



## SUMMARY OF FINDINGS

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# Proposed Hotel at Red Mountain Resort

4300 RED MOUNTAIN ROAD  
ROSSLAND, BRITISH COLUMBIA - CANADA



### SUBMITTED TO:

Mr. Spencer Clements  
William Cole  
3602 El James Drive  
Spring, Texas, 77388

(281) 580-2085

### PREPARED BY:

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March 28, 2014

Mr. Spencer Clements  
William Cole  
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Re: Proposed Hotel at Red Mountain Resort  
Rossland, British Columbia  
HVS Reference: 2014070035, 2014020274

Dear Mr. Clements:

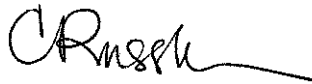
Pursuant to your request, we herewith submit our summary of findings pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in the Rossland area. We have studied the proposed project, and the summary results of our fieldwork and analysis are presented in this document. Our report was prepared in accordance with the Canadian Uniform Standards of Professional Practice (CUSPAP), as provided by the Appraisal Foundation.

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

Sincerely,  
MM&R Valuation Services, Inc.



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# 1. Executive Summary

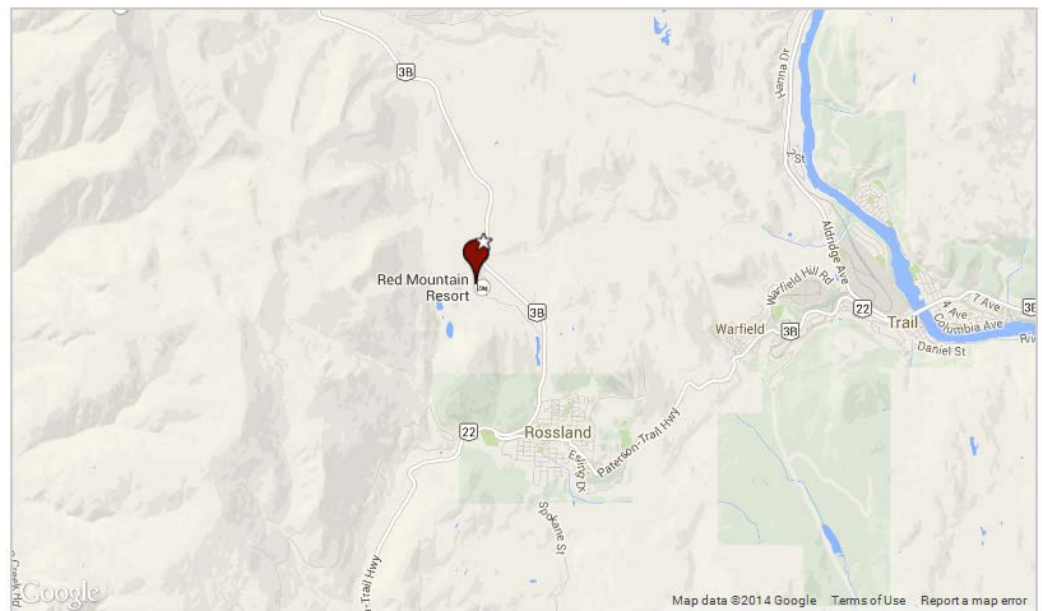
## Subject of the Study

The subject of the study is a 47,600-square-foot (1.09-acre) parcel to be improved with a full-service, resort lodging facility; the hotel will be managed by Trust Hospitality. The property is expected to open on December 1, 2015 and will feature 107 rooms, a restaurant and lounge, 2,300 square feet of meeting space, an outdoor pool, an outdoor whirlpool, an exercise room, a spa, and a ski concierge service. The hotel will also feature all necessary back-of-the-house space.

The subject property is not affiliated with any recognized brand name.

The subject site's location is at the base of Red Mountain Resort in Rossland, British Columbia.

## LOCATION MAP



## VIEW OF SUBJECT SITE

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## AERIAL PHOTOGRAPH



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



**FIGURE 1-1 SUBJECT PROPERTY CONSTRUCTION BUDGET**

<b>Component</b>	<b>Cost</b>	<b>Cost per Room</b>
Construction: Building	\$20,129,375	\$188,125
Construction: Parkade	1,404,375	\$13,125
Site Construction/Demo	214,000	\$2,000
Architectural, Engineering, Filing Fees	963,000	\$9,000
Landscaping/Pool Allowance	321,000	\$3,000
<b>Total Building Costs</b>	<b>23,031,750</b>	<b>\$215,250</b>
Design and Consulting	321,000	\$3,000
FF&E	2,204,200	\$20,600
Operating Supplies and Equipment	1,658,500	\$15,500
<b>Total Interior</b>	<b>4,183,700</b>	<b>\$39,100</b>
Per-opening	750,000	\$7,009
Legal, insurance & Taxes	120,000	\$1,121
Project Construction Financing Cost	100,000	\$935
Construction Supervision	150,000	\$1,402
Construction Loan Interest	450,000	\$4,206
Development Fee	600,000	\$5,607
Partial Reay 2015 Operating Loss	44,423	\$415
Working Capital	400,000	\$3,738
Miscellaneous	120,000	\$1,121
<b>Total Soft Costs</b>	<b>2,734,423</b>	<b>\$25,555</b>
<b>Contingency</b>	<b>535,000</b>	<b>\$5,000</b>
Total, Without Land	\$30,484,873	\$284,905
Site Cost	\$1,600,000	\$14,953
<b>Total, With Land</b>	<b>\$32,084,873</b>	<b>\$299,859</b>

### Ownership, Franchise, and Management Assumptions

The subject site is owned by William Cole Development, LLC, which is based in Houston, Texas. They intend to develop the subject hotel. Construction is expected to begin in Summer of 2014 with a completion date in late 2015.

