



MARKET STUDY

Proposed Homewood Suites Celebration

CELEBRATION BOULEVARD
CELEBRATION, FLORIDA

SUBMITTED TO:

Mr. Hiren Patel
Heritage Hospitality Group
115 West Jackson Street, Suite 2D
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PREPARED BY:

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October 2, 2018

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Re: Proposed Homewood Suites Celebration
Celebration, Florida, Osceola County
HVS Reference: 2018021556

Dear Mr. Patel:

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

This report is intended for the addressee firm and may not be distributed to or relied upon by other persons or entities. We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,
HVS Consulting & Valuation

DRAFT DOCUMENT

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1. Executive Summary

Subject of the Market Study

The subject of the market study is a 152,460-square-foot (3.50-acre) site to be improved with an extended-stay lodging facility; the hotel will be associated with the Homewood Suites by Hilton brand. The property, which is expected to open on June 1, 2020, will feature 125 rooms, a breakfast dining area, an outdoor pool, an outdoor whirlpool, a fitness room, a business center, a market pantry, and a guest laundry room. The hotel will also contain the appropriate parking capacity and all necessary back-of-the-house space.

The 3.5-acre subject site is proposed to be developed with a 125-key Homewood Suites by Hilton. As of September 2018, the 3.5-acre hotel site was part of a larger 18.5-acre parcel; documents provided by the client show that Class-A apartments are proposed for the remainder of the site. The proposed Homewood Suites by Hilton will be the first Hilton-branded hotel and the first extended-stay hotel within the master-planned Celebration community. Celebration was originally developed as a master-planned community by the Walt Disney Company in the 1990s, and the town is directly connected to Walt Disney World via World Drive. Celebration Town Center offers a variety of shops, restaurants, cafés, event spaces, residences, and other commercial establishments, as well as a hotel. The subject site's location is along Celebration Boulevard, Celebration, Florida, 34747.

Pertinent Dates

The effective date of the report is September 1, 2018. The subject site was inspected by Jeffrey D. Pennington on September 1, 2018. Adam R. Lair, MAI participated in the analysis and reviewed the findings but did not personally inspect the property.

Ownership, Franchise, and Management Assumptions

The developer of the proposed subject hotel is Heritage Hospitality Group, which is based in Ridgeland, Mississippi. The larger 18.49-acre parcel, which contains the 3.5-acre subject site, was last sold in May 2017; KF Orlando Dev LLC has owned the site since that time, having purchased it from The Celebration Company for a reported consideration of \$11,164,000. The developer of the proposed subject hotel noted that the cost of the land for the proposed hotel site is \$2.35 million and that the ownership will consist of a single purpose LLC which will be created for the purpose of developing the proposed subject property.

We assume that the proposed hotel will be managed by a professional management company that is experienced in the operation of upscale, extended-stay hotels in this region. The management team had not been selected as of the date of this study; therefore, details pertaining to management terms had yet to be

Summary of Hotel Market Trends

determined. We have assumed a market-appropriate total management fee of 3.0% of total revenues in our study.

The proposed subject hotel will reportedly operate under a franchise agreement with Hilton Inc. as a Homewood Suites by Hilton. Although the franchise agreement has yet to be executed, our forecast reflects a royalty fee of 5.5% of rooms revenue and a marketing assessment fee of 3.5% of rooms revenue for the duration of the term based upon our review of typical franchise terms for the Homewood Suites by Hilton brand. Based on our review of the agreement's terms or expected terms, the Homewood Suites by Hilton franchise is reflected in our forecasts with a royalty fee of 5.5% of rooms revenue, and a marketing assessment of 3.5% of rooms revenue.

After peaking at just over \$73 in 2008, RevPAR declined significantly the following year given a roughly \$15 decline in average rate as local operators sought to maintain occupancy levels in the midst of the national recession. A rapid recovery began in 2010, and in 2011, the prior RevPAR peak was exceeded. RevPAR continued to rise through 2014, with growth driven by demand increases and average rate growth. In 2014, supply dipped given the temporary closure and rebranding of the SpringHill Suites by Marriott, which was previously an independent hotel. Market RevPAR declined in 2015 and 2016 given increased supply, which led to an occupancy decline; however, average rate remained relatively stable as new supply was absorbed by the market. Year-end 2017 data reflect increases across all three metrics as strong demand throughout the year led to a roughly 10% increase in RevPAR. Year-to-date 2018 data illustrate continued strengthening in occupancy and a roughly \$5.50 gain in average rate. RevPAR reached its high point in the spring of 2018. General stability in supply, stabilization of the newer hotels in the market, and the overall strong economy have contributed to the latest trend. The near-term outlook is positive due to the overall healthy economy and expansions and investments at the area's major demand generators. Market participants expect future growth to be primarily tied to average rate increases because of aggressive yield-management amid steady growth in demand; RevPAR is expected to pass the \$100 mark.

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

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

	Average Daily Room	Available Room		Occupied Room			Average			
Year	Count	Nights	Change	Nights	Change	Occupancy	Rate	Change	RevPAR	Change
2008	1,037	378,370	—	229,404	—	60.6 %	\$120.88	—	\$73.29	—
2009	1,189	434,065	14.7 %	268,677	17.1 %	61.9	104.85	(13.3) %	64.90	(11.5) %
2010	1,245	454,315	4.7	312,852	16.4	68.9	102.53	(2.2)	70.61	8.8
2011	1,263	460,995	1.5	332,503	6.3	72.1	105.48	2.9	76.08	7.8
2012	1,228	448,135	(2.8)	328,466	(1.2)	73.3	111.28	5.5	81.56	7.2
2013	1,231	449,315	0.3	355,706	8.3	79.2	112.82	1.4	89.32	9.5
2014	1,118	407,970	(9.2)	331,131	(6.9)	81.2	118.91	5.4	96.51	8.1
2015	1,262	460,725	12.9	356,578	7.7	77.4	121.53	2.2	94.06	(2.5)
2016	1,518	554,046	20.3	401,632	12.6	72.5	120.76	(0.6)	87.54	(6.9)
2017	1,616	589,854	6.5	471,651	17.4	80.0	121.03	0.2	96.78	10.5
Year-to-Date Through July										
2017	1,614	342,179	—	271,482	—	79.3 %	\$125.22	—	\$99.35	—
2018	1,623	344,076	0.6 %	293,504	8.1 %	85.3	130.83	4.5 %	111.60	12.3 %
Average Annual Compounded Change:										
2008 - 2011			6.8	13.2			(4.4)			1.3
2011 - 2017			4.2	6.0			2.3			4.1
Hotels Included in Sample			Class	Competitive Status	Number of Rooms	Year Affiliated	Year Opened	Comments		
Staybridge Suites Lake Buena Vista			Upscale Class	Primary	150	Oct 2003	Sep 1993			
Autograph Collection Bohemian Hotel Celebration			Upper Upscale Class	Secondary	115	Apr 2010	Nov 1999			
Springhill Suites Orlando Kissimmee			Upscale Class	Secondary	150	Feb 2015	Dec 2000			
Residence Inn Orlando Lake Buena Vista			Upscale Class	Primary	210	May 2001	May 2001			
Holiday Inn Express & Suites South Lake Buena Vista			Upper Midscale Class	Secondary	162	Nov 2017	Oct 2001	Previously Independent		
Hampton Inn Suites Orlando South Lake Buena Vista			Upper Midscale Class	Secondary	125	Feb 2008	Feb 2008			
Melia Orlando Hotel @ Celebration			Upscale Class	Secondary	285	Sep 2011	May 2008			
Homewood Suites Lake Buena Vista Orlando			Upscale Class	Primary	130	Jun 2009	Jun 2009			
Home2 Suites Orlando International Drive South			Upper Midscale Class	Primary	146	Jan 2016	Jan 2016			
Fairfield Inn & Suites Orlando Kissimmee Celebration			Upper Midscale Class	Secondary	150	Jun 2016	Jun 2016			
Total					1,623					
Source: STR										

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

FIGURE 1-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE

Property	Est. Segmentation			Estimated 2016				Estimated 2017					
	Number of Rooms	Leisure	Group	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Homewood Suites by Hilton Lake Buena Vista Orlando	130	80 %	20 %	130	90 - 95 %	\$120 - \$125	\$110 - \$115	130	95 - 100 %	\$120 - \$125	\$120 - \$125	110 - 120 %	110 - 120 %
Residence Inn by Marriott Orlando Lake Buena Vista	210	80	20	210	75 - 80	125 - 130	95 - 100	210	80 - 85	130 - 140	110 - 115	100 - 110	110 - 120
Staybridge Suites Orlando Lake Buena Vista	150	80	20	150	95 - 100	140 - 150	140 - 150	150	95 - 100	150 - 160	140 - 150	120 - 130	140 - 150
Sub-Totals/Averages	490	80 %	20 %	490	87.5 %	\$131.77	\$115.32	490	91.3 %	\$137.49	\$125.53	112.0 %	125.2 %
Secondary Competitors	1,126	87 %	13 %	681	65.1 %	\$111.93	\$72.88	748	75.1 %	\$111.45	\$83.69	92.1 %	83.5 %
Totals/Averages	1,616	84 %	16 %	1,171	74.5 %	\$121.68	\$90.63	1,238	81.5 %	\$122.99	\$100.25	100.0 %	100.0 %

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

FIGURE 1-3 SECONDARY COMPETITORS – OPERATING PERFORMANCE

Property	Est. Segmentation				Weighted Annual Room Count	Estimated 2016			Weighted Annual Room Count	Estimated 2017		
	Number of Rooms	Leisure	Group	Total Competitive Level		Occ.	Average Rate	RevPAR		Occ.	Average Rate	RevPAR
Home2 Suites by Hilton Orlando International Drive South	146	85 %	15 %	70 %	102	70 - 75 %	\$100 - \$105	\$70 - \$75	102	85 - 90 %	\$100 - \$105	\$90 - \$95
SpringHill Suites Orlando Kissimmee	150	85	15	70	105	65 - 70	95 - 100	65 - 70	105	70 - 75	100 - 105	75 - 80
Hampton Inn & Suites Orlando South Lake Buena Vista	125	90	10	70	88	75 - 80	100 - 105	75 - 80	88	80 - 85	105 - 110	85 - 90
Fairfield Inn & Suites Orlando Kissimmee Celebration	150	90	10	70	62	40 - 45	85 - 90	35 - 40	105	70 - 75	105 - 110	80 - 85
Holiday Inn Express & Suites South Lake Buena Vista	155	90	10	70	109	45 - 50	70 - 75	35 - 40	109	55 - 60	80 - 85	45 - 50
Melia Orlando at Celebration	285	85	15	60	148	65 - 70	130 - 140	85 - 90	171	70 - 75	110 - 115	80 - 85
Bohemian Hotel Celebration Autograph Collection	115	90	10	60	69	70 - 75	170 - 180	130 - 140	69	75 - 80	170 - 180	130 - 140
Totals/Averages	1,126	87 %	13 %	66 %	681	65.1 %	\$111.93	\$72.88	748	75.1 %	\$111.45	\$83.69

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

Summary of Forecast Occupancy and Average Rate

Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, we have chosen to use a stabilized occupancy level of 83.0% and a base-year rate position of \$140.00 for the proposed subject hotel. The following table reflects a summary of our market-wide and proposed subject hotel occupancy and average rate projections.

FIGURE 1-4 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

Area-wide Market (Calendar Year)				Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	81.5 %	—	\$122.99	—	—	\$140.00	113.8 %
2018	84.0	4.5 %	128.53	—	4.5 %	146.30	113.8
2019	84.9	4.0	133.67	—	4.0	152.15	113.8
2020	81.5	3.0	137.68	78.0 %	3.0	156.72	113.8
2021	80.4	3.0	141.81	81.0	3.0	161.42	113.8
2022	80.7	3.0	146.06	83.0	3.0	166.26	113.8
2023	80.7	3.0	150.45	83.0	3.0	171.25	113.8

The following table summarizes the proposed subject hotel's forecast, reflecting fiscal years and opening-year rate discounts as applicable.

FIGURE 1-5 FORECAST OF AVERAGE RATE

Year	Occupancy	Average Rate
2020/21	79 %	\$158.66
2021/22	82	163.42
2022/23	83	168.32

Summary of Forecast Income and Expense Statement

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

FIGURE 1-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2020/21 Begins June				2021/22				Stabilized				2023/24				2024/25			
Number of Rooms:	125				125				125				125				125			
Occupancy:	79%				82%				83%				83%				83%			
Average Rate:	\$153.90				\$161.79				\$168.32				\$173.37				\$178.57			
RevPAR:	\$121.58				\$132.67				\$139.71				\$143.90				\$148.22			
Days Open:	365				365				365				365				365			
Occupied Rooms:	36,044	%Gross	PAR	POR	37,413	%Gross	PAR	POR	37,869	%Gross	PAR	POR	37,869	%Gross	PAR	POR	37,869	%Gross	PAR	POR
OPERATING REVENUE																				
Rooms	\$5,547	98.0 %	\$44,376	\$153.90	\$6,053	98.1 %	\$48,424	\$161.79	\$6,374	98.1 %	\$50,992	\$168.32	\$6,565	98.1 %	\$52,520	\$173.36	\$6,762	98.1 %	\$54,096	\$178.56
Other Operated Departments	78	1.4	621	2.16	81	1.3	647	2.16	84	1.3	669	2.21	86	1.3	689	2.27	89	1.3	710	2.34
Miscellaneous Income	37	0.6	294	1.02	38	0.6	307	1.02	40	0.6	317	1.05	41	0.6	326	1.08	42	0.6	336	1.11
Total Operating Revenues	5,661	100.0	45,292	157.07	6,172	100.0	49,378	164.98	6,497	100.0	51,978	171.57	6,692	100.0	53,535	176.71	6,893	100.0	55,142	182.02
DEPARTMENTAL EXPENSES *																				
Rooms	1,363	24.6	10,904	37.82	1,425	23.5	11,397	38.08	1,474	23.1	11,796	38.94	1,519	23.1	12,150	40.10	1,564	23.1	12,514	41.31
Other Operated Departments	51	65.7	408	1.42	53	65.2	422	1.41	54	65.0	435	1.44	56	65.0	448	1.48	58	65.0	461	1.52
Total Expenses	1,414	25.0	11,312	39.23	1,477	23.9	11,819	39.49	1,529	23.5	12,231	40.37	1,575	23.5	12,597	41.58	1,622	23.5	12,975	42.83
DEPARTMENTAL INCOME	4,247	75.0	33,980	117.84	4,695	76.1	37,559	125.49	4,968	76.5	39,747	131.20	5,117	76.5	40,938	135.13	5,271	76.5	42,167	139.19
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	470	8.3	3,762	13.05	491	8.0	3,928	13.12	508	7.8	4,068	13.43	524	7.8	4,190	13.83	539	7.8	4,316	14.25
Info & Telecom Systems	81	1.4	645	2.24	84	1.4	673	2.25	87	1.3	697	2.30	90	1.3	718	2.37	92	1.3	740	2.44
Marketing	282	5.0	2,257	7.83	295	4.8	2,357	7.87	305	4.7	2,441	8.06	314	4.7	2,514	8.30	324	4.7	2,589	8.55
Franchise Fee	499	8.8	3,994	13.85	545	8.8	4,358	14.56	574	8.8	4,589	15.15	591	8.8	4,727	15.60	609	8.8	4,869	16.07
Prop. Operations & Maint.	181	3.2	1,451	5.03	215	3.5	1,717	5.74	262	4.0	2,092	6.91	269	4.0	2,155	7.11	277	4.0	2,219	7.33
Utilities	202	3.6	1,612	5.59	210	3.4	1,684	5.62	218	3.4	1,743	5.75	224	3.4	1,796	5.93	231	3.4	1,850	6.11
Total Expenses	1,715	30.3	13,721	47.59	1,840	29.9	14,717	49.17	1,954	30.0	15,631	51.60	2,012	30.0	16,099	53.14	2,073	30.0	16,582	54.74
GROSS HOUSE PROFIT	2,532	44.7	20,258	70.26	2,855	46.2	22,842	76.32	3,015	46.5	24,117	79.61	3,105	46.5	24,839	81.99	3,198	46.5	25,584	84.45
Management Fee	170	3.0	1,359	4.71	185	3.0	1,481	4.95	195	3.0	1,559	5.15	201	3.0	1,606	5.30	207	3.0	1,654	5.46
INCOME BEFORE NON-OPR. INC. & EXP.	2,362	41.7	18,900	65.54	2,670	43.2	21,360	71.37	2,820	43.5	22,557	74.46	2,904	43.5	23,232	76.69	2,991	43.5	23,930	78.99
NON-OPERATING INCOME & EXPENSE																				
Property Taxes	111	2.0	892	3.09	230	3.7	1,837	6.14	236	3.6	1,892	6.24	244	3.6	1,949	6.43	251	3.6	2,007	6.63
Insurance	110	1.9	876	3.04	113	1.8	903	3.02	116	1.8	930	3.07	120	1.8	958	3.16	123	1.8	986	3.26
Reserve for Replacement	113	2.0	906	3.14	185	3.0	1,481	4.95	260	4.0	2,079	6.86	268	4.0	2,141	7.07	276	4.0	2,206	7.28
Total Expenses	334	5.9	2,674	9.27	528	8.5	4,221	14.10	613	9.4	4,901	16.18	631	9.4	5,048	16.66	650	9.4	5,199	17.16
EBITDA LESS RESERVE	\$2,028	35.8 %	\$16,226	\$56.27	\$2,142	34.7 %	\$17,139	\$57.27	\$2,207	34.1 %	\$17,656	\$58.28	\$2,273	34.1 %	\$18,185	\$60.03	\$2,341	34.1 %	\$18,731	\$61.83

