



MARKET STUDY

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# Anderson Township Hotel

**SUBMITTED TO:**

Mr. Steve E Sievers  
Anderson Township  
7850 Five Mile Road  
Anderson Township, Ohio 45230

+1 (513) 688-8400

**PREPARED BY:**

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August 19, 2019

Mr. Steve E Sievers  
Anderson Township  
7850 Five Mile Road  
Anderson Township, Ohio 45230

Re: Anderson Township Hotel  
Cincinnati, Ohio  
HVS Reference: 2019021114

Dear Mr. Sievers:

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HVS CINCINNATI

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Pursuant to your request, we herewith submit our market study pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in the Cincinnati, Ohio, area. We have studied the proposed project, and the results of our fieldwork and analysis are presented in this report. We have also reviewed the proposed improvements for the sites.

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

Sincerely,  
TS Worldwide, LLC

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Addenda

Qualifications

# 1. Executive Summary

## Subject of the Market Study

For this study, we analyzed two potential sites for hotel development in Anderson Township. The first site is located in south Anderson Township, east of the intersection formed by Sutton Road and Kellogg Road (Kellogg Road site). A second site was considered for this study, located northeast of the intersection of Town Center Way and Five Mile Road (Downtown site). The Kellogg Road site has the advantage of its proximity to Interstate 275, as well as riverfront entertainment venues like Belterra Park, Coney Island Amusement Park, and Riverbend Music Center. Furthermore, this site offers the possibility for future retail and restaurant growth on the remainder of the 36-acre parcel. The challenges of this site include the current lack of restaurant options in the neighborhood and the seasonal nature of the leisure attractions.

The Downtown site may also be viable for hotel development. Advantages of this site include its proximity to multiple restaurants and shops in the Anderson Towne Center development, as well as its proximity to Mercy Health Anderson and Anderson Center. The challenges of this site include the lack of major employment centers that would create commercial hotel demand and the lack of highway visibility.

Both sites present advantageous conditions for hotel development; however, each site also has challenges, as previously mentioned. Given the lack of existing supply in the Anderson Township market, as well as the proximity of the two sites to one another, either site has the capacity to support a potential hotel development.

The subject of the market study is an approximately 87,120-square-foot (2.00-acre) portion of either site to be improved with a Limited-Service lodging facility; a specific brand affiliation has not been determined. The property, which is expected to open on January 1, 2022, should feature 120 rooms, a breakfast dining area, an indoor pool, a fitness room, a business center, a market pantry, and a guest laundry area. The hotel should also contain the appropriate parking capacity and all necessary back-of-the-house space.

The Anderson Township market area currently does not contain any hotels. The Township is primarily a bedroom community for the Greater Cincinnati area. While a particular brand has yet to be determined for this project, our study assumes that the proposed subject hotel will operate as an upscale, limited- or select-service hotel under a brand not currently represented in the nearby submarkets.

**Pertinent Dates**

The effective date of the report is August 8, 2019. The subject sites were inspected by Brian Arevalo on July 8, 2019. Stacey E. Nadolny, MAI participated in the analysis and reviewed the findings but did not personally inspect the property.

**Ownership, Franchise, and Management Assumptions**

Currently there is no developer attached to the proposed subject hotel. The 36-acre parcel containing the Kellogg Road site is owned by Boyd (OHIO) Propco LLC; the parent company of this owning partnership is Boyd Gaming, which is based in Las Vegas, Nevada. The subject site was last sold in 2018; Boyd (OHIO) Propco LLC has owned the site since that time, having purchased it from PNK Ohio LLC for a reported price of \$57,683,995. We note that this sale price includes the Belterra Park racetrack and casino. The site is neither listed nor under contract for sale, and we have no knowledge of any recent listings.

The Downtown site is owned by Anderson Investors OH LLC; the parent entity of this owning partnership is Victory Real Estate Investments, which is based in Columbus, Georgia. The subject site was last sold in 2004; Anderson Investors OH LLC has owned the site since that time, having purchased it from David A. Kendrick for an undisclosed sum. The site is neither listed nor under contract for sale, and we have no knowledge of any recent listings.

Details pertaining to management terms were not yet determined at the time of this report; however, we assume that the proposed hotel will be managed by a professional hotel-operating company, with fees deducted at rates consistent with current market standards. Our projections reflect a total management fee of 3.0% of total revenues in our study.

We recommend that the proposed subject hotel operate as an upscale, limited- or select-service property, such as a SpringHill Suites by Marriott, an AC Hotel by Marriott, or a Hampton Inn by Hilton. While we have placed heavy consideration on the SpringHill Suites by Marriott brand, which is affiliated with Marriott International, a specific franchise affiliation and/or brand has yet to be finalized. Based on our review of the agreement's terms or expected terms, the Independent franchise is reflected in our forecasts with a royalty fee of 5.5% of rooms revenue, and a marketing assessment of 2.5% of rooms revenue.

**Summary of Hotel Market Trends**

During the illustrated historical period, both occupancy and average rate generally followed a strengthening trend, with RevPAR increasing by roughly 70% between 2009 and 2018. This improvement in market conditions was driven largely by a steady influx of higher quality supply in the market, as well as year-over-year rate growth. Six hotels opened within this competitive set from 2010 through 2016. During that period, demand growth outpaced supply growth every year, indicative of a high amount of unaccommodated demand in the market. Four more hotels opened between 2017 and 2018, and occupancy declined slightly in 2017 before

rebounding in 2018. Average rate increased year-over-year from 2010 through 2017, before declining in 2018 given increased rate competition from new supply. Year-to-date 2019 data illustrate a continued strengthening in occupancy and a roughly \$0.50 gain in average rate. RevPAR reached its high point in the summer of 2018. The entrance of new, high-rated supply and the overall strong economy have contributed to the latest trend. The near-term outlook is positive given the breadth of economic and leisure drivers in the greater market.

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

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

| Year  | Average Daily Room Count | Available Room     |                 | Occupied Room   |             | Occupancy            | Average Rate |             | RevPAR  | Change |       |
|---|--------------------------|--------------------|-----------------|-----------------|-------------|----------------------|--------------|-------------|---------|--------|-------|
|   |                          | Nights             | Change          | Nights          | Change      |                      | Rate         | Change      |         |        |       |
| 2009  | 1,206                    | 440,359            | —               | 246,443         | —           | 56.0 %               | \$96.20      | —           | \$53.84 | —      |       |
| 2010  | 1,305                    | 476,325            | 8.2 %           | 275,502         | 11.8 %      | 57.8                 | 99.21        | 3.1 %       | 57.38   | 6.6 %  |       |
| 2011  | 1,417                    | 517,329            | 8.6             | 319,246         | 15.9        | 61.7                 | 105.22       | 6.1         | 64.93   | 13.2   |       |
| 2012  | 1,439                    | 525,235            | 1.5             | 339,297         | 6.3         | 64.6                 | 111.06       | 5.5         | 71.74   | 10.5   |       |
| 2013  | 1,501                    | 547,867            | 4.3             | 360,839         | 6.3         | 65.9                 | 117.34       | 5.7         | 77.28   | 7.7    |       |
| 2014  | 1,562                    | 570,130            | 4.1             | 388,261         | 7.6         | 68.1                 | 121.99       | 4.0         | 83.07   | 7.5    |       |
| 2015  | 1,762                    | 643,069            | 12.8            | 447,771         | 15.3        | 69.6                 | 128.66       | 5.5         | 89.59   | 7.8    |       |
| 2016  | 1,821                    | 664,797            | 3.4             | 479,903         | 7.2         | 72.2                 | 133.46       | 3.7         | 96.34   | 7.5    |       |
| 2017  | 2,112                    | 770,797            | 15.9            | 530,785         | 10.6        | 68.9                 | 134.41       | 0.7         | 92.56   | (3.9)  |       |
| 2018  | 2,313                    | 844,285            | 9.5             | 596,795         | 12.4        | 70.7                 | 129.75       | (3.5)       | 91.72   | (0.9)  |       |
| <b>Year-to-Date Through May</b>                           |                          |                    |                 |                 |             |                      |              |             |         |        |       |
| 2018  | 2,273                    | 343,223            | —               | 229,335         | —           | 66.8 %               | \$126.26     | —           | \$84.36 | —      |       |
| 2019  | 2,393                    | 361,343            | 5.3 %           | 242,269         | 5.6 %       | 67.0                 | 126.77       | 0.4 %       | 84.99   | 0.7 %  |       |
| Average Annual Compounded Change:                         |                          |                    |                 |                 |             |                      |              |             |         |        |       |
| 2009 - 2018   |                          |                    | 7.5 %           | 2009 - 2018     |             |                      | 10.3 %       | 2009 - 2018 |         |        | 6.1 % |
| 2009 - 2012   |                          |                    | 6.1             | 2009 - 2012     |             |                      | 11.2         | 2009 - 2012 |         |        | 10.0  |
| 2012 - 2018   |                          |                    | 8.2             | 2012 - 2018     |             |                      | 9.9          | 2012 - 2018 |         |        | 4.2   |
| <b>Hotels Included in Sample</b>                          |                          |                    |                 |                 |             |                      |              |             |         |        |       |
| Hotels Included in Sample                                 | Class                    | Competitive Status | Number of Rooms | Year Affiliated | Year Opened | Comments             |              |             |         |        |       |
| Holiday Inn Cincinnati Eastgate I 275 East                | Upper Midscale Class     | Secondary          | 212             | Mar 1983        | Mar 1983    |                      |              |             |         |        |       |
| Best Western Plus Cincinnati Riverfront Downtown Area     | Upper Midscale Class     | Secondary          | 127             | Jun 2017        | Jan 1997    | Formerly Hampton Inn |              |             |         |        |       |
| Comfort Suites Newport                                    | Upper Midscale Class     | Secondary          | 124             | Jun 1997        | Jun 1997    |                      |              |             |         |        |       |
| Hampton Inn Cincinnati Eastgate                           | Upper Midscale Class     | Primary            | 120             | Aug 1999        | Aug 1999    |                      |              |             |         |        |       |
| Courtyard Cincinnati Covington                            | Upscale Class            | Secondary          | 194             | Oct 1999        | Oct 1999    |                      |              |             |         |        |       |
| Comfort Inn & Suites Eastgate Cincinnati                  | Upper Midscale Class     | Primary            | 72              | Nov 2000        | Nov 2000    |                      |              |             |         |        |       |
| Fairfield Inn & Suites Cincinnati Eastgate                | Upper Midscale Class     | Primary            | 78              | Apr 2004        | Feb 2001    |                      |              |             |         |        |       |
| Comfort Inn & Suites Northern Kentucky Wilder             | Upper Midscale Class     | Primary            | 74              | Nov 2017        | Apr 2006    | Formerly Country Inn |              |             |         |        |       |
| Holiday Inn Express & Suites Cincinnati Southeast Newport | Upper Midscale Class     | Secondary          | 73              | Dec 2007        | Dec 2007    |                      |              |             |         |        |       |
| Springhill Suites Cincinnati Midtown                      | Upscale Class            | Secondary          | 122             | Apr 2009        | Apr 2009    |                      |              |             |         |        |       |
| Hampton Inn Wilder  | Upper Midscale Class     | Primary            | 94              | Jan 2010        | Jan 2010    |                      |              |             |         |        |       |
| Residence Inn Cincinnati Downtown The Phelps              | Upscale Class            | Secondary          | 134             | Mar 2011        | Mar 2011    |                      |              |             |         |        |       |
| Courtyard Cincinnati Midtown Rookwood                     | Upscale Class            | Secondary          | 123             | Jul 2013        | Jul 2013    |                      |              |             |         |        |       |
| Hampton Inn Cincinnati Downtown                           | Upper Midscale Class     | Secondary          | 144             | Mar 2015        | Mar 2015    |                      |              |             |         |        |       |
| Homewood Suites by Hilton Cincinnati Downtown             | Upscale Class            | Secondary          | 105             | Apr 2015        | Apr 2015    |                      |              |             |         |        |       |
| Hampton Inn & Suites Newport Cincinnati                   | Upper Midscale Class     | Secondary          | 122             | Dec 2016        | Dec 2016    |                      |              |             |         |        |       |
| aloft Hotel Newport On The Levee                          | Upscale Class            | Secondary          | 144             | Jan 2017        | Jan 2017    |                      |              |             |         |        |       |
| Residence Inn Cincinnati Midtown Rookwood                 | Upscale Class            | Secondary          | 118             | Sep 2017        | Sep 2017    |                      |              |             |         |        |       |
| Holiday Inn Express & Suites Cincinnati South Wilder      | Upper Midscale Class     | Primary            | 93              | Dec 2017        | Dec 2017    |                      |              |             |         |        |       |
| Hilton Garden Inn Cincinnati Midtown                      | Upscale Class            | Secondary          | 120             | Sep 2018        | Sep 2018    |                      |              |             |         |        |       |
|   |                          |                    | <b>Total</b>    | <b>2,393</b>    |             |                      |              |             |         |        |       |