The proposed subject hotel will be managed by Trust Hospitality. Details pertaining to management terms were not yet determined at the time of this report. We have assumed a market-appropriate base management fee of 3.0% of total revenue

**Overview of Local Area  
Lodging Market Trends**

The proposed 107-room Proposed Hotel at Red Mountain Resort will be located in Rossland, British Columbia. Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are expected to be primarily competitive with the proposed subject hotel.

The following table illustrates the historical occupancy and average levels for selected hotels in the market.

**FIGURE 1-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE**

Property	Number of Rooms	Est. Segmentation			Estimated 2011				Estimated 2012				Estimated 2013						
		Commercial	Meeting and Group	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Casa Alpina	42	5 %	5 %	90 %	42	50 %	\$85.00	\$42.50	42	55 %	\$85.00	\$46.75	42	58 %	\$90.00	\$52.20	11.7 %	102.6 %	45.0 %
Prestige Rocky Mountain Resort	67	25	15	60	67	60	170.00	102.00	67	63	175.00	110.25	67	65	185.00	120.25	9.1	115.0	103.6
Rams Head inn	14	0	10	90	14	50	170.00	85.00	14	55	175.00	96.25	14	55	180.00	99.00	2.9	97.3	85.3
Red Mountain Resort Lodging	60	5	10	85	60	33	349.00	115.17	60	41	326.00	133.66	60	50	307.00	153.50	14.8	88.5	132.3
Red Mountain Village Properties	42	10	5	85	42	40	290.00	116.00	42	45	290.00	130.50	42	50	275.00	137.50	5.4	88.5	118.5
Rossland Motel	10	10	0	90	10	58	95.00	55.10	10	60	100.00	60.00	10	62	105.00	65.10	8.5	109.7	56.1
<b>Totals/Averages</b>	<b>235</b>	<b>12 %</b>	<b>9 %</b>	<b>78 %</b>	<b>235</b>	<b>47.1 %</b>	<b>\$200.20</b>	<b>\$94.22</b>	<b>235</b>	<b>52.1 %</b>	<b>\$202.42</b>	<b>\$105.52</b>	<b>235</b>	<b>56.5 %</b>	<b>\$205.34</b>	<b>\$116.05</b>	<b>10.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>



Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities from large condo rentals to small motels and ski chalets. Each primary competitor was inspected and evaluated.

According to the City of Rossland Planning Office, and our research and inspection (as applicable), no new supply is expected other than the subject property. The Red Mountain Resort owners have plans to develop a 32-room hotel at the mountain base, however, have put this on hold indefinitely with the development of the subject hotel.

Market segmentation is a useful procedure because individual classifications often exhibit unique characteristics in terms of growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the room-night demand by market segment and analyzing the characteristics of each segment, the demand for transient accommodations can be projected.

**FIGURE 1-3 ACCOMMODATED ROOM-NIGHT DEMAND**

<b>Market Segment</b>	<b>Marketwide</b>	
	<b>Accommodated Demand</b>	<b>Percentage of Total</b>
Commercial	5,959	12 %
Meeting and Group	4,588	9
Leisure	37,929	78
<b>Total</b>	<b>48,476</b>	<b>100 %</b>

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 1-4 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES**

<b>Market Segment</b>	<b>Annual Growth Rate</b>				
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Commercial	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
Meeting and Group	1.0	4.0	5.0	4.0	1.0
Leisure	6.0	10.0	12.0	3.0	1.0
<b>Base Demand Growth</b>	<b>4.9 %</b>	<b>8.4 %</b>	<b>10.2 %</b>	<b>2.9 %</b>	<b>1.0 %</b>

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 1-5 FORECAST OF MARKET OCCUPANCY**

	2013	2014	2015	2016	2017	2018
<b>Commercial</b>						
Base Demand	5,959	6,018	6,079	6,139	6,201	6,263
Total Demand		6,018	6,079	6,139	6,201	6,263
Growth Rate		1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
<b>Meeting and Group</b>						
Base Demand	4,588	4,634	4,819	5,060	5,263	5,316
Total Demand		4,634	4,819	5,060	5,263	5,316
Growth Rate		1.0 %	4.0 %	5.0 %	4.0 %	1.0 %
<b>Leisure</b>						
Base Demand	37,929	40,204	44,225	49,532	51,018	51,528
Unaccommodated Demand		377	414	464	478	483
Total Demand		40,581	44,639	49,996	51,496	52,011
Growth Rate		7.0 %	10.0 %	12.0 %	3.0 %	1.0 %
<b>Totals</b>						
Base Demand	48,476	50,857	55,123	60,732	62,481	63,106
Unaccommodated Demand		377	414	464	478	483
Total Demand		51,234	55,537	61,196	62,959	63,589
less: Residual Demand		377	414	464	478	483
Total Accommodated Demand		50,857	55,123	60,732	62,481	63,106
<b>Overall Demand Growth</b>		4.9 %	8.4 %	10.2 %	2.9 %	1.0 %
<b>Market Mix</b>						
Commercial	12.3 %	11.7 %	10.9 %	10.0 %	9.8 %	9.8 %
Meeting and Group	9.5	9.0	8.7	8.3	8.4	8.4
Leisure	78.2	79.2	80.4	81.7	81.8	81.8
<b>Existing Hotel Supply</b>	235	235	235	235	235	235
<b>Proposed Hotels</b>						
Proposed Hotel at Red Mountain Resort <sup>1</sup>			9	107	107	107
Available Rooms per Night	85,775	85,775	89,092	124,830	124,830	124,830
Nights per Year	365	365	365	365	365	365
<b>Total Supply</b>	235	235	244	342	342	342
Rooms Supply Growth	—	0.0 %	3.9 %	40.1 %	0.0 %	0.0 %
<b>Marketwide Occupancy</b>	<b>56.5 %</b>	<b>59.3 %</b>	<b>61.9 %</b>	<b>48.7 %</b>	<b>50.1 %</b>	<b>50.6 %</b>

