

HA&A

Hotel Appraisers & Advisors

MARKET STUDY – PROPOSED UPSCALE HOTEL CONFERENCE CENTER – AURORA, ILLINOIS



Submitted To:

Mr. Kenneth Moore
Aurora Hospitality Group LLC
2135 City Gate Lane, Suite 300
Naperville, IL 60563
kenneth@janeehotelgroup.com
(630) 499-9744
1/19/2018

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY	4
SUBJECT OF THE MARKET STUDY	4
OWNERSHIP AND MANAGEMENT	6
CLIENT AND INTENDED USER	6
INTENDED USE.....	6
PERTINANT DATES	6
SCOPE OF WORK.....	6
SUMMARY OF PERFORMANCE PROJECTIONS.....	7
2. SITE ANALYSIS	9
SITE OVERVIEW	9
<i>Site Characteristics</i>	14
<i>Flood Hazard Information</i>	15
<i>Neighborhood Description</i>	15
<i>Site Analysis Conclusion</i>	16
3. FACILITY PROGRAM ANALYSIS	17
FACILITY PROGRAM	17
HOTEL STRUCTURE, FINISHES, AND SITE IMPROVEMENTS	24
<i>Hotel Structure</i>	24
<i>Public Areas</i>	25
<i>Conference Center</i>	25
<i>Food and Beverage</i>	26
<i>Guestrooms</i>	26
<i>Guestroom Bathrooms</i>	26
<i>Guestroom Corridors</i>	26
<i>Back of the House</i>	26
<i>ADA Compliance</i>	26
<i>Site Improvements</i>	27
FACILITY PROGRAM CONCLUSIONS	27
4. MARKET AREA ANALYSIS	28
OVERVIEW OF MARKET AREA	28
MACROECONOMIC TRENDS.....	30
<i>Population Trends</i>	30
<i>Median Household Incomes</i>	30
<i>Employment Sectors</i>	31
<i>Unemployment Trends</i>	32
LOCAL ECONOMIC INDICATORS	32
<i>Airport Passenger Volumes</i>	32

<i>Traffic Statistics</i>	34
<i>Largest Employers</i>	35
<i>Office Market Statistics</i>	35
<i>Lodging Demand Generators</i>	36
<i>Conference Center</i>	37
MARKET AREA CONCLUSIONS.....	38
5. SUPPLY AND DEMAND ANALYSIS	39
COMPETITIVE SUPPLY.....	39
NEW SUPPLY	43
HISTORICAL DEMAND.....	43
DEMAND SEGMENTATION.....	44
UNACCOMMODATED DEMAND	45
INDUCED DEMAND	46
COMPETITIVE RANKING	46
OCCUPANCY AND ADR PROJECTIONS.....	47
CONCLUSION	49
6. FINANCIAL PROJECTIONS.....	50
OVERVIEW	50
COMPARABLE FINANCIAL STATEMENTS.....	50
FRANCHISE, MANAGEMENT, TAX, AND RESERVE EXPENSES	53
<i>Membership Fees</i>	53
<i>Management Fee</i>	54
<i>Property Taxes</i>	54
<i>Replacement Reserve</i>	56
FINANCIAL PROJECTIONS.....	56
FINANCIAL ANALYSIS CONCLUSIONS.....	59
7. ASSUMPTIONS AND LIMITING CONDITIONS.....	60
8. CERTIFICATION	62

1. EXECUTIVE SUMMARY

SUBJECT OF THE MARKET STUDY

The subject of this market study is a proposed upscale¹, select-service hotel with a conference center to be located in Aurora, Illinois. Hotel Appraisers & Advisors, LLC (HA&A) conducted this market study for Janee Hotel Corporation, which is planning to build approximately 110 guestrooms and 6,000 square feet of conference space. This amount of conference space is much larger than brand requirements and reflects the client's goal to help the local community fulfill some of its meeting and banquet space needs. For the purpose of this analysis, we assume the hotel will feature a nationally-recognized brand in the upscale, select-service segment. Examples of upscale, select-service brands the client has considered include Best Western Premier, Aloft, Courtyard by Marriott, Four Points by Sheraton, and Cambria Hotel and Suites. We understand the developer is currently considering Best Western Premier for the hotel's branding.

The hotel should also feature a select-service restaurant, a bar, a retail market, an indoor pool, a business center, an exercise room, and a guest laundry facility. For the purpose of this analysis, we assume the property will open on July 1, 2019.

Based on our fieldwork, we conclude that the subject site is suitable for hotel development with a conference center, but may have some competitive disadvantage compared to hotels located along Interstate 88. The following market findings are pertinent to our analysis and projections throughout this report:

- The site offers good access and visibility to and from State Route 59.
- Currently, the Aurora market has limited supply of conference hotels.
- Aurora offers a broad range of retail shopping amenities for visitors. Westfield Fox Valley regional shopping center offers 1.5 million square feet of enclosed retail shopping approximately one-half mile south of the subject site. Additionally, Chicago Premium Outlets is located approximately three miles northwest of the subject site, north of Interstate 88, featuring 435,000 square feet of fashion-oriented outlet shopping with more than 120 stores. The outlet center attracts shoppers from throughout Illinois, Indiana, and Wisconsin.
- River Edge Park opened in the summer of 2014 and is a 30-acre park that features the year-round John C. Dunham Pavilion concert venue with seating for 8,500 guests. The park also features hiking and biking paths, open lawn

¹ Smith Travel Research (STR) classifies all hotel chains in the United States into six chain scales, based on each brand's system-wide average daily rate. The "upscale" chain scale is the third highest chain scale and features well-known hotel brands such as Aloft, Best Western Premier, Courtyard by Marriott, Four Points by Sheraton, Hilton Garden Inn, Hyatt Place, and Indigo.

areas, a canoe and kayak launch area, food vendors, and a rooftop skydeck. The 2017 concert series included acts such as the Andy Grammer, American English, Fiestas Patrias, Jason Darulo, John Fogerty, KISS, Keisha and the Creepies and the Dark Star Orchestra. The park is located approximately 6 miles west from the subject site.

- In 2017, Amazon opened its two fulfillment centers in Aurora, just off Interstate-88, near Route 59. The two facilities combined have approximately 1.3 million square feet and are expected to add more than 1,000 full-time jobs to the area.
- In 2016, Aldi purchased the 1245 Corporate Boulevard office building and opened a new information technology facility. Aldi is in the midst of a five-year strategic plan to open 650 grocery stores and create more than 10,000 jobs across the country.

HA&A interviews with local area hoteliers indicate the need for additional banquet facilities in the area, especially a facility that can accommodate social events, such as weddings, family reunions, corporate parties, and class reunions. Any new facility should also offer flexible function spaces to accommodate area demand for educational classes, regional conferences, small corporate meetings, and religious celebrations. According to our interviews, much of this demand is currently taking place in venues outside of Aurora, due to a lack of suitable local facilities.

Several nationally-recognized hotel brands are currently available in Aurora. Examples in the upscale chain scale include Aloft, Best Western Premier, Courtyard by Marriott, Cambria Hotel & Suites, and Four Points by Sheraton.

As development and construction activity continues in the area surrounding the development site, we anticipate continued growth in lodging demand. We conclude that the subject site's proximity to the local demand generators and visibility from State Route 59 will represent a competitive advantage for attracting certain groups to the proposed hotel. However, the site's distance, and lack of visibility, from Interstate 88, is considered a disadvantage.

Hotel Appraisers & Advisors, LLC conducted this market study report pertaining to a proposed upscale, select-service hotel in Aurora, Illinois. In accordance with the competency provision of the Uniform Standards of Professional Appraisal Practice (USPAP), we have the competency required to complete this engagement and our qualifications are summarized on our website at www.hotelappraisers.com. Additional materials are available upon request.

OWNERSHIP AND MANAGEMENT

The proposed hotel will be developed and owned by Aurora Hospitality Group, LLC. The hotel development plans have not been finalized as of the report date of this market study. We assume the proposed hotel will be managed by a professional management company with experience in operating upscale hotels of this nature, including conference centers. We understand that the developer is in preliminary discussions with CUSA Hospitality, LLC, based in Atlanta, Georgia, to be the management company for the proposed hotel and conference center. However, a detailed management contract has not been finalized at this time. However, for the purpose of this analysis, we assume a market-appropriate management fee of 3.0 percent of total revenues will apply during the projection period shown in this report.

CLIENT AND INTENDED USER

The client for this market study assignment is Aurora Hospitality Group, LLC. The intended user of this report is also Aurora Hospitality Group, LLC.

INTENDED USE

The intended use of this market study report is for the client's internal evaluation of the subject site's market potential to support the development of an upscale hotel with a conference center.

PERTINANT DATES

The report date of this market study is 19th January 2018. Hans Detlefsen, MPP, MAI, inspected the subject site on October 20th, 2015 and Devanjali Luthra, inspected the subject site on November 24th, 2015 and again on 10th December 2017. The hotel's assumed opening date is July 1, 2019.

HA&A performed a prior market study pertaining to this proposed hotel in 2015, which included a site inspection and fieldwork. The prior report was transmitted on December 30th, 2015. HA&A also transmitted an updated market study on March 8th, 2017, as the client had requested certain updated images and facility details to be changed from what was presented in our first study submitted on December 30, 2015.

SCOPE OF WORK

The scope of work for this market study included an inspection of the development site, market analysis, and report writing. Specific tasks included in the scope of work for this engagement include the following work tasks:

1. Site Inspection
2. Fieldwork Interviews
3. Market Area Analysis Update
4. Review of Proposed Facility Program

- 5. Supply & Demand Analysis Update
- 6. Projection of Performance Metrics
- 7. Financial Projections
- 8. Assumptions and Limiting Conditions
- 9. Certification

The market study required an on-site inspection, fieldwork, data collection, and interviews with tourism officials, developers, hotel operators, and other market participants. The market study also required analysis of various market data, including macroeconomic trends and local economic indicators. We also developed projections of future lodging demand and supply. Finally, we developed projections of revenue and expense line items and the project's anticipated income potential.

SUMMARY OF PERFORMANCE PROJECTIONS

Based on our analysis of the subject market, proposed development plans, our supply and demand analysis, and our understanding of pertinent assumptions applicable to this project, we project occupancy, average daily rates (ADR), and revenue per available room (RevPAR) through the hotel's anticipated stabilization period.

Figure 1 - Projection of Subject's Occupancy & ADR²

Subject Property Performance			
Year	Occupancy	ADR	RevPAR
2019/20	63%	\$130.85	\$82.81
2020/21	68%	134.78	91.17
2021/22	70%	138.82	97.10

These performance projections reflect a newly constructed upscale hotel, with 6,000 square feet of conference space, which we expect to become one of the rate leaders within its competitive set. The development site located within close proximity to a Metra station and State Route 59; however, it is not visible from Interstate 88. The proposed conference center will represent a competitive advantage for the subject hotel and represents the fulfillment of local economic development priorities for the City of Aurora and local tourism officials. Furthermore, the site is part of a larger mixed-use development site that we assume will feature at least one full-service restaurant, multiple retail stores, and commercial office space.

We assume the hotel will be developed as an upscale, select-service hotel, with national branding such as Aloft, Best Western Premier, Courtyard by Marriott, Cambria Hotel & Suites, or Four Points by Sheraton. For the purpose of this analysis, we consider the Best Western Premier brand for purposes of describing certain building features and market-appropriate

² Average daily rate.

membership fee assumptions. However, we understand that various brands are currently under consideration and plans have not yet been finalized.

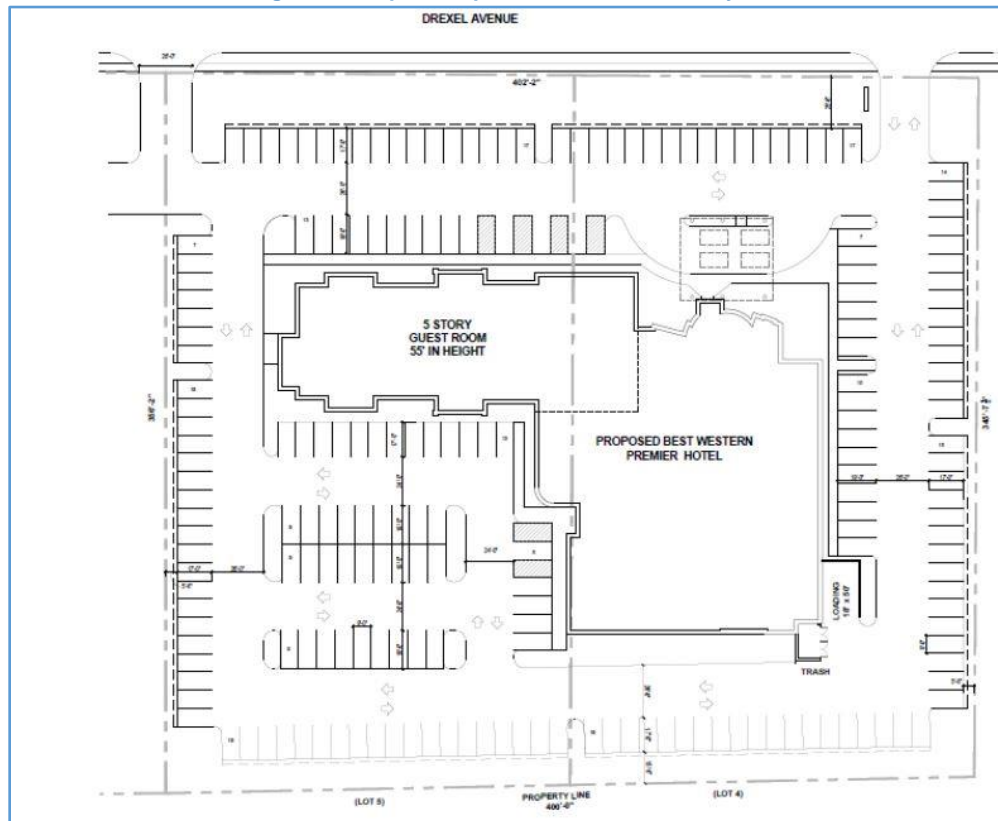
Currently there is no hotel in Aurora that offers meeting space as large as the proposed subject property. The property's new construction and upscale nature also represent competitive advantages. For these reasons, we conclude that the proposed subject property will be competitively positioned within the Aurora market. Its location, branding, and conference space will also allow it to compete for some demand sources that currently utilize hotels located in Naperville and Warrenville.

2. SITE ANALYSIS

SITE OVERVIEW

The subject site is located in Aurora, in DuPage County, Illinois. The property's street address has not been assigned as of the date of this market study.

Figure 2 - Proposed Upscale Hotel Site Plan Layout



The subject site is bounded on the North by Drexel Avenue; on the South by a service alley serving Yorkshire Shopping Center; on the West by undeveloped land; and on the East by a surface parking lot. The developer owns a larger development site that consists of two lots (Lot 4 and Lot 5). The proposed hotel and conference center will be developed on Lot 5 and portions of Lot 4, comprising of approximately 3.5 acres, as shown in the preceding figure, provided by the developer.

The owner plans to develop a hotel, a conference center, one or more restaurants, retail space and office space on the larger site. But the subject of this market study includes only the hotel and conference center. The developer has not made any finalized development plans at this time. The preceding conceptual site plan shows one possible layout for the hotel and conference center within the larger site.

