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HOTEL FEASIBILITY STUDY

Smith Butte Proposed Hotel Development

Ash Fork, Arizona

Submitted to:

Mr. Derrick Grahn, Partner
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Prepared by:

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BHA#092721FS

Date: October 17, 2021

October 17, 2021

Mr. Derrick Grahn, Partner
William Meilahn & Love, LLC
10810 N Tatum Blvd, #102901
Phoenix, AZ 85028

Subject: Smith Butte Ash Fork Feasibility Study & Valuation #BHA092721FS

Dear Mr. Grahn:

In accordance with your request, we herewith submit our Hotel Feasibility Study pertaining to the above-mentioned location. We have examined the Smith Butte property in Ash Fork, Arizona along with the area market conditions, evaluated the projected position of the hotel, assessed the anticipated physical potential fit-outs, and gauged the location.

Based on the available data, together with our analysis and worldwide experience in the hotel industry, it is our opinion that the estimated likely stabilized revenue per annum of the hotel, described within the contents herein, and operated by a diligent owner and capable manager should achieve the forecasted revenues as submitted with this report.

We certify that no BHA officer or employee is a relative or associated with the subject hotel and certify that BHA has no undisclosed interest in the hotel and that our employment or compensation are not contingent upon our reported findings or conclusions.

The opinion of the financial forecast and the entire report are subject to the comments and assumptions and limited conditions set forth herein.

Yours sincerely,
Boutique Hotel Advisors LLC

John Sears

John Sears
Managing Partner
BHA#092721FS

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1. Executive Summary

Property Address:	8200 W Rolling Ridge Rd, Ash Fork AZ 86320
Project Type:	Upscale, modern luxury rental cabins
Date of Investigation:	September 29, 2021
Anticipated Opening:	January 2023
Period to Stabilization:	Sixty months (60), 5 years

Property Description

Site Area:	Approximately 200 acres
Zoning:	Yavapai County Government, RCU-10A
Buildings Footprint:	11 units, ranging from 450sf to 900sf
Number of floors:	1 level structures
Gross Floor Space:	Approximately 7,500 sf of overnight lodging accommodations
Property Type:	Upscale market classification
Guest Units:	11 units rooms geared to the northern Arizona upscale market 5 – 900sf, 2bdrm 5 – 500sf 1 Existing reno 450sf
F&B Amenities:	Indoor/outdoor seating 1,600sf restaurant, to go pantry
Property Facilities:	Signature positioned year-round greenhouse, pool & deck, and fruit tree garden lounge.
Car Parking:	Abundant surface parking to facilities
Brief Description:	The Ash Fork area has limited quality accommodations compared to demand. This study indicates filling a supply gap with an upscale lodging property to meet a percentage of the existing regional demand.

Table 1-1 **Core Revenue Generation Summary**

	Forecast				
	2024	2025	2026	2027	2028
Occupancy	53%	64%	77%	81%	85%
Average Rate	$255	$268	$281	$295	$310
Rooms Revenue	$537,801	$671,434	$873,914	$957,984	$1,061,380
Percentage of Total	76%	76%	78%	79%	79%
Groups & Events	$27,991	$34,261	$41,256	$43,072	$45,448
Percentage of Total	4%	4%	4%	4%	3%
Food & Beverage	$142,359	$174,248	$209,823	$219,055	$231,141
Percentage of Total	20%	20%	19%	18%	17%
Total Revenue	$708,152	$879,943	$1,124,993	$1,220,111	$1,337,970

Table 1-2 **Summary Revenue Parameters**

Summary of Revenue Parameters	
First Full Operating Year	2024
Period to Stabilize	5 Years
Stabilized Year	2028
Annual Rate Inflation	2.00%
Annual Demand Increase	2.00%
Group Base Premium	$100
Group Night Mix	20%
Food & Beverage Base PP	$45
Food & Beverage Mix	60%
Day Meeting 15px 90 days PA	1,350
Beds x 2p Max Ppl 54	54
Local F&B B-L-D-Bar covers day	50
Local F&B Events No Rooms	50%
Target TRevPAR	$73.31
Supply Pipeline	Balanced
Supply Absorption	Equal
Room Count	11

2. Nature of the Assignment

Subject of the Study

The basis of the Study is the ability and likelihood of revenue generation at the subject site that includes a property development plan consisting of an upscale cabin rental (resort hotel) business with an elevated quality and contemporary style ("the New Hotel or Hotel") property. The Project includes the renovation of the existing cabin and the addition of newly built cabins at Smith Butte in Ash Fork, Arizona and would be subject to diligent ownership and competent hotel management. From our investigation of the location and discussions with the developer we understand: (1) The Hotel would utilize the subject land and buildings on site that are already owned by the Developer. And (2) The development plan, renovation, and construction could be completed within eighteen to twenty-four months and would be open for the full calendar year beginning **January 2024**.

From the findings in our report, we've identified demand for and concur with an upscale hotel style the developer describes as "Elevated Quality, Service, and Style". The property is envisioned to provide good quality facilities and services with the capability to attract overnight leisure travelers, as well as host small group events and social occasions. According to industry chain scales, the Hotel shall be rated as **Upscale**, and compete with the prevailing Midscale and Upper Midscale hotels within the competitive set described in this report.

This report and the assumptions analyzed and contained herein are based on a cabin rental count (room count)	11
Guest facilities square feet area indoor/outdoor	17,250 sf
Unbranded amenities	N/A
F&B amenities	Communal kitchen & grills
Indoor/outdoor spaces	Cabin patios, garden lounge
Leisure traveler and group segments	80% and 12% comp-market

Purpose of the Study

The objective of the Study is to evaluate the supply and demand factors affecting the market for transient accommodations in the Ash Fork and northern Arizona region for the purpose of estimating the likely future revenue of a new Hotel. The determination of the estimations assumes that the Hotel will be managed by a competent hotel manager, who: (a) is typically found with professionally operated hotels, (b) possesses the acumen of managing the operations in a inconsistent and seasonally high demand market, and (c) experienced in hosting both leisure travelers and group event traveler needs. This study is also intended to provide general comments on design, layout and market position of the new Hotel to support a developer's serious contemplation of the property.

Property Influence

All FF&E are assumed to be a minimum of Upscale and Upper Midscale qualities. For the purposes of this report, we have assumed that the property is built in accordance with international quality standards and that construction will be completed within the anticipated period. Furthermore, we have assumed that a competent hotel manager has achieved and sustained a performance record in their hotel management portfolio.

Pre-Marketing and Exposure Period

The pre-marketing and exposure period, referring to the amount of time necessary for the Hotel to have been marketed and exposed prior to opening, and to achieve the forecast, is estimated not to be less than nine months and ideally 12 months or more.

Currency

All financial data, projections and opinions are expressed in United States dollars (USD$).

Pertinent Dates

The effective date of all figures is October 2021. All projections are expressed in USD$ as of this date, and the future estimates are in a constant value of USD$. The subject location was inspected and evaluated during September 29, 2021, and our analysis has been performed immediately thereafter.

Use of this Study

This Market Study and report has been prepared for Derrick Grahn and William Meilahn & Love, LLC, and to be used for internal purposes related to Smith Butte development project, Ash Fork, Arizona.. The information presented in this report should not be disseminated to the public or third parties without the expressed written consent of Boutique Hotel Advisors.

Scope of Study and Report

All information was collected and analyzed by the staff of Boutique Hotel Advisors. Information such as local data received may have been received confidentially from industry commercial sources such as STR Global, iHotelier, HotStats, Kalibri Labs, as well as local hotel managers, travelers, existing clients, the area visitor bureaus, the site location, and so forth, has been or will be discussed with the developer and or lender. We have assumed that this information is accurate, and we have therefore relied upon it without undertaking additional independent verification.

We have investigated comparable lodging properties and their revenues in the market area and have spoken with a variety of owners, investors, public officials, operators, hotel personnel, and hotel guests in the subject competitive market. Unless otherwise noted, we have evaluated the competitor hotels mentioned in Section 6 - Competition, and have analyzed the hotel sales summarized in Section 9 - Revenues. Part of our conclusion has been based on this investigation and analysis.

Method of Study

The methodology used to develop this study and report has been based on the market research and techniques set out as standard practice within the North American and worldwide hotel industry along with textbook case and market studies. **Glion University SA** has published industry criteria for ***Hotel Market Studies and Hotel Valuations***, and **Cornell University NY** has published ***A Guide to Market Analysis*, *Investment Analysis*, and *Valuations for Hotels*,** of which certain methods have been used in this study.

Our approach to completing this Study included but was not limited to the following:

1. The subject hotel property has been evaluated from the viewpoint of its potential physical utility for the operation of a hotel as well as access, security, privacy, visibility, and other relevant location factors.

2. The surrounding economic environment, on both an area and a neighborhood level, has been reviewed to identify specific hotel related economic and demographic trends that may have an impact on future demand for hotels.

3. Division of the market for transient accommodation into individual segments has defined specific market characteristics for the types of traveler expected to utilize the area's hotels. The factors investigated included purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations and price sensitivity.

4. An analysis of existing and proposed competition has provided an indication of the current accommodated demand, along with market penetration and the degree of competitiveness.

5. Documentation for an occupancy and average rate projection has been derived from an analysis of market wide supply and demand, combined with a penetration analysis to derive the new Hotel's projected occupancy.

6. A projection of revenues has been made in accordance with our experience in the hotel industry and comparable markets. This projection sets out the anticipated economic benefits of the new Hotel and provides the basis for the future revenue expectation.

7. The report considers an outgoing realistic approach to revenue generation. Because hotels are income-producing properties that are normally valued on the basis of the capitalization of their anticipated stabilized earning power, a greater emphasis has been given to the revenue indications in order for the future manager to understand the hotel owner's expectations.

8. Feasibility analysis is the concluding economic value of a hotel. The value is calculated through a discounted cash flow analysis and a direct capitalization analysis. The terminal capitalization rate is applied to a future year's net income to calculate a potential sale price for the property. Projects may still be feasible if the hotel can attract tax incentives or alternative capital assistance or sources to the developer. This would allow for either improved financial projections or for lower development costs.

3. Market Area Analysis

The macroeconomic climate in which a hotel operates is an important consideration in forecasting hotel demand and revenue potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which the demand for hotel accommodation can be projected.

The market area for a hotel encompasses not only its immediate surroundings but also the geographic regions from which demand for hotel accommodation originates.

With respect to the new Hotel, we have considered the greater Ash Fork-Williams-Grand Canyon area, northern Arizona counties of Yavapai and Coconino. Navajo country area, metropolitan Phoenix, as well as the U.S. national economy. In addition, some of the Hotel's future demand will emanate from outside the area, including some international visitors for business, regional travelers, event participants and attendees, government, and education.

The purpose of the market area analysis is to review available economic and demographic data to determine where the defined market area will undergo economic growth, stability or decline. In addition to a prediction of 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 hotel demand with the objective of forecasting the amount of growth or decline in transient visitation by individual market segment.

National Economic Overview

The overall economic condition of an area is reflected by the propensity of individuals to travel there. Key indicators of future hotel demand are those trends that reflect the relative health of the economy and the spending power of individuals. This section of the report presents a discussion of the primary domestic economic factors that are likely to have the greatest influence on hotel demand. Tables 3-1 to 3-5 below contain a summary of these indicators.

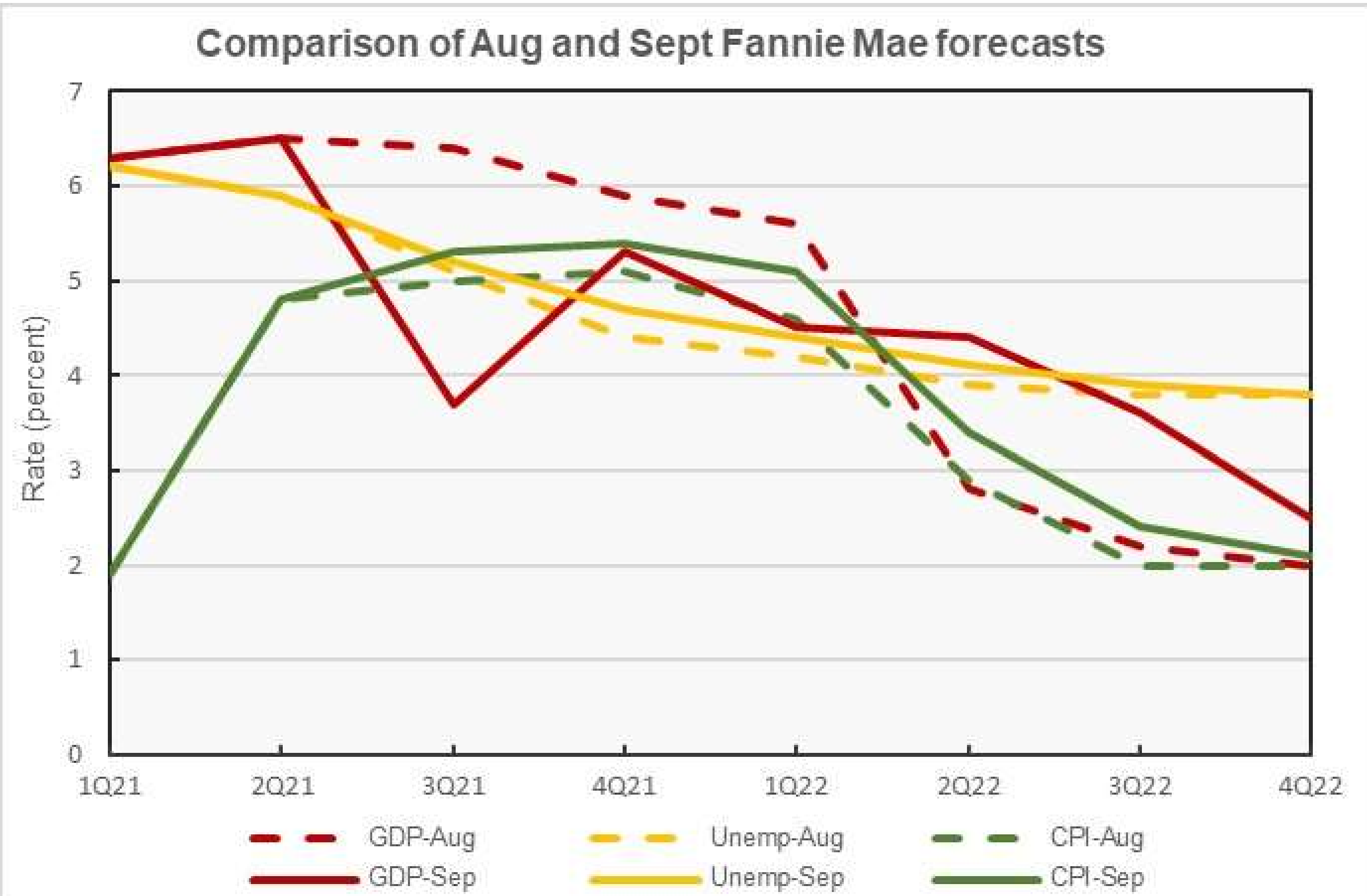
Long-Term Outlook US Economy

US growth will continue to be strong for an industrialized economy over the long term, as labor productivity growth remains steady post the COVID pandemic period. Technological progress will be an important driving force for growth, while the stimulus from increases in the labor force will decline. Although US growth will remain strong in comparison with other developed economies, emerging markets will close the gap and the biggest among them will come closer to the US in terms of GDP.

Table 3-1 **The US GDP Indications Long Term**

Long-term Outlook Summary	2016-20	2017-30	2019-30
Growth and productivity (% change; annual avg)			
Growth of real GDP per head	1.9	2.3	2.2
Growth of real GDP	2.0	2.3	2.2
Labor productivity growth	2.1	2.3	2.2

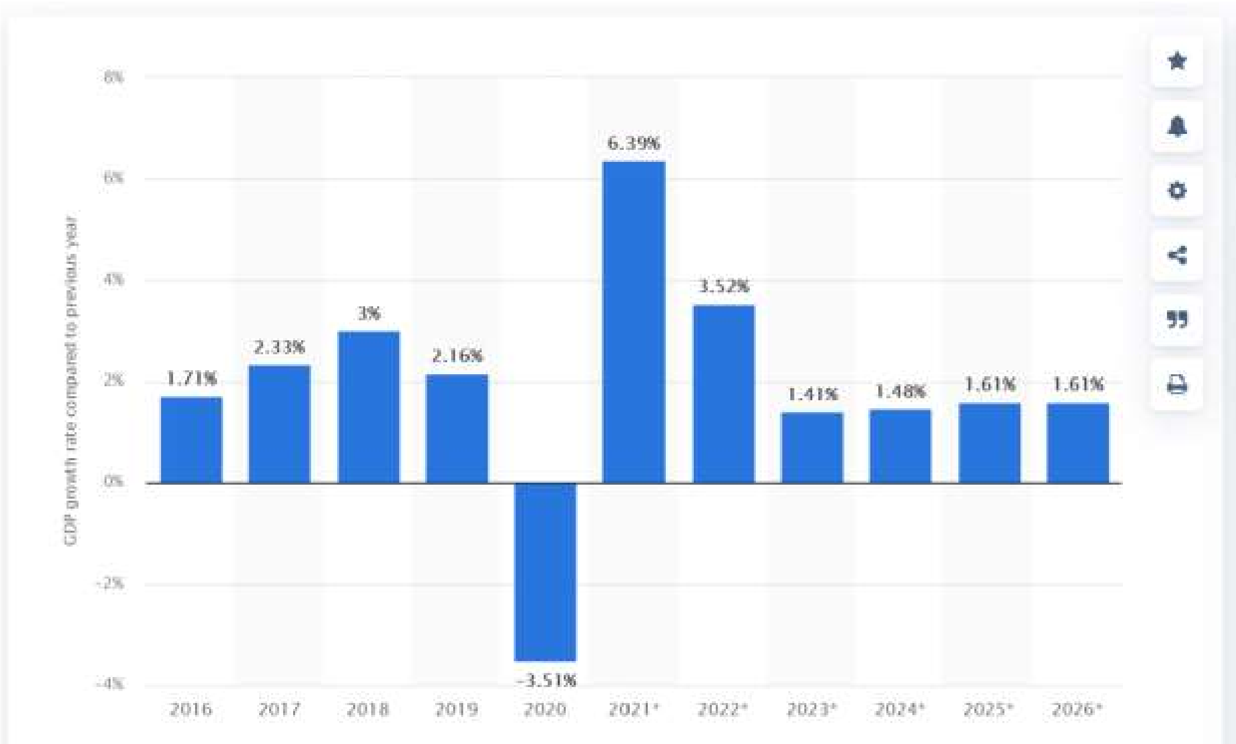
Source: Economist Intelligence Unit September 2021



COVID-19 Impact on GDP

Real GDP increased 33.1 percent at an annual rate (7.4 percent at a quarterly rate1) in the second quarter of 2021, following a decrease of 31.4 percent at an annual rate (9.0 percent at a quarterly rate) in the second quarter of 2020. The increase in quarter to quarter GDP reflected continued efforts to reopen businesses and resume activities that were postponed or restricted due to

COVID-19. Real GDP for the third quarter of 2021 is expected to be 3.5 percent below the level of real GDP for the fourth quarter of 2019 . The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for quarter to quarter against 2020 because the impacts are generally obscured by the pandemic and cannot be separately quantified.



Exaggerated increases in 2021 are reconciled from the downturn in 2020. Forward going forecasts expect a return to the 1% to 2% norms.

Economic Structure Risk

The US is the third largest country in the world, in terms of both land area and population. As the world's largest economy, many of the world's key financial and economic institutions reside within the US. The US is home to the world's largest stock exchange, the world's largest gold depository and reserves, and 139 of the world's 500 largest companies, which is almost twice that of any other country.

Sovereign Risk

Stable. The US government is still running modest fiscal policy and its finances are sustainable in the long term. US Treasuries are still seen as the world's primary safe-haven asset, but their short to average maturity may exposed the US if borrowing costs rise faster than forecasted.

Currency Risk

Stable. The combination of lax monetary policy and contractionary fiscal policy is negative for the dollar, but the currency will be supported by its safe-haven status until the euro zone debt crisis is resolved and sustained on a record of several forthcoming fiscal cycles.

Banking Sector Risk

Stable. Large banks have stabilized and are consolidating their balance sheets as part of a multi-year ongoing deleveraging cycle. Average capital adequacy ratios are now higher than before the financial crisis. Bank shares have performed inconsistently in recent months.

Political Risk

The legislative process will continue to function predictably through the current term.