<sup>1</sup> Opening in December 2015 of the 100% competitive, 107-room Proposed Hotel at Red Mountain Resort

These room-night projections for the market area are used in determining the proposed subject hotel's expected occupancy levels based on penetration levels forecast by segment.

### Forecast of the Proposed subject hotel'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 1-6 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY**

Market Segment	2013	2014	2015	2016	2017	2018
<b>Commercial</b>						
Demand	5,959	6,018	6,079	6,139	6,201	6,263
Market Share			2.6 %	24.2 %	24.2 %	24.2 %
Capture			160	1,484	1,499	1,514
Penetration			71 %	77 %	77 %	77 %
<b>Meeting and Group</b>						
Demand	4,588	4,634	4,819	5,060	5,263	5,316
Market Share			5.1 %	42.1 %	45.0 %	45.0 %
Capture			248	2,133	2,371	2,394
Penetration			138 %	135 %	144 %	144 %
<b>Leisure</b>						
Demand	37,929	40,204	44,225	49,532	51,018	51,528
Market Share			3.7 %	35.3 %	37.2 %	38.1 %
Capture			1,646	17,501	18,970	19,616
Penetration			100 %	113 %	119 %	122 %
<b>Total Room Nights Captured</b>			<b>2,054</b>	<b>21,118</b>	<b>22,839</b>	<b>23,524</b>
Available Room Nights			3,317	39,055	39,055	39,055
<b>Subject Occupancy</b>			<b>62 %</b>	<b>54 %</b>	<b>58 %</b>	<b>60 %</b>
Marketwide Available Room Nights	85,775	85,775	89,092	124,830	124,830	124,830
<b>Fair Share</b>			<b>4 %</b>	<b>31 %</b>	<b>31 %</b>	<b>31 %</b>
Marketwide Occupied Room Nights	48,476	50,857	55,123	60,732	62,481	63,106
<b>Market Share</b>			<b>4 %</b>	<b>35 %</b>	<b>37 %</b>	<b>37 %</b>
<b>Marketwide Occupancy</b>	<b>57 %</b>	<b>59 %</b>	<b>62 %</b>	<b>49 %</b>	<b>50 %</b>	<b>51 %</b>
<b>Total Penetration</b>			<b>100 %</b>	<b>111 %</b>	<b>117 %</b>	<b>119 %</b>

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

**FIGURE 1-7 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY**

	2015	2016	2017	2018
Commercial	8 %	7 %	7 %	6 %
Meeting and Group	12	10	10	10
Leisure	80	83	83	83
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

These projections reflect years beginning December 1, 2015, which correspond to the first projection year in the forecast of income and expense for the proposed subject hotel.

**FIGURE 1-8 FORECAST OF OCCUPANCY**

<u>Year</u>	<u>Subject Property's Occupancy</u>
2015/16	55 %
2016/17	58
2017/18	60
2018/19	61

**Forecast of the  
Proposed subject  
hotel's Average Rate**

The defined competitive market realized an overall average rate of \$205.34 in the 2013 base year, improving from the 2012 level of \$202.42. We have selected the rate position of 267.20, in base-year dollars, for the proposed subject hotel.

**FIGURE 1-9 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST**

	2013	2014	2015	2016	2017	2018
<b>Commercial</b>						
Average Rate Growth	—	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Captured Room Nights			160	1,484	1,499	1,514
Rooms Revenue			\$37,502	\$354,296	\$364,996	\$376,019
Average Rate	\$225.00	\$229.50	\$234.09	\$238.77	\$243.55	\$248.42
<b>Meeting and Group</b>						
Average Rate Growth	—	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Captured Room Nights			248	2,133	2,371	2,394
Rooms Revenue			\$59,228	\$520,573	\$590,160	\$607,983
Average Rate	\$230.00	\$234.60	\$239.29	\$244.08	\$248.96	\$253.94
<b>Leisure</b>						
Average Rate Growth	—	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Captured Room Nights			1,646	17,501	18,970	19,616
Rooms Revenue			\$471,077	\$5,107,364	\$5,646,685	\$5,955,780
Average Rate	\$275.00	\$280.50	\$286.11	\$291.83	\$297.67	\$303.62
<b>Total</b>						
Average Rate Growth	—	2.0 %	1.4 %	2.5 %	2.0 %	2.1 %
Captured Room Nights			2,054	21,118	22,839	23,524
Rooms Revenue			\$567,807	\$5,982,233	\$6,601,841	\$6,939,782
Average Rate	\$267.20	\$272.55	\$276.41	\$283.28	\$289.06	\$295.01
Average Rate Penetration	130.1 %	130.1 %	129.4 %	130.0 %	130.1 %	130.1 %
Marketwide Average Rate Growth	—	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Marketwide Average Rate	\$205.34	\$209.45	\$213.64	\$217.91	\$222.27	\$226.71

The following average rates will be used to project the subject property's rooms revenue. This forecast reflects years beginning on December 1, 2015 and corresponds with our financial projections.