The proposed hotel development site includes two parcels, however, only one had been recorded at the time of our inspection. The following figure shows the site survey for Lot 5 which is approximately 1.599 acres with parcel number- 07-21-200-046. Lot 4 is approximately 1.623 acres with parcel number- 07-21-200-047.

Figure 3 – ALTA Survey

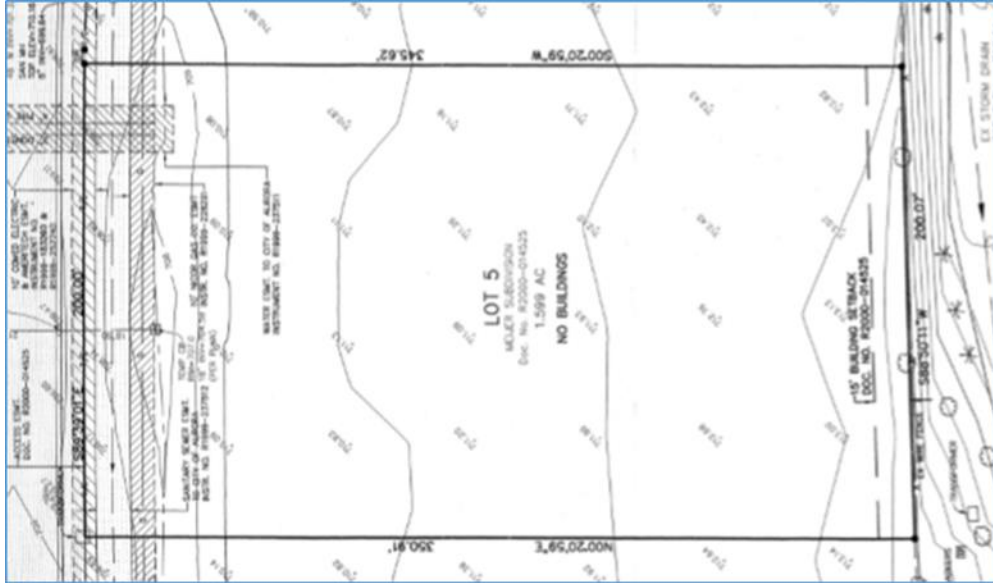
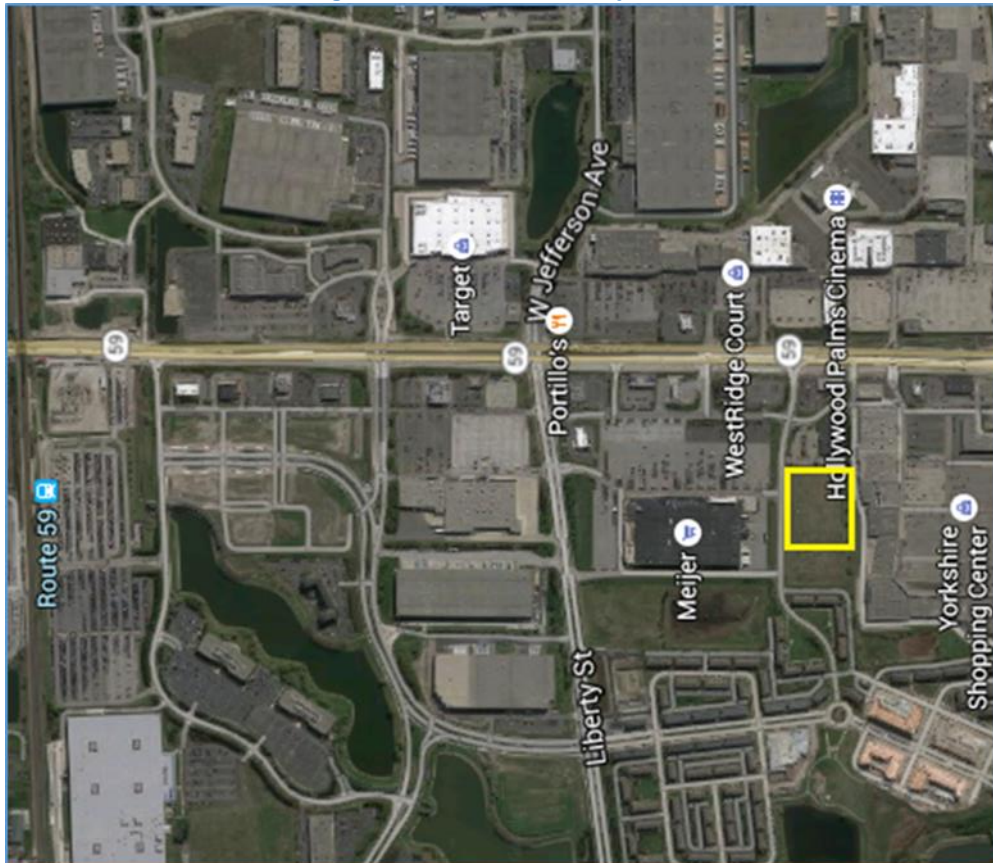


Figure 4 – Location of the Subject Site



The subject site is located approximately four blocks south of Aurora’s Route 59 Metra Station and rail line. The preceding figure shows the location of the subject site. Vehicular access to the subject site will be provided along Drexel Avenue. Photographs of the subject site, including views in each direction are depicted in the following figures.

Figure 5 – View of the Subject Site



Figure 6 – View looking North



Figure 7 – View looking East



Figure 8 – View looking West



Figure 9 – View looking South



SITE CHARACTERISTICS

The subject site can be further characterized by various site characteristics, as shown in the following figure. The site appears to have adequate access, configuration, utilities, and zoning characteristics to make it suitable for hotel development.

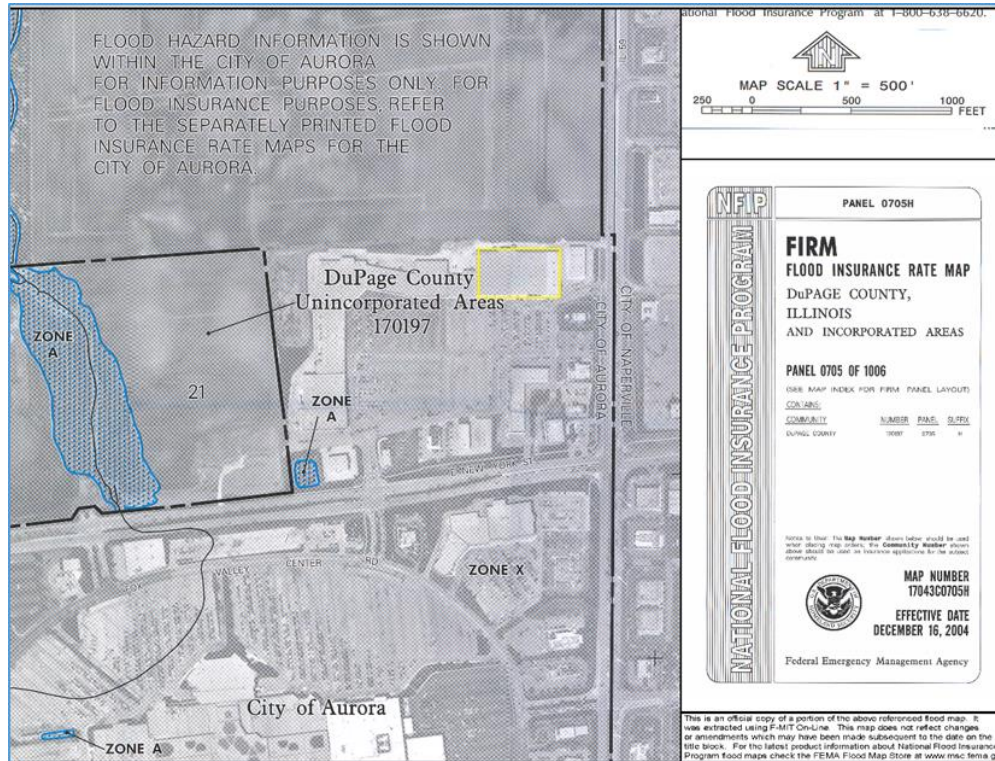
Figure 10 – Site Characteristics

Summary of Important Site Characteristics	
Size (Acres)	Lot 4- 1.623, Lot 5- 1.599
Parcel Number	07-21-200-047, 07-21-200-046
Access	Drexel Avenue
Configuration	Rectangular
Easements	We are not aware of any easements negatively affecting value.
Encroachments	We are not aware of any encroachments negatively affecting value.
Flood Zone	Zone C - Minimal flood hazard. Estimated chance of flood at less than .01 percent annually (known as 500-year flood plain).
Hazards and Nuisances	We were not informed of any hazards or nuisances, nor did we identify any during our site inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste or other hazards or nuisances that may be present. We recommend the reader obtain an independent analysis by qualified experts.
Soil and Subsoil	Geological and soil reports were not provided to us during the preparation of this report. Although we did not observe any extraordinary appearances of the subject site's surface, we are not qualified to evaluate soil and subsoil conditions. We recommend the reader obtain an independent analysis of these factors.
Utilities	According to the developer, the subject site will be served by all necessary utilities.
Zoning	BB(S) The intent of the B-B business boulevard district is to combine residential, commercial, office and industrial development in an orderly arrangement along a major street so as to maximize the commercial service benefits. Hotel and Dine -in Restaurant and Bar use is permitted.

FLOOD HAZARD INFORMATION

Flood hazards are indicated as minimal, as shown in the following flood panel provided by the Federal Emergency Management Agency (FEMA). The location of the subject property is indicated by a yellow rectangle and comes under Zone C. This zone designates areas that are above the 0.1 percent flood elevation, also known as the 500-year floodplain. Properties in this zone are considered to be at low risk of flooding under the National Flood Insurance Program.

Figure 11 – FEMA Flood Map

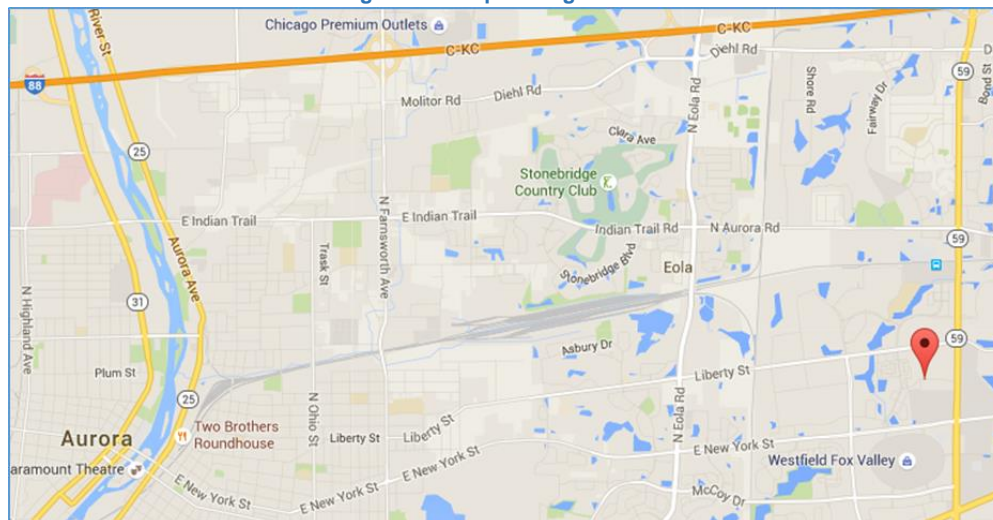


The site appears to have adequate size, configuration, utilities, and zoning characteristics to make it suitable for hotel development.

NEIGHBORHOOD DESCRIPTION

The subject's neighborhood can be defined roughly as bounded by Drexel Avenue on the North, U.S. Highway 34 on the South, State Route 31 on the West, and State Route 59 on the East. The following map depicts the neighborhood surrounding the subject site.

Figure 12 - Map of Neighborhood



The site is located within walking distance from the Yorkshire Shopping center, which has many retail stores such as Best Buy, David's Bridal, Supercuts, House of Brides, AT&T and Magnolia Home Theatre. It is also in close proximity to Westfield Fox Valley Mall. Downtown Aurora is approximately six miles west of the subject site. Restaurants and other venues within three blocks of the subject property include Panera bread, Szechuan House, Pizza Hut, Fox and Hound, White Castle, Planet Fitness, Bear Paddle Swim School and Glam Beauty Supply and Salon provide a variety of dining and entertainment activities for residents and visitors. The neighborhood surrounding the subject property is characterized by a mix of residential developments, hotels, restaurants, retail stores, office buildings, vacant land, industrial buildings, transportation infrastructure, and specialty uses.

The proposed subject property's opening should be a positive influence on the neighborhood. In general, we conclude that the subject neighborhood is a suitable location for hotel development.

SITE ANALYSIS CONCLUSION

In general, we conclude that the site is suitable for hotel development. Its location being close to State Route 59 is expected to offer convenient north-south access to the proposed hotel and conference center. Access and visibility attributes are suitable for hotel development.

3. FACILITY PROGRAM ANALYSIS

A hotel's chain scale, construction quality, design, and amenities can have a significant influence on the property's income potential. The chain scale and construction quality affect what brands are available for the hotel. The design of a hotel can affect its functional utility, highest and best use, and operating efficiency. The amenities included in the hotel property can affect the property's overall marketability, directly affecting occupancies, rates, and the property's income potential.

Based on the most recent planning documents we received from the client, the proposed select-service hotel in Aurora, Illinois will be an upscale lodging facility with 110 guestrooms and 6,000 square feet of meeting space.

FACILITY PROGRAM

The proposed hotel conference center will feature a six-story guestroom tower with a one-story conference center. The proposed hotel will feature 110 guestrooms. The conference center will feature 6,000 net square feet of rentable function space, which will be physically integrated with the hotel guestroom tower. The hotel conference center will offer a combined total of 159 parking spaces. The hotel conference center will also include a restaurant and bar, indoor pool, a business center, an exercise room, a sundry shop, catering kitchen, and a guest laundry area.

We assume that the hotel layout will be contemporary and efficient for service areas. The guest room sizes are expected to be minimum 312 square feet and will be located on the second floor through sixth floors. The exercise room should be equipped with equipment that meets or exceeds brand standards and will be located on the first floor with easy access to public restrooms. The hotel will offer an indoor pool and a business center, both of which will also be located on the first floor. The business center should be positioned near the main interior entrance to the conference center.

The proposed hotel will also feature a conference center, which will be located on the first floor of the hotel and will comprise of 6,000 square feet of space containing a divisible ballroom, breakout meeting rooms, and an executive boardroom, in addition to pre-function and service areas. We assume a catering kitchen and license to serve alcoholic beverages will allow the conference center to serve a broad range of food and beverage functions.

The following figure summarizes the proposed building program.