Economic growth

(% unless otherwise indicated)

	2020	2021	2022
US GDP	-3.5	6.0	3.7
OECD GDP	-4.8	4.9	3.8
World GDP	-3.8	5.4	4.1
World trade	-8.1	8.9	5.7

Source: The Economist Intelligence Unit

Inflation indicators

(% unless otherwise indicated)

	2021	2022	2023
US CPI	1.8	1.7	1.8
OECD CPI	2.0	2.0	2.1
Manufactures (measured in US$)	2.4	3.7	2.9
Oil (Brent; US$/b)	74.3	76.6	75.4
Non-oil commodities (measured in US$)	1.5	1.5	0.6

Source: The Economist Intelligence Unit

The Conference Board Economic Forecast for the U.S. Economy

Updated: September 15, 2021

The Conference Board forecasts that US Real GDP growth will slow to 5.5 percent (annualized rate) in Q3 2021, vs. 6.6 percent growth in Q2 2021, and that 2021 annual growth will come in at 5.9 percent (year-over-year). This forecast is a downgrade from our August outlook and incorporates the larger-than-expected impact that the COVID-19 Delta variant has had on the US economy. Looking further ahead, we forecast that the US economy will grow by 3.8 percent (year-over-year) in 2022 and 3.0 percent (year-over-year) in 2023.

Consumer spending will continue to be a key driver of growth in H2 2021, but a recent decline in consumer confidence related to a resurgence in the pandemic will likely reduce the growth contribution from consumption. Additionally, the critical pivot back to consumer spending on in-person services will be delayed until concerns about the Delta variant are allayed (likely in Q4 2021).

Bottlenecks in global supply chains made it difficult for businesses to keep up with elevated demand for many goods earlier this year, resulting in a sharp contraction in private inventories. We expect this trend to reverse over the coming months as the December holiday period approaches, and forecast a rebound in private inventories. However, the pace of restocking will be slower than previously anticipated as the Delta variant has hindered manufacturing and shipping activity in key economies around the world.

At the same time, concerns about inflation risks remain high as businesses and consumers continue to grapple with the impact of the pandemic. Year-over-year inflation rates will likely continue to remain high through the end of 2021 and into early 2022 due to sizeable base effects. However, the intensity and momentum of month-over-month price increases will likely continue to moderate over the coming months. This suggests that higher inflation expectations might not become embedded in the outlook despite the negative impact on purchasing power compared to last year. We recommend paying close attention to month-over-month Core CPI and Core PCE Price Index data for a clearer picture of the ongoing inflation story.

Finally, the current economic environment may delay any tightening action by the Federal Reserve. A moderation in growth coupled with a more prolonged labor market recovery and ebbing inflationary pressures may extend the accommodative monetary support environment. At present, the consensus forecast for Fed Funds tightening is Q2 2023 but tapering will likely come relatively soon.

Base Case Forecast

Our base case forecast yields 4Q21 real GDP growth of 3.2 percent* (annualized rate), an annual contraction of 3.6 percent for 2021, and an annual expansion of 3.4 percent for 2022. We view this scenario as the most probable. It assumes: a) a moderate rise in COVID-19 over the winter and intermittent localized lockdowns, b) limited improvement in labor markets and consumption into early 2021, c) the implementation of limited fiscal stimulus in late 1Q21 / early 2Q21, d) the imminent approval of a vaccine, but no broad dissemination until 2Q21, and e) a non-disruptive political transition. These assumptions yield a lull in the recovery in 4Q20 and 1Q21, but a steady acceleration of economic activity that peaks in the summer months as consumers eagerly spend on services and goods that they had forgone in 2020. In this scenario US monthly economic output returns to pre-pandemic levels in December 2021.

Upside Forecast

Alternatively, we offer a second more optimistic scenario in which the economy grows by 3.8 percent (annualized rate) in 4Q21 yielding an annual contraction of 3.5 percent for 2020. For 2021 the recovery continues to accelerate resulting in an annual expansion of 6 percent. This scenario assumes: a) new COVID cases level off over the coming months and do not result in lockdowns, b) a strong recovery in labor markets and consumption, c) large fiscal stimulus implemented in 1Q21, d) vaccinations becoming widely available in early 2021, and e) no political disruptions over the coming months. These assumptions lead to US monthly economic output returning to pre-pandemic levels by October 2021.

Downside Forecast

Finally, we offer a third more pessimistic scenario in which the US economy contracts in 4Q21 and 1Q22 before stabilizing later in 2022. This "double dip"** recession scenario yields an economic contraction of 3.8 percent in 2020 and zero growth in 2021. It assumes a) a large spike in COVID-19 and widespread lockdowns over the winter months, b) a deterioration in labor markets and spending, c) no additional fiscal stimulus in Q4 2021, d) no vaccine increase in Q4 2021, and e) a very bumpy political regime that disrupts business and consumer confidence. Under this scenario US monthly economic output does not recover to pre-pandemic levels until sometime in 2022.

In addition of the upside and downside risks outlined above, The Conference Board is also monitoring several others. Additional downside risks include rising evictions and foreclosures creating financial stress on banks, high stress on state and local government budgets, and an exacerbation of already high levels of inequality. Upside risks include: an acceleration in digital transformation that improves future productivity.

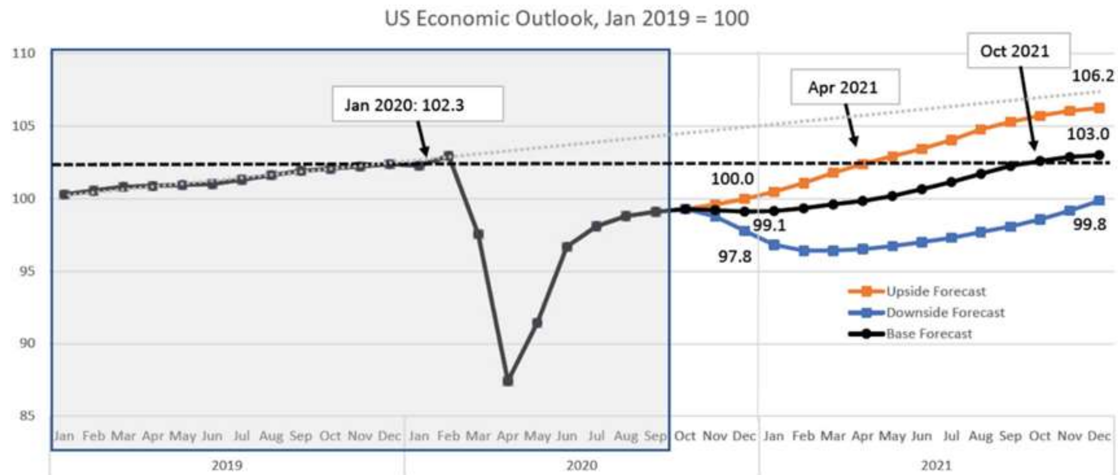
THE CONFERENCE BOARD BASE CASE ECONOMIC OUTLOOK, 2019-2020-2021

Percentage Change, Seasonally Adjusted Annual Rates

	2020				2021				2022		2020*	2021	2022	2023
	I Q*	II Q*	III Q*	IV Q*	I Q*	II Q*	III Q	IV Q	I Q	II Q	ANNUAL	ANNUAL	ANNUAL	ANNUAL
Real GDP	-5.1	-31.2	33.8	4.5	6.3	6.6	5.5	3.9	3.4	2.9	-3.4	5.9	3.8	3.0
Real Disposable Income	3.1	48.5	-16.6	-8.3	54.7	-31.0	1.0	0.0	1.0	1.5	6.2	2.7	-1.5	1.0
Real Consumer Spending	-6.9	-33.4	41.4	3.4	11.4	11.9	3.0	4.1	4.2	3.5	-3.8	8.1	4.1	2.8
Residential Investment	20.3	-30.8	60.0	34.4	13.3	-11.5	-1.0	3.0	2.0	3.0	6.8	10.3	1.0	1.3
Nonresidential investment	-8.3	-30.3	18.7	12.5	12.9	9.3	0.9	5.1	5.0	5.2	-5.3	7.4	4.6	4.4
Inventory Change (bln chn '12$)	-30.4	-252.8	25.3	88.8	-88.3	-169.4	31.0	100.0	90.0	60.0	-42.3	-31.7	60.0	15.0
Total Gov't Spending	3.7	3.9	-2.1	-0.5	4.2	-1.9	1.4	2.0	2.5	3.0	2.5	0.9	2.4	4.3
Exports	-16.3	-59.9	54.5	22.5	-2.9	6.6	4.1	5.1	6.1	7.1	-13.6	4.6	5.8	4.7
Imports	-13.1	-53.1	89.2	31.3	9.3	6.7	9.1	12.1	7.1	6.1	-8.9	14.2	7.6	4.1
Unemployment Rate (%)	3.8	13.1	8.8	6.8	6.2	5.9	5.2	4.8	4.4	4.0	8.1	5.5	3.8	
PCE Inflation (%Y/Y)	1.7	0.6	1.2	1.2	1.8	3.9	4.1	4.3	4.0	3.0	1.2	3.5	2.9	2.0
Core PCE Inflation (%Y/Y)	1.8	1.0	1.5	1.4	1.7	3.4	3.6	3.9	3.5	2.5	1.4	3.1	2.5	1.8

*Actual data

Source: The Conference Board



Arizona Economic Overview

The Phoenix metro area (Maricopa and Pinal counties) accounts for two thirds of the state's population and more than 70 percent of the economic activity.

Over the past twenty years Arizona continues to be one of the fastest-growing, most dynamic economies in the nation. Phoenix is now the nation's fifth most populous city. Both Fortune 500 and start-up technology companies call Arizona home, reaping the advantages of a competitive business climate and tax structure, a skilled, knowledge-based workforce, and advanced innovation, cultural and scenic resources from one of the largest universities in the country.

The major employment sectors in Arizona include aerospace, electronics and semi-conductor manufacturing. Tourism, business services and back-office operations are also important sectors. Arizona's original export activities - agriculture and mining - remain significant in many rural parts of the state. Based on sheer size, the real estate and rental industries, the diverse tourism sector, and government are the largest economic sectors in Arizona. Relative to the national average, the construction sector is also unusually large because of the state's continuous rapid growth.

Phoenix-Mesa-Scottsdale MSA Forecast

Phoenix-Mesa-Scottsdale MSA Forecast*	2019	2020	2021	2022	2023
Personal Income ($ mil)	236,977	246,196	253,430	268,643	283,356
% Chg from Year Ago	5.8%	3.9%	2.9%	6.0%	5.5%
Retail Sales ($mil)	80,852	81,450	87,174	92,601	97,641
% Chg from Year Ago	6.1%	0.7%	7.0%	6.2%	5.4%
Total Nonfarm Employment (000s)	2,177.3	2,139.4	2,210.4	2,285.6	2,344.4
% Chg from Year Ago	3.3%	-1.7%	3.3%	3.4%	2.6%
Population (000s)	4,823	4,901	4,993	5,081	5,165
% Chg from Year Ago	1.9%	1.6%	1.9%	1.7%	1.7%
Residential Permits (units)	35,873	38,116	38,241	38,043	37,819
% Chg from Year Ago	14.5%	6.3%	0.3%	-0.5%	-0.6%

Arizona Tourism

Arizona's weather and natural beauty make tourism the number one export industry in Arizona. 46.8 million people visited Arizona in 2019 who collectively spent $25.6 billion in the state. The money spent by visitors supports jobs and generates tax revenue. The $3.78 billion in 2019 tax revenue equals an annual tax savings of $1,400 for every Arizona household and supported 194,300 industry jobs.

Arizona Direct Travel Impacts 2011-2020p

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Spending ($Millions)										
Total (Current $)	18,798	19,489	19,936	20,762	21,034	21,245	22,679	24,446	25,591	15,043
Other	2,147	2,398	2,486	2,573	2,580	2,628	2,764	2,949	3,050	1,302
Visitor	16,651	17,090	17,450	18,189	18,454	18,617	19,916	21,497	22,541	13,741
Non-transportation	11,425	11,757	12,081	12,683	13,394	13,831	14,701	15,744	16,558	10,809
Transportation	5,226	5,333	5,369	5,506	5,060	4,786	5,215	5,753	5,983	2,931
Earnings ($Millions)										
Earnings (Current $)	5,176	5,393	5,546	5,827	6,216	6,464	6,968	7,397	7,667	6,679
Employment (000's)										
Employment	158.7	162.5	165.6	172.7	179.5	184.2	187.9	192.3	194.3	160.5
Tax Revenue ($Millions)										
Total (Current $)	2,556	2,617	2,733	2,814	2,999	3,093	3,309	3,625	3,778	2,716
Local	727	735	756	787	856	893	953	1,111	1,161	786
State	801	825	805	796	839	859	933	1,010	1,051	718
Federal	1,028	1,057	1,172	1,230	1,304	1,341	1,423	1,505	1,566	1,212

Employment and Earnings include CARES Act support.

Summary of Arizona Travel

- Total direct travel spending in Arizona was $25.6 billion in 2019p. Non-transportation visitor spending increased by 5.2 percent, following a 7.1 percent increase from 2017 to 2018. Travel spending in real (inflation-adjusted) dollars has increased by 2.8 percent in 2019p.
- Lodging sales increased by 9.3 percent in 2019 following a 10.1 percent increase the preceding year. The strong growth in room sales over that past three years has been equally attributable to increased room rates and room demand (STR, LLC).
- Visitor air travel on domestic flights to Arizona destinations increased by 4.6 percent in 2019p, following a 4.4 percent increase the preceding year. Visitor air arrivals to the state have increased an average of 5.5 percent per year since 2014.
- Direct travel-generated employment was 194,300 in 2019p. This represents an addition of 1,900 jobs, an increase of 1.0 percent. (See detailed employment estimates, page 9.)
- The Gross Domestic Product of the travel industry was $10.9 billion in 2019p. The travel industry and the microelectronics industry have been the top two export-oriented industries in the state in recent years.

- The re-spending of travel-related revenues by businesses and employees creates secondary impacts. In 2019p, the secondary impacts were 167,000 jobs with $8.1 billion in earnings.

Ash Fork - Williams, Arizona

Ash Fork lies in proximity to Kaibab National Forest and Coconino National Forest, and international attractions such as the Grand Canyon are approximately one hour's drive away using major roads. Service roads allow swifter access to back areas of Grand Canyon National Park, but may not be open to public thoroughfare.

Approximately 15 miles to the north of Ash Fork is Beale Road, which has the distinction of being the first federally funded highway. The internationally renowned U.S. Route 66 also runs directly through the town. Notably, the longest original, uninterrupted stretch of Route 66 still in existence of approximately 9.6 miles long, can be found between Ash Fork, Arizona, and Seligman, Arizona, beginning just beyond Ash Fork at Crookton Road. The surrounding geographical area and settlements served as inspiration for the 2006 Pixar film Cars.

Yavapai County

Historical population		
Census	Pop.	%±
1870	2,142	—
1880	5,013	134.0%
1890	8,685	73.2%
1900	13,799	58.9%
1910	15,996	15.9%
1920	24,016	50.1%
1930	28,470	18.5%
1940	26,511	−6.9%
1950	24,991	−5.7%
1960	28,912	15.7%
1970	36,733	27.1%
1980	68,145	85.5%
1990	107,714	58.1%
2000	167,517	55.5%
2010	211,033	26.0%
2019 (est.)	235,099[9]	11.4%

U.S. Decennial Census[10]
1790–1960[11] 1900–1990[12]
1990–2000[13] 2010–2018[1]

Ash Fork is a town in Yavapai County and Williams is a city in Coconino County, Arizona, and the nearest community to the subject Smith Butte site. Williams is located about 20 minutes east of Ash Fork and west of Flagstaff. Its population was 3,023 at the 2010 census. It lies on the routes of Historic Route 66 and Interstate 40. It is also the southern terminus of the Grand Canyon Railway, which takes visitors to Grand Canyon Village. There are numerous inns, motels, restaurants and gas stations catering to the large influx of tourists rather than smaller population of local residents, especially during the summer and holiday seasons.

Also known as the "Gateway to the Grand Canyon", Williams was the last city on Historic Route 66 to be bypassed by Interstate 40. The community, bypassed on October 13, 1984, continues to thrive on tourism. Boasting seven fishing lakes in the area, hiking trails up Bill Williams Mountain and into Sycamore Canyon, an alpine ski area and cross-country ski trails, four-seasons weather and an abundance of wildlife, the Williams - Ash Fork area offers unlimited recreational opportunities for the outdoor enthusiast.

The chart below shows the share revenue impact from traveler spending in the subject counties. Overall revenues have increased consistently over the past ten years. Accommodation spending taxes include hotels, inns, cabins, and short-term vacation rental. The 163% increase in spending brings the area to the top 3 & 4 locations in the state. The trend has no indication of slowing.

COUNTY SUMMARY TRAVEL SPEND

Direct Travel Spending 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Spending ($Million)										
Coconino										
Total (Current $)	995.7	1,050.2	1,088.1	1,171.6	1,236.2	1,311.2	1,449.8	1,569.0	1,696.6	961.9
Other	44.0	56.7	60.6	60.5	54.5	46.7	52.4	56.0	68.6	31.5
Visitor	951.7	993.5	1,027.5	1,111.1	1,181.7	1,264.5	1,397.4	1,513.0	1,628.0	930.4
Non-transportation	817.6	853.0	888.3	967.4	1,059.2	1,151.5	1,265.2	1,368.8	1,466.0	857.7
Transportation	134.0	140.5	139.2	143.7	122.5	113.0	132.3	144.2	162.0	72.7
Yavapai										
Total (Current $)	657.5	694.7	714.9	746.2	748.2	763.1	848.6	949.5	1,000.5	751.3
Other	60.6	62.8	64.1	65.3	41.6	37.6	48.6	70.2	69.2	36.3
Visitor	596.9	631.9	650.8	680.9	706.6	725.5	800.0	879.3	931.3	715.1
Non-transportation	514.9	544.4	564.9	595.7	637.5	665.4	730.2	799.8	848.8	667.9
Transportation	82.0	87.5	85.8	85.2	69.1	60.1	69.8	79.5	82.5	47.2

Travel Industry Employment 2011-2020

	Travel Spending						
	Total (Millions)	Visitor (Millions)	Earnings (Millions)	Employ. (Jobs)	Local Tax (Millions)	State Tax (Millions)	Total Tax (Millions)
Apache	$96	$89	$34	1,330	$3.3	$4.7	$8.0
Cochise	$207	$193	$82	3,030	$10.3	$10.4	$20.7
Coconino	$962	$930	$406	11,380	$54.4	$45.9	$100.3
Gila	$287	$282	$85	2,790	$9.9	$13.0	$22.9
Graham	$40	$36	$14	740	$2.1	$2.1	$4.1
Greenlee	$8	$7	$2	90	$0.2	$0.4	$0.6
La Paz	$154	$152	$45	1,330	$6.2	$6.9	$13.1
Maricopa	$8,949	$7,398	$4,408	88,980	$528.4	$423.0	$951.4
Mohave	$521	$487	$171	5,580	$22.3	$24.0	$46.3
Navajo	$325	$314	$109	3,650	$14.2	$15.4	$29.6
Pima	$1,619	$1,350	$648	19,290	$48.1	$83.5	$131.6
Pinal	$534	$485	$209	6,600	$22.4	$27.4	$49.8
Santa Cruz	$119	$114	$49	1,750	$4.9	$5.8	$10.7
Yavapai	$751	$715	$258	8,630	$40.6	$33.9	$74.5
Yuma	$469	$440	$160	5,320	$18.5	$22.0	$40.4
Arizona	**$15,043**	*****	**$6,679**	**160,500**	**$785.6**	**$718.3**	**$1,504.0**

Coconino and Yavapai counties are in the top four ranking for tourism employment in Arizona.

Climate

In Ash Fork – Williams, the summers are warm, the winters are cool and relatively dry. Over the course of the year, the temperature typically varies from *25°F* to *80°F* and is rarely below 32*°F* or above *90°F*.

Table 3-9 Climate Profile

Climate data for Williams, Arizona (1981–2010 normals) [hide]													
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
Record high °F (°C)	74 (23)	74 (23)	76 (24)	87 (31)	92 (33)	100 (38)	102 (39)	101 (38)	93 (34)	85 (29)	80 (27)	74 (23)	102 (39)
Average high °F (°C)	46.5 (8.1)	48.5 (9.2)	53.8 (12.1)	61.6 (16.4)	71.2 (21.8)	80.7 (27.1)	83.3 (28.5)	80.5 (26.9)	75.3 (24.1)	65.3 (18.5)	54.3 (12.4)	46.5 (8.1)	64.0 (17.8)
Daily mean °F (°C)	34.9 (1.6)	36.8 (2.7)	41.0 (5.0)	47.5 (8.6)	56.3 (13.5)	65.0 (18.3)	69.2 (20.7)	67.2 (19.6)	61.7 (16.5)	51.6 (10.9)	41.8 (5.4)	34.9 (1.6)	50.7 (10.4)
Average low °F (°C)	23.3 (−4.8)	25.0 (−3.9)	28.2 (−2.1)	33.4 (0.8)	41.5 (5.3)	49.4 (9.7)	55.1 (12.8)	53.8 (12.1)	48.1 (8.9)	37.9 (3.3)	29.2 (−1.6)	23.2 (−4.9)	37.3 (2.9)
Record low °F (°C)	−25 (−32)	−18 (−28)	−6 (−21)	2 (−17)	8 (−13)	22 (−6)	32 (0)	32 (0)	11 (−12)	7 (−14)	−7 (−22)	−17 (−27)	−25 (−32)
Average precipitation inches (mm)	2.22 (56)	2.42 (61)	2.16 (55)	1.03 (26)	0.58 (15)	0.44 (11)	2.84 (72)	3.41 (87)	1.83 (46)	1.55 (39)	1.67 (42)	1.98 (50)	22.13 (560)
Average snowfall inches (cm)	18.5 (47)	15.8 (40)	13.3 (34)	5.5 (14)	0.2 (0.51)	0 (0)	0 (0)	0 (0)	0 (0)	0.5 (1.3)	5.0 (13)	12.1 (31)	70.9 (180.81)
Average precipitation days (≥ 0.01 inch)	6.5	6.4	6.7	3.8	3.2	2.3	10.0	11.8	6.4	4.3	4.5	5.8	71.7
Average snowy days (≥ 0.1 inch)	4.2	3.8	3.4	1.8	0.1	0	0	0	0	0.2	1.7	3.4	18.5
Source: NOAA (extremes 1897–present)[14]													

The *tourism score* favors clear, rainless days with perceived temperatures between *65°F* and *80°F*. Based on this score, the best time of year to visit Ash Fork – Williams for general outdoor tourist activities is from *early May* through October, with a peak score throughout the summer months

*The **tourism score** (filled area), and its constituents: the temperature score (red line), the cloud cover score (blue line), and the precipitation score (green line).*

Lodging Tax

Local transient occupancy taxes are imposed on hotels, motels, and other forms of transient lodging. Either a city or county (or both) may levy a tax on lodging for a period of fewer than 30 days. Williams area imposes a 3% bed tax per nightly rental. The STVR has added to the 118% increase in tax collections over the past 6 years.

