Inn & Suites Toppenish Yakima Valley			Midscale Class		Secondary	44	Jan 2009	Jan 1979	Guestroom remodel in 2018 included new bedding, linens, refrigerators and microwaves.	
Best Western Plus The Inn @ Horse Heaven			Upper Midscale Class		Primary	85	Jul 2011	Aug 1994	The property is undergoing a lobby renovation in 2018 and is expected to add granite vanities in the guestroom bathrooms.	
Quality Inn Sunnyside Heart Of Wine Country			Midscale Class		Primary	48	Mar 2014	Jun 1997	Last guestroom remodel in 2014/2015 included new bedding and FFE replacement.	
Best Western Plus Grapevine Inn			Upper Midscale Class		Primary	54	Jul 2011	Oct 2004	Offers views of adjacent vineyard. Under renovation to add 28 rooms.	
Holiday Inn Express & Suites Prosser Yakima Valley Wine			Upper Midscale Class		Primary	75	Aug 2017	Aug 2017	Under same ownership as adjacent Love's Travel Stop & Country Store.	
Total						375				
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**

Property	Est. Segmentation			Estimated 2017				Estimated 2018			
	Number of Rooms	Leisure	Commercial	Group	Weighted Annual Room Count		RevPAR	Weighted Annual Room Count		RevPAR	Yield Penetration
					Occ.	Average Rate		Occ.	Average Rate		
Holiday Inn Express & Suites Prosser Yakima Valley Wine	75	40 %	45 %	15 %	25	25 - 30 % \$105 - \$110	\$30 - \$35	75	55 - 60 % \$100 - \$105	\$55 - \$60	100 - 110 % 120 - 130 %
Best Western Plus Grapevine Inn	54	50	40	10	54	60 - 65	90 - 95	54	50 - 55	85 - 90	95 - 100 90 - 95
Best Western Plus The Inn at Horse Heaven	85	50	40	10	85	60 - 65	95 - 100	85	50 - 55	95 - 100	100 - 110 100 - 110
Quality Inn Sunnyside Heart of Wine Country	48	60	35	5	48	55 - 60	80 - 85	48	50 - 55	80 - 85	95 - 100 85 - 90
<b>Sub-Totals/Averages</b>	<b>262</b>	<b>49 %</b>	<b>41 %</b>	<b>11 %</b>	<b>212</b>	<b>58.4 %</b>	<b>\$91.47</b>	<b>262</b>	<b>54.7 %</b>	<b>\$92.94</b>	<b>99.7 % 106.0 %</b>
<b>Secondary Competitors</b>	<b>113</b>	<b>66 %</b>	<b>32 %</b>	<b>2 %</b>	<b>85</b>	<b>60.6 %</b>	<b>\$69.94</b>	<b>85</b>	<b>55.4 %</b>	<b>\$70.58</b>	<b>101.0 % 81.5 %</b>
<b>Totals/Averages</b>	<b>375</b>	<b>53 %</b>	<b>38 %</b>	<b>8 %</b>	<b>297</b>	<b>59.0 %</b>	<b>\$85.16</b>	<b>347</b>	<b>54.9 %</b>	<b>\$87.42</b>	<b>100.0 % 100.0 %</b>

\* 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	Est. Segmentation				Estimated 2017				Estimated 2018				
	Number of Rooms	Leisure	Commercial	Group	Total Competitive Level	Weighted Annual Room Count	Average Rate	Occ.	RevPAR	Weighted Annual Room Count	Average Rate	Occ.	RevPAR
Quality Inn & Suites Toppenish	44	60 %	35 %	5 %	75 %	33	\$80 - \$85	55 - 60 %	\$45 - \$50	33	\$80 - \$85	50 - 55 %	\$40 - \$45
Rodeway Inn Sunnyside	69	70	30	0	75	52	60 - 65	60 - 65	35 - 40	52	65 - 70	55 - 60	35 - 40
Totals/Averages	113	66 %	32 %	2 %	75 %	85	\$69.94	60.6 %	\$42.39	85	\$70.58	55.4 %	\$39.13

\* 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 53% and a base-year rate position of \$100.00 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	2018	2019	2020	2021	2022	2023	2024	2025	2026
Market ADR	\$87.42	\$89.61	\$91.85	\$94.60	\$97.44	\$100.36	\$103.37	\$106.48	\$109.67
Projected Market ADR Growth Rate	—	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject Property ADR (As-If Stabilized)	<b>\$100.00</b>	\$102.50	\$105.06	\$108.21	\$111.46	\$114.80	\$118.25	\$121.80	\$125.45
ADR Growth Rate	—	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject Stabilized ADR Penetration	114%	114%	114%	114%	114%	114%	114%	114%	114.4%
Fiscal Year									
				2021	2022	2023	2024	2025	2026
Proposed Subject Property Average Rate				\$108.21	\$111.46	\$114.80	\$118.25	\$121.80	\$125.45
Opening Discount				5.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Average Rate After Discount				\$102.80	\$109.23	\$114.80	\$118.25	\$121.80	\$125.45
Real Average Rate Growth				—	6.3%	5.1%	3.0%	3.0%	3.0%
Market ADR				\$94.60	\$97.44	\$100.36	\$103.37	\$106.48	\$109.67
Proposed Subject ADR Penetration (After Discount)				109%	112%	114%	114%	114%	114%
ADR Expressed in Base-Year Dollars Deflated @ Inflation Rate				\$95.00	\$98.00	\$100.00	\$100.00	\$100.00	\$100.00

### 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**

	2021 (Calendar Year)				2022				2023				Stabilized				2025			
	65	45%	52%	53%	65	53%	53%	53%	65	53%	53%	53%	65	53%	53%	53%	65	53%	53%	53%
Number of Rooms:	65				65				65				65				65			
Occupancy:	45%				52%				53%				53%				53%			
Average Rate:	\$102.80				\$109.23				\$114.80				\$118.25				\$121.80			
RevPAR:	\$46.26				\$56.80				\$60.85				\$62.67				\$64.55			
Days Open:	365				365				365				365				365			
Occupied Rooms:	10,676	%Gross	PAR	POR	12,337	%Gross	PAR	POR	12,574	%Gross	PAR	POR	12,574	%Gross	PAR	POR	12,574	%Gross	PAR	POR
<b>OPERATING REVENUE</b>																				
Rooms	\$1,098	99.2 %	\$16,892	\$102.85	\$1,348	99.3 %	\$20,738	\$109.26	\$1,444	99.3 %	\$22,215	\$114.84	\$1,487	99.3 %	\$22,877	\$118.26	\$1,531	99.3 %	\$23,554	\$121.76
Other Operated Departments	6	0.6	100	0.61	7	0.5	107	0.56	7	0.5	111	0.57	7	0.5	114	0.59	8	0.5	118	0.61
Miscellaneous Income	3	0.2	40	0.24	3	0.2	43	0.23	3	0.2	44	0.23	3	0.2	46	0.24	3	0.2	47	0.24
Total Operating Revenues	1,107	100.0	17,032	103.70	1,358	100.0	20,889	110.06	1,454	100.0	22,371	115.64	1,497	100.0	23,037	119.09	1,542	100.0	23,719	122.61
<b>DEPARTMENTAL EXPENSES *</b>																				
Rooms	320	29.1	4,918	29.94	348	25.8	5,350	28.19	361	25.0	5,552	28.70	372	25.0	5,719	29.56	383	25.0	5,890	30.45
Total Expenses	323	29.2	4,969	30.25	351	25.9	5,404	28.47	365	25.1	5,608	28.99	375	25.1	5,776	29.86	387	25.1	5,949	30.75
<b>DEPARTMENTAL INCOME</b>	784	70.8	12,063	73.44	1,007	74.1	15,485	81.59	1,090	74.9	16,763	86.65	1,122	74.9	17,261	89.23	1,155	74.9	17,770	91.86
<b>UNDISTRIBUTED OPERATING EXPENSES</b>																				
Administrative & General	114	10.3	1,751	10.66	122	9.0	1,877	9.89	127	8.7	1,952	10.09	131	8.7	2,010	10.39	135	8.7	2,070	10.70
Info & Telecom Systems	20	1.8	309	1.88	22	1.6	331	1.75	22	1.5	344	1.78	23	1.5	355	1.83	24	1.5	365	1.89
Marketing	35	3.2	541	3.29	37	2.7	563	2.97	37	2.6	574	2.97	38	2.6	591	3.06	40	2.6	609	3.15
Franchise Fee	82	7.4	1,267	7.71	101	7.4	1,555	8.19	108	7.4	1,666	8.61	112	7.4	1,716	8.87	115	7.4	1,767	9.13
Prop. Operations & Maint.	42	3.8	649	3.95	48	3.5	734	3.87	52	3.6	804	4.15	54	3.6	828	4.28	55	3.6	853	4.41
Utilities	67	6.0	1,030	6.27	72	5.3	1,104	5.82	75	5.1	1,148	5.94	77	5.1	1,183	6.11	79	5.1	1,218	6.30
Total Expenses	361	32.5	5,547	33.77	401	29.5	6,165	32.48	422	28.9	6,488	33.54	434	28.9	6,682	34.54	447	28.9	6,882	35.57
<b>GROSS HOUSE PROFIT</b>	424	38.3	6,516	39.67	606	44.6	9,320	49.11	668	46.0	10,275	53.11	688	46.0	10,579	54.68	708	46.0	10,888	56.28
Management Fee	33	3.0	511	3.11	41	3.0	627	3.30	44	3.0	671	3.47	45	3.0	691	3.57	46	3.0	712	3.68
<b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b>	390	35.3	6,005	36.56	565	41.6	8,694	45.80	624	43.0	9,604	49.64	643	43.0	9,888	51.11	661	43.0	10,176	52.60
<b>NON-OPERATING INCOME &amp; EXPENSE</b>																				
Property Taxes	81	7.3	1,246	7.59	83	6.1	1,277	6.73	86	5.9	1,316	6.80	88	5.9	1,355	7.01	91	5.9	1,396	7.22
Insurance	18	1.6	271	1.65	18	1.3	279	1.47	19	1.3	287	1.48	19	1.3	296	1.53	20	1.3	304	1.57
Reserve for Replacement	22	2.0	341	2.07	41	3.0	627	3.30	58	4.0	895	4.53	60	4.0	921	4.76	62	4.0	949	4.90
Total Expenses	121	10.9	1,858	11.31	142	10.4	2,183	11.50	162	11.2	2,498	12.91	167	11.2	2,572	13.30	172	11.2	2,649	13.69
<b>EBITDA LESS RESERVE</b>	\$270	24.4 %	\$4,147	\$25.25	\$423	31.2 %	\$6,511	\$34.30	\$462	31.8 %	\$7,106	\$36.73	\$475	31.8 %	\$7,315	\$37.81	\$489	31.8 %	\$7,527	\$38.91

\*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 \$2,376,000 (roughly 35% of the \$6,800,000 development cost) could expect to receive a 5.0% 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. Based on our market analysis, there is not sufficient market support for the proposed limited-service hotel. Our review of investor surveys indicates equity returns ranging from 12.7% to 26.1%, with an average of 18.8%. Based on market parameters, the calculated return to the equity investor, 5.0%, is below the average and the range of market-level returns given the anticipated cost to build a hotel of this type, estimated to be approximately \$6,800,000. In order for a project of this type to be feasible, it would need the support of the city and/or county government via incentives to help offset the construction cost. These incentives could include (but are not limited to) property tax exemptions, providing the land at no cost, waiving the development and impact fees, and providing discounted or free utilities connections. In addition, Grandview would need to attract more local employers, particularly employers that utilize overnight lodging, for a hotel of this type to remain successful in the long term.

### Assignment Conditions

"Extraordinary Assumption" is defined in USPAP as follows:

An assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions. Comment: Uncertain information might include physical, legal, or economic characteristics of the subject property; or conditions external to the property, such as market conditions or trends; or the integrity of data used in an analysis.<sup>1</sup>

The analysis is based on the extraordinary assumption that the described improvements have been completed as of the stated date of opening. The reader should understand that the completed subject property does not yet exist as of the date of this report. Our feasibility study does not address unforeseeable events that could alter the proposed 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

<sup>1</sup>The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice*, 2018–2019 ed.

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 by the client to determine if enough lodging demand currently exists for the development of a limited-service hotel in the City of Grandview, Washington.

#### Identification of the Client and Intended User(s)

The client for this engagement is NaviRetail. 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*,<sup>2</sup> *Hotels, Motels and Restaurants: Valuations and Market Studies*,<sup>3</sup> *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,<sup>4</sup> *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,<sup>5</sup> and *Hotels and Motels – Valuations and Market Studies*.<sup>6</sup>

1. All information was collected and analyzed by the staff of TS Worldwide, LLC. Information was supplied by the client and/or the property's development team.
2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.

<sup>2</sup> Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

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

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

<sup>5</sup> Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

<sup>6</sup> Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies*. (Chicago: Appraisal Institute, 2001).



3. 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.
4. 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.
5. 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.
6. Documentation for an occupancy and ADR projection is derived utilizing the build-up approach based on an analysis of lodging activity.
7. 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 proposed subject property.
8. A feasibility analysis is performed, in which the market equity yield that an investor would expect is compared to the equity yield that 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 North Grandview, to the east of the intersection formed by the Interstate 82/U.S. Highway 12 entrance ramp and Wine Country Road. This site is in the city of Grandview, Washington.

### Physical Characteristics

The subject site measures approximately 20.93 acres, or 911,710 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	Interstate 82/U.S. Highway 12
East	North Euclid Road
South	Wine Country Road
West	Wine Country Road

## VIEW OF SUBJECT SITE



### Topography and Site Utility

The topography of the site is generally flat, and the shape of the site should permit efficient use of the site for building and site improvements, including ingress and egress. The subject site is favorably situated for commercial use. With easy access to Interstate 82/ U.S. Highway 12, the site is well suited for a variety of uses, including mixed-use space, hotel use, and multi-family residential. The hotel site is currently part of a nearly 21-acre, three-parcel site that is expected to be subdivided as the master development plan is implemented. We assume that the hotel site will be subdivided into its own parcel as part of the process; therefore, upon completion of construction, the subject site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. It is expected that the site will be developed fully with building and site improvements, thus contributing to the overall profitability of the hotel.

## 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**

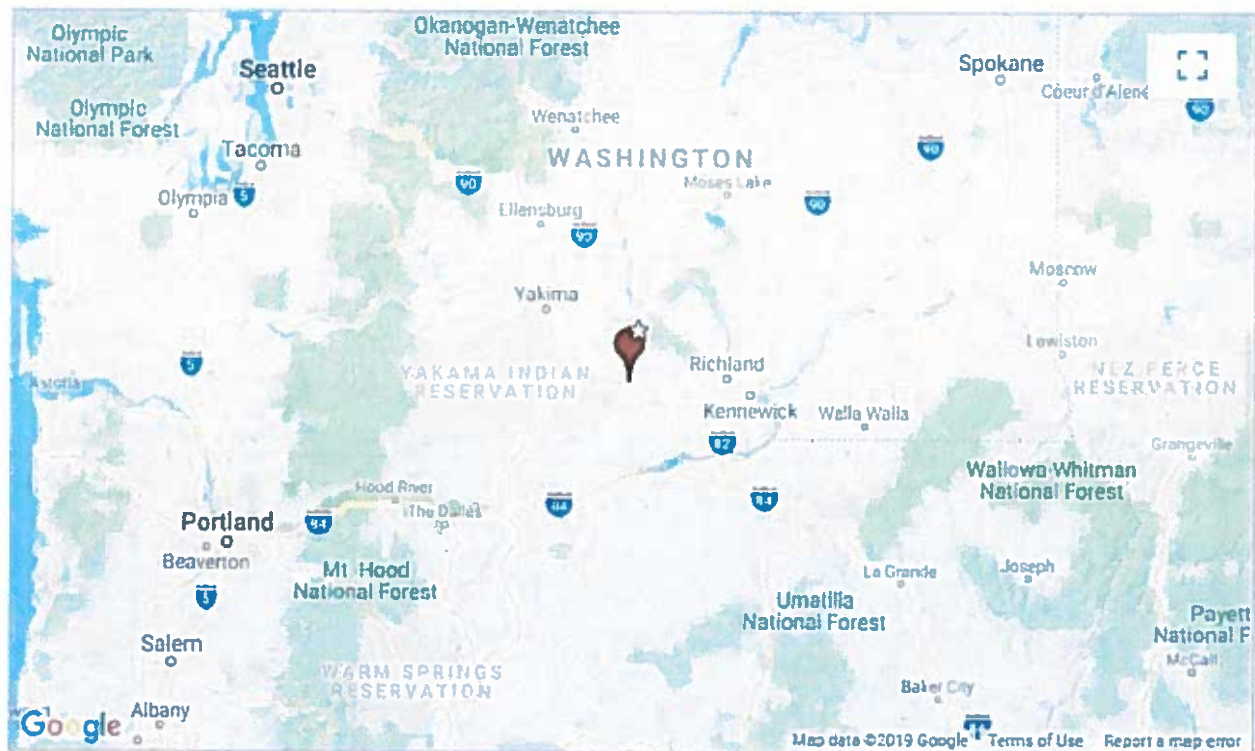


**Access and Visibility**

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



Regional access to/from the city of Grandview and the subject site, in particular, is considered very good. 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 Wine Country Road. The subject site is located along Interstate 82/U.S. Highway 12 and is relatively simple to locate from this highway. The proposed subject hotel is anticipated to have adequate signage at the street, as well as on its façade. The hotel would also be anticipated to be featured on the adjacent highway's lodging options sign for Grandview Exit 73. Overall, the subject site benefits from very good accessibility, and the proposed hotel is expected to enjoy favorable visibility from within its local neighborhood.