Source: STR



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

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

| Property   | Number of Rooms | Est. Segmentation |             |             | Estimated 2017             |               |                 |                | Estimated 2018             |               |                 |             |                       |                   |
|--|-----------------|-------------------|-------------|-------------|----------------------------|---------------|-----------------|----------------|----------------------------|---------------|-----------------|-------------|-----------------------|-------------------|
|  |                 | Commercial        | Leisure     | Group       | Weighted Annual Room Count | Occ.          | Average Rate    | RevPAR         | Weighted Annual Room Count | Occ.          | Average Rate    | RevPAR      | Occupancy Penetration | Yield Penetration |
| Hampton Inn Cincinnati Eastgate                        | 120             | 65 %              | 20 %        | 15 %        | 120                        | 65 - 70 %     | \$100 - \$105   | \$70 - \$75    | 120                        | 65 - 70 %     | \$100 - \$105   | \$70 - \$75 | 95 - 100 %            | 75 - 80 %         |
| Fairfield Inn & Suites by Marriott Cincinnati Eastgate | 78              | 65                | 20          | 15          | 78                         | 75 - 80       | 110 - 115       | 85 - 90        | 78                         | 75 - 80       | 105 - 110       | 80 - 85     | 110 - 120             | 90 - 95           |
| Comfort Inn & Suites Cincinnati                        | 72              | 65                | 25          | 10          | 72                         | 45 - 50       | 60 - 65         | 30 - 35        | 72                         | 45 - 50       | 60 - 65         | 30 - 35     | 65 - 70               | 30 - 35           |
| Hampton Inn & Suites Wilder                            | 94              | 60                | 25          | 15          | 94                         | 75 - 80       | 120 - 125       | 95 - 100       | 94                         | 70 - 75       | 120 - 125       | 85 - 90     | 100 - 110             | 95 - 100          |
| Comfort Inn & Suites Northern Kentucky                 | 74              | 50                | 30          | 20          | 74                         | 45 - 50       | 95 - 100        | 45 - 50        | 74                         | 60 - 65       | 95 - 100        | 60 - 65     | 90 - 95               | 65 - 70           |
| Holiday Inn Express & Suites Cincinnati South Wilder   | 93              | 60                | 25          | 15          | 8                          | 10 - 15       | 90 - 95         | 10 - 15        | 93                         | 65 - 70       | 105 - 110       | 70 - 75     | 90 - 95               | 75 - 80           |
| <b>Sub-Totals/Averages</b>                             | <b>531</b>      | <b>61 %</b>       | <b>24 %</b> | <b>15 %</b> | <b>446</b>                 | <b>66.0 %</b> | <b>\$103.30</b> | <b>\$68.14</b> | <b>531</b>                 | <b>67.6 %</b> | <b>\$102.93</b> | <b>\$70</b> | <b>\$96 %</b>         | <b>77.2 %</b>     |
| Secondary Competitors                                  | 1,862           | 57 %              | 27 %        | 16 %        | 1,261                      | 69.7 %        | \$142.76        | \$99.47        | 1,348                      | 71.7 %        | \$137.15        | \$98        | \$102 %               | 109.0 %           |
| <b>Totals/Averages</b>                                 | <b>2,393</b>    | <b>58 %</b>       | <b>26 %</b> | <b>16 %</b> | <b>1,706</b>               | <b>68.7 %</b> | <b>\$132.86</b> | <b>\$91.29</b> | <b>1,879</b>               | <b>70.6 %</b> | <b>\$127.88</b> | <b>\$90</b> | <b>\$100 %</b>        | <b>100.0 %</b>    |

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

**FIGURE 1-3 SECONDARY COMPETITORS – OPERATING PERFORMANCE**

| Property  | Number of Rooms | Est. Segmentation |             |             | Total Competitive Level | Estimated 2017             |               |                 |                | Estimated 2018             |               |                 |                |
|---|-----------------|-------------------|-------------|-------------|-------------------------|----------------------------|---------------|-----------------|----------------|----------------------------|---------------|-----------------|----------------|
|   |                 | Commercial        | Leisure     | Group       |                         | Weighted Annual Room Count | Occ.          | Average Rate    | RevPAR         | Weighted Annual Room Count | Occ.          | Average Rate    | RevPAR         |
| Courtyard by Marriott Cincinnati                                  | 123             | 60 %              | 25 %        | 15 %        | 80 %                    | 98                         | 80 - 85 %     | \$170 - \$180   | \$140 - \$150  | 98                         | 70 - 75 %     | \$160 - \$170   | \$120 - \$125  |
| Midtown/Rookwood SpringHill Suites by Marriott Cincinnati Midtown | 122             | 60                | 20          | 20          | 80                      | 98                         | 75 - 80       | 140 - 150       | 105 - 110      | 98                         | 75 - 80       | 125 - 130       | 100 - 105      |
| Hampton Inn & Suites Cincinnati Downtown                          | 144             | 65                | 20          | 15          | 80                      | 115                        | 65 - 70       | 160 - 170       | 115 - 120      | 115                        | 65 - 70       | 160 - 170       | 105 - 110      |
| Homewood Suites by Hilton Cincinnati Downtown                     | 105             | 70                | 20          | 10          | 70                      | 74                         | 70 - 75       | 160 - 170       | 120 - 125      | 74                         | 65 - 70       | 160 - 170       | 105 - 110      |
| Residence Inn by Marriott Cincinnati Downtown/The Phelps          | 134             | 65                | 20          | 15          | 70                      | 94                         | 75 - 80       | 180 - 190       | 140 - 150      | 94                         | 75 - 80       | 180 - 190       | 140 - 150      |
| Aloft Newport on the Levee  | 144             | 50                | 35          | 15          | 80                      | 115                        | 65 - 70       | 130 - 140       | 85 - 90        | 115                        | 75 - 80       | 130 - 140       | 95 - 100       |
| Comfort Suites Newport  | 124             | 40                | 50          | 10          | 80                      | 99                         | 50 - 55       | 115 - 120       | 60 - 65        | 99                         | 60 - 65       | 110 - 115       | 65 - 70        |
| Holiday Inn Express Cincinnati Newport                            | 73              | 55                | 35          | 10          | 80                      | 58                         | 60 - 65       | 115 - 120       | 75 - 80        | 58                         | 70 - 75       | 115 - 120       | 80 - 85        |
| Best Western Plus Cincinnati Riverfront Downtown Area             | 127             | 60                | 25          | 15          | 80                      | 102                        | 45 - 50       | 115 - 120       | 55 - 60        | 102                        | 60 - 65       | 110 - 115       | 70 - 75        |
| Courtyard by Marriott Cincinnati Covington                        | 194             | 55                | 25          | 20          | 80                      | 155                        | 65 - 70       | 130 - 140       | 85 - 90        | 155                        | 65 - 70       | 110 - 115       | 75 - 80        |
| Holiday Inn & Suites Cincinnati Eastgate                          | 212             | 55                | 20          | 25          | 60                      | 127                        | 65 - 70       | 105 - 110       | 75 - 80        | 127                        | 65 - 70       | 105 - 110       | 70 - 75        |
| Hampton Inn & Suites Newport Cincinnati                           | 122             | 45                | 40          | 15          | 80                      | 98                         | 85 - 90       | 140 - 150       | 125 - 130      | 98                         | 90 - 95       | 140 - 150       | 130 - 140      |
| Residence Inn by Marriott Cincinnati Midtown Rookwood             | 118             | 70                | 20          | 10          | 70                      | 28                         | 50 - 55       | 160 - 170       | 80 - 85        | 83                         | 70 - 75       | 140 - 150       | 110 - 115      |
| Hilton Garden Inn Cincinnati Midtown                              | 120             | 65                | 20          | 15          | 80                      | 0                          | —             | —               | —              | 32                         | 45 - 50       | 125 - 130       | 55 - 60        |
| <b>Totals/Averages</b>  | <b>1,862</b>    | <b>57 %</b>       | <b>27 %</b> | <b>16 %</b> | <b>76 %</b>             | <b>1,261</b>               | <b>69.7 %</b> | <b>\$142.76</b> | <b>\$99.47</b> | <b>1,348</b>               | <b>71.7 %</b> | <b>\$137.15</b> | <b>\$98.36</b> |

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

**Summary of Forecast  
Occupancy and  
Average Rate**

Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, we have chosen to use a stabilized occupancy level of 73% and a base-year rate position of \$125.00 for the proposed subject hotel. The following table reflects a summary of our market-wide and proposed subject hotel occupancy and average rate (ADR) projections.