**FIGURE 1-10 FORECAST OF AVERAGE RATE**

<u>Year</u>	<u>Occupancy</u>	<u>Average Rate</u>
2015/16	55 %	\$282.70
2016/17	58	288.57
2017/18	60	294.51
2018/19	61	300.41

#### **Forecast of Income and Expense**

The following table presents a detailed forecast through the fifth projection year, including amounts per available room (PAR) and per occupied room (POR). 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 December 1, 2015, expressed in inflated dollars for each year.



**FIGURE 1-11 DETAILED FORECAST OF INCOME AND EXPENSE**

	2015/16 Begins December				2016/17				2017/18				Stabilized				2019/20			
Number of Rooms:	107				107				107				107				107			
Occupancy:	55%				58%				60%				61%				61%			
Average Rate:	\$282.70				\$288.57				\$294.51				\$300.41				\$306.42			
RevPAR:	\$155.48				\$167.37				\$176.70				\$183.25				\$186.92			
Days Open:	365				365				365				365				365			
Occupied Rooms:	21,480	%Gross	PAR	POR	22,652	%Gross	PAR	POR	23,433	%Gross	PAR	POR	23,824	%Gross	PAR	POR	23,824	%Gross	PAR	POR
<b>REVENUE</b>																				
Rooms	\$6,072	70.5 %	\$56,748	\$282.68	\$6,537	70.8 %	\$61,093	\$288.59	\$6,901	71.0 %	\$64,495	\$294.50	\$7,157	69.6 %	\$66,888	\$300.42	\$7,300	69.6 %	\$68,224	\$306.42
Food & Beverage	1,940	22.5	18,127	90.30	2,062	22.3	19,274	91.05	2,164	22.3	20,228	92.37	2,460	23.9	22,987	103.24	2,509	23.9	23,447	105.31
Other Operated Departments	98	1.1	916	4.56	101	1.1	948	4.48	105	1.1	977	4.46	107	1.0	1,001	4.50	109	1.0	1,021	4.59
Spa/Health Club	432	5.0	4,037	20.11	452	4.9	4,224	19.95	469	4.8	4,381	20.01	482	4.7	4,506	20.24	492	4.7	4,596	20.64
Rentals & Other Income	73	0.9	687	3.42	76	0.8	711	3.36	78	0.8	733	3.35	80	0.8	751	3.37	82	0.8	766	3.44
Total Revenues	8,615	100.0	80,515	401.07	9,229	100.0	86,252	407.42	9,717	100.0	90,814	414.68	10,286	100.0	96,133	431.77	10,492	100.0	98,054	440.40
<b>DEPARTMENTAL EXPENSES *</b>																				
Rooms	1,697	28.0	15,863	79.02	1,767	27.0	16,511	77.99	1,826	26.5	17,067	77.93	1,875	26.2	17,523	78.70	1,912	26.2	17,873	80.28
Food & Beverage	1,620	83.5	15,143	75.43	1,683	81.6	15,728	74.29	1,738	80.3	16,247	74.19	1,864	75.8	17,420	78.24	1,901	75.8	17,768	79.80
Other Operated Departments	85	86.8	795	3.96	87	85.9	814	3.85	89	85.3	833	3.80	91	85.0	851	3.82	93	85.0	868	3.90
Spa/Health Club	358	82.9	3,347	16.67	368	81.4	3,439	16.25	377	80.5	3,525	16.10	386	80.0	3,605	16.19	393	80.0	3,677	16.51
Total	3,761	43.7	35,147	175.08	3,905	42.3	36,493	172.38	4,031	41.5	37,672	172.02	4,216	41.0	39,398	176.95	4,300	41.0	40,186	180.49
DEPARTMENTAL INCOME	4,854	56.3	45,368	225.99	5,324	57.7	49,759	235.04	5,686	58.5	53,142	242.66	6,071	59.0	56,735	254.82	6,192	59.0	57,868	259.91
<b>UNDISTRIBUTED OPERATING EXPENSES</b>																				
Administrative & General	698	8.1	6,524	32.50	720	7.8	6,732	31.80	740	7.6	6,920	31.60	762	7.4	7,125	32.00	778	7.4	7,267	32.64
Marketing	421	4.9	3,935	19.60	434	4.7	4,061	19.18	447	4.6	4,174	19.06	460	4.5	4,297	19.30	469	4.5	4,383	19.69
Prop. Operations & Maint.	332	3.9	3,107	15.47	343	3.7	3,206	15.14	353	3.6	3,295	15.05	363	3.5	3,393	15.24	370	3.5	3,461	15.54
Utilities	399	4.6	3,728	18.57	412	4.5	3,847	18.17	423	4.4	3,954	18.06	436	4.2	4,071	18.29	444	4.2	4,153	18.65
Total	1,850	21.5	17,293	86.14	1,909	20.7	17,845	84.30	1,963	20.2	18,344	83.76	2,021	19.6	18,886	84.82	2,061	19.6	19,264	86.52
HOUSE PROFIT	3,004	34.8	28,075	139.85	3,415	37.0	31,914	150.75	3,723	38.3	34,798	158.89	4,050	39.4	37,849	169.99	4,131	39.4	38,604	173.39
Management Fee	258	3.0	2,415	12.03	277	3.0	2,588	12.22	292	3.0	2,724	12.44	309	3.0	2,884	12.95	315	3.0	2,942	13.21
INCOME BEFORE FIXED CHARGES	2,746	31.8	25,659	127.82	3,138	34.0	29,326	138.53	3,432	35.3	32,073	146.45	3,741	36.4	34,965	157.04	3,816	36.4	35,663	160.17
<b>FIXED EXPENSES</b>																				
Property Taxes	29	0.3	272	1.35	29	0.3	272	1.29	29	0.3	273	1.25	29	0.3	274	1.23	63	0.6	590	2.65
Insurance	76	0.9	708	3.53	77	0.8	722	3.41	79	0.8	737	3.36	80	0.8	751	3.37	82	0.8	766	3.44
Reserve for Replacement	172	2.0	1,610	8.02	277	3.0	2,588	12.22	389	4.0	3,633	16.59	411	4.0	3,845	17.27	420	4.0	3,922	17.62
Total	277	3.2	2,590	12.90	383	4.1	3,582	16.92	497	5.1	4,642	21.20	521	5.1	4,870	21.87	565	5.4	5,278	23.71
NET INCOME	\$2,468	28.6 %	\$23,069	\$114.91	\$2,755	29.9 %	\$25,744	\$121.61	\$2,935	30.2 %	\$27,431	\$125.26	\$3,220	31.3 %	\$30,094	\$135.16	\$3,251	31.0 %	\$30,384	\$136.47