### Airport Access

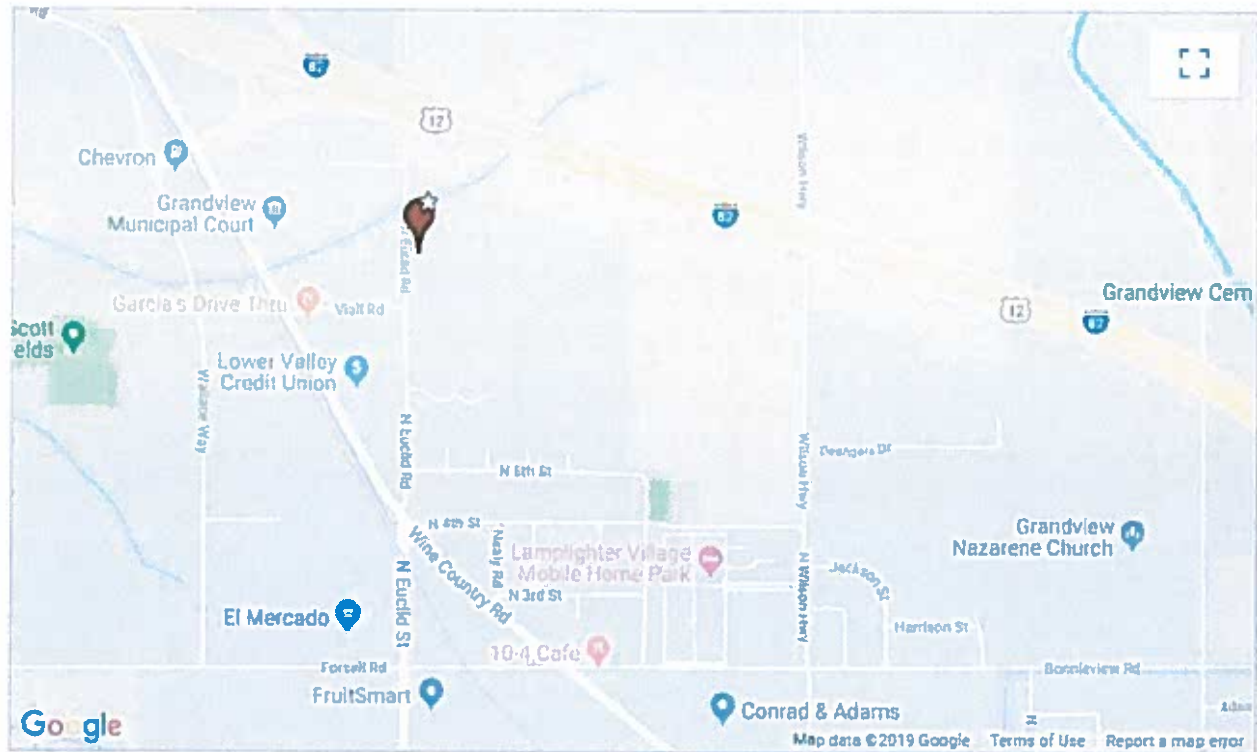
The proposed subject hotel will be served by the Tri-Cities Airport, which is located approximately 38 miles to the east of the subject site.

## Neighborhood

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

The neighborhood that surrounds the subject site is generally defined by Interstate 82/U.S. Highway 12 to the north, North Euclid Road to the east, West 2nd Street to the south, and Puterbaugh Road to the west. The neighborhood is characterized by restaurants, office buildings, and industrial parks along the primary thoroughfares, with residential areas located along the secondary roadways. Some specific businesses and entities in the area include the Yakima Valley Fair & Rodeo grounds, FruitSmart, and Fast Mobile Service Truck Repair; nearby hotels include the Apple Valley Motel. Restaurants located near the subject site include Subway, Garcia's Drive Thru, and New Hong Kong Restaurant. In general, this neighborhood is in the stable stage of its life cycle. Notable recent changes in this neighborhood include Byam Business Park and Wallace Way Business Park both reaching full tenancy in 2018. 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.

## MAP OF NEIGHBORHOOD

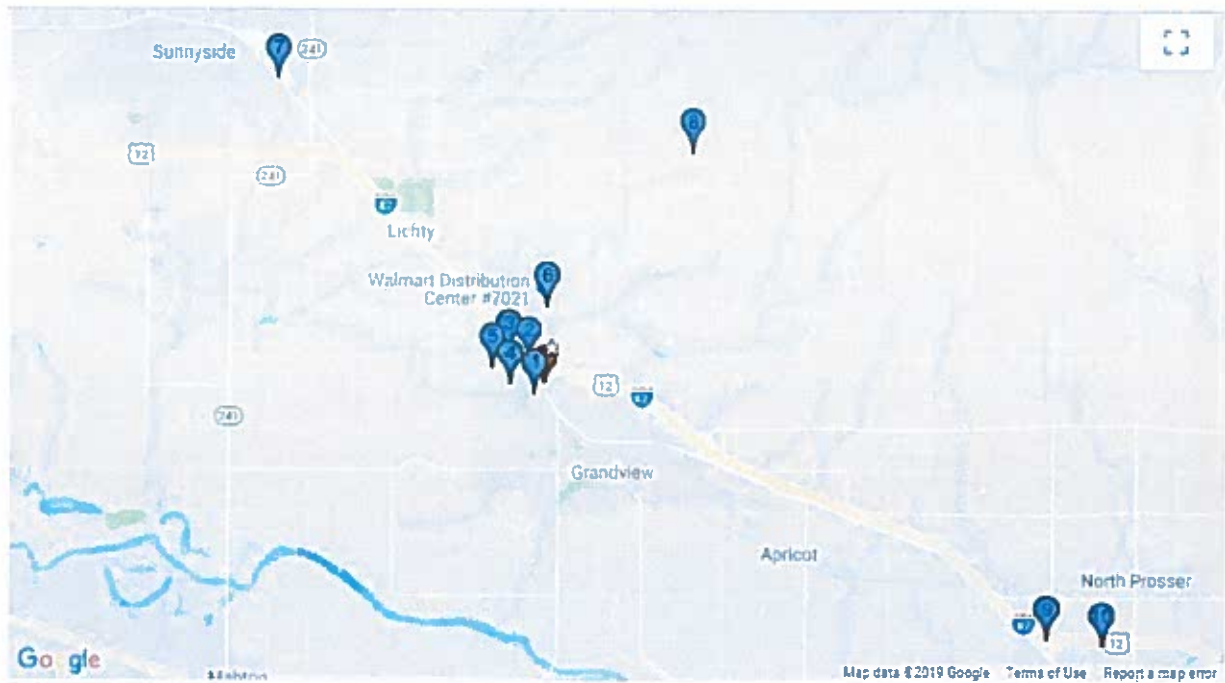


### Proximity to Local Demand Generators and Attractions

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



<u>Demand Generator</u>	<u>Approx. Driving Time from Subject Property</u>	<u>Approx. Driving Distance</u>
1 Subject Property		
2 Yakima Valley Fair & Rodeo	1 minute	0 mile
2 Henningsen Cold Storage	1 minute	0 mile
3 Indian River Transport	2 minutes	1 mile
4 Fast Mobile Service Truck Repair	2 minutes	1 mile
5 Bestebreux Bros. Construction, Inc.	2 minutes	1 mile
6 Walmart Distribution Center #7021	5 minutes	2 miles
7 Popeye's Louisiana Kitchen	7 minutes	5 miles
8 Bill's Berry Farm	10 minutes	6 miles
9 Love's Travel Stop	7 minutes	7 miles
10 Airfield Estates Winery, Prosser	10 minutes	8 miles



#### **Utilities**

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

#### **Seismicity, Soil and Subsoil Conditions**

The site is located within the identified Seismic Zone 2B. This condition is consistent with the surrounding real estate and does not affect the subject site's utility or marketability. Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by a visual inspection of the surface; no extraordinary conditions were apparent.

#### **Nuisances and Hazards**

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

#### **Flood Zone**

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

## COPY OF FLOOD MAP AND COVER



The flood zone definition for the designation is as follows: Zone X



**Zoning**

According to the local planning office, the subject property is zoned as follows: C2 - General Business. Additional details pertaining to the proposed subject property's zoning regulations are summarized in the following table.

**FIGURE 2-2    ZONING**

Municipality Governing Zoning	Yakima County
Current Zoning	C2 - General Business
Current Use	Agricultural, General Commercial
Is Current Use Permitted?	Yes
Is Change in Zoning Likely?	No
Permitted Uses	Office Use, Retail Sales , Department Stores, Hotels, Motels, Grocery Stores, Wineries, Theaters, Gasoline Station
Hotel Allowed	Yes
Legally Non-Conforming	No

**Legal Description,  
Easements and  
Encroachments**

A copy of the subject property's legal description is provided in the addenda to this report. We are not experts in interpreting legal descriptions. The description appears to be accurate; however, we suggest obtaining verification of this description from a qualified expert. We are not aware of any easements attached to the property that would significantly affect the utility of the site or marketability of this project.

**Conclusion**

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



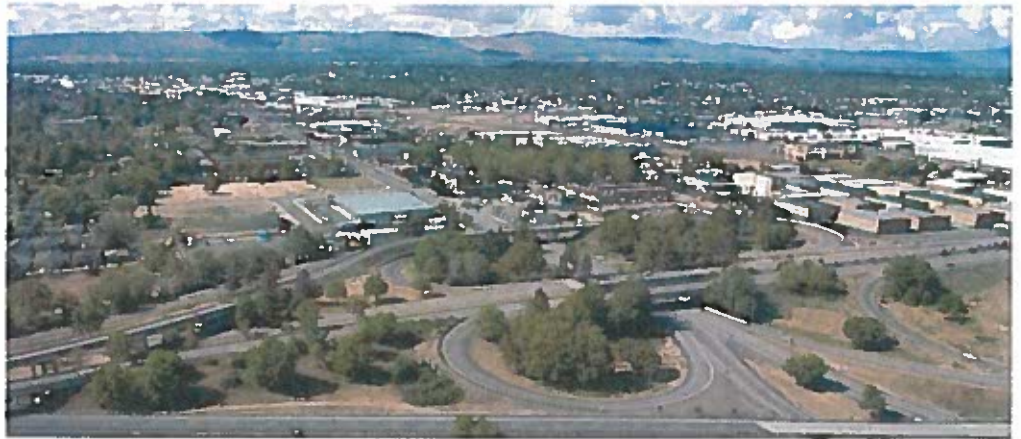
### 3. Market Area Analysis

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 Grandview, the county of Yakima, and the state of Washington. The city of Grandview is part of the Yakima Valley economic base, located 40 miles from Yakima to the northwest and Kennewick, which is part of the Tri-Cities, to the east. Grandview is defined by its views of Mount Rainier, Mount Adams, the Rattlesnake Hills, and Horse Heaven Hills. The area is known for its agricultural production, spanning fruits and vegetables such as apples, cherries, concord and wine grapes, hops, asparagus, corn, and wheat. The area's economic base is also supported by processing plants, cold storage facilities, healthcare facilities, vineyards, and a Walmart distribution center. The city's convenient location along Interstate 82 and U.S Highway 12 provides further economic opportunity, as multiple vacant sites are available for manufacturing development.

## GRANDVIEW



The subject property's market area can be defined by its Metropolitan Statistical Area (MSA): Yakima, WA MSA. 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	2018	2025	Average Annual Compounded Change			
					2000-10	2010-18	2018-25	
Resident Population (Thousands)								
Yakima County	222.6	244.3	252.5	263.3	0.9	0.4	%	0.6
State of Washington	5,910.5	6,743.2	7,472.1	8,172.6	1.3	1.3	1.3	1.3
United States	282,162.4	309,348.1	328,910.9	350,937.2	0.9	0.8	0.8	0.9
Per-Capita Personal Income*								
Yakima County	\$27,032	\$31,459	\$37,094	\$40,648	1.5	2.1	1.3	1.3
Yakima, WA MSA	27,032	31,459	37,094	40,648	1.5	2.1	1.3	1.3
State of Washington	39,502	41,508	50,949	54,680	0.5	2.6	1.0	1.0
United States	36,812	39,622	46,097	50,233	0.7	1.9	1.2	1.2
W&P Wealth Index								
Yakima County	74.7	79.3	80.8	81.1	0.6	0.2	0.1	0.1
Yakima, WA MSA	74.7	79.3	80.8	81.1	0.6	0.2	0.1	0.1
State of Washington	107.3	105.4	111.4	110.1	(0.2)	0.7	(0.2)	(0.2)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*								
Yakima County	\$207	\$215	\$284	\$309	0.4	3.5	1.2	1.2
Yakima, WA MSA	207	215	284	309	0.4	3.5	1.2	1.2
State of Washington	7,977	9,515	12,118	13,429	1.8	3.1	1.5	1.5
United States	368,829	447,728	597,451	662,610	2.0	3.7	1.5	1.5
Total Retail Sales (Millions)*								
Yakima County	\$2,532	\$2,496	\$2,926	\$3,143	(0.1)	2.0	1.0	1.0
Yakima, WA MSA	2,532	2,496	2,926	3,143	(0.1)	2.0	1.0	1.0
State of Washington	83,348	107,261	144,044	162,642	2.6	3.8	1.7	1.7
United States	3,902,830	4,130,414	5,081,233	5,598,240	0.6	2.6	1.4	1.4

\* Inflation Adjusted

Source: Woods & Poole Economics, Inc.





## Workforce Characteristics

The U.S. population has grown at an average annual compounded rate of 0.8% from 2010 through 2018. The county's population has grown more slowly than the nation's population; the average annual growth rate of 0.4% between 2010 and 2018 reflects a gradually expanding area. Following this population trend, per-capita personal income increased modestly, at 2.1% on average annually for the county between 2010 and 2018. Local wealth indexes have remained stable in recent years, registering a relatively modest 80.8 level for the county in 2018.

Food and beverage sales totaled \$284 million in the county in 2018, versus \$215 million in 2010. This reflects a 3.5% average annual change, which is stronger than the 0.4% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 1.2%, which is forecast through 2025. The retail sales sector demonstrated an annual decline of -0.1% registered in the decade 2000 to 2010, followed by an increase of 2.0% in the period 2010 to 2018. An increase of 1.0% average annual change is expected in county retail sales through 2025.

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 2018, as well as a forecast for 2025.