Table 3-10 Lodging Tax Collection Growth Trends ~ $000

City	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	% Change
Williams	$245.4	$248.6	$289.3	$376.3	$427.7	$534.6	**118%**

Market Area Definition

The market area of a hotel encompasses the geographic regions from which demand for hotel accommodations originates. In certain locations, demand is generated almost exclusively from the regional market, which implies that the relevant market area would be the immediate local area itself. However, in cases where a significant proportion of the total hotel demand emanates from international countries, economic factors that influence travelers from these sources must also be evaluated.

Visitor Overview

Ash Fork and Smith Butte are located approximately 2.5 hours north of Phoenix. The 200 acre Smith Butte property is situated at 5,160' elevation and offers a reprieve from the summer heat and relatively convenient access to the Grand Canyon and winter snow skiing at the nearby Snowbowl ski area. Visitors have options for outdoor activities throughout the year. The offering of restaurants and lodging is limited to medium quality and the gap in the market tends to be higher quality amenities and services. Nearby town of Williams hosts annual events throughout the year. The lodging patrons are primarily travelers from the Phoenix metro area that have visited the area previously as opposed to a national destination seeker.

Arizona residents accounted for approximately 33% of all travel spending in Arizona in 2020. Detailed estimates by visitor residence are reported in the following table for spending, earnings, employment, and tax receipts as published by the Arizona department of commerce.

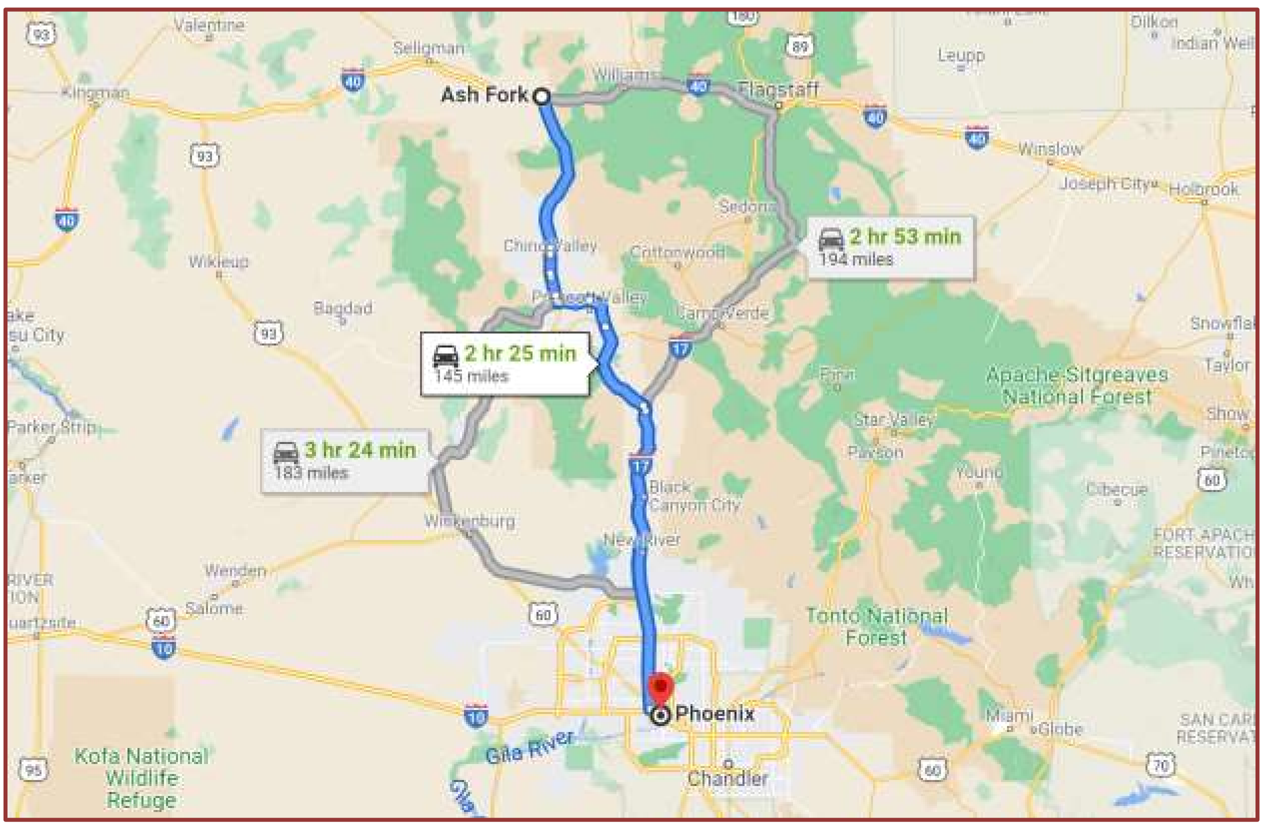
Arizona State Tourism Spending Residents & Visitors

Category	Arizona	Other US	International	All Visitors
Spending ($Billions)	4.6	9.4	1.1	15.0
Earnings ($Billions)	1.9	3.7	1.1	6.7
Employment (000's Jobs)	40.1	90.7	29.7	160.5
Local/State Tax ($Millions)	307.2	881.7	315.1	1,504.0
Federal Tax ($Millions)	327.6	722.7	161.3	1,211.7

Table 3-11 Ash Fork - Williams Area Tourism Highlights

No. of hotels – **50 hotels w/in 40 miles**
No. of hotel rooms – 3,125
Percentage of business visitors – 5%
Percentage of leisure visitors – 95%
Percentage of visitors from the United States – 95%
Percentage of international visitors – 5%
Percentage of visitors arriving by air flight – 1%
Percentage of visitors who drive – 99%
Greater Area 50 Set Hotel Est Occupancy – 67%
Greater Area 50 Set Est Daily Rate - $182

Travel Time Phoenix to Ash Fork



4. Description of the Hotel Site & Location

Location

A hotel's site and its location within a specific area can have a direct impact upon the hotel's performance relative to a competitive market. The follow section describes the location of the hotel in relation to its immediate surroundings and its market area, as described in the previous section.

The neighborhood surrounding a hotel 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 Hotel's neighborhood and evaluates any pertinent location factors that could affect the Hotel's occupancy, average rate, and overall profitability.

The proposed Hotel's location offers opportunity to capitalize on the local and regional attractions and on establishing partnerships and collaborations for joint or mutually-supportive marketing and promotional strategies. Furthermore, the Hotel's location offers opportunities to capture a share of the weekday commuter activity along interstate highway 40.

Subject Property Location and Access

The subject property is located off Interstate-40 thoroughfare between Flagstaff and Kingman, about fifteen minutes west of Williams and 5 minutes from the main business area of Ash Fork. The subject property is on the southside of I-40 and has direct off-ramp access from both Eastbound and Westbound traffic on I-40.

Access

The new Hotel can benefit from its strategic location. The subject site off I-40 can be screened for exclusivity and from traffic noise but also enjoy exposure with tasteful signage. Convenient access from all directions and sources of traffic has been verified during our inspection of the site. Given the factors analyzed, we consider the new Hotel can benefit strongly from its accessibility.

Image 4-1 **Access from Interstate 40 Ramp**

Image 4-2 **Satellite View - Road Access from I-40**

Image 4-3 **Subject Site Property Boundaries Map**

The total property measures approximately 204 acres and offers an existing road to the center of the site location. Light traffic for guest entrance, vendor deliveries, and service personnel.

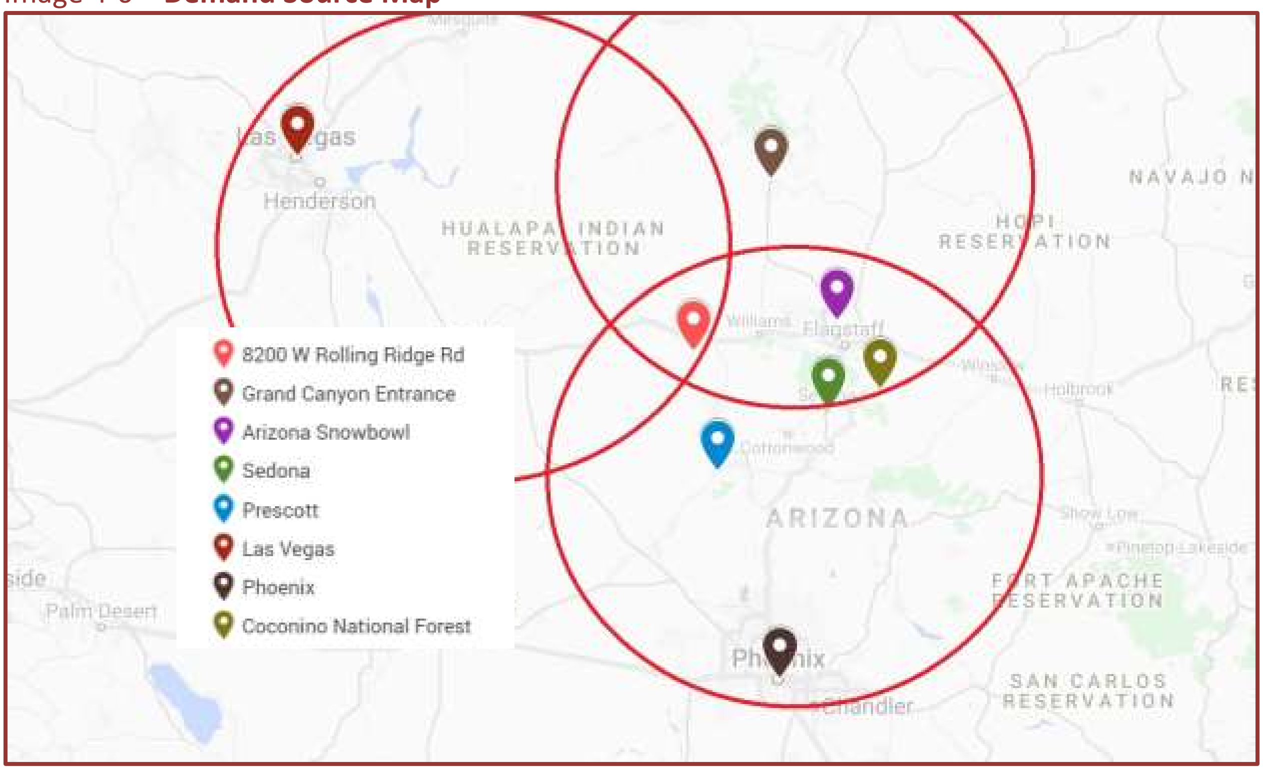
Proximity to Demand Sources & Demand Generators

We make the following comments on the Hotel site's proximity to potential demand sources and demand generators. We considered the Hotel's location will attract existing primary demand from the metropolitan Phoenix originating outdoor goers, mountain cool temperature escapees, and year-round drive to get-a-way seekers.

Travelers along I-40 & Routes 66, which is a scenic-route connector across the southwest US to and from the Los Angeles and Las Vegas access highways.

Special occasion events such as weddings and family reunions, local area seasonal festivals, daily drive through leisure travelers and vacationers peak in the summer and winter months and are reasonably consistent in the spring and autumn. A high percentage of the area's hotel business and leisure guests are travelers from the metro Phoenix area. Weekday commercial business travelers to the area is light. Short-cut route from Interstate 40 leisure travelers, both to and from the Phoenix area represent the main demand sources.

Image 4-6 – **Demand Source Map**



Demand generators within the local proximity to the subject site and within a sixty minute drive that is both convenient and scenic include the Grand Canyon, Snowbowl ski resort area, Toroweap Overlook, Gran Canyon Caverns, Hualapai Mountain Park, Juniper Mesa Wilderness, and Tuzigoot National Monument. The greater scenic area attract over 6 million visitors per year.

Image 4-7 **Demand Generators Map**

Competitive Hotels Surrounding the Subject Location

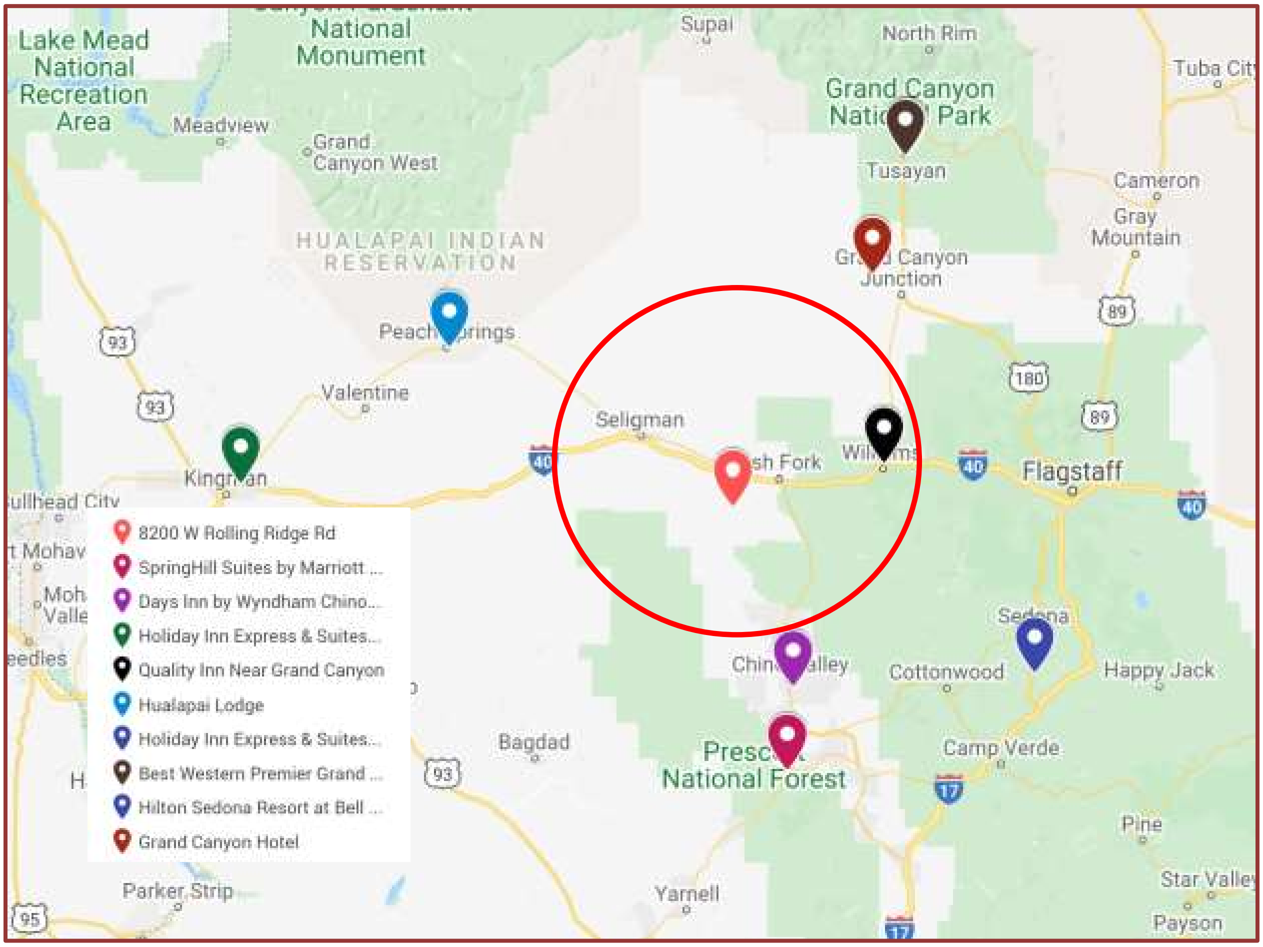
There are approximately 100 nearby competitive hotels of 20 or more rooms that located within a 60-minute radius of the subject property site and are generally located along main scenic routes.

Image 4-8 **Greater Area Available Hotel Accommodations**

The 50 hotels nearest the subject site represent about 3,125 rooms are illustrated above. Below in Image 4-9, represents the nearest competitive hotel locations. The types and sizes of hotels range from commercially branded ordinary chain hotels to the independent 298 room Grand Canyon hotel just forty miles northeast of the subject site as well several small 30-50 unit inns and mountain vacation resort-motels types such as the Hualapai Lodge and historic Route 66 inn.

We've narrowed the broad set of competitive hotels to predominate areas surrounding the subject site. The ten referenced locations in relations to the subject site include the list within the map below and include commercially branded hotels and independent inns and resorts. We discovered one new hotel under development within the immediate competitive area. The SpringHill Suites in Cottonwood is scheduled to open in the first quarter of 2022.

Image 4-9- **Sample Locations & Rates Nearby Competitive Hotels Represented**



Conclusion of Location

The new Hotel is expected to benefit from its conveniently remote drive-to accessibility from the greater Phoenix area as well as cross-bound Los Angeles, Las Vegas, and Phoenix travelers on the scenic route 66 and Interstate Highway 40. The Subject Property is in a good position to capture demand from those visiting or departing the greater Phoenix area. We consider the conveniently distant location from the clusters of competitive hotels within the travel corridor to be demand generators for the proposed new hotel. We consider the main demand sources and demand generators adequate for the operating a hotel of quality and character that induces demand during the week, weekends, summer, and holiday periods. The Subject Property will be a quality product in a hotel market lacking in such quality and currently over-supplied with outdated low-quality and high price-to-value accommodations.

5. Hotel Facilities

Hotel Facilities

The quality of a hotel's physical facilities has a direct influence on its marketability and attainable occupancy and average rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. The following paragraphs describe the Hotel's anticipated facilities in an effort to determine how they will contribute to its operation.

The Smith Travel Research (STR) Global classification system is the industry's primary source for rating the wide range of hotel property types, together with their array of amenities and service offerings. There are multiple considerations that are analyzed before a determination is made for a property's raking among the six (6) tiers of the STR Global classification system. In addition to brand quality, an important note to make is distinguishing between the quality and upkeep of the various physical attributes of a given property, as this can change over time depending on the performance and effectiveness of management, from the degree of consumer-centric services expected to be delivered consistently at the property.

Table 5-1 **STR Index Classification System**

Luxury – Luxury lodging has the following features: • Very high reputation and quality • Prime locations • Distinguished architecture, artwork and design (sometimes they are historic structures) • Superior service and staff • Numerous and luxurious facilities and amenities • Fine dining and 24–hour room service • Spacious, beautifully furnished rooms • Superior linens, finishes and materials	***Upper Midscale –*** Upper Midscale lodging has the following features: • Simple, pleasant accommodations and good value • Convenient, often roadside or suburban locations • Simple, nice appearance, frequently with similar look and design for most properties • Helpful staff with limited amenities and facilities • Dining usually limited, but often convenient to family dining and fast food • Standard–sized, nice rooms; but all–suite lodging in this category is spacious
Upper Upscale – Upper Upscale lodging has the following features: • Well–known, high–quality brands • Very convenient, often strategic locations • Attractive architecture, artwork, and sometimes dramatic design • Very professional service and staff • Many amenities and facilities • Quality dining • Large, comfortable rooms with top of the line furnishings • High–quality linens, finishes and materials	***Midscale –*** The features of Midscale lodging are: • Simple, low–priced • Basic, sometimes older properties; often two– or three–story buildings • Adequately staffed • Few amenities, facilities and extras • Limited dining, perhaps simple breakfast included; family dining and fast food nearby • Adequate–sized rooms, with modest materials and furnishings, and average–quality linens
Upscale – Clients can expect the following from Upscale lodging: • Very good quality and value • Convenient locations • Pleasant, often homelike or stylish architecture • Friendly and attentive staff • Good range of amenities and facilities • Pleasant dining in and/or near the hotel • Standard–sized, comfortable rooms	***Economy –*** Here's what clients can expect from Economy lodging: • Simple, clean, no–frill, low–priced • Limited staff and hours • Basic amenities and facilities • Rarely have on–site dining; some nearby • Very modest–sized rooms, with basic materials and linens

Examples of brand, physical and service attributes include: (a) reputation and quality, (b) location, (c) distinguishing architecture, artwork and design (sometimes they are historic structures), (d) service and staff, (e) number of and luxury class of facilities and amenities, (f) food and beverage services (i.e. fine dining and 24–hour room service, (g) number of rooms, (h) target markets, (i) Levels of service, and (j) ownership and affiliations.