**FIGURE 1-4 ADR FORECAST – MARKET AND PROPOSED SUBJECT HOTEL**

| <b>Calendar Year</b>   | <b>2018</b>     | <b>2019</b> | <b>2020</b> | <b>2021</b>     | <b>2022</b>     | <b>2023</b>     | <b>2024</b>     | <b>2025</b>     | <b>2026</b>     |
|--|-----------------|-------------|-------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Market ADR   | \$127.88        | \$129.80    | \$132.39    | \$136.37        | \$140.46        | \$144.67        | \$149.01        | \$153.48        | \$158.08        |
| Projected Market ADR Growth Rate                             | —               | 1.5%        | 2.0%        | 3.0%            | 3.0%            | 3.0%            | 3.0%            | 3.0%            | 3.0%            |
| Proposed Subject Property ADR (As-If Stabilized)             | <b>\$125.00</b> | \$126.88    | \$129.41    | \$133.29        | \$137.29        | \$141.41        | \$145.65        | \$150.02        | \$154.53        |
| ADR Growth Rate  | —               | 1.5%        | 2.0%        | 3.0%            | 3.0%            | 3.0%            | 3.0%            | 3.0%            | 3.0%            |
| Proposed Subject Stabilized ADR Penetration                  | 98%             | 98%         | 98%         | 98%             | 98%             | 98%             | 98%             | 98%             | 97.7%           |
| <b>Fiscal Year</b>   |                 |             |             | <b>2021</b>     | <b>2022</b>     | <b>2023</b>     | <b>2024</b>     | <b>2025</b>     | <b>2026</b>     |
| Proposed Subject Property Average Rate                       |                 |             |             | \$133.29        | \$137.29        | \$141.41        | \$145.65        | \$150.02        | \$154.53        |
| Opening Discount   |                 |             |             | 0.0%            | 0.5%            | 0.5%            | 0.0%            | 0.0%            | 0.0%            |
| <b>Average Rate After Discount</b>                           |                 |             |             | <b>\$133.29</b> | <b>\$136.61</b> | <b>\$140.71</b> | <b>\$145.65</b> | <b>\$150.02</b> | <b>\$154.53</b> |
| Real Average Rate Growth                                     |                 |             |             | —               | 2.5%            | 3.0%            | 3.5%            | 3.0%            | 3.0%            |
| Market ADR   |                 |             |             | \$136.37        | \$140.46        | \$144.67        | \$149.01        | \$153.48        | \$158.08        |
| Proposed Subject ADR Penetration (After Discount)            |                 |             |             | 98%             | 97%             | 97%             | 98%             | 98%             | 98%             |
| ADR Expressed in Base-Year Dollars Deflated @ Inflation Rate |                 |             |             | \$123.18        | \$122.56        | \$122.56        | \$123.18        | \$123.18        | \$123.18        |

**Summary of Forecast  
Income and Expense  
Statement**

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

**FIGURE 1-5 DETAILED FORECAST OF INCOME AND EXPENSE**

|   | 2022 (Calendar Year) |               |                 |                | 2023           |               |                 |                | Stabilized     |               |                 |                | 2025           |               |                 |                | 2026           |               |                 |                |
|---|----------------------|---------------|-----------------|----------------|----------------|---------------|-----------------|----------------|----------------|---------------|-----------------|----------------|----------------|---------------|-----------------|----------------|----------------|---------------|-----------------|----------------|
| Number of Rooms:                              | 120                  |               |                 |                | 120            |               |                 |                | 120            |               |                 |                | 120            |               |                 |                | 120            |               |                 |                |
| Occupancy:                                    | 68%                  |               |                 |                | 71%            |               |                 |                | 73%            |               |                 |                | 73%            |               |                 |                | 73%            |               |                 |                |
| Average Rate:                                 | \$136.61             |               |                 |                | \$140.71       |               |                 |                | \$145.65       |               |                 |                | \$150.02       |               |                 |                | \$154.53       |               |                 |                |
| RevPAR:                                       | \$92.89              |               |                 |                | \$99.90        |               |                 |                | \$106.33       |               |                 |                | \$109.52       |               |                 |                | \$112.80       |               |                 |                |
| Days Open:                                    | 365                  |               |                 |                | 365            |               |                 |                | 365            |               |                 |                | 365            |               |                 |                | 365            |               |                 |                |
| Occupied Rooms:                               | 29,784               | %Gross        | PAR             | POR            | 31,098         | %Gross        | PAR             | POR            | 31,974         | %Gross        | PAR             | POR            | 31,974         | %Gross        | PAR             | POR            | 31,974         | %Gross        | PAR             | POR            |
| <b>OPERATING REVENUE</b>                      |                      |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |
| Rooms   | \$4,069              | 96.9 %        | \$33,908        | \$136.62       | \$4,376        | 97.0 %        | \$36,467        | \$140.72       | \$4,657        | 97.0 %        | \$38,808        | \$145.65       | \$4,797        | 97.0 %        | \$39,975        | \$150.03       | \$4,941        | 97.0 %        | \$41,175        | \$154.53       |
| Other Operated Departments                    | 105                  | 2.5           | 873             | 3.52           | 109            | 2.4           | 910             | 3.51           | 113            | 2.4           | 945             | 3.55           | 117            | 2.4           | 974             | 3.65           | 120            | 2.4           | 1,003           | 3.76           |
| Miscellaneous Income                          | 26                   | 0.6           | 218             | 0.88           | 27             | 0.6           | 228             | 0.88           | 28             | 0.6           | 236             | 0.89           | 29             | 0.6           | 243             | 0.91           | 30             | 0.6           | 251             | 0.94           |
| <b>Total Operating Revenues</b>               | <b>4,200</b>         | <b>100.0</b>  | <b>34,999</b>   | <b>141.01</b>  | <b>4,513</b>   | <b>100.0</b>  | <b>37,604</b>   | <b>145.11</b>  | <b>4,799</b>   | <b>100.0</b>  | <b>39,990</b>   | <b>150.08</b>  | <b>4,943</b>   | <b>100.0</b>  | <b>41,192</b>   | <b>154.60</b>  | <b>5,091</b>   | <b>100.0</b>  | <b>42,428</b>   | <b>159.24</b>  |
| <b>DEPARTMENTAL EXPENSES *</b>                |                      |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |
| Rooms   | 939                  | 23.1          | 7,828           | 31.54          | 984            | 22.5          | 8,199           | 31.64          | 1,025          | 22.0          | 8,538           | 32.04          | 1,055          | 22.0          | 8,794           | 33.01          | 1,087          | 22.0          | 9,058           | 34.00          |
| Other Operated Departments                    | 64                   | 60.9          | 531             | 2.14           | 66             | 60.3          | 549             | 2.12           | 68             | 60.0          | 567             | 2.13           | 70             | 60.0          | 584             | 2.19           | 72             | 60.0          | 602             | 2.26           |
| <b>Total Expenses</b>                         | <b>1,003</b>         | <b>23.9</b>   | <b>8,359</b>    | <b>33.68</b>   | <b>1,050</b>   | <b>23.3</b>   | <b>8,748</b>    | <b>33.76</b>   | <b>1,093</b>   | <b>22.8</b>   | <b>9,105</b>    | <b>34.17</b>   | <b>1,125</b>   | <b>22.8</b>   | <b>9,378</b>    | <b>35.20</b>   | <b>1,159</b>   | <b>22.8</b>   | <b>9,660</b>    | <b>36.25</b>   |
| <b>DEPARTMENTAL INCOME</b>                    | <b>3,197</b>         | <b>76.1</b>   | <b>26,640</b>   | <b>107.33</b>  | <b>3,463</b>   | <b>76.7</b>   | <b>28,856</b>   | <b>111.35</b>  | <b>3,706</b>   | <b>77.2</b>   | <b>30,885</b>   | <b>115.91</b>  | <b>3,818</b>   | <b>77.2</b>   | <b>31,814</b>   | <b>119.40</b>  | <b>3,932</b>   | <b>77.2</b>   | <b>32,769</b>   | <b>122.98</b>  |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>       |                      |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |
| Administrative & General                      | 342                  | 8.1           | 2,846           | 11.47          | 355            | 7.9           | 2,961           | 11.43          | 369            | 7.7           | 3,074           | 11.54          | 380            | 7.7           | 3,167           | 11.88          | 391            | 7.7           | 3,262           | 12.24          |
| Info & Telecom Systems                        | 59                   | 1.4           | 493             | 1.98           | 62             | 1.4           | 513             | 1.98           | 64             | 1.3           | 532             | 2.00           | 66             | 1.3           | 548             | 2.06           | 68             | 1.3           | 565             | 2.12           |
| Marketing                                     | 210                  | 5.0           | 1,751           | 7.06           | 219            | 4.8           | 1,822           | 7.03           | 227            | 4.7           | 1,892           | 7.10           | 234            | 4.7           | 1,949           | 7.31           | 241            | 4.7           | 2,007           | 7.53           |
| Franchise Fee                                 | 326                  | 7.8           | 2,713           | 10.93          | 350            | 7.8           | 2,917           | 11.26          | 373            | 7.8           | 3,105           | 11.65          | 384            | 7.8           | 3,198           | 12.00          | 395            | 7.8           | 3,294           | 12.36          |
| Prop. Operations & Maint.                     | 130                  | 3.1           | 1,084           | 4.37           | 143            | 3.2           | 1,190           | 4.59           | 156            | 3.3           | 1,301           | 4.88           | 161            | 3.3           | 1,340           | 5.03           | 166            | 3.3           | 1,380           | 5.18           |
| Utilities                                     | 158                  | 3.8           | 1,314           | 5.29           | 164            | 3.6           | 1,367           | 5.27           | 170            | 3.5           | 1,419           | 5.33           | 175            | 3.5           | 1,462           | 5.49           | 181            | 3.5           | 1,505           | 5.65           |
| <b>Total Expenses</b>                         | <b>1,224</b>         | <b>29.2</b>   | <b>10,200</b>   | <b>41.10</b>   | <b>1,292</b>   | <b>28.7</b>   | <b>10,771</b>   | <b>41.56</b>   | <b>1,359</b>   | <b>28.3</b>   | <b>11,323</b>   | <b>42.50</b>   | <b>1,400</b>   | <b>28.3</b>   | <b>11,663</b>   | <b>43.77</b>   | <b>1,442</b>   | <b>28.3</b>   | <b>12,013</b>   | <b>45.08</b>   |
| <b>GROSS HOUSE PROFIT</b>                     | <b>1,973</b>         | <b>46.9</b>   | <b>16,440</b>   | <b>66.24</b>   | <b>2,170</b>   | <b>48.0</b>   | <b>18,086</b>   | <b>69.79</b>   | <b>2,347</b>   | <b>48.9</b>   | <b>19,562</b>   | <b>73.42</b>   | <b>2,418</b>   | <b>48.9</b>   | <b>20,151</b>   | <b>75.63</b>   | <b>2,491</b>   | <b>48.9</b>   | <b>20,756</b>   | <b>77.90</b>   |
| Management Fee                                | 126                  | 3.0           | 1,050           | 4.23           | 135            | 3.0           | 1,128           | 4.35           | 144            | 3.0           | 1,200           | 4.50           | 148            | 3.0           | 1,236           | 4.64           | 153            | 3.0           | 1,273           | 4.78           |
| <b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b> | <b>1,847</b>         | <b>43.9</b>   | <b>15,390</b>   | <b>62.01</b>   | <b>2,035</b>   | <b>45.0</b>   | <b>16,958</b>   | <b>65.44</b>   | <b>2,203</b>   | <b>45.9</b>   | <b>18,362</b>   | <b>68.91</b>   | <b>2,270</b>   | <b>45.9</b>   | <b>18,915</b>   | <b>70.99</b>   | <b>2,338</b>   | <b>45.9</b>   | <b>19,483</b>   | <b>73.12</b>   |
| <b>NON-OPERATING INCOME &amp; EXPENSE</b>     |                      |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |
| Property Taxes                                | 127                  | 3.0           | 1,061           | 4.27           | 525            | 11.6          | 4,371           | 16.87          | 540            | 11.3          | 4,502           | 16.90          | 557            | 11.3          | 4,638           | 17.40          | 573            | 11.3          | 4,777           | 17.93          |
| Insurance                                     | 27                   | 0.6           | 223             | 0.90           | 28             | 0.6           | 230             | 0.89           | 28             | 0.6           | 236             | 0.89           | 29             | 0.6           | 244             | 0.91           | 30             | 0.6           | 251             | 0.94           |
| Reserve for Replacement                       | 84                   | 2.0           | 700             | 2.82           | 135            | 3.0           | 1,128           | 4.35           | 192            | 4.0           | 1,600           | 6.00           | 198            | 4.0           | 1,648           | 6.18           | 204            | 4.0           | 1,697           | 6.37           |
| <b>Total Expenses</b>                         | <b>238</b>           | <b>5.6</b>    | <b>1,984</b>    | <b>7.99</b>    | <b>687</b>     | <b>15.2</b>   | <b>5,729</b>    | <b>22.11</b>   | <b>761</b>     | <b>15.9</b>   | <b>6,339</b>    | <b>23.79</b>   | <b>783</b>     | <b>15.9</b>   | <b>6,529</b>    | <b>24.50</b>   | <b>807</b>     | <b>15.9</b>   | <b>6,725</b>    | <b>25.24</b>   |
| <b>EBITDA LESS RESERVE</b>                    | <b>\$1,609</b>       | <b>38.3 %</b> | <b>\$13,406</b> | <b>\$54.01</b> | <b>\$1,347</b> | <b>29.8 %</b> | <b>\$11,228</b> | <b>\$43.33</b> | <b>\$1,443</b> | <b>30.0 %</b> | <b>\$12,023</b> | <b>\$45.12</b> | <b>\$1,486</b> | <b>30.0 %</b> | <b>\$12,386</b> | <b>\$46.49</b> | <b>\$1,531</b> | <b>30.0 %</b> | <b>\$12,758</b> | <b>\$47.88</b> |