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

Industry	2000	Percent of Total	2010	Percent of Total	2018	Percent of Total	2025	Percent of Total	Average Annual Compounded Change		
									2000- 2010	2010- 2018	2018- 2025
Farm	15.6	13.8 %	15.5	13.0 %	18.4	13.4 %	19.6	13.2 %	(0.1) %	2.2 %	0.9 %
Forestry, Fishing, Related Activities And Other	4.9	4.3	7.9	6.6	10.7	7.8	12.1	8.1	5.0	3.9	1.7
Mining	0.0	0.0	0.1	0.1	0.2	0.1	0.2	0.1	14.3	2.9	1.3
Utilities	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1	(1.1)	(1.7)	0.1
Construction	4.5	4.0	4.3	3.6	5.5	4.0	5.9	3.9	(0.5)	3.1	1.0
Manufacturing	11.6	10.3	8.0	6.7	9.5	6.9	9.5	6.4	(3.7)	2.3	0.0
Total Trade	17.0	15.1	16.9	14.1	19.3	14.1	20.7	13.9	(0.1)	1.7	1.0
Wholesale Trade	5.0	4.4	4.5	3.8	5.3	3.9	5.5	3.7	(0.9)	2.1	0.5
Retail Trade	12.1	10.7	12.4	10.4	14.0	10.2	15.2	10.2	0.2	1.6	1.2
Transportation And Warehousing	3.2	2.8	3.8	3.2	4.4	3.2	4.5	3.1	1.9	1.8	0.5
Information	1.2	1.1	0.9	0.8	1.0	0.7	1.1	0.7	(2.6)	0.5	1.4
Finance And Insurance	2.7	2.4	3.1	2.6	3.2	2.3	3.6	2.4	1.7	0.2	1.8
Real Estate And Rental And Lease	2.7	2.4	3.5	2.9	3.9	2.9	4.2	2.8	2.7	1.6	0.8
Total Services	32.8	29.1	36.8	30.8	42.2	30.7	46.6	31.4	1.2	1.7	1.4
Professional And Technical Services	3.1	2.8	3.4	2.9	3.4	2.5	3.6	2.5	0.9	(0.2)	1.1
Management Of Companies And Enterprises	0.6	0.5	0.5	0.4	0.7	0.5	0.8	0.5	(0.7)	4.0	0.7
Administrative And Waste Services	3.1	2.8	2.8	2.4	2.9	2.1	3.1	2.1	(1.0)	0.2	1.0
Educational Services	1.2	1.1	1.7	1.4	2.2	1.6	2.5	1.7	3.5	3.4	1.7
Health Care And Social Assistance	12.1	10.7	15.2	12.8	17.9	13.0	20.3	13.7	2.3	2.0	1.8
Arts, Entertainment, And Recreation	1.4	1.3	1.6	1.4	1.9	1.4	2.1	1.4	1.3	2.0	1.1
Accommodation And Food Services	5.6	4.9	6.2	5.2	7.6	5.6	8.1	5.5	1.1	2.6	0.9
Other Services, Except Public Administration	5.6	5.0	5.3	4.4	5.6	4.1	6.1	4.1	(0.7)	0.8	1.2
Total Government	16.5	14.6	18.3	15.4	18.8	13.7	20.5	13.8	1.0	0.3	1.2
Federal Civilian Government	1.6	1.4	1.4	1.2	1.2	0.9	1.2	0.8	(1.2)	(1.3)	(0.5)
Federal Military	0.9	0.8	0.8	0.7	0.8	0.6	0.8	0.5	(0.3)	(1.0)	0.1
State And Local Government	14.1	12.5	16.1	13.5	16.8	12.2	18.5	12.5	1.3	0.5	1.4
TOTAL	113.0	100.0 %	119.3	100.0 %	137.3	100.0 %	148.6	100.0 %	0.5 %	1.8 %	1.1 %
MSA	113.0	—	119.3	—	137.3	—	148.6	—	0.5 %	1.8 %	1.1 %
U.S.	165,372.0	—	173,034.7	—	202,637.9	—	223,254.5	—	1.1	2.0	1.4

Source: Woods & Poole Economics, Inc.

## Unemployment Statistics

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 0.5%. 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 1.8% on an annual average from 2010 to 2018, 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 2018, increasing by 5,400 people, or 14.7%, and rising from 30.8% to 30.7% 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 Farm sector, as well as the Farm sector, which expanded by 18.9% and 35.5%, respectively, in the period 2010 to 2018. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.1% on average annually through 2025. The trend is below the forecast rate of change for the U.S. as a whole during the same period.

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

**FIGURE 3-3 UNEMPLOYMENT STATISTICS**

Year	County	State	U.S.
2008	7.3 %	5.4 %	5.8 %
2009	9.0	9.2	9.3
2010	10.6	10.0	9.6
2011	10.7	9.3	8.9
2012	10.6	8.1	8.1
2013	10.0	7.0	7.4
2014	8.7	6.1	6.2
2015	8.1	5.7	5.3
2016	7.5	5.3	4.9
2017	6.8	4.8	4.4
<i>Recent Month - Dec</i>			
2017	8.1 %	4.9 %	4.1 %
2018	8.3	4.7	3.9

Source: U.S. Bureau of Labor Statistics



Current U.S. unemployment levels are now firmly below the annual averages of the last economic cycle peak of 2006 and 2007, when annual averages were 4.6%. National unemployment registered 4.1% each month during the first quarter of 2018, as well as the last quarter of 2017, roughly six points below the October 2009 peak of 10.0%. From September through November of 2018, the rate remained low at 3.7%, before rising to 3.9% in December. Total nonfarm payroll employment increased by 274,000, 176,000, and 312,000 jobs in October, November, and December of 2018, respectively. Gains in December occurred in the health care, food services and drinking places, construction, manufacturing, and retail trade sectors. Unemployment has remained under the 5.0% mark since May 2016, reflecting a trend of relative stability and the overall strength of the U.S. economy. The unemployment rate fell to a 48-year low in September, a trend that continued through November. By the end of 2018, the number of unemployed persons was 6.3 million (versus 6.6 million at the end of 2017).

Locally, the unemployment rate was 6.8% in 2017; for this same area in 2018, the most recent month's unemployment rate was registered at 8.3%, versus 8.1% for the same month in 2017. Unemployment rose in 2009 because of the national recession, and this trend continued through 2012. Overall, the region fared relatively well, primarily due to funding provided for the Hanford Site cleanup. However, in 2011, the stimulus bill that helped fund the cleanup efforts was depleted, causing a loss of approximately 2,000 jobs; layoffs at the Hanford Site continued through 2012. Unemployment began to recover in 2013. The most recent comparative period illustrates that the unemployment rate has improved, as indicated by the latest available data for 2018. Local economic development officials noted that the job market is now believed to be relatively stable, with no large businesses planning to enter or leave the area.

#### **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 3-4 MAJOR EMPLOYERS**

Rank	Firm	Number of Employees
1	Wal-Mart Grocery Distribution Center No. 7021	719
2	Grandview School District	562
3	Yakima Valley Farm Workers Clinic	116
4	FruitSmart	150
5	Conrad Adams Fruit (seasonal)	100-416
6	Bleyhl Farm Services	89
7	J.M. Smucker Company	75
8	Yakima Valley College	70
9	Welch's Foods	60
10	Shonan USA	50

Source: Port of Grandview, 2019

The opening of the Walmart Distribution Center in 2004, now the biggest employer in Grandview, was a growth catalyst in the region. To support and attract new development, the Port of Grandview strategically developed vacant land into the 67-acre Byam Business Park and 28-acre Wallace Business Park. According to port representatives, both sites are now virtually full, with a majority of new business entering in 2018. One of the most significant additions was the 142,000-square-foot, temperature-controlled warehouse for Henningsen Cold Storage Company. Phase I of the project was completed in June 2018 for \$30 million. Phases II and III are expected to further expand the existing warehouse. Furthermore, Indian River Transport, a food-grade liquid-handler and transporting company, relocated to Grandview and added a new terminal that includes a repair facility and a food-grade tank wash. Bestebreur Bros. Construction, Inc. moved its main office to a three-acre site in Grandview in 2018. According to local news source, Fast Mobile Services (FMS) relocated to Grandview from Sunnyside in 2018. The company acquired 8.5 acres to construct a 15,000-square-foot diesel mechanic and fleet maintenance facility and new office and retail space. Moreover, in 2017, a 24-acre site adjacent to the Walmart Distribution Center was purchased by the Port of Grandview and is pending further development.

The neighboring community of Sunnyside is also experiencing economic growth. Ostrom's Mushroom expects to open a new, \$45-million farm facility on a 43-acre site in the Port of Sunnyside. The plant is anticipated to employ approximately 200 to 300 people after completion in the spring of 2019. Furthermore, several breweries and incubator-style wineries are slated to open in 2019, and a Popeyes Louisiana Kitchen opened in 2018. A new 58-bed, \$120 million community hospital

is proposed for construction in Sunnyside. As of March 2019, this project is seeking seed funding from the U.S. Department of Agriculture and is under review for approval by the Department of Health. According to local economic development officials, the neighboring city of Prosser experienced a lodging tax revenue increase of 12% in 2018 compared to the previous year, mainly attributed to increased traffic along Interstate 82 and the August 2017 opening of the 75-room Holiday Inn Express adjacent to the Love's Travel Stops & Country Stores. The truck stop opened in May 2017.

### Airport Traffic

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

The Tri-Cities Airport, located in Pasco, is the third-largest commercial airport in the state of Washington and serves the communities of southeastern Washington and northeastern Oregon. The terminal building offers passenger comfort and convenience with services including restaurants, shops, and rental-car agencies. A considerable expansion of the airport was completed in January 2017; the \$42-million project doubled the size of the terminal.

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



**FIGURE 3-5 AIRPORT STATISTICS - TRI-CITIES AIRPORT**

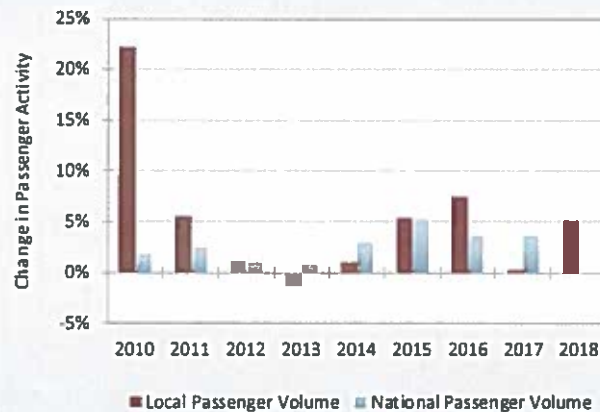
Year	Passenger Traffic	Percent Change*	Percent Change**
2009	504,808	—	—
2010	616,760	22.2 %	22.2 %
2011	651,612	5.7	13.6
2012	659,614	1.2	9.3
2013	651,203	(1.3)	6.6
2014	657,557	1.0	5.4
2015	692,887	5.4	5.4
2016	744,730	7.5	5.7
2017	746,826	0.3	5.0
2018	784,953	5.1	5.0
<i>Year-to-date, January</i>			
2018	55,546	—	—
2019	65,872	18.6 %	—

\*Annual average compounded percentage change from the previous year

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

Source: Tri-Cities Airport

**FIGURE 3-6 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND**



Source: HVS, Local Airport Authority

This facility recorded 784,953 passengers in 2018. The change in passenger traffic between 2017 and 2018 was 5.1%. The average annual change during the period shown was 5.0%. The increase in passenger traffic shown by the most recent data can be attributed in large part to additional flights by Delta, Alaska, and United. New service includes a new daily flight to Denver (now three a day) and a second daily flight to Minneapolis-St. Paul for six months of the year instead of three.

The following table illustrates recent operating statistics for the Yakima Air Terminal-McAllister Field, which is the secondary airport facility serving the proposed subject property's submarket.



**FIGURE 3-7 AIRPORT STATISTICS – YAKIMA AIR TERMINAL-MCALLISTER FIELD**

Year	Passenger Traffic	Percent Change*	Percent Change**
2008	121,931	—	—
2009	121,931	—	—
2010	109,716	(10.0) %	(10.0) %
2011	113,072	3.1	(3.7)
2012	112,637	(0.4)	(2.6)
2013	108,931	(3.3)	(2.8)
2014	115,541	6.1	(1.1)
2015	127,964	10.8	0.8
2016	144,079	12.6	2.4
2017	144,302	0.2	2.1
2018	141,805	(1.7)	1.7

\*Annual average compounded percentage change from the previous year

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

Source: Yakima Air Terminal-McAllister Field

Air traffic registered 144,302 passengers in 2017. The change in passenger traffic between 2016 and 2017 was 0.2%.

#### Tourist Attractions

The subject market benefits from a limited number of tourism and leisure attractions in the area. Leisure demand consists primarily of travelers passing through en route to other destinations and people visiting friends or relatives. Other leisure demand generators include historic wineries and wine tasting rooms of the Yakima Valley American Viticultural Area (AVA), pick-your-own fruit farms, and the Yakima Valley Fair Grounds. Special events also play a role during key weekends, such as the annual No Rhyme Or Reason Country Flea Market in October and the Yakima Valley Fair and Rodeo in August. No major changes related to these attributes of the market are expected in the near future.

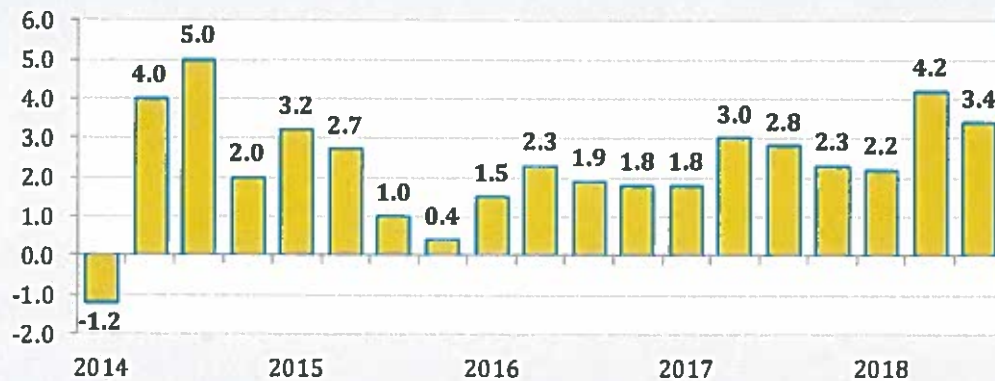
## YAKIMA VALLEY FAIR AND RODEO



### Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. Grandview is experiencing a period of economic stability, primarily led by the agricultural, wine and packaging industry. Our market interviews and research revealed that a majority of the region's growth is occurring in the neighboring communities of Sunnyside and Prosser, as both locations benefit from superior infrastructure. The outlook for the market area remains positive and stable.

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 three years, with a relatively low point in growth occurring during the fourth quarter of 2015. Most recently, the U.S. economy expanded by 2.2%, 4.2%, and 3.5% in the first three quarters of 2018, respectively. In the third quarter of 2018, gains were notable in personal consumption expenditures (PCE), private inventory investment, state and local government spending, federal government spending, and nonresidential fixed investment. These advances were partly offset by negative contributions from exports and residential fixed investment.

**FIGURE 3-8 UNITED STATES GDP GROWTH RATE**

Source: tradingeconomics.com, Bureau of Economic Analysis

U.S. economic growth continues to support expansion of lodging demand. In 2018, demand growth through September registered 2.5%, just under the 2.7% level recorded in 2017. The economic growth, low unemployment, higher levels of personal income, and stability in the U.S. economy as of late 2018 is helping to maintain 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 Yakima County lodging market. Within this greater market, the proposed subject hotel will compete with a smaller set of hotels based on various factors, such as highway access, price point, and service level.