Property Overview

We have not provided nor designed any floor plans on this potential project. We have, however, discussed with the developer the preliminary concepts for the subject hotel and reviewed the preliminary design schemes and visual elements

We understand that the new Hotel would be a renovation of the existing 546sf cabin and an expansion of cabin structures with upscale king and QQ type rooms that are sought by an existing percentage of leisure travelers to the area. Gathering spaces, interesting design elements, and attractive F&B facilities are typically expected by the current day upscale traveler and are lacking in availability throughout the existing competitive market as well as the broader area market.

The Subject Property is envisioned to be an upscale hotel, servicing occasional business travelers that frequent businesses in the greater area, along with leisure guests that visit the county, area cities, community activities, and nationally recognized area recreational attractions. To best compete, the property should; (a) consist of quality design, construction, finish materials, and FF&E, and (b) consistently deliver personalized guest-experiences, with standards and operating principles consistent to are above those of nationally branded hotel standards.

From our investigation, we have determined that a quality facility, with customer-centric and an experience-oriented service program, to be led by a manager with a strong track record in small groups and leisure travelers is viable. A minimum of 11 guest units are anticipated. Using the findings of the preceding analysis, we consider that factors, such as a conveniently remote location and easy access, support a proposed positioning within the upscale segment.

Our analysis of other hotels in the area show that a competing hotel should have similar or better-quality guest rooms to compete for the targeted traveler market. New competitive sized hotel bedrooms and guest facilities are sufficient to compete for adequate operational efficiency, given the fact the Hotel should be able to attract its share of the small group and leisure traveler market due to the described quality and location.

From the research we did, we foresee at least a consistency in hotel room amenities and qualities to be important to the hotel guest. Since the hotel rooms (cabins) will be new builds, each of the guest room types will have a semblance of uniformity in order to increase efficiency. The similar room types will add to the opportunity and subtract from inconsistencies small group and experienced leisure travelers avoid. Conversely, guests also appreciate the appeal and experience of uniquely designed and interesting guest rooms and would anticipate such charm and allure typically found in newer hotel properties.

From our industry experience and knowledge of competitive properties in the greater area, we consider the Hotel's complete infrastructure with similar or better than room types and sizes to be very competitive. Furthermore, we recommend providing features appreciated by travelers such as a quick self-serve breakfast items, grab-and-go lunch, and an evening cocktail lounge that retains a sense of enjoyment, purpose, and value while on property.

According to our recent findings, knowledge of the market, and experience in the industry, room amenities should include the most modern cooling and heating, high-speed internet access, dressing table and chair, seating area, modern television, minibar and/or wet bar area and coffee-making facilities, a safe, and other amenities that are usually found in a hotel of this caliber. We anticipate the interior design, quality of materials, furniture, and guest accessories to create modern and comfortable rooms.

Leisure Facilities

It is envisioned that the Hotel will have an offering of attractive leisure facilities. A signature pool is planned and is likely achieve instant recognition. A basic fitness center is unnecessary due to the setting and outdoor attractions. Outdoor leisure spaces around the property are attractive to all segments (individuals, couples, small groups) and may include fire pits, yard games, and seasonal gardens.

Special Event Room

We have investigated existing offerings in the competitive market and discovered an opportunity for this space to be perceived as an unmatched amenity in the area. We consider this space and capacity to be underserved for a new hotel with an opportunity in the market that the subject hotel may obtain. Our research into properties within the Hotel's competitive set show they are enjoying steady demand for small event bookings from families, businesses, organizations, and community social groups. However, the area's high summer occupancy and limited indoor venues for groups in case of inclement weather has restricted availability for groups.

All projections presented in this report have been adapted to reflect nominal capacity. In addition, we recommend that any event or group gathering spaces incorporate the following features:

1. A well-trained desk staff to provide assistance to technology connections.
2. Event space should include a/v capabilities such as projection equipment, adjustable lighting, remote controlled ceiling encased screens, audio distribution systems, recordable writing boards, HDMI connections between meeting spaces, high speed cat7 Ethernet connectivity, 5 GHz Wi-Fi, and NFC card emulation.

3. Table and chairs of high quality and durability to appear new after multiple transformations. Tables must have hard solid writing surfaces and chairs should be of the type that allows twelve-hour comfortable seating with reclining, roller wheels, and swivel.
4. Sound dissemination should be STC-50 rating or better.
5. Cooling and heating for event room should be adjustable digital technology.

Food and Beverage (F&B) Facilities

Initial plans for the Hotel's food and beverage facilities foresee completing a design of an attractive indoor/outdoor restaurant and lounge gathering place. F&B offering complimented by superior morning coffees, afternoon refreshments, and evening beer, wine, and cocktails are included in the development concepts. Consideration is also made to the guest type preferences in addition to the available or limited F&B offerings within the local area of the hotel.

Given that we have assumed the Hotel has an opportunity location, we concur with the concept's restaurant design for F&B and an event space option with various configurations for various user groups that vary on square footage needed. An essential feature of upscale market facilities is the capability to provide a quick solutions or alternatives to full meals and family traveling groups generally require replacement or addition to forgotten items. It is recommended the hotel operation take these factors into consideration when planning the staffing ratio as well as all food and beverage functions that coincide with late arriving and early departing travelers.

Summary of Anticipated Facilities

It is important to note that the layout and design are crucial to the success and profitability of any new development, and we assume that the Hotel will be built, furnished and fitted to meet the standards typical of the targeted traveler. Furthermore, we assume the Hotel's final outcome will allow for efficient operation and the provision of services in line with those expected of a quality upscale market hotel. For the purpose of this report, we have assumed that the proposed Hotel will be maintained in a competitive condition over its economic life. Furthermore, we have assumed that the related and necessary capital expenditure will be funded.

Summary of Facilities	Approx. Area	Location	Quantity	Notes
Site Area	200+ acres			
Total Gross Build	15,000 sf +/-	Property		
Guest Rooms (cabins)	7,500 sf +/-	Surround	11	900sf, 500sf, 450sf
Event Room (in/outdoor)	2,000 sf +/-	Central	1	Indoor/outdoor
Clubhouse Reception	115 sf +/-	Entrance	1	A-frame copy
Restaurant & Bar	1,600 sf +/-	Central	1	Indoor/outdoor
Green House (non-F&B)	2,900 sf +/-	Central	1	Incl pool
Indoor/Outdoor Lounge	1,000 sf +/-	Central	1	F&B Service
Stargazing Deck	750 sf +/1	Dark Site	1	
Back of House	900 sf +/-	Central	1	Laundry/Storage
Parking	unlimited	Surface	20+	
Landscaped grounds	10,000 sf +/-	Property		

Conclusion – Hotel Facilities

We have analyzed the Smith Butte site's potential and anticipated facilities based on market opportunities and are available to further discuss potential adjustments or enhancements. We concur with the developer that the renovation of the existing house, expansion of new high style cabins, and the planned amenities and facilities will serve the existing market gap and needs for quality requirements as a 11-unit upscale lodging property with style and character superior in the market.

6. Market for Lodging Accommodation

The analysis of demand by the use of individual market segments is important because each market segment often exhibits unique characteristics relating to factors such as growth potential, seasonality of demand, average length of stay, double occupancy, facility requirements, price sensitivity, and so forth. By quantifying the overall room night demand by market segment and defining the individual characteristics of each segment, the future potential for each market segment can be projected.

Accommodated Room Night Demand

Demand for transient accommodation in the defined market area is generated primarily by the following four market segments.

Segment 1	Business
Segment 2	Group & Event
Segment 3	Leisure
Segment 4	Airline – Not Used in this Report

From our field work, area analysis and knowledge of the local hotel market, we estimate that, in 2019 and thru the rolling 12-month period to date, the distribution of accommodated hotel room night demand for those hotels that we consider to be competitive with the Subject Hotel is as shown in Tables 6-1a and 1b. Further details of the competitive set hotels are given in the next section, Competition.

Table 6-1a **Accommodated Room Night Greater Area Demand 50-Set 2019** (3,125 rooms)

Market Segment	Demand	Percentage
Business	23,269	3%
Group & Event	54,294	7%
Leisure	698,063	90%
Total	775,625	100%

Table 6-1b **Accommodated Room Night Demand 15-set** (1,273 rooms)

Market Segment	Demand	Percentage
Business	27,548	8%
Group & Event	43,934	12%
Leisure	284,740	80%
Total	356,222	100%

This aggregate market mix, with social groups and traveling leisure demand account for approximately **92% of the select set-15 demand**, reflects that the subject site should favor leisure travel. The greater area market as is a highly favorable destination for leisure-related accommodations and social group events with a combined amount of **97% of the demand in the greater 50-set**.

Leisure Segment

The Leisure segment comprises visitors and groups who have purchased their trip individually and generally through online sources. They generally prefer convenience to recreation, shopping, entertainment, hospitals, and universities, or as an overnight stop-over on the way to a distant destination. Weekend demand is generally leisure and benefiting from other special promotional packages including discounts. The hotel room rate is generally discounted in order to attract this segment during lower occupancy periods. This type of demand is generated mainly at weekends and on weekdays during holidays throughout the year and summer months. Our field work suggests that leisure demand for the select area position and available supply is currently more competitive on weekends by availability rather than discounting rate.

Business Segment

As seen in Section 3, inbound travel continues to increase on an overall basis. Although light in this particular market, business demand is strongest on Monday to Thursday nights during the non-summer months, declines significantly on Fridays and Saturdays and increases somewhat on Sundays. This demand in the market area is relatively constant throughout the year with some drop off in the period from late November to early January, and during July and August when travelers, especially business, take summer vacations to other destinations.

Future demand in this segment is tied, in part, to business and economic health, and its main source markets. As the country and area's economy continues to expand and the main source markets continue economic stability and growth, business travel and local business and retail activity should continue to increase.

Group & Event Segment

Demand in this segment is expected to be generated mainly by Phoenix area organizations, companies, and families holding weddings, reunions, anniversary celebrations, sales meetings, management planning, training sessions, client conferences, and product announcements. All of these meetings are generally small in size at the hotels in the defined select hotel set. We have included in this segment room nights generated by socially driven entities as well as corporate, association, government, and university driven event at the competitive hotels. Delegates attending conventions, exhibitions or similar events at venues outside the select set, such as city convention centers and corporate office parks, are excluded from this segment and are instead taken into account as business traveler.

From our discussions with representatives of hotels within the market we understand that there is consistent demand for quality event space in the select market area. Those properties that we consider to be competitive with the new Hotel generally offer basic event and conference rooms within their hotels or none at all. Peak demand for events typically occurs in the spring and autumn; summer represents can be extremely high and winter demand for family groups and company getaways can also be extremely high before and after the holidays. Typically, the average group size and length of stay for typical event is twenty-five (25) people for 2.50 nights. Most social groups and associations utilize accommodations from Thursday to Sunday. Corporate groups are primarily focused for use on the weekdays.

Future demand potential in the Group and Social Event segment is not necessarily related to the growth trend expected for local economy. Because most events have either a direct or indirect purpose, the economic considerations that have an impact on travel do not directly affect meeting and event demand. However, from our discussions with local hoteliers we note that group and event demand is accommodated from an unconventional process. Most of the group business is from third party sources (Phoenix area agencies) that supply those hotels and the hotels rarely seek deeply related sales efforts for events or online presence. We expect that a competent manager will have a sales agenda that directly seeks long-term booking clients and yields the maximum rates for the period. For purposes of this study, the subject property location, and the general business and industries within the primary market area, we have maintained a conservative forecast for the group and event segment.

Conclusion

The purpose of segmenting hotel demand is to define each major type of demand, identify customer characteristics and estimate future growth trends. Starting with an analysis of the local area, three segments were defined as being representative of the Hotel's market. Various types of economic and demographic data were evaluated to determine their propensity to reflect future changes in hotel demand. We have forecasted a constant increase based on all criteria involved for the subject hotel and its competitive environment. The constant growth rates shown in Table 6-2 are used in subsequent sections of this study. 2020-21 anomaly years.

Table 6-2 **Forecast Annual Growth Rates – Competitive 15-Set 2019-2024**

Market Segment	2019	2020	2021	2022	2023	2024
Business	2%	-80%	-50%	2%	2%	2%
Group & Event	2%	-90%	-70%	2%	2%	2%
Leisure	2%	-50%	-30%	2%	2%	2%
Airline	0%	-80%	-65%	0%	0%	0%
Total	2%	2%	2%	2%	2%	2%

7. Competition

The Competitive Market

An integral component of a market area's supply and demand relationship that has a direct impact on performance is the current and anticipated supply of competitive hotel facilities. To evaluate an area's competitive environment, the following steps should be taken:

1. Identify the area facilities and determine which are directly and indirectly competitive.
2. Determine where additional hotel rooms will enter the market in the future.
3. Quantify the number of existing and proposed hotel rooms available in the market.
4. Review the competitive rates, occupancy, market orientation, facilities, and amenities.

We have analyzed the current market for accommodation and hotel supply. The area growth is broadly geared for the leisure market. A general type of midscale supply prevails. The existing supply is generally the same quality type and as expected from the traveler. The property list below in Table 7-1 represents the primary competitive hotels in the area and their opening date.

Table 7-1 **50-Set Ash Fork Area Competitive Hotels - Primary & Secondary**

		Distance	Rooms	Class	Opened
1	**Quality Inn Williams**	16.5	80	Midscale	May-96
2	**Holiday Inn Exp Williams**	16.2	81	Upper Mid	**Sep-15**
3	**La Quinta Inn Williams**	16.3	68	Upper Mid	**Aug-16**
4	**Days Inn Williams**	16	72	Midscale	Jul-04
5	**Comfort Inn Williams**	16.3	74	Midscale	Jan-91
6	**Days Inn Chino Valley**	33.5	55	Midscale	Jul-09
7	**SpringHill Suites Prescott**	45	105	Upper Mid	**May-11**
8	**Hampton Prescott Valley**	45	118	Upper Mid	Nov-08
9	**Comfort Inn Prescot Valley**	45	100	Midscale	Apr-06
10	**Hilton Sedona Bell Rock**	90	221	Upscale	Oct-04
11	**Clear Sky Resort-Grnd Jct**	51	36	Midscale	**Jun-21**
12	**Under Canvas-Grand Jct**	51	90	Midscale	May-13
13	**Sky Rock Sedona**	90	109	Midscale	Mar-07
14	**Hualapai Lodge Cabins**	55	54	Midscale	Sep-75
15	**10 Williams area AirBnB**	15	10	Upper Mid	Jan-19
16	Best Western Plus Williams	15.5	80	Midscale	Sep-94
17	Days Inn Williams	15.7	72	Economy	Aug-89
18	Ash Fork Inn	0.5	31	Indep	Jun-46
19	Quality Inn Cottonwood	49	51	Midscale	Mar-06
20	Rodeway Inn Williams	16.2	35	Economy	Jun-55
21	Motel 6 Williams West	16.4	52	Economy	Oct-92
22	Budget Host Williams	16.5	26	Economy	Jun-75
23	Gateway Hotel	16.5	48	Indep	May-90
24	Highlander Motel	16.5	11	Indep	

25	Westerner Motel	16.6	24	Indep	Jun-76
26	Grand Canyon Railway Inn	16.6	298	Midscale	Jun-95
27	Econo Lodge Williams	16.7	20	Economy	Dec-92
28	Howard Johnson Williams	16.7	54	Economy	Jun-93
29	9 Arizona Motor Hotel	16.7	25	Indep	Mar-42
30	Hampton Inn Williams	16.7	79	Upper Mid	**U/C**
31	The Grand Canyon Hotel	16.8	24	Indep	Jun- 81
32	Ramada Williams	16.8	120	Midscale	May-96
33	Star Hotel Route 66	16.9	20	Indep	Jun-35
34	Americas Best Inn Williams	17	39	Economy	Jul-90
35	Grand Motel	17	24	Indep	Jun-36
36	Travelodge Williams	17.1	41	Economy	Jun-57
37	Grand Canyon Gateway Inn	17.1	24	Indep	Jun-66
38	Red Roof Plus Williams	17.2	96	Economy	Jun-48
39	Canyon Motel	17.8	23	Indep	Jun-48
40	Super 8 Williams	18	40	Economy	May-91
41	Stagecoach 66 Motel	22.1	42	Indep	Jun-65
42	Aztec Motel & Gift Shop	23	40	Indep	
43	Deluxe Inn Motel	23.1	15	Indep	Jan-35
44	Canyon Lodge	23.2	16	Indep	Feb-62
45	Romney Motel	23.3	30	Indep	Jun-65
46	Historic Route 66 Motel	23.6	16	Indep	
47	Mountain Ranch Resort	24.3	73	Indep	Jul-87
48	Grand Canyon Inn	35.4	101	Indep	Jun-81
49	Springhill Cottonwood	43.1	85	Upscale	**U/C**
50	Best Western Cottonwood	44.2	77	Midscale	Jun-83
		TOTAL	**3,125**		

In our investigations and review of industry reports, we identified two new hotel developments in the area. We have not factored periodic property renovations as this does not impact supply, which increased with the 2021 opening of the 36-unit Sky Domes in Grand Canyon Junction. 85 new units are due in Cottonwood with the opening of a SpringHill Suites next Spring and 79 new units are due in Williams with the opening of a Hampton Inn next summer.

Hotel Supply in the Market

Hotel room supply in the area has been relative to overall population growth of the area. The local hoteliers indicate they're unaware of any more new builds than the two mentioned above, nor the popular trend of converting low quality inns to improved grade hotels. Our analysis shows that the hotel properties are location driven occupancy via availability. For example, a cross section of all hotel brands have both the highest RevPAR and lowest RevPAR in the 30-mile area select set of the 15 most competitive quality hotels. Data derived from a set of properties which we consider to be the most potentially competitive properties suggest that these hotels recorded an average occupancy of approximately 74.2% and a combined average annualized rate of nearly $224.36. Unbranded, non-STR reporting independent cabin lodging properties trend higher rates and lower occupancies. The tables 7-2 to 7-5 below define the business mix, historical occupancies, average daily rates, and Revenue Per Available Room used in this report to determine the likely forward going performance of a newly built competitive hotel property.