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

**FIGURE 1-6 TEN-YEAR FORECAST OF INCOME AND EXPENSE**

|   | 2022         |              | 2023         |              | 2024         |              | 2025         |              | 2026         |              | 2027         |              | 2028         |              | 2029         |              | 2030         |              | 2031         |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Number of Rooms:</b>                       | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              |
| <b>Occupied Rooms:</b>                        | 29,784       |              | 31,098       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              |
| <b>Occupancy:</b>                             | 68%          |              | 71%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              |
| <b>Average Rate:</b>                          | \$136.61     | % of         | \$140.71     | % of         | \$145.65     | % of         | \$150.02     | % of         | \$154.53     | % of         | \$159.16     | % of         | \$163.94     | % of         | \$168.85     | % of         | \$173.92     | % of         | \$179.14     | % of         |
| <b>RevPAR:</b>                                | \$92.89      | Gross        | \$99.90      | Gross        | \$106.33     | Gross        | \$109.52     | Gross        | \$112.80     | Gross        | \$116.19     | Gross        | \$119.67     | Gross        | \$123.26     | Gross        | \$126.96     | Gross        | \$130.77     | Gross        |
| <b>OPERATING REVENUE</b>                      |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| Rooms   | \$4,069      | 96.9 %       | \$4,376      | 97.0 %       | \$4,657      | 97.0 %       | \$4,797      | 97.0 %       | \$4,941      | 97.0 %       | \$5,089      | 97.0 %       | \$5,242      | 97.0 %       | \$5,399      | 97.0 %       | \$5,561      | 97.0 %       | \$5,728      | 97.0 %       |
| Other Operated Departments                    | 105          | 2.5          | 109          | 2.4          | 113          | 2.4          | 117          | 2.4          | 120          | 2.4          | 124          | 2.4          | 128          | 2.4          | 131          | 2.4          | 135          | 2.4          | 140          | 2.4          |
| Miscellaneous Income                          | 26           | 0.6          | 27           | 0.6          | 28           | 0.6          | 29           | 0.6          | 30           | 0.6          | 31           | 0.6          | 32           | 0.6          | 33           | 0.6          | 34           | 0.6          | 35           | 0.6          |
| <b>Total Operating Revenues</b>               | <b>4,200</b> | <b>100.0</b> | <b>4,513</b> | <b>100.0</b> | <b>4,799</b> | <b>100.0</b> | <b>4,943</b> | <b>100.0</b> | <b>5,091</b> | <b>100.0</b> | <b>5,244</b> | <b>100.0</b> | <b>5,402</b> | <b>100.0</b> | <b>5,563</b> | <b>100.0</b> | <b>5,730</b> | <b>100.0</b> | <b>5,902</b> | <b>100.0</b> |
| <b>DEPARTMENTAL EXPENSES *</b>                |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| Rooms   | 939          | 23.1         | 984          | 22.5         | 1,025        | 22.0         | 1,055        | 22.0         | 1,087        | 22.0         | 1,120        | 22.0         | 1,153        | 22.0         | 1,188        | 22.0         | 1,223        | 22.0         | 1,260        | 22.0         |
| Other Operated Departments                    | 64           | 60.9         | 66           | 60.3         | 68           | 60.0         | 70           | 60.0         | 72           | 60.0         | 74           | 60.0         | 77           | 60.0         | 79           | 60.0         | 81           | 60.0         | 84           | 60.0         |
| <b>Total Expenses</b>                         | <b>1,003</b> | <b>23.9</b>  | <b>1,050</b> | <b>23.3</b>  | <b>1,093</b> | <b>22.8</b>  | <b>1,125</b> | <b>22.8</b>  | <b>1,159</b> | <b>22.8</b>  | <b>1,194</b> | <b>22.8</b>  | <b>1,230</b> | <b>22.8</b>  | <b>1,267</b> | <b>22.8</b>  | <b>1,305</b> | <b>22.8</b>  | <b>1,344</b> | <b>22.8</b>  |
| <b>DEPARTMENTAL INCOME</b>                    |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
|   | 3,197        | 76.1         | 3,463        | 76.7         | 3,706        | 77.2         | 3,818        | 77.2         | 3,932        | 77.2         | 4,050        | 77.2         | 4,172        | 77.2         | 4,297        | 77.2         | 4,426        | 77.2         | 4,559        | 77.2         |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>       |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| Administrative & General                      | 342          | 8.1          | 355          | 7.9          | 369          | 7.7          | 380          | 7.7          | 391          | 7.7          | 403          | 7.7          | 415          | 7.7          | 428          | 7.7          | 441          | 7.7          | 454          | 7.7          |
| Info & Telecom Systems                        | 59           | 1.4          | 62           | 1.4          | 64           | 1.3          | 66           | 1.3          | 68           | 1.3          | 70           | 1.3          | 72           | 1.3          | 74           | 1.3          | 76           | 1.3          | 79           | 1.3          |
| Marketing                                     | 210          | 5.0          | 219          | 4.8          | 227          | 4.7          | 234          | 4.7          | 241          | 4.7          | 248          | 4.7          | 256          | 4.7          | 263          | 4.7          | 271          | 4.7          | 279          | 4.7          |
| Franchise Fee                                 | 326          | 7.8          | 350          | 7.8          | 373          | 7.8          | 384          | 7.8          | 395          | 7.8          | 407          | 7.8          | 419          | 7.8          | 432          | 7.8          | 445          | 7.8          | 458          | 7.8          |
| Prop. Operations & Maint.                     | 130          | 3.1          | 143          | 3.2          | 156          | 3.3          | 161          | 3.3          | 166          | 3.3          | 171          | 3.3          | 176          | 3.3          | 181          | 3.3          | 186          | 3.3          | 192          | 3.3          |
| Utilities                                     | 158          | 3.8          | 164          | 3.6          | 170          | 3.5          | 175          | 3.5          | 181          | 3.5          | 186          | 3.5          | 192          | 3.5          | 197          | 3.5          | 203          | 3.5          | 209          | 3.5          |
| <b>Total Expenses</b>                         | <b>1,224</b> | <b>29.1</b>  | <b>1,292</b> | <b>28.6</b>  | <b>1,359</b> | <b>28.3</b>  | <b>1,400</b> | <b>28.3</b>  | <b>1,442</b> | <b>28.3</b>  | <b>1,485</b> | <b>28.3</b>  | <b>1,529</b> | <b>28.3</b>  | <b>1,575</b> | <b>28.3</b>  | <b>1,622</b> | <b>28.3</b>  | <b>1,671</b> | <b>28.3</b>  |
| <b>GROSS HOUSE PROFIT</b>                     |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
|   | 1,973        | 47.0         | 2,170        | 48.1         | 2,347        | 48.9         | 2,418        | 48.9         | 2,491        | 48.9         | 2,565        | 48.9         | 2,642        | 48.9         | 2,722        | 48.9         | 2,803        | 48.9         | 2,887        | 48.9         |
| Management Fee                                | 126          | 3.0          | 135          | 3.0          | 144          | 3.0          | 148          | 3.0          | 153          | 3.0          | 157          | 3.0          | 162          | 3.0          | 167          | 3.0          | 172          | 3.0          | 177          | 3.0          |
| <b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b> |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
|   | 1,847        | 44.0         | 2,035        | 45.1         | 2,203        | 45.9         | 2,270        | 45.9         | 2,338        | 45.9         | 2,408        | 45.9         | 2,480        | 45.9         | 2,555        | 45.9         | 2,631        | 45.9         | 2,710        | 45.9         |
| <b>NON-OPERATING INCOME &amp; EXPENSE</b>     |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| Property Taxes                                | 127          | 3.0          | 525          | 11.6         | 540          | 11.3         | 557          | 11.3         | 573          | 11.3         | 590          | 11.3         | 608          | 11.3         | 626          | 11.3         | 645          | 11.3         | 664          | 11.3         |
| Insurance                                     | 27           | 0.6          | 28           | 0.6          | 28           | 0.6          | 29           | 0.6          | 30           | 0.6          | 31           | 0.6          | 32           | 0.6          | 33           | 0.6          | 34           | 0.6          | 35           | 0.6          |
| Reserve for Replacement                       | 84           | 2.0          | 135          | 3.0          | 192          | 4.0          | 198          | 4.0          | 204          | 4.0          | 210          | 4.0          | 216          | 4.0          | 223          | 4.0          | 229          | 4.0          | 236          | 4.0          |
| <b>Total Expenses</b>                         | <b>238</b>   | <b>5.7</b>   | <b>687</b>   | <b>15.2</b>  | <b>761</b>   | <b>15.9</b>  | <b>783</b>   | <b>15.8</b>  | <b>807</b>   | <b>15.8</b>  | <b>831</b>   | <b>15.9</b>  | <b>856</b>   | <b>15.8</b>  | <b>882</b>   | <b>15.8</b>  | <b>908</b>   | <b>15.8</b>  | <b>935</b>   | <b>15.8</b>  |
| <b>EBITDA LESS RESERVE</b>                    |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
|   | \$1,609      | 38.3 %       | \$1,347      | 29.8 %       | \$1,443      | 30.0 %       | \$1,486      | 30.0 %       | \$1,531      | 30.0 %       | \$1,577      | 30.0 %       | \$1,624      | 30.0 %       | \$1,673      | 30.0 %       | \$1,723      | 30.0 %       | \$1,775      | 30.0 %       |

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

### Scope of Work

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

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

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

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

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

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

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

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



## 2. Description of the Site and Neighborhood – Kellogg Road Site

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

For this study, we analyzed two potential sites for hotel development in Anderson Township. The first site is located in south Anderson Township, east of the intersection formed by Sutton Road and Kellogg Road (Kellogg Road site). A second site was considered for this study, located northeast of the intersection of Town Center Way and Five Mile Road (Downtown site). The Kellogg Road site has the advantage of its proximity to Interstate 275, as well as riverfront entertainment venues like Belterra Park, Coney Island Amusement Park, and Riverbend Music Center. Furthermore, this site offers the possibility for future retail and restaurant growth on the remainder of the 36-acre parcel. The challenges of this site include the current lack of restaurant options in the neighborhood and the seasonal nature of the leisure attractions.

### Physical Characteristics

The portion of the subject site proposed for hotel use measures approximately 2.00 acres, or 87,120 square feet. The parcel's adjacent uses are set forth in the following table.

**FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES**

| Direction | Adjacent Use (Kellogg Road Site) |
|-----------|----------------------------------|
| North     | Interstate 275                   |
| South     | Kellogg Road                     |
| East      | Residences                       |
| West      | Saint Joseph's Orphanage         |

### Topography and Site Utility

The topography of the site slopes downward from north to south, and the shape should permit efficient use of the site for building and site improvements, including ingress and egress. Upon completion of construction, the subject site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. It is expected that the site will be developed fully with

building and site improvements, thus contributing to the overall profitability of the hotel.