### 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**

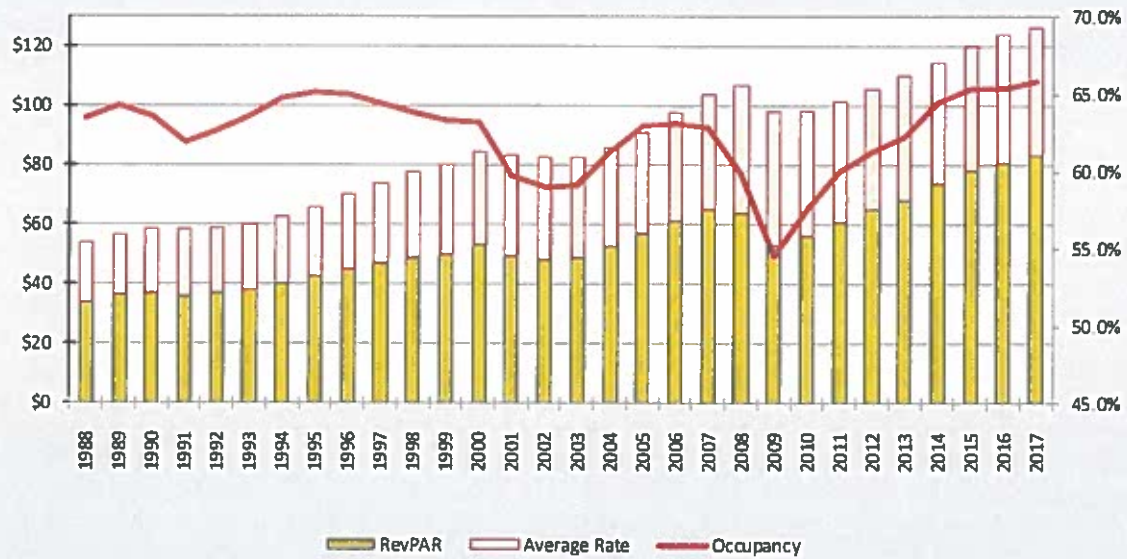




FIGURE 4-2 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – YEAR-TO-DATE DATA

	Occupancy - YTD December			ADR - YTD December			RevPAR - YTD December			Percent Change	
	2017	2018	% Change	2017	2018	% Change	2017	2018	% Change	Rms. Avail.	Rms. Sold
United States	65.9 %	66.2 %	0.5 %	\$126.77	\$129.83	2.4 %	\$83.53	\$85.96	2.9 %	2.0 %	2.5 %
Region											
New England	64.6 %	65.9 %	2.1 %	\$154.39	\$157.96	2.3 %	\$99.72	\$104.16	4.5 %	2.0 %	4.1 %
Middle Atlantic	68.4	69.8	2.1	162.05	166.18	2.5	110.77	116.00	4.7	2.4	4.5
South Atlantic	67.9	67.9	0.1	123.57	126.45	2.3	83.88	85.88	2.4	1.8	1.8
E. North Central	61.3	61.6	0.5	109.90	112.44	2.3	67.37	69.30	2.9	2.0	2.6
E. South Central	61.5	62.0	0.7	98.23	100.79	2.6	60.46	62.45	3.3	2.2	2.9
W. North Central	58.0	58.0	(0.1)	97.70	99.00	1.3	56.65	57.38	1.3	2.1	2.0
W. South Central	62.5	62.7	0.4	100.36	102.53	2.2	62.69	64.29	2.5	2.6	3.0
Mountain	65.9	66.2	0.5	118.02	119.06	0.9	77.81	78.88	1.4	1.4	1.9
Pacific	73.8	73.8	0.0	162.89	168.55	3.5	120.25	124.45	3.5	1.8	1.8
Class											
Luxury	70.7 %	71.3 %	0.9 %	\$286.91	\$294.86	2.8 %	\$202.87	\$210.29	3.7 %	2.4 %	3.3 %
Upper-Upscale	72.8	72.7	(0.1)	181.74	185.59	2.1	132.26	134.88	2.0	2.4	2.2
Upscale	72.3	72.2	(0.2)	141.05	143.86	2.0	101.99	103.81	1.8	4.4	4.2
Upper-Midscale	67.7	67.8	0.2	115.32	117.22	1.6	78.08	79.52	1.8	3.9	4.1
Midscale	60.6	60.8	0.4	93.42	95.44	2.2	56.58	58.01	2.5	0.6	0.9
Economy	58.7	59.3	1.1	72.23	73.94	2.4	42.38	43.84	3.5	(0.5)	0.6
Location											
Urban	73.4 %	73.4 %	(0.1) %	\$178.72	\$183.14	2.5 %	\$131.26	\$134.41	2.4 %	3.1 %	3.0 %
Suburban	67.0	67.0	0.1	108.24	110.57	2.2	72.48	74.11	2.2	2.3	2.4
Airport	73.7	73.8	0.1	116.23	118.24	1.7	85.63	87.24	1.9	1.7	1.9
Interstate	57.2	58.0	1.5	85.11	86.92	2.1	48.65	50.43	3.7	1.6	3.1
Resort	70.0	70.2	0.3	172.87	179.24	3.7	120.96	125.84	4.0	1.2	1.6
Small Town	57.1	57.9	1.4	102.37	104.34	1.9	58.45	60.42	3.4	1.3	2.7
Chain Scale											
Luxury	74.0 %	74.5 %	0.7 %	\$323.95	\$336.04	3.7 %	\$239.66	\$250.25	4.4 %	2.1 %	2.8 %
Upper-Upscale	74.2	74.0	(0.3)	182.15	185.96	2.1	135.21	137.69	1.8	2.5	2.2
Upscale	73.8	73.5	(0.4)	140.21	142.87	1.9	103.43	104.94	1.5	5.2	4.8
Upper-Midscale	67.9	67.8	(0.1)	112.94	114.67	1.5	76.68	77.78	1.4	4.1	4.0
Midscale	59.9	60.1	0.3	86.93	88.58	1.9	52.09	53.25	2.2	1.0	1.3
Economy	58.0	58.6	1.0	62.48	63.79	2.1	36.23	37.38	3.2	(0.7)	0.4
Independents	62.7	63.4	1.0	126.21	129.66	2.7	79.17	82.17	3.8	0.5	1.6

Source: STR - December 2018 Lodging Review



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

	Occupancy			Average Rate			RevPAR			Percent Change	
	2016	2017	% Change	2016	2017	% Change	2016	2017	% Change	Rms. Avail.	Rms. Sold
<b>United States</b>	65.4 %	65.9 %	0.9 %	\$124.13	\$126.72	2.1 %	\$81.15	\$83.57	3.0 %	1.8 %	2.7 %
<b>Region</b>											
New England	64.1 %	64.8 %	1.1 %	\$151.20	\$153.78	1.7 %	\$96.96	\$99.67	2.8 %	1.5 %	2.6 %
Middle Atlantic	67.2	67.8	0.9	163.54	162.88	(0.4)	109.91	110.50	0.5	2.8	3.8
South Atlantic	67.1	68.0	1.4	119.92	123.40	2.9	80.45	83.91	4.3	1.5	2.9
E. North Central	61.0	61.4	0.5	108.32	109.53	1.1	66.12	67.20	1.6	1.9	2.4
E. South Central	61.3	61.5	0.3	94.88	98.23	3.5	58.15	60.37	3.8	1.9	2.2
W. North Central	59.0	58.0	(1.7)	96.10	97.47	1.4	56.71	56.54	(0.3)	1.4	(0.3)
W. South Central	61.4	62.5	1.9	98.73	100.32	1.6	60.57	62.70	3.5	3.0	4.9
Mountain	65.3	66.3	1.6	114.36	118.51	3.6	74.63	78.61	5.3	1.1	2.8
Pacific	73.8	73.9	0.3	158.63	162.60	2.5	116.99	120.23	2.8	1.6	1.9
<b>Class</b>											
Luxury	70.8 %	71.0 %	0.3 %	\$282.44	\$286.27	1.4 %	\$199.95	\$203.28	1.7 %	2.1 %	2.4 %
Upper-Upscale	72.5	72.7	0.3	178.13	181.00	1.6	129.17	131.67	1.9	1.7	2.0
Upscale	71.9	72.4	0.7	139.04	141.20	1.6	100.03	102.28	2.3	4.3	5.0
Upper-Midscale	67.1	67.6	0.8	114.07	115.86	1.6	76.54	78.34	2.3	4.0	4.8
Midscale	59.8	60.5	1.2	92.16	94.36	2.4	55.07	57.07	3.6	0.2	1.5
Economy	58.4	58.9	0.9	69.79	71.95	3.1	40.74	42.36	4.0	(0.4)	0.5
<b>Location</b>											
Urban	73.1 %	73.5 %	0.7 %	\$177.36	\$178.94	0.9 %	\$129.57	\$131.61	1.6 %	3.1 %	3.8 %
Suburban	66.7	67.0	0.4	105.74	108.10	2.2	70.57	72.47	2.7	1.9	2.4
Airport	73.3	73.7	0.6	113.60	116.17	2.3	83.27	85.67	2.9	1.4	2.0
Interstate	56.5	57.2	1.3	83.14	85.04	2.3	46.97	48.67	3.6	1.5	2.9
Resort	68.4	69.6	1.8	169.02	173.57	2.7	115.60	120.88	4.6	0.9	2.7
Small Town	56.7	57.3	1.0	99.91	102.23	2.3	56.70	58.59	3.3	1.5	2.5
<b>Chain Scale</b>											
Luxury	73.8 %	74.0 %	0.3 %	\$317.29	\$323.74	2.0 %	\$234.09	\$239.54	2.3 %	1.6 %	1.9 %
Upper-Upscale	74.2	74.2	0.0	179.54	182.04	1.4	133.25	135.15	1.4	2.1	2.1
Upscale	73.7	73.8	0.1	138.28	140.19	1.4	101.97	103.45	1.5	6.0	6.1
Upper-Midscale	67.5	67.9	0.7	111.43	113.09	1.5	75.18	76.84	2.2	3.3	4.0
Midscale	59.3	60.0	1.2	85.23	86.99	2.1	50.53	52.17	3.3	1.3	2.4
Economy	57.7	58.1	0.6	60.86	62.48	2.7	35.14	36.28	3.2	0.1	0.7
Independents	62.0	62.9	1.4	123.00	126.49	2.8	76.27	79.56	4.3	0.0	1.5

Source: STR - December 2017 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 of 65.4% in 2015. Supply growth intensified modestly in 2015 (at 1.1%), following annual supply growth levels of 0.7% and 0.9% in 2013 and 2014, respectively. Average rate posted another strong year of growth, at 4.7% in 2015, in pace with the annual growth of the last four years. Robust job growth, heightened group and leisure travel, and waning price-sensitivity all contributed to the gains. In 2016, occupancy showed virtually no change, as demand growth kept pace with supply additions. Occupancy then moved even higher in 2017 and 2018, to new highs of 65.9% and 66.2%, respectively. Average rate increased 2.1% and 2.4% in 2017 and 2018, respectively. By year-end 2018, the net change in RevPAR was 2.9%, reflecting a healthy lodging market overall.

#### Historical Supply and Demand Data

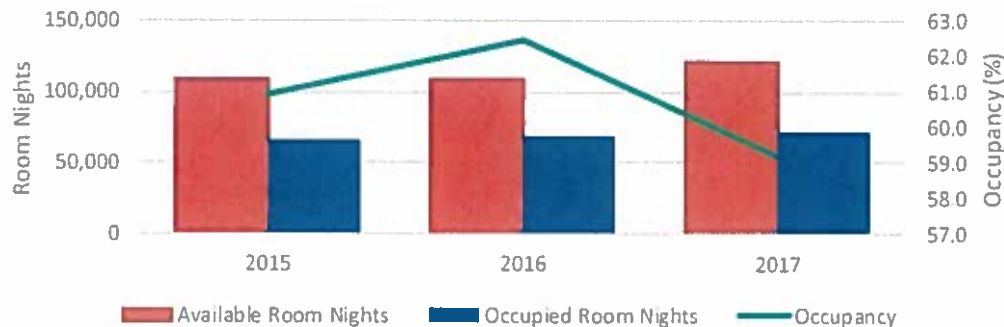
As previously noted, STR is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. HVS has ordered and analyzed an STR Trend Report of historical supply and demand data for a group of hotels considered applicable to this analysis 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	Occupied Room Nights	Change	Change	Occupancy	Average Rate	Change	RevPAR	Change
2015	300	109,500	66,715	—	—	60.9 %	\$79.35	—	\$48.35	—
2016	300	109,500	68,398	0.0 %	2.5 %	62.5	82.13	3.5 %	51.30	6.1 %
2017	331	120,975	71,623	10.5	4.7	59.2	83.68	1.9	49.54	(3.4)
2018	375	136,875	75,187	13.1	5.0	54.9	86.14	2.9	47.32	(4.5)
Average Annual Compounded Change:										
2015 - 2018				7.7	4.1			2.8		(0.7)
Hotels Included in Sample										
			Class	Competitive Status	Number of Rooms	Year Affiliated	Year Opened	Comments		
Rodeway Inn Sunnyside			Economy Class	Primary	69	Dec 2014	Jan 1979	Lobby is undergoing renovation.		
Quality Inn & Suites Toppenish Yakima Valley			Midscale Class	Secondary	44	Jan 2009	Jan 1979	Guestroom remodel in 2018 included new bedding, linens, refrigerators and microwaves.		
Best Western Plus The Inn @ Horse Heaven			Upper Midscale Class	Primary	85	Jul 2011	Aug 1994	The property is underwent a lobby renovation in 2018 and is expected to add granite vanities in the guestroom bathrooms.		
Quality Inn Sunnyside Heart Of Wine Country			Midscale Class	Primary	48	Mar 2014	Jun 1997	Last guestroom remodel in 2014/2015 included new bedding and FFE replacement.		
Best Western Plus Grapevine Inn			Upper Midscale Class	Primary	54	Jul 2011	Oct 2004	Offers views of adjacent vineyard. Under renovation to add 28 rooms.		
Holiday Inn Express & Suites Prosser Yakima Valley Wine			Upper Midscale Class	Primary	75	Aug 2017	Aug 2017	Under same ownership as adjacent Love's Travel Stop & Country Store.		

Total 375

Source: STR

**FIGURE 4-5 HISTORICAL SUPPLY AND DEMAND TRENDS (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 2017 in 59.2%, which compares to 62.5% for 2016. The overall average occupancy level for the calendar years presented equates to 60.8%. The STR data for the competitive set reflect a market-wide average rate level of \$83.68 in 2017, which compares to \$82.13 for 2016. The average across all calendar years presented for average rate equates to \$81.77. These occupancy and average rate trends resulted in a RevPAR level of \$49.54 in 2017.

During the illustrated historical period, occupancy first peaked for this selected set of competitive hotels in 2016, with average rate growth since 2015. As a result, RevPAR peaked at nearly \$52 in 2016. Subsequent to the opening of the 75-room Holiday Inn Express in Prosser, occupancy began to decline in 2017. As this new supply was absorbed, the occupancy decline continued in 2018, and RevPAR dropped to nearly \$47 that year after also declining in 2017. Conversely, average rates continued to rise in 2017 and 2018, with rate growth driven largely by the entrance of the Holiday Inn Express, which operates at a higher price point and allows other market hotels to command higher rates. The entrance of this nationally branded hotel and the overall growing local economy have contributed to the latest trend. The near-term outlook is cautionary as the competitive market further adjusts to the new supply. Notable expansions and relocations of companies to the



area in 2018 bode well for Grandview, which seeks to attract additional businesses in the future. However, it is important to note that no major business expansions were in the pipeline at the time of this report.

### Seasonality

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

**FIGURE 4-6 MONTHLY OCCUPANCY TRENDS**

Month	2015	2016	2017
January	41.1 %	49.6 %	46.5 %
February	54.9	56.5	51.1
March	63.5	63.3	61.6
April	60.2	68.3	68.1
May	68.5	70.8	72.0
June	75.7	75.5	76.7
July	72.1	68.5	71.8
August	71.6	65.0	72.8
September	68.7	69.0	61.4
October	61.3	62.3	55.4
November	48.9	52.2	43.7
December	44.4	48.6	35.6
Annual Occupancy	60.9 %	62.5 %	59.2 %

Source: STR

**FIGURE 4-7 MONTHLY AVERAGE RATE TRENDS**

Month	2015	2016	2017
January	\$75.32	\$75.31	\$70.89
February	72.23	74.13	73.95
March	76.80	79.24	80.70
April	81.00	83.17	82.60
May	81.61	83.99	83.14
June	83.79	85.74	85.77
July	81.85	85.47	87.49
August	82.10	85.47	91.19
September	82.96	88.69	91.36
October	80.20	83.65	86.83
November	75.67	78.81	79.94
December	70.52	75.09	75.48
Annual Average Rate	\$79.35	\$82.13	\$83.68

Source: STR

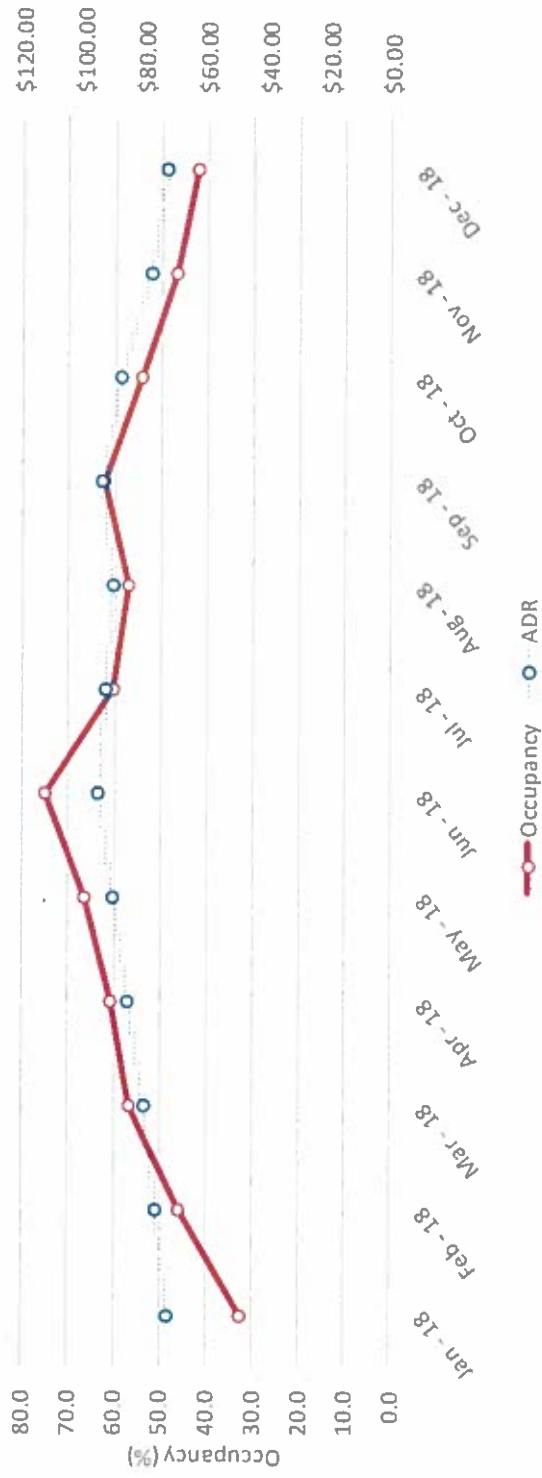


**FIGURE 4-8 SEASONALITY**

	2015	2016	2017
<b>High Season - May, June, July, August</b>			
Occupancy	71.9 %	69.9 %	73.3 %
Average Rate	\$82.35	\$85.16	\$87.15
RevPAR	59.24	59.53	63.86
<b>Shoulder Season - February, March, April, September, October</b>			
Occupancy	61.8 %	64.0 %	59.5 %
Average Rate	\$78.93	\$82.16	\$83.95
RevPAR	48.79	52.54	49.95
<b>Low Season - January, November, December</b>			
Occupancy	44.8 %	50.1 %	41.6 %
Average Rate	\$73.84	\$76.43	\$75.63
RevPAR	33.05	38.29	31.46

Source: Smith Travel Research

**FIGURE 4-9 MONTHLY OCCUPANCY AND ADR TRENDS (TRAILING 12 MONTHS)**





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.