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

FIGURE 1-7 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2020/21		2021/22		2022/23		2023/24		2024/25		2025/26		2026/27		2027/28		2028/29		2029/30	
Number of Rooms:	125		125		125		125		125		125		125		125		125		125	
Occupied Rooms:	36,044		37,413		37,869		37,869		37,869		37,869		37,869		37,869		37,869		37,869	
Occupancy:	79%		82%		83%		83%		83%		83%		83%		83%		83%		83%	
Average Rate:	\$153.90	% of	\$161.79	% of	\$168.32	% of	\$173.37	% of	\$178.57	% of	\$183.93	% of	\$189.45	% of	\$195.13	% of	\$200.99	% of	\$207.02	% of
RevPAR:	\$121.58	Gross	\$132.67	Gross	\$139.71	Gross	\$143.90	Gross	\$148.22	Gross	\$152.66	Gross	\$157.24	Gross	\$161.96	Gross	\$166.82	Gross	\$171.82	Gross
OPERATING REVENUE																				
Rooms	\$5,547	98.0 %	\$6,053	98.1 %	\$6,374	98.1 %	\$6,565	98.1 %	\$6,762	98.1 %	\$6,965	98.1 %	\$7,174	98.1 %	\$7,389	98.1 %	\$7,611	98.1 %	\$7,839	98.1 %
Other Operated Departments	78	1.4	81	1.3	84	1.3	86	1.3	89	1.3	91	1.3	94	1.3	97	1.3	100	1.3	103	1.3
Miscellaneous Income	37	0.6	38	0.6	40	0.6	41	0.6	42	0.6	43	0.6	45	0.6	46	0.6	47	0.6	49	0.6
Total Operating Revenues	5,661	100.0	6,172	100.0	6,497	100.0	6,692	100.0	6,893	100.0	7,100	100.0	7,313	100.0	7,532	100.0	7,758	100.0	7,991	100.0
DEPARTMENTAL EXPENSES *																				
Rooms	1,363	24.6	1,425	23.5	1,474	23.1	1,519	23.1	1,564	23.1	1,611	23.1	1,660	23.1	1,709	23.1	1,761	23.1	1,813	23.1
Other Operated Departments	51	65.7	53	65.2	54	65.0	56	65.0	58	65.0	59	65.0	61	65.0	63	65.0	65	65.0	67	65.0
Total Expenses	1,414	25.0	1,477	23.9	1,529	23.5	1,575	23.5	1,622	23.5	1,671	23.5	1,721	23.5	1,772	23.5	1,825	23.5	1,880	23.5
DEPARTMENTAL INCOME	4,247	75.0	4,695	76.1	4,968	76.5	5,117	76.5	5,271	76.5	5,429	76.5	5,592	76.5	5,760	76.5	5,933	76.5	6,110	76.5
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	470	8.3	491	8.0	508	7.8	524	7.8	539	7.8	556	7.8	572	7.8	589	7.8	607	7.8	625	7.8
Info & Telecom Systems	81	1.4	84	1.4	87	1.3	90	1.3	92	1.3	95	1.3	98	1.3	101	1.3	104	1.3	107	1.3
Marketing	282	5.0	295	4.8	305	4.7	314	4.7	324	4.7	333	4.7	343	4.7	354	4.7	364	4.7	375	4.7
Franchise Fee	499	8.8	545	8.8	574	8.8	591	8.8	609	8.8	627	8.8	646	8.8	665	8.8	685	8.8	706	8.8
Prop. Operations & Maint.	181	3.2	215	3.5	262	4.0	269	4.0	277	4.0	286	4.0	294	4.0	303	4.0	312	4.0	322	4.0
Utilities	202	3.6	210	3.4	218	3.4	224	3.4	231	3.4	238	3.4	245	3.4	253	3.4	260	3.4	268	3.4
Total Expenses	1,715	30.3	1,840	29.8	1,954	30.1	2,012	30.1	2,073	30.1	2,135	30.1	2,199	30.1	2,265	30.1	2,333	30.1	2,403	30.1
GROSS HOUSE PROFIT	2,532	44.7	2,855	46.3	3,015	46.4	3,105	46.4	3,198	46.4	3,294	46.4	3,393	46.4	3,495	46.4	3,600	46.4	3,707	46.4
Management Fee	170	3.0	185	3.0	195	3.0	201	3.0	207	3.0	213	3.0	219	3.0	226	3.0	233	3.0	240	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	2,362	41.7	2,670	43.3	2,820	43.4	2,904	43.4	2,991	43.4	3,081	43.4	3,174	43.4	3,269	43.4	3,367	43.4	3,468	43.4
NON-OPERATING INCOME & EXPENSE																				
Property Taxes	111	2.0	230	3.7	236	3.6	244	3.6	251	3.6	258	3.6	266	3.6	274	3.6	282	3.6	291	3.6
Insurance	110	1.9	113	1.8	116	1.8	120	1.8	123	1.8	127	1.8	131	1.8	135	1.8	139	1.8	143	1.8
Reserve for Replacement	113	2.0	185	3.0	260	4.0	268	4.0	276	4.0	284	4.0	293	4.0	301	4.0	310	4.0	320	4.0
Total Expenses	334	5.9	528	8.5	613	9.4	631	9.4	650	9.4	669	9.4	689	9.4	710	9.4	731	9.4	753	9.4
EBITDA LESS RESERVE	\$2,028	35.8 %	\$2,142	34.8 %	\$2,207	34.0 %	\$2,273	34.0 %	\$2,341	34.0 %	\$2,412	34.0 %	\$2,484	34.0 %	\$2,558	34.0 %	\$2,635	34.0 %	\$2,714	34.0 %

Scope of Work

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

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels*,¹ *Hotels, Motels and Restaurants: Valuations and Market Studies*,² *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*,³ *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,⁴ and *Hotels and Motels – Valuations and Market Studies*.⁵

1. All information was collected and analyzed by the staff of HVS Consulting & Valuation. Information was supplied by the client and/or the property's development team.
2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
3. The subject property's proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.
4. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.

¹ Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

² Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

³ Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

⁴ Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

⁵ Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies*. (Chicago: Appraisal Institute, 2001).

6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.
7. Documentation for an occupancy and ADR projection is derived utilizing the build-up approach based on an analysis of lodging activity.
8. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the proposed subject property.

2. Description of the Site and Neighborhood

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

The subject site is located in the southwestern Orlando metropolitan area along Interstate 4 in western Celebration, to the west of the intersection formed by Celebration Boulevard and Waterside Drive. This site is in the city of Celebration, Florida.

Physical Characteristics

The subject site measures approximately 3.50 acres, or 152,460 square feet. The parcel's adjacent uses are set forth in the following table.

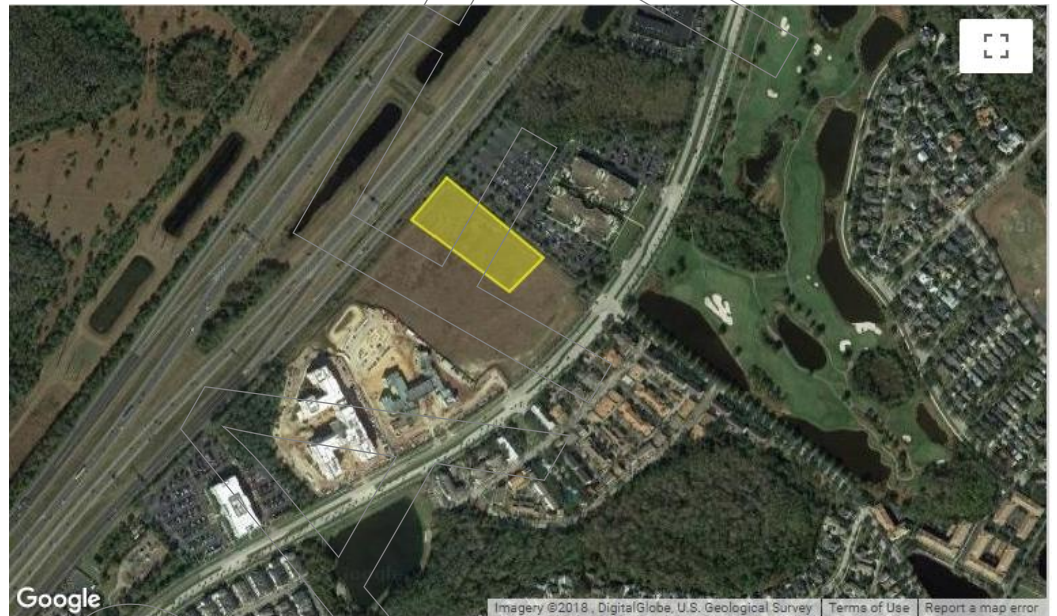
FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES

Direction	Boundary	Adjacent Use
Northeast	Property Line	Commercial Office Building, Parking
Southeast	Celebration Boulevard	Residences
Southwest	Property Line	Vacant Land
Northwest	Central Florida GreenWay (Toll road)	Interstate 4

VIEW OF SUBJECT SITE**Topography and
Site Utility**

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

AERIAL PHOTOGRAPH



VIEW FROM SITE TO THE NORTH



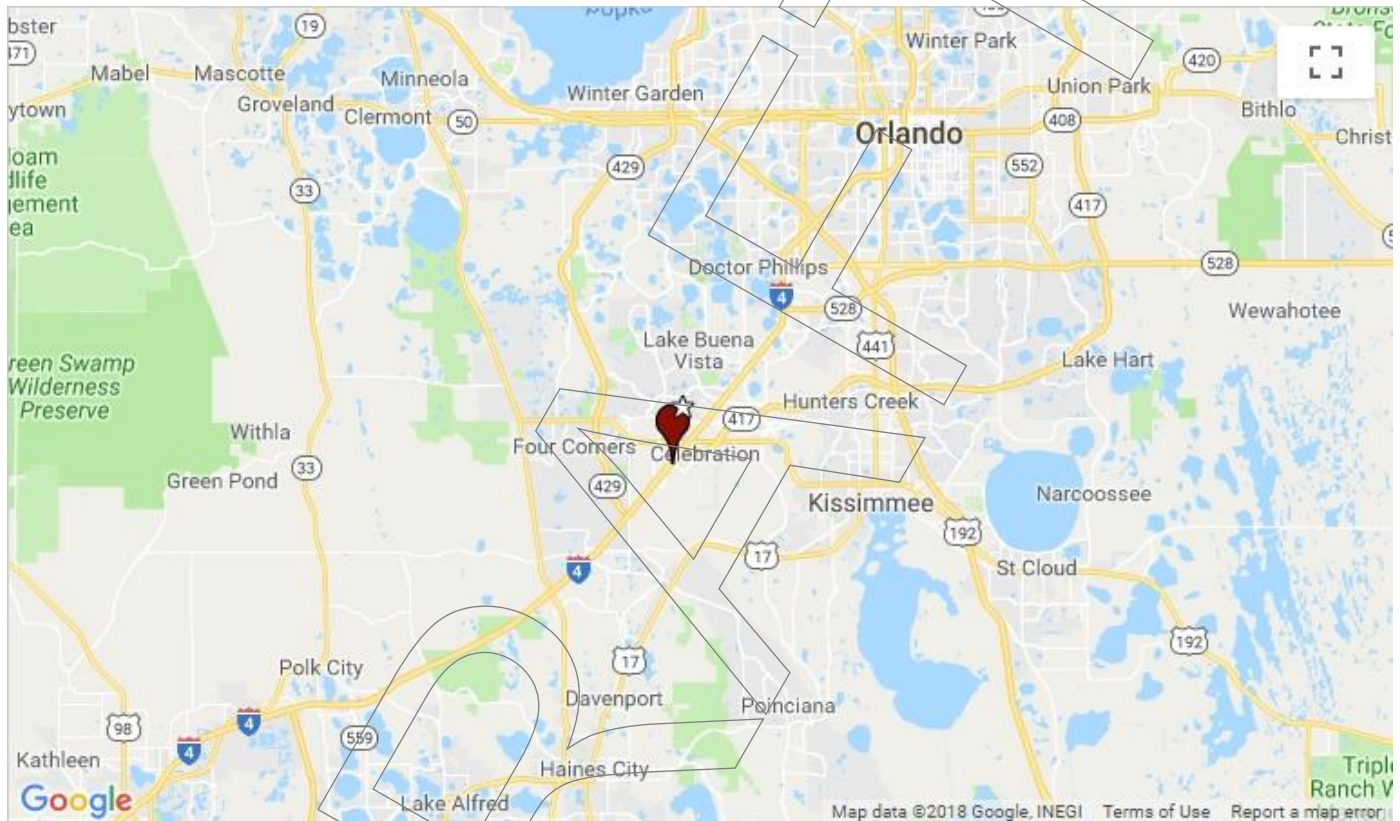
VIEW FROM SITE TO THE SOUTH



VIEW FROM SITE TO THE EAST**VIEW FROM SITE TO THE WEST****Access and Visibility**

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

MAP OF REGIONAL ACCESS ROUTES



Regional access to/from the city of Celebration and the subject site, in particular, is considered very good. The subject market is served by a variety of additional local highways, which are illustrated on the map.

Primary vehicular access to the subject site is provided by Celebration Boulevard. The subject site is located along a well-traveled local corridor and is relatively simple to locate from Interstate 4, which is the nearest major highway. The proposed subject hotel is anticipated to have adequate signage along Celebration Boulevard and visible signage from Interstate 4, as well as on its façade. Overall, the subject site benefits from very good accessibility, and the proposed hotel is expected to enjoy very good visibility from within its local neighborhood.

Airport Access

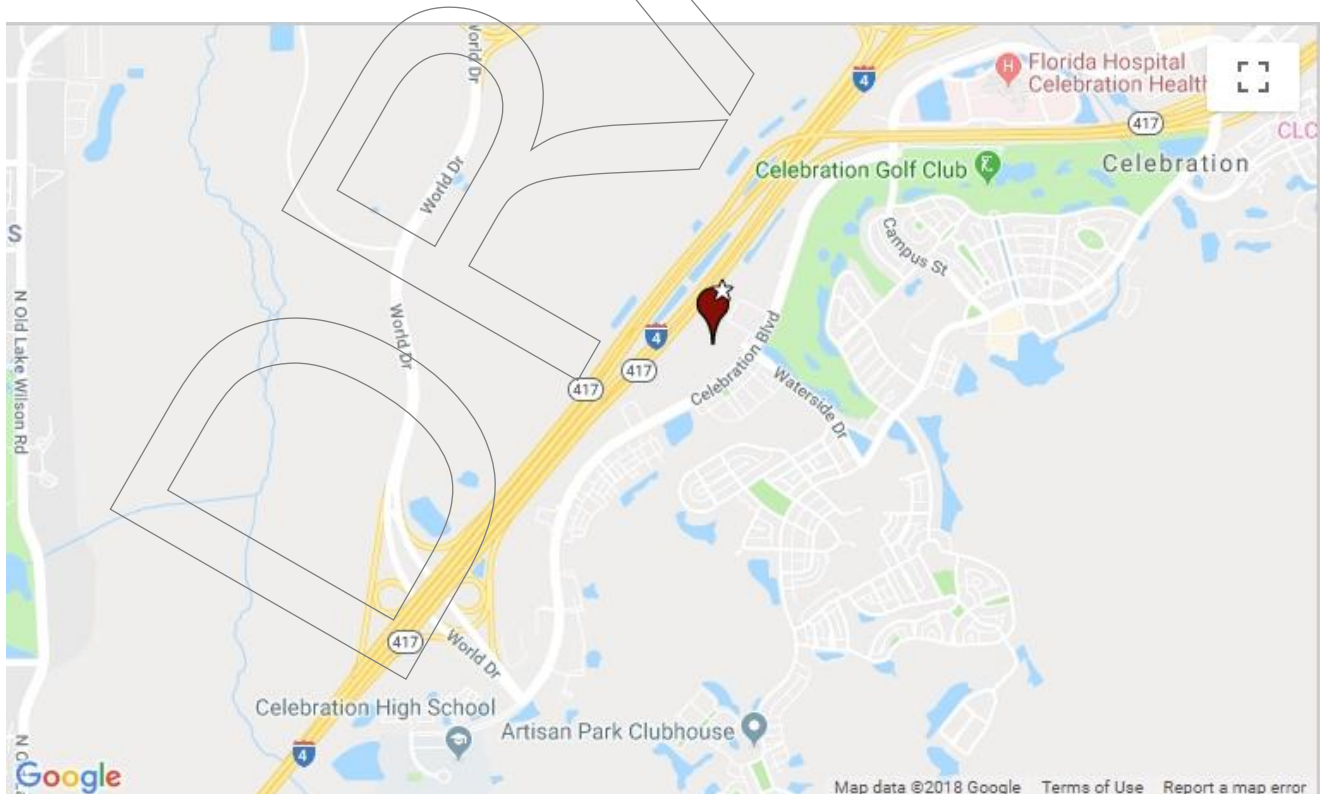
The proposed subject hotel will be served by the Orlando International Airport, which is located approximately 15 miles to the northeast of the subject site.