The Kellogg Road site is a 36-acre parcel controlled by Belterra Park Gaming. For the purpose of this study, we have assumed a hotel would be developed on a two-acre portion of this site with frontage along Kellogg Road.

### **VIEW OF SUBJECT SITE**

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## AERIAL PHOTOGRAPH

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## VIEW FROM SITE TO THE NORTH

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## VIEW FROM SITE TO THE SOUTH

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## VIEW FROM SITE TO THE EAST

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## VIEW FROM SITE TO THE WEST

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### Access and Visibility

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

## MAP OF REGIONAL ACCESS ROUTES



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

Vehicular access to the Kellogg Road site will be provided by Kellogg Road. The subject site is located near a busy intersection and is relatively simple to locate from Interstate 275, which is the nearest major highway. The proposed subject hotel is anticipated to have adequate signage at the street, as well as on its façade. Overall, the subject site benefits from very good accessibility, and the proposed hotel is expected to enjoy very good visibility from within its local neighborhood.

### Airport Access

The proposed subject hotel will be served by the Cincinnati/Northern Kentucky International Airport, which is located approximately twelve miles to the southwest of the subject sites.

## Neighborhood

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

The neighborhood that surrounds the Kellogg Road site is generally defined by Interstate 275 to the north and west, the Ohio River to the south, and U.S. Highway 52 to the east. The neighborhood is characterized by entertainment venues along the riverfront, with residential areas located along the secondary roadways. Some specific businesses and entities in the area include Belterra Park, Coney Island Amusement Park, and Riverbend Music Center; we note that there are no hotels located within this neighborhood. Restaurants located near the subject site include Grove Park Grille and several venues within Belterra Park. In general, this neighborhood is in the stable stage of its life cycle. Notable changes in this neighborhood include a change in ownership at Belterra Park and a renovation to Riverbend Music Center. In 2018, Boyd Corp. completed the acquisition of Belterra Park from Pinnacle Entertainment Inc. for a reported \$57 million. In 2019, Riverbend Music Center was reconfigured to remove support beams from the stage area in order to create an unobstructed view from the lawn. The proposed subject hotel's opening should be a positive influence on the area; the hotel should be in character with and will complement surrounding land uses.

## MAP OF NEIGHBORHOOD

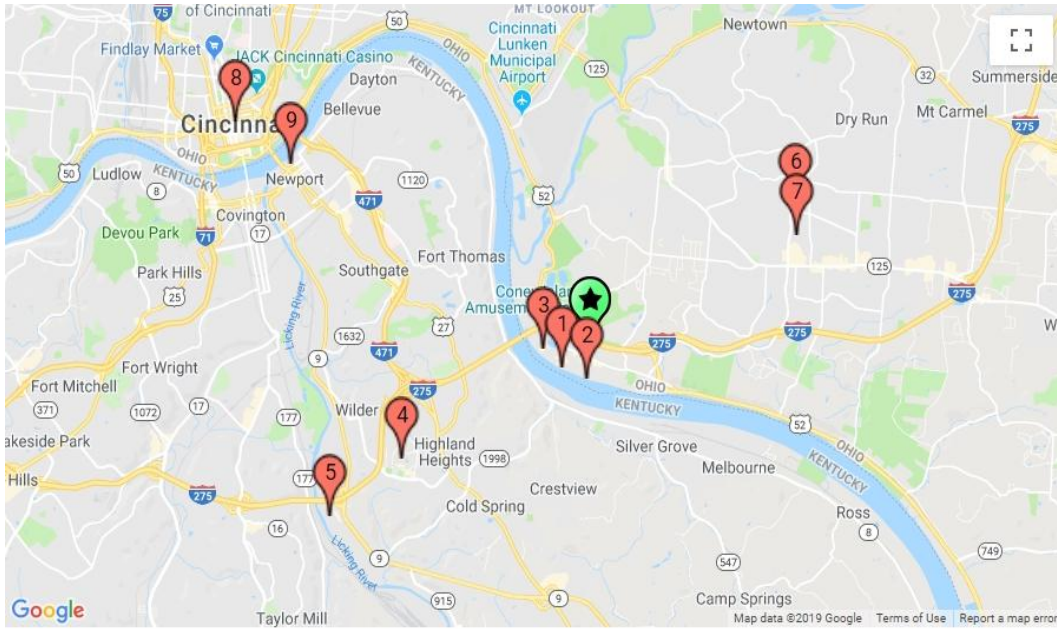


### Proximity to Local Demand Generators and Attractions

Both subject sites are located near the area's primary generators of lodging demand. A sample of these demand generators is reflected on the following map, including respective distances from and drive times to the subject site. Additionally, the Kellogg Road site is proximate to several riverfront entertainment attractions such as Belterra Park, Riverbend Music Center, and Coney Island. The Downtown site is proximate to Mercy Health and Anderson Towne Center. Overall, the subject sites are well situated with respect to demand generators.



## ACCESS TO DEMAND GENERATORS AND ATTRACTIONS



|   | Demand Generator                      | Approx. Time from Subject Property | Approx. Distance |
|---|---------------------------------------|------------------------------------|------------------|
|   | Subject Property                      |                                    |                  |
| 1 | Riverbend Music Center                | 🚗 2 minutes                        | 0.5 mile         |
| 2 | Belterra Park Gaming                  | 🚗 right there                      | 0.1 mile         |
| 3 | Coney Island Amusement Park           | 🚗 1 minute                         | 0.5 mile         |
| 4 | Northern Kentucky University          | 🚗 7 minutes                        | 4.5 miles        |
| 5 | Town & Country Sports and Health Club | 🚗 10 minutes                       | 6.6 miles        |
| 6 | Mercy Health - Anderson Hospital      | 🚗 12 minutes                       | 5.9 miles        |
| 7 | Anderson Center                       | 🚗 11 minutes                       | 5.2 miles        |
| 8 | Downtown Cincinnati                   | 🚗 13 minutes                       | 9.4 miles        |
| 9 | Newport Aquarium                      | 🚗 13 minutes                       | 8.6 miles        |

### Utilities

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

### Soil and Subsoil Conditions

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

### Nuisances and Hazards

We were not informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we

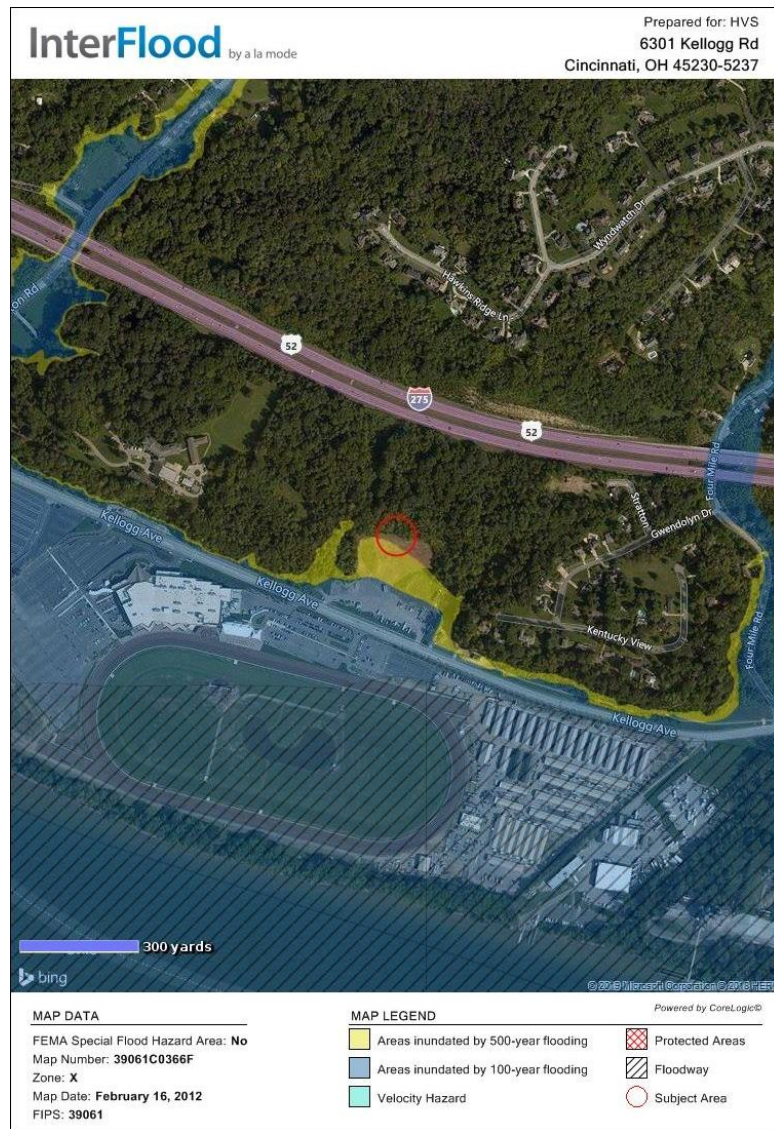


are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.

**Flood Zone**

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

**COPY OF FLOOD MAP AND COVER**



The flood zone definition for the Zone X designation is as follows: areas outside the 500-year flood plain; areas of the 500-year flood; areas of the 100-year flood with average depths of less than one foot or with drainage areas less than one square mile and areas protected by levees from the 100-year flood.

**Zoning**

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

**FIGURE 2-2 ZONING**

|                               |   |
|-------------------------------|---|
| Municipality Governing Zoning | Anderson Township                       |
| Current Zoning                | Retail Business District                |
| Current Use                   | Surface Parking                         |
| Is Current Use Permitted?     | Yes                                     |
| Is Change in Zoning Likely?   | No                                      |
| Permitted Uses                | Retail, Restaurant, Hotel, Small Office |
| Hotel Allowed                 | Yes                                     |
| Legally Non-Conforming        | Not Applicable                          |

We assume that all necessary permits and approvals will be secured (including the appropriate liquor license if applicable) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

**Easements and Encroachments**

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

**Conclusion**

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The Kellogg Road site is favorably located proximate to multiple entertainment venues along Kellogg Road, including Belterra Park, Coney Island, and Riverbend Music Center. Furthermore, the site is favorably located proximate to the interstate and near a major interchange. In general, the site should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

### 3. Description of the Site and Neighborhood – Downtown Site

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

The Downtown site may also be viable for hotel development. Advantages of this site include its proximity to multiple restaurants and shops in the Anderson Towne Center development, as well as its proximity to Mercy Health Anderson and Anderson Center. The challenges of this site include the lack of major employment centers that would create commercial hotel demand and the lack of highway visibility.

#### Physical Characteristics

The portion of the subject site proposed for hotel use measures approximately 2.00 acres, or 87,120 square feet. The parcel's adjacent uses are set forth in the following table.

**FIGURE 3-3 SUBJECT PARCEL'S ADJACENT USES**

| <b>Direction</b> | <b>Adjacent Use (Downtown Site)</b> |
|------------------|-------------------------------------|
| North            | Anderson Towne Center               |
| South            | Kroger                              |
| East             | Vacant (Proposed Senior Housing)    |
| West             | Anderson Towne Center               |

#### Topography and Site Utility

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

The Downtown site is an approximately 2.1-acre portion of Anderson Towne Center, north of the Kroger and South of the AMC Theater, that is currently improved with a surface parking lot. The site, which is controlled by Anderson Towne Center, reportedly could be made available for hotel development.