Figure 13 - Facility Characteristics

BUILDING PROGRAM RECOMMENDATION	
ROOM MIX	Units
Best Western Premier	
King Standard Room	65
Queen-Queen Room	35
One Bedroom King Suite	3
Accesible King Sofa Room	3
Accesible Queen-Queen Room	3
Accesible One Bedroom King Suite	1
Total Guest Rooms	110
PUBLIC AREA	Square Feet
Welcome Lobby and Front Desk	
Business Center	
Sundry Shop	
Total Square Feet of Public Space	1,200
FOOD & BEVERAGE	
Breakfast Lounge	
Restaurant/Bar	
RECREATIONAL FACILITIES	Square Feet
Indoor Pool	600
Deck Area	1,000
Excercise Room	550
Total Square Feet of Recreational Space	2,150
MEETING SPACE	Square Feet
Grand Ballroom	5,500
Meeting Room A	1,500
Meeting Room B	1,500
Meeting Room C	1,500
Meeting Room D	1,000
Executive Boardroom	500
Total Square Feet of Meeting Space	6,000
AMENITIES & SERVICES	
On-Site Parking	159
Guest Laundry	
Ice Machine	
<i>Facility Summary is based on Bestt Western Premier Brand Prototype and HA&A recommendations and is subject to change</i>	

In addition to the guestroom and common areas planned in the hotel, the proposed property should include all necessary back-of-the-house space, including laundry facilities, storage, and administrative offices, as shown on the layout. We assume that the house laundry will be operated by the hotel. We also assume that the back-of-the-house areas will offer adequate space and will allow for the efficient operation of an upscale hotel of this nature.

For the purpose of this study, we assume the proposed hotel will be developed to comply with all brand standards and will be competitive with other national, select service brands in the upscale chain scale, as published by Smith Travel Research. The following images show examples of various Best Western Premier designs and layouts. Also, some of the renderings below are proposed layouts provided by the developer.

Figure 14 - Typical Best Western Premier – Front Desk and Sundry Shop



Figure 15 – Typical Best Western Premier – Lobby Seating Area



Figure 16 - Typical Best Western Premier – Breakfast Area



Figure 17 - Typical Best Western Premier – Business Center

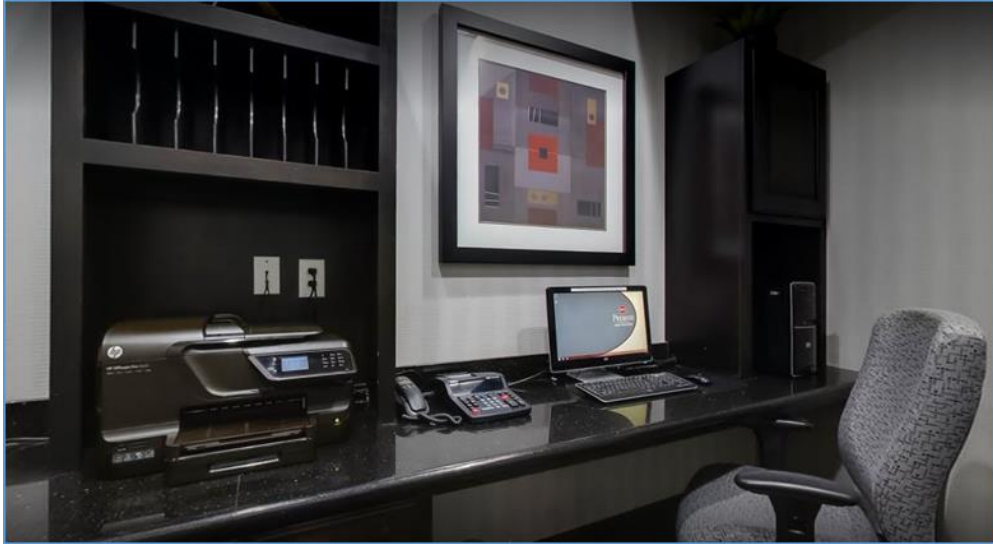


Figure 18 - Typical Best Western Premier – Exercise Room



Figure 19 - Typical Best Western Premier – Market Pantry

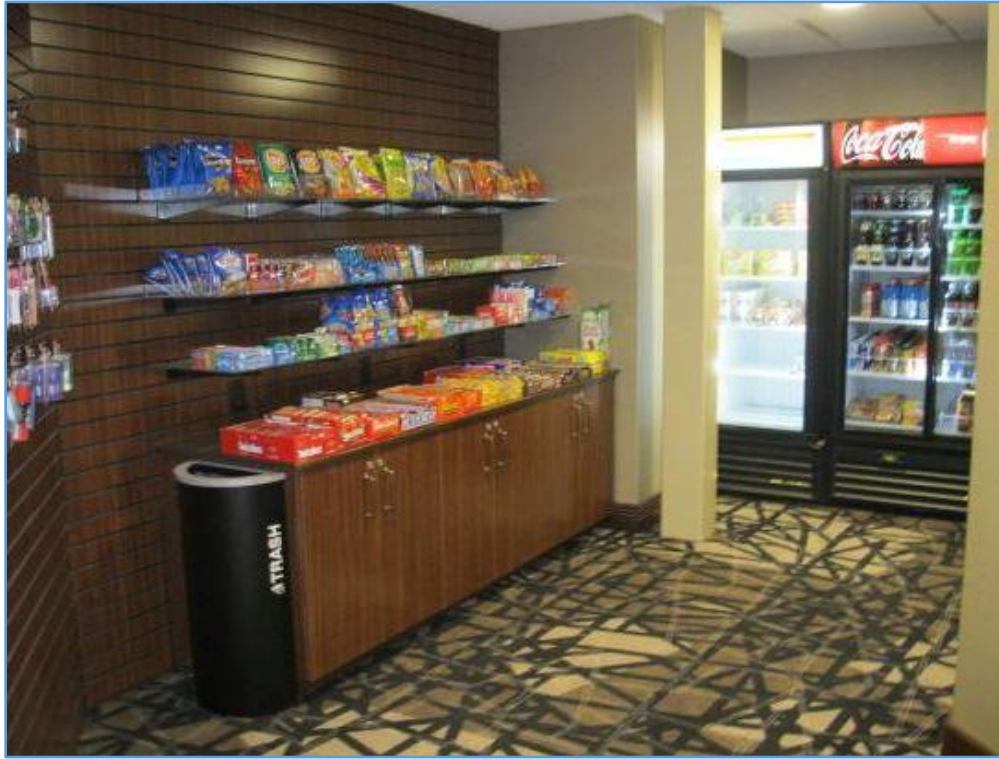


Figure 20 - Typical Best Western Premier – Queen/Queen Room



Figure 21 - Typical Best Western Premier – King Room



Figure 22 - Typical Staybridge Suites – Guestroom Bathroom

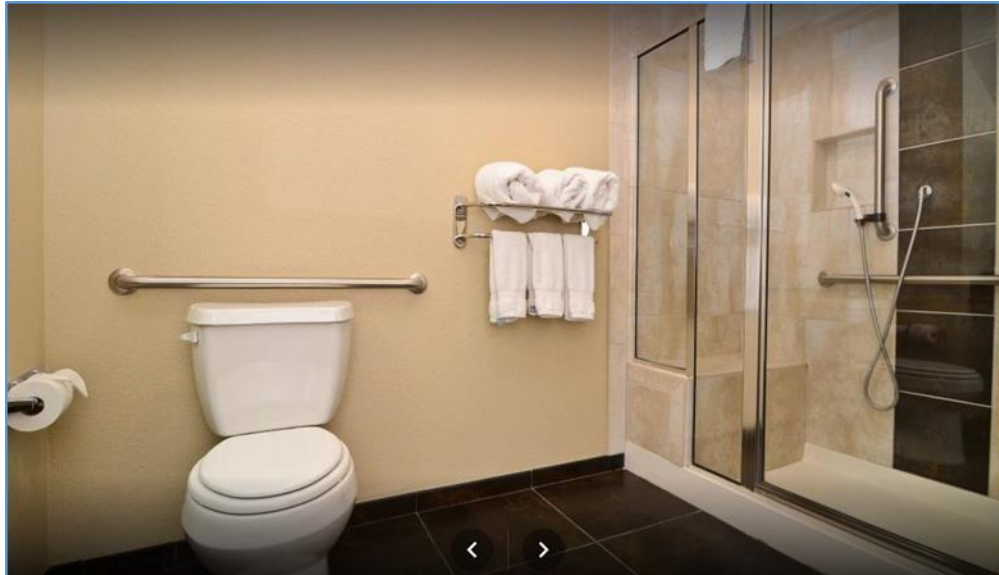


Figure 23 – Proposed Layout – King Room

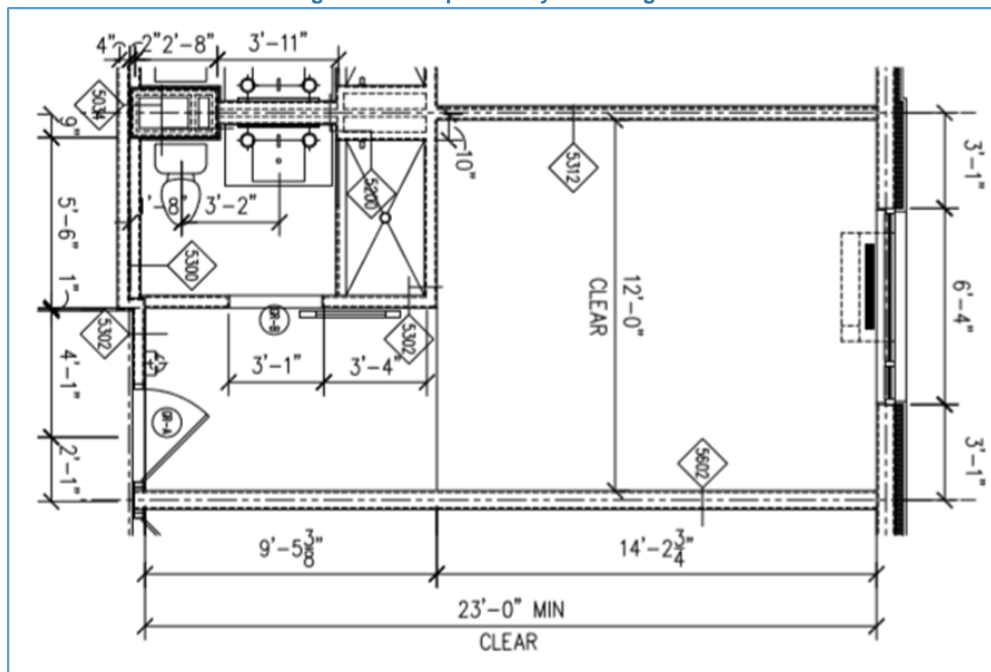
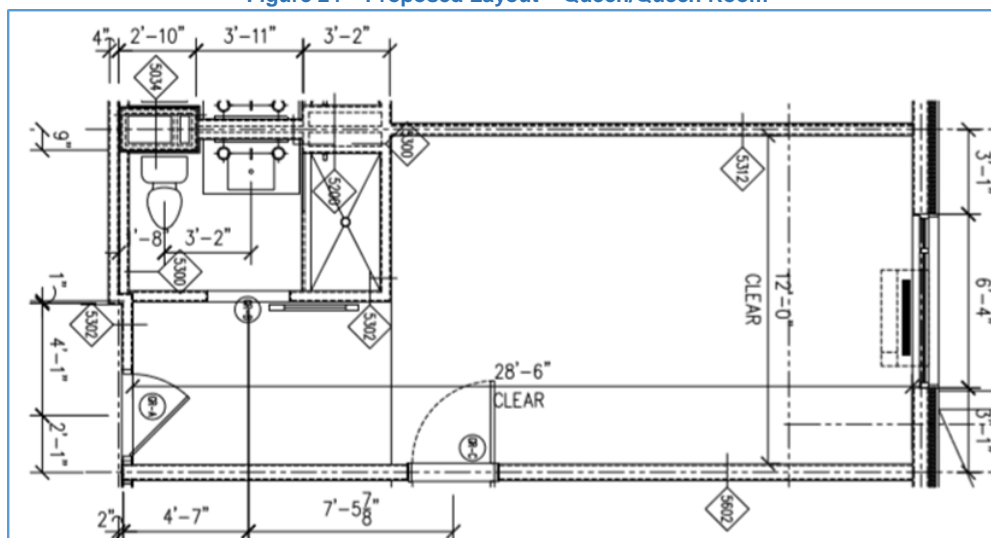


Figure 24 – Proposed Layout – Queen/Queen Room



HOTEL STRUCTURE, FINISHES, AND SITE IMPROVEMENTS

The following information is based on our interviews with the developer as well as documents from Best Western Premier representatives, and other published sources.

HOTEL STRUCTURE

Based on input from the developer, we assume the hotel structure will include a single building, which will be a concrete structure. The exterior of the hotel will be finished with red

brick, pre-cast concrete, stone, and dark and light Exterior Insulation and Finish System (EIFS). The EIFS system will be fully drainable to ensure positive drainage. Exterior finishes will also feature some steel canopies, metal panels, and high efficiency glazing. Two stairways and two guest elevators will provide internal vertical transportation within the main structure. Overall, the planned building components are expected to meet or exceed the requirements for a hotel of this brand and chain scale and should meet or exceed the standards for this market. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that may affect the future operating potential of the hotel or delay its assumed opening date.

PUBLIC AREAS

The proposed lobby should be an appropriate size for an upscale, select-service hotel of this nature. We assume that the lobby walls will be finished with vinyl wall-covering, and the floor is expected to be finished with carpet and stone tiles. Lobby seating is expected to include a mix of sofas, lounge chairs, hard seating, soft seating, and tabled seating that features portable chairs. The front desk is expected to feature a granite countertop and is assumed to be installed with appropriate property management and telephone systems. The ground floor will also include a common business center which will have computers to be used by guests.

The hotel will also feature an outdoor lounge, indoor pool and an exercise room. The conference center attached to the proposed hotel will be the first and the largest meeting space in the Aurora area, and is expected to exceed brand standards. Public restrooms should be appropriate in size and should enhance the overall functionality of the area.

Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that the furnishings and finishes in this space will offer an appropriate first impression, and the design of the space will lend itself to adequate efficiency. All property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

CONFERENCE CENTER

HA&A recommends the development of a flexible conference center space that can be used for multiple events on a simultaneous basis, as well as spaces that can accommodate a variety of different types of layouts for different types of events. A large 5,500-square-foot ballroom that is divisible into four breakout meeting rooms should feature upscale finishes and a flexible floor plan to accommodate large groups or smaller meeting groups. A 550-square-foot executive boardroom should offer a conference table with executive seating for small, corporate meetings. The conference center should also offer modern audio, video, and teleconferencing technology. A full-service catering kitchen to accommodate the food and beverage services, and parking facilities adjacent and accessible to the conference center, should be provided. These spaces should be accessible for catering, and the conference center should be physically integrated with the adjoining hotel, featuring a consistent design and quality of finishes similar to the proposed upscale hotel.

FOOD AND BEVERAGE

The complimentary or paid breakfast service should be located on the first floor, near the lobby. Design and finish levels should be consistent with the overall quality and nature of the hotel. We assume all design and finish levels will meet or exceed brand standards.

GUESTROOMS

The hotel is expected to feature king, queen and suite-style guestroom configurations, offering six spacious floor plans including distinct living, sleeping, and working areas. The guestrooms and suites will offer typical amenities for this upscale, select-service product type. We assume that as per the brand standards the proposed property will have plush and luxurious bedding, crisp linens, custom comforters and piles of pillows. In addition to the standard furnishings, in-room amenities should include wireless, high-speed Internet access and an iron and ironing board. Overall, we assume that the guestrooms and suites will offer a competitive product for this neighborhood.