#### 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).

**FIGURE 4-10 OCCUPANCY BY DAY OF WEEK (TRAILING 12 MONTHS)**

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jan - 18	23.0 %	31.7 %	37.5 %	37.8 %	34.3 %	29.9 %	30.8 %	32.5 %
Feb - 18	32.4	43.3	49.4	54.6	43.3	49.6	47.5	45.7
Mar - 18	39.7	52.6	61.2	57.3	57.5	60.9	62.6	56.4
Apr - 18	39.4	52.4	60.3	61.7	59.1	78.8	79.0	60.5
May - 18	50.8	58.7	66.2	65.0	59.1	77.3	91.5	66.6
Jun - 18	52.8	70.8	76.3	78.3	72.1	78.6	92.5	75.2
Jul - 18	46.2	56.4	58.5	61.4	58.5	67.4	78.4	60.3
Aug - 18	40.2	50.1	57.0	60.5	51.9	62.0	75.8	56.9
Sep - 18	47.1	50.4	58.9	62.2	53.7	75.3	87.4	62.5
Oct - 18	38.5	48.6	53.3	52.5	53.0	58.9	73.5	53.8
Nov - 18	35.1	46.9	52.0	50.7	47.6	49.2	43.9	46.6
Dec - 18	33.1	45.8	50.0	51.5	47.2	33.0	36.8	42.1
Average	40.0 %	50.3 %	56.5 %	57.5 %	53.2 %	60.3 %	66.9 %	54.9 %

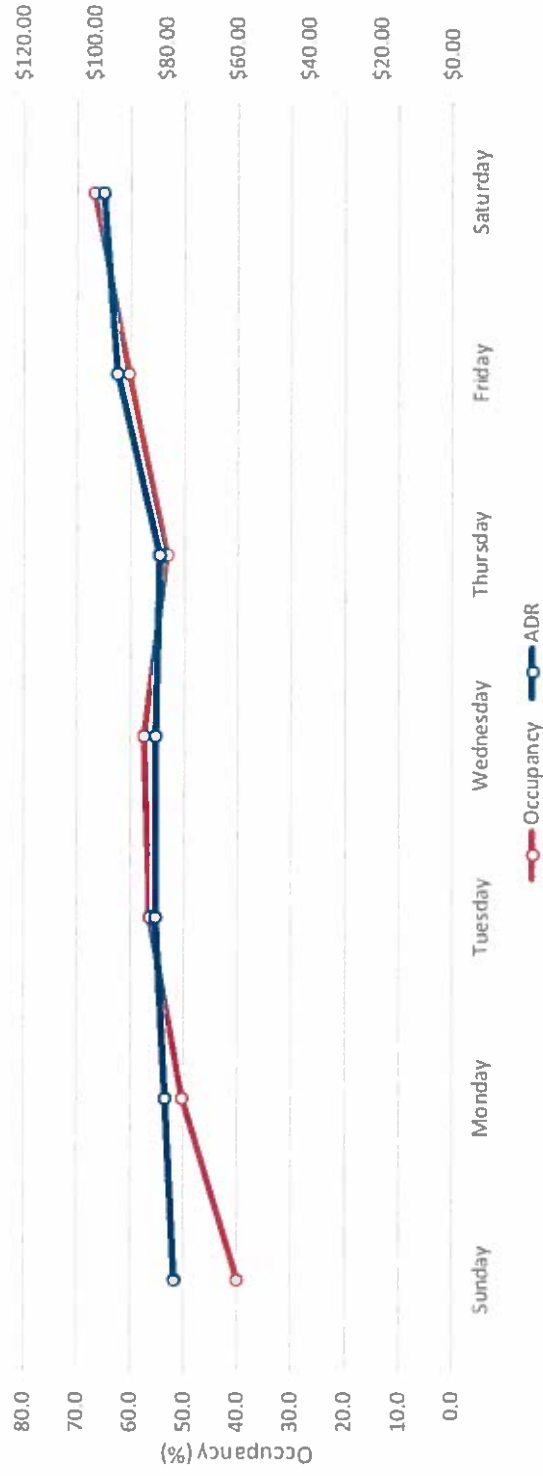
Source: STR

**FIGURE 4-11 AVERAGE RATE BY DAY OF WEEK (TRAILING 12 MONTHS)**

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jan - 18	\$67.11	\$72.73	\$74.22	\$74.29	\$71.92	\$71.29	\$72.04	\$72.42
Feb - 18	70.67	74.77	76.45	76.87	72.53	80.17	80.21	76.32
Mar - 18	71.96	76.79	79.57	78.12	77.61	85.08	84.16	79.81
Apr - 18	75.67	78.13	80.21	80.93	79.71	97.15	97.06	85.33
May - 18	84.36	82.77	84.75	85.25	82.72	100.12	105.85	90.31
Jun - 18	81.34	86.41	89.60	91.10	90.51	103.30	109.73	95.27
Jul - 18	85.66	88.46	91.22	90.23	88.94	98.60	104.42	92.98
Aug - 18	80.52	84.15	86.30	88.23	86.12	97.73	102.19	90.57
Sep - 18	83.82	85.07	87.54	87.59	85.54	106.02	107.68	94.25
Oct - 18	76.94	82.71	84.05	84.16	84.32	96.15	100.55	87.86
Nov - 18	72.41	75.39	75.98	77.75	77.26	82.49	80.84	77.77
Dec - 18	67.94	72.63	75.40	74.42	74.13	69.81	74.68	72.96
Average	\$77.79	\$80.60	\$82.88	\$83.21	\$81.70	\$93.64	\$97.44	\$86.14

Source: STR

**FIGURE 4-12 OCCUPANCY AND AVERAGE RATE BY DAY OF WEEK (TRAILING 12 MONTHS)**



**FIGURE 4-13 OCCUPANCY, AVERAGE RATE, AND REVPAR BY DAY OF WEEK (MULTIPLE YEARS)**

<b>Occupancy (%)</b>	<b>Sunday</b>	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>	<b>Saturday</b>	<b>Total Year</b>
Jan 16 - Dec 16	46.0 %	59.2 %	66.2 %	66.0 %	58.8 %	66.9 %	74.0 %	62.5 %
Jan 17 - Dec 17	43.5	56.2	61.0	63.4	56.3	64.4	69.8	59.2
Jan 18 - Dec 18	40.0	50.3	56.5	57.5	53.2	60.3	66.9	54.9
<b><u>Change (Occupancy Points)</u></b>								
FY 16 - FY 17	(2.5)	(3.0)	(5.1)	(2.5)	(2.4)	(2.5)	(4.1)	(3.3)
FY 17 - FY 18	(3.5)	(5.9)	(4.5)	(5.9)	(3.2)	(4.1)	(3.0)	(4.3)
<b>ADR (\$)</b>	<b>Sunday</b>	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>	<b>Saturday</b>	<b>Total Year</b>
Jan 16 - Dec 16	\$75.66	\$78.18	\$79.66	\$79.83	\$79.86	\$87.08	\$90.67	\$82.13
Jan 17 - Dec 17	78.04	79.75	81.71	81.03	80.48	88.97	92.23	83.68
Jan 18 - Dec 18	77.79	80.60	82.88	83.21	81.70	93.64	97.44	86.14
<b><u>Change (Dollars)</u></b>								
FY 16 - FY 17	\$2.38	\$1.57	\$2.05	\$1.19	\$0.62	\$1.89	\$1.56	\$1.55
FY 17 - FY 18	(0.26)	0.85	1.17	2.18	1.22	4.67	5.21	2.46
<b><u>Change (Percent)</u></b>								
FY 16 - FY 17	3.1 %	2.0 %	2.6 %	1.5 %	0.8 %	2.2 %	1.7 %	1.9 %
FY 17 - FY 18	(0.3)	1.1	1.4	2.7	1.5	5.2	5.7	2.9
<b>RevPAR (\$)</b>	<b>Sunday</b>	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>	<b>Saturday</b>	<b>Total Year</b>
Jan 16 - Dec 16	\$34.77	\$46.29	\$52.71	\$52.66	\$46.94	\$58.25	\$67.07	\$51.30
Jan 17 - Dec 17	33.92	44.80	49.86	51.39	45.35	57.33	64.40	49.54
Jan 18 - Dec 18	31.10	40.54	46.82	47.84	43.45	56.45	65.17	47.32
<b><u>Change (Dollars)</u></b>								
FY 16 - FY 17	(\$0.85)	(\$1.49)	(\$2.84)	(\$1.27)	(\$1.60)	(\$0.92)	(\$2.67)	(\$1.76)
FY 17 - FY 18	(2.82)	(4.26)	(3.04)	(3.55)	(1.90)	(0.88)	0.76	(2.22)
<b><u>Change (Percent)</u></b>								
FY 16 - FY 17	(2.4) %	(3.2) %	(5.4) %	(2.4) %	(3.4) %	(1.6) %	(4.0) %	(3.4) %
FY 17 - FY 18	(8.3)	(9.5)	(6.1)	(6.9)	(4.2)	(1.5)	1.2	(4.5)

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.





## 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 Competition

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 4-14 PRIMARY COMPETITORS – OPERATING PERFORMANCE**

Property	Est. Segmentation				Estimated 2017				Estimated 2018					
	Number of Rooms	Leisure		Commercial Group	Weighted Annual Room Count	Average Rate	RevPAR	Weighted Annual Room Count	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration		
Holiday Inn Express & Suites Prosser Yakima Valley Wine	75	40 %	45 %	15 %	25	25 - 30 %	\$105 - \$110	\$30 - \$35	75	55 - 60 %	\$100 - \$105	\$55 - \$60	100 - 110 %	120 - 130 %
Best Western Plus Grapevine Inn	54	50	40	10	54	60 - 65	90 - 95	55 - 60	54	50 - 55	85 - 90	45 - 50	95 - 100	90 - 95
Best Western Plus The Inn at Horse Heaven	85	50	40	10	85	60 - 65	95 - 100	60 - 65	85	50 - 55	95 - 100	50 - 55	100 - 110	100 - 110
Quality Inn Sunnyside Heart of Wine Country	48	60	35	5	48	55 - 60	80 - 85	45 - 50	48	50 - 55	80 - 85	40 - 45	95 - 100	85 - 90
Sub-Totals/Averages	262	49 %	41 %	11 %	212	58.4 %	\$91.47	\$53.44	262	54.7 %	\$92.94	\$50.85	99.7 %	106.0 %
Secondary Competitors	113	66 %	32 %	2 %	85	60.6 %	\$69.94	\$42.39	85	55.4 %	\$70.58	\$39.13	101.0 %	81.5 %
Totals/Averages	375	53 %	38 %	8 %	297	59.0 %	\$85.16	\$50.28	347	54.9 %	\$87.42	\$47.99	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.														

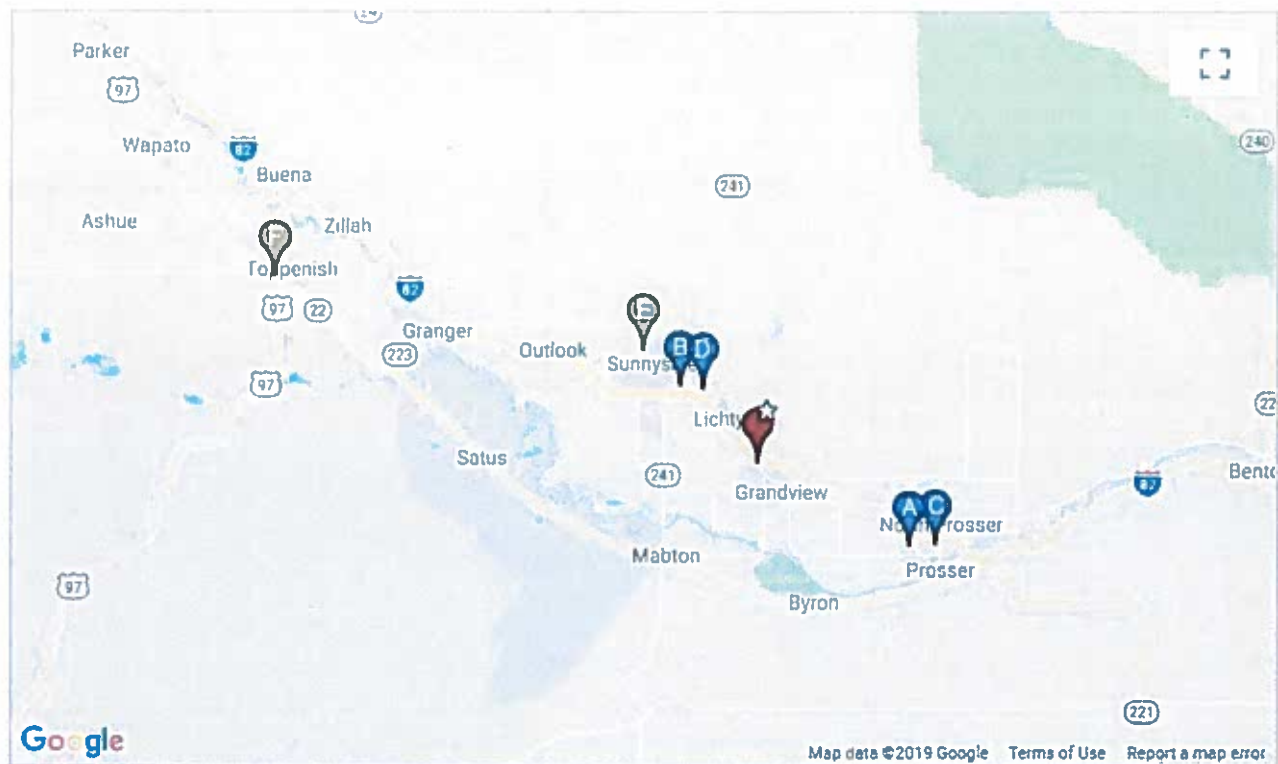
\* Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.