## VIEW OF SUBJECT SITE

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## AERIAL PHOTOGRAPH

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**VIEW FROM SITE TO THE NORTH**



**VIEW FROM SITE TO THE SOUTH**



**VIEW FROM SITE TO THE EAST**



**VIEW FROM SITE TO THE WEST**



**Access and Visibility**

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



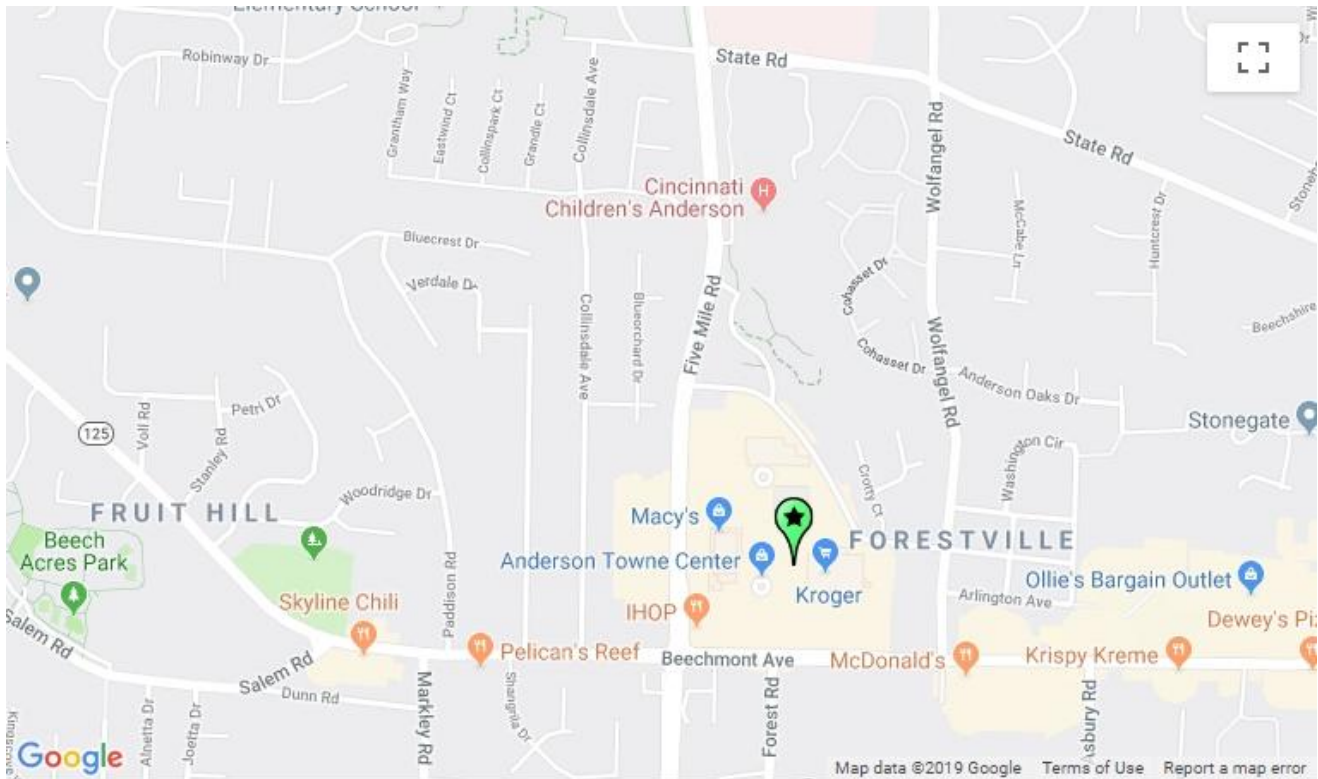
## Neighborhood

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

The neighborhood that surrounds the subject site is generally defined by State Road to the north, Beechmont Avenue to the south, Collinsdale Avenue to the west, and Wolfangel Road to the east. The neighborhood is characterized by an upscale retail and restaurant lifestyle center, offices, and medical centers along the primary thoroughfares, with residential areas located along the secondary roadways. Some specific businesses and entities in the area include Anderson Towne Center, Anderson Center, Cincinnati Children's Hospital - Anderson, and Kroger; we note that there are no hotels located within this neighborhood. Restaurants located near the subject site include Bar Louie, Leyla Mediterranean, Taj Indian, and Cincinnati's Good Fellows. In general, this neighborhood is in the growth stage of its life cycle. Notable changes in this neighborhood are primarily focused within the Anderson Towne Center development. An expansion to the Kroger Marketplace is proposed, which would make it the largest Kroger in the country. The expansion includes new retail outlets such as McAlister's Deli, Chipotle, and Orange Theory. Other key uses within Anderson Towne Center include AMC Theater, Skyzone, Crunch Fitness, and Tri-Health; all of whom are new to the site.

In 2018, Anderson Township selected a proposal from Hills Properties to redevelop its 5.2-acre park-n-ride facility located north of Anderson Towne Center. The \$40-million project will encompass a parking garage and a 200-unit luxury apartment complex. Reportedly, the park-n-ride facility will be integrated into the garage. The proposed subject hotel's opening should be a positive influence on the area; the hotel should be in character with and will complement surrounding land uses.

## MAP OF NEIGHBORHOOD

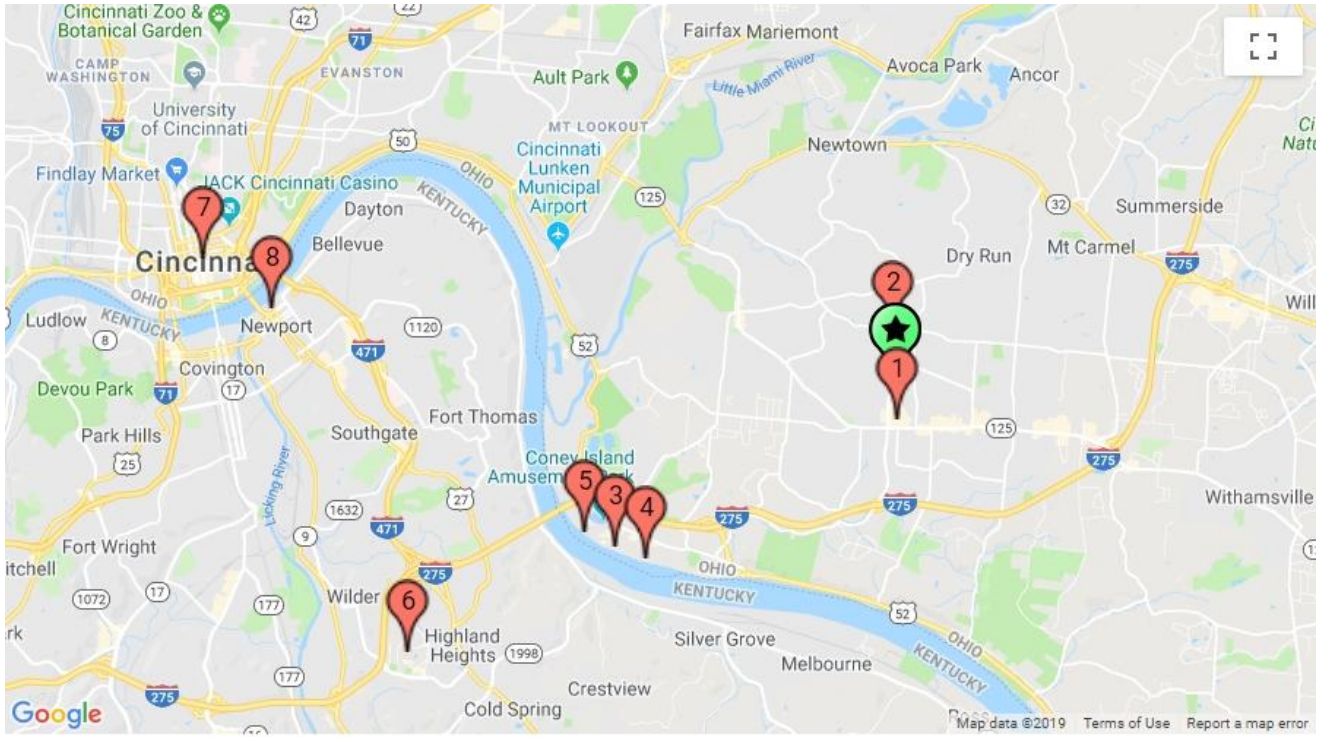


### Proximity to Local Demand Generators and Attractions

Both subject sites are located near the area's primary generators of lodging demand. A sample of these demand generators is reflected on the following map, including respective distances from and drive times to the subject site. Additionally, the Kellogg Road site is proximate to several riverfront entertainment attractions such as Belterra Park, Riverbend Music Center, and Coney Island. The Downtown site is proximate to Mercy Health and Anderson Towne Center. Overall, the subject sites are well situated with respect to demand generators.



## ACCESS TO DEMAND GENERATORS AND ATTRACTIONS



|   | Demand Generator                 | Approx. Time from Subject Property | Approx. Distance |
|---|----------------------------------|------------------------------------|------------------|
|  | Subject Property                 |                                    |                  |
| 1   | Anderson Center                  | 🚗 2 minutes                        | 0.3 mile         |
| 2   | Mercy Health - Anderson Hospital | 🚗 4 minutes                        | 0.8 mile         |
| 3   | Riverbend Music Center           | 🚗 13 minutes                       | 6.3 miles        |
| 4   | Belterra Park Gaming             | 🚗 10 minutes                       | 5.7 miles        |
| 5   | Coney Island Amusement Park      | 🚗 10 minutes                       | 5.9 miles        |
| 6   | Northern Kentucky University     | 🚗 12 minutes                       | 8.7 miles        |
| 7   | Downtown Cincinnati              | 🚗 19 minutes                       | 13.6 miles       |
| 8   | Newport Aquarium                 | 🚗 20 minutes                       | 12.7 miles       |

### Utilities

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

### Soil and Subsoil Conditions

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

**Nuisances  
and Hazards**

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

**Flood Zone**

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

**COPY OF FLOOD MAP AND COVER**



The flood zone definition for the Zone X designation is as follows: areas outside the 500-year flood plain; areas of the 500-year flood; areas of the 100-year flood with average depths of less than one foot or with drainage areas less than one square mile and areas protected by levees from the 100-year flood.

## Zoning

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

**FIGURE 3-4 ZONING**

|                               |   |
|-------------------------------|---|
| Municipality Governing Zoning | Anderson Township                       |
| Current Zoning                | Retail Business District                |
| Current Use                   | Surface Parking                         |
| Is Current Use Permitted?     | Yes                                     |
| Is Change in Zoning Likely?   | No                                      |
| Permitted Uses                | Retail, Restaurant, Hotel, Small Office |
| Hotel Allowed                 | Yes                                     |
| Legally Non-Conforming        | Not Applicable                          |

We assume that all necessary permits and approvals will be secured (including the appropriate liquor license if applicable) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

## Easements and Encroachments

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

## Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The Downtown site is favorably located within the Anderson Towne Center mixed-use development, proximate to multiple upscale shopping and dining venues. Furthermore, the site is favorably located near a major interchange. In general, the site should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

## 4. Market Area Analysis

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

### Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the city of Cincinnati, the county of Hamilton, and the state of Ohio. Anderson Township is a bedroom community located approximately 13 miles southeast of Cincinnati, along the Ohio River. Cincinnati is located on the southeastern Ohio border along the Ohio River. The metropolitan area encompasses a three-state region, including parts of Indiana and Kentucky. Top firms in Cincinnati represent key industries such as aerospace, automotive, biotechnology, brand design, creative services, chemistry, financial services, IT services, and consumer goods. Together, these sectors have helped fortify the city's economic position in recent years. The city has been successful at not only retaining area businesses, but also at attracting new establishments. The area's low cost of living, aggressive development incentives and excellent accessibility via multiple transportation routes have brought national recognition to the MSA. The region fares well on a national scale, with a large presence of Fortune 500 and 1000 companies headquartered in the Cincinnati area.