Neighborhood

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

The neighborhood surrounding the subject site can be generally described as the Celebration Boulevard corridor between World Drive to the south and Campus Street/Celebration Place to the north. The neighborhood is characterized by office buildings, a golf course, vacant land, and residences along Celebration Boulevard. Some specific businesses and entities in the area include Celebration Golf Club, Disney Vacation Club - Corporate Office, VillaDirect, Windsor at Celebration, and Channel Intelligence; no hotels or restaurants are located in the immediate neighborhood. However, a variety of restaurants and a hotel are located within the Celebration Town Center, less than one mile east of the neighborhood; additionally, Florida Hospital Celebration Health is located just north of the neighborhood.

MAP OF NEIGHBORHOOD



In general, this neighborhood is in the growth stage of its life cycle. Notable changes in this neighborhood include the ongoing and planned developments along Celebration Boulevard. In 2018, the Windsor at Celebration senior living rental community opened its doors. The development includes 151 one- and two-bedroom independent living residences, 55 one- and two-bedroom assisted living residences, and 33 memory care residences. Adjacent to the new Windsor at Celebration, construction is underway on the 120-bed Adventist Care Center, which is expected to offer both short- and long-term rehabilitation services for patients after they leave the hospital. A timeline on the opening of this new facility was not available as of late September 2018. Additional commercial developments, including a gas station and a McDonald's, were underway as of September 2018 at the intersection of World Drive and Celebration Boulevard. The proposed subject hotel's opening should be a positive influence on the area; the hotel will be in character with and will complement surrounding land uses.

Utilities

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

**Soil and
Subsoil Conditions**

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

**Nuisances
and Hazards**

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

Flood Zone

According to the Federal Emergency Management Agency, the subject site is located in flood zone X. The flood zone definition for the X designation is as follows: areas outside the 500-year flood plain; areas of the 500-year flood; areas of the 100-year flood with average depths of less than one foot or with drainage areas less than one square mile and areas protected by levees from the 100-year flood.

Zoning

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

FIGURE 2-2 ZONING

Municipality Governing Zoning	Osceola County
Current Zoning	Planned Development (PD)
Current Use	Vacant Commercial
Is Current Use Permitted?	Yes
Is Change in Zoning Likely?	No
Permitted Uses	Hotel/motel, office, medical office, residential
Hotel Allowed	Yes
Legally Non-Conforming	Not Applicable

Easements and Encroachments

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

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site is favorably located near the interstate, numerous leisure and group demand generators, and commercial demand sources in Celebration. In general, the site should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

3. Market Area Analysis

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

Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the city of Celebration, the county of Osceola, and the state of Florida. Celebration is part of the greater Orlando metropolitan area. In addition to being recognized as one of the nation's foremost vacation destinations, anchored by the formidable Walt Disney World Resort and Universal Orlando, Orlando is also the major center for commerce in the Central Florida region. Orlando's economic climate is characterized by tourism, healthcare services and research, financial services, and educational institutions.

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

MAP OF MARKET AREA



Economic and Demographic Review

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

These data are summarized in the following table.

FIGURE 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2016	2020	Average Annual Compounded Change		
					2000-10	2010-16	2016-20
Resident Population (Thousands)							
Osceola County	174.1	269.8	336.0	373.9	4.5 %	3.7 %	2.7 %
Orlando-Kissimmee-Sanford, FL MSA	1,656.9	2,139.5	2,441.3	2,631.9	2.6	2.2	1.9
Orlando-Deltona-Daytona Beach, FL CSA	2,206.1	2,824.5	3,202.9	3,439.3	2.5	2.1	1.8
State of Florida	16,047.5	18,849.1	20,612.4	21,857.9	1.6	1.5	1.5
United States	282,162.4	309,348.1	323,132.3	335,057.8	0.9	0.7	0.9
Per-Capita Personal Income*							
Osceola County	\$24,933	\$25,889	\$27,670	\$30,543	0.4	1.1	2.5
Orlando-Kissimmee-Sanford, FL MSA	33,516	32,690	36,257	38,846	(0.2)	1.7	1.7
Orlando-Deltona-Daytona Beach, FL CSA	32,124	32,601	36,040	38,587	0.1	1.7	1.7
State of Florida	35,780	37,998	41,478	44,531	0.6	1.5	1.8
United States	36,812	39,622	44,450	47,348	0.7	1.9	1.6
W&P Wealth Index							
Osceola County	70.4	67.2	62.8	64.6	(0.5)	(1.1)	0.7
Orlando-Kissimmee-Sanford, FL MSA	92.7	84.8	83.0	83.3	(0.9)	(0.4)	0.1
Orlando-Deltona-Daytona Beach, FL CSA	89.4	84.5	82.4	82.7	(0.6)	(0.4)	0.1
State of Florida	100.7	100.7	97.5	98.1	(0.0)	(0.5)	0.2
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Osceola County	\$363	\$412	\$615	\$700	1.3	6.9	3.3
Orlando-Kissimmee-Sanford, FL MSA	3,123	4,101	5,704	6,207	2.8	5.7	2.1
Orlando-Deltona-Daytona Beach, FL CSA	3,814	4,934	6,849	7,448	2.6	5.6	2.1
State of Florida	22,183	28,727	38,469	41,653	2.6	5.0	2.0
United States	368,829	447,728	582,294	615,384	2.0	4.5	1.4
Total Retail Sales (Millions)*							
Osceola County	\$2,331	\$3,138	\$4,288	\$4,929	3.0	5.3	3.5
Orlando-Kissimmee-Sanford, FL MSA	27,599	35,397	45,840	50,921	2.5	4.4	2.7
Orlando-Deltona-Daytona Beach, FL CSA	34,426	43,104	55,374	61,310	2.3	4.3	2.6
State of Florida	241,567	268,761	327,486	358,686	1.1	3.3	2.3
United States	3,902,830	4,130,414	4,880,293	5,227,450	0.6	2.8	1.7

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

Workforce Characteristics

The U.S. population has grown at an average annual compounded rate of 0.7% from 2010 through 2016. The county's population has increased at a quicker pace than the nation's population; the average annual growth rate of 3.7% between 2010 and 2016 reflects a rapidly expanding area. Following this population trend, per-capita personal income increased slowly, at 1.1% on average annually for the county between 2010 and 2016. Local wealth indexes have remained stable in recent years, registering a relatively low 62.8 level for the county in 2016.

Food and beverage sales totaled \$615 million in the county in 2016, versus \$412 million in 2010. This reflects a 6.9% average annual change, which is stronger than the 1.3% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 3.3%, which is forecast through 2020. The retail sales sector demonstrated an annual increase of 3.0% registered in the decade 2000 to 2010, followed by an increase of 5.3% in the period 2010 to 2016. An increase of 3.5% average annual change is expected in county retail sales through 2020.

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

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

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

Industry	Percent of Total		Percent of Total		Percent of Total		Percent of Total		Average Annual Compounded Change		
									2000- 2010	2010- 2016	2016- 2020
Farm	0.9	1.4 %	0.5	0.5 %	0.5	0.4 %	0.5	0.3 %	(5.8) %	(0.2) %	2.1 %
Forestry, Fishing, Related Activities And Other	0.6	0.9	0.6	0.6	0.6	0.5	0.7	0.5	1.0	0.5	2.7
Mining	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	14.9	8.3	0.3
Utilities	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	7.0	(4.0)	0.0
Construction	4.6	7.3	6.2	6.1	8.6	6.5	10.8	7.1	3.0	5.6	5.8
Manufacturing	1.5	2.3	1.5	1.5	1.9	1.4	2.0	1.3	0.3	3.3	1.4
Total Trade	10.7	16.8	16.0	15.8	20.9	15.7	24.7	16.2	4.1	4.5	4.3
Wholesale Trade	1.9	3.0	2.3	2.3	3.1	2.3	3.4	2.2	2.0	4.9	2.1
Retail Trade	8.8	13.8	13.7	13.5	17.8	13.4	21.4	14.0	4.5	4.4	4.7
Transportation And Warehousing	1.1	1.8	3.1	3.0	5.3	4.0	6.0	3.9	10.4	9.4	3.1
Information	0.4	0.7	0.9	0.9	0.9	0.7	0.9	0.6	7.0	0.5	0.3
Finance And Insurance	1.2	1.9	2.9	2.8	3.3	2.5	3.8	2.5	9.1	2.6	3.5
Real Estate And Rental And Lease	3.4	5.4	7.1	7.0	9.4	7.1	10.6	6.9	7.6	4.8	3.0
Total Services	30.7	48.2	50.4	49.7	68.0	51.2	78.2	51.2	5.1	5.1	3.6
Professional And Technical Services	1.7	2.7	3.6	3.5	4.9	3.7	5.4	3.5	7.5	5.4	2.5
Management Of Companies And Enterprises	0.7	1.2	0.2	0.2	0.2	0.2	0.3	0.2	(13.0)	3.7	2.8
Administrative And Waste Services	4.2	6.6	8.1	8.0	15.4	11.6	17.9	11.7	6.8	11.2	3.8
Educational Services	0.3	0.5	1.3	1.2	2.5	1.9	3.0	2.0	14.6	12.1	4.9
Health Care And Social Assistance	5.0	7.9	11.0	10.9	15.1	11.3	17.3	11.3	8.1	5.4	3.5
Arts, Entertainment, And Recreation	4.4	6.9	6.0	5.9	3.5	2.6	3.9	2.5	3.1	(8.5)	2.5
Accommodation And Food Services	10.5	16.5	13.9	13.7	17.4	13.1	20.3	13.3	2.8	3.8	4.1
Other Services, Except Public Administration	3.7	5.9	6.3	6.2	9.1	6.8	10.1	6.6	5.4	6.2	2.7
Total Government	8.5	13.4	12.1	12.0	13.3	10.0	14.4	9.4	3.6	1.5	2.0
Federal Civilian Government	0.3	0.5	0.4	0.4	0.4	0.3	0.4	0.3	1.1	1.5	0.8
Federal Military	0.4	0.6	0.5	0.5	0.6	0.5	0.6	0.4	3.9	1.9	0.1
State And Local Government	7.8	12.2	11.2	11.1	12.2	9.2	13.3	8.7	3.7	1.5	2.2
TOTAL	63.7	100.0 %	101.4	100.0 %	132.9	100.0 %	152.7	100.0 %	4.8 %	4.6 %	3.5 %
MSA	1,071.8	—	1,255.2	—	1,564.0	—	1,746.5	—	1.6 %	3.7 %	2.8 %
U.S.	165,372.0	—	173,034.7	—	193,668.4	—	208,570.0	—	1.0	1.9	1.9

Source: Woods & Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county grew at an average annual rate of 4.8%. This trend was above the growth rate recorded by the MSA and also outpaced the national average. More recently, the pace of total employment growth in the county slowed to 4.6% on an annual average from 2010 to 2016.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2016, increasing by 17,654 people, or 35.1%, and rising from 49.7% to 51.2% of total employment. Of the various service sub-sectors, Accommodation And Food Services and Administrative And Waste Services were the largest employers. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 3.5% on average annually through 2020. The trend is above the forecast rate of change for the U.S. as a whole during the same period.

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

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

Year	Total Employment	% Chg	Office Employment	% Chg	Industrial Employment	% Chg	Households	% Chg	Population	% Chg	Household Avg. Income	% Chg
2005	1,031,370	—	309,987	—	107,317	—	755,800	—	1,991,200	—	\$84,982	—
2006	1,069,470	3.7 %	326,054	5.2 %	109,657	2.2 %	775,310	2.6 %	2,041,030	2.5 %	89,331	5.1 %
2007	1,085,930	1.5	330,312	1.3	109,514	(0.1)	788,970	1.8	2,073,370	1.6	91,409	2.3
2008	1,039,930	(4.2)	319,473	(3.3)	100,894	(7.9)	795,690	0.9	2,099,920	1.3	88,579	(3.1)
2009	984,330	(5.3)	306,270	(4.1)	91,351	(9.5)	799,890	0.5	2,124,860	1.2	85,097	(3.9)
2010	997,270	1.3	305,493	(0.3)	91,202	(0.2)	804,350	0.6	2,155,910	1.5	90,400	6.2
2011	1,014,070	1.7	310,189	1.5	89,032	(2.4)	820,400	2.0	2,201,690	2.1	92,968	2.8
2012	1,043,800	2.9	319,952	3.1	90,097	1.2	837,980	2.1	2,249,820	2.2	96,316	3.6
2013	1,080,100	3.5	329,591	3.0	92,803	3.0	855,020	2.0	2,298,410	2.2	95,759	(0.6)
2014	1,123,330	4.0	338,894	2.8	97,063	4.6	872,370	2.0	2,359,170	2.6	101,904	6.4
2015	1,179,770	5.0	356,178	5.1	101,548	4.6	889,910	2.0	2,422,630	2.7	107,863	5.8
2016	1,227,170	4.0	372,474	4.6	104,275	2.7	910,230	2.3	2,482,590	2.5	109,251	1.3
2017	1,262,470	2.9	385,150	3.4	107,067	2.7	937,860	3.0	2,545,070	2.5	110,324	1.0
Forecasts												
2018	1,317,500	4.4 %	398,946	3.6 %	110,626	3.3 %	974,020	3.9 %	2,622,420	3.0 %	\$115,660	4.8 %
2019	1,355,810	2.9	409,771	2.7	112,309	1.5	1,011,530	3.9	2,700,480	3.0	121,784	5.3
2020	1,368,360	0.9	412,333	0.6	111,838	(0.4)	1,048,180	3.6	2,778,860	2.9	125,434	3.0
2021	1,384,200	1.2	416,800	1.1	111,603	(0.2)	1,085,330	3.5	2,858,630	2.9	129,872	3.5
2022	1,416,990	2.4	427,117	2.5	112,705	1.0	1,123,700	3.5	2,939,200	2.8	135,402	4.3
Average Annual Compound Change												
2005 - 2017		1.7 %		1.8 %		(0.0) %		1.8 %		2.1 %		2.2 %
2005 - 2007		2.6		3.2		1.0		2.2		2.0		3.7
2007 - 2010		(2.8)		(2.6)		(5.9)		0.6		1.3		(0.4)
2010 - 2017		3.4		3.4		2.3		2.2		2.4		5.1
Forecast 2018 - 2022		1.8 %		1.7 %		0.5 %		3.6 %		2.9 %		4.0 %

Source: REIS Report, 2nd Quarter, 2018

Radial Demographic Snapshot

For the Orlando market, of the roughly 1,300,000 persons employed, 31% are categorized as office employees, while 8% are categorized as industrial employees. Total employment decreased by an average annual compound rate of -2.8% during the recession of 2007 to 2012, followed by an increase of 3.4% from 2012 to 2017. By comparison, office employment reflected compound change rates of -2.6% and 3.4%, during the same respective periods. Total employment is expected to expand by 4.4% in 2018, while office employment is forecast to expand by 3.6% in 2018. From 2010 through 2017, REIS anticipates that total employment will expand at an average annual compound rate of 1.8%, while office employment will expand by 1.7% on average annually during the same period.