**FIGURE 4-15 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	Renovation Notes
Holiday Inn Express & Suites Prosser Yakima Valley/Wine 680 Wine Country Road	75	2017	—	7.0	Breakfast Dining Area	736	9.7	Business Center; Guest Laundry Area; Indoor Swimming Pool; Fitness Room; Vending Area(s); Outdoor Patio & Fire Pit	Ground-up Construction
Best Western Plus Grapewine Inn 1849 Quail Lane	54	2004	2018/2019	4.0	Breakfast Dining Area	Capacity: 56 pax	Unknown	Guest Laundry Area; Indoor Swimming Pool; Indoor Whirlpool; Fitness Room; Lobby Workstation; Vending Area(s); Truck Parking	The property is undergoing renovations and adding 28 additional guest rooms.
Best Western Plus The Inn at Horse Heaven 259 Merlot Drive	85	1994	2018/2019	7.0	Breakfast Dining Area	900	10.6	Business Center; Guest Laundry Area; Indoor Swimming Pool; Fitness Center; Indoor Whirlpool; Sauna; Coffee Station; Vending Area(s); Outdoor Patio & Barbecue Area; Truck Parking; Outdoor Whirlpool	The property is undergoing a lobby renovation in 2018 and is expected to add granite vanities in the guestroom bathrooms.
Quality Inn Sunnyside Heart of Wine Country 3209 Picard Place	48	1997	2014/2015	4.0	Breakfast Dining Area	600	12.5	Guest Laundry Area; Indoor Swimming Pool; Truck Parking	Last remodel in 2014/2015 included new bedding and FFE replacement.

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

## MAP OF COMPETITION



- |   |   |
|---|---|
|  Proposed Limited-Service Hotel                          |  Quality Inn Sunnyside Heart of Wine Country |
|  Holiday Inn Express & Suites Prosser Yakima Valley Wine |  Rodeway Inn Sunnyside (Secondary)           |
|  Best Western Plus Grapevine Inn                         |  Quality Inn & Suites Toppenish (Secondary)  |
|  Best Western Plus The Inn at Horse Heaven               |   |

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 - HOLIDAY INN EXPRESS & SUITES PROSSER  
YAKIMA VALLEY WINE**



**Holiday Inn Express &  
Suites Prosser Yakima  
Valley Wine  
680 Wine Country  
Road  
Prosser, WA**

**FIGURE 4-16 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2017	25	25 - 30	105 - 110	30 - 35	45 - 50	60 - 65
Est. 2018	75	55 - 60	100 - 105	55 - 60	100 - 110	120 - 130

This hotel is the newest nationally branded hotel in Prosser and is the RevPAR market leader due to its product offering and class of amenities. Furthermore, the hotel benefits from its proximity to a highway interchange and location next to Love's Travel Stop & Country Store. The hotel and adjacent truck stop share the same ownership group and offer discounts and coupons to joint customers. Overall, the property appeared to be in excellent condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Limited-Service Hotel Grandview.

## PRIMARY COMPETITOR #2 - BEST WESTERN PLUS GRAPEVINE INN



**Best Western Plus  
Grapevine Inn  
1849 Quail Lane  
Sunnyside, WA**

**FIGURE 4-17 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2016	54	60 - 65 %	\$85 - \$90	\$55 - \$60	100 - 110 %	100 - 110 %
Est. 2017	54	60 - 65	90 - 95	55 - 60	100 - 110	110 - 120
Est. 2018	54	50 - 55	85 - 90	45 - 50	95 - 100	90 - 95

This hotel offers a hilltop terrace featuring scenic views of the adjacent vineyard. According to hotel representatives, the hotel is expected to undergo a 28-room expansion in 2019. This hotel is slightly disadvantaged by its location set back from the main roads. Overall, the property appeared to be in very good condition. Its accessibility is inferior to that of the subject site, and its visibility is inferior to the expected visibility of the Proposed Limited-Service Hotel Grandview.



### PRIMARY COMPETITOR #3 - BEST WESTERN PLUS THE INN AT HORSE HEAVEN



**Best Western Plus The  
Inn at Horse Heaven  
259 Merlot Drive  
Prosser, WA**

**FIGURE 4-18 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2016	85	60 - 65 %	\$95 - \$100	\$60 - \$65	100 - 110 %	110 - 120 %
Est. 2017	85	60 - 65	95 - 100	60 - 65	100 - 110	120 - 130
Est. 2018	85	50 - 55	95 - 100	50 - 55	100 - 110	100 - 110

This hotel is known for its indoor swimming pool, which is popular among families traveling with children. Furthermore, the hotel benefits from its location within walking distance of multiple restaurants. This hotel is slightly disadvantaged by its age and dated residential-style, two-building configuration. However, the hotel underwent a renovation to the lobby that was completed in 2018. Overall, the property appeared to be in very good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Limited-Service Hotel Grandview.

## PRIMARY COMPETITOR #4 - QUALITY INN SUNNYSIDE HEART OF WINE COUNTRY



Quality Inn Sunnyside  
Heart of Wine Country  
3209 Picard Place  
Sunnyside, WA

**FIGURE 4-19 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Est. 2016	48	60 - 65 %	\$80 - \$85	\$45 - \$50	95 - 100 %	90 - 95 %
Est. 2017	48	55 - 60	80 - 85	45 - 50	100 - 110	95 - 100
Est. 2018	48	50 - 55	80 - 85	40 - 45	95 - 100	85 - 90

This hotel benefits from its excellent visibility and accessibility from Interstate 82 and U.S. Highway 12. As its last guestroom renovation, including new bedding, fixtures, and furniture in the guestrooms, occurred in 2014/15, the property appears more dated than its competitors. Overall, the property appeared to be in good condition. Its accessibility is inferior to that of the subject site, and its visibility is inferior to the expected visibility of the Proposed Limited-Service Hotel Grandview.



## 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. To represent the secondary competitors, we have used the data set from the STR trend that excludes the primary competitors. This set has been weighted to reflect the different facilities, market positions, branding, and other factors that are expected to be less competitive with the proposed subject hotel than those of the primary competitors. The following table sets forth the pertinent operating characteristics of the secondary competitors.

**FIGURE 4-20 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE**

Property	Est. Segmentation				Estimated 2017				Estimated 2018				
	Number of Rooms	Leisure	Commercial	Group	Total Competitive Level	Weighted Annual Room Count	Average Rate	Occ.	RevPAR	Weighted Annual Room Count	Average Rate	Occ.	RevPAR
Quality Inn & Suites Toppenish	44	60 %	35 %	5 %	75 %	33	\$80 - \$85	55 - 60 %	\$45 - \$50	33	\$80 - \$85	50 - 55 %	\$40 - \$45
Rodeway Inn Sunnyside	69	70	30	0	75	52	60 - 65	60 - 65	35 - 40	52	65 - 70	55 - 60	35 - 40
Totals/Averages	113	66 %	32 %	2 %	75 %	85	\$69.94	60.6 %	\$42.39	85	\$70.58	55.4 %	\$39.13

\* 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.

\* 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.



### Supply Changes

It is important to consider any new hotels that may have an impact on the proposed subject hotel's operating performance. The hotels that have recently opened, are under construction, or are in the stages of early development (if any) in the Grandview market are noted below. The list is categorized by the principal submarkets within the city.

**FIGURE 4-21 AREA DEVELOPMENT ACTIVITY**

Proposed Hotel Name	Estimated Number of Rooms	Hotel Product Tier	Development Stage	Expected Qtr. & Year of Opening	Address
Home2 Suites - Yakima Airport	107	Upper-Midscale	Under Construction	Q2 '19	2420 West Nob Hill Boulevard, Yakima, WA

We note that a 28-guestroom addition is proposed for the Best Western Plus Grapevine Inn in Sunnyside, which is located approximately four miles from the subject site. The expansion is expected to begin in the spring of 2019 and be complete in May 2020. These additional hotel rooms are expected to compete with the proposed subject hotel given this property's status as a primary competitor, based on its proximity and similar limited-service profile; therefore, the additional rooms have also been weighted as fully competitive new supply 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 Grandview submarket. The Proposed Limited-Service Hotel Grandview 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. 2016	62,019	—	99,189	—	62.5 %	\$83.66	—	\$52.31	—
Est. 2017	63,969	3.1 %	108,339	9.2 %	59.0	85.16	1.8 %	50.28	(3.9) %
Est. 2018	69,473	8.6	126,564	16.8	54.9	87.42	2.7	47.99	(4.6)
Avg. Annual Compounded Chg., Est. 2016-Est. 2018:		5.8 %		13.0 %			2.2 %		(4.2) %

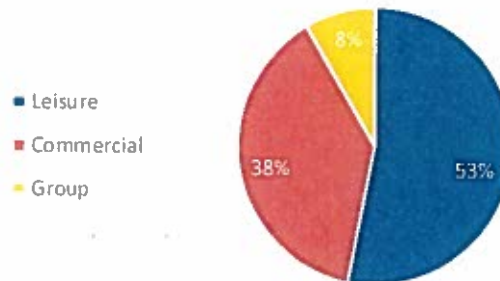
#### Demand Analysis Using Market Segmentation

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 2018 distribution of accommodated-room-night demand as follows.

**FIGURE 4-23 ACCOMMODATED ROOM-NIGHT DEMAND**

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Leisure	36,924	53 %
Commercial	26,696	38
Group	5,854	8
<b>Total</b>	<b>69,473</b>	<b>100 %</b>



**FIGURE 4-24 MARKET-WIDE ACCOMMODATED-ROOM-NIGHT DEMAND**

The market's demand mix comprises leisure demand, with this segment representing roughly 53% of the accommodated room nights in this Grandview submarket. The commercial segment comprises 38% of the total, with the final portions group in nature, reflecting 8%.

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.

#### Leisure Segment

Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites such as Expedia, Hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest Friday and Saturday nights, and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels. Leisure demand for this highway-adjacent market is generated primarily by motorists on Interstate 82 and U.S. Highway 12 seeking a convenient stopover en route to other destinations, as well as by those visiting friends and family in the area. The AVA wineries in the area, such as Yakima Valley Vintners, Barrell Springs Winery, and Pontin del Roza Winery, also generate leisure demand.

### Commercial Segment

Commercial demand consists mainly of individual businesspeople passing through the subject market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as “preferred” accommodations in return for more favorable rates, which are discounted in proportion to the number of room nights produced by a commercial client. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods. Corporate travelers for nearby corporations and construction crews working on local projects generate nominal commercial demand for local hotels.

### Group Segment

In the limited-service sector, group demand is most commonly generated by groups that require ten or more room nights, but need little to no meeting space within the hotel. Examples of these groups include family reunions, sports teams, and bus tours. In some markets, limited-service hotels may also accommodate demand from groups or individuals attending events at the local convention center or at one of the larger convention hotels in the area. Social groups represent primary sources of group demand during weekend and holiday periods, often correlating with events at the Yakima Valley Fair and Rodeo.

### 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.

**FIGURE 4-25 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES**

Market Segment	Annual Growth Rate					
	2019	2020	2021	2022	2023	2024
Leisure	5.5 %	4.5 %	3.5 %	2.0 %	1.0 %	0.0 %
Commercial	6.5	5.5	4.0	3.0	2.5	0.0
Group	3.5	2.5	2.0	1.0	1.5	0.0
Base Demand Growth	5.7 %	4.7 %	3.6 %	2.3 %	1.6 %	0.0 %

### 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 4-26 OCCUPANCY BY NIGHT OF THE WEEK**

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Jan - 18	23.0 %	31.7 %	37.5 %	37.8 %	34.3 %	29.9 %	30.8 %	32.5 %
Feb - 18	32.4	43.3	49.4	54.6	43.3	49.6	47.5	45.7
Mar - 18	39.7	52.6	61.2	57.3	57.5	60.9	62.6	56.4
Apr - 18	39.4	52.4	60.3	61.7	59.1	78.8	79.0	60.5
May - 18	50.8	58.7	66.2	65.0	59.1	77.3	91.5	66.6
Jun - 18	52.8	70.8	76.3	78.3	72.1	78.6	92.5	75.2
Jul - 18	46.2	56.4	58.5	61.4	58.5	67.4	78.4	60.3
Aug - 18	40.2	50.1	57.0	60.5	51.9	62.0	75.8	56.9
Sep - 18	47.1	50.4	58.9	62.2	53.7	75.3	87.4	62.5
Oct - 18	38.5	48.6	53.3	52.5	53.0	58.9	73.5	53.8
Nov - 18	35.1	46.9	52.0	50.7	47.6	49.2	43.9	46.6
Dec - 18	33.1	45.8	50.0	51.5	47.2	33.0	36.8	42.1
<b>Average</b>	<b>40.0 %</b>	<b>50.3 %</b>	<b>56.5 %</b>	<b>57.5 %</b>	<b>53.2 %</b>	<b>60.3 %</b>	<b>66.9 %</b>	<b>54.9 %</b>

Source: STR

The following table presents our estimate of unaccommodated demand in the subject market.

**FIGURE 4-27 UNACCOMMODATED DEMAND ESTIMATE**

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Leisure	36,924	0.9 %	326
Commercial	26,696	0.3	84
Group	5,854	1.0	56
<b>Total</b>	<b>69,473</b>	<b>0.7 %</b>	<b>465</b>

Accordingly, we have forecast unaccommodated demand equivalent to 0.7% of the base-year demand, resulting from our analysis of monthly and weekly peak demand and sell-out trends.

#### 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. Although increases in demand are expected in the local market, we have accounted for this growth in the determination of market-segment growth rates rather than induced demand.

#### 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

	2018	2019	2020	2021	2022	2023	2024
<b>Leisure</b>							
Base Demand	36,924	38,955	40,708	42,132	42,975	43,405	43,405
Unaccommodated Demand	326	343	359	371	379	383	383
Total Demand	37,249	39,298	41,066	42,504	43,354	43,787	43,787
Growth Rate		5.5 %	4.5 %	3.5 %	2.0 %	1.0 %	0.0 %
<b>Commercial</b>							
Base Demand	26,696	28,431	29,995	31,194	32,130	32,933	32,933
Unaccommodated Demand	84	89	94	98	101	103	103
Total Demand	26,779	28,520	30,089	31,292	32,231	33,037	33,037
Growth Rate		6.5 %	5.5 %	4.0 %	3.0 %	2.5 %	0.0 %
<b>Group</b>							
Base Demand	5,854	6,059	6,210	6,334	6,398	6,494	6,494
Unaccommodated Demand	56	58	59	60	61	62	62
Total Demand	5,909	6,116	6,269	6,395	6,459	6,555	6,555
Growth Rate		3.5 %	2.5 %	2.0 %	1.0 %	1.5 %	0.0 %
<b>Totals</b>							
Base Demand	69,473	73,444	76,912	79,661	81,503	82,832	82,832
Unaccommodated Demand	465	490	512	530	541	548	548
Total Demand	69,938	73,934	77,424	80,191	82,043	83,380	83,380
less: Residual Demand	465	2,610	2,514	0	0	0	0
Total Accommodated Demand	69,473	71,325	74,911	80,191	82,043	83,380	83,380
Overall Demand Growth		2.7 %	5.0 %	7.0 %	2.3 %	1.6 %	0.0 %
<b>Market Mix</b>							
Leisure	53.1 %	53.2 %	53.0 %	53.0 %	52.8 %	52.5 %	52.5 %
Commercial	38.4	38.6	38.9	39.0	39.3	39.6	39.6
Group	8.4	8.3	8.1	8.0	7.9	7.9	7.9
Existing Hotel Supply	347	347	347	347	347	347	347
<b>Proposed Hotels</b>							
Proposed Subject Property <sup>1</sup>				65	65	65	65
Available Room Nights per Year	126,564	126,564	133,424	160,509	160,509	160,509	160,509
Nights per Year	365	365	365	365	365	365	365
Total Supply	347	347	366	440	440	440	440
Rooms Supply Growth	—	0.0 %	5.4 %	20.3 %	0.0 %	0.0 %	0.0 %
Marketwide Occupancy	54.9 %	56.4 %	56.1 %	50.0 %	51.1 %	51.9 %	51.9 %

<sup>1</sup> Opening in January 2021 of the 100% competitive, 65-room Proposed Subject Property



The defined competitive market of hotels should experience occupancy decline over the next few years due to the entrance of new hotel supply in the market. Based on historical occupancy levels in this market, and taking into consideration typical supply and demand cyclicalities, market occupancy is forecast to stabilize in the low 50s.



## 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 Proposed Limited-Service Hotel Grandview will be a limited-service lodging facility containing 65 rentable units. The 2-story property is anticipated to open on January 1, 2021. The proposed limited-service hotel is expected to be part of a 20-acre mixed-use development in Grandview with frontage along Interstate 82. Following its opening, the proposed subject hotel would be the first nationally branded hotel in Grandview and the only hotel within a 25-mile radius. Retail and restaurant space is also expected to be constructed along Wine Country Road as part of the larger development.