## CINCINNATI

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





**FIGURE 4-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY**

|   | 2000      | 2010      | 2018      | 2025      | Average Annual<br>Compounded Change |         |         |
|---|-----------|-----------|-----------|-----------|-------------------------------------|---------|---------|
|   |           |           |           |           | 2000-10                             | 2010-18 | 2018-25 |
| <b>Resident Population (Thousands)</b>      |           |           |           |           |                                     |         |         |
| Hamilton County                             | 844.1     | 802.3     | 807.3     | 801.0     | (0.5) %                             | 0.1 %   | (0.1) % |
| Cincinnati, OH-KY-IN MSA                    | 1,999.6   | 2,117.9   | 2,196.0   | 2,312.5   | 0.6                                 | 0.5     | 0.7     |
| Cincinnati-Wilmington-Maysville, OH-KY-IN C | 2,056.9   | 2,177.3   | 2,255.5   | 2,373.6   | 0.6                                 | 0.4     | 0.7     |
| State of Ohio                               | 11,363.5  | 11,541.0  | 11,691.6  | 11,998.1  | 0.2                                 | 0.2     | 0.4     |
| United States                               | 282,162.4 | 309,348.1 | 328,910.9 | 350,937.2 | 0.9                                 | 0.8     | 0.9     |
| <b>Per-Capita Personal Income*</b>          |           |           |           |           |                                     |         |         |
| Hamilton County                             | \$40,927  | \$44,055  | \$51,301  | \$57,168  | 0.7                                 | 1.9     | 1.6     |
| Cincinnati, OH-KY-IN MSA                    | 37,285    | 39,553    | 45,576    | 49,958    | 0.6                                 | 1.8     | 1.3     |
| Cincinnati-Wilmington-Maysville, OH-KY-IN C | 37,095    | 39,389    | 45,315    | 49,692    | 0.6                                 | 1.8     | 1.3     |
| State of Ohio                               | 34,294    | 35,764    | 42,007    | 46,192    | 0.4                                 | 2.0     | 1.4     |
| United States                               | 36,812    | 39,622    | 46,097    | 50,233    | 0.7                                 | 1.9     | 1.2     |
| <b>W&amp;P Wealth Index</b>                 |           |           |           |           |                                     |         |         |
| Hamilton County                             | 111.3     | 110.1     | 111.2     | 113.2     | (0.1)                               | 0.1     | 0.3     |
| Cincinnati, OH-KY-IN MSA                    | 101.6     | 99.1      | 98.6      | 99.0      | (0.2)                               | (0.1)   | 0.1     |
| Cincinnati-Wilmington-Maysville, OH-KY-IN C | 101.1     | 98.7      | 98.0      | 98.5      | (0.2)                               | (0.1)   | 0.1     |
| State of Ohio                               | 92.6      | 89.0      | 89.7      | 90.4      | (0.4)                               | 0.1     | 0.1     |
| United States                               | 100.0     | 100.0     | 100.0     | 100.0     | 0.0                                 | 0.0     | 0.0     |
| <b>Food and Beverage Sales (Millions)*</b>  |           |           |           |           |                                     |         |         |
| Hamilton County                             | \$1,556   | \$1,553   | \$1,947   | \$2,017   | (0.0)                               | 2.9     | 0.5     |
| Cincinnati, OH-KY-IN MSA                    | 2,934     | 3,283     | 4,163     | 4,504     | 1.1                                 | 3.0     | 1.1     |
| Cincinnati-Wilmington-Maysville, OH-KY-IN C | 3,000     | 3,354     | 4,262     | 4,609     | 1.1                                 | 3.0     | 1.1     |
| State of Ohio                               | 15,148    | 15,897    | 20,300    | 21,579    | 0.5                                 | 3.1     | 0.9     |
| United States                               | 368,829   | 447,728   | 597,451   | 662,610   | 2.0                                 | 3.7     | 1.5     |
| <b>Total Retail Sales (Millions)*</b>       |           |           |           |           |                                     |         |         |
| Hamilton County                             | \$14,190  | \$11,595  | \$13,666  | \$13,955  | (2.0)                               | 2.1     | 0.3     |
| Cincinnati, OH-KY-IN MSA                    | 28,263    | 29,111    | 36,155    | 39,205    | 0.3                                 | 2.7     | 1.2     |
| Cincinnati-Wilmington-Maysville, OH-KY-IN C | 29,148    | 29,906    | 37,067    | 40,165    | 0.3                                 | 2.7     | 1.2     |
| State of Ohio                               | 157,212   | 148,741   | 178,055   | 188,630   | (0.6)                               | 2.3     | 0.8     |
| United States                               | 3,902,830 | 4,130,414 | 5,081,233 | 5,598,240 | 0.6                                 | 2.6     | 1.4     |

\* Inflation Adjusted

Source: Woods & Poole Economics, Inc.



The U.S. population grew at an average annual compounded rate of 0.8% from 2010 through 2018. The county's population has grown more slowly than the nation's population; the average annual growth rate of 0.1% between 2010 and 2018 reflects a gradually expanding area. Following this population trend, per-capita personal income increased slowly, at 1.9% on average annually for the county between 2010 and 2018. Local wealth indexes have remained stable in recent years, registering a relatively high 111.2 level for the county in 2018.

Food and beverage sales totaled \$1,947 million in the county in 2018, versus \$1,553 million in 2010. This reflects a 2.9% average annual change, stronger than the 0.0% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 0.5%, which is projected through 2025. The retail sales sector demonstrated an annual decline of -2.0% in the decade spanning from 2000 to 2010, followed by an increase of 2.1% in the period 2010 to 2018. An increase of 0.3% average annual change is expected in county retail sales through 2025.

## **Workforce Characteristics**

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

The following table sets forth the county workforce distribution by business sector in 2000, 2010, and 2018, as well as a forecast for 2025.

**FIGURE 4-2 HISTORICAL AND PROJECTED EMPLOYMENT (000S)**

| Industry  | 2000         | Percent<br>of Total | 2010         | Percent<br>of Total | 2018         | Percent<br>of Total | 2025         | Percent<br>of Total | Average Annual<br>Compounded Change |               |               |
|---|--------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|---------------------|-------------------------------------|---------------|---------------|
|   |              |                     |              |                     |              |                     |              |                     | 2000-<br>2010                       | 2010-<br>2018 | 2018-<br>2025 |
| Farm  | 0.6          | 0.1 %               | 0.4          | 0.1 %               | 0.5          | 0.1 %               | 0.5          | 0.1 %               | (3.9) %                             | 2.5 %         | 0.4 %         |
| Forestry, Fishing, Related Activities And Other | 0.2          | 0.0                 | 0.2          | 0.0                 | 0.2          | 0.0                 | 0.2          | 0.0                 | 1.5                                 | (1.0)         | 0.6           |
| Mining  | 0.6          | 0.1                 | 0.7          | 0.1                 | 0.7          | 0.1                 | 0.7          | 0.1                 | 1.3                                 | 0.5           | 1.1           |
| Utilities                                       | 3.1          | 0.5                 | 1.3          | 0.2                 | 1.1          | 0.2                 | 1.0          | 0.1                 | (8.4)                               | (1.6)         | (1.3)         |
| Construction                                    | 33.1         | 4.9                 | 25.8         | 4.3                 | 34.1         | 5.1                 | 36.5         | 5.2                 | (2.5)                               | 3.6           | 1.0           |
| Manufacturing                                   | 79.1         | 11.8                | 48.7         | 8.1                 | 52.6         | 7.9                 | 50.2         | 7.1                 | (4.7)                               | 1.0           | (0.7)         |
| Total Trade                                     | 102.0        | 15.2                | 78.0         | 12.9                | 81.3         | 12.2                | 81.6         | 11.6                | (2.6)                               | 0.5           | 0.1           |
| Wholesale Trade                                 | 34.9         | 5.2                 | 26.8         | 4.4                 | 29.3         | 4.4                 | 29.2         | 4.1                 | (2.6)                               | 1.1           | (0.1)         |
| Retail Trade                                    | 67.1         | 10.0                | 51.2         | 8.5                 | 52.0         | 7.8                 | 52.5         | 7.4                 | (2.7)                               | 0.2           | 0.1           |
| Transportation And Warehousing                  | 19.4         | 2.9                 | 13.7         | 2.3                 | 16.8         | 2.5                 | 16.7         | 2.4                 | (3.4)                               | 2.5           | (0.1)         |
| Information                                     | 15.4         | 2.3                 | 9.7          | 1.6                 | 10.3         | 1.5                 | 10.1         | 1.4                 | (4.6)                               | 0.8           | (0.3)         |
| Finance And Insurance                           | 33.1         | 4.9                 | 35.8         | 5.9                 | 42.7         | 6.4                 | 48.3         | 6.9                 | 0.8                                 | 2.2           | 1.8           |
| Real Estate And Rental And Lease                | 22.3         | 3.3                 | 23.7         | 3.9                 | 28.5         | 4.3                 | 29.5         | 4.2                 | 0.6                                 | 2.4           | 0.5           |
| Total Services                                  | 296.9        | 44.2                | 304.2        | 50.4                | 338.4        | 50.7                | 367.1        | 52.1                | 0.2                                 | 1.3           | 1.2           |
| Professional And Technical Services             | 49.0         | 7.3                 | 50.0         | 8.3                 | 55.6         | 8.3                 | 59.1         | 8.4                 | 0.2                                 | 1.3           | 0.9           |
| Management Of Companies And Enterprises         | 26.2         | 3.9                 | 30.8         | 5.1                 | 29.8         | 4.5                 | 31.5         | 4.5                 | 1.6                                 | (0.4)         | 0.8           |
| Administrative And Waste Services               | 49.3         | 7.3                 | 39.4         | 6.5                 | 39.2         | 5.9                 | 40.1         | 5.7                 | (2.2)                               | (0.1)         | 0.3           |
| Educational Services                            | 10.7         | 1.6                 | 14.4         | 2.4                 | 18.6         | 2.8                 | 22.5         | 3.2                 | 3.1                                 | 3.2           | 2.8           |
| Health Care And Social Assistance               | 75.6         | 11.3                | 88.7         | 14.7                | 98.0         | 14.7                | 111.3        | 15.8                | 1.6                                 | 1.2           | 1.8           |
| Arts, Entertainment, And Recreation             | 12.7         | 1.9                 | 13.1         | 2.2                 | 17.3         | 2.6                 | 19.3         | 2.7                 | 0.3                                 | 3.6           | 1.6           |
| Accommodation And Food Services                 | 42.3         | 6.3                 | 39.0         | 6.5                 | 49.0         | 7.3                 | 50.5         | 7.2                 | (0.8)                               | 2.9           | 0.4           |
| Other Services, Except Public Administration    | 31.1         | 4.6                 | 28.8         | 4.8                 | 31.0         | 4.6                 | 32.7         | 4.6                 | (0.8)                               | 0.9           | 0.8           |
| Total Government                                | 65.6         | 9.8                 | 61.0         | 10.1                | 60.1         | 9.0                 | 62.2         | 8.8                 | (0.7)                               | (0.2)         | 0.5           |
| Federal Civilian Government                     | 10.9         | 1.6                 | 9.8          | 1.6                 | 8.4          | 1.3                 | 8.4          | 1.2                 | (1.0)                               | (1.9)         | (0.1)         |
| Federal Military                                | 2.3          | 0.3                 | 2.1          | 0.4                 | 2.1          | 0.3                 | 2.1          | 0.3                 | (0.6)                               | (0.1)         | 0.1           |
| State And Local Government                      | 52.4         | 7.8                 | 49.1         | 8.1                 | 49.6         | 7.4                 | 51.7         | 7.3                 | (0.7)                               | 0.1           | 0.6           |
| <b>TOTAL</b>                                    | <b>671.3</b> | <b>100.0 %</b>      | <b>603.2</b> | <b>100.0 %</b>      | <b>667.4</b> | <b>100.0 %</b>      | <b>704.8</b> | <b>100.0 %</b>      | <b>(1.1) %</b>                      | <b>1.3 %</b>  | <b>0.8 %</b>  |
| MSA   | 1,235.8      | —                   | 1,230.4      | —                   | 1,405.7      | —                   | 1,539.3      | —                   | (0.0) %                             | 1.7 %         | 1.3 %         |
| U.S.  | 165,372.0    | —                   | 173,034.7    | —                   | 202,637.9    | —                   | 223,254.5    | —                   | 1.1                                 | 2.0           | 1.4           |