The number of households is forecast to expand by 3.6% on average annually between 2010 and 2017. Population is forecast to expand during this same period, at an average annual compounded rate of 2.9%. Household average income is forecast to grow by 4.0% on average annually from 2010 through 2017.

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

FIGURE 3-4 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2023 Projection	4,586	15,134	40,760
2018 Estimate	4,106	13,604	36,961
2010 Census	2,791	8,992	26,556
2000 Census	532	2,573	10,488
Percent Change: 2018 to 2023	11.7%	11.3%	10.3%
Percent Change: 2010 to 2018	47.1%	51.3%	39.2%
Percent Change: 2000 to 2010	424.6%	249.5%	153.2%
Households			
2023 Projection	1,687	5,650	14,200
2018 Estimate	1,529	5,127	12,860
2010 Census	1,072	3,468	9,171
2000 Census	188	947	4,102
Percent Change: 2018 to 2023	10.3%	10.2%	10.4%
Percent Change: 2010 to 2018	42.6%	47.8%	40.2%
Percent Change: 2000 to 2010	470.2%	266.2%	123.6%
Income			
2018 Est. Average Household Income	\$133,767	\$118,458	\$80,880
2018 Est. Median Household Income	91,423	79,863	55,808
2018 Est. Civ. Employed Pop 16+ by Occupation			
Architecture/Engineering	10	28	36
Arts/Design/Entertainment/Sports/Media	111	347	736
Building/Grounds Cleaning/Maintenance	22	126	929
Business/Financial Operations	158	509	916
Community/Social Services	0	8	105
Computer/Mathematical	99	332	530
Construction/Extraction	41	157	596
Education/Training/Library	143	442	780
Farming/Fishing/Forestry	0	2	67
Food Preparation/Serving Related	59	349	2,378
Healthcare Practitioner/Technician	85	253	527
Healthcare Support	34	151	384
Installation/Maintenance/Repair	77	262	591
Legal	38	103	113
Life/Physical/Social Science	0	7	39
Management	464	1,335	2,607
Office/Administrative Support	121	616	2,583
Production	42	184	596
Protective Services	31	133	606
Sales/Related	228	734	2,324
Personal Care/Service	176	580	1,251
Transportation/Material Moving	65	353	1,378

Source: Environics Analytics

Unemployment Statistics

This source reports a population of 36,961 within a five-mile radius of the subject site, and 12,860 households within this same radius. Average household income within a five-mile radius of the subject site is currently reported at \$80,880, while the median is \$55,808.

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

FIGURE 3-5 UNEMPLOYMENT STATISTICS

Year	City	MSA	State	U.S.
2008	5.8 %	6.1 %	6.3 %	5.8 %
2009	10.1	10.5	10.4	9.3
2010	10.4	11.1	11.1	9.6
2011	9.5	10.0	10.0	8.9
2012	8.0	8.4	8.5	8.1
2013	6.5	7.0	7.2	7.4
2014	5.5	6.0	6.3	6.2
2015	5.0	5.2	5.5	5.3
2016	4.1	4.5	4.8	4.9
2017	3.5	3.8	4.2	4.4
<i>Recent Month - Jun</i>				
2017	3.6 %	4.0 %	4.3 %	4.3 %
2018	3.2	3.5	3.9	4.0

Source: U.S. Bureau of Labor Statistics

Current U.S. unemployment levels are now firmly below the annual averages of the last economic cycle peak of 2006 and 2007, when annual averages were 4.6%. National unemployment registered 4.1% each month during the first quarter of 2018, as well as the last quarter of 2017, roughly six points below the October 2009 peak of 10.0%. In May, June, and July of 2018, the rate remained low at 3.8%, 4.0%, and 3.9%, respectively. Total nonfarm payroll employment increased by 268,000, 248,000, and 157,000 jobs in May, June, and July of 2018, respectively. Gains in July occurred in the professional and business services, manufacturing, and healthcare and social assistance sectors. Unemployment has remained under the 5.0% mark since May 2016, reflecting a trend of relative stability and the overall strength of the U.S. economy.

Major Business and Industry

Locally, the unemployment rate was 3.5% in 2017; for this same area in 2018, the most recent month's unemployment rate was registered at 3.2%, versus 3.6% for the same month in 2017. Unemployment rose in 2009 because of the national recession, which also affected this region in 2010, reaching double digits as the height of the recession took hold. However, unemployment declined in 2011, a trend that continued through 2017. The most recent comparative period illustrates further improvement, indicated by the lower unemployment rate in the latest available data for 2018. Local economic development officials noted that over the course of the economic recovery, Orlando has been a state leader in job creation, and this job growth has been fueled largely by the hospitality sector. Furthermore, local medical, research, and higher-education facilities continue to expand, and employment is strong within these sectors. Continued growth in the tourism industry and the biotechnology sector is anticipated to help stabilize employment levels. Our interviews with economic development officials reflect a positive outlook.

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

FIGURE 3-6 MAJOR EMPLOYERS

Rank	Firm	Number of Employees
1	Walt Disney World Resort	74,000
2	Universal Orlando Resort	21,000
3	Adventist Health System/Florida Hospital	20,413
4	Publix	19,783
5	Orlando Health	18,000
6	University of Central Florida	16,828
7	Lockheed Martin	11,833
8	Darden Restaurants, Inc.	7,000
9	SeaWorld Parks & Entertainment	6,149
10	Rosen Hotels & Resorts	6,032

Source: Orlando Economic Partnership, 2017

The greater Orlando area benefits from Orlando's popularity as a year-round tourism destination, anchored by the formidable Walt Disney World Resort, SeaWorld Orlando, and Universal Orlando Resort, which have historically contributed to the area's overall economic strength. According to Visit Orlando, over 72 million people visited Orlando in 2017. Walt Disney World Resort is one of

the world's preeminent vacation destinations. In 2016, Disney completed a multiyear transformation of Downtown Disney; the development was renamed Disney Springs. In 2017, Pandora - World of Avatar opened at Disney's Animal Kingdom and Toy Story Land opened in 2018. Furthermore, the Star Wars: Galaxy's Edge is planned to open in 2019. The ESPN Wide World of Sports Complex is a 230-acre athletic complex located in the Walt Disney World Resort that hosts a vast array of sporting events and tournaments throughout the year. According to Disney representatives, ESPN Wide World of Sports generates approximately 750,000 room-nights annually, of which, reportedly over 50% stay on Disney property. In 2018, a new 300,000-square-foot venue, named The Arena at ESPN Wide World of Sports Complex opened. Healthcare facilities also generate demand in this market. In 2018, Florida Hospital Celebration broke ground on a new \$88-million five-story patient tower, which is planned to be completed by 2020. Moreover, various business located in Celebration generate demand in this market.

Office Space Statistics

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

FIGURE 3-7 OFFICE SPACE STATISTICS – MARKET OVERVIEW

Submarket	Inventory		Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
	Buildings	Square Feet			
1 Winter Park	50	1,657,000	1,448,200	12.6 %	\$22.99
2 Kissimmee	17	663,000	598,000	9.8	21.93
3 Maitland	66	5,683,000	4,961,300	12.7	22.78
4 Northwest Orlando	32	1,290,000	1,110,700	13.9	19.89
5 South Orlando	96	5,965,000	4,933,100	17.3	23.25
6 East/University Central Florida	75	3,693,000	3,205,500	13.2	20.08
7 Altamonte/Casselberry	58	1,954,000	1,522,200	22.1	18.76
8 Sanford	69	4,836,000	4,279,900	11.5	23.63
9 Downtown	70	6,585,000	5,636,800	14.4	27.20
Totals and Averages	533	32,326,000	27,695,700	14.3 %	\$23.22

Source: REIS Report, 2nd Quarter, 2018

The greater Orlando market comprises a total of 32.3 million square feet of office space. For the 2nd Quarter of 2018, the market reported a vacancy rate of 14.3% and an average asking rent of \$23.22. The subject property is located in the Kissimmee submarket, which houses 663,000 square feet of office space. The submarket's vacancy rate of 9.8% is below the overall market average. The average asking lease rate of \$21.93 is below the average for the broader market.

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

FIGURE 3-8 HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET VS. SUBMARKET

Year	Orlando Market							Kissimmee Submarket						
	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2005	31,145,000	—	27,395,000	—	12.0 %	\$19.91	—	541,000	—	457,000	—	15.6 %	\$18.44	—
2006	31,759,000	2.0 %	28,796,000	5.1 %	9.3	20.81	4.5 %	541,000	0.0 %	506,000	10.7 %	6.5	19.70	6.8 %
2007	32,229,000	1.5	28,703,000	(0.3)	10.9	21.79	4.7	562,000	3.9	524,000	3.6	6.7	21.04	6.8
2008	32,519,000	0.9	28,410,000	(1.0)	12.6	21.81	0.1	562,000	0.0	505,000	(3.6)	10.1	20.49	(2.6)
2009	32,315,000	(0.6)	27,065,000	(4.7)	16.2	21.18	(2.9)	663,000	18.0	586,000	16.0	11.6	19.17	(6.4)
2010	32,205,000	(0.3)	26,557,000	(1.9)	17.5	21.06	(0.6)	663,000	0.0	560,000	(4.4)	15.5	19.47	1.6
2011	32,514,000	1.0	26,481,000	(0.3)	18.6	21.06	0.0	663,000	0.0	561,000	0.2	15.4	19.73	1.3
2012	32,661,000	0.5	26,647,000	0.6	18.4	21.22	0.8	663,000	0.0	546,000	(2.7)	17.6	19.88	0.8
2013	32,747,000	0.3	26,825,000	0.7	18.1	21.44	1.0	663,000	0.0	557,000	2.0	16.0	20.18	1.5
2014	32,767,000	0.1	27,177,000	1.3	17.1	21.77	1.5	663,000	0.0	563,000	1.1	15.1	20.79	3.0
2015	32,393,000	(1.1)	27,250,000	0.3	15.9	22.18	1.9	663,000	0.0	557,000	(1.1)	16.0	20.78	(0.0)
2016	32,202,000	(0.6)	27,451,000	0.7	14.8	22.62	2.0	663,000	0.0	568,000	2.0	14.3	21.22	2.1
2017	32,192,000	(0.0)	27,564,000	0.4	14.4	23.01	1.7	663,000	0.0	576,000	1.4	13.1	21.73	2.4
Forecasts														
2018	32,693,000	1.6 %	27,939,000	1.4 %	14.5 %	\$23.40	1.7 %	663,000	0.0 %	591,000	2.6 %	10.8 %	\$22.06	1.5 %
2019	32,743,000	0.2	27,883,000	(0.2)	14.8	23.79	1.7	663,000	0.0	584,000	(1.2)	12.0	22.33	1.2
2020	32,918,000	0.5	27,932,000	0.2	15.1	24.19	1.7	663,000	0.0	570,000	(2.4)	14.1	22.54	0.9
2021	33,150,000	0.7	28,136,000	0.7	15.1	24.66	1.9	663,000	0.0	560,000	(1.8)	15.6	22.76	1.0
2022	33,411,000	0.8	28,346,000	0.7	15.2	25.16	2.0	663,000	0.0	542,000	(3.2)	18.2	22.93	0.7
Average Annual Compound Change														
2005 - 2017		0.3 %		0.1 %			1.2 %		1.7 %		1.9 %			1.4 %
2005 - 2007		1.7		2.4			4.6		1.9		7.1			6.8
2007 - 2010		(0.0)		(2.6)			(1.1)		5.7		2.2			(2.6)
2010 - 2017		(0.0)		0.5			1.3		0.0		0.4			1.6
Forecast 2018 - 2022		0.5 %		0.3 %			1.8 %		(0.0) %		(2.1) %			1.0 %

Source: REIS Report, 2nd Quarter, 2018

The inventory of office space in the Orlando market increased at an average annual compound rate of 0.3% from 2005 through 2017, while occupied office space remained relatively stable at an average annual rate of 0.1% over the same period. During the period of 2005 through 2009, occupied office space expanded at an average annual compound rate of 2.4%. From 2009 through 2012, occupied office space contracted at an average annual compound rate of -2.6%, reflecting the impact of the recession. The onset of the recovery is evident in the 0.5% average annual change in occupied office space from 2012 to 2017. From 2017 through 2022, the inventory of occupied office space is forecast to increase at an average annual compound rate of 0.3%, with available office space expected to increase 0.5%, thus resulting in an anticipated vacancy rate of 15.2% as of 2022.

Convention Activity

A convention center serves as a gauge of visitation trends to a particular market. Convention centers also generate significant levels of demand for area hotels and serve as a focal point for community activity. Typically, hotels within the closest proximity to a convention center—up to three miles away—will benefit the most. Hotels serving as headquarters for an event benefit the most by way of premium rates and hosting related banquet events. During the largest of conventions, peripheral hotels may benefit from compression within the city as a whole.

The following table illustrates recent use statistics for this facility.

FIGURE 3-9 CONVENTION CENTER STATISTICS

Year	Number of Conventions	Percent Change	Number of Delegates	Percent Change
2010	201	—	1,178,408	—
2011	179	(10.9) %	1,214,434	3.1 %
2012	181	1.1	1,319,829	8.7
2013	194	7.2	1,244,229	(5.7)
2014	188	(3.1)	1,350,545	8.5
2015	192	2.1	1,372,827	1.6
2016	226	17.7	1,456,816	6.1
2017	194	(14.2)	1,531,703	5.1

Source: Orange County Convention Center

The Orange County Convention Center (OCCC) is a vital component of the economic health of Orlando's hotel market and provides an average annual economic impact of \$2.1 billion to the Central Florida economy. This center is the second largest in contiguous space in the United States, with over 2.5 million gross

square feet. Positioned eleven miles southwest of Downtown Orlando, the center is located on International Drive, just northeast of the intersection formed by Interstate 4 and State Highway 528. The OCCC comprises two separate facilities, the west building and the north/south building. Features of the OCCC include 2.1 million square feet of exhibit space, 74 meeting rooms, 235 breakout rooms, a 2,643-seat theatre, 4 business centers, 3 full-service restaurants, and 8 food courts. In 2013, the OCCC undertook a five-year renovation project at a total cost of approximately \$187 million. At the end of 2015, the Tangerine Ballroom was completed, and new digital signage was added to the Westwood lobby. Renovations to the Valencia Ballroom and Destination Lounge were completed in 2016. A pedestrian bridge connecting the convention center to the adjacent Hyatt Regency was completed in the summer of 2017; additionally, exterior upgrades to the site and structure were performed in 2017. In June 2017, the OCCC executive team proposed several campus updates, including an enclosed Grand Concourse that would connect the North and South Concourses, as well as a 200,000-square-foot multi-purpose venue.

According to the Convention and Visitors Bureau, statistics fluctuated late last decade because of the effects of the recession. Convention activity began to rebound in 2010, with an increase in the number of attendees, although the number of events continued to decline that year. According to representatives of the OCCC, activity in 2011 and 2012 was positively influenced by the return of the International Builders' Show and by the National Plastics Expo, which was held in Orlando in 2011 and 2012. The Convention and Visitors Bureau reported that the number of citywide events and overall attendance fluctuated in 2013 and 2014 as larger trade shows rotated out of the center to other destinations. In 2014, the International Association of Amusement Parks & Attractions (estimated 25,000 attendees) announced a six-year extension of its current agreement with the OCCC, extending its Attractions Expo through 2025. Additionally, the Society for Human Resource Management Annual Conference (estimated 15,000 attendees) returned in 2014, while National Plastics Expo (estimated 60,000 attendees) and the tile-and-stone trade show Coverings (estimated 30,000 attendees) returned in 2015. Furthermore, the International Builders' Show, which returned to Orlando in January 2017, is scheduled to repeat in 2018, 2021, and 2022. In the 2016/17 fiscal year, the convention center reported a total economic impact of \$2.4 billion.

Airport Traffic

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

Orlando International Airport (MCO) is located approximately six miles southeast of Downtown Orlando. Many major airlines service MCO, and the modern terminal facility offers a convenient passenger transportation system linking the concourse gates to the multilevel terminal. Orlando International Airport offers a variety of retail outlets and services, including numerous restaurants and bars. In January 2015, a \$1.1-billion expansion/modernization project commenced at the airport. Initial changes will include the expansion of the automated people mover, a \$215-million intermodal transportation hub, upgraded ticket lobbies, and a \$114-million expansion and refurbishment of Airside 4. Construction on the initial improvements is scheduled for completion by 2018. Future plans call for the addition of up to 120 domestic and international gates at the South Terminal, a 1,000-room hotel, and over 750,000 square feet of additional retail space.