Table 7-2 **Business Mix - Select Set-15 Primary Competitive Hotels**

	Property	Rooms	Occupied Nts	Business	Group & Event	Leisure
1	Quality Inn Williams	80	23,944	10%	10%	80%
2	Holiday Inn Exp Williams	81	25,130	15%	10%	75%
3	La Quinta Inn Williams	68	21,345	12%	10%	78%
4	Days Inn Williams	72	20,498	7%	5%	88%
5	Comfort Inn Williams	74	21,068	7%	5%	88%
6	Days Inn Chino Valley	55	15,056	5%	5%	90%
7	SpringHill Suites Prescott	105	32,960	20%	15%	65%
8	Hampton Prescott Valley	118	37,040	20%	5%	75%
9	Comfort Inn Pressott Valley	100	27,375	10%	5%	85%
10	Hilton Sedona Bell Rock	221	62,919	5%	35%	60%
11	Clear Sky Resort-Grnd Jct	36	7,884	0%	20%	80%
12	Under Canvas-Grand Jct	90	18,068	0%	25%	75%
13	Sky Rock Sedona	109	30,634	5%	25%	70%
14	Hualapai Lodge Cabins	54	10,841	0%	10%	90%
15	10 Williams area AirBnB	10	1,460	0%	0%	100%
		1,273	356,222	8%	12%	80%

Table 7-3 **Historical Occupancy - Select Set-15 Primary Competitive Hotels**

	Property	Rooms	2015	2016	2017	2018	2019	YTD '21
1	Quality Inn Williams	80	-	new	82%	82%	82%	78%
2	Holiday Inn Exp Williams	81	new	83%	83%	83%	85%	84%
3	La Quinta Inn Williams	68	84%	82%	84%	84%	86%	78%
4	Days Inn Williams	72	78%	76%	77%	77%	78%	77%
5	Comfort Inn Williams	74	78%	77%	77%	77%	78%	77%
6	Days Inn Chino Valley	55	76%	75%	75%	74%	75%	72%
7	SpringHill Suites Prescott	105	85%	84%	85%	84%	86%	84%
8	Hampton Prescott Valley	118	84%	82%	84%	84%	86%	82%
9	Comfort Inn Pressott Valley	100	74%	73%	74%	72%	75%	70%
10	Hilton Sedona Bell Rock	221	74%	73%	75%	74%	78%	74%
11	Clear Sky Resort-Grnd Jct	36	-	-	-	-	new	60%
12	Under Canvas-Grand Jct	90	50%	50%	52%	55%	55%	64%
13	Sky Rock Sedona	109	72%	74%	74%	74%	77%	77%
14	Hualapai Lodge Cabins	54	53%	52%	55%	50%	55%	55%
15	10 Williams area AirBnB	10	31%	32%	36%	38%	40%	42%
		1,273	**69.9%**	**70.2%**	**72.4%**	**72.0%**	**74.0%**	**71.6%**

Table 7-4 **Historical Average Daily Rate - Select Set-15 Primary Competitive Hotels**

	Property	Rooms	2015	2016	2017	2018	2019	YTD "21
1	**Quality Inn Williams**	80	-	new	$168	$171	$174	$174
2	**Holiday Inn Exp Williams**	81	$166	$168	$174	$176	$181	$181
3	**La Quinta Inn Williams**	68	$168	$170	$174	$175	$179	$179
4	**Days Inn Williams**	72	$140	$140	$144	$144	$148	$148
5	**Comfort Inn Williams**	74	$140	$140	$144	$144	$148	$148
6	**Days Inn Chino Valley**	55	$151	$155	$158	$158	$160	$160
7	**SpringHill Suites Prescott**	105	$172	$172	$175	$175	$177	$177
8	Hampton Prescott Valley	118	$173	$174	$174	$175	$178	$178
9	Comfort Inn Prescott Valley	100	$140	$140	$142	$144	$144	$144
10	Hilton Sedona Bell Rock	221	$244	$258	$270	$288	$312	$312
11	Clear Sky Resort-Grnd Jct	36	-	-	-	-	new	$380
12	Under Canvas-Grand Jct	90	$362	$370	$390	$400	$410	$410
13	Sky Rock Sedona	109	$290	$295	$305	$315	$322	$322
14	Hualapai Lodge Cabins	54	$250	$255	$260	$262	$268	$268
15	10 Williams area AirBnB	10	$275	$290	$305	$325	$340	$360
		1,273	$199.66	$171.37	$187.46	$191.80	$197.39	$224.36

Table 7-5 **2019 Estimated Occupancy, ADR, RevPAR - Select Set-15 Competitive Hotels**

	Property	Rooms	*Est Occp '19	*Est ADR '19	Demand	RevPAR
1	Quality Inn Williams	80	82%	$174	23,944	$142.68
2	Holiday Inn Exp Williams	81	85%	$181	25,130	$153.85
3	La Quinta Inn Williams	68	86%	$179	21,345	$153.94
4	Days Inn Williams	72	78%	$148	20,498	$115.44
5	Comfort Inn Williams	74	78%	$148	21,068	$115.44
6	Days Inn Chino Valley	55	75%	$160	15,056	$120.00
7	SpringHill Suites Prescott	105	86%	$177	32,960	$152.22
8	Hampton Prescott Valley	118	86%	$178	37,040	$153.08
9	Comfort Inn Prescott Valley	100	75%	$144	27,375	$108.00
10	Hilton Sedona Bell Rock	221	78%	$312	62,919	$243.36
11	Clear Sky Resort-Grnd Jct	36	new	new	-	-
12	Under Canvas-Grand Jct	90	55%	$410	18,068	$225.50
13	Sky Rock Sedona	109	77%	$322	30,634	$247.94
14	Hualapai Lodge Cabins	54	55%	$268	10,841	$147.40
15	10 Williams area AirBnB	10	40%	$340	1,460	$136.00
		1,273	74.0%	$224.36	356,222	$166.02

From an evaluation of the occupancy, rate structure, market orientation, affiliation, location, facilities, amenities, reputation, and quality of the area's hotels, as well as the comments of management representatives, we have narrowed the greater area market of 50 hotels to 15 hotels in the vicinity of the subject location that are judged to be in a select set-15 to further derive figures for forecasting of revenue and expenses. Table 7-6 sets out the key characteristics of the select set of potential competitor hotels.

Table 7-6 **Facilities of the 15 Primary Competitors**

		Rooms	Est ADR	F&B	V2 F&B	Group & Event Rms	Bar Lounge	Standout
1	Quality Inn Williams	80	$174	no	no	basic	no	none
2	Holiday Inn Exp Williams	81	$181	no	yes	basic	no	none
3	La Quinta Inn Williams	68	$179	no	yes	basic	no	none
4	Days Inn Williams	72	$148	no	no	basic	no	none
5	Comfort Inn Williams	74	$148	no	no	basic	no	none
6	Days Inn Chino Valley	55	$160	no	no	basic	no	none
7	SpringHill Suites Prescott	105	$177	no	yes	basic	no	none
8	Hampton Prescott Valley	118	$178	no	yes	basic	no	none
9	Comfort Prescott Valley	100	$144	no	no	basic	no	none
10	Hilton Sedona Bell Rock	221	$312	yes	yes	in/outdoor	yes	views
11	Clear Sky Resort-Grnd Jct	36	new	yes	yes	outdoor	takeout	views
12	Under Canvas-Grand Jct	90	$410	yes	yes	outdoor	yes	views
13	Sky Rock Sedona	109	$322	yes	yes	in/outdoor	yes	views
14	Hualapai Lodge Cabins	54	$268	yes	yes	in/outdoor	yes	views
15	10 Williams area AirBnB	10	$340	no	yes	na	na	privacy

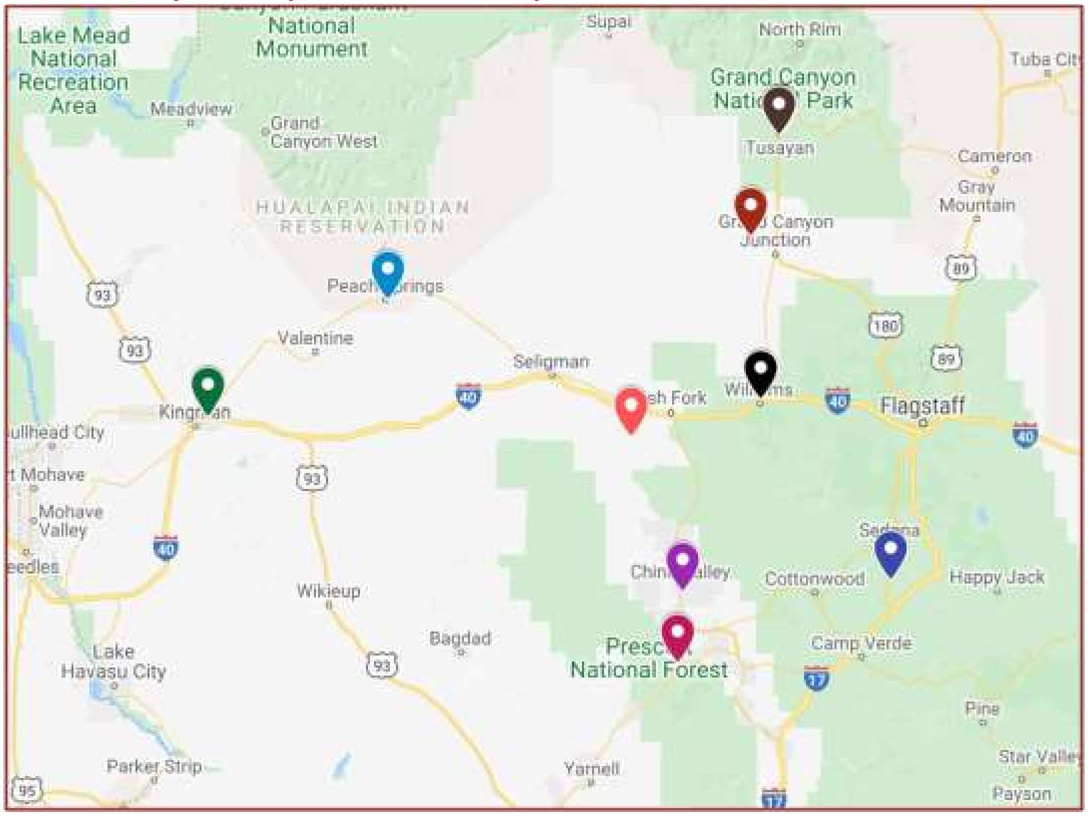
Changes in Market Dynamics

As the new Hotel and new supply become operational, we expect that a proportion of the current competitive supply is likely to lose its competitive positioning in relation to the introduction of new independent or branded rooms. We expect that some existing hotels in the area will suffer from part or all of the following types of deterioration.

1. Physical Deterioration. Local hotels with a poor maintenance record are likely to be less competitive with the new Hotel.

2. Functional Obsolescence. Many of the older existing hotels are dated and are not in keeping with the demands of the modern-day traveler. These hotels are able to continue operating only because of the current absence of a sufficient number of quality rooms during peak season and city-wide events. As new supply enters the market, some of the competitive properties will find it harder to compete and they are thus likely to be forced to undergo a major program of redevelopment, closing permanently, or focusing on a much lower segment of the market

Image 7-7 **Proximity of Competitive Hotels Map**



Conclusion

The greater Ash Fork - Williams area hotel market is recognizing steady occupancy and RevPAR over the past sixty months and consistent occupancy even over the past COVID period months of 2020-2021. From our discussions and interviews with market participants, we understand that nearest select set hoteliers are optimistic of achieving average annual occupancy in the 70% range for the current year and rolling 12 months. This performance is significantly stronger than the national averages and we anticipate the strength of drive-to markets to maintain this competitive advantage going forward.

The outlying area room supply has been only occasionally increasing with new smaller limited-service hotels, cabin rentals, B&B, and AirBnb over the past ten years and the most significant growth was is taking place in the next twelve months with the new build Hampton Inn in Williams and SpringHill in Cottonwood. Our estimate shows approximately 200 rental properties of all types, AirBnb, Cabins, expanded lodges and motels have been added to the greater area over the past ten years. The consistent demand from all segments, as evidenced from evolving market and economic conditions, creates a favorable opportunity for the Subject Hotel.

We expect market wide occupancy to maintain and increase from present levels with the ongoing group and leisure travelers and regional Phoenix area growth activity and drive-to-market, which will sustain overall demand for the greater Ash Fork-Williams and regional hotel set.

8. Projecting of Hotel Demand, Occupancy, and Average Rate

Calculation of Accommodated Demand

From our field work and in-house collection of data, we have estimated the year-end 2019 occupancy of the Hotel's select set and thereby the total number of occupied rooms in the select competitive market.

An average of the market mix of each competitive property has then been calculated to determine the overall market segmentation of the hotels within the subject Hotel's market. The area-wide estimate of room night demand, by segment, forms the historical base demand. The result of these calculations for the Hotel's competitive market area is shown in Table 8-1 below.

Base Demand Growth

In **Section 5, Market for Lodging Accommodation**, we set out our assumptions regarding the prospects for demand growth, by market segment, for the competitive market. These demand growth rates are applied in our analysis to the base level of accommodated demand, which has been estimated in **Table 8 -1**.

Table 8-1 **Accommodated Demand 15-Set Primary Competitive Hotels**

Market Segment	Available	Demand	Percentage
Business		27,548	8%
Groups & Events		43,934	12%
Leisure		284,740	80%
Total	464,645	**356,222**	100%

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodation in the market because all of the competitive hotels are full. These visitors must defer their trips, settle for less desirable accommodation, or stay in hotels located outside the market area.

Unaccommodated demand is often a form of excess demand resulting from the cyclical nature of the hotel business. For example, in commercial markets where demand is not equally spaced throughout the week, hotels often exhibit peaks and troughs in their daily occupancies. In general, commercial hotels enjoy strong occupancies from Monday to Thursday, when business travel is most frequent, and lower occupancies on Friday and Saturday. And vice versa in leisure markets where weekend and holiday accommodations are in over-demand. When hotels operating under these market conditions realize occupancies greater than 80-90%, or when weekly demand patterns fill area hotels to capacity on one or more nights a week, it can generally be assumed that excess weekday demand exists, and a certain amount of patronage must be turned away. If it is expected that additional hotels will be entering the market, it is reasonable to assume that this unaccommodated demand will be accommodated and thus an estimate of the amount of unaccommodated demand should be made. Unaccommodated demand is generally estimated as a percentage of accommodated demand.

The select set of competitor hotels are estimated to achieve an aggregate occupancy of approximately **74.2% in 2019 (refer to Table 7-2)** and the accommodated room night demand is throughout the week, weekdays, and holidays when many of the competitor hotels achieve full or close to full occupancy at peak times. It is therefore likely that there will be days when all of the primary hotels will be full and unaccommodated demand will exist.

From our field work and market analysis, we estimate that in **2019**, unaccommodated demand in the competitive market will likely have amounted to **10% of accommodated demand**. This equates to **more than 33,500 room nights a year for the 15-hotel 1,273-room competitive set of hotels, or 100 rooms turned away during approximately 50% of the peak nights in a year.** This level of unaccommodated demand has been allowed to justify the project's year by year growth in line with the base demand growth rates.

It should be noted that because of the consistent demand described earlier, a proportion of this unaccommodated demand could remain unaccommodated during the projection years. In our analysis, we have termed this Residual Unaccommodated Demand. In practice, the amount of unaccommodated demand which becomes accommodated (that is, that which is no longer residual) is dependent upon (a) market wide occupancy, (b) seasonality, and (c) the introduction of new supply.

Induced Demand

Induced demand represents the additional room nights that will be attracted to a market area as a result of the introduction of a new demand generator. Situations where induced demand can be created included the opening of a new business office park, the expansion of a convention center or the addition of a new hotel bringing a different chain affiliation or unique facilities for certain hotel accommodation segments for example a specialized golf resort destination or fashionable hotel style. We have added 5% induced room nights and calculated induced demand.

We consider that any newly introduced hotels in the area to be generators of induced demand. We expect that the introduction of these properties will generate additional room nights. Specialized upscale hotels generate greater induced demand than the ordinary chain type of hotel. However, we do not find it necessary to calculate a larger factor due to the conservative forecast of the Hotel's rates and occupancy.

Total Potential Demand

Total potential demand is the sum of: (1) base demand, (2) unaccommodated demand, and (3) induced demand for the competitive market. As previously discussed, base demand and unaccommodated demand are assumed to grow in line with the growth rates explained.

As already discussed, some of the potential demand will continue to be unaccommodated in certain years as a result of market wide and individual hotel seasonality, and supply constraints. A certain amount of residual unaccommodated demand will result.

Total Usable Room Night Demand

Total usable room night demand is the combined total of accommodated room night demand and useable latent demand (that is, the latent demand that can be absorbed is based on the number of additional hotel rooms expected to enter the market). **Table 8-2** summarizes our projections of total usable demand, or occupied room nights, for the competitive market for the period of **2019-2024**. The amount of residual demand is also shown, as is the growth per annum of occupied room nights.

By applying the total projected occupied room nights to our estimates of total rooms supply for the select market, we can estimate market wide occupancy for each year. We have used the **2019** accommodated and unaccommodated room night demand as the base year and projected levels of demand into the future using the growth rates.

Table 8-2 **Total Usable Room Night Demand – 15-Set Primary Competitive Hotels**

Market Segment	2018	2019	2020	2021	2022	2023	2024
Business							
Occupied Room Nights	26,997	27,548	6,887	28,099	28,099	28,661	29,234
Unaccommodated Demand	1,350	1,377	344	1,405	1,405	1,433	1,462
Residual Demand	-27	-28	0	-28	-28	-29	-29
Induced Demand	0	0	0	0	0	0	0
Accommodated Growth	2%	2%	-75%	2%	2%	2%	2%
Meeting & Event							
Occupied Room Nights	43,055	43,934	4,393	44,813	45,709	46,623	47,556
Unaccommodated Demand	4,306	4,393	0	4,481	4,571	4,662	4,756
Residual Demand	-431	-439	0	-448	-457	-466	-476
Induced Demand	2,153	4,393	439	4,481	4,571	4,662	4,756
Accommodated Growth	2%	2%	-90%	2%	2%	2%	2%
Leisure							
Occupied Room Nights	279,045	284,740	71,185	290,435	296,243	302,168	308,212
Unaccommodated Demand	27,905	28,474	0	29,043	29,624	30,217	30,821
Residual Demand	-2,790	-2,847	0	-1,452	-296	-302	-308
Induced Demand	13,952	14,237	3,559	14,522	14,812	15,108	15,411
Accommodated Growth	2%	2%	-75%	-5%	2%	2%	2%
Total	**381,562**	**391,546**	**83,249**	**400,829**	**409,441**	**432,738**	**441,393**

Penetration Factor Analysis

The Hotel's forecasted market share and occupancy have been based on its anticipated competitive position within the market, as quantified by its penetration factor. The forecast market share of the Hotel is based upon a penetration factor analysis. The penetration factor is the ratio of a property's market share to its fair share. In the case of the Subject Hotel, the formula is as follows:

Subject Property Rooms	Select Set Area Rooms	Select Set Area Rooms Plus Subject Property	Subject Property Room Share 11 divided by 1,284	Select Set Area Occupancy	Subject Property Occupancy	Subject Property Penetration Factor
11	1,273	11 + 1,273 = 1,284	.9%	74%	74%	100%

If a property with a room share of .9% (11 rooms divided by 1,284 (that is 11+1,273 which is the select set area rooms) is capturing .9% of the market in a given year, then its occupancy will equal the competitive set occupancy, and its penetration factor will equal 100% (.9%/.9% = 100%).

If the same property achieves a market share in excess of its fair share, then its occupancy will be greater than the competitive set occupancy, and its penetration factor will be greater than 100%. Penetration factors can be calculated for each market segment of a property, and for the property as a whole.

Our projections for market penetrations are as follows:

1. We consider the new Hotel will be superiorly competitive to the majority of the local hotels in terms of inventory, style, quality product and quality of service. We expect the new Hotel to be operated by a competent manager, one providing strong identity, management services, and distribution channels equal to those of existing local hotels. However, due to its leisure focus setting, we are not considering the business traveler as a significant source of business for this property and have forecasted 0% for this segment.

2. Owing to its location and setting, at stabilization the Hotel will be superiorly competitive to penetrate the Leisure segment. We expect the new hotel to achieve a penetration of **60%** in year one, **72%** in year two, **85%** in year three and **slightly** greater thereafter, due to strong local, regional market conditions, and maintaining a premium pricing strategy.

3. Given the Hotel's attractive, conveniently remote setting, and attractive service values, we expect the Hotel to quickly penetrate the group & event segment and are forecasting a steady increase and an opportunity for induced demand. In its first year of operation we anticipate **60%** penetration, **72%** in year two, and **85%** in year three and increasing slightly onwards to maintain a premium pricing strategy.

4. Older hotels absorb the traditionally discounted or Airline segment. We consider that a manager will endeavor to secure higher-rated business from other segments than the highly discounted or Airline segment. This segment is not considered with this hotel.

Table 8-3 shows the specific penetration factors that we have assumed for the Hotel from the date of opening until it reaches stabilized level of performance relative to its competitive set. Penetration factors have been estimated for each market segment for each calendar year and reflect our view of how the subject Hotel is likely to perform relative to its fair share, or the aggregate of its competitive market.

Table 8-3 **Market Penetration by Segment Years 1 -5**

Market Segment	Year 1	Year 2	Year 3	Year 4	Year 5
Business	0%	0%	0%	0%	0%
Leisure	60%	72%	85%	87%	90%
Group & Event	60%	72%	85%	87%	90%
Airline	0%	0%	0%	0%	0%

Because the supply and demand balance for the competitive market is dynamic, particularly in relation to proposed new hotel supply entering the competitive market, there is a circular relationship between the penetration factors of each hotel in the market.

The performance of individual new hotels has a direct effect upon the aggregate performance of the market, and consequently, upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels change, either positively (following a refurbishment) or negatively (when an under-maintained hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing it achieved market share, this leaves less demand available in the market for the other hotels to capture and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal).

Our projections of penetration, demand capture and occupancy performance for the subject Hotel take into account these types of adjustments to market share within the defined competitive market. Consequently, the actual penetration factors applicable to the subject Hotel for each market segment in each projection year vary somewhat.

Table 8-4 **Projected Penetration, Demand Capture and Occupancy *Full Year 2024**

Market Segment	2024	2025	2026	2027	2028
Business Demand	30,666	31,280	31,905	32,543	33,194
Market Share	0.9%	0.9%	0.9%	0.9%	0.9%
Capture	0	0	0	0	0
Penetration	0%	0%	0%	0%	0%
Group Demand	51,836	52,872	53,930	55,008	56,109
Market Share	0.9%	0.9%	0.9%	0.9%	0.9%
Capture	280	343	413	431	454
Penetration	60%	72%	85%	87%	90%
Leiseur Demand	338,725	345,499	352,409	359,457	366,646
Market Share	0.9%	0.9%	0.9%	0.9%	0.9%
Capture	1,829	2,239	2,696	2,815	2,970
Penetration	60%	72%	85%	87%	90%
Total Captured	2,109	2,581	3,108	3,245	3,424
Available Room Nights	4,015	4,015	4,015	4,015	4,015
Hotel Occupancy	53%	64%	77%	81%	85%

This table sets out the result of these market share adjusted penetration factors by segment upon the subject Hotel's future demand capture and occupancy performance. These projections are in the full calendar years from **2024 to 2028**, by which time we consider that the Hotel will have reached a stabilized level of performance in penetration and occupancy.