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

**FIGURE 1-12 TEN-YEAR FORECAST OF INCOME AND EXPENSE**

	2015/16		2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		2024/25	
Number of Rooms:	107		107		107		107		107		107		107		107		107		107	
Occupied Rooms:	21,480		22,652		23,433		23,824		23,824		23,824		23,824		23,824		23,824		23,824	
Occupancy:	55%		58%		60%		61%		61%		61%		61%		61%		61%		61%	
Average Rate:	\$282.70	% of	\$288.57	% of	\$294.51	% of	\$300.41	% of	\$306.42	% of	\$312.55	% of	\$318.80	% of	\$325.18	% of	\$331.68	% of	\$338.31	% of
RevPAR:	\$155.48	Gross	\$167.37	Gross	\$176.70	Gross	\$183.25	Gross	\$186.92	Gross	\$190.65	Gross	\$194.47	Gross	\$198.36	Gross	\$202.32	Gross	\$206.37	Gross
<b>REVENUE</b>																				
Rooms	\$6,072	70.5 %	\$6,537	70.8 %	\$6,901	71.0 %	\$7,157	69.6 %	\$7,300	69.6 %	\$7,446	69.6 %	\$7,595	69.6 %	\$7,747	69.6 %	\$7,902	69.6 %	\$8,060	69.6 %
Food & Beverage	1,940	22.5	2,062	22.3	2,164	22.3	2,460	23.9	2,509	23.9	2,559	23.9	2,610	23.9	2,662	23.9	2,716	23.9	2,770	23.9
Other Operated Departments	98	1.1	101	1.1	105	1.1	107	1.0	109	1.0	111	1.0	114	1.0	116	1.0	118	1.0	121	1.0
Spa/Health Club	432	5.0	452	4.9	469	4.8	482	4.7	492	4.7	502	4.7	512	4.7	522	4.7	532	4.7	543	4.7
Rentals & Other Income	73	0.9	76	0.8	78	0.8	80	0.8	82	0.8	84	0.8	85	0.8	87	0.8	89	0.8	90	0.8
Total	8,615	100.0	9,229	100.0	9,717	100.0	10,286	100.0	10,492	100.0	10,702	100.0	10,916	100.0	11,134	100.0	11,357	100.0	11,584	100.0
<b>DEPARTMENTAL EXPENSES*</b>																				
Rooms	1,697	28.0	1,767	27.0	1,826	26.5	1,875	26.2	1,912	26.2	1,951	26.2	1,990	26.2	2,030	26.2	2,070	26.2	2,111	26.2
Food & Beverage	1,620	83.5	1,683	81.6	1,738	80.3	1,864	75.8	1,901	75.8	1,939	75.8	1,978	75.8	2,018	75.8	2,058	75.8	2,099	75.8
Other Operated Departments	85	86.8	87	85.9	89	85.3	91	85.0	93	85.0	95	85.0	97	85.0	99	85.0	101	85.0	103	85.0
Spa/Health Club	358	82.9	368	81.4	377	80.5	386	80.0	393	80.0	401	80.0	409	80.0	417	80.0	426	80.0	434	80.0
Total	3,761	43.7	3,905	42.3	4,031	41.5	4,216	41.0	4,300	41.0	4,386	41.0	4,474	41.0	4,563	41.0	4,654	41.0	4,747	41.0
<b>DEPARTMENTAL INCOME</b>																				
Administrative & General	698	8.1	720	7.8	740	7.6	762	7.4	778	7.4	793	7.4	809	7.4	825	7.4	842	7.4	859	7.4
Marketing	421	4.9	434	4.7	447	4.6	460	4.5	469	4.5	478	4.5	488	4.5	498	4.5	508	4.5	518	4.5
Prop. Operations & Maint.	332	3.9	343	3.7	353	3.6	363	3.5	370	3.5	378	3.5	385	3.5	393	3.5	401	3.5	409	3.5
Utilities	399	4.6	412	4.5	423	4.4	436	4.2	444	4.2	453	4.2	462	4.2	472	4.2	481	4.2	491	4.2
Total	1,850	21.5	1,909	20.7	1,963	20.2	2,021	19.6	2,061	19.6	2,102	19.6	2,145	19.6	2,187	19.6	2,231	19.6	2,276	19.6
<b>HOUSE PROFIT</b>																				
Management Fee	258	3.0	277	3.0	292	3.0	309	3.0	315	3.0	321	3.0	327	3.0	334	3.0	341	3.0	348	3.0
<b>INCOME BEFORE FIXED CHARGES</b>																				
<b>FIXED EXPENSES</b>																				
Property Taxes	29	0.3	29	0.3	29	0.3	29	0.3	63	0.6	98	0.9	135	1.2	173	1.6	217	1.9	222	1.9
Insurance	76	0.9	77	0.8	79	0.8	80	0.8	82	0.8	84	0.8	85	0.8	87	0.8	89	0.8	91	0.8
Reserve for Replacement	172	2.0	277	3.0	389	4.0	411	4.0	420	4.0	428	4.0	437	4.0	445	4.0	454	4.0	463	4.0
Total	277	3.2	383	4.1	497	5.1	521	5.1	565	5.4	610	5.7	657	6.0	705	6.4	760	6.7	776	6.7
<b>NET INCOME</b>																				
	\$2,468	28.6 %	\$2,755	29.9 %	\$2,935	30.2 %	\$3,220	31.3 %	\$3,251	31.0 %	\$3,282	30.7 %	\$3,313	30.4 %	\$3,344	30.0 %	\$3,370	29.7 %	\$3,438	29.7 %