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

FIGURE 3-10 AIRPORT STATISTICS - ORLANDO INTERNATIONAL AIRPORT

Year	Passenger Traffic	Percent Change*	Percent Change**
2008	35,661,269	—	—
2009	33,693,649	(5.5) %	(5.5) %
2010	34,877,899	3.5	(1.1)
2011	35,426,006	1.6	(0.2)
2012	35,273,036	(0.4)	(0.3)
2013	34,768,945	(1.4)	(0.5)
2014	35,714,091	2.7	0.0
2015	38,809,337	8.7	1.2
2016	41,923,399	8.0	2.0
2017	44,611,265	6.4	2.5
<i>Year-to-date, Jul</i>			
2017	26,765,187	—	—
2018	28,405,207	6.1 %	—

*Annual average compounded percentage change from the previous year

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

Source: Orlando International Airport

This facility recorded 44,611,265 passengers in 2017. The change in passenger traffic between 2016 and 2017 was 6.4%. The average annual change during the

period shown was 2.5%. The number of passengers traveling through Orlando International Airport surpassed Miami International Airport passenger data in 2017 for the first time. The growth is largely attributable to the addition of new routes (on various air carriers) including Havana, Cuba; Dusseldorf, Germany; Niagara Falls, New York; and Oklahoma City, Oklahoma. As one of the most visited cities in the world, Orlando boasts an ever-expanding route network. New routes and additional flights by many of the major airlines contributed to the growth in 2015, 2016, and 2017. Most recently, nonstop flights to/from Paris, Rio de Janeiro, and Santiago were introduced during the summer of 2017, while service to/from Haiti and Switzerland was added in late 2017. Data for 2018 reflect a continuation of this positive trend, as passenger traffic through May 2018 increased by over one million passengers when compared to the same period in 2017. In July 2018, the airport welcomed 4,000 more travelers per day when compared to the same period of last year.

Tourist Attractions

As previously noted, the subject market benefits from a variety of tourism and leisure attractions in the area. Leisure demand generators include Walt Disney World Resort, Universal Orlando Resort, and SeaWorld Orlando. In addition, shopping venues such as Disney Springs, Pointe Orlando, Florida Mall, and Orlando International Premium Outlets attract international tourists who visit Orlando to enjoy the warmer climate and shop. Special events also play a role during key weekends, such as the annual Halloween Horror Nights and Epcot International Food & Wine Festival. Ongoing and planned expansions are anticipated to result in continued growth in visitation levels over the next few years.

Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. Greater Orlando is experiencing a period of economic strength and expansion, primarily led by the entertainment industry and the healthcare sector. The significant presence and continued growth of Walt Disney World and Universal Studios continues to bolster the economy and lodging demand in the market; furthermore, with the increasing diversity of Orlando's economy, the city is anticipated to remain a top destination for both business and leisure travel. The Orange County Convention Center, the second largest convention facility in America, continues to break attendance records and undergo expansions and upgrades to remain a premier option for meeting and event planners around the world. Ongoing expansions of healthcare facilities and new healthcare-focused developments in the market should bode well for the market moving forward. The outlook for the market area is positive.

4. Supply and Demand Analysis

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

Orlando, FL Lodging Market

According to STR Global, as of December 31, 2017, the greater Orlando, FL area had 498 hotels with a total of 124,879 guestrooms. These totals represent a 0.8% change over the 2016 year-end inventory of 123,878 guestrooms. The following table presents the historical occupancy, average rate, and RevPAR data for the Orlando metropolitan area for the years 2000 through 2017, as well as for the comparative year-to-date period ending in August 2017 and 2018.

FIGURE 4-1 ORLANDO LODGING MARKET DATA – 2000 TO YTD AUGUST 2018

Year	Occupancy	Percent Change	Average Rate	Percent Change	RevPAR	Percent Change
2000	72.1 %	—	\$86.07	—	\$62.06	—
2001	64.0	(11.2) %	88.14	2.4 %	56.41	(9.1) %
2002	62.6	(2.2)	86.16	(2.2)	53.94	(4.4)
2003	62.7	0.2	84.94	(1.4)	53.26	(1.3)
2004	70.7	12.8	87.78	3.3	62.06	16.5
2005	70.7	0.0	91.91	4.7	64.98	4.7
2006	67.7	(4.2)	100.52	9.4	68.05	4.7
2007	67.9	0.3	105.82	5.3	71.85	5.6
2008	65.9	(2.9)	106.11	0.3	69.93	(2.7)
2009	60.7	(7.9)	92.91	(12.4)	56.40	(19.3)
2010	63.2	4.1	91.95	(1.0)	58.11	3.0
2011	67.6	7.0	93.94	2.2	63.50	9.3
2012	68.8	1.8	96.88	3.1	66.65	5.0
2013	71.0	3.2	101.53	4.8	72.09	8.2
2014	73.7	3.8	108.03	6.4	79.62	10.4
2015	76.7	4.1	112.05	3.7	85.94	7.9
2016	75.6	(1.4)	115.93	3.5	87.64	2.0
2017	79.3	4.9	121.53	4.8	96.37	10.0
<u>Year to date through August</u>						
2017	79.7 %		\$122.36		\$97.52	
2018	80.3	0.8 %	129.53	5.9 %	104.01	6.7 %
Average Annual Compound Growth						
2000 to 2017		0.6 %		2.1 %		2.6 %

Source: STR Global, STR Monthly Hotel Review

World-class theme parks, local employers, and the convention center represent the primary sources of demand in the greater Orlando market. Occupancy spiked in 2004 because of the active hurricane season that year and the related demand increase from recovery personnel. Demand levels remained relatively stable in 2005 and then decreased in 2006, as the temporary demand dissipated. Average rate (ADR) in the local market increased from 2004 through 2007 given the strength of the economy during that time, with little rate-resistance from leisure travelers. In 2007, occupancy remained relatively stable, but declined again in 2008 with the onset of the Great Recession. In 2009, with the recession in full swing, both occupancy and ADR dropped; ADR also declined in 2010 along with the nationwide contraction of destination travel and lower levels of discretionary

spending. Occupancy began to recover in 2010, and ADR increased in 2011, largely due to the opening of new attractions at the local theme parks. In line with the broader economic recovery, ADR in 2013 exceeded its previous peak, and occupancy in 2014 rebounded above the strong 2004 and 2005 levels. Both metrics increased in 2015. Although supply has steadily increased since 2012, the Orlando market sustained strong RevPAR growth from 2011 through 2015. Data for 2016 illustrate increases in ADR and RevPAR, although occupancy declined modestly. In 2017, both occupancy and ADR grew significantly, with RevPAR increasing 10% over 2016, as Orlando became the first city in the U.S. to welcome 72 million visitors. For the first half of 2018, record highs were established in room-night demand, ADR, and RevPAR. After 102 consecutive months of RevPAR growth, market participants report that future RevPAR increases will be in the form of modest ADR gains through aggressive yield-management strategies amid steady growth in room-night demand levels, coupled with a minimal amount of new supply entering the market. Forecasted economic growth throughout the MSA, ongoing expansions at Orlando International Airport, and developments at area resorts and attractions should support future demand growth.

Definition of Subject Hotel Market

The subject site is located in the greater Orlando lodging market. Within this greater market, the proposed subject hotel will compete with a smaller set of hotels based on various factors, such as proximity, extended-stay product offering, price point, and shared demand sources.

Historical Supply and Demand Data

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

FIGURE 4-2 HISTORICAL SUPPLY AND DEMAND TRENDS

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2008	1,037	378,370	—	229,404	—	60.6 %	\$120.88	—	\$73.29	—
2009	1,189	434,065	14.7 %	268,677	17.1 %	61.9	104.85	(13.3) %	64.90	(11.5) %
2010	1,245	454,315	4.7	312,852	16.4	68.9	102.53	(2.2)	70.61	8.8
2011	1,263	460,995	1.5	332,503	6.3	72.1	105.48	2.9	76.08	7.8
2012	1,228	448,135	(2.8)	328,466	(1.2)	73.3	111.28	5.5	81.56	7.2
2013	1,231	449,315	0.3	355,706	8.3	79.2	112.82	1.4	89.32	9.5
2014	1,118	407,970	(9.2)	331,131	(6.9)	81.2	118.91	5.4	96.51	8.1
2015	1,262	460,725	12.9	356,578	7.7	77.4	121.53	2.2	94.06	(2.5)
2016	1,518	554,046	20.3	401,632	12.6	72.5	120.76	(0.6)	87.54	(6.9)
2017	1,616	589,854	6.5	471,651	17.4	80.0	121.03	0.2	96.78	10.5
Year-to-Date Through July										
2017	1,614	342,179	—	271,482	—	79.3 %	\$125.22	—	\$99.35	—
2018	1,623	344,076	0.6 %	293,504	8.1 %	85.3	130.83	4.5 %	111.60	12.3 %

Average Annual Compounded Change:

2008 - 2011

2011 - 2017

6.8

4.2

13.2

6.0

(4.4)

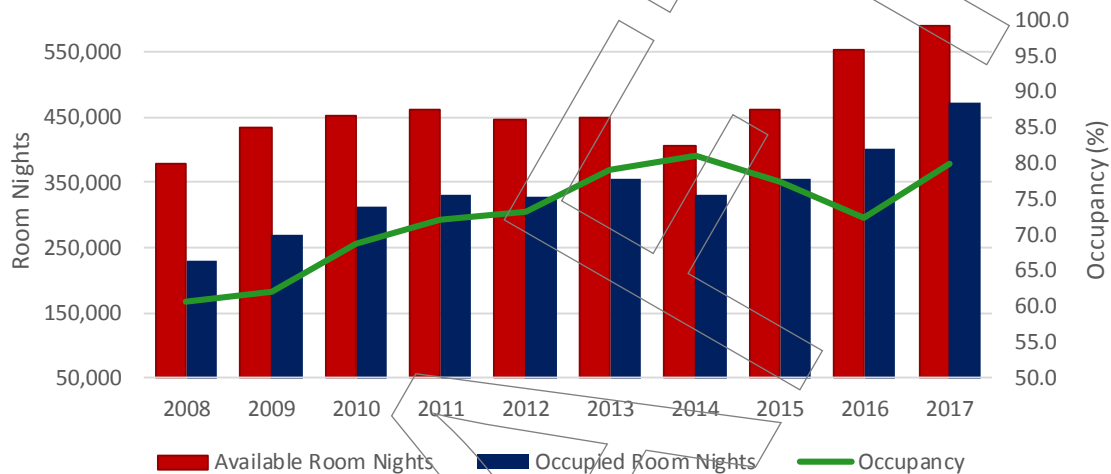
2.3

1.3

4.1

Hotels Included in Sample	Class	Competitive Status	Number of Rooms	Year Affiliated	Year Opened	Comments
Staybridge Suites Lake Buena Vista	Upscale Class	Primary	150	Oct 2003	Sep 1993	
Autograph Collection Bohemian Hotel Celebration	Upper Upscale Class	Secondary	115	Apr 2010	Nov 1999	
Springhill Suites Orlando Kissimmee	Upscale Class	Secondary	150	Feb 2015	Dec 2000	
Residence Inn Orlando Lake Buena Vista	Upscale Class	Primary	210	May 2001	May 2001	
Holiday Inn Express & Suites South Lake Buena Vista	Upper Midscale Class	Secondary	162	Nov 2017	Oct 2001	Previously Independent
Hampton Inn Suites Orlando South Lake Buena Vista	Upper Midscale Class	Secondary	125	Feb 2008	Feb 2008	
Melia Orlando Hotel @ Celebration	Upscale Class	Secondary	285	Sep 2011	May 2008	
Homewood Suites Lake Buena Vista Orlando	Upscale Class	Primary	130	Jun 2009	Jun 2009	
Home2 Suites Orlando International Drive South	Upper Midscale Class	Primary	146	Jan 2016	Jan 2016	
Fairfield Inn & Suites Orlando Kissimmee Celebration	Upper Midscale Class	Secondary	150	Jun 2016	Jun 2016	
Total			1,623			

Source: STR

FIGURE 4-3 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)

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

The STR data for the competitive set reflect a market-wide occupancy level of 2017 in 80.0%, which compares to 72.5% for 2016. The overall average occupancy level for the calendar years presented equates to 77.2%. The STR data for the competitive set reflect a market-wide ADR level of \$121.03 in 2017, which compares to \$120.76 For 2016. The average across all calendar years presented for ADR equates to \$118.02. These occupancy and average rate trends resulted in a RevPAR level of \$96.78 in 2017.

After peaking at just over \$73 in 2008, RevPAR declined significantly the following year given a roughly \$15 decline in average rate as local operators sought to maintain occupancy levels in the midst of the national recession. A rapid recovery began in 2010, and in 2011, the prior RevPAR peak was exceeded. RevPAR continued to rise through 2014, with growth driven by demand increases and average rate growth. In 2014, supply dipped given the temporary closure and rebranding of the SpringHill Suites by Marriott, which was previously an

independent hotel. Market RevPAR declined in 2015 and 2016 given increased supply, which led to an occupancy decline; however, average rate remained relatively stable as new supply was absorbed by the market. Year-end 2017 data reflect increases across all three metrics as strong demand throughout the year led to a roughly 10% increase in RevPAR. Year-to-date 2018 data illustrate continued strengthening in occupancy and a roughly \$5.50 gain in average rate. RevPAR reached its high point in the spring of 2018. General stability in supply, stabilization of the newer hotels in the market, and the overall strong economy have contributed to the latest trend. The near-term outlook is positive due to the overall healthy economy and expansions and investments at the area's major demand generators. Market participants expect future growth to be primarily tied to average rate increases because of aggressive yield-management amid steady growth in demand; RevPAR is expected to pass the \$100 mark.

SUPPLY

The following tables summarize the important operating characteristics of the future primary and secondary competitors. This information was compiled from personal interviews, inspections, online resources, and our in-house database of operating and hotel facility data.