The subject hotel five-year forecast is based on today's metrics in order to forecast the future.

Table 8-5A & B sets out the resultant market mix and total captured demand by market segment.

Table 8-5A **Projected Market Mix**

Market Segment	2023	2024	2025	2026	2027
Business	0%	0%	0%	0%	0%
Group	20%	20%	20%	20%	20%
Leisure	80%	80%	80%	80%	80%
Airline	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%

Table 8-5B **Anticipated Room Nights & Room Revenue Per Segment**

Room Nights	2024	2025	2026	2027	2028
Business	0	0	0	0	0
Group	280	343	413	431	454
Leisure	1,829	2,239	2,696	2,815	2,970
Total	2,109	2,581	3,108	3,245	3,424
Room Revenue					
Business	0	0	0	0	0
Group	71,378	89,114	109,412	116,422	125,164
Leisure	466,424	582,321	714,960	760,773	817,893
	537,801	671,434	824,372	877,195	943,056
Average Rate	**$255.00**	**$260.10**	**$265.20**	**$270.30**	**$275.40**

Conclusion – Overall Occupancy

We expect the Hotel to reach a stabilized level of penetration (occupancy performance relative to its competitive market) after four full years of operation. The stabilized occupancy is intended to reflect the anticipated results of the property over its economic life given any and all changes in the life cycle of the Hotel.

Forecast of Average Rate

The average rate forecast for the Hotel has been based on the consideration of projected market mix changes and rate increase projections relating to each demand segment.

In forecasting average rate growth, we have anticipated a base underlying inflation rate of **2%** for the US dollar. As stated in **Section 3, Market Area Analysis**, we have relied on inflation estimates supplied by **The Economist Intelligence Unit**. We have applied various market-specific and hotel-specific growth factors to the average rate of the respective demand segments. **Table 6-2** illustrates the estimated increase in average rate of **2%** for each market segment.

Hotel room rate inflation is not necessarily the same as the general economic rate of inflation experienced in the local community. It is impacted more by market conditions such as the relationship between supply and demand. When hotel room rate inflation is projected into the future, the movement in average rate up to the point where the hotel achieves its stabilized occupancy is generally attributed to property-specific and market-specific factors. After a hotel achieves occupancy stabilization, most forecasts assume that room rates will continue to increase at the anticipated general economic rate of inflation expected for the local market area.

Table 8-6 **Projected Average Rate Growth by Segment & Select Set 15 Hotels**

	2019	2020	2021	2022	2023	2024
Rate Growth	2%	0%	2%	2%	2%	2%
Business	$200	$0	$204	$210	$223	$234
Group	$190	$0	$194	$200	$211	$222
Leisure	$190	$0	$194	$200	$211	$222
Average Rate Total Set	$148.55	$0.00	$174.76	$203.00	$255.00	$225.94
ADR Key-3 Primary	$224.00	$0	$228.48	$239.90	$251.90	$264.49
Subject Hotel ADR	-	-	-	-	-	$255.00

When estimating the new Hotel's achievable rate position, we have considered net rates achieved by the previously described local competitive properties. We have then applied premiums and discounts to the various room category prices and benchmarked our results between rates to achieve our base rates for the previous year **2019 and then forecasting forward by year, post COVID 2021, and for the first full operating year in 2024**.

Conclusion – Occupancy and Average Rate

Based on the preceding analysis, the Hotel's occupancy and average rate have been estimated as set out in Tables 8-5 and 8-6. It should be noted that we have allowed for rate discounts for the base period that are below the described rate targets used to benchmark the Hotel's beginning rates.

9. Projection of Revenue and Expense

From our preceding projection of occupancy and average rate, and our knowledge of comparable hotels' financial operating profiles, we have developed a five-year forecast of Revenues and Expense for full calendar years starting in **2024**. We have selected an annual room rate increase of **2.0%** based on previous results of the area and anticipated continued future demand.

The forecast of revenue and expense is expressed in current US dollars as of the date of each projection year. The stabilized year is intended to reflect the anticipated operating results of the Hotel over its economic life, given any or all applicable stages of build-up, plateau and decline in the life cycle of the Hotel. Thus, revenue and expense estimates, from the stabilized year forward, excluded from consideration any abnormal relationship between supply and demand, as well as any non-recurring conditions that may result in unusual revenues or expenses.

Forecast of Income and Expense

From our knowledge of the market for hotel accommodation in the greater Yavapai & Coconino Country areas, as well as the Hotel's anticipated future market position, we have developed a forecast of revenue and expense. The forecast starts on January 1, 2024 and represents our opinion of how a competent manager would operate the Hotel.

In forecasting revenues and expenses for a hotel, we use a fixed and variable component model. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy or facility usage. A projection can be made by taking a known level of revenue or expense and calculating the fixed and variable components. The fixed component is adjusted only for inflation, while the variable component is also adjusted for the percentage change between the projected occupancy and facility usage that produced the known level of revenue or expense.

Inflation

The base-year revenues and expenses reflect current projected US inflation rates for each projection year. Each category in each of the various revenue and expense lines can be affected by different types of inflation. For example, changes in average rate are often correlated to local supply and demand conditions, rather than to overall inflation assumptions. Energy costs are sensitive to inflation in the price of oil and other fuels. Although global inflation has in the past several years been quite unpredictable, it is important to note that our forecast from the proposed Hotel is in US dollars and is thus not tied exclusively to the underlying inflation rate.

Room Revenue

Room revenue is determined by two variables, occupancy and average rate, as discussed in **Section 8, Projection of Hotel Demand, Occupancy, and Average Rate**.

Food and Beverage

The **Uniform System of Accounts for Hotels** defines food revenue as revenue derived from the sale of food and beverages, including coffee, milk, tea and soft drinks. Food revenue also includes meeting room rental, cover charges, service charges and miscellaneous banqueting revenue. We have set apart a premium surcharge for the group and event revenue segment.

We expect the Hotel's food and beverage operation, as well as its brand-new atmosphere and unique outdoor lounge to become popular with in-house guests. We have used the following in forecasting the food and beverage (F&B) demand.

1. Based on our analysis in the previous section, the total potential house count has been projected.

2. The demand from each Hotel guest for each F&B outlet and for each meal period has been based on a projected percentage of guests.

3. Out-of-house demand has been projected at a ratio of 50% of house count. These projections should be further considered in our assumptions, which are in turn based on general market trends and performance of comparable boutique hotel's F&B outlets.

4. The average F&B spend and revenue has been projected for each profit center. In our covers projection we have taken into account the pricing differences between each venue. From the aforementioned analysis we forecast hotel food and beverage revenues to be separate than premium surcharge priced groups, meetings, and events revenues.

5. The projection of income and expense for the Subject Hotel rely on sample comparable operating statements from the BHA database of hotel statistics. The comparable financial statements were carefully selected based on similarities with the Subject Hotel including: room count, property type, location market, amount of function space, occupancy rates, and average daily room rates. These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense.

Other Revenue

The content of other income varies considerably between hotels, making a comparison of this department with other hotels invalid. Other income, in the case of the Subject Hotel, is composed primarily of dry-cleaning, pay television, business center and transport services. We have accounted for **no amount of parking revenues**.

Undistributed Operating Expenses

Operating expenses that are not chargeable to a particular operating department are presented as undistributed operating expenses, in accordance with the **Uniform System of Accounts for Hotels**. These expenses were based on the operating results of comparable hotels.

Administrative and General

This expense category includes the salary and wages of the general manager's office staff, the accounting office staff, cash overages and shortages, credit card fees, bad debt expenses, data processing, executive office expenses, general and liability insurance, professional fees, and staff business travel. Administrative and general expenses presented are based on operating results of comparable hotel properties.

Marketing

BHA recommends a relatively aggressive marketing campaign and participation with the brand for the proposed hotel in its initial years to attempt to penetrate the market and generate new (induced) business. We have estimated a marketing expense at **$32 (stabilized years)** per available room, per year, over the first three formative years an amount equal to **14 percent of total revenues**.

Property Operation and Maintenance

Property operation and maintenance expenses have been estimated on the basis of actual operating expenses incurred by hotels of similar size and quality. We estimate the cost of separate buildings at 5% of revenue compared to 3.5% of a traditional hotel build.

Energy

The energy costs to operate the proposed Hotel have been estimated on the basis of the proposed facilities and current expenditures by similar hotel properties. For the first three years occupancy and public activities, energy costs are estimated to approach **$15.10 per occupied room night** resulting in a 4 percent ratio to total revenue.

Management Fees

A base management fee of 5% of gross revenue has not been calculated. This property will be an independent hotel (not soft branded) and owner managers. No 3rd party management fee has been deducted. The typical percentage is 5% of revenue per year. Subject to a specific agreement that may accompany management performance by the 3rd party operator, this amount may be subject change based on future management negotiations. We have not scrutinized the management agreement.

Real Estate and Property Taxes

Real estate property taxes have been projected at an inflated rate of the current amount recorded with Yavapai County Arizona. This figure to be verified with the developer and against any local exemptions or incentives for the hotel industry in Ash Fork, Yavapai County, or Arizona.

Reserve for Replacement

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

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but affect an owner's cash flow, a forecast of income and expense should reflect these expenses in the form of an appropriate reserve for replacement. Hotel lenders and investors generally require reserves for replacement ranging from 3% to 5% of total room revenue.

Projection of Revenues and Expenses

Table 9-1 Projection of Revenue and Expenses

	2024		2025		2026		2027		2028	
Occupancy	53%		64%		77%		81%		85%	
Average Rate (USD$)	$255.00		$267.75		$281.14		$295.19		$309.95	
REVENUES										
Rooms Revenue (USD$)	537,801	76%	671,434	76%	873,914	78%	957,984	79%	1,061,380	79%
Group Events (USD$)	27,991	4%	34,261	4%	41,256	4%	43,072	4%	45,448	3%
Food & Beverage (USD$)	142,359	20%	424,248	48%	509,823	45%	569,055	47%	631,141	47%
Total Revenue (USD$)	**708,152**	100%	**879,943**	128%	**1,124,993**	127%	**1,220,111**	129%	**1,337,970**	130%
Department Operating Expenses										
Rooms	131,761	25%	161,144	24%	201,000	23%	215,546	23%	238,811	23%
F&B	46,846	28%	121,505	27%	143,281	26%	153,032	25%	155,616	23%
Other Expenses	21,245	3%	23,758	3%	28,125	3%	30,503	3%	33,449	3%
Total	199,852	28%	306,408	35%	372,406	33%	399,081	33%	427,875	32%
Departmental Income	508,300	72%	573,536	65%	752,588	67%	821,030	67%	910,094	68%
Undistributed Operating Expenses										
A & G	70,815	10%	79,195	9%	101,249	9%	109,810	9%	120,417	9%
Marketing	99,141	14%	103,833	12%	109,124	10%	113,470	9%	117,741	9%
Property Ops & Maint	35,408	5%	39,597	5%	50,625	5%	54,905	5%	60,209	5%
Utilities	28,326	4%	35,198	4%	45,000	4%	48,804	4%	53,519	4%
Total	233,690	33%	257,823	29%	305,998	27%	326,990	27%	351,886	26%
Gross Operating Profit	274,609	39%	315,712	36%	446,589	40%	494,040	40%	558,208	42%
Soft Brand Affiliation	0	0%	0	0%	0	0%	0	0%	0	0%
Management Fee	0	0%	0	0%	0	0%	0	0%	0	0%
AGOP	274,609	39%	315,712	36%	446,589	40%	494,040	40%	558,208	42%
Fixed Expenses										
Property Taxes	25,000	1%	25,500	1%	26,010	1%	26,530	1%	27,061	1%
Insurance	11,000	1%	11,220	1%	11,444	1%	11,673	1%	11,907	1%
Incentive Management Fee	0	0%	0	0%	0	0%	0	0%	0	0%
Reserve for Replacement	21,512	4%	26,857	4%	34,957	4%	38,319	4%	42,455	4%
Total	57,512	8%	63,577	7%	72,411	6%	76,523	6%	81,423	6%
Net Operating Income	217,097	29%	252,135	30%	374,178	33%	417,518	34%	476,785	36%

10. Valuation

Approaches to Valuation

In evaluating property to estimate its likely future value, the professional valuer has two approaches from which to select: income capitalization and sales comparison. The more relevant of these two is the income capitalization approach. However, the prudent valuer would also consider and have regard to the sales comparison approach, which typically provides a range of values per room. Both approaches have some influence on operators' or investors' judgements.

The Income Capitalization Approach takes a property's forecast net operating income and allocates these future benefits to the mortgage and equity components, based on market rates of return and loan to value ratios. Through a discounted cash flow and income capitalization procedure, the value of each component is calculated. The total of the mortgage component and the equity component equals the value of the property. This approach is often selected as the preferred valuation method for income-producing properties, because it most closely reflects the investment thinking of knowledgeable buyers.

Our international experience with numerous hotel buyers and sellers indicates that the procedures used in estimating the value by the income capitalization approach are comparable to those employed by the hotel investors who actually constitute the marketplace. For this reason, the income capitalization approach produces the more supportable value estimate and it is generally given the greater weight in the hotel valuation process.

The Sales Comparison Approach estimates the value of a property by comparing it to similar properties recently sold on the open market and within the subject location. To obtain a supportable estimate of value, the sales price of a comparable property should be adjusted to reflect any dissimilarity between the comparable property and the Hotel.

The sales comparison approach may provide a useful value estimate for simple forms of property, such as vacant land and single-family homes, where the properties are homogeneous, and the adjustments are few in number and relatively simple to compute. However, in the case of more complex investments, such as shopping centers, office buildings, restaurants and hotels, where the adjustments are numerous and more difficult to quantify, the sales comparison approach loses much of its reliability.

Hotel investors typically do not rely upon the sales comparison approach in reaching their final purchase decisions. Various factors, such as the lack of timely comparable hotel sales data, the numerous unsupportable adjustments that are necessary and the general inability to determine the true financial terms and human motivations of comparable transactions, often make the results of the sales comparison approach questionable. Nevertheless, the sales comparison approach may provide a range of values to bracket and support the final estimate of value, and we use it to support any adjustments in our valuation conclusions.

Income Capitalization Approach

The income capitalization approach is based on the principle that the value of a property is indicated by the net return to the property, or what is also known as the present worth of future benefits. The future benefits of income-producing properties, such as hotels, are net operating income, derived by a forecast of income and expense, and any expected reversionary proceeds from a sale. These future benefits can be converted into an indication of value through a capitalization process and discounted cash flow analysis.

Mortgage and Equity Components

The conversion of a property's forecast net operating income into an estimate of value is based on the premise that investors typically purchase real estate with equity cash (20-50%) and mortgage financing (50-80%). The amounts and terms of available mortgage financing and the rates of return that are required to attract sufficient equity capital form the basis for allocating the net operating income between the mortgage and equity components and deriving a value estimate.

Data for the Mortgage Component are developed from an analysis of the prevailing interest rates offered in the marketplace coupled with interviews with hotel investors, banks and other investment institutions.

To reflect the appropriate rates and investment yields required by international banks, we have reviewed the ten-year swap rate for the US dollar, which is around 1.5 - 2.0%. A typical premium of 100 basis points is usually added to the yield for the risks associated with a project of this nature. Current Prime lending rate in the US is approximately 3.0% and first draw at 4.5%.

Based on this information and the perceived risk of the Hotel's location, it is our opinion that a 20-year term mortgage is appropriate for the Hotel. Furthermore, we consider that a national mortgage provider will lend up to 75% of the Hotel's value as determined by this valuation.

In order to estimate the value of the Hotel's Equity Component, we have assumed a loan to value ratio and taken into account the risk inherent in achieving the projected income stream, the anticipated market position of the Hotel, the freehold nature of the site, and the opportunities for competition to enter the market. It is our opinion that an equity investor is likely to require an equity yield rate of 15.0% for a hotel investment such as this.

Terminal Capitalization Rate

Inherent in this valuation process is the assumption of a sale at the end of an assumed ten-year holding period. The estimated reversionary sale price as of this date is calculated by capitalizing the projected eleventh year's net operating income by an overall terminal capitalization rate. From this sale price, a percentage is deducted for the seller's transaction costs and legal fees. The net proceeds to the equity interest are calculated by deducting the outstanding mortgage balance from the reversion. We have used a terminal capitalization rate of 7.5%

Mortgage-Equity Value

The sum of the equity and reversionary mortgage values is the total property value. The process of estimating the value of the mortgage and equity components is as follows.

1. The terms of typical hotel financing are established, including interest rate, amortization period and loan to value ratio.

2. An equity yield rate of return is established. Numerous hotel buyers base their investments on an equity yield rate projection that takes into account income growth and perceived risk.

3. The value of the equity component is calculated by first deducting the annual debt service from the forecast net operating income, leaving the net operating income to equity for each projection year. The net operating income of the eleventh year is capitalized into a reversionary value against the mortgage. After deducting the mortgage balance at the end of the tenth year and the typical brokerage and legal costs, the equity residual is discounted back to the date of value at the equity yield rate. The net operating income to equity for each of the projection years is also discounted to the present value. The sum of these discounted values equates to the value of the equity component. Adding the equity component to the initial mortgage balance yields the overall property value.

4. Because the exact mortgage and the debt service amounts are unknown but the loan to value ratio was determined in Step 1, the preceding calculation can be solved through an iterative process or by the use of a linear algebraic equation known as the Simultaneous Valuation Formula, which computes the total property value.

The value is proven by allocating the total property value between the mortgage and the equity components and verifying that the rates of return set forth in Steps 1 and 2 can be met from the forecast net operating income.

Using a simultaneous valuation formula to perform the necessary algebraic calculations results in the following estimate of value.

Total Property Value as Indicated by the
Income Capitalization Approach **(Say)**= **US$ 4,169,366**

Proof of Value

The value is proven by calculating the yields to the mortgage and equity components over the projection period. If the mortgage achieves its yield and the equity total yield achieves the require 18%, then US$ 14,204,079 before any capital deduction is the minimum anticipated value by the income capitalization approach and deems this hotel development project feasible.

Using the assumed financial structure set out previously, the value can be allocated between the debt and the equity components as follows.

Mortgage Component	(48%)	US $2,005,819
Equity Component	(52%)	US $2,163,547
	Total	US $4,169,366

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

Mortgage Component	US $4,351,320
Mortgage Constant	0.450
Annual Debt Service	US $ 195,809

The cash flow to equity is calculated by deducting the debt service from the projected net operating income before debt service.

	NOI	Debt Srvc	CF to Equity	IRR	DCR	-1.5% DCFA
Year 1	217,097	195,809	21,288	1.47%	1.11	20,970
Year 2	252,135	195,809	56,326	3.88%	1.29	55,482
Year 3	374,178	195,809	178,369	12.30%	1.91	175,695
Year 4	417,518	195,809	221,708	15.29%	2.13	218,385
Year 5	476,785	195,809	280,976	19.37%	2.43	276,764
Year 6	476,785	195,809	280,976	19.37%	2.43	276,764
Year 7	476,785	195,809	280,976	19.37%	2.43	276,764
Year 8	476,785	195,809	280,976	19.37%	2.43	276,764
Year 9	476,785	195,809	280,976	19.37%	2.43	276,764
Year 10	476,785	195,809	280,976	19.37%	2.43	276,764
Total	4,121,641	1,958,094	2,163,547	14.92%		2,131,115

The equity residual value at the stabilized year is calculated as follows.

Capitalization Value (US$476,785/0.0750) USD $6,357,139

		Gross Sale	Mortgage				
Terminal Cap	7.50%	6,357,139	4,351,320				
Exit IRR		10 yr	2,005,819	138.29%	0.48	1,704,946	
Total			4,169,366	153.21%		*3,836,061	
*after inflation adjusted cashflow							
						per room	$112,686

Return Component

In evaluating the risk associated with an investment, it is useful to determine the portions of a property's value that are attributable to annual cash flow and reversionary proceeds upon sale. The larger the percentage of value attributable to reversionary proceeds, the greater the risk, because a property's sale price and resultant appreciation are uncertain.

Based on the previous analysis, 52% of the Hotel's estimated value is attributable to cash flow and 48% is attributable to property appreciation. These percentages, which fall within the typical range of 40-50% for cash flow and 50-60% for appreciation, are considered reasonable for a hotel of this type and location.

Debt Coverage Ratio

The projected net operating income, expressed as a percentage of debt service, provides for a debt coverage ratio that ranges from 1.1 in the first year of the forecast to 4.3 in the stabilized year of operation. Lenders active in hotel financing generally require debt coverage ratios from 1.5 to 2.0 in the stabilized year of operation. Although the debt coverage ratio fluctuates as a result of varying levels of net operating income, the Hotel's projected debt coverage ratio is above the required levels and provides a margin of cash flow to cover annual debt service.