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

A discussion with the developer indicated a further source of revenue through packaged lift tickets sales where the hotel operators would buy lift tickets in bulk at wholesale prices from the resort and sell them as packages with the guestrooms. While this could add further revenue to the subject property, we have not included it in our projections, as it was speculative at the time and no fees or wholesale prices had been determined. Our positioning of each revenue and expense level is supported by comparable operations or trends specific to this market.

**FIGURE 1-13 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized \$
Year:	2012/13	2012/13	2012/13	2010/11	2011	2013
Number of Rooms:	90 to 120	40 to 70	20 to 40	100 to 140	180 to 230	107
Days Open:	365	365	365	365	365	365
Occupancy:	81%	61%	64%	65%	63%	61%
Average Rate:	\$150	\$180	\$208	\$261	\$174	\$272
RevPAR:	\$121	\$110	\$134	\$169	\$110	\$166
<b>REVENUE</b>						
Rooms	52.0 %	24.1 %	26.7 %	91.6 %	89.8 %	69.6 %
Food & Beverage	42.6	53.8	52.0	3.1	2.9	23.9
Other Operated Departments	1.9	20.7	18.4	3.3	6.3	5.7
Rentals & Other Income	3.6	1.5	2.8	2.0	0.9	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
<b>DEPARTMENTAL EXPENSES*</b>						
Rooms	36.8	37.2	47.1	32.3	43.6	26.2
Food & Beverage	68.2	71.6	69.2	40.1	82.5	75.8
Other Operated Departments	122.2	67.9	54.4	21.5	3.3	80.9
Rentals & Other Income	0.0	0.0	0.0	0.0	0.0	0.0
Total	50.4	61.5	58.6	31.5	41.7	41.0
<b>DEPARTMENTAL INCOME</b>	49.6	38.5	41.4	68.5	58.3	59.0
<b>OPERATING EXPENSES</b>						
Administrative & General	7.6	8.8	7.4	12.5	11.4	7.4
Marketing	3.7	2.9	2.0	6.2	7.0	4.5
Property Operations & Maintenance	2.9	1.6	2.5	4.0	6.6	3.5
Utilities	2.4	1.9	3.1	4.4	2.1	4.2
Total	16.6	15.2	15.1	27.1	27.2	19.6
<b>HOUSE PROFIT</b>	33.0	23.3	26.3	41.4	31.1	39.4
Management Fee	3.0	1.2	3.0	3.0	3.0	3.0
<b>INCOME BEFORE FIXED CHARGES</b>	30.0	22.1	23.3	38.4	28.1	36.4
<b>FIXED EXPENSES</b>						
Property Taxes	2.0	1.4	2.0	9.9	2.5	0.3
Insurance	0.3	0.6	0.7	0.5	0.0	0.8
Miscellaneous Fixed Expenses	0.0	0.0	0.0	0.0	7.8	0.0
Reserve for Replacement	4.0	4.0	4.0	0.0	4.0	4.0
Total	6.3	6.0	6.7	10.4	14.4	5.1
<b>NET INCOME</b>	23.7 %	16.1 %	16.6 %	28.0 %	13.7 %	31.3 %