FIGURE 4-4 COMPETITORS – OPERATING PERFORMANCE

Property	Est. Segmentation			Estimated 2016				Estimated 2017					
	Number of Rooms	Leisure	Group	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Homewood Suites by Hilton Lake Buena Vista Orlando	130	80 %	20 %	130	90 - 95 %	\$120 - \$125	\$110 - \$115	130	95 - 100 %	\$120 - \$125	\$120 - \$125	110 - 120 %	110 - 120 %
Residence Inn by Marriott Orlando Lake Buena Vista	210	80	20	210	75 - 80	125 - 130	95 - 100	210	80 - 85	130 - 140	110 - 115	100 - 110	110 - 120
Staybridge Suites Orlando Lake Buena Vista	150	80	20	150	95 - 100	140 - 150	140 - 150	150	95 - 100	150 - 160	140 - 150	120 - 130	140 - 150
Sub-Totals/Averages	490	80 %	20 %	490	87.5 %	\$131.77	\$115.32	490	91.3 %	\$137.49	\$125.53	112.0 %	125.2 %
Secondary Competitors	1,126	87 %	13 %	681	65.1 %	\$111.93	\$72.88	748	75.1 %	\$111.45	\$83.69	92.1 %	83.5 %
Totals/Averages	1,616	84 %	16 %	1,171	74.5 %	\$121.68	\$90.63	1,238	81.5 %	\$122.99	\$100.25	100.0 %	100.0 %

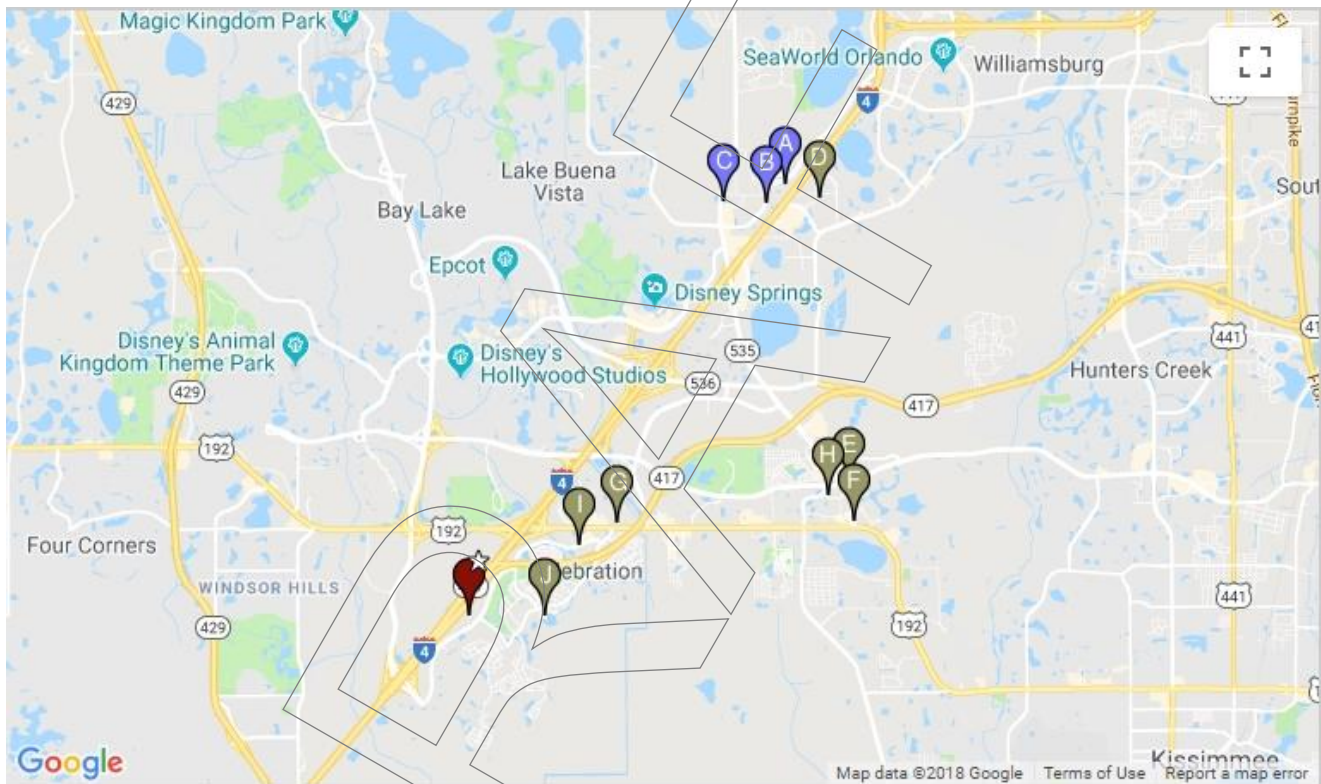
* Specific occupancy and average rate data were utilized in our analysis, but are presented in ranges in the above table for the purposes of confidentiality.

FIGURE 4-5 SECONDARY COMPETITORS – OPERATING PERFORMANCE

Property	Est. Segmentation				Estimated 2016				Estimated 2017			
	Number of Rooms	Leisure	Group	Total Competitive Level	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Home2 Suites by Hilton Orlando International Drive South	146	85 %	15 %	70 %	102	70 - 75 %	\$100 - \$105	\$70 - \$75	102	85 - 90 %	\$100 - \$105	\$90 - \$95
SpringHill Suites Orlando Kissimmee	150	85	15	70	105	65 - 70	95 - 100	65 - 70	105	70 - 75	100 - 105	75 - 80
Hampton Inn & Suites Orlando South Lake Buena Vista	125	90	10	70	88	75 - 80	100 - 105	75 - 80	88	80 - 85	105 - 110	85 - 90
Fairfield Inn & Suites Orlando Kissimmee Celebration	150	90	10	70	62	40 - 45	85 - 90	35 - 40	105	70 - 75	105 - 110	80 - 85
Holiday Inn Express & Suites South Lake Buena Vista	155	90	10	70	109	45 - 50	70 - 75	35 - 40	109	55 - 60	80 - 85	45 - 50
Melia Orlando at Celebration	285	85	15	60	148	65 - 70	130 - 140	85 - 90	171	70 - 75	110 - 115	80 - 85
Bohemian Hotel Celebration Autograph Collection	115	90	10	60	69	70 - 75	170 - 180	130 - 140	69	75 - 80	170 - 180	130 - 140
Totals/Averages	1,126	87 %	13 %	66 %	681	65.1 %	\$111.93	\$72.88	748	75.1 %	\$111.45	\$83.69
* Specific occupancy and average rate data was utilized in our analysis, but is presented in ranges in the above table for the purposes of confidentiality.												

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

MAP OF COMPETITION



- | | | | |
|--|--|--|--|
| | Proposed Homewood Suites Celebration | | Hampton Inn & Suites Orlando South Lake Buena Vista (Secondary) |
| | Homewood Suites by Hilton Lake Buena Vista Orlando (Primary) | | Fairfield Inn & Suites Orlando Kissimmee Celebration (Secondary) |
| | Residence Inn by Marriott Orlando Lake Buena Vista (Primary) | | Holiday Inn Express & Suites South Lake Buena Vista (Secondary) |
| | Staybridge Suites Orlando Lake Buena Vista (Primary) | | Melia Orlando at Celebration (Secondary) |
| | Home2 Suites by Hilton Orlando International Drive South (Secondary) | | Bohemian Hotel Celebration Autograph Collection (Secondary) |
| | SpringHill Suites Orlando Kissimmee (Secondary) | | |

Supply Changes

It is important to consider any new hotels that may have an impact on the proposed subject hotel's operating performance. We have identified the following new supply that is expected to have some degree of competitive interaction with the proposed subject hotel, based on location, anticipated market orientation and price point, and/or operating profile.

FIGURE 4-6 NEW SUPPLY

Proposed Property	Number of Rooms	Total Competitive Level	Weighted Room Count	Estimated Opening Date	Developer	Development Stage
Proposed Subject Property	125	100 %	125	June 1, 2020	Heritage Hospitality Group	Early Development
Proposed Home2 Suites Kissimmee/Celebration	140	100	140	March 1, 2020	CTN Kissimmee Inc.	Early Development
Totals/Averages	265		265			

The proposed Home2 Suites by Hilton will be similar to the proposed subject hotel in terms of shared Hilton brand affiliation and an extended-stay product offering. Additionally, this proposed hotel will be located near the entrance to the Celebration community from West Irlo Bronson Boulevard and located within three miles of the subject site; therefore, this hotel is expected to be fully competitive.

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

Supply Conclusion

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

DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the competitors discussed previously in this section; performance results are estimated, rounded for the competition, and in some cases weighted if there are secondary competitors present. In this respect,

the information in the table differs from the previously presented STR data and is consistent with the supply and demand analysis developed for this report.

FIGURE 4-7 HISTORICAL MARKET TRENDS

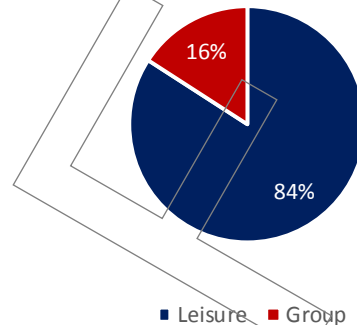
Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2015	287,744	—	362,329	—	79.4 %	\$122.15	—	\$97.01	—
Est. 2016	318,455	10.7 %	427,547	18.0 %	74.5	121.68	(0.4) %	90.63	(6.6) %
Est. 2017	368,366	15.7	451,943	5.7	81.5	122.99	1.1	100.25	10.6
Avg. Annual Compounded Chg., Est. 2015-Est. 2017:		13.1 %		11.7 %			0.3 %		1.7 %

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2017 distribution of accommodated-room-night demand as follows.

FIGURE 4-8 ACCOMMODATED-ROOM-NIGHT DEMAND

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Leisure	309,830	84 %
Group	58,535	16
Total	368,366	100 %

FIGURE 4-9 MARKET-WIDE ACCOMMODATED-ROOM-NIGHT DEMAND

The market's demand mix comprises leisure demand, with this segment representing roughly 84% of the accommodated room nights in this Celebration submarket. The group segment comprises 16% of the total.

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

FIGURE 4-10 AVERAGE ANNUAL COMPOUNDED MARKET-SEGMENT GROWTH RATES

Market Segment	Annual Growth Rate					
	2018	2019	2020	2021	2022	2023
Leisure	6.0 %	5.0 %	2.0 %	1.0 %	0.5 %	0.0 %
Group	4.0	2.0	0.5	0.5	0.0	0.0
Base Demand Growth	5.7 %	4.5 %	1.8 %	0.9 %	0.4 %	0.0 %

Latent Demand

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

Unaccommodated Demand

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

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

FIGURE 4-11 OCCUPANCY BY NIGHT OF THE WEEK

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Aug - 17	62.9 %	66.8 %	70.2 %	68.4 %	70.8 %	80.9 %	85.0 %	71.9 %
Sep - 17	84.9	74.8	76.1	80.9	84.7	84.7	91.3	82.9
Oct - 17	74.4	77.0	81.9	85.1	89.1	96.3	96.8	85.0
Nov - 17	70.6	74.0	76.1	78.9	82.6	94.3	93.3	81.4
Dec - 17	79.9	75.8	82.3	81.9	81.3	86.9	90.9	83.0
Jan - 18	72.6	75.8	81.1	83.4	85.9	86.9	90.6	82.1
Feb - 18	79.2	81.4	87.0	86.5	85.8	93.7	95.6	87.0
Mar - 18	82.7	87.1	92.8	96.4	93.8	97.5	97.8	93.0
Apr - 18	69.0	78.0	85.9	85.2	84.9	93.6	96.3	83.9
May - 18	73.3	69.0	71.4	71.7	74.7	85.5	90.8	76.2
Jun - 18	78.8	87.5	90.5	91.4	89.2	86.8	92.7	88.2
Jul - 18	75.7	82.0	84.9	88.2	91.2	94.7	95.3	86.8
Average	75.3 %	77.5 %	81.3 %	82.6 %	84.2 %	90.1 %	93.1 %	83.4 %

Source: STR

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

FIGURE 4-12 UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Leisure	309,830	6.2 %	19,292
Group	58,535	2.4	1,378
Total	368,366	5.6 %	20,670

Accordingly, we have forecast unaccommodated demand equivalent to 5.6% of the base-year demand, resulting from our analysis of monthly and weekly peak demand and sell-out trends.

Accommodated Demand and Market- wide Occupancy

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

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

FIGURE 4-13 FORECAST OF MARKET OCCUPANCY

	2017	2018	2019	2020	2021	2022	2023
Leisure							
Base Demand	309,830	328,420	344,841	351,738	355,255	357,032	357,032
Unaccommodated Demand		20,450	21,472	21,901	22,120	22,231	22,231
Total Demand		348,870	366,313	373,639	377,376	379,263	379,263
Growth Rate		12.6 %	5.0 %	2.0 %	1.0 %	0.5 %	0.0 %
Group							
Base Demand	58,535	60,877	62,094	62,405	62,717	62,717	62,717
Unaccommodated Demand		1,433	1,462	1,469	1,476	1,476	1,476
Total Demand		62,310	63,556	63,874	64,193	64,193	64,193
Growth Rate		6.4 %	2.0 %	0.5 %	0.5 %	0.0 %	0.0 %
Totals							
Base Demand	368,366	389,297	406,935	414,143	417,972	419,748	419,748
Unaccommodated Demand		21,883	22,934	23,371	23,597	23,707	23,707
Total Demand		411,180	429,869	437,513	441,569	443,456	443,456
less: Residual Demand		31,335	45,956	12,645	398	573	573
Total Accommodated Demand		379,844	383,913	424,868	441,171	442,882	442,882
Overall Demand Growth		3.1 %	1.1 %	10.7 %	3.8 %	0.4 %	0.0 %
Market Mix							
Leisure	84.1 %	84.8 %	85.2 %	85.4 %	85.5 %	85.5 %	85.5 %
Group	15.9	15.2	14.8	14.6	14.5	14.5	14.5
Existing Hotel Supply	1,238	1,238	1,238	1,238	1,238	1,238	1,238
Proposed Hotels							
Proposed Subject Property ¹				73	125	125	125
Proposed Home2 Suites Kissimmee/Celebration ²				117	140	140	140
Available Room Nights per Year	451,943	451,943	451,943	521,533	548,668	548,668	548,668
Nights per Year	365	365	365	365	365	365	365
Total Supply	1,238	1,238	1,238	1,429	1,503	1,503	1,503
Rooms Supply Growth	—	0.0 %	0.0 %	15.4 %	5.2 %	0.0 %	0.0 %
Marketwide Occupancy	81.5 %	84.0 %	84.9 %	81.5 %	80.4 %	80.7 %	80.7 %

¹ Opening in June 2020 of the 100% competitive, 125-room Proposed Subject Property

² Opening in March 2020 of the 100% competitive, 140-room Proposed Home2 Suites Kissimmee/Celebration

5. Description of the Proposed Improvements

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

Project Overview

The Proposed Homewood Suites Celebration will be an extended-stay lodging facility containing 125 rentable units. The multi-story property will open on June 1, 2020. The 3.5-acre subject site is proposed to be developed with a 125-key Homewood Suites by Hilton. As of September 2018, the 3.5-acre hotel site was part of a larger 18.5-acre parcel; documents provided by the client show that Class-A apartments are proposed for the remainder of the site. The proposed Homewood Suites by Hilton will be the first Hilton-branded hotel and the first extended-stay hotel within the master-planned Celebration community. Celebration was originally developed as a master-planned community by the Walt Disney Company in the 1990s, and the town is directly connected to Walt Disney World via World Drive. Celebration Town Center offers a variety of shops, restaurants, cafés, event spaces, residences, and other commercial establishments, as well as a hotel.

Homewood Suites by Hilton is designed to provide guests with all of the comforts, convenience, and privacy of home for the price of a traditional hotel room. The brand was designed for guests who travel on field assignments, relocate to a new community, or attend seminars, conventions, or corporate training programs. Every suite provides separate living and sleeping areas and a fully equipped kitchen with refrigerator, microwave, two-burner stove, dishwasher, and coffeemaker. Other features include a daily complimentary hot breakfast, complimentary grocery shopping service, and evening manager's reception Monday through Thursday, offering complimentary snacks and beverages in the relaxed atmosphere of a lodge-like setting. Most locations offer a 24-hour convenience store, a fitness room, a swimming pool, and expanded laundry facilities. As of year-end 2017, there were 451 hotels (51,305 rooms) operating under the Homewood Suites by Hilton brand. In 2017, the brand operated at an average occupancy level of 80.2%, with an average daily rate of \$136.32 and an average RevPAR of \$109.30 (worldwide).

TYPICAL HOMEWOOD SUITES BY HILTON EXTERIOR



Summary of the Facilities

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

FIGURE 5-1 PROPOSED FACILITIES SUMMARY

Guestrooms		Number of Units
Total Guestrooms		125
Food & Beverage Facilities		Seating Capacity
Breakfast Dining Area		TBD
Indoor Meeting & Banquet Facilities		Square Footage
Meeting Room		TBD
Amenities & Services		
Outdoor Swimming Pool	Market Pantry	
Outdoor Whirlpool	Guest Laundry Area	
Fitness Room	Airport/Local Shuttle	

The proposed hotel will comprise one multi-story building. Surface parking is expected to be located around the building. Other site improvements are anticipated to include freestanding signage, located at the main entrance to the site and on the northern portion of the site facing Interstate 4, as well as landscaping and sidewalks. Additional signage is expected to be placed on the exterior of the building. The hotel's main entrance will lead directly into the lobby, and the first (ground) floor will house the public areas and the back-of-the-house space. Guestrooms should be located on all levels of the proposed building. The site and building components are expected to be normal for a hotel of this type and should meet the standards for this Celebration and southwestern Orlando area market.