GUESTROOM BATHROOMS

Guestroom bathrooms are expected to be of standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a stone countertop. The floor is expected to be finished with tile, and the walls are expected to be finished with vinyl wall-covering. Bathrooms should feature a hairdryer and complimentary toiletries.

GUESTROOM CORRIDORS

We assume that the guestroom corridors will be a minimum of 5' wide and functional, permitting the easy passage of housekeeping carts. Corridor flooring may feature porcelain tile or carpet tile. The walls are expected to be a vinyl-covered drywall or gypsum, with acoustic ceiling tiles. Decorative lighting is expected to be in keeping with the overall look and design of the rest of the property. Power outlets should be provided in the guestroom corridors for the convenience of service staff.

BACK OF THE HOUSE

As per the proposed drawings we assume that the hotel will be served by the necessary back-of-the-house space, including a laundry facility, a kitchen area and administrative offices. We assume that these spaces will be adequate for a hotel of this type, and will allow for the efficient operation of the property under competent management. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

ADA COMPLIANCE

We assume the property will comply with all local codes and ordinances, as well as all brand standards. Moreover, we assume the hotel will comply with the Americans with Disabilities

Act. Furthermore, we assume the hotel's construction will not create any environmental hazards or conditions that could negatively affect the property's market value.

SITE IMPROVEMENTS

We assume adequate signage will be provided on the exterior of the building and on the grounds, near the property entrance, to identify the hotel and conference center for guests approaching from multiple directions. We expect that the proposed planned landscaping will allow for a positive guest impression and competitive exterior appearance. Overall, the current planned site improvements for the property are expected to be adequate and appropriate for an upscale hotel.

FACILITY PROGRAM CONCLUSIONS

In general, we conclude that the proposed hotel development will benefit from a combination of upscale design and construction materials as well as attractive, select-service design features and amenities. The proposed hotel will be the newest hotel and the only hotel with substantial conference space in Aurora. Therefore, the proposed hotel is expected to be positioned as a highly competitive hotel within the Aurora market and is expected to achieve an above-average penetration of the group demand segment. We discuss detailed performance projections later in this report.

4. MARKET AREA ANALYSIS

OVERVIEW OF MARKET AREA

The market area for a hotel can vary, depending on the property's service level, size, chain scale, and operating strategy. The market area also depends on the locations of competitive supply and demand sources. For the purposes of this analysis, we define the market area based on the subject site's proposed use as an upscale, select-service hotel with national branding, namely Best Western Premier.

The market area for a hotel development of this nature is typically the geographic area where the sources of demand and the competitive supply are located. The subject site is located in the Aurora, in DuPage County, and the State of Illinois.

The following map depicts the geographic area, which defines where competitors and key demand generators are located. For the purposes of this analysis, we define the market area as Aurora, Illinois based on the site's proposed use in the development of an upscale, select service hotel and conference center, as shown in the following figure.

Figure 25 – Map of Chicago MSA



HA&A considered several factors influencing the market potential for hotel development in Aurora, including the following items:

- The proposed hotel will be less than five minutes driving distance from the Westfield Fox Valley Mall and ten minutes driving distance from the Chicago Premium Outlets, which attract leisure lodging demand from Wisconsin and Indiana to the Aurora market.
- Downtown Aurora provides additional attractions, amenities, and entertainment venues for visitors to the area. RiverEdge Park, Paramount Theatre and Hollywood Casino attract several thousand spectators and gamers on peak event nights throughout the year.
- Besides being home to Waubensee Community College and Aurora University, Aurora also has a few corporate headquarters and offices of companies such as Constellation, Diamond, Dukane Precast, Envelope, Exelon, MetLife, Inc, Nalco, Nuclear, Oberweis, and Weldstar.
- Aurora area also offers Bike Trails and Running Routes and is the home of the annual Aurora Fox River Trail USRA Half Marathon on Mother's Day and the Peapod Half Madness Half Marathon in August.
- Youth sporting events create approximately six percent of local room bookings during the peak sporting season. Aurora offers a variety of sports facilities, including the
 - *Beecher Community Center* which comprises of 22 acres baseball fields, playground with a walkway and picnic tables. The park also hosts the Annual Hometown Days Festival which is held on Labor Day weekend.
 - *Great Lakes Center* which is a 60,000 square feet state of the art facility is also located close to the subject site. It comprises of eight spacious soft surface volleyball courts, weight training, retail store, concessions, 10,000 square feet of viewing area and a parking lot which can accommodate more than 300 cars.
 - *Stuart Sports Complex* which is a 135-acre complex and features 36 soccer fields of various sizes, 8 baseball and softball diamonds (4 lighted fields) and parking lot for 500 cars.
 - *Vaughan Athletic Center* is 225,000 square feet facility with athletic, fitness and aquatic center features. It also comprises of nine indoor tennis courts, four basketball courts suitable for multi-use.
 - *West Main Community Park* is a 58-acre park with baseball and softball fields, two basketball courts, hiking or running trails, roller hockey court and 100 car parking lot.

HA&A evaluated several macroeconomic trends and local economic indicators affecting the local market area. The primary focus of this chapter is to determine whether these macroeconomic trends and local economic indicators are positive, neutral, or negative. We

then discuss how they might have positive or negative implications for the proposed subject property’s market potential.

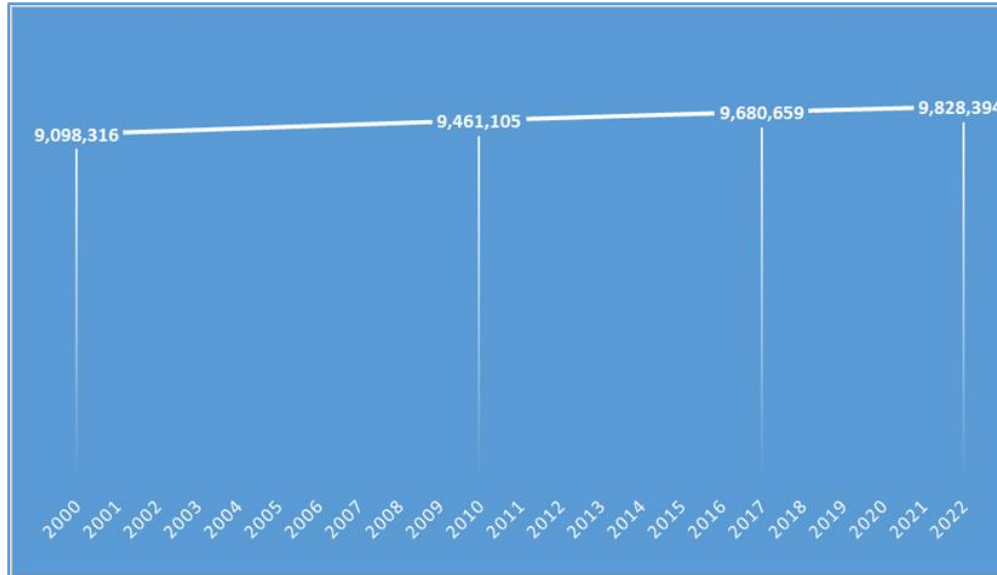
MACROECONOMIC TRENDS

HA&A evaluated several macroeconomic trends that are relevant to the market area’s economic health. Population statistics, median household incomes, unemployment rates, and labor market sectors are key factors affecting the local economy. Directly and indirectly, these trends can also affect the local lodging industry.

POPULATION TRENDS

The Chicago-Naperville-Elgin, Metropolitan Statistical Area (MSA) experienced moderate growth since 2010. The population in the area is expected to reach nearly 10 million people by 2022. U.S Census and ESRI are the data sources for the historical and projected population data shown in the following figure.

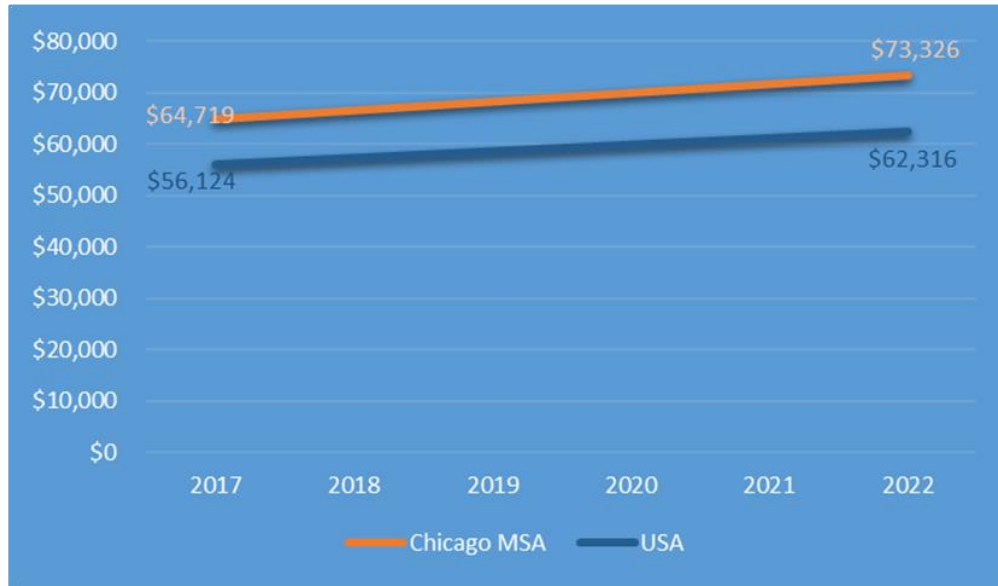
Figure 26 - MSA Population Growth



MEDIAN HOUSEHOLD INCOMES

Median household incomes in the metropolitan area are above the national average. ESRI is the data source for the projected household income data shown in the following figure, which shows continued growth in median income for both national and local households.

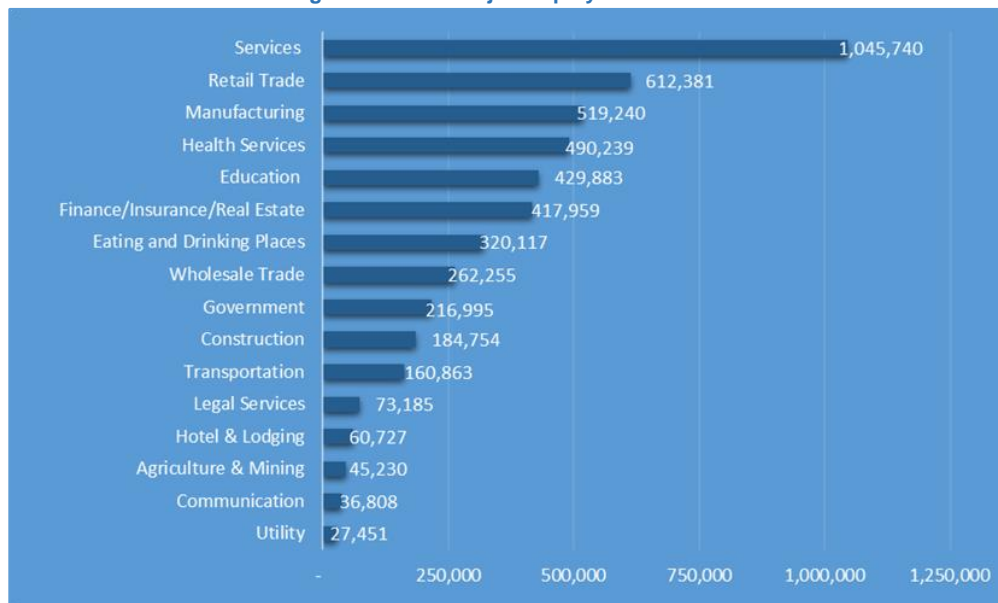
Figure 27 - MSA vs. National Household Income Growth



EMPLOYMENT SECTORS

Total employment in the Chicago-Naperville-Elgin, Metropolitan Statistical Area (MSA), was more than 4.9 million employees in 2017, according to data from ESRI. The following figure shows employment in each major economic sector. Services, retail trade and manufacturing are three sectors that represent large components of the labor force in Aurora. Government and construction provide many opportunities for employment. The hotel accommodations and lodging industry also represents a small economic sector in the local labor market. The local recovery has been positive post-recession, as recent trends indicate significant economic growth is occurring.

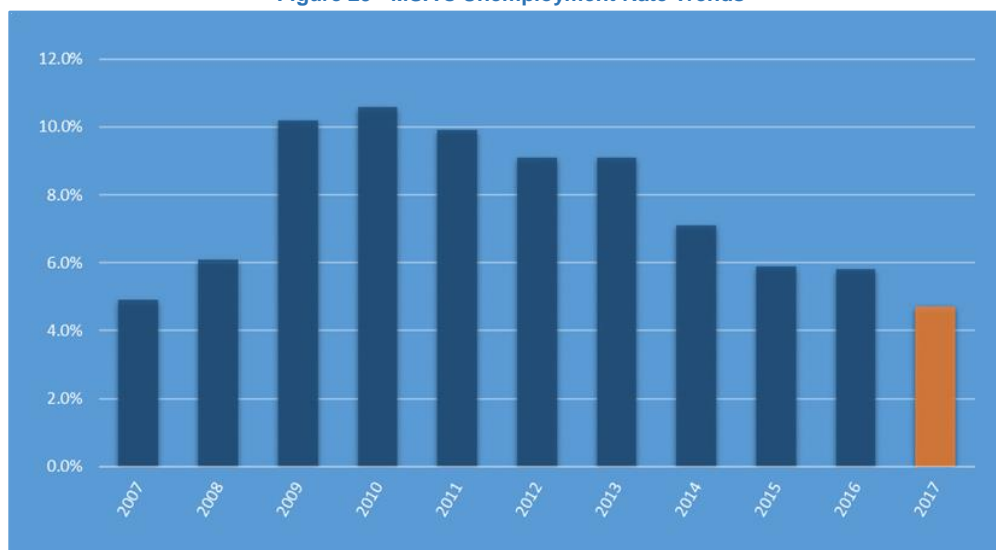
Figure 28 - MSA Major Employment Sectors



UNEMPLOYMENT TRENDS

The labor market has improved locally, as the national and local economies have emerged from recession. The unemployment rate is experiencing a continued decline, showing substantial improvement compared to 2009 and 2010 when unemployment rates peaked in this market. The following figure shows historical unemployment rates of Chicago-Naperville-Elgin MSA, based on data from the Bureau of Labor Statistics and HA&A's 2017 projections.

Figure 29 - MSA's Unemployment Rate Trends



Our projection of the MSA's 2017 unemployment rate is based on year-to-date unemployment statistics from the Bureau of Labor Statistics.