Sales Approach Comparison

The sales comparison approach estimates the value of a property by comparing it to similar properties recently sold on the open market. Through an analysis of the comparable sales data, the valuer can develop an indication of value based upon the per room sales price paid for similar hotels. This approach in valuing hotels is used primarily as a check against the value indicated by the income capitalization approach.

The recent market trades for a comparable type of hotel in Ash Fork is limited, and therefore there are no directly comparable transactions against which we have been able to benchmark our opinion of value.

Conclusion - Sales Comparison Approach

The sales comparison approach has some limited use in providing a range of values. Differences in location, facilities, property rights transferred, and many other variables make a precise comparison between the comparable sales and the subject Hotel difficult. Subjective adjustments used to lessen these differences are highly speculative. Moreover, there is no accurate way of determining whether the sales prices actually paid represent market values, because it is difficult to determine the exact motivations of the buyers and sellers, or what special conditions may have influenced the sale. We are of the opinion that although the sales comparison approach is generally unsuitable for indicating a specific final estimate of value, it may serve to establish a range that can test the reasonableness of the values indicated by the income capitalization and cost approaches. Our analysis of national upscale hotel sales range of US$577,922 per room, or US$6.357m for the 11-unit Hotel.

Reconciliation of Value Indications

Reconciliation is the last step in the valuation process in which the final value is estimated from the indications developed by the income capitalization and sales comparison approaches. The relative significance, applicability and defensibility of each indicated value is analyzed, with the greater weight given to that approach deemed more appropriate for the property being valued. Based on the preceding data and analysis set out in this report, the following value indications were developed.

Approach	Value Indication
Income Capitalization	US$ 4,169,366
Sales Comparison	US$ 577,922 per room gross sale

Income Capitalization

The income capitalization approach took the Hotel's forecast net operating income and allocated this future benefit to the mortgage and equity components based on market rates of return and loan to value ratios. Through a discounted cash flow and income capitalization procedure the value of each component was calculated. The total of the mortgage and equity components equates to the value of the property.

Sales Comparison

The sales comparison approach was considered, and a range of sales were evaluated in an attempt to develop a range of value indications. Because a range of sales are only somewhat comparable to the Hotel, they require several adjustments and the reliability of any specific value estimate is, therefore, diminished. Furthermore, typical buyers and sellers of hotels generally employ a sales comparison procedure to establish broad value parameters only.

Conclusion

Our international experience with numerous hotel buyers and sellers indicates that the procedures used in estimating the value by the income capitalization approach are comparable to those employed by the hotel investors who constitute the marketplace. For this reason, we consider that the income capitalization approach produces the more supportable value estimate, and it is given the greater weight in our final estimate of the Hotel's likely future value.

Based on the preceding analysis and our specialist experience in valuing hotels, we have given primary weight to the income capitalization approach. It is our opinion that the estimated likely future value of the freehold interest in the Hotel described and concluded to in this report, as of October 17, 2021, is:

USD $4,169,366
FOUR MILLION ONE HUNDRED SIXTY-NINE THOUSAND UNITED STATES DOLLARS

Valuation Certainty

An opinion of value will always involve a degree of subjectivity and uncertainty that will affect the probability that the opinion of estimated likely future value would be the same as the price achieved by an actual sale at the valuation date. Therefore, it is our requirement in compliance with the hospitality industry professional consultants to comment upon our level of confidence in the opinion of value reported herein.

The methodology employed in valuing a hotel is dependent upon the level and accuracy of information available in the marketplace in order to determine the current market wide trading conditions, and to estimate the future trading potential of the proposed Hotel.

In respect of our estimate of the likely future value of the proposed Hotel there are many assumptions contained within this report that could have a material impact. Not the least of these is that pertaining to the worldwide economy and the resultant impact upon the supply and demand for transient accommodation. In the context of the information available as at the date of this report, we consider that if these assumptions are fulfilled then there is a low level of uncertainty attached to our opinion of value. However, if after the date of this report such economic conditions and the local trading conditions for the proposed Hotel should change, we would recommend that our opinion of value be reviewed.

However, the following should be specifically noted:

- There is limited published data in respect of the current trading performance of the market in which the proposed Hotel will operate.
- The investment market for upscale hotels in Ash Fork has been limited and limited comparable properties, and therefore the limited comparable transactions against which we have been able to benchmark our opinion of value.
- We have assumed that Ash Fork will not be disrupted by acts of God or natural disasters, or political turbulence and that the area will remain economically stable.
- We have assumed the Ash Fork area development will continue as the local and national economy prospers post COVID and will be significant demand generators throughout each year of the Hotel’s lifespan.
- We assume that the proposed Hotel’s construction will be completed on time for the scheduled opening during late 2023 and first full calendar year will be 2024;
- We have been provided with preliminary concepts only. We have assumed that all information received is preliminary and we anticipate further refinement to improve efficiency and revenue producing space utilization.
- We have based our occupancy projections on the assumption that the Hotel will be managed by a competent operator and the layout and design of the proposed Hotel will fully meet the standards and requirements of its future operator.

Development Cost and Feasibility Tests

*Industry average per room estimate for Upscale Full-Service Hotels

Test Feasibility Study

1. The first rule of thumb tests the cost of the land to determine whether it exceeds a supportable economic land value. The following formula calculates economic land value:
Occupancy x ADR x Rooms x 365 x .04 / .08 = Economic Land Value.

As example, a proposed hotel is being considered on a parcel of land that can be acquired for or valued at $340,000. Zoning permits the development of 11 rooms. Based on local market conditions, the proposed hotel should achieve a stabilized occupancy of 79% and an average room rate of $310. Using these inputs, the Economic Land Value would be calculated as follows:
79% Occupancy x $310 ADR x 11 Rooms x 365 x .04 / .08 = $491,636

<u>Various Land Site Valuation Methods, Hotel Industry Standards</u>

11 Room Upscale Hotel ~ National Averages ~

* $43,654,000 per room: 11 x $43,654	= $ 480,194
* 7.5% of stabilized gross hotel revenue: $1,337,970 x 7.5% x 5	= $ 501,738
* 25% of projected total hotel development cost $5.4m x 25%	= $1,350,000
* 20% of stabilized income: $476,785 x 20% x 10 multiple	= $ 953,570

2. The second rule of thumb is the Average Rate Multiplier formula. This is a very simple way to approximate a hotel's total economic value. The formula is as follows:

ADR x Rooms x 1,000 = Economic Value
Using the numbers from the example above produces the following Economic Value:
$310 x 11 x 1,000 = $3,410,00

If the hotel's total development cost is substantially over $6,900,000, there could be a feasibility problem. In most cases where the development cost is significantly higher than the economic value it is because the local market's average room rate is too low to support the contemplated improvements. In these situations, the proposed plans and specifications need to be scaled back in order to produce a lower total project cost, which might then create a feasible project.

3. One additional point of reference looks at the percentage relationship between the hotel's land cost and the economic value. Arizona land is typically at least two points higher than the national averages. In this example, the value of the land could be 15% of the overall economic value (625,404/4,169,366 = 15%). The land value relationship should be no more than 15% due to this approach by a landowner.

The next step is to convert the projected NOI into an estimate of value covering debt service. The result is an estimate of economic value that can be compared to the total project cost.

Cost Estimates 11 Rm Upscale		**Per Rm/Area**	**Units**	**$PSF**	**% of Total**
Renovated 1 Unit	38,760	456	1	85	1%
Hard Cost 10 units	1,750,000	7,000	10	250	30%
Infrastructure	801,000	72,818			
Guest Facilities	1,960,000	9,800		200	34%
FF&E	242,000	22,000	11		4%
Pre Open Working Capital	250,000	22,727			4%
Roads & Landscape	315,000	5,431		19	5%
Soft Costs	105,000	9,545			2%
Subtotal (without land)	5,461,760	94,168			94%
Land Cost	340,000	30,909			6%
Developer Incentive	0	0			0%
Total	5,801,760	527,433			100%
Equity	1,450,440	25%			25%
Mortgage Component	4,351,320	75%			75%
Annual Debt Service	195,809	4.50%			3%

NOI Available for Debt Service

	NOI	Debt Srvc	CF to Equity	IRR	DCR	-1.5% DCFA
Year 1	217,097	195,809	21,288	1.47%	1.11	20,970
Year 2	252,135	195,809	56,326	3.88%	1.29	55,482
Year 3	374,178	195,809	178,369	12.30%	1.91	175,695
Year 4	417,518	195,809	221,708	15.29%	2.13	218,385
Year 5	476,785	195,809	280,976	19.37%	2.43	276,764
Year 6	476,785	195,809	280,976	19.37%	2.43	276,764
Year 7	476,785	195,809	280,976	19.37%	2.43	276,764
Year 8	476,785	195,809	280,976	19.37%	2.43	276,764
Year 9	476,785	195,809	280,976	19.37%	2.43	276,764
Year 10	476,785	195,809	280,976	19.37%	2.43	276,764
Total	4,121,641	1,958,094	2,163,547			2,131,115

		Gross Sale	Mortgage				
Terminal Cap	7.50%	6,357,139	4,351,320				
Exit IRR*		10 yr	2,005,819	138.29%	0.48	1,704,946	
Total*			4,169,366	153.21%		3,836,061	
*before inflation adjusted cashflow						per rm gross	$577,922
						per room net	$112,686

U.S. Full-Service Hotel Operating Leverage Analysis

Full-Service Hotels	2007	2009	2014	2017	'07-'09	CAGR '09-'14	'14-'17
Occupancy	70.0%	62.5%	73.9%	74.2%	-2%	3%	0%
Avg. No. Rooms	306	292	299	287			
Average Rate	$166.7	$146.74	$180.94	$193.8	-3%	4%	2%
RevPAR	$116.7	$91.7	$133.7	$143.8	**-5%**	**8%**	**2%**
% Change		**-21%**	**46%**	**7.5%**			
Revenue PAR	$67,301	52,650	74,975	$81,619	-5%	7%	3%
Expenses PAR	$50,298	43,143	55,911	$61,300	-3%	5%	3%
NOI PAR	$17,003	9,507	19,064	$20,319	**-11%**	**15%**	**2%**
% change		**-44%**	**101%**	**6.6%**			
NOI %	25.3%	18.1%	25.4%	24.9%			
Multiple of NOI Change to RevPAR Change:		**2.1 X**	**2.2 X**	**0.9 X**			

The following chart sets forth average capitalization rates derived from sales based on trailing-twelve-month (TTM) net operating income (NOI) and projected first-year NOI at the time of sale. These rates are derived from hotels that PWC appraised at the time of sale; the derived capitalization rates are dependent upon the individual sales transactions that constitute the data set and reflect the wide range of cap rates for hotel transactions.

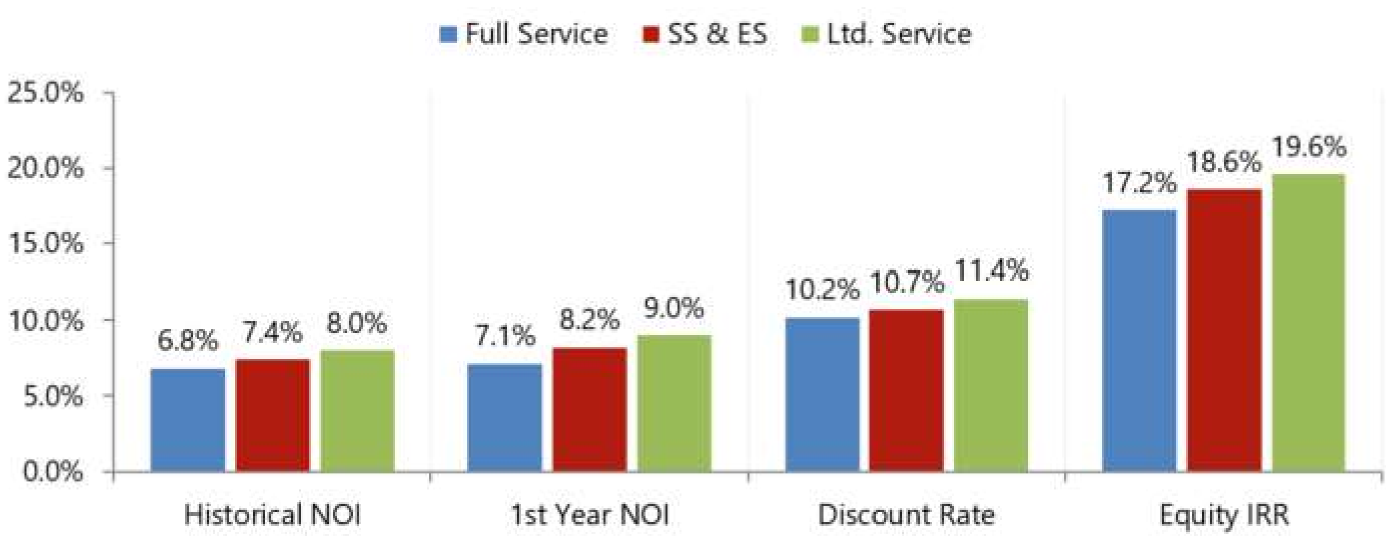
Capitalization Rate Trends: PWC Real Estate Investor Survey

Interest rates have a direct impact on capitalization rates and values. The following chart sets forth the trend in hotel mortgage interests as reported by the American Council of Life Insurers;

these loans represent low LTV, high-quality loans made by insurance companies. The bottom line reflects the yield on the ten-year T-bill, while the top line reflects cap rates derived from the transaction of full-service hotels that BHA valued at the time of sale.

Hotel Mortgage Interest Rates Trends

Average Rates of Return From 2019 Sales Transaction



Assumptions to Economic Tests

Upon examination of the overall development costs, likely revenue generation of the hotel by a competent hotel manager of comparable hotels, anticipated changes in the economy, potential changes in the competitive market available hotel room supply, and valuations of the hotel's future net operating income, the indications are a guidance to the feasibility of the subject hotel.

The figures analyzed in this study are a mix of historic operating results of comparable properties and combine the data from construction budgets organized across a variety of hotel types. The forecasts also encompass unique hotel projects that cannot be replicated by the inherent nature of hotel development. As such, we would caution developers on relying on the information to estimate costs for a specific project, as a multitude of factors affect a hotel's development budget.

Thus, we recommend the developer of the subject hotel to consider the various cost as a general guide. Construction companies are the direct source for obtaining updated local costs, while design and procurement companies itemize actual FF&E costs for a specific hotel project. We also advise that developers consult more than one construction cost source and multiple design and procurement companies for estimates through the hotel development process to more accurately assess the updated and most accurate true cost of the overall development. Cost should be adjusted for inflation over the development timeline given that a hotel development process may last three to five years or more. We also recommend that the projected performance of the proposed hotel be revisited periodically during the development process.

Addendum 1 – Competitive Set Sample Hotel Images

Holiday Inn Express Williams

Holiday Inn Express Williams, AZ

*Exterior

*Guestroom

*Pool

*Breakfast room

Under Canvas Valle

Under Canvas Valle, AZ

*Guestroom

*Common bathrooms

*Guest bathrooms

*Dining area

Hualapai Cabins Resort

Hualapai Lodge Cabins Resort

*Dining Room

*Cabin Lodge

*Guest Bathroom

*Cabin Exterior

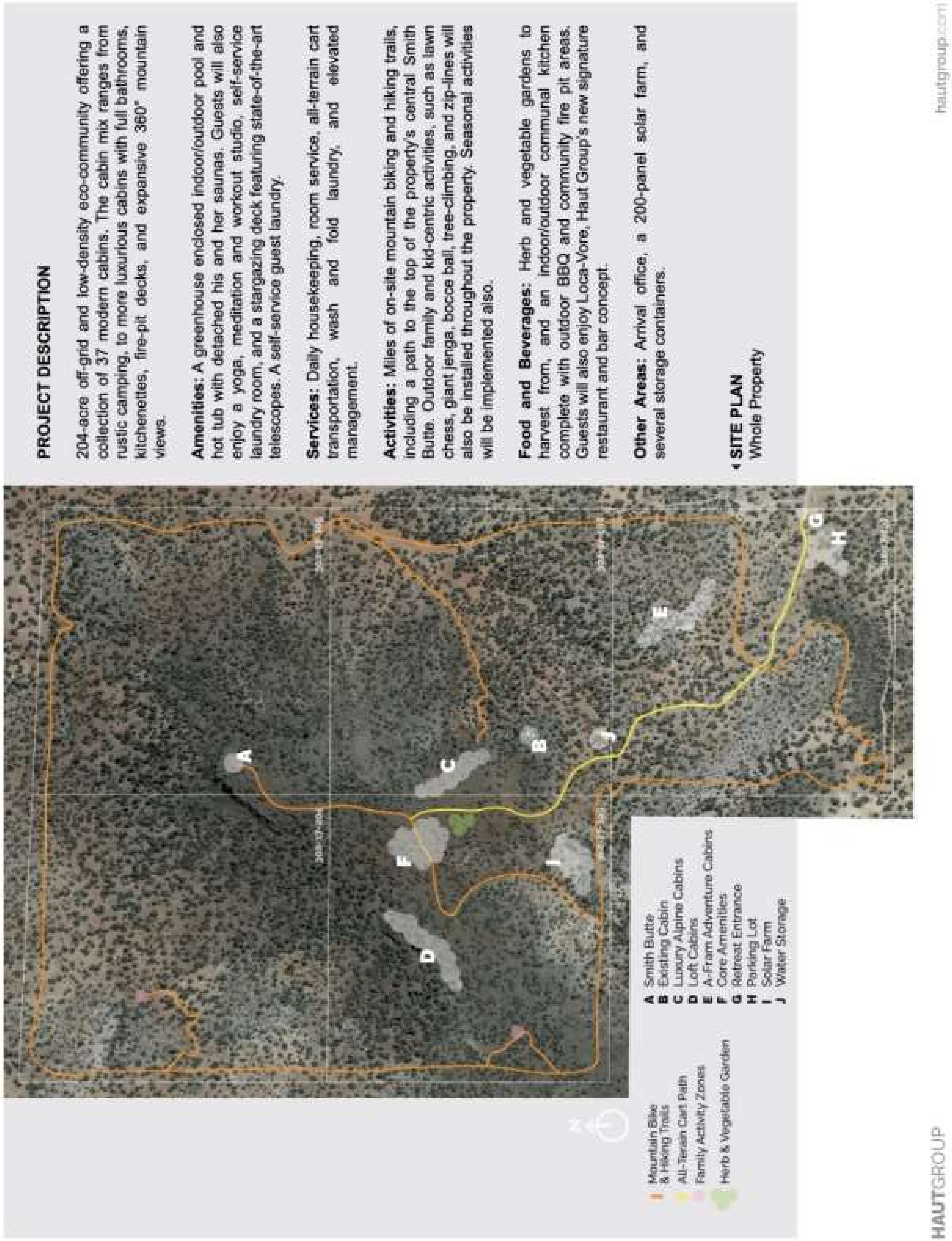
Addendum 2 – Subject Proposed Hotel Concept Images & Site Plan

Concept Design Images

Concept Design Images




Subject Property Site Map



Subject Property Existing Cabin & Existing Views

Addendum 3 – Supplemental Data Independent Hotel Market

The Developer is contemplating an upscale independent resort. The enclosed study indicates the expect development costs against an anticipated returns analysis. The resulting yields are described in the previous sections.

The following supplemental summary reflects our opinion of the development costs, anticipated revenues, operating expenses, and free cash flow available for debt and equity distribution.

Independent Boutique & Lifestyle Hotel Performance

Over the past decade, independent smaller upscale hotels have made an impact on the worldwide lodging market. Several studies have been conducted to determine the advantages and/or disadvantages of major hotel chain brand affiliated hotels and independent unaffiliated boutique hotels of good quality. Depending on the number of reports one may read, the final conclusive evidence is, for either hotel type, at best debatable and specific market driven.

Our study and conclusion is focused on the consumer's response and our knowledge of advantages for the independent boutique hotel in various worldwide market segments and market types, including cosmopolitan cities and rural locations. The consumer's assessment of price preferences of a brand-affiliated property versus an unaffiliated hotel is evidence of ADR advantages for the independent unaffiliated properties.

Although we have learned that these advantages are sensitive to both market type and market segment, this does not rule out other advantages that may be more pervasive in certain markets. Our study and conclusion are limited in dimension to upmarket or best in market quality boutique hotels with destination F&B and extends into the NOI aspect. The advantages may provide additional information relevant to an investment decision of hotel owners and we have highlighted details in the following charts that may have been used in this report's concluding forecasts or will be discussed with the developer in detail.

Lifestyle boutique hotels tend to be between 40~100 rooms with just over 50% of the sample below 100 rooms.

Boutique HOST samples achieve higher RevPAR compared to chain branded urban and upper upscale hotels. F&B revenue and income deliveries from Independents are 20% higher than all top producing Luxury Hotels.