TYPICAL HOMEWOOD SUITES BY HILTON LOBBY



TYPICAL HOMEWOOD SUITES BY HILTON DINING AREA



TYPICAL HOMEWOOD SUITES BY HILTON MEETING ROOM



TYPICAL HOMEWOOD SUITES BY HILTON GUESTROOM



TYPICAL HOMEWOOD SUITES BY HILTON GUESTROOM KITCHEN AREA



ADA and Environmental

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

Capital Expenditures

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

Conclusion

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

6. Projection of Occupancy and Average Rate

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

Forecast of Subject Property's Occupancy

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

FIGURE 6-1 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2020	2021	2022	2023
Leisure				
Demand	362,295	377,033	378,768	378,768
Market Share	5.0 %	8.4 %	8.5 %	8.5 %
Capture	18,211	31,748	32,381	32,381
Penetration	98 %	101 %	103 %	103 %
Group				
Demand	62,574	64,138	64,114	64,114
Market Share	4.3 %	8.2 %	8.4 %	8.4 %
Capture	2,713	5,256	5,380	5,380
Penetration	85 %	99 %	101 %	101 %
Total Room Nights Captured	20,924	37,005	37,762	37,762
Available Room Nights	26,750	45,625	45,625	45,625
Subject Occupancy	78 %	81 %	83 %	83 %
Market-wide Available Room Nights	521,533	548,668	548,668	548,668
Fair Share	5 %	8 %	8 %	8 %
Market-wide Occupied Room Nights	424,868	441,171	442,882	442,882
Market Share	5 %	8 %	9 %	9 %
Market-wide Occupancy	81 %	80 %	81 %	81 %
Total Penetration	96 %	101 %	103 %	103 %

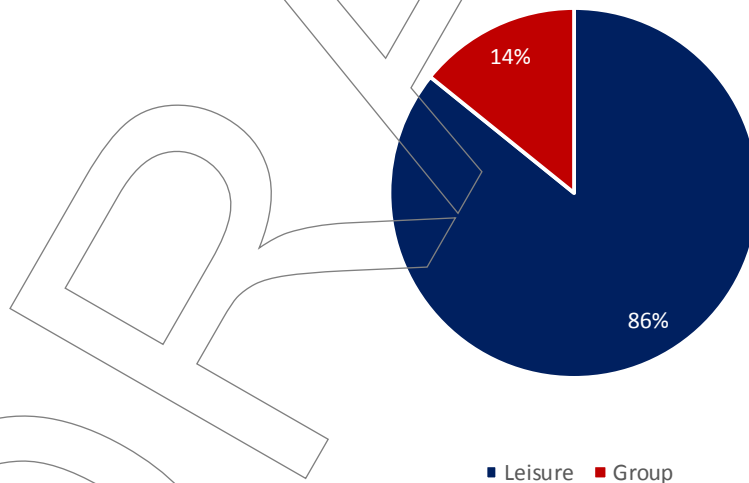
Within the leisure segment, the proposed subject hotel's occupancy penetration is positioned above the market average level, largely attributed to the proposed Hilton brand affiliation, extended-stay product offering, and ease of access to nearby leisure demand generators. We have positioned the proposed hotel's leisure penetration slightly below the Staybridge Suites and Homewood Suites by Hilton Lake Buena Vista given their locations in the Lake Buena Vista submarket, which offers a variety of dining and entertainment establishments within walking distance. The proposed subject hotel's occupancy penetration in the group segment is positioned appropriately within the range of existing competitors, supported by the proposed hotel's proximity to the ESPN Wide World of Sports Complex and location within the Celebration community. Similar to the leisure segment, we have stabilized the group segment below the selected competitive hotels located in Lake Buena Vista given the variety of dining and entertainment establishments within walking distance of those hotels, which is attractive to various groups.

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

FIGURE 6-2 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2020	2021	2022	2023
Leisure	87 %	86 %	86 %	86 %
Group	13	14	14	14
Total	100 %	100 %	100 %	100 %

FIGURE 6-3 STABILIZED MARKET SEGMENTATION– SUBJECT PROPERTY



Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 83%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the proposed subject hotel may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

Average Rate Analysis

The following table illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied underlying inflation rates of 2.5%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2017.

FIGURE 6-4 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

Calendar Year	2017	2018	2019	2020	2021	2022	2023	2024	2025
Market ADR	\$122.99	\$128.53	\$133.67	\$137.68	\$141.81	\$146.06	\$150.45	\$154.96	\$159.61
Projected Market ADR Growth Rate	—	4.5%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject Property ADR (As-If Stabilized)	\$140.00	\$146.30	\$152.15	\$156.72	\$161.42	\$166.26	\$171.25	\$176.39	\$181.68
ADR Growth Rate	—	4.5%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Proposed Subject Stabilized ADR Penetration	114%	114%	114%	114%	114%	114%	114%	114%	113.8%
Fiscal Year				2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Proposed Subject Property Average Rate				\$158.66	\$163.42	\$168.32	\$173.37	\$178.57	\$183.93
Opening Discount				3.0%	1.0%	0.0%	0.0%	0.0%	0.0%
Average Rate After Discount				\$153.90	\$161.79	\$168.32	\$173.37	\$178.57	\$183.93
Real Average Rate Growth				—	5.1%	4.0%	3.0%	3.0%	3.0%
Market ADR				\$139.39	\$143.57	\$147.88	\$152.31	\$156.88	\$161.59
Proposed Subject ADR Penetration (After Discount)				110%	113%	114%	114%	114%	114%
ADR Expressed in Base-Year Dollars Deflated @ Inflation Rate				\$142.22	\$145.15	\$146.62	\$146.62	\$146.62	\$146.62

This competitive submarket should experience ADR growth through the near term. The proposed subject hotel's rate position should reflect growth similar to market trends because of the proposed hotel's new facility, strong brand affiliation, and upscale product offering. The proposed subject hotel is also anticipated to be considered as a value option within the Celebration community relative to the higher-rated upper-upscale Bohemian Hotel Celebration Autograph Collection hotel. This competitive submarket should experience ADR growth through the near term. The proposed subject hotel's rate position should reflect growth similar to market trends because of the proposed hotel's new facility, strong brand affiliation, and upscale product offering. The proposed subject hotel is also anticipated to be considered as a value option within the Celebration community relative to the higher-rated upper-upscale Bohemian Hotel Celebration Autograph Collection hotel. The proposed subject hotel's ADR penetration level is forecast to reach 114% by the stabilized period, consistent with our stabilized ADR positioning.

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the proposed subject hotel's average rates in the initial operating period have been discounted to reflect this likelihood. Discounts of 1% and 3% have been applied to the stabilized room rates projected

for the first two years of operation, as would be expected for a new property of this type as it builds its reputation and becomes established in the market.

The following occupancies and average rates will be used to project the subject property's rooms revenue; this forecast reflects years beginning on June 1, 2020, which correspond with our financial projections.

FIGURE 6-5 FORECAST OF OCCUPANCY, AVERAGE RATE, AND REVPAR

Year	Occupancy	Average Rate	Discount	Average Rate After Discount	RevPAR
2020/21	79 %	\$158.66	3.0 %	\$153.90	\$121.58
2021/22	82	163.42	1.0	161.79	132.67
2022/23	83	168.32	0.0	168.32	139.71

7. Projection of Income and Expense

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

Comparable Operating Statements

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

FIGURE 7-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2016	2016	2015	2014/15	2014	2017
Edition:	11	11	11	11	11	11
Number of Rooms:	90 to 120	100 to 140	90 to 120	90 to 120	110 to 150	125
Days Open:	365	365	365	365	365	365
Occupancy:	81%	81%	87%	84%	84%	83%
Average Rate:	\$148	\$154	\$142	\$140	\$147	\$145
RevPAR:	\$120	\$125	\$123	\$118	\$123	\$120
REVENUE						
Rooms	98.0 %	98.5 %	98.7 %	97.7 %	98.4 %	98.1 %
Other Operated Departments	1.3	0.7	1.3	1.9	1.2	1.3
Miscellaneous Income	0.7	0.8	0.0	0.4	0.4	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	24.0	23.5	22.4	22.5	25.0	23.1
Other Operated Departments	109.0	61.6	0.0	56.1	33.1	65.0
Total	25.0	23.6	22.1	23.0	25.0	23.5
DEPARTMENTAL INCOME						
	75.0	76.4	77.9	77.0	75.0	76.5
OPERATING EXPENSES						
Administrative & General	6.8	8.0	7.3	8.5	8.4	7.8
Info. and Telecom. Systems	0.4	1.7	1.1	0.8	0.0	1.3
Marketing	6.0	2.8	4.5	6.6	5.8	4.7
Franchise Fee	5.5	7.5	7.9	7.8	5.9	8.8
Property Operations & Maintenance	2.1	5.2	4.3	5.7	4.0	4.0
Utilities	5.5	3.5	2.7	3.3	3.7	3.4
Total	26.3	28.7	27.8	32.7	27.9	30.1
HOUSE PROFIT						
	48.7	47.7	50.1	44.3	47.1	46.4
Management Fee	0.0	4.0	3.5	3.0	2.5	3.0
INCOME BEFORE FIXED CHARGES						
	48.7	43.7	46.6	41.2	44.7	43.4

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

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

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2016	2016	2015	2014/15	2014	2017
Edition:	11	11	11	11	11	11
Number of Rooms:	90 to 120	100 to 140	90 to 120	90 to 120	110 to 150	125
Days Open:	365	365	365	365	365	365
Occupancy:	81%	81%	87%	84%	84%	83%
Average Rate:	\$148	\$154	\$142	\$140	\$147	\$145
RevPAR:	\$120	\$125	\$123	\$118	\$123	\$120
REVENUE						
Rooms	\$43,938	\$45,660	\$44,847	\$42,987	\$45,043	\$43,874
Other Operated Departments	585	322	596	814	544	576
Miscellaneous Income	331	394	0	191	183	273
Total	44,854	46,376	45,443	43,992	45,770	44,722
DEPARTMENTAL EXPENSES						
Rooms	10,558	10,746	10,056	9,679	11,241	10,149
Other Operated Departments	638	199	0	456	180	374
Total	11,196	10,945	10,056	10,135	11,421	10,523
DEPARTMENTAL INCOME						
	33,658	35,431	35,386	33,857	34,349	34,199
OPERATING EXPENSES						
Administrative & General	3,032	3,697	3,312	3,745	3,824	3,500
Info. and Telecom. Systems	180	773	515	350	0	600
Marketing	2,687	1,298	2,049	2,894	2,671	2,100
Franchise Fee	2,461	3,475	3,581	3,439	2,703	3,949
Property Operations & Maintenance	963	2,432	1,950	2,504	1,848	1,800
Utilities	2,471	1,638	1,228	1,469	1,708	1,500
Total	11,795	13,314	12,634	14,400	12,754	13,448
HOUSE PROFIT						
	21,863	22,117	22,752	19,457	21,595	20,751
Management Fee	0	1,855	1,598	1,320	1,144	1,342
INCOME BEFORE FIXED CHARGES						
	21,863	20,262	21,154	18,137	20,450	19,409

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

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2016	2016	2015	2014/15	2014	2017
Edition:	11	11	11	11	11	11
Number of Rooms:	90 to 120	100 to 140	90 to 120	90 to 120	110 to 150	125
Days Open:	365	365	365	365	365	365
Occupancy:	81%	81%	87%	84%	84%	83%
Average Rate:	\$148	\$154	\$142	\$140	\$147	\$145
RevPAR:	\$120	\$125	\$123	\$118	\$123	\$120
REVENUE						
Rooms	\$148.21	\$153.61	\$141.90	\$140.37	\$146.91	\$144.82
Other Operated Departments	1.97	1.08	1.88	2.66	1.77	1.90
Miscellaneous Income	1.12	1.32	0.00	0.62	0.60	0.90
Total	151.30	156.02	143.78	143.65	149.28	147.62
DEPARTMENTAL EXPENSES						
Rooms	35.61	36.15	31.82	31.60	36.66	33.50
Other Operated Departments	2.15	0.67	0.00	1.49	0.59	1.24
Total	37.77	36.82	31.82	33.09	37.25	34.74
DEPARTMENTAL INCOME	113.54	119.20	111.97	110.56	112.03	112.89
OPERATING EXPENSES						
Administrative & General	10.23	12.44	10.48	12.23	12.47	11.55
Info. and Telecom. Systems	0.61	2.60	1.63	1.14	0.00	1.98
Marketing	9.06	4.37	6.48	9.45	8.71	6.93
Franchise Fee	8.30	11.69	11.33	11.23	8.82	13.03
Property Operations & Maintenance	3.25	8.18	6.17	8.18	6.03	5.94
Utilities	8.34	5.51	3.88	4.80	5.57	4.95
Total	39.79	44.79	39.98	47.02	41.60	44.39
HOUSE PROFIT	73.75	74.41	71.99	63.53	70.43	68.50
Management Fee	0.00	6.24	5.06	4.31	3.73	4.43
INCOME BEFORE FIXED CHARGES	73.75	68.17	66.93	59.22	66.70	64.07

The departmental income of the comparable properties ranged from 75.0% to 77.9% of total revenue. The comparable properties achieved a house profit ranging from 44.3% to 50.1% of total revenue.

Inflation Assumption

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied underlying inflation rates of 2.5%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2017. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and

Summary of Projections

below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of income and expense. The following table presents a detailed forecast through the fifth projection year, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on June 1, 2020, expressed in inflated dollars for each year.

FIGURE 7-4 DETAILED FORECAST OF INCOME AND EXPENSE

	2020/21 Begins June				2021/22				Stabilized				2023/24				2024/25			
Number of Rooms:	125				125				125				125				125			
Occupancy:	79%				82%				83%				83%				83%			
Average Rate:	\$153.90				\$161.79				\$168.32				\$173.37				\$178.57			
RevPAR:	\$121.58				\$132.67				\$139.71				\$143.90				\$148.22			
Days Open:	365				365				365				365				365			
Occupied Rooms:	36,044	%Gross	PAR	POR	37,413	%Gross	PAR	POR	37,869	%Gross	PAR	POR	37,869	%Gross	PAR	POR	37,869	%Gross	PAR	POR
OPERATING REVENUE																				
Rooms	\$5,547	98.0 %	\$44,376	\$153.90	\$6,053	98.1 %	\$48,424	\$161.79	\$6,374	98.1 %	\$50,992	\$168.32	\$6,565	98.1 %	\$52,520	\$173.36	\$6,762	98.1 %	\$54,096	\$178.56
Other Operated Departments	78	1.4	621	2.16	81	1.3	647	2.16	84	1.3	669	2.21	86	1.3	689	2.27	89	1.3	710	2.34
Miscellaneous Income	37	0.6	294	1.02	38	0.6	307	1.02	40	0.6	317	1.05	41	0.6	326	1.08	42	0.6	336	1.11
Total Operating Revenues	5,661	100.0	45,292	157.07	6,172	100.0	49,378	164.98	6,497	100.0	51,978	171.57	6,692	100.0	53,535	176.71	6,893	100.0	55,142	182.02
DEPARTMENTAL EXPENSES *																				
Rooms	1,363	24.6	10,904	37.82	1,425	23.5	11,397	38.08	1,474	23.1	11,796	38.94	1,519	23.1	12,150	40.10	1,564	23.1	12,514	41.31
Other Operated Departments	51	65.7	408	1.42	53	65.2	422	1.41	54	65.0	435	1.44	56	65.0	448	1.48	58	65.0	461	1.52
Total Expenses	1,414	25.0	11,312	39.23	1,477	23.9	11,819	39.49	1,529	23.5	12,231	40.37	1,575	23.5	12,597	41.58	1,622	23.5	12,975	42.83
DEPARTMENTAL INCOME	4,247	75.0	33,980	117.84	4,695	76.1	37,559	125.49	4,968	76.5	39,747	131.20	5,117	76.5	40,938	135.13	5,271	76.5	42,167	139.19
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	470	8.3	3,762	13.05	491	8.0	3,928	13.12	508	7.8	4,068	13.43	524	7.8	4,190	13.83	539	7.8	4,316	14.25
Info & Telecom Systems	81	1.4	645	2.24	84	1.4	673	2.25	87	1.3	697	2.30	90	1.3	718	2.37	92	1.3	740	2.44
Marketing	282	5.0	2,257	7.83	295	4.8	2,357	7.87	305	4.7	2,441	8.06	314	4.7	2,514	8.30	324	4.7	2,589	8.55
Franchise Fee	499	8.8	3,994	13.85	545	8.8	4,358	14.56	574	8.8	4,589	15.15	591	8.8	4,727	15.60	609	8.8	4,869	16.07
Prop. Operations & Maint.	181	3.2	1,451	5.03	215	3.5	1,717	5.74	262	4.0	2,092	6.91	269	4.0	2,155	7.11	277	4.0	2,219	7.33
Utilities	202	3.6	1,612	5.59	210	3.4	1,684	5.62	218	3.4	1,743	5.75	224	3.4	1,796	5.93	231	3.4	1,850	6.11
Total Expenses	1,715	30.3	13,721	47.59	1,840	29.9	14,717	49.17	1,954	30.0	15,631	51.60	2,012	30.0	16,099	53.14	2,073	30.0	16,582	54.74
GROSS HOUSE PROFIT	2,532	44.7	20,258	70.26	2,855	46.2	22,842	76.32	3,015	46.5	24,117	79.61	3,105	46.5	24,839	81.99	3,198	46.5	25,584	84.45
Management Fee	170	3.0	1,359	4.71	185	3.0	1,481	4.95	195	3.0	1,559	5.15	201	3.0	1,606	5.30	207	3.0	1,654	5.46
INCOME BEFORE NON-OPR. INC. & EXP.	2,362	41.7	18,900	65.54	2,670	43.2	21,360	71.37	2,820	43.5	22,557	74.46	2,904	43.5	23,232	76.69	2,991	43.5	23,930	78.99
NON-OPERATING INCOME & EXPENSE																				
Property Taxes	111	2.0	892	3.09	230	3.7	1,837	6.14	236	3.6	1,892	6.24	244	3.6	1,949	6.43	251	3.6	2,007	6.63
Insurance	110	1.9	876	3.04	113	1.8	903	3.02	116	1.8	930	3.07	120	1.8	958	3.16	123	1.8	986	3.26
Reserve for Replacement	113	2.0	906	3.14	185	3.0	1,481	4.95	260	4.0	2,079	6.86	268	4.0	2,141	7.07	276	4.0	2,206	7.28
Total Expenses	334	5.9	2,674	9.27	528	8.5	4,221	14.10	613	9.4	4,901	16.18	631	9.4	5,048	16.66	650	9.4	5,199	17.16
EBITDA LESS RESERVE	\$2,028	35.8 %	\$16,226	\$56.27	\$2,142	34.7 %	\$17,139	\$57.27	\$2,207	34.1 %	\$17,656	\$58.28	\$2,273	34.1 %	\$18,185	\$60.03	\$2,341	34.1 %	\$18,731	\$61.83