LOCAL ECONOMIC INDICATORS

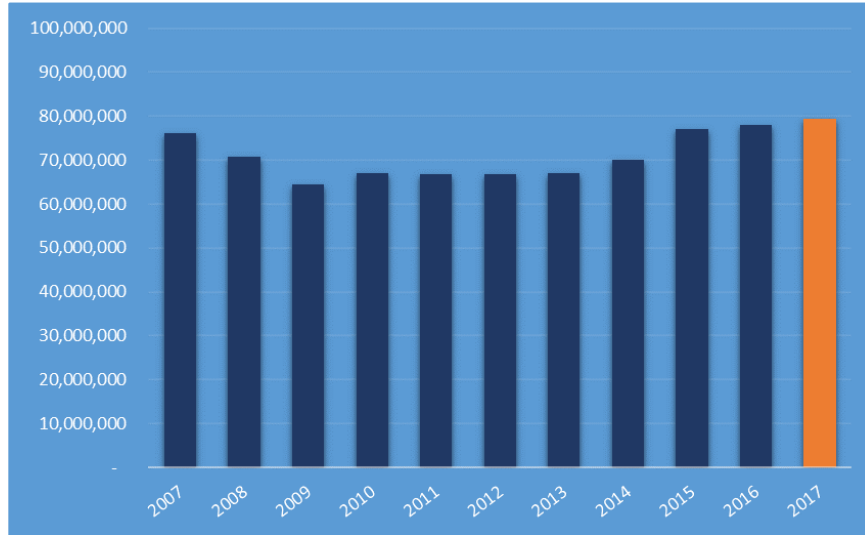
HA&A evaluated several local economic indicators that are relevant to the hospitality market. Major employers, airport passenger statistics, and top local lodging demand generators are key factors affecting the local lodging industry in Aurora.

AIRPORT PASSENGER VOLUMES

Airport passenger volume trends are one indicator of a local area's economic strength, reflecting demand for business and leisure travel to and from the market. Aurora is served by two major international airports; O'Hare International Airport (ORD) and Midway International Airport (MDW).

In 2016, O'Hare accommodated nearly 78.0 million passengers, setting an all-time historical record for passenger volume. The airport is served by 48 airlines including Air Canada, Air France, Air India, American Airlines, British Airways, Delta, Jet Blue, Lufthansa, Spirit Airlines, United Airlines, and Virgin. The following figure shows historical trends in O'Hare's passenger traffic volume, based on data provided by the Chicago Department of Aviation. 2017-year end estimates are based on year-to-date October 2017 data as provided by Chicago Department of Aviation.

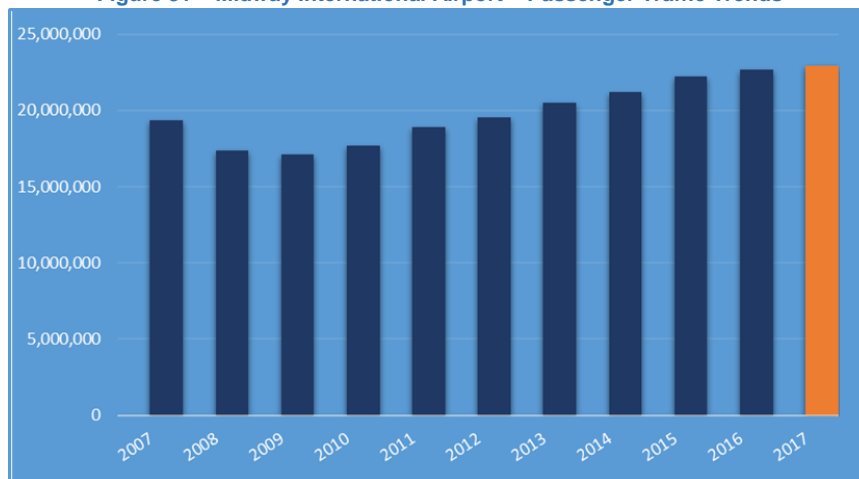
Figure 30 – O’Hare International Airport – Passenger Traffic Trends



O’Hare has experienced moderate increases in passenger traffic in each of the past five years, as Chicago has implemented numerous capital investments to expand capacity and reduce congestion at the airport. Continued economic growth has nationally and globally has also contributed to the airport’s recent passenger volume growth. Passenger traffic is expected to increase moderately in the coming years as the City continues to implement its five-year, \$2.0-billion capital improvements plan for O’Hare.

In 2016, Midway accommodated more than 22.6 million passengers, also setting an all-time historical record for passenger volume. The airport is served by several airlines including Delta, North Country Sky, Porter Airlines, Southwest Airlines, and Volaris Airlines. The following figure shows historical trends in Midway’s passenger traffic volume, based on data provided by the Chicago Department of Aviation. 2017-year end estimates are based on year-to-date October 2017 data as provided by Chicago Department of Aviation.

Figure 31 – Midway International Airport – Passenger Traffic Trends

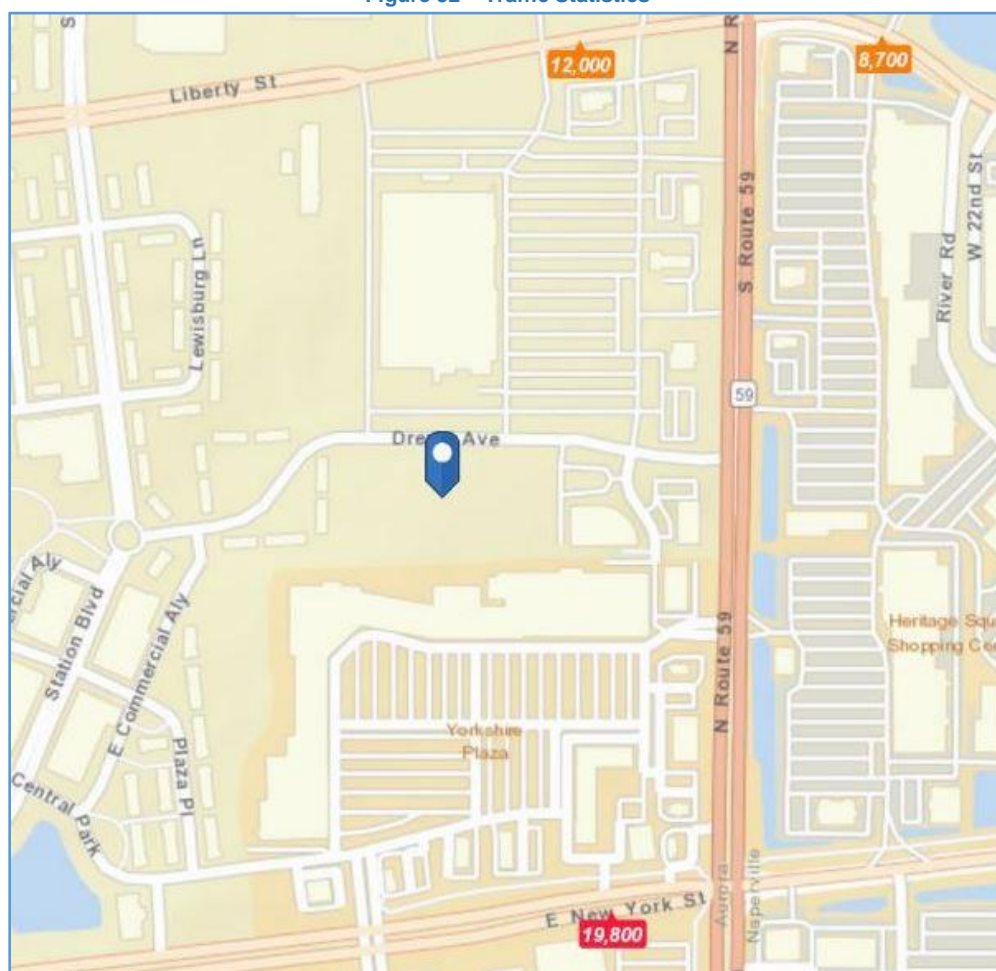


Midway has experienced significant increases in passenger traffic each of the past seven years, corresponding with this extended period of economic growth in the United States. Passenger traffic is expected to increase moderately in the coming years as economic expansion continues and new flights and destinations are added.

TRAFFIC STATISTICS

Location of the hotel to various major intersections also plays a major role in attracting lodging business and the need for marketing expenditures to educate potential guests about the property. The subject site's location and its proximity to State Route 59 is advantageous. However, it is not visible from Interstate 88, which could be a competitive disadvantage relative to some hotels in the area.

Figure 32 – Traffic Statistics³



The expansion of State Route 59 was completed in 2015. The expansion project included reconstruction and widening of Route 59 from Ferry Road to Aurora Avenue and New York Street as well as improvements to the major intersections within that 3-mile corridor, including Diehl Road, North Aurora Road and Aurora Avenue and New York Street. The project also

³ ESRI

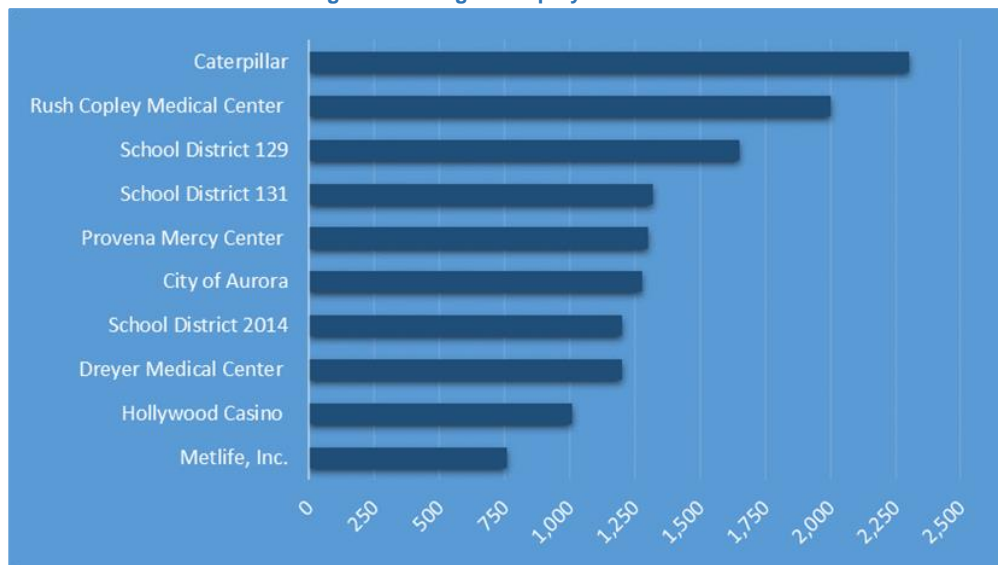
included a diverging diamond configuration at the State Route 59 interchange with Interstate 88 that enhances traffic flow entering and exiting Interstate 88.

This corridor through Naperville and Aurora has become an increasingly busy center for commercial and economic development in the western suburbs. It experiences an average daily traffic count of roundly 12,000 to 19,800 vehicles, depending on which intersection is observed.

LARGEST EMPLOYERS

Aurora has a broad-based economy that is anchored in manufacturing, education, retail, entertainment, government and various health care employers. Caterpillar and Rush Copley Medical Center are the two largest employers in Aurora. Numerous government offices for the City of Aurora are located in the downtown area. Hotels proximate to this area benefit from the large volume of lodging demands generated by related commercial transient, leisure, and group travelers.

Figure 33 - Largest Employers in Aurora



OFFICE MARKET STATISTICS

Office market statistics can provide an indication of the size and health of a local economy. The following figure outlines key office market statistics pertaining to the Aurora market.

Figure 34 – Office Market Statistics

Office Market Statistics						
Submarket	Market Rentable Area	Vacancy Percent	Vacant Square Feet	Q3 2017 Net Absorption	2015 Net Absorption	Gross Asking
East West Tollway	39,766,346	18.0%	6,591,116	(80,691)	326,460	\$22.58
North Suburban	21,824,798	18.1%	3,740,932	165,499	3,105	\$24.79
North West Suburb	27,182,170	24.3%	6,405,883	54,966	(300,991)	\$21.77
O'Hare	13,151,169	17.3%	2,233,382	(124,794)	(104,002)	\$25.24
South Suburb	2,373,729	23.1%	547,425	(29,669)	(46,113)	\$14.89
West Cook	1,098,104	28.4%	311,444	13,281	30,312	\$16.24
Total Suburban	105,396,316	19.8%	19,830,182	(1,408)	(91,229)	\$22.81

Source: CBRE Office Market Statistics Chicago Suburban Q3 2017

According to the CBRE reports, the Suburban areas’ overall vacancy rate is approximately 19.8 percent. The subject site is located in the East West Tollway submarket where the vacancy rate is the lowest at 18.0 percent, with gross asking rents of \$22.58. Relatively low vacancy rates can be one indication of a healthy commercial office market in the area. The vacancy rates are expected to decline further as economic expansion continues. Ongoing downtown developments and regional economic growth are expected to result in positive near-term office statistics trends.

LODGING DEMAND GENERATORS

Successful hotels in the market area target a range of key accounts and demand sources in the commercial, group, and leisure segments. The following figure outlines several of the local area demand generators that competing hotels in the area target.

Figure 35 –Lodging Demand Generators

Local Area Demand Generators		
Commercial	Group	Leisure
Amazon	Chicago Premier Outlets	Aurora University
Advocate Dreyer	Fransworth House	Chicago Premium Outlets
Caterpillar	Fermilab	Copley Theatre
Cabot Microelectronics	Hollywood Casino	Hollywood Casino
Exelon	Paramount Theatre	Orchard Valley Golf Course
Fermilab	Vaughan Athletic Center	Paramount Theatre
Farmers Insurance	Stuart Sports Complex	Phillips Park Zoo
Hartford Financial Services Group		Riverfront Park and Pavilion
Hollywood Casino		Scitech Hands On Museum
MetLife Inc.		Waubensee Community College
McKesson Pharmaceuticals		
Westell Technologies, Inc.		

Sources: HA&A interviews, EnjoyAurora and InvestinAurora

Hotels in the area benefit from a diverse range of commercial and group demand generators that include companies in technology, manufacturing, government and professional services. These demand generators represent a diverse range of commercial, group, and leisure customer sources that will be important for the proposed subject property. We assume the

subject property will have a fully-assembled sales team in place at least six months prior to opening in order to target its specific accounts and generate marketing leads in all of the preceding lodging demand segments.

CONFERENCE CENTER

Although conference centers are generally considered loss leaders for investors, conference centers can be built for various reasons. A primary reason for a developer to build a conference center is to augment lodging demand for a hotel, especially in the meeting and group demand segment. Another reason why developers build conference centers is to generate additional revenues in the food and beverage department. However, conference centers do not typically provide the return on capital required by private-sector investors. As such, alternative funding sources, such as public-sector investments or philanthropic fundraising, often become necessary to make conference center projects feasible. In addition to the need for construction subsidies, stand-alone conference centers and convention centers commonly produce ongoing annual operating losses. As a result, stand-alone conference centers or convention centers are typically considered only as part of a larger, planned commitment to growing a community's convention industry.

However, by incorporating a conference center facility into a hotel, developers can often eliminate operating losses, and sometimes generate operating profits, by utilizing a more cost-effective operating model. This is most often due to efficiencies gained by relying on existing catering, sales, maintenance, and management positions at the hotel to operate the conference center as a department of the hotel. For our analysis, we will assume that the proposed conference center will be fully integrated into the proposed hotel, and will be operated as part of the food and beverage department of the overall hotel operation.