Comparison of Financial Performance (1)					
	REVPAR	Food & Beverage (2)	TRevPAR (3)	EBITDA (2)	Average Rooms
Limited Service Chain Affiliated	$112.09	$0.67	$84.25	$46.28	119
Lifestyle Upscale	$121.82	$8.71	$133.41	$61.44	144
Limited Service Urban	$171.50	$2.07	$140.03	$69.72	154
Full Service Upper Upscale	$182.40	$87.08	$215.60	$83.80	409
Full Service Urban	$208.79	$84.53	$234.87	$84.57	389
Indp Boutique Small Urban	$197.63	$109.16	$311.66	$92.77	71
Soft Brand & Indep Boutique w/ High F&B (4)	$227.32	$208.01	$345.69	$94.46	105
Soft Brand Collections	$174.26	$116.35	$284.29	$94.93	231
Soft Brand Collection w/ Spa	$177.31	$181.00	$330.56	$106.73	439
Lifestyle Luxury Upper Upscale	$270.71	$90.21	$363.61	$109.33	286
Small Lifestyle Urban	$224.93	$93.81	$313.37	$118.69	137
All US Luxury	$309.10	$176.13	$403.47	$132.28	298
Indp Boutique Luxury w/ Spa	$240.20	$212.15	$447.79	$149.67	158
Notes: (1) 2015 data, (2) Per occupied room night, (3) Per available room night, (4) 2016 data					
Sources: STR Host Reports and The Highland Group					

Total Revenue Per Available Room achieves 10% greater than the top-level chain branded hotels. EBITDA per occupied room night perform 20% better than the highest-level luxury chain branded hotels.

Luxury Independent Boutique Hotels Market Performance

	Occupancy	Change	Average Rate	Change	RevPar	Change
2011	68.5%		$267.29		$183.04	
2012	70.7%	3.2%	$278.64	4.2%	$196.94	7.6%
2013	72.1%	2.0%	$296.30	6.3%	$213.69	8.5%
2014	73.5%	1.9%	$310.57	4.8%	$228.20	6.8%
2015	72.7%	-1.0%	$321.16	3.4%	$233.64	2.4%
2016	72.8%	0.0%	$324.39	1.0%	$236.03	1.0%
Compound		1.2%		3.9%		5.2%

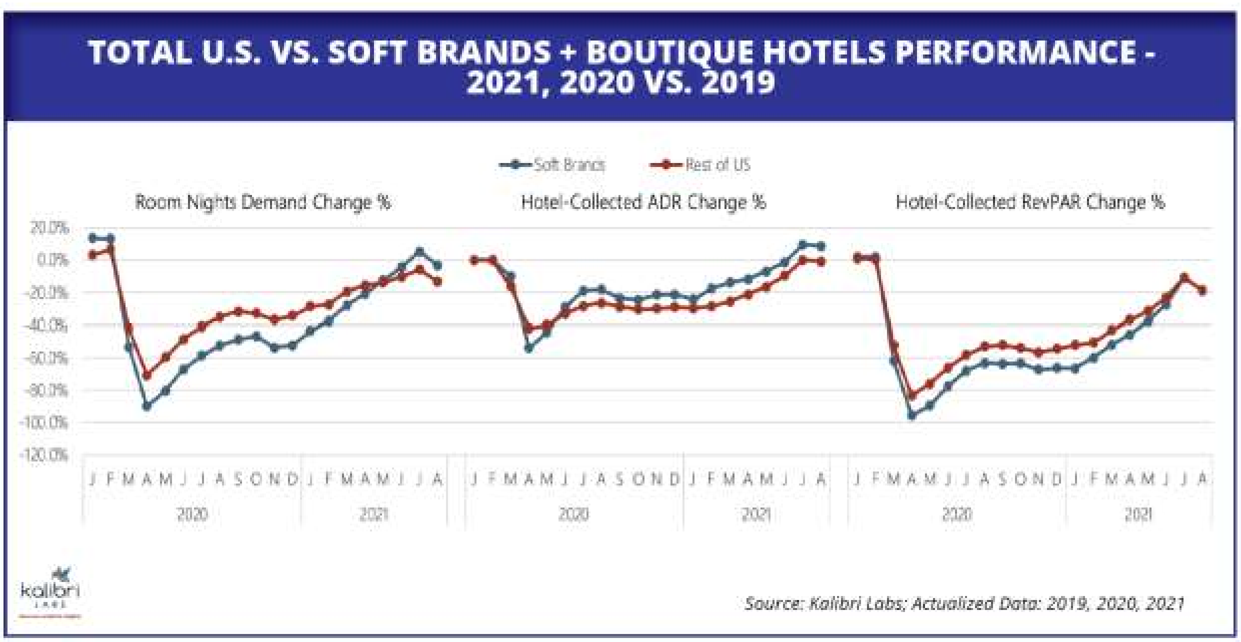
Note: Includes 304 hotels totaling 36,632 rooms
Source: STR

ADR increase of 3.9% annually as recorded through 2016 and strong occupancies at 73% while chain branded hotels recorded 2.0% ADR increases and 68% occupancy during the same period.

U.S. SOFT BRANDS + BOUTIQUE HOTELS - PERFORMANCE SUMMARY

Kalibri Labs reported on **September 29, 2021** in their "Mind the Gap" series of recurring reports, published in conjunction with Hotel Business, highlights a segment of the U.S. Lodging Industry focusing on the "gap" in demand and revenue that currently exists compared to the reference year of 2019. The report focused on Soft Brands and Boutique hotels.

> While Soft Brands and Boutique hotels are a relatively small part of the U.S. Lodging industry, in terms of room supply, they are growing at an exceptionally fast rate, and we believe they will continue to do so in the coming years.
>
> Since the beginning days of the pandemic the demand for Soft Brands and Boutique hotels has somewhat lagged behind that of the rest of the industry. This is not surprising as most of these hotels are in the Upper & Middle Tier segments of the industry, which generally have not performed as well as Lower Tier properties.
>
> However, beginning in June 2021, Soft Brands and Boutique hotels began to outperform the rest of the U.S. Hotel Industry, and currently continue to do so. Demand in this segment actually exceeded 2019 levels in July of this year. It will be interesting to see if this uptick in demand remains in place beginning this fall when, historically, demand is more business and group related than in the summer months.

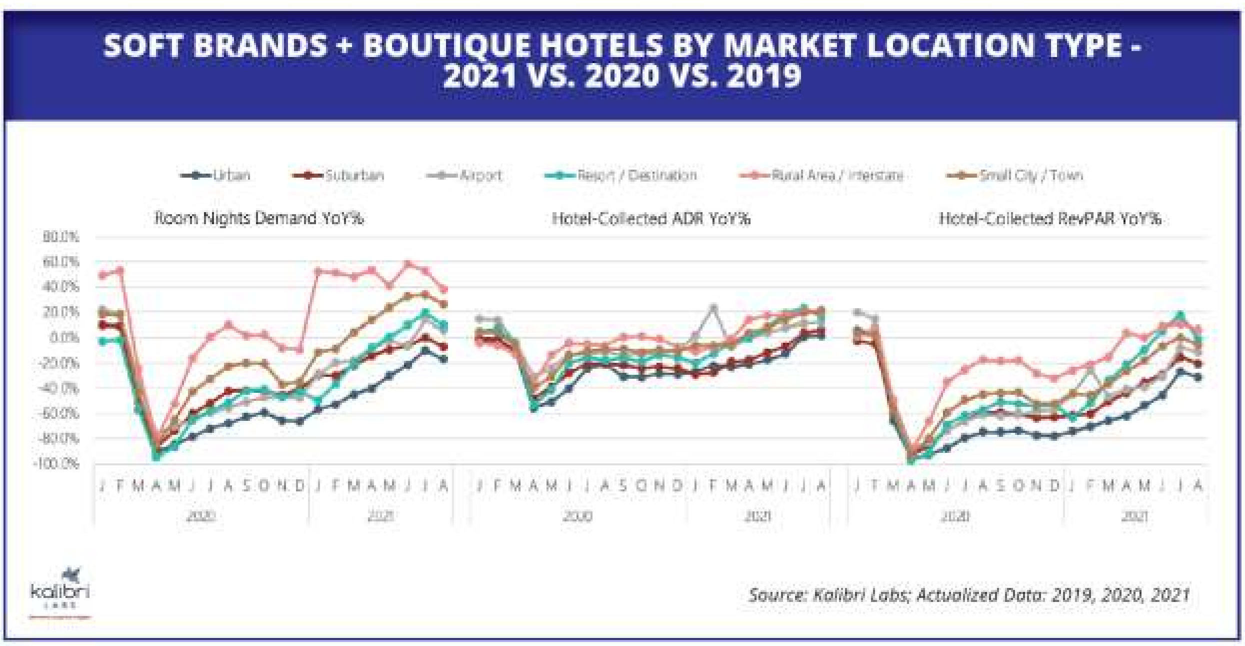


SOFT BRANDS + BOUTIQUE HOTELS - LOCATION TYPE ANALYSIS

As observed in other publications of Mind the Gap, Small City / Towns and Rural Areas have performed the strongest of all location types. Interestingly, this holds true for Soft Brands too. Also applying for Soft Brands, hotels located in both Urban and Suburban locations are performing the poorest and have a prolonged road to recovery.

From May through August, Resort/Destinations, Rural Areas, and Small City/Towns all performed similarly in ADR. Resort/Destinations peaked in July, up +23%. Rural Areas peaked in July, up +20.6%. Small City/Towns peaked in August, up 21.1%.

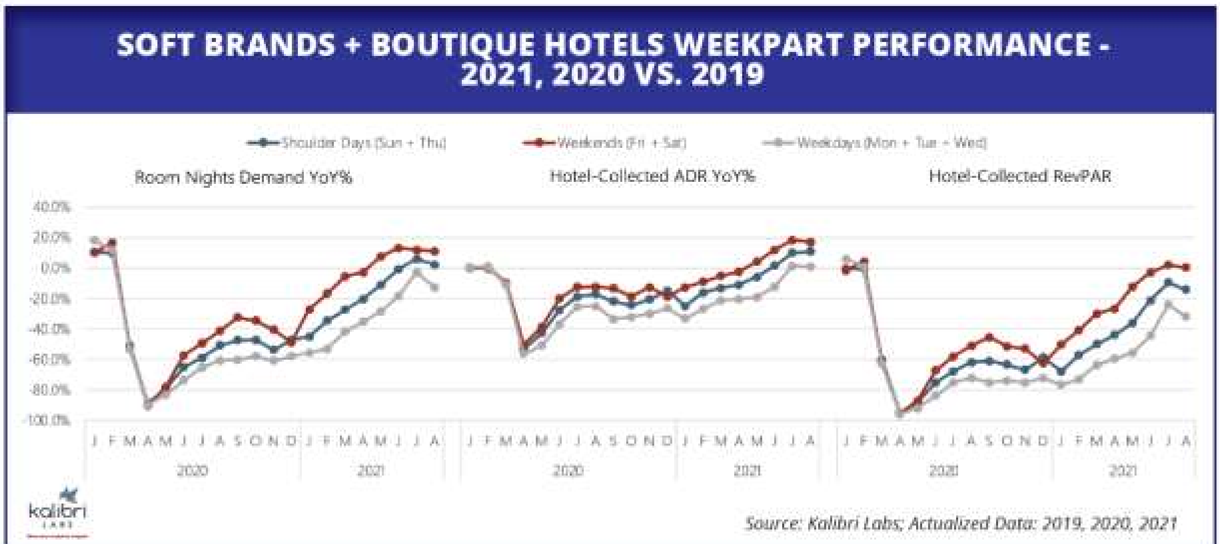
As discussed earlier, there was regression in August's performance for Soft Brands. Overall RevPAR for Resort/Destinations fell from a recovery high of +17.8% in July to -0.3% in August. Though not quite as severe, RevPAR for Rural Areas declined from +0.7% in July to -5.3% in August.

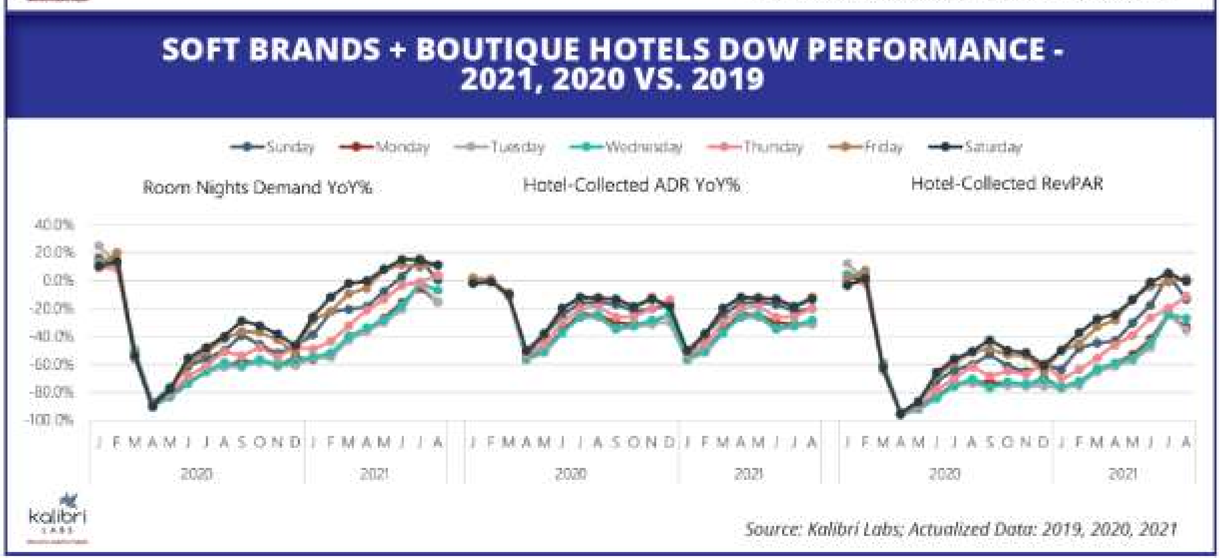


SOFT BRANDS + BOUTIQUE HOTELS - WEEKPART ANALYSIS

Similarly, to most types of U.S. hotels analyzed in this series, Soft Brand and Boutique hotels are performing better on leisure days (weekends) and shoulder days, than weekdays. It appears that this trend will likely continue thru the remainder of 2021 as demand on commercial days will lag behind the other weekparts. Weekend and shoulder day (Thu-/Sun) demand has been above 2019 levels during the summer months, whereas weekday (Mon-Wed) demand while showing more resilience than other property types continues to lag, with August demand trending down for the first time in 2021.

The most interesting fact about DOW performance for Soft Brand and Boutique hotels is the fact that since the onset of the Pandemic in March of 2020, Sunday night has consistently been the highest occupancy day. Historically, Sundays have been the lowest occupancy days for all property types, further indication of changing consumer stay patterns.





Conclusion

Before the pandemic outbreak, independent hotels and resorts in the upscale segment outperformed their branded peers in terms of rates, additional spending, and operating expenses. During and post-pandemic, the subject type of hotels outperformed their branded peers and the drive-to market far exceeded the reported national averages. Based on our experience in the market and historic operating performance data available, we see the drive-to market for independent upscale hotels of character and quality to continue over-performing and offering nimble flexibility to the forthcoming market adjustments as well or better than the commercially branded and highly-encumbered in the overall competitive hotel market.

Addendum 4 – Statement of Assumptions and Limiting Conditions

1. The report is to be used in whole and not in part. No responsibility is assumed for matters of 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.
2. We are unaware of any hidden or unapparent conditions of the property, subsoil or structures that would render it more or less valuable. No responsibility is assumed for these conditions or any engineering that may be required to discover them
6. We have not considered the existence of potentially hazardous materials used in the construction or maintenance of the new Hotel, such as asbestos, urea formaldehyde foam insulation, or PCBs. We have not investigated whether the site is or has been in the past contaminated and are therefore unable to warrant that the proposed property may be free from any defect or risk in this respect. Our report is therefore based on the assumption that the land is not contaminated, and any specialist investigation would not disclose the presence of any adverse conditions on the site.
7. Sketches, pictures, maps and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the land and premises is within the boundaries of the property described and that there is no encroachment or trespass unless noted.
8. This Study and Report is not a structural survey and we therefore make our projections on the assumption that the property will be of sound design and construction, and free from any inherent defect.
9. All information (including financial operating statements, estimates, and opinions) obtained from parties not employed by Boutique Hotel Advisors SA is assumed to be true and correct. No liability resulting from misinformation can be assumed by Boutique Hotel Advisors.
10. Unless noted, it is assumed that there are no encroachments or planning and building violations encumbering the proposed hotel.
11. It is assumed that the Hotel will be in full compliance with all applicable city, local and private codes, laws, consents, licenses and regulations (including an alcohol license where appropriate) and that all licenses, permits, certificates, and so forth can be freely renewed and/or transferred.
12. This report may not be reproduced in whole or in part without the permission of Boutique Hotel Advisors, nor shall the report be distributed to the public through advertising, public relations, news, sales, or other media without our prior written consent.
13. We are not required to give testimony or attendance in court by reason of this study without previous arrangements and only when our standard per diem fees and travel costs are paid prior to the appearance.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material contained in this report it is recommended that the reader contact Boutique Hotel Advisors.
15. We take no responsibility for any events, conditions or circumstances affecting the proposed property's financial forecasts that take place subsequent to the date of our report.
16. The quality of a hotel facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this study assume both responsible ownership and competent management. Any variance from this assumption may have a significant impact on the forecast operating results.
17. STR data has some limitations. Hotels are occasionally added to or removed from the sample and 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. 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.

18. The estimated operating revenue presented in this report are based on an evaluation of the current overall economy of the area and neither take into account nor make provision for the effect of any sharp rise or decline in local or economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, it is expected that the prices of rooms, food, beverages and services will be adjusted to at least offset these advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of typical investors.
19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based upon numbers carried out to three or more decimal places. In the interest of simplicity most numbers presented in this report have been rounded up. Thus, these figures may be subject to errors in some cases.
20. The relationship between US dollars and other major world currencies remains constant as of the date of our field work.
21. While the information contained herein is believed to be correct it is subject to change. Nothing contained herein is to be construed as representation or warranty of any kind.
22. We have made no allowance for the repayment of any grants, which might arise in the event of development or disposal, deemed or otherwise.
23. This report is set forth as a market study of the proposed subject project; this is not an appraisal report.
24. Certification: We certify that, to the best of our knowledge and belief:
    a. The statements of fact presented in this report are true and correct.
    b. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions
    c. We have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved.
    d. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
    e. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
    f. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

About the Authors

Boutique Hotel Advisors is a specialized hospitality consulting firm that provides customized, partner-level services for owners, investors and operators of independent luxury hotels, resorts, and residences. Each advisor is industry known with more than fifteen years of front-line hands-on experience among the world's most recognized hotels. They have operated within the most competitive markets and demanding clientele. BHA's aspects of hotel sales, marketing and operations are founded on the experiences and key roles each advisor has played in developing, opening, sustaining, acquiring, and repositioning of international hotels and resorts.

We understand, from our first-hand direct experience, the ins-and-outs of development, acquisitions, management companies and marketing partners. We objectively reveal and assist to gather and verify qualifications, performance records, capabilities, contractual obligations, fees and performance criteria, and systems to oversee and measure their performance. On behalf of investors, we employ a systematic approach for overseeing the process that will maximize the long-term benefits of the hotel's performance.

As owners and managers in the independent boutique hotel market are generally more "attached" to their hotel, their decisions are often "emotional" or "personal". It takes discipline to step outside of the immediate nature and review true business alternatives that are better chosen with objective rational criteria. Popular matters include design, development, management review, brand selection, marketing alliances, and partnerships. These subjects are thoroughly evaluated for the results, recognition, and resources actually provided and that can be measured and calculated as an undisputable return on cost.

John Sears is a partner with Boutique Hotel Advisors. A 30-year career hotelier, professional consultant, and facilitator whose pedigree includes Mobil awarded five-star hotel management, nominated to the hospitality advisory board of Lynn University's School of Hospitality, Boca Raton, and authoring 'Five Star' the hoteliers guide to uncompromising service. John is certified by Switzerland's Glion University school of hospitality in hotel market studies and hotel valuations.

Prior to BHA, John served as vice president of marketing & development for Switzerland based Boutique Hotels & Resorts International S.A., where he led the company growth to one-hundred-four hotels in thirty-six countries and worked first-hand with hotel investors and management teams.

John has been a featured speaker at major hotel industry events including The Lodging Conference Phoenix, ITB Berlin, International Luxury Travel Market Cannes, World Travel Market London, Arabian Travel Market Dubai, Asia Travel Market Shanghai, and Hotels World Sydney. John has worked with 500+ hotel projects in 100+ countries, visits over 100 hotels per year, and has a balanced background in operations, marketing, development, property evaluations, and acquisitions.

Jeff Lefkovich is a Project Manager with BHA**.** Jeff brings 30 years of experience in planning, strategy, design, and development of real estate projects that include mixed-use, residential, hospitality, senior living, wellness centers, commercial, and health care, totaling more than $1 billion in developed assets and more than two million square feet of space.

Jeff serves as a managing principal for two large-scale multi-generation, mixed-use, mixed-income, live/work community developments in Connecticut, which he designed (Heritage River Village and Collins Village) that have combined values of over $200 million with more than 680,000 of residential, hospitality, and commercial space. For 12 years, Jeff served as President for JB Commercial, Inc., a design/build, real estate development, owner's representation firm.

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