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

FIGURE 7-5 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2020/21		2021/22		2022/23		2023/24		2024/25		2025/26		2026/27		2027/28		2028/29		2029/30	
Number of Rooms:	125		125		125		125		125		125		125		125		125		125	
Occupied Rooms:	36,044		37,413		37,869		37,869		37,869		37,869		37,869		37,869		37,869		37,869	
Occupancy:	79%		82%		83%		83%		83%		83%		83%		83%		83%		83%	
Average Rate:	\$153.90	% of	\$161.79	% of	\$168.32	% of	\$173.37	% of	\$178.57	% of	\$183.93	% of	\$189.45	% of	\$195.13	% of	\$200.99	% of	\$207.02	% of
RevPAR:	\$121.58	Gross	\$132.67	Gross	\$139.71	Gross	\$143.90	Gross	\$148.22	Gross	\$152.66	Gross	\$157.24	Gross	\$161.96	Gross	\$166.82	Gross	\$171.82	Gross
OPERATING REVENUE																				
Rooms	\$5,547	98.0 %	\$6,053	98.1 %	\$6,374	98.1 %	\$6,565	98.1 %	\$6,762	98.1 %	\$6,965	98.1 %	\$7,174	98.1 %	\$7,389	98.1 %	\$7,611	98.1 %	\$7,839	98.1 %
Other Operated Departments	78	1.4	81	1.3	84	1.3	86	1.3	89	1.3	91	1.3	94	1.3	97	1.3	100	1.3	103	1.3
Miscellaneous Income	37	0.6	38	0.6	40	0.6	41	0.6	42	0.6	43	0.6	45	0.6	46	0.6	47	0.6	49	0.6
Total Operating Revenues	5,661	100.0	6,172	100.0	6,497	100.0	6,692	100.0	6,893	100.0	7,100	100.0	7,313	100.0	7,532	100.0	7,758	100.0	7,991	100.0
DEPARTMENTAL EXPENSES *																				
Rooms	1,363	24.6	1,425	23.5	1,474	23.1	1,519	23.1	1,564	23.1	1,611	23.1	1,660	23.1	1,709	23.1	1,761	23.1	1,813	23.1
Other Operated Departments	51	65.7	53	65.2	54	65.0	56	65.0	58	65.0	59	65.0	61	65.0	63	65.0	65	65.0	67	65.0
Total Expenses	1,414	25.0	1,477	23.9	1,529	23.5	1,575	23.5	1,622	23.5	1,671	23.5	1,721	23.5	1,772	23.5	1,825	23.5	1,880	23.5
DEPARTMENTAL INCOME	4,247	75.0	4,695	76.1	4,968	76.5	5,117	76.5	5,271	76.5	5,429	76.5	5,592	76.5	5,760	76.5	5,933	76.5	6,110	76.5
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	470	8.3	491	8.0	508	7.8	524	7.8	539	7.8	556	7.8	572	7.8	589	7.8	607	7.8	625	7.8
Info & Telecom Systems	81	1.4	84	1.4	87	1.3	90	1.3	92	1.3	95	1.3	98	1.3	101	1.3	104	1.3	107	1.3
Marketing	282	5.0	295	4.8	305	4.7	314	4.7	324	4.7	333	4.7	343	4.7	354	4.7	364	4.7	375	4.7
Franchise Fee	499	8.8	545	8.8	574	8.8	591	8.8	609	8.8	627	8.8	646	8.8	665	8.8	685	8.8	706	8.8
Prop. Operations & Maint.	181	3.2	215	3.5	262	4.0	269	4.0	277	4.0	286	4.0	294	4.0	303	4.0	312	4.0	322	4.0
Utilities	202	3.6	210	3.4	218	3.4	224	3.4	231	3.4	238	3.4	245	3.4	253	3.4	260	3.4	268	3.4
Total Expenses	1,715	30.3	1,840	29.8	1,954	30.1	2,012	30.1	2,073	30.1	2,135	30.1	2,199	30.1	2,265	30.1	2,333	30.1	2,403	30.1
GROSS HOUSE PROFIT	2,532	44.7	2,855	46.3	3,015	46.4	3,105	46.4	3,198	46.4	3,294	46.4	3,393	46.4	3,495	46.4	3,600	46.4	3,707	46.4
Management Fee	170	3.0	185	3.0	195	3.0	201	3.0	207	3.0	213	3.0	219	3.0	226	3.0	233	3.0	240	3.0
INCOME BEFORE NON-OPR. INC. & EXP.	2,362	41.7	2,670	43.3	2,820	43.4	2,904	43.4	2,991	43.4	3,081	43.4	3,174	43.4	3,269	43.4	3,367	43.4	3,468	43.4
NON-OPERATING INCOME & EXPENSE																				
Property Taxes	111	2.0	230	3.7	236	3.6	244	3.6	251	3.6	258	3.6	266	3.6	274	3.6	282	3.6	291	3.6
Insurance	110	1.9	113	1.8	116	1.8	120	1.8	123	1.8	127	1.8	131	1.8	135	1.8	139	1.8	143	1.8
Reserve for Replacement	113	2.0	185	3.0	260	4.0	268	4.0	276	4.0	284	4.0	293	4.0	301	4.0	310	4.0	320	4.0
Total Expenses	334	5.9	528	8.5	613	9.4	631	9.4	650	9.4	669	9.4	689	9.4	710	9.4	731	9.4	753	9.4
EBITDA LESS RESERVE	\$2,028	35.8 %	\$2,142	34.8 %	\$2,207	34.0 %	\$2,273	34.0 %	\$2,341	34.0 %	\$2,412	34.0 %	\$2,484	34.0 %	\$2,558	34.0 %	\$2,635	34.0 %	\$2,714	34.0 %

Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take three years for the proposed subject hotel to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the proposed subject hotel's operating budget and comparable income and expense statements. The forecast is based upon fiscal years beginning June 1, 2020, expressed in inflated dollars for each year.

Revenues associated with the proposed subject hotel's other operated departments and its miscellaneous income category have been forecast to reflect the hotel's extended-stay product offering and its planned facilities and amenities, including the market pantry, guest laundry room, and meeting space. Expense levels should fall within a range of reasonableness given the provided comparable operating statements; furthermore, franchise and management fees are set forth in accordance with our assumptions provided earlier in our report.

Property Taxes

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

Depending on the taxing policy of the municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property. We have based our estimate of the proposed subject property's market value (for tax purposes) on an analysis of assessments of comparable hotel properties in the local municipality.

FIGURE 7-6 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Year Open	Real Property	Personal
SpringHill Suites Orlando Kissimmee	2000	13,444,500	1,768,063
Hampton Inn & Suites Orlando South Lake Buena Vista	2008	5,396,600	1,257,168
Fairfield Inn & Suites Orlando Kissimmee Celebration	2016	10,218,300	Not Available
Holiday Inn Express & Suites South Lake Buena Vista	2001	5,951,900	537,640
Bohemian Hotel Celebration Autograph Collection	1999	14,633,200	1,170,122
<i>Assessments per Room</i>	<i># of Rms</i>		
SpringHill Suites Orlando Kissimmee	150	89,630	11,787
Hampton Inn & Suites Orlando South Lake Buena Vista	125	43,173	10,057
Fairfield Inn & Suites Orlando Kissimmee Celebration	150	68,122	Not Available
Holiday Inn Express & Suites South Lake Buena Vista	162	36,740	3,319
Bohemian Hotel Celebration Autograph Collection	115	127,245	10,175
Positioned Subject - Per Room	125	\$100,000	\$12,000
Positioned Subject - Total		\$12,500,000	\$1,500,000

Source: Osceola County Tax Collector

We have positioned the future assessment levels of the subject site and proposed improvements, as well as the planned personal property, based upon the illustrated comparable data reflecting hotels in Osceola County. Overall, the positioned assessments are well supported by the market data.

Tax rates are based on the city and county budgets, which change annually. The most recent tax rate in this jurisdiction was reported at 8.57890%. The following table shows changes in the tax rate during the last several years.

FIGURE 7-7 COUNTY TAX RATES

Year	Real Property Millage Rate	School Millage Rate	Personal Property Millage Rate
2017	8.57890	6.74800	15.32690

Source: Osceola County Tax Collector

Based on comparable assessments and the tax rate information, the proposed subject property's projected property tax expense levels are calculated as follows.

FIGURE 7-8 PROJECTED PROPERTY TAX BURDEN (BASE YEAR)

	Real Property			Personal Property
	Real Property	Total	School	
Positioned (Assessed Value)	\$12,500,000	\$12,500,000	\$12,500,000	\$1,500,000
Millage Rate		8.57890	6.74800	15.32690
Tax Burden as of Base Year		\$107,236	\$84,350	\$22,990

FIGURE 7-9 PROJECTED PROPERTY TAX EXPENSE - REAL PROPERTY

Year	Real Property			
	Total Tax Burden (Positioned Prior to Increase)	Base Rate of Tax Burden Increase	% Positioned Tax Burden	Taxes Payable
Positioned	\$191,586	—		\$191,586
2020/21	\$191,586	8.2 %	50 %	\$103,662
2021/22	207,324	3.0	100	213,544
2022/23	213,544	3.0	100	219,950
2023/24	219,950	3.0	100	226,548

FIGURE 7-10 PROJECTED PROPERTY TAX EXPENSE – PERSONAL PROPERTY

Year	Personal Property			
	Personal Tax Burden (Positioned Prior to Increase)	Base Rate of Tax Burden Increase	% of Positioned Tax Burden	Taxes Payable
Positioned	\$22,990	—		\$22,990
2020/21	\$22,990	8.2 %	50 %	\$12,439
2021/22	24,879	3.0	100	25,625
2022/23	25,625	3.0	100	26,394
2023/24	26,394	3.0	100	27,186

FIGURE 7-11 PROJECTED PROPERTY TAX EXPENSE – SUMMARY

Year	Taxes Payable			Early Payment	Total Tax
	Real	Personal	Total	Discount	Payable
Positioned	\$191,586	\$22,990	\$214,577	4 %	\$205,994
2020/21	\$103,662	\$12,439	\$116,101	4 %	\$111,457
2021/22	213,544	25,625	239,169	4	229,602
2022/23	219,950	26,394	246,344	4	236,490
2023/24	226,548	27,186	253,734	4	243,585

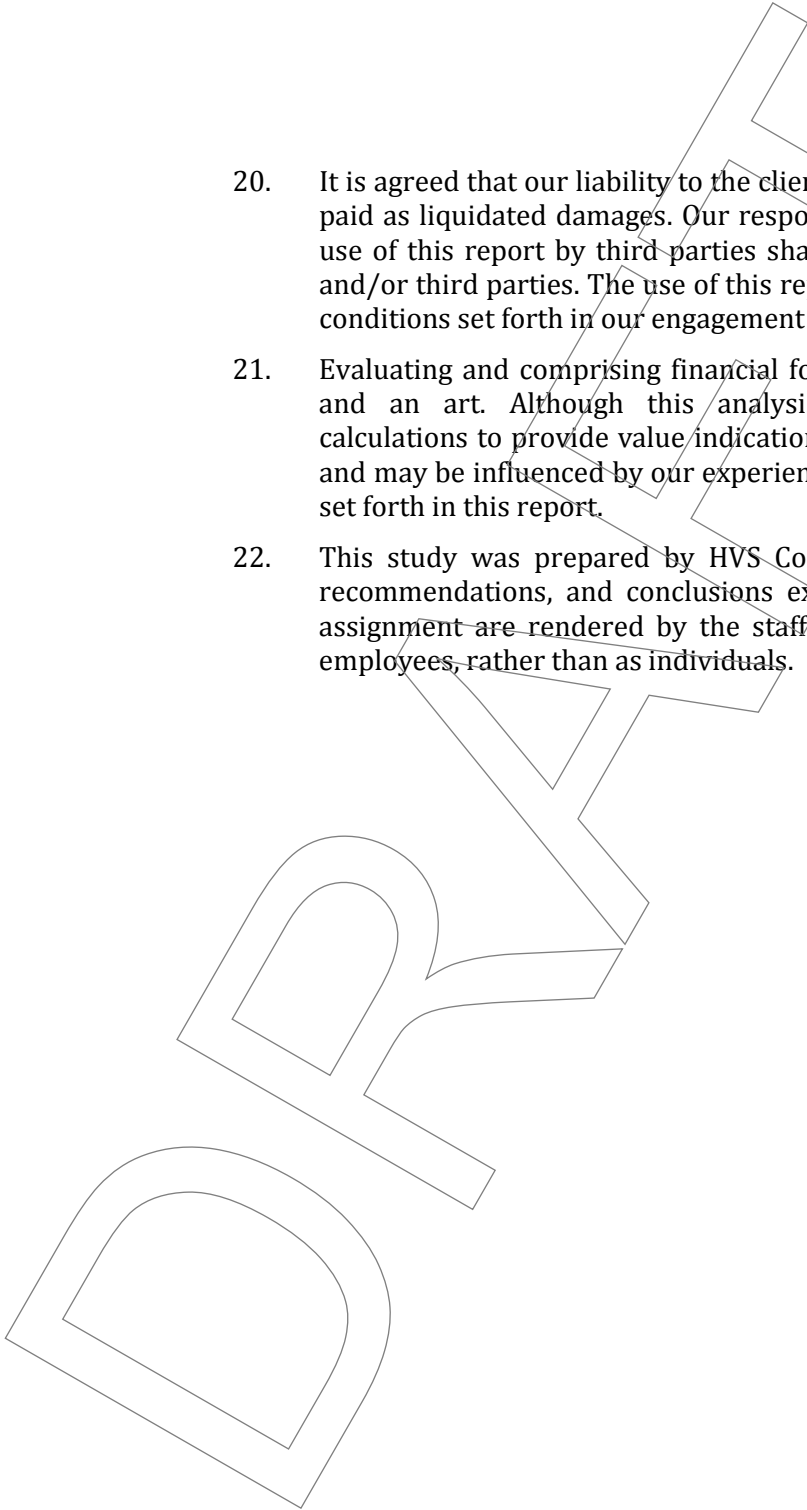
Conclusion

In conclusion, our analysis reflects a profitable operation, with net income expected to total 34.0% of total revenue by the stabilized year. The stabilized total revenue comprises primarily rooms and food and beverage revenue, with a secondary portion derived from other income sources. On the cost side, departmental expenses total 23.5% of revenue by the stabilized year, while undistributed operating expenses total 30.1% of total revenues; this assumes that the property will be operated competently by a well-known hotel operator. After a 3.0% of total revenues management fee, and 9.4% of total revenues in fixed expenses, a net income ratio of 34.0% is forecast by the stabilized year.

8. Statement of Assumptions and Limiting Conditions

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

11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court because of this analysis without previous arrangements and shall do so only when our standard per-diem fees and travel costs have been paid prior to the appearance.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's onsite management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
17. The financial analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease because of market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel investor as of the stated date of the report.
18. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.
19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.

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20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client; the use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
 21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.
 22. This study was prepared by HVS Consulting & Valuation. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of HVS Consulting & Valuation as employees, rather than as individuals.