### TYPICAL LIMITED-SERVICE HOTEL EXTERIOR



### Summary of the Facilities

The following table summarizes the facilities that are expected to be available at the proposed subject hotel.

**FIGURE 5-1 PROPOSED FACILITIES SUMMARY**

<b>Estimated Guestroom Configuration</b>		<b>Number of Units</b>
Queen/Queen		26
King		22
King Suite		15
Queen/Queen Suite		2
Total		65
<b>Food &amp; Beverage Facilities</b>		<b>Seating Capacity</b>
Breakfast Dining Room		52
<b>Indoor Meeting &amp; Banquet Facilities</b>		<b>Square Footage</b>
Meeting Room		TBD
<b>Amenities &amp; Services</b>		
Outdoor Swimming Pool		Market Pantry
Fitness Room		Guest Laundry Room
Lobby Workstation		Vending Areas
<b>Infrastructure</b>		
Parking Spaces		Estimated 67
Elevators		1 Guest
Life-Safety Systems		Sprinklers, Smoke Detectors
Construction Details		Wood Frame, Poured Concrete

### Site Improvements and Hotel Structure

The proposed hotel should comprise one two-story building. Surface parking is expected to be located around the building. Other site improvements are anticipated to include freestanding signage, located at the main entrance to the site, as well as landscaping and sidewalks. Additional signage is expected to be placed on the exterior of the building. The hotel's main entrance is anticipated to lead directly into the lobby, and the first (ground) floor should house the public areas and the back-of-the-house space. Guestrooms should be located on both floors. The site and building components are expected to be normal for a hotel of this type and should meet the standards for this rural highway market.

### Planned Facilities

The hotel's breakfast dining area is expected to be located opposite the front desk in the lobby. Its size and layout should be appropriate for the hotel. The furnishings of the space are expected to be of a similar style and finish as lobby and guestroom furnishings. The hotel is anticipated to offer one meeting room, which should be

located on the first floor; this meeting space should be adequate and appropriate for a hotel of this type. The hotel is expected to offer an outdoor pool and a fitness room as recreational facilities. Other amenities are likely to include a lobby workstation, a market pantry next to the front desk, a guest laundry area, and vending areas on select guestroom floors. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

#### TYPICAL LIMITED-SERVICE LOBBY

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#### TYPICAL LIMITED-SERVICE DINING AREA

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## TYPICAL FIRST FLOOR PLAN



Ground Floor

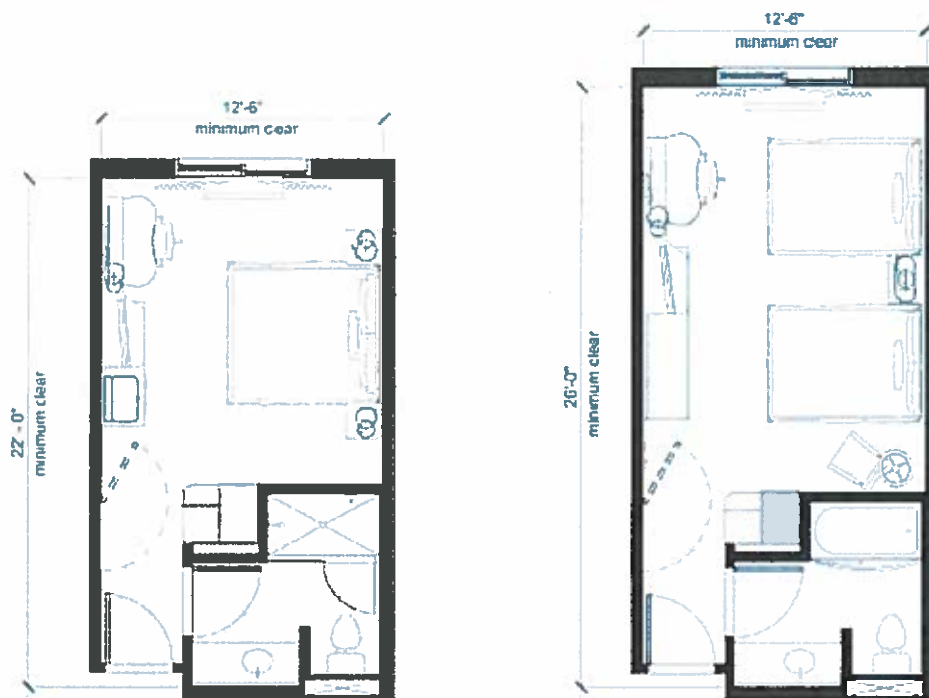
## Guestrooms

The hotel is expected to feature standard and suite-style room configurations, with guestrooms present on all levels of the property's proposed single building. The standard guestrooms should offer typical amenities for the chosen product type, while the suites are expected to feature a larger living area and additional amenities such as a microwave and small refrigerator. The guestroom bathrooms are anticipated to be of a standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a stone countertop. The floors are expected to be finished with tile, and the walls will likely be finished with knockdown texture (consistent with brand standards). Overall, the guestrooms should offer a competitive product for this rural, highway neighborhood.

## TYPICAL LIMITED-SERVICE GUESTROOM



## TYPICAL GUESTROOM FLOOR PLAN



### Back-of-the-House

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

### ADA and Environmental

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

### Capital Expenditures

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





## Conclusion

Overall, the proposed subject hotel should offer a well-designed, functional layout of support areas and guestrooms. All typical and market-appropriate features and amenities are expected to 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	Leisure	Commercial	Group	Overall
Holiday Inn Express & Suites Prosser Yakima Valley Wine	77 %	119 %	182 %	102 %
Best Western Plus Grapevine Inn	93	102	117	98
Best Western Plus The Inn at Horse Heaven	94	104	119	100
Quality Inn Sunnyside Heart of Wine Country	109	88	57	97
Secondary Competition	126	84	22	101

The secondary competition achieved the highest penetration rate within the leisure segment. The highest penetration rate in the commercial segment was achieved by the Holiday Inn Express & Suites Prosser Yakima Valley Wine, while the Holiday Inn Express & Suites Prosser Yakima Valley Wine led the market with the highest group 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**

<b>Market Segment</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Leisure</b>				
Demand	42,504	43,354	43,787	43,787
Market Share	12.4 %	14.3 %	14.3 %	14.3 %
Capture	5,258	6,192	6,254	6,254
Penetration	84 %	97 %	97 %	97 %
<b>Commercial</b>				
Demand	31,292	32,231	33,037	33,037
Market Share	14.1 %	15.4 %	15.4 %	15.4 %
Capture	4,412	4,962	5,086	5,086
Penetration	96 %	104 %	104 %	104 %
<b>Group</b>				
Demand	6,395	6,459	6,555	6,555
Market Share	14.0 %	17.0 %	20.4 %	20.4 %
Capture	892	1,101	1,339	1,339
Penetration	95 %	115 %	138 %	138 %
<b>Total Room Nights Captured</b>	<b>10,562</b>	<b>12,255</b>	<b>12,680</b>	<b>12,680</b>
<b>Available Room Nights</b>	<b>23,660</b>	<b>23,725</b>	<b>23,725</b>	<b>23,725</b>
<b>Subject Occupancy</b>	<b>45 %</b>	<b>52 %</b>	<b>53 %</b>	<b>53 %</b>
<b>Market-wide Available Room Nights</b>	<b>160,509</b>	<b>160,509</b>	<b>160,509</b>	<b>160,509</b>
<b>Fair Share</b>	<b>15 %</b>	<b>15 %</b>	<b>15 %</b>	<b>15 %</b>
<b>Market-wide Occupied Room Nights</b>	<b>80,191</b>	<b>82,043</b>	<b>83,380</b>	<b>83,380</b>
<b>Market Share</b>	<b>13 %</b>	<b>15 %</b>	<b>15 %</b>	<b>15 %</b>
<b>Market-wide Occupancy</b>	<b>50 %</b>	<b>51 %</b>	<b>52 %</b>	<b>52 %</b>
<b>Total Penetration</b>	<b>89 %</b>	<b>101 %</b>	<b>103 %</b>	<b>103 %</b>

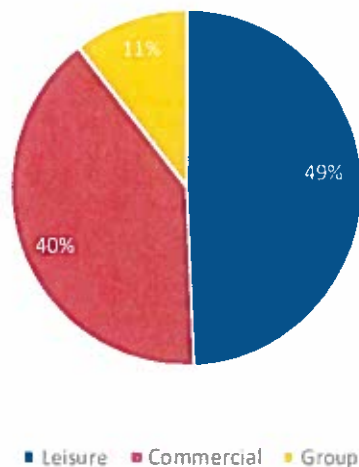
Within the leisure segment, the proposed subject hotel's occupancy penetration is positioned appropriately within the range of existing competitors, largely attributed to its anticipated strong brand recognition and associated brand loyalty among travelers. Within the commercial segment, the proposed subject hotel's occupancy penetration is positioned slightly below the market leader and above the remaining competitors, supported by its assumed national brand affiliation. The proposed subject hotel's occupancy penetration in the meeting and group segment is positioned slightly below the market leader and above the remaining competitors, supported by the leisure orientation of the assumed brand.

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

**FIGURE 6-3 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY**

	2021	2022	2023	2024
Leisure	50 %	51 %	49 %	49 %
Commercial	42	40	40	40
Group	8	9	11	11
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

**FIGURE 6-4 STABILIZED MARKET SEGMENTATION– SUBJECT PROPERTY**



Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 53%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and

temporary economic downturns to force the occupancy below this selected point of stability.

#### Average Rate Analysis

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

#### Competitive Position

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

**FIGURE 6-5 BASE-YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS**

Property	Estimated 2018 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Holiday Inn Express & Suites Prosser Yakima Valley Wine	\$100 - \$105	110 - 120 %	\$55 - \$60	120 - 130 %
Best Western Plus Grapevine Inn	85 - 90	95 - 100	45 - 50	90 - 95
Best Western Plus The Inn at Horse Heaven	95 - 100	100 - 110	50 - 55	100 - 110
Quality Inn Sunnyside Heart of Wine Country	80 - 85	90 - 95	40 - 45	85 - 90
Average - Primary Competitors	\$92.94	106.3 %	\$50.85	106.0 %
Average - Secondary Competitors	70.58	80.7	39.13	81.5
Overall Average	\$87.42	100.0 %	\$47.99	100.0 %
Subject As If Stabilized (In 2018 Dollars)	\$100.00	114.4 %	\$56.47	117.7 %



The defined primarily competitive market realized an overall average rate of \$92.94 in the 2018 base year, improving from the 2017 level of \$91.47. We have selected the rate position of \$100.00, in base-year dollars, for the proposed subject hotel.

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 2.5%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2018.



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

	2016			2017			2018			Projected					
										2019	2020	2021	2022	2023	2024
Proposed Limited-Service Hotel Grandview															
Occupancy									— %	— %		44.6 %	51.7 %	53.4 %	53.4 %
Change in Points									—	—		—	7.0	1.8	0.0
Occupancy Penetration									—	—		89.4 %	101.1 %	102.9 %	102.9 %
Average Rate															
Change															
Average Rate Penetration															
RevPAR															
Change															
RevPAR Penetration															
Historical (Estimated)															
	2017	2017	2018	2019	2020	2021	2022	2023	2024						
Grandview Submarket															
Occupancy	62.5 %	59.0 %	54.9 %	56.4 %	56.1 %	50.0 %	51.1 %	51.9 %	51.9 %	51.9 %	51.9 %	51.9 %	51.9 %	51.9 %	51.9 %
Change in Points	—	(3.5)	(4.2)	1.5	(0.2)	(6.2)	1.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Average Rate	\$83.66	\$85.16	\$87.42	\$89.61	\$91.85	\$94.60	\$97.44	\$100.36	\$103.37	\$103.37	\$103.37	\$103.37	\$103.37	\$103.37	\$103.37
Change	—	1.8 %	2.7 %	2.5 %	2.5 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %
RevPAR	\$52.31	\$50.28	\$47.99	\$50.50	\$51.57	\$47.26	\$49.81	\$52.14	\$53.70	\$53.70	\$53.70	\$53.70	\$53.70	\$53.70	\$53.70
Change	—	(3.9) %	(4.6) %	5.2 %	2.1 %	(8.3) %	5.4 %	4.7 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %	3.0 %

★ 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, 2021 and corresponds with our financial projections, as shown below.

**FIGURE 6-7 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST**

Calendar Year	2018	2019	2020	2021	2022	2023	2024	2025	2026
Market ADR	\$87.42	\$89.61	\$91.85	\$94.60	\$97.44	\$100.36	\$103.37	\$106.48	\$109.67
Projected Market ADR Growth Rate	—	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject Property ADR (As-If Stabilized)	\$100.00	\$102.50	\$105.06	\$108.21	\$111.46	\$114.80	\$118.25	\$121.80	\$125.45
ADR Growth Rate	—	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject Stabilized ADR Penetration	114%	114%	114%	114%	114%	114%	114%	114%	114.4%
Fiscal Year									
Proposed Subject Property Average Rate				\$108.21	\$111.46	\$114.80	\$118.25	\$121.80	\$125.45
Opening Discount				5.0%	2.0%	0.0%	0.0%	0.0%	0.0%
Average Rate After Discount				\$102.80	\$109.23	\$114.80	\$118.25	\$121.80	\$125.45
Real Average Rate Growth				—	6.3%	5.1%	3.0%	3.0%	3.0%
Market ADR				\$94.60	\$97.44	\$100.36	\$103.37	\$106.48	\$109.67
Proposed Subject ADR Penetration (After Discount)				109%	112%	114%	114%	114%	114%
ADR Expressed in Base-Year Dollars Deflated @ Inflation Rate				\$95.00	\$98.00	\$100.00	\$100.00	\$100.00	\$100.00

The competitive submarket should experience ADR 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 new facility, strong brand affiliation, and convenient highway location. The proposed subject hotel's ADR penetration level is forecast to reach 114.4 % by the stabilized period, consistent with our stabilized ADR positioning.

The proposed subject hotel's projected average rate (as if stabilized) is then fiscalized to correspond with the hotel's anticipated date of opening for each forecast year. Discounts of 5% and 2% have been applied to the stabilized room rates projected for the first two years of operation, as would be expected for a new property of this type as it builds its reputation and becomes established in the market.

The following occupancies and average rates will be used to project the subject property's rooms revenue; this forecast reflects years beginning on January 1, 2021, which correspond with our financial projections.