If the proposed hotel and conference center can be financed and developed, then significant demands exist for such a facility in the Aurora market. The proposed hotel and conference center will be located near several demand generators. Our interviews and fieldwork revealed lodging and event demand potential related to local businesses and institutions, social events, state associations, sports teams, and continuing education. Conference centers located in markets of this size will typically rely on four broadly categorized types of demand within the group segment:

- Corporate Groups (e.g. training classes, sales meetings, executive meetings, holiday parties, and product demonstrations)
- Sports Groups (e.g., youth competitions, adult leagues, and travel team events)
- State Associations (e.g. annual meetings and conferences)
- SMERF Groups (e.g. event demand generated by social, military, educational, religious, and fraternal organizations)

The proposed conference center will be the only conference center connected to an upscale hotel in Aurora. This will represent a competitive advantage in targeting overnight group business. Moreover, the facility may be able to serve corporate groups, schools and universities, and medical centers in the area that require meeting spaces for board meetings, fundraising events, graduation ceremonies, and other special events. Finally, a new, high-quality conference center with a grand ballroom would create a significant opportunity to generate food and beverage revenues from social groups, seeking an upscale facility for weddings, reunions, and other special events. HA&A considered each of these categories of group demand in this market study. However, the scope of this engagement does not include a detailed supply and demand analysis and detailed event projections for the proposed conference center.

MARKET AREA CONCLUSIONS

The macroeconomic trends and local economic indicators evaluated in this report support a positive outlook for the local economy. The post-recession recovery has been substantial and positive for the Aurora market, the recent trends and indicators are generally positive and support an outlook of further growth in this market. Our analysis indicates recent improvements in several key trends and indicators analyzed in this report. This research indicates that market conditions are currently conducive to hotel development for investors with well-positioned development sites in this market area.

5. SUPPLY AND DEMAND ANALYSIS

COMPETITIVE SUPPLY

Existing competitors can provide an important basis for understanding how a proposed new hotel may be able to perform in a market. The most common measurement of supply in the lodging industry is the number of available guestrooms. HA&A evaluated the existing hotels in the Aurora market area and we defined the following hotels as the most likely competitive set for the proposed subject property.

Figure 36 - Competitive Set of Hotels

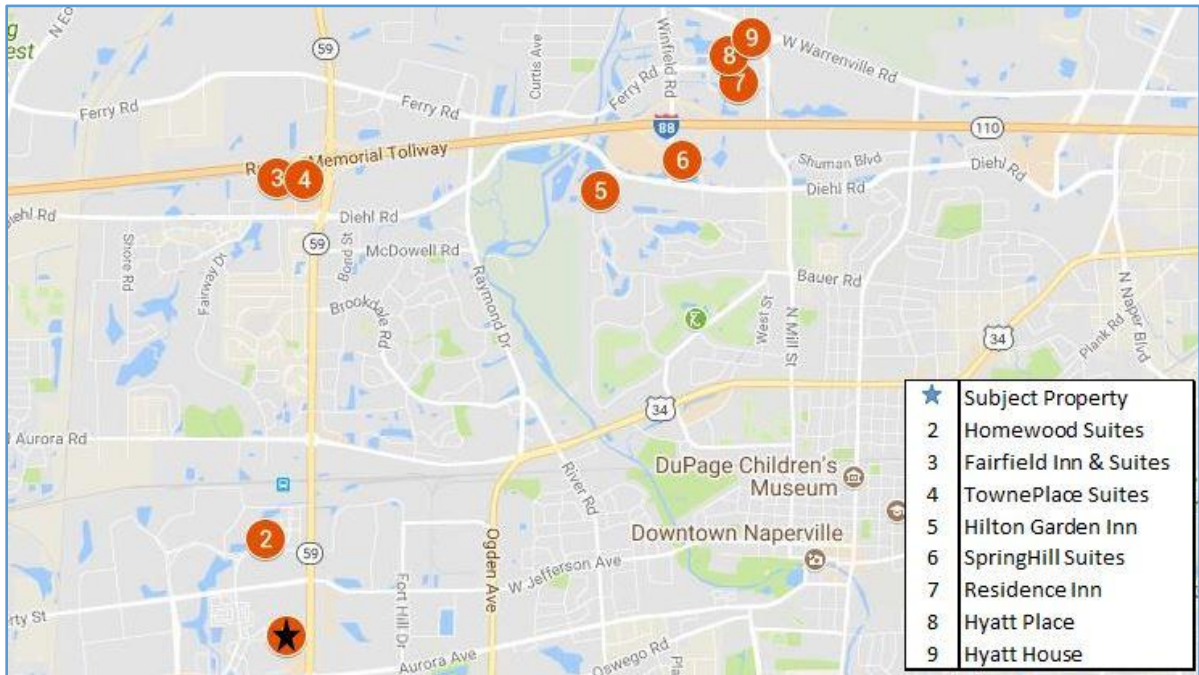
Hotel Name	Chain Scale	Affiliated	Opened	Rooms	Comments
EXISTING COMPETITIVE SUPPLY					
Fairfield Inn & Suites Chicago Naperville Aurora	Upper Midscale	Apr-04	Sep-97	61	
TownePlace Suites Chicago Naperville	Upper Midscale	Mar-05	Sep-97	63	
Springhill Suites Chicago Naperville Warrenville	Upscale	May-03	Dec-97	128	
Residence Inn Chicago Naperville Warrenville	Upscale	Sep-03	Sep-03	130	
Homewood Suites Aurora Naperville	Upscale	Jul-17	Jun-04	146	Previously Staybridge Suites
Hilton Garden Inn Naperville Warrenville	Upscale	Sep-08	Sep-08	135	
Hyatt House Chicago Naperville Warrenville	Upscale	Jan-12	May-10	123	Occupancy Leader
Hyatt Place Chicago Naperville Warrenville	Upscale	May-10	May-10	123	
Total Existing Supply				909	
PROPOSED NEW COMPETITIVE SUPPLY					
Subject Property	Upscale		Jul-19	110	
Total New Supply				110	12.1%
Total Future Competitive Supply				1,019	

Source: STR and HA&A

Additional hotels in the area, such as Hotel Arista may also compete with the proposed subject property in some segments. However, we did not include this competitors in our defined competitive set because it primarily targets a higher-rated demand segment. Similarly, we considered the newly opened Embassy Suites and its conference center qualitatively in our analysis, but we did not include it in our defined competitive set, due to its location and chain scale. As a result, our defined competitive set consists of eight upscale and upper-midscale properties in the Aurora market area.

The following map illustrates where the subject property is expected to be situated relative to the defined competitive set of existing hotels.

Figure 37 - Map of Competitors



There are eight existing competitors that HA&A identified. The Homewood Suites hotel (previously Staybridge Suites) is the most proximate competitor. Other existing competitors are mostly located in Warrenville and along Interstate 88. The following photographs illustrate the current condition and appearance of each competitive hotel's exterior.

Figure 38 – Homewood Suites



Figure 39 – Fairfield Inn and Suites



Figure 40 – TownePlace Suites



Figure 41 – Hilton Garden Inn



Figure 42 – SpringHill Suites



Figure 43 – Residence Inn



Figure 44 – Hyatt Place



Figure 45 – Hyatt House



These competitors represent a range of upper-midscale and upscale hotels located in Aurora and the surrounding area. With its new construction, upscale amenities, and select service nature, we expect the proposed hotel will be positioned to compete within the defined competitive set of hotels in this market.

NEW SUPPLY

Currently there is no new supply proposed or under construction in the Aurora market. The proposed subject property is expected to be the only new supply in this hotel market and chain scale during the foreseeable future.

HISTORICAL DEMAND

In addition to our market research and interviews, HA&A analyzed the following historical demand data, as provided by Smith Travel Research (STR).

Figure 46 - Historical Lodging Demand

Year	Room Supply	Room Night Supply	% Change	Room Night Demand	% Change	Occupancy	Average Rate	% Change	RevPAR	% Change
2011	914	333,610	--	227,798	--	68.3%	96.47	--	65.87	--
2012	913	333,426	-0.1%	227,869	0.0%	68.3%	99.35	3.0%	67.90	3.1%
2013	911	332,635	-0.2%	226,937	-0.4%	68.2%	99.67	0.3%	68.00	0.2%
2014	911	332,515	0.0%	239,209	5.4%	71.9%	103.15	3.5%	74.21	9.1%
2015	911	332,515	0.0%	238,650	-0.2%	71.8%	107.47	4.2%	77.13	3.9%
2016	911	332,515	0.0%	232,727	-2.5%	70.0%	107.51	0.0%	75.25	-2.4%
2017	910	332,147	-0.1%	229,263	-1.5%	69.0%	108.51	0.9%	74.90	-0.5%
Historical Annual Growth Rates			-0.1%		0.1%			2.0%		2.2%

Note: Year-end 2017 data is based on HA&A estimates and STR data through October 2017
Sources: STR and HA&A estimates

Average occupancies dipped below 70.0 percent in 2017, after three consecutive years of exceeding this mark. Occupancies in this market have declined slightly in each of the past three years.

The Hyatt House opened in 2012, adding 123 rooms to the subject market. The Fairfield Inn and Suites reduced their room count to 62 in October 2012 and further reduced it to 61 rooms in May 2013, thereby slightly reducing the room supply to 911 rooms in the defined competitive set. The former Staybridge Suites comprised of 148 guestrooms. However, in July 2017, the property was converted into Homewood Suites with a guestroom count of 146 rooms, thereby slightly reducing the total competitive set’s room supply to 909 rooms in the market, which is the current market area room supply as of the beginning of 2018.

Market ADR levels have increased significantly since 2012. Year-to-date data in 2017 show continued ADR growth in this market. ADR is expected to grow roughly in line with inflation in the near term. We anticipate modest demand growth, primarily due to the introduction of the proposed subject property and its conference center, as discussed later in this section.

DEMAND SEGMENTATION

The following figure summarizes our estimates of demand segmentation within the market overall and at each of the hotels in the defined competitive set.

Figure 47 - Demand Segmentation Estimates

Property Name	Commerical	Leisure	Group
TOTAL MARKET	66%	27%	6%
Fairfield Inn & Suites Chicago Naperville Aurora	65%	30%	5%
TownePlace Suites Chicago Naperville	70%	25%	5%
Springhill Suites Chicago Naperville Warrenville	65%	30%	5%
Residence Inn Chicago Naperville Warrenville	70%	25%	5%
Homewood Suites Aurora Naperville	70%	25%	5%
Hilton Garden Inn Naperville Warrenville	60%	30%	10%
Hyatt House Chicago Naperville Warrenville	70%	25%	10%

Source: HA&A Estimates

The commercial demand segment represents the largest source of demand in this market. A mix of corporate and government sources generate a wide range of commercial demand throughout the year in Aurora. A significant volume of leisure demand also exists and the market benefits from a broad range of leisure activities and sporting events hosted in the Aurora area. Group demand is modest and primarily related to youth sporting competitions and motor coach tours bringing guests to the Chicago Premium Outlets. With the presence of several healthcare-related facilities in the market, extended-stay demand is substantial within the defined competitive set.

UNACCOMMODATED DEMAND

In addition to the basic demand growth resulting from economic trends in the local and national economies, HA&A also investigated the potential for demand growth from sources of previously unaccommodated demand. The following figure illustrates seasonal demand patterns in the subject market. Occupancies above 70 percent are highlighted to indicate the likely presence of pent-up⁴ demand that has historically been unaccommodated in this market due to the lack of available guest rooms.

Due to the mix and proximity of several commercial demand generators, this market experiences strong mid-week occupancy patterns, with occupancies on Mondays through Thursday nights exceeding 70 percent, from February through November. Weekend leisure demand is substantial throughout May through October, with Friday and Saturday occupancies exceeding 70 percent. Extended-stay demand helps some hotels smooth out the week-day patterns of demand that are generally present in the Aurora market. Sunday nights typically experience relatively low lodging demand. However, extended-stay hotels that attract guests for weeks or months continually are able to keep many of their rooms occupied on Sunday nights. Due to the strength of the commercial and leisure demand segments in the Aurora market, we expect to see fairly strong mid-week demand throughout most of the year and substantial weekend demand during peak leisure travel seasons. The following figure illustrates seasonal demand patterns in the subject market.

Figure 48 - Unaccommodated Demand

Occupancy (%)							
	Sun	Mon	Tue	Wed	Thu	Fri	Sat
Nov - 16	41.1	63.6	71.5	71.6	70.6	70.1	69.6
Dec - 16	40.4	56.0	59.5	53.9	48.7	47.5	57.9
Jan - 17	33.7	50.2	60.7	59.5	46.0	46.5	60.3
Feb - 17	40.5	62.9	71.5	67.7	49.6	53.2	67.4
Mar - 17	41.7	68.9	75.9	76.4	62.4	64.6	74.4
Apr - 17	42.4	72.4	82.3	76.7	61.1	66.3	72.4
May - 17	60.1	71.5	83.8	81.7	70.2	79.1	85.6
Jun - 17	57.8	86.4	93.5	91.1	79.3	81.9	87.4
Jul - 17	61.8	76.1	79.9	82.3	79.5	87.2	90.5
Aug - 17	55.1	78.8	87.8	84.2	74.6	75.9	83.3
Sep - 17	55.7	71.8	88.2	86.1	67.6	72.7	83.1
Oct - 17	47.5	69.8	79.9	86.5	73.0	86.9	89.1
Total Year	48.0	68.9	77.8	76.6	65.3	69.1	76.7

As illustrated in the preceding figure, the subject market experiences high occupancies in the months of June, July and parts of August, September and October. During these months, both

⁴ We refer to demand that was unable to be accommodated, due to lack of available guest rooms, as “unaccommodated demand” throughout this report.

weekday and weekend demand are very strong and top hotels are nearly sold out every Monday through Saturday.

These patterns are indicative of significant volumes of unaccommodated demand. As new supply enters the market, the new supply will allow some of this historically unaccommodated demand to be accommodated. New supply will likely have some negative effect on overall market occupancies, as is typical in any market. However, the significant volumes of unaccommodated demand detected in this market should mitigate the impact of new supply on existing competitors.

INDUCED DEMAND

If certain events or plans are scheduled to cause a permanent increase or decrease in demand in a market, hotel appraisers can model the effects of such events as “induced demand” or demand that is triggered by a specific act, such as the construction of a conference center or the expansion of a local business or headquarters office that brings job growth to the local market.

Based on HA&A’s proprietary survey research of conference centers, we generally conclude that conference centers of this nature have the potential to induce lodging demand that equates to roughly 0.3 to 0.8 room nights per net rentable square foot of conference space. Local market conditions, design decisions, and the meeting space offerings of local competitive hotels can significantly affect the potential for induced demand. For the purpose of this analysis, we estimate induced demand from the proposed conference center of 3,600 room nights annually, or approximately 0.6 room nights per square foot of planned conference space.

A hotel conference center of this nature typically requires up to three years of operation before the induced room night demand from the conference center stabilizes. Many groups book meetings and events months or years in advance and require on-site inspections before approving a conference facility for a future booking. As such, we ramp up the projected induced demand over the first three years of projected operations. This induced demand will be reflected in subsequent projections of lodging demand for the subject market.

COMPETITIVE RANKING

The following figure summarizes our estimates of how each of the hotels in the defined competitive set is performing, based on 2017 year-to-date October estimates.