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

**FIGURE 1-14 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2012/13	2012/13	2012/13	2010/11	2011	2013
Number of Rooms:	90 to 120	40 to 70	20 to 40	100 to 140	180 to 230	107
Days Open:	365	365	365	365	365	365
Occupancy:	81%	61%	64%	65%	63%	61%
Average Rate:	\$150	\$180	\$208	\$261	\$174	\$272
RevPAR:	\$121	\$110	\$134	\$169	\$110	\$166
<b>REVENUE</b>						
Rooms	\$44,194	\$40,161	\$48,760	\$61,607	\$40,117	\$60,581
Food & Beverage	36,254	89,613	94,986	2,107	1,312	20,820
Other Operated Departments	1,584	34,410	33,553	2,254	2,834	4,988
Rentals & Other Income	3,028	2,423	5,196	1,320	410	680
Total	85,060	166,606	182,495	67,287	44,673	87,070
<b>DEPARTMENTAL EXPENSES</b>						
Rooms	16,245	14,922	22,976	19,877	17,473	15,871
Food & Beverage	24,710	64,118	65,729	844	1,083	15,777
Other Operated Departments	1,936	23,367	18,244	484	93	4,036
Rentals & Other Income	0	0	0	0	0	0
Total	42,891	102,407	106,949	21,205	18,649	35,684
<b>DEPARTMENTAL INCOME</b>	42,169	64,198	75,546	46,082	26,024	51,385
<b>OPERATING EXPENSES</b>						
Administrative & General	6,456	14,591	13,485	8,410	5,098	6,453
Marketing	3,148	4,884	3,724	4,205	3,141	3,892
Property Operations & Maintenance	2,444	2,713	4,652	2,680	2,956	3,073
Utilities	2,059	3,201	5,660	2,959	946	3,687
Total	14,106	25,389	27,521	18,254	12,141	17,106
<b>HOUSE PROFIT</b>	28,063	38,809	48,025	27,828	13,883	34,280
Management Fee	2,552	1,957	5,475	2,016	1,337	2,612
<b>INCOME BEFORE FIXED CHARGES</b>	25,511	36,853	42,550	25,811	12,546	31,668
<b>FIXED EXPENSES</b>						
Property Taxes	1,710	2,318	3,575	6,689	1,098	248
Insurance	243	964	1,326	369	0	681
Miscellaneous Fixed Expenses	0	0	0	0	3,495	0
Reserve for Replacement	3,402	6,664	7,300	0	1,785	3,483
Total	5,355	9,947	12,201	7,057	6,378	4,411
<b>NET INCOME</b>	\$20,156	\$26,906	\$30,349	\$18,754	\$6,168	\$27,256

**FIGURE 1-15 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2012/13	2012/13	2012/13	2010/11	2011	2013
Number of Rooms:	90 to 120	40 to 70	20 to 40	100 to 140	180 to 230	107
Days Open:	365	365	365	365	365	365
Occupancy:	81%	61%	64%	65%	63%	61%
Average Rate:	\$150	\$180	\$208	\$261	\$174	\$272
RevPAR:	\$121	\$110	\$134	\$169	\$110	\$166
<b>REVENUE</b>						
Rooms	\$149.90	\$179.84	\$208.40	\$260.85	\$173.80	\$272.09
Food & Beverage	122.97	401.29	405.98	8.92	5.68	93.51
Other Operated Departments	5.37	154.09	143.41	9.54	12.28	22.40
Rentals & Other Income	10.27	10.85	22.21	5.59	1.78	3.05
Total	288.52	746.08	779.99	284.90	193.54	391.06
<b>DEPARTMENTAL EXPENSES</b>						
Rooms	55.10	66.82	98.20	84.16	75.70	71.28
Food & Beverage	83.82	287.13	280.93	3.57	4.69	70.86
Other Operated Departments	6.57	104.64	77.98	2.05	0.40	18.13
Rentals & Other Income	0.00	0.00	0.00	0.00	0.00	0.00
Total	145.48	458.59	457.11	89.78	80.79	160.27
<b>DEPARTMENTAL INCOME</b>	143.03	287.49	322.89	195.11	112.75	230.79
<b>OPERATING EXPENSES</b>						
Administrative & General	21.90	65.34	57.64	35.61	22.08	28.98
Marketing	10.68	21.87	15.92	17.80	13.61	17.48
Property Operations & Maintenance	8.29	12.15	19.88	11.35	12.81	13.80
Utilities	6.98	14.34	24.19	12.53	4.10	16.56
Total	47.85	113.69	117.63	77.29	52.60	76.83
<b>HOUSE PROFIT</b>	95.19	173.79	205.26	117.82	60.15	153.96
Management Fee	8.66	8.76	23.40	8.54	5.79	11.73
<b>INCOME BEFORE FIXED CHARGES</b>	86.53	165.03	181.86	109.29	54.36	142.23
<b>FIXED EXPENSES</b>						
Property Taxes	5.80	10.38	15.28	28.32	4.76	1.11
Insurance	0.82	4.32	5.67	1.56	0.00	3.06
Miscellaneous Fixed Expenses	0.00	0.00	0.00	0.00	15.14	0.00
Reserve for Replacement	11.54	29.84	31.20	0.00	7.73	15.64
Total	18.16	44.54	52.15	29.88	27.63	19.81
<b>NET INCOME</b>	\$68.37	\$120.49	\$129.71	\$79.41	\$26.73	\$122.42