**FIGURE 6-8 FORECASTS OF OCCUPANCY, AVERAGE RATE, AND REVPAR**

<u>Year</u>	<u>Occupancy</u>	<u>Average Rate Before Discount</u>	<u>Discount</u>	<u>Average Rate After Discount</u>
2021	45 %	108.21	5.0 %	102.80
2022	52	111.46	2.0	109.23
2023	53	114.80	0.0	114.80

## 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:	2017	2017/18	2017	2016	2016	2018
Edition:	11	11	11	10	11	11
Number of Rooms:	30 to 50	70 to 100	60 to 90	80 to 100	70 to 100	65
Occupied Rooms:	9,834	18,569	17,253	17,889	18,146	12,574
Days Open:	365	365	365	365	365	365
Occupancy:	63%	62%	61%	55%	60%	53%
Average Rate:	\$89	\$88	\$72	\$101	\$93	\$100
RevPAR:	\$56	\$55	\$44	\$56	\$56	\$53
<b>REVENUE</b>						
Rooms	99.6 %	99.6 %	100.0 %	98.9 %	97.9 %	99.3 %
Other Operated Departments	0.0	0.3	0.0	0.6	2.1	0.5
Miscellaneous Income	0.4	0.1	0.0	0.5	0.0	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
<b>DEPARTMENTAL EXPENSES*</b>						
Rooms	21.8	24.8	24.3	26.4	24.3	25.0
Other Operated Departments	0.0	203.8	0.0	106.7	44.7	50.0
Total	21.7	25.2	24.3	26.7	24.8	25.1
<b>DEPARTMENTAL INCOME</b>						
	78.3	74.8	75.7	73.3	75.2	74.9
<b>OPERATING EXPENSES</b>						
Administrative & General	8.4	8.1	10.5	5.4	18.1	8.7
Info. and Telecom. Systems	1.7	2.5	0.4	0.0	2.3	1.5
Marketing	1.8	5.4	1.8	4.1	6.5	2.6
Franchise Fee	9.9	7.8	13.6	4.9	7.4	7.4
Property Operations & Maintenance	4.8	4.7	4.7	5.1	2.3	3.6
Utilities	4.6	5.8	6.7	6.9	2.4	5.1
Total	31.1	34.3	37.8	26.5	39.1	29.0
<b>HOUSE PROFIT</b>						
	47.2	40.5	37.9	46.9	36.1	45.9
Management Fee	0.0	0.0	0.0	2.5	6.9	3.0
<b>INCOME BEFORE FIXED CHARGES</b>						
	47.2	40.4	37.9	44.3	29.3	42.9
<b>FIXED EXPENSES</b>						
Property Taxes	1.5	2.6	3.3	5.4	3.8	5.9
Insurance	0.1	0.5	1.2	1.3	1.7	1.3
Reserve for Replacement	0.0	0.0	0.0	0.0	0.0	4.0
Total	1.6	3.1	4.5	7.3	5.5	11.2
<b>NET INCOME</b>						
	45.6 %	37.3 %	33.4 %	37.0 %	23.8 %	31.7 %

\* 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:	2017	2017/18	2017	2016	2016	2018
Edition:	11	11	11	10	11	11
Number of Rooms:	30 to 50	70 to 100	60 to 90	80 to 100	70 to 100	65
Occupied Rooms:	9,834	18,569	17,253	17,889	18,146	12,574
Days Open:	365	365	365	365	365	365
Occupancy:	63%	62%	61%	55%	60%	53%
Average Rate:	\$89	\$88	\$72	\$101	\$93	\$100
RevPAR:	\$56	\$55	\$44	\$56	\$56	\$53
<b>REVENUE</b>						
Rooms	\$20,393	\$19,895	\$16,039	\$20,329	\$20,260	\$19,345
Other Operated Departments	0	57	0	125	433	97
Miscellaneous Income	90	13	0	98	0	39
Total	20,483	19,966	16,039	20,552	20,692	19,480
<b>DEPARTMENTAL EXPENSES</b>						
Rooms	4,442	4,924	3,895	5,358	4,931	4,836
Other Operated Departments	0	117	0	133	193	48
Total	4,442	5,041	3,895	5,492	5,124	4,885
<b>DEPARTMENTAL INCOME</b>	16,041	14,924	12,144	15,060	15,568	14,596
<b>OPERATING EXPENSES</b>						
Administrative & General	1,723	1,609	1,685	1,102	3,748	1,700
Info. and Telecom. Systems	339	503	65	0	473	300
Marketing	361	1,069	282	847	1,352	500
Franchise Fee	2,020	1,567	2,187	1,016	1,526	1,451
Property Operations & Maintenance	983	943	761	1,055	484	700
Utilities	944	1,164	1,082	1,416	504	1,000
Total	6,370	6,855	6,062	5,436	8,088	5,651
<b>HOUSE PROFIT</b>	9,671	8,069	6,082	9,624	7,480	8,945
Management Fee	0	0	0	514	1,427	584
<b>INCOME BEFORE FIXED CHARGES</b>	9,671	8,070	6,082	9,110	6,054	8,360
<b>FIXED EXPENSES</b>						
Property Taxes	304	526	529	1,112	780	1,146
Insurance	26	100	198	270	350	250
Reserve for Replacement	0	0	0	0	0	779
Total	330	626	727	1,503	1,130	2,175
<b>NET INCOME</b>	\$9,341	\$7,444	\$5,355	\$7,607	\$4,924	\$6,185



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

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2017	2017/18	2017	2016	2016	2018
Edition:	11	11	11	10	11	11
Number of Rooms:	30 to 50	70 to 100	60 to 90	80 to 100	70 to 100	65
Occupied Rooms:	9,834	18,569	17,253	17,889	18,146	12,574
Days Open:	365	365	365	365	365	365
Occupancy:	63%	62%	61%	55%	60%	53%
Average Rate:	\$89	\$88	\$72	\$101	\$93	\$100
RevPAR:	\$56	\$55	\$44	\$56	\$56	\$53
<b>REVENUE</b>						
Rooms	\$89.17	\$87.86	\$71.58	\$101.14	\$92.67	\$100.00
Other Operated Departments	0.00	0.25	0.00	0.62	1.98	0.50
Miscellaneous Income	0.39	0.06	0.00	0.49	0.00	0.20
Total	89.56	88.17	71.58	102.25	94.65	100.70
<b>DEPARTMENTAL EXPENSES</b>						
Rooms	19.42	21.75	17.39	26.66	22.55	25.00
Other Operated Departments	0.00	0.52	0.00	0.66	0.88	0.25
Total	19.42	22.26	17.39	27.32	23.44	25.25
<b>DEPARTMENTAL INCOME</b>	70.14	65.91	54.20	74.93	71.21	75.45
<b>OPERATING EXPENSES</b>						
Administrative & General	7.53	7.11	7.52	5.48	17.15	8.79
Info. and Telecom. Systems	1.48	2.22	0.29	0.00	2.16	1.55
Marketing	1.58	4.72	1.26	4.21	6.18	2.58
Franchise Fee	8.83	6.92	9.76	5.06	6.98	7.50
Property Operations & Maintenance	4.30	4.16	3.40	5.25	2.21	3.62
Utilities	4.13	5.14	4.83	7.04	2.31	5.17
Total	27.85	30.27	27.05	27.04	36.99	29.21
<b>HOUSE PROFIT</b>	42.29	35.64	27.14	47.88	34.22	46.24
Management Fee	0.00	0.00	0.00	2.56	6.52	3.02
<b>INCOME BEFORE FIXED CHARGES</b>	42.29	35.64	27.14	45.32	27.69	43.22
<b>FIXED EXPENSES</b>						
Property Taxes	1.33	2.32	2.36	5.53	3.57	5.92
Insurance	0.12	0.44	0.88	1.34	1.60	1.29
Reserve for Replacement	0.00	0.00	0.00	0.00	0.00	4.03
Total	1.44	2.76	3.25	7.48	5.17	11.25
<b>NET INCOME</b>	\$40.85	\$32.88	\$23.89	\$37.84	\$22.52	\$31.97



### Fixed and Variable Component Analysis

The comparable statements' departmental income ranged from 73.3% to 78.3% of total revenue. The comparable properties achieved a house profit ranging from 36.1% to 47.2% of total revenue.

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

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 2.5%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2018. 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, 2021, expressed in inflated dollars for each year.

**FIGURE 7-4 DETAILED FORECAST OF INCOME AND EXPENSE**

2021 (Calendar Year)				2022				2023				Stabilized				2025					
Number of Rooms:	65			65			65			65			65			65					
Occupancy:	45%			57%			53%			53%			53%			53%					
Average Rate:	\$102.80			\$109.23			\$114.80			\$118.25			\$121.80			\$121.80					
RevPAR:	\$46.26			\$56.80			\$60.85			\$62.67			\$64.55			\$64.55					
Days Open:	365			365			365			365			365			365					
Occupied Rooms:	10,676	%Gross	PAR	POR	12,337	%Gross	PAR	POR	12,574	%Gross	PAR	POR	12,574	%Gross	PAR	12,574	%Gross	PAR	POR		
OPERATING REVENUE																					
Rooms	\$1,098	99.2	%	\$16,892	\$102.85	99.3	%	\$20,738	\$109.26	99.3	%	\$22,215	\$114.84	99.3	%	\$22,877	\$118.26	99.3	%	\$23,554	\$121.76
Other Operated Departments	6	0.6	100	0.61	7	0.5	107	0.56	7	0.5	111	0.57	7	0.5	114	0.59	8	0.5	116	0.61	
Miscellaneous Income	3	0.2	40	0.24	3	0.2	43	0.23	3	0.2	44	0.23	3	0.2	46	0.24	3	0.2	47	0.24	
Total Operating Revenues	1,107	100.0	17,032	103.70	1,358	100.0	20,889	110.06	1,454	100.0	22,371	115.64	1,497	100.0	23,037	119.09	1,542	100.0	23,719	122.61	
DEPARTMENTAL EXPENSES *																					
Rooms	320	29.1	4,918	29.94	348	25.8	5,350	28.19	361	25.0	5,552	28.70	372	25.0	5,719	29.56	383	25.0	5,890	30.45	
Total Expenses	323	29.2	4,969	30.25	351	25.9	5,404	28.47	365	25.1	5,608	28.99	375	25.1	5,776	29.86	387	25.1	5,949	30.75	
DEPARTMENTAL INCOME	784	70.8	12,063	73.44	1,007	74.1	15,485	81.59	1,090	74.9	16,763	86.65	1,122	74.9	17,261	89.23	1,155	74.9	17,770	91.86	
UNDISTRIBUTED OPERATING EXPENSES																					
Administrative & General	114	10.3	1,751	10.66	122	9.0	1,877	9.89	127	8.7	1,952	10.09	131	8.7	2,010	10.39	135	8.7	2,070	10.70	
Info & Telecom Systems	20	1.8	309	1.88	22	1.6	331	1.75	22	1.5	344	1.78	23	1.5	355	1.83	24	1.5	365	1.89	
Marketing	35	3.2	541	3.29	37	2.7	563	2.97	37	2.6	574	2.97	38	2.6	591	3.06	40	2.6	609	3.15	
Franchise Fee	82	7.4	1,267	7.71	101	7.4	1,555	8.19	108	7.4	1,666	8.61	112	7.4	1,716	8.87	115	7.4	1,767	9.13	
Prop. Operations & Maint.	42	3.8	649	3.95	48	3.5	734	3.87	52	3.6	804	4.15	54	3.6	828	4.28	55	3.6	853	4.41	
Utilities	67	6.0	1,030	6.27	72	5.3	1,104	5.82	75	5.1	1,148	5.94	77	5.1	1,183	6.11	79	5.1	1,218	6.30	
Total Expenses	361	32.5	5,547	33.77	401	29.5	6,165	32.48	422	28.9	6,488	33.54	434	28.9	6,682	34.54	447	28.9	6,882	35.57	
GROSS HOUSE PROFIT	424	38.3	6,516	39.67	606	44.6	9,320	49.11	668	46.0	10,275	53.11	688	46.0	10,579	54.68	708	46.0	10,888	56.28	
Management Fee	33	3.0	511	3.11	41	3.0	627	3.30	44	3.0	671	3.47	45	3.0	691	3.57	46	3.0	712	3.68	
INCOME BEFORE NON-OPR. INC. & EXP.	390	35.3	6,005	36.56	565	41.6	8,694	45.80	624	43.0	9,604	49.64	643	43.0	9,888	51.11	661	43.0	10,176	52.60	
NON-OPERATING INCOME & EXPENSE																					
Property Taxes	81	7.3	1,246	7.59	83	6.1	1,277	6.73	86	5.9	1,316	6.80	88	5.9	1,355	7.01	91	5.9	1,396	7.22	
Insurance	18	1.6	271	1.65	18	1.3	279	1.47	19	1.3	287	1.48	19	1.3	296	1.53	20	1.3	304	1.57	
Reserve for Replacement	22	2.0	341	2.07	41	3.0	627	3.30	58	4.0	895	4.63	60	4.0	921	4.76	62	4.0	949	4.90	
Total Expenses	121	10.9	1,858	11.31	142	10.4	2,183	11.50	162	11.2	2,498	12.91	167	11.2	2,572	13.30	172	11.2	2,649	13.69	
EBITDA LESS RESERVE	\$270	24.4	%	\$4,147	\$25.25	\$423	31.2	%	\$6,511	\$34.30	\$462	31.8	%	\$7,106	\$36.73	\$475	31.8	%	\$7,527	\$38.91	

\*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 proposed subject hotel 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, 2021, expressed in inflated dollars for each year.

Revenues associated with the proposed subject hotel's other operated departments and miscellaneous income category have been forecast to reflect the hotel's planned facilities and amenities. Collections from meeting-room rentals, market-pantry or vending-machine sales, and cancelation fees would be included in these income categories. Expense levels fall within a range of reasonableness given the provided comparable operating statements; furthermore, franchise and management fees are set forth in accordance with our assumptions provided earlier in our report.

**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 53% with an average rate of \$118.25 in 2024. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

**Other Operated  
Departments Revenue**

According to the Uniform System of Accounts, other operated departments include any major or minor operated department other than rooms and food and beverage.

**FIGURE 7-6 OTHER OPERATED DEPARTMENTS REVENUE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2021	Deflated Stabilized
Percentage of Revenue	0.0 %	0.3 %	0.0 %	0.6 %	2.1 %	0.6 %	0.5 %
Per Available Room	\$0	\$57	\$0	\$125	\$433	\$100	\$97
Per Occupied Room	\$0.00	\$0.25	\$0.00	\$0.62	\$1.98	\$0.61	\$0.50

**Miscellaneous Income**

The miscellaneous income sources comprise those other than guestrooms, food and beverage, and the other operated departments. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.



**FIGURE 7-7 MISCELLANEOUS INCOME**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2021	Deflated Stabilized
Percentage of Revenue	0.4 %	0.1 %	0.0 %	0.5 %	0.0 %	0.2 %	0.2 %
Per Available Room	\$90	\$13	\$0	\$98	\$0	\$40	\$39
Per Occupied Room	\$0.39	\$0.06	\$0.00	\$0.49	\$0.00	\$0.24	\$0.20

### Rooms Expense

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

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

**FIGURE 7-8 ROOMS EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2021	Deflated Stabilized
Percentage of Revenue	21.8 %	24.8 %	24.3 %	26.4 %	24.3 %	29.1 %	25.0 %
Per Available Room	\$4,442	\$4,924	\$3,895	\$5,358	\$4,931	\$4,918	\$4,836
Per Occupied Room	\$19.42	\$21.75	\$17.39	\$26.66	\$22.55	\$29.94	\$25.00

### 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.



**FIGURE 7-9 OTHER OPERATED DEPARTMENTS EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2021	Deflated Stabilized
Percentage of Revenue	0.0 %	203.8 %	0.0 %	106.7 %	44.7 %	51.7 %	50.0 %
Per Available Room	\$0	\$117	\$0	\$133	\$193	\$52	\$48
Per Occupied Room	\$0.00	\$0.52	\$0.00	\$0.66	\$0.88	\$0.31	\$0.25

#### 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.

**FIGURE 7-10 ADMINISTRATIVE AND GENERAL EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2021	Deflated Stabilized
Percentage of Revenue	8.4 %	8.1 %	10.5 %	5.4 %	18.1 %	10.3 %	8.7 %
Per Available Room	\$1,723	\$1,609	\$1,685	\$1,102	\$3,748	\$1,751	\$1,700
Per Occupied Room	\$7.53	\$7.11	\$7.52	\$5.48	\$17.15	\$10.66	\$8.79

#### 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.

#### 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.

**FIGURE 7-11 MARKETING EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2021	Deflated Stabilized
Percentage of Revenue	1.8 %	5.4 %	1.8 %	4.1 %	6.5 %	3.2 %	2.6 %
Per Available Room	\$361	\$1,069	\$282	\$847	\$1,352	\$541	\$500
Per Occupied Room	\$1.58	\$4.72	\$1.26	\$4.21	\$6.18	\$3.29	\$2.58

#### Franchise Fee

We recommend that the proposed subject hotel operate as an upper-midscale, limited-service property. While we have placed heavy consideration on the Fairfield Inn by Marriott brand, which is affiliated with Marriott, a specific franchise affiliation and/or brand has yet to be finalized. We have assumed franchise fees in line with a nationally-recognized, limited-service brand.

#### 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.

Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy.

**FIGURE 7-12 PROPERTY OPERATIONS AND MAINTENANCE EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2021	Deflated Stabilized
Percentage of Revenue	4.8 %	4.7 %	4.7 %	5.1 %	2.3 %	3.8 %	3.6 %
Per Available Room	\$983	\$943	\$761	\$1,055	\$484	\$649	\$700
Per Occupied Room	\$4.30	\$4.16	\$3.40	\$5.25	\$2.21	\$3.95	\$3.62

#### 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 7-13 UTILITIES EXPENSE**

	Comparable Operating Statements					Proposed Subject Property Forecast	
	#1	#2	#3	#4	#5	2021	Deflated Stabilized
Percentage of Revenue	4.6 %	5.8 %	6.7 %	6.9 %	2.4 %	6.0 %	5.1 %
Per Available Room	\$944	\$1,164	\$1,082	\$1,416	\$504	\$1,030	\$1,000
Per Occupied Room	\$4.13	\$5.14	\$4.83	\$7.04	\$2.31	\$6.27	\$5.17

#### 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