Figure 49 - Estimated Performance of Competitors

Competitors	Room Supply	Occupancy	ADR
Hilton Garden Inn Naperville Warrenville	135	70-75%	\$120-125
Residence Inn Chicago Naperville Warrenville	130	70-75%	\$110-115
Springhill Suites Chicago Naperville Warrenville	128	60-65%	\$105-110
Homewood Suites	146	70-75%	\$105-110
Hyatt House Chicago Naperville Warrenville	123	75-80%	\$100-105
Hyatt Place Chicago Naperville Warrenville	123	65-70%	\$100-105
Fairfield Inn & Suites Chicago Naperville Aurora	61	60-65%	\$100-105
TownePlace Suites Chicago Naperville	63	55-60%	\$100-105
Total	909	69%	\$108

Source: HA&A Interviews

We estimate that hotels in the competitive set experienced annual occupancies in 2017 in the range of 65 percent to 80 percent, with ADRs between \$90 and \$125. Based on our review of the proposed subject property's upscale product type, room count, conference space, and service level, we expect the proposed hotel to be positioned with occupancy and ADR penetration levels slightly above the competitive set.

OCCUPANCY AND ADR PROJECTIONS

Occupancies are expected to increase moderately in the near-term, as economic conditions continue to improve. When new supply eventually enters the market, then we anticipate occupancies will decline correspondingly. However, as previously mentioned, significant volumes of unaccommodated demand in the Aurora market should help to moderate this impact.

Average rates are expected to increase moderately during the next few years, at a rate equal to or exceeding inflation in most years. As economic conditions continue to improve, we anticipate moderate ADR growth for the foreseeable future. Although occupancies are expected to decline when new supply is introduced to the market, we anticipate ongoing RevPAR growth in each year shown in our projection period.

The following two figures present our projections of occupancy, ADR, and RevPAR for the competitive set and the proposed subject property respectively.

Figure 50 – Market Performance – Growth Rate Projections

Year	Room Supply*	Room Night Supply	Supply % Change	Room Night Demand	Demand % Change	Occupancy	Average Rate	ADR % Change	RevPAR	RevPAR % Change
Historical - Competitive Set										
2011	914	333,610	--	227,798	--	68%	\$ 96.47	--	\$ 65.87	--
2012	913	333,426	-0.1%	227,869	0.0%	68%	\$ 99.35	3.0%	67.90	3.1%
2013	911	332,635	-0.2%	226,937	-0.4%	68%	\$ 99.67	0.3%	68.00	0.2%
2014	911	332,515	0.0%	239,209	5.4%	72%	\$103.15	3.5%	74.21	9.1%
2015	911	332,515	0.0%	238,650	-0.2%	72%	\$107.47	4.2%	77.13	3.9%
2016	911	332,515	0.0%	232,727	-2.5%	70%	\$107.51	0.0%	75.25	-2.4%
2017	910	332,147	-0.1%	229,263	-1.5%	69%	\$108.51	0.9%	74.90	-0.5%
Projected - Competitive Set										
2018	909	331,785	-0.1%	230,307	0.5%	69%	\$111.77	3.0%	\$ 77.12	3.0%
2019	964	352,025	6.1%	239,509	4.0%	68%	115.12	3.0%	78.28	1.5%
2020	1,019	371,935	5.7%	248,077	3.6%	67%	118.57	3.0%	79.44	1.5%
2021	1,019	371,935	0.0%	250,141	0.8%	67%	122.13	3.0%	81.83	3.0%
2022	1,019	371,935	0.0%	250,141	0.0%	67%	125.79	3.0%	84.28	3.0%

* Weighted Room Supply
Sources: HA&A and STR

Figure 51 - Subject Property Performance – Penetration Rate Projections

Year	Subject Rooms	Comp Set Occupancy	Subject PenRate	Subject Occupancy	Comp Set ADR	Subject PenRate	Subject ADR	Comp Set RevPAR	Subject PenRate	Subject RevPAR
Projected - Subject Property										
2019/20	110	67%	94%	63%	116.83	112%	\$130.85	\$78.66	105%	\$82.81
2020/21	110	67%	101%	68%	120.34	112%	\$134.78	80.59	113%	\$91.17
2021/22	110	67%	104%	70%	123.95	112%	\$138.82	83.36	116%	\$97.10

Source: HA&A

As shown in the preceding two figures, market supply is expected to increase substantially in 2019, reflecting the proposed subject property’s opening. We expect supply growth will outpace demand growth during this time period, leading to a moderate decline in market-wide occupancies. Average rates have demonstrated moderate growth and are expected to continue in the near-term, eventually aligning with inflation.

Based on our review of the existing and proposed competitive supply, the subject property’s conference center, new construction, select-service product type, national branding, upscale amenities, and mixed-use development site, we expect its RevPAR penetration rate to stabilize above the market average.

CONCLUSION

The following figure summarizes our projections for the proposed subject property’s occupancy, ADR, and RevPAR through stabilization.

Figure 52 - Subject Property Projections

Subject Property Performance			
Year	Occupancy	ADR	RevPAR
2019/20	63%	\$130.85	\$82.81
2020/21	68%	134.78	91.17
2021/22	70%	138.82	97.10

6. FINANCIAL PROJECTIONS

OVERVIEW

The proposed subject property can be evaluated based on its potential to produce an income stream, or earnings before interest, taxes, depreciation, and amortization (EBITDA). This income stream can be determined by projecting a series of revenue and expense line items, as outlined in the Uniform System of Accounts for the Lodging Industry⁵. In this section we project these various line items.

Our preceding analysis of supply and demand serves as the basis for determining the project's Rooms department revenue, which is typically a hotel's largest revenue line item. To determine other potential revenue line items, we evaluated the hotel's development plan, anticipated brand standards, and various amenities and services planned for the proposed hotel. Moreover, we evaluated numerous comparable hotel properties and a series of proprietary financial statements, to determine the most appropriate ratios and metrics for numerous expense line items. Certain expense line items, such as property taxes, franchise fees, and management fees required additional analysis, which we discuss throughout this chapter.

COMPARABLE FINANCIAL STATEMENTS

HA&A reviewed several financial operating statements from existing hotels that are comparable to the proposed subject property. All of these hotels are classified in the select service upscale chain scale and national branding, similar to the proposed hotel. The following figures summarize the financial operations of these comparable hotels, presented in three ways.

Firstly, we show the revenue and expense performance of each comparable hotel as measured by each line item's ratio to total operating revenues. For comparison purposes, the far right-hand column of the following figure shows how we have positioned the proposed subject property.

⁵ Uniform System of Accounts for the Lodging Industry, 11th Revised Edition, American Hotel & Lodging Education Institute, 2014.

Figure 53 - Comparable Financials (Ratio to Sales)

Revenue and Expense Ratios	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
Revenues						Stabilized
Rooms	90.1%	59.9%	70.7%	89.4%	76.2%	79.2%
Food & Beverage	9.0%	38.6%	28.1%	8.8%	22.9%	19.5%
Other Operated	0.1%	0.8%	1.2%	1.6%	0.5%	1.0%
Miscellaneous Income	0.8%	0.7%	0.0%	0.2%	0.4%	0.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Departmental Expenses						
Rooms	30.4%	24.5%	17.8%	24.1%	18.5%	24.0%
Food & Beverage	121.2%	66.4%	45.6%	78.4%	76.7%	55.0%
Other Operated	90.0%	72.0%	95.0%	78.8%	88.6%	85.0%
Total	38.3%	40.9%	26.5%	29.7%	32.1%	30.6%
Departmental Income						
	61.7%	59.1%	73.5%	70.3%	67.9%	69.4%
Undistributed Operating Expenses						
Administrative & General	7.1%	7.8%	6.2%	9.8%	7.8%	7.8%
Information & Telecommunication	0.7%	0.5%	0.0%	0.2%	0.4%	0.5%
Marketing (includes franchise fee)	9.6%	7.4%	14.8%	11.8%	12.7%	10.2%
Property Operations & Maintenance	4.8%	5.8%	3.8%	5.1%	7.0%	3.8%
Utilities	4.3%	6.4%	3.3%	4.2%	4.5%	3.6%
Total	26.4%	27.9%	28.1%	31.0%	32.4%	25.8%
House Profit						
	35.3%	31.2%	45.4%	39.3%	35.5%	43.6%

Most revenue and expense line items projected for the subject property fall within the range demonstrated by existing, comparable properties, as shown in the preceding figure.

Secondly, we show the revenue and expense performance of each comparable hotel as measured by each line item's amount per available room (PAR). Based on our experience, this measure is particularly useful when evaluating expenses in the Administrative and General line item. It can also be useful when comparing the Information and Telecommunications line item, the Property Operations and Maintenance line item, and the Energy expense line item. For comparison purposes, the far right-hand column of the following figure shows how we have positioned the proposed subject property.

Figure 54 - Comparable Financials (PAR)

Per Available Room	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
Revenues						Stabilized
Rooms	\$ 23,157	\$ 28,226	\$ 26,492	\$ 42,343	\$ 38,955	\$ 31,026
Food & Beverage	2,303	18,201	10,547	4,170	11,731	7,659
Other Operated	27	384	445	740	237	383
Miscellaneous Income	202	329	0	106	223	128
Total	25,690	47,140	37,484	47,360	51,146	39,196
Departmental Expenses						
Rooms	7,034	6,902	4,715	10,204	7,202	7,446
Food & Beverage	2,791	12,084	4,804	3,269	8,999	4,212
Other Operated	24	277	423	583	210	326
Total	9,850	19,263	9,943	14,056	16,410	11,984
Departmental Income	15,840	27,877	27,541	33,303	34,736	27,212
Undistributed Operating Expenses						
Administrative & General	1,815	3,662	2,308	4,624	3,967	3,050
Information & Telecommunication	168	243	0	87	223	200
Marketing (includes franchise fee)	2,455	3,500	5,566	5,585	6,498	3,988
Property Operations & Maintenance	1,225	2,727	1,417	2,420	3,582	1,475
Utilities	1,117	3,016	1,244	1,977	2,300	1,411
Total	6,780	13,147	10,534	14,693	16,570	10,124
House Profit	9,060	14,730	17,008	18,611	18,165	17,087

Thirdly, we show the revenue and expense performance of each comparable hotel as measured by each line item's amount per occupied room (POR). Based on our experience, this measure is particularly useful when evaluating revenue line items. For comparison purposes, the far right-hand column of the following figure shows how we have positioned the proposed subject property.

Figure 55 - Comparable Financials (POR)

Per Occupied Room	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
Revenues						Stabilized
Rooms	\$ 88.00	\$ 112.00	\$ 106.00	\$ 135.00	\$ 162.00	\$ 121.53
Food & Beverage	8.74	72.23	42.30	13.28	48.74	30.00
Other Operated	0.10	1.52	1.79	2.36	0.98	1.50
Miscellaneous Income	0.77	1.30	0.00	0.34	0.93	0.50
Total	97.49	187.08	150.33	150.77	212.49	153.53
Departmental Expenses						
Rooms	26.70	27.39	18.91	32.48	29.92	29.17
Food & Beverage	10.59	47.96	19.27	10.41	37.38	16.50
Other Operated	0.09	1.10	1.70	1.86	0.87	1.28
Total	37.38	76.45	39.88	44.75	68.18	46.94
Departmental Income	60.11	110.63	110.45	106.02	144.31	106.59
Undistributed Operating Expenses						
Administrative & General	6.89	14.53	9.25	14.72	16.48	11.95
Information & Telecommunication	0.64	0.97	0.00	0.28	0.93	0.78
Marketing (includes franchise fee)	9.32	13.89	22.32	17.78	27.00	15.62
Property Operations & Maintenance	4.65	10.82	5.68	7.70	14.88	5.78
Utilities	4.24	11.97	4.99	6.29	9.56	5.53
Total	25.73	52.18	42.24	46.77	68.84	39.66
House Profit	34.38	58.46	68.21	59.25	75.47	66.93

HA&A considered the financial performance of these comparable hotels in our positioning of the proposed subject property's revenue and expense line items.

FRANCHISE, MANAGEMENT, TAX, AND RESERVE EXPENSES

Certain expense line items and non-operating income items are more affected by specialized local conditions, project details, or industry trends. As such, an analysis of financial operating statements from comparable hotels may not be adequate to understand these line items. The following line items required additional research and analysis.

MEMBERSHIP FEES

We assume the hotel will be developed as an upscale, select service hotel. The developer has not yet finalized a franchise decision and we understand current considerations include Aloft, Best Western Premier, Courtyard by Marriott, Cambria Hotel & Suites, Four Points by Sheraton, and Indigo. However, we understand that at this time the developer is considering the Best Western Premier brand. The brand's current membership fee is 5.0 percent of room's revenue and an advertising fee equal to \$12.30 per guestroom per month, as summarized in the following figure.

Figure 56 - Franchise Fee Calculations

Franchise Fee	Fee %	2019/20	2020/21	2021/22	2022/23	2023/24
Rooms Revenue		3,324,789	3,660,380	3,898,390	4,015,341	4,135,801
Royalty Fee	5.0%	166,239	183,019	194,919	200,767	206,790
Marketing Fee	12.30/Guestroom	16,236	16,723	17,225	17,742	18,274
Total Franchise Fee		182,475	199,742	212,144	218,509	225,064

Franchise fees or membership fees are calculated separately, based on the preceding calculations. However, for the purpose of this analysis, franchise fee expenses and other marketing expenses are combined into a single Marketing expense line item. This is consistent with reporting guidelines provided in the Uniform System of Accounts for the Lodging Industry.

MANAGEMENT FEE

For the purpose of this market study, we have assumed the proposed hotel will be operated by a professional hotel management company. Based on our review of hundreds of management contracts and interviews with dozens of management companies actively pursuing contracts of this nature, we conclude that market conditions currently support an assumption of a 3.0 percent management fee for a property of this type.

PROPERTY TAXES

HA&A analyzed property tax rates in the subject's jurisdiction as well as recent assessment levels of comparable hotels in the market area. The following figure summarizes current assessment levels of several comparable hotels in the subject's competitive set.

Figure 57 - Comparable Hotel Property Tax Assessments

Property	Number of Rooms	Land	Improvements	Total
Total Assessment				
Homewood Suites	146	288,520	1,716,730	2,005,250
Hilton Garden Inn	135	249,040	2,354,910	2,603,950
Residence Inn	130	342,960	2,705,970	3,048,930
Hyatt Place	123	290,260	2,202,950	2,493,210
Assessment Per Room				
Homewood Suites	146	1,976	11,758	13,735
Hilton Garden Inn	135	1,845	17,444	19,289
Residence Inn	130	2,638	20,815	23,453
Hyatt Place	123	2,360	17,910	20,270
Positioning				
Subject Property / Rm	110	1,200	17,000	18,200
Subject Property Total	110	131,990	1,870,000	2,001,990

The preceding figure shows per-room assessment levels for a selection of comparable and competitive hotels. We assume the proposed hotel will be developed as an upscale, select service hotel and will feature more meeting space than the competitors shown. Due to the

chain scale and quality of the proposed subject property, as well as its expected amount of meeting and conference space, we have positioned its assessment levels, for property tax purposes, above some of the competitors. We conclude that our assumed assessment level is supported by market data from these comparable hotels within the same taxing jurisdiction. However, we advise the developer to discuss the project in more detail with the local assessor if additional support for this assumption is desired.

The following figure shows historical trends in tax rates for commercial properties in DuPage County, as applicable to real property.

Figure 58 – Historical Property Tax Rates

Tax Year	Payable Year	Tax Rate Real Property
2013	2014	9.7879
2014	2015	9.9634
2015	2016	9.6730
2016	2017	9.2463

Source: DuPage County Assessor Office

Applying the most recently published effective tax rate to our estimates of the proposed subject property’s assessed value allowed us to estimate annual property tax liabilities. The following figure shows property tax projections for the subject property.