**FIGURE 1-16 COMPARABLE OPERATING STATEMENTS: COMPOSITE STATEMENT**

	<b>Number of Rooms:</b>	<b>520</b>			
	<b>Days Open:</b>	<b>365</b>			
	<b>Occupancy:</b>	<b>67.0%</b>			
	<b>Average Rate:</b>	<b>\$190.40</b>	<b>Percentage</b>	<b>Amount per</b>	<b>Amount per</b>
	<b>RevPAR:</b>	<b>\$127.49</b>	<b>of Revenue</b>	<b>Available</b>	<b>Occupied</b>
				<b>Room</b>	<b>Room</b>
<b>REVENUE</b>					
Rooms		\$24,198	58.3 %	\$46,535	\$190.40
Food & Beverage		12,396	29.9	23,838	97.54
Other Operating Departments		4,022	9.7	7,735	31.65
Rentals & Other Income		868	2.1	1,669	6.83
Total		41,484	100.0	79,777	326.41
<b>DEPARTMENTAL EXPENSES</b>					
Rooms		9,292	38.4	17,869	73.11
Food & Beverage		8,615	69.5	16,568	67.79
Other Operating Departments		2,169	53.9	4,170	17.06
Rentals & Other Income		0	0.0	0	0.00
Total		20,075	48.4	38,606	157.96
<b>DEPARTMENTAL INCOME</b>		<b>21,409</b>	<b>51.6</b>	<b>41,170</b>	<b>168.45</b>
<b>OPERATING EXPENSES</b>					
Administrative & General		3,996	9.6	7,685	31.45
Marketing		1,879	4.5	3,613	14.78
Property Operations & Maintenance		1,492	3.6	2,870	11.74
Utilities		1,134	2.7	2,181	8.92
Total		8,502	20.5	16,350	66.89
<b>HOUSE PROFIT</b>		<b>12,907</b>	<b>31.1</b>	<b>24,821</b>	<b>101.56</b>
Management Fee		1,076	2.6	2,070	8.47
<b>INCOME BEFORE FIXED CHARGES</b>		<b>11,831</b>	<b>28.5</b>	<b>22,751</b>	<b>93.09</b>
<b>FIXED EXPENSES</b>					
Property Taxes		1,466	3.5	2,819	11.54
Insurance		167	0.4	322	1.32
Miscellaneous Fixed Expenses		717	1.7	1,378	5.64
Reserve for Replacement		1,331	3.2	2,559	10.47
Total		3,680	8.9	7,078	28.96
<b>NET INCOME</b>		<b>\$8,150</b>	<b>19.6 %</b>	<b>\$15,673</b>	<b>\$64.13</b>

Our analysis reflects a profitable operation, with net income expected to total 31.0% of total revenue by the stabilized year. The stabilized total revenue comprises primarily rooms revenue, with a secondary portion derived from other income sources. On the cost side, departmental expenses total 41.0% of revenue by the stabilized year, while undistributed operating expenses total 19.6% 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 5.4% of total revenues in fixed expenses, a net income ratio of 31.0% is forecast by the stabilized year.

Utilizing a market appropriate discount rate of 11.5%, the discounted-cash-flow procedure is summarized as follows.

**FIGURE 1-1 DISCOUNTED CASH FLOW ANALYSIS – WHEN COMPLETE**

Year	Net Income	Discount Factor @ 11.50%	Discounted Cash Flow
2015/16	\$2,468,000	0.89686	\$2,213,453
2016/17	2,755,000	0.80436	2,216,011
2017/18	2,935,000	0.72140	2,117,305
2018/19	3,220,000	0.64699	2,083,322
2019/20	3,251,000	0.58026	1,886,438
2020/21	3,282,000	0.52042	1,708,006
2021/22	3,313,000	0.46674	1,546,313
2022/23	3,344,000	0.41860	1,399,804
2023/24	3,370,000	0.37543	1,265,191
2024/25	39,615,000 *	0.33671	13,338,782
<b>Estimated Value</b>			\$29,774,626
(SAY)			\$29,800,000
<b>Reversion Analysis</b>			
11th Year's Net Income			\$3,507,000
Capitalization Rate			9.5%
Total Sales Proceeds			\$36,915,789
Less: Transaction Costs @ 2.0%			<u>738,316</u>
Net Sales Proceeds			\$36,177,474
*10th year net income of \$3,438,000 plus sales proceeds of \$36,177,000			

### Method of Study

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by HVS for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels*,<sup>1</sup> *Hotels, Motels and Restaurants: Valuations and*

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



*Market Studies,*<sup>2</sup> *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*<sup>3</sup> and *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations.*<sup>4</sup>

1. 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 location factors.
2. 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.
3. Dividing the market for transient 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, required facilities and amenities, seasonality, daily demand fluctuations, and price sensitivity.
4. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness.
5. The subject property's proposed improvements have been evaluated or recommended for optimal capture of demand in this market and at the subject site's location.
6. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.
7. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.

#### Date of Inspection

The subject site was inspected by Andrew Higgs on March 21, 2014.

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

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

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

## 2. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a summary of findings only for 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 to be 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 impact 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. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
6. 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.
7. All information, financial operating statements, estimates, and opinions obtained from parties not employed by MM&R Valuation Services, Inc. are assumed to be true and correct. We can assume no liability resulting from misinformation.
8. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.

9. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
10. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
11. 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.
12. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
13. 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.
14. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
15. The quality of a lodging facility's on-site 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.
16. The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared based upon information obtained during the course of this study and are intended to reflect the expectations of a typical hotel investor.

17. 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.
18. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.
19. 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.
20. This study was prepared by MM&R Valuation Services, Inc.. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of MM&R Valuation Services, Inc. as employees, rather than as individuals.