Figure 59 – Property Tax Projections

Property Tax Projections						
Year	Assessed Values			Value Change	Tax Rate Real Property	Tax Projection
	Land	Improvements	Total			
2019/20	144,229	1,021,700	1,165,929	--	9.2463	107,805
2020/21	148,556	2,104,701	2,253,257	93.3%	9.2463	208,343
2021/22	153,013	2,167,843	2,320,855	3.0%	9.2463	214,593
2022/23	157,603	2,232,878	2,390,481	3.0%	9.2463	221,031
2023/24	162,331	2,299,864	2,462,195	3.0%	9.2463	227,662

In DuPage County, real property is assessed between the months of September through November for the current valuation year and the property tax bill is issued in April of the following year, payable in two installments – June and September. Hence, we anticipate that the property tax liability for the first operating year will be substantially lower than the long-term level, because assessed values will reflect only partially built improvements, initially. Thereafter, we project a significant increase in property taxes, beginning the year after the property is improved with a hotel development.

REPLACEMENT RESERVE

The economic life cycle of a hotel can occur over a matter of decades. During the hotel's economic life, substantial capital expenditures are typically required to maintain the hotel's competitive position within the market. As such, appraisers typically apply a market appropriate expense, in the form of a replacement reserve, to reflect an annualized expense amount adequate to fund the basic capital expenditures needed to maintain a hotel's competitive position during the projection period.

Based on a recent US Realty Consultant, Inc. Investor Survey, the replacement reserve expenditures at hotels in the United States has ranged between 4.0 percent and 7.0 percent of gross revenues for limited service hotels. Replacement reserve equal to 4.0 percent of total revenues is applied as a fixed expense in our analysis, starting in the first projection year. This assumption is consistent with our assumption that the subject property's performance will stabilize, and not decline, as the property ages.

FINANCIAL PROJECTIONS

We developed projections of all revenue and expense line items for the proposed subject property, as shown in the following figures.

Figure 60 - Detailed Financial Operating Projections

FINANCIAL PROJECTIONS	2019/20				2020/21				2021/22			
Number of Rooms	110				110				110			
Occupancy	63%				68%				70%			
Days Open	365				365				365			
Occupied Room Nights	25,409				27,159				28,083			
ADR	\$ 130.85				\$ 134.78				\$ 138.82			
RevPAR	\$82.81	% Tot	PAR	POR	\$91.17	% Tot	PAR	POR	\$97.10	% Tot	PAR	POR
Revenues												
Rooms	3,324,789	78.6%	\$30,225	\$130.85	3,660,380	79.0%	\$33,276	\$134.78	3,898,390	79.2%	\$35,440	\$138.82
* Food & Beverage	846,633	20.0%	7,697	33.32	912,785	19.7%	8,298	33.61	962,321	19.5%	8,748	34.27
Other Operated	42,332	1.0%	385	1.67	45,639	1.0%	415	1.68	48,116	1.0%	437	1.71
Miscellaneous Income	14,111	0.3%	128	0.56	15,213	0.3%	138	0.56	16,039	0.3%	146	0.57
Total	4,227,864	100.0%	38,435	166.39	4,634,017	100.0%	42,127	170.63	4,924,865	100.0%	44,771	175.37
Departmental Expenses												
Rooms	839,927	25.3%	7,636	33.06	893,427	24.4%	8,122	32.90	935,613	24.0%	8,506	33.32
Food & Beverage	475,147	56.1%	4,320	18.70	505,411	55.4%	4,595	18.61	529,276	55.0%	4,812	18.85
Other Operated	36,716	86.7%	334	1.44	39,055	85.6%	355	1.44	40,899	85.0%	372	1.46
Total	1,351,790	32.0%	12,289	53.20	1,437,893	31.0%	13,072	52.94	1,505,788	30.6%	13,689	53.62
Departmental Income	2,876,074	68.0%	26,146	113.19	3,196,124	69.0%	29,056	117.68	3,419,076	69.4%	31,083	121.75
Undistributed Operating Expenses												
Administrative & General	344,033	8.1%	3,128	13.54	365,946	7.9%	3,327	13.47	383,226	7.8%	3,484	13.65
Information & Telecommunication	22,560	0.5%	205	0.89	23,996	0.5%	218	0.88	25,130	0.5%	228	0.89
Marketing (includes franchise fees)	441,910	10.5%	4,017	17.39	475,702	10.3%	4,325	17.52	501,134	10.2%	4,556	17.85
Property Operations & Maintenance	166,377	3.9%	1,513	6.55	176,974	3.8%	1,609	6.52	185,330	3.8%	1,685	6.60
Energy	159,163	3.8%	1,447	6.26	169,301	3.7%	1,539	6.23	177,295	3.6%	1,612	6.31
Total	1,134,042	26.8%	10,309	44.63	1,211,919	26.2%	11,017	44.62	1,272,115	25.8%	11,565	45.30
Gross Operating Profit	1,742,032	41.2%	15,837	68.56	1,984,205	42.8%	18,038	73.06	2,146,961	43.6%	19,518	76.45
Management Fee	126,836	3.0%	1,153	4.99	139,021	3.0%	1,264	5.12	147,746	3.0%	1,343	5.26
Income Before Non-Operating Items	1,615,196	38.2%	14,684	63.57	1,845,185	39.8%	16,774	67.94	1,999,215	40.6%	18,175	71.19
Non-Operating Income & Expense												
Property Taxes & Related	107,805	2.5%	980	4.24	208,343	4.5%	1,894	7.67	214,593	4.4%	1,951	7.64
Insurance	47,374	1.1%	431	1.86	48,795	1.1%	444	1.80	50,259	1.0%	457	1.79
Reserve for Replacement	84,557	2.0%	769	3.33	139,021	3.0%	1,264	5.12	196,995	4.0%	1,791	7.01
Total	239,737	5.7%	2,179	9.44	396,159	8.5%	3,601	14.59	461,847	9.4%	4,199	16.45
EBITDA	1,375,459	32.5%	\$12,504	\$54.13	1,449,026	31.3%	\$13,173	\$53.35	1,537,368	31.2%	\$13,976	\$54.74

* Food & Beverage includes Conference Center rentals and catering operations

Figure 61 - Ten-Year Financial Operating Projections

FINANCIAL PROJECTIONS	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Number of Rooms	110	110	110	110	110	110	110	110	110	110
Occupancy	63%	68%	70%	70%	70%	70%	70%	70%	70%	70%
ADR	\$ 130.85	\$ 134.78	\$ 138.82	\$ 142.98	\$ 147.27	\$ 151.69	\$ 156.24	\$ 160.93	\$ 165.76	\$ 170.73
RevPAR	\$ 82.81	\$ 91.17	\$ 97.10	\$ 100.01	\$ 103.01	\$ 106.10	\$ 109.28	\$ 112.56	\$ 115.94	\$ 119.42
Revenues										
Rooms	3,324,789	3,660,380	3,898,390	4,015,341	4,135,801	4,259,876	4,387,672	4,519,302	4,654,881	4,794,527
* Food & Beverage	846,633	912,785	962,321	991,190	1,020,926	1,051,554	1,083,100	1,115,593	1,149,061	1,183,533
Other Operated	42,332	45,639	48,116	49,560	51,046	52,578	54,155	55,780	57,453	59,177
Miscellaneous Income	14,111	15,213	16,039	16,520	17,015	17,526	18,052	18,593	19,151	19,726
Total	4,227,864	4,634,017	4,924,865	5,072,611	5,224,789	5,381,533	5,542,979	5,709,268	5,880,546	6,056,963
Departmental Expenses										
Rooms	839,927	893,427	935,613	963,682	992,592	1,022,370	1,053,041	1,084,632	1,117,171	1,150,687
Food & Beverage	475,147	505,411	529,276	545,155	561,509	578,354	595,705	613,576	631,984	650,943
Other Operated	36,716	39,055	40,899	42,126	43,389	44,691	46,032	47,413	48,835	50,300
Total	1,351,790	1,437,893	1,505,788	1,550,962	1,597,491	1,645,416	1,694,778	1,745,621	1,797,990	1,851,930
Departmental Income	2,876,074	3,196,124	3,419,076	3,521,649	3,627,298	3,736,117	3,848,201	3,963,647	4,082,556	4,205,033
Undistributed Operating Expenses										
Administrative & General	344,033	365,946	383,226	394,723	406,564	418,761	431,324	444,264	457,592	471,319
Information & Telecommunication	22,560	23,996	25,130	25,883	26,660	27,460	28,284	29,132	30,006	30,906
Marketing (includes franchise fee)	441,910	475,702	501,134	516,168	531,653	547,603	564,031	580,952	598,380	616,332
Property Operations & Maintenance	166,377	176,974	185,330	190,890	196,617	202,516	208,591	214,849	221,294	227,933
Energy	159,163	169,301	177,295	182,614	188,092	193,735	199,547	205,534	211,700	218,051
Total	1,134,042	1,211,919	1,272,115	1,310,279	1,349,587	1,390,075	1,431,777	1,474,730	1,518,972	1,564,541
Gross Operating Profit	1,742,032	1,984,205	2,146,961	2,211,370	2,277,711	2,346,043	2,416,424	2,488,917	2,563,584	2,640,492
Management Fee	126,836	139,021	147,746	152,178	156,744	156,744	161,446	166,289	171,278	176,416
Income Before Non-Operating Items	1,615,196	1,845,185	1,999,215	2,059,192	2,120,968	2,189,299	2,254,978	2,322,627	2,392,306	2,464,075
Non-Operating Income & Expense										
Property Taxes & Related	107,805	208,343	214,593	221,031	227,662	227,662	234,492	241,527	248,772	256,236
Insurance	47,374	48,795	50,259	51,767	53,320	53,320	54,919	56,567	58,264	60,012
Reserve for Replacement	84,557	139,021	196,995	202,904	208,992	208,992	215,261	221,719	228,371	235,222
Total	239,737	396,159	461,847	475,702	489,973	489,973	504,673	519,813	535,407	551,469
EBITDA	1,375,459	1,449,026	1,537,368	1,583,489	1,630,994	1,699,325	1,750,305	1,802,814	1,856,899	1,912,606
* Food & Beverage includes Conference Center rentals and catering operations										

FINANCIAL ANALYSIS CONCLUSIONS

The proposed hotel conference center is expected to stabilize within three years of opening. Our projections show operating profits ramping up during a three-year stabilization period. The property is expected to produce significant operating profits during each projection year shown in this study. The projected income stream shown in this report can be used in conjunction with the developer's estimated total project cost to determine whether the expected return on investment is adequate to attract investors' capital and result in a feasible development opportunity.

7. ASSUMPTIONS AND LIMITING CONDITIONS

Hotel Appraisers & Advisors states that this report is subject to the following assumptions and limiting conditions, which are typical within our industry.

1. This report is intended to be used in whole and not in part.
2. None of the materials contained within this report may be reproduced without our consent.
3. This report cannot be distributed to the public and cannot be used by parties other than those identified as intended users.
4. We are not required to give testimony or appear in court or conduct any additional work beyond this report, unless previously or subsequently agreed upon.
5. We are not responsible for information that becomes available, or events that occur, after the date of inspection shown in this report.
6. We assume all information, documents, data, and opinions provided by other parties are accurate and true. We assume no liability resulting from misinformation.
7. We based our analysis on certain analyses, assumptions, estimates, and forecasts pertaining to the local and national economy, which may be subject to change. Market trends and economic conditions are sometimes subject to severe volatility that are not foreseen. We do not warrant that our estimates or projections will be attained; rather, we develop them, based on information obtained during our market research, in a manner intended to reflect the expectations of typical market participants as of the date of our inspection.
8. We assume the subject property is (or will be) in full compliance with all federal, state, and local laws as well as all applicable private codes, laws, licenses, policies, and regulations as of the opening date. This includes any applicable liquor licenses as well as the American Disabilities Act (ADA), which became effective on January 26, 1992 and has since been updated.
9. We assume all codes, laws, policies, rules, and regulations affecting the subject property, as discovered during our inspection, will continue unless otherwise stated.
10. We assume all agreements, certificates, licenses, and permits can be freely renewed or transferred to a purchaser, unless otherwise noted.
11. We assume there are (and will be) no building violations, encroachments, leases, liens, mortgages, or zoning violations encumbering the subject property, unless otherwise noted.
12. Information and numbers shown throughout this report may be subject to small rounding errors, for the purpose of reporting and formatting consistency, as most numbers are rounded to the nearest one-tenth of one percent.
13. A market study reflects an opinion of market potential rather than a proof or a mathematical truth. As such, this report should be interpreted as a discussion of our opinions and how we developed those opinions. Our opinions and conclusions include subjective elements and may be influenced by our knowledge, experience, and other factors. This is not an appraisal report.

14. All parties agree that our liability is limited to the amount of the fee we received as liquidated damages. Our responsibility is limited to the client, and use of this report by other parties is solely at the risk of the client and those other parties.
15. The use of this report is subject to the terms and conditions stated in the engagement letter for this assignment.
16. We are not professional cost estimators, engineers, inspectors, surveyors, or attorneys. Nothing in this report should be interpreted as such. We assume no responsibility for matters of a legal nature. We do not render any opinion of title. We assume the subject property is marketable and free of any deed restrictions, encroachments, and easements, unless otherwise noted; we evaluate the property as though free and clear unless otherwise noted. We have made no survey of the property and do not assume responsibility for such matters. Any images or photographs included in this report are intended to help the reader visualize the property and characteristics of the subject market. We assume the use of the described real estate is within the boundaries of the subject property. We have not considered the presence of potentially hazardous materials. The appraisers are not qualified to detect hazardous substances. We assume there are no hidden or unapparent conditions of the property that affect its market potential. We assume no responsibility for such conditions or for any work by engineers, cost estimators, inspectors, surveyors, attorneys, or other experts that may be required to discover them. We recommend the client retain such experts if these items are uncertain or undetermined.
17. Hotel Appraisers & Advisors, LLC prepared this report. All conclusions, discussions, opinions, and recommendations expressed during this assignment are rendered by employees or contractors of Hotel Appraisers & Advisors, LLC as employees or contractors and not as individuals.

8. CERTIFICATION

In accordance with the standards rules identified by the Appraisal Institute, the undersigned certify that, to the best of our knowledge and belief, the following:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions, limiting conditions, and assignment conditions and are our unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. Hans Detlefsen, MPP, MAI has performed a prior market study of the subject property which was transmitted on December 30th, 2015, prior to accepting this assignment.
5. Hans Detlefsen has no bias with respect to the subject property or to parties involved with this assignment.
6. Our engagement in this assignment was not contingent on developing or reporting predetermined results.
7. Our compensation for completing this assignment is not contingent on the development or reporting of a predetermined value, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this market study.
8. This report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
9. Hans Detlefsen, MPP, MAI, inspected the subject site on October 20th, 2015 and Devanjali Luthra, inspected the subject site on November 24th, 2015 and again on October 10th, 2017.
10. Devanjali Luthra provided significant market research assistance to the person signing this certification.
11. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Uniform Standards of Professional Appraisal Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, Hans Detlefsen, MPP, MAI, has completed the continuing education program for Designated Members of the Appraisal Institute.



Hans Detlefsen, MPP, MAI
President
Hotel Appraisers & Advisors, LLC
hdetlefsen@hotelappraisers.com