Source: Woods & Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county contracted at an average annual rate of -1.1%. This trend was below the growth rate recorded by the MSA and also lagged the national average. More recently, the pace of total employment growth in the county accelerated to 1.3% on an annual average from 2010 to 2018, reflecting the initial years of the recovery.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2018, increasing by 34,202 people, or 11.2%, and rising from 50.4% to 50.7% of total employment. Of the various service sub-sectors, Health Care And Social Assistance and Professional And Technical Services were the largest employers. Strong growth was also recorded in the Construction sector, as well as the Finance And Insurance sector, which expanded by 32.2% and -12.2%, respectively, in the period from 2010 to 2018. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 0.8% on average annually through 2025. The trend is below the forecast rate of change for the U.S. as a whole during the same period.

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

**FIGURE 4-3 HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, AND POPULATION STATISTICS**

| Year                                  | Total      |       | Office     |       | Industrial |         | Households | % Chg | Population | % Chg |
|---------------------------------------|------------|-------|------------|-------|------------|---------|------------|-------|------------|-------|
|                                       | Employment | % Chg | Employment | % Chg | Employment | % Chg   |            |       |            |       |
| 2006                                  | 1,034,430  | —     | 307,522    | —     | 192,300    | —       | 817,120    | —     | 2,077,190  | —     |
| 2007                                  | 1,049,370  | 1.4 % | 314,246    | 2.2 % | 193,531    | 0.6 %   | 822,240    | 0.6 % | 2,089,660  | 0.6 % |
| 2008                                  | 1,030,530  | (1.8) | 311,638    | (0.8) | 188,846    | (2.4)   | 824,670    | 0.3   | 2,101,300  | 0.6   |
| 2009                                  | 983,000    | (4.6) | 298,731    | (4.1) | 171,805    | (9.0)   | 827,640    | 0.4   | 2,113,370  | 0.6   |
| 2010                                  | 984,870    | 0.2   | 301,820    | 1.0   | 169,990    | (1.1)   | 827,130    | (0.1) | 2,120,550  | 0.3   |
| 2011                                  | 997,130    | 1.2   | 305,400    | 1.2   | 171,908    | 1.1     | 831,930    | 0.6   | 2,125,190  | 0.2   |
| 2012                                  | 1,012,700  | 1.6   | 311,595    | 2.0   | 174,701    | 1.6     | 836,600    | 0.6   | 2,133,020  | 0.4   |
| 2013                                  | 1,031,100  | 1.8   | 316,872    | 1.7   | 177,215    | 1.4     | 842,430    | 0.7   | 2,143,250  | 0.5   |
| 2014                                  | 1,049,370  | 1.8   | 321,314    | 1.4   | 181,588    | 2.5     | 847,220    | 0.6   | 2,153,030  | 0.5   |
| 2015                                  | 1,069,230  | 1.9   | 324,944    | 1.1   | 185,031    | 1.9     | 852,120    | 0.6   | 2,162,650  | 0.4   |
| 2016                                  | 1,086,330  | 1.6   | 331,010    | 1.9   | 187,058    | 1.1     | 858,980    | 0.8   | 2,173,880  | 0.5   |
| 2017                                  | 1,099,900  | 1.2   | 332,474    | 0.4   | 188,676    | 0.9     | 866,500    | 0.9   | 2,186,970  | 0.6   |
| 2018                                  | 1,116,900  | 1.5   | 336,177    | 1.1   | 192,204    | 1.9     | 871,990    | 0.6   | 2,198,390  | 0.5   |
| <b>Forecasts</b>                      |            |       |            |       |            |         |            |       |            |       |
| 2019                                  | 1,136,850  | 1.8 % | 341,065    | 1.5 % | 195,626    | 1.8 %   | 877,560    | 0.6 % | 2,206,300  | 0.4 % |
| 2020                                  | 1,138,370  | 0.1   | 341,659    | 0.2   | 194,456    | (0.6)   | 882,980    | 0.6   | 2,212,960  | 0.3   |
| 2021                                  | 1,141,740  | 0.3   | 342,992    | 0.4   | 193,496    | (0.5)   | 888,220    | 0.6   | 2,220,310  | 0.3   |
| 2022                                  | 1,151,900  | 0.9   | 346,607    | 1.1   | 193,637    | 0.1     | 894,160    | 0.7   | 2,228,730  | 0.4   |
| 2023                                  | 1,159,530  | 0.7   | 349,542    | 0.8   | 193,335    | (0.2)   | 899,400    | 0.6   | 2,237,140  | 0.4   |
| <b>Average Annual Compound Change</b> |            |       |            |       |            |         |            |       |            |       |
| 2006 - 2018                           |            | 0.6 % |            | 0.7 % |            | (0.0) % |            | 0.5 % |            | 0.5 % |
| 2006 - 2007                           |            | 1.4   |            | 2.2   |            | 0.6     |            | 0.6   |            | 0.6   |
| 2007 - 2010                           |            | (2.1) |            | (1.3) |            | (4.2)   |            | 0.2   |            | 0.5   |
| 2010 - 2018                           |            | 1.6   |            | 1.4   |            | 1.5     |            | 0.7   |            | 0.5   |
| Forecast 2019 - 2023                  |            | 0.5 % |            | 0.6 % |            | (0.3) % |            | 0.6 % |            | 0.3 % |

Source: REIS Report, 1st Quarter, 2019

For the Cincinnati market, of the roughly 1,100,000 persons employed, 30% are categorized as office employees, while 17% are categorized as industrial employees. Total employment decreased by an average annual compound rate of -2.1% during the recession of 2007 to 2010, followed by an increase of 1.6% from 2010 to 2018. By comparison, office employment reflected compound change rates of -1.3% and 1.4%, during the same respective periods. Total employment is expected to expand by 1.8% in 2019, while office employment is forecast to expand by 1.5% in 2019. From 2019 through 2023, REIS anticipates that total employment will expand at an average annual compound rate of 0.5%, while office employment will expand by 0.6% on average annually during the same period.

The number of households is forecast to expand by 0.6% on average annually between 2019 and 2023. Population is forecast to expand during this same period, at an average annual compounded rate of 0.3%.

#### **Radial Demographic Snapshot**

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

**FIGURE 4-4 DEMOGRAPHICS BY RADIUS**

|  | 0.00 - 1.00 miles | 0.00 - 3.00 miles | 0.00 - 5.00 miles |
|--|-------------------|-------------------|-------------------|
| <b>Population</b>                                    |                   |                   |                   |
| 2024 Projection                                      | 1,039             | 34,240            | 120,812           |
| 2019 Estimate  | 1,020             | 34,050            | 118,884           |
| 2010 Census  | 993               | 34,106            | 116,346           |
| 2000 Census  | 957               | 34,396            | 116,747           |
| Percent Change: 2019 to 2024                         | 1.9%              | 0.6%              | 1.6%              |
| Percent Change: 2010 to 2019                         | 2.7%              | -0.2%             | 2.2%              |
| Percent Change: 2000 to 2010                         | 3.8%              | -0.8%             | -0.3%             |
| <b>Households</b>                                    |                   |                   |                   |
| 2024 Projection                                      | 379               | 14,179            | 50,604            |
| 2019 Estimate  | 372               | 14,065            | 49,616            |
| 2010 Census  | 360               | 13,981            | 48,040            |
| 2000 Census  | 345               | 14,422            | 47,491            |
| Percent Change: 2019 to 2024                         | 1.9%              | 0.8%              | 2.0%              |
| Percent Change: 2010 to 2019                         | 3.3%              | 0.6%              | 3.3%              |
| Percent Change: 2000 to 2010                         | 4.4%              | -3.1%             | 1.2%              |
| <b>Income</b>  |                   |                   |                   |
| 2019 Est. Average Household Income                   | \$169,194         | \$99,538          | \$98,604          |
| 2019 Est. Median Household Income                    | 115,178           | 74,193            | 70,776            |
| <b>2019 Est. Civ. Employed Pop 16+ by Occupation</b> |                   |                   |                   |
| Architecture/Engineering                             | 8                 | 190               | 792               |
| Arts/Design/Entertainment/Sports/Media               | 8                 | 357               | 1,399             |
| Building/Grounds Cleaning/Maintenance                | 25                | 325               | 1,511             |
| Business/Financial Operations                        | 51                | 1,295             | 4,674             |
| Community/Social Services                            | 8                 | 270               | 1,204             |
| Computer/Mathematical                                | 3                 | 484               | 1,886             |
| Construction/Extraction                              | 7                 | 481               | 1,712             |
| Education/Training/Library                           | 30                | 1,241             | 4,075             |
| Farming/Fishing/Forestry                             | 0                 | 19                | 97                |
| Food Preparation/Serving Related                     | 26                | 911               | 3,277             |
| Healthcare Practitioner/Technician                   | 66                | 1,359             | 4,566             |
| Healthcare Support                                   | 12                | 378               | 1,009             |
| Installation/Maintenance/Repair                      | 8                 | 394               | 1,377             |
| Legal  | 14                | 347               | 1,249             |
| Life/Physical/Social Science                         | 2                 | 177               | 766               |
| Management   | 62                | 1,927             | 6,839             |
| Office/Administrative Support                        | 46                | 2,506             | 7,679             |
| Production   | 12                | 590               | 2,586             |
| Protective Services                                  | 5                 | 427               | 1,035             |
| Sales/Related  | 62                | 2,246             | 7,633             |
| Personal Care/Service                                | 12                | 612               | 1,766             |
| Transportation/Material Moving                       | 14                | 915               | 3,277             |

Source: Environics Analytics

This source reports a population of 118,884 and 49,616 households within a five-mile radius of the subject site. The average household income within this radius is reported at \$98,604, while the median is \$70,776.

**Unemployment Statistics**

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

**FIGURE 4-5 UNEMPLOYMENT STATISTICS**

| Year                      | City  | MSA   | State  | U.S.  |
|---------------------------|-------|-------|--------|-------|
| 2009                      | 9.5 % | 9.5 % | 10.3 % | 9.3 % |
| 2010                      | 10.7  | 9.9   | 10.3   | 9.6   |
| 2011                      | 9.7   | 8.9   | 8.8    | 8.9   |
| 2012                      | 8.0   | 7.4   | 7.4    | 8.1   |
| 2013                      | 8.0   | 7.3   | 7.5    | 7.4   |
| 2014                      | 6.1   | 5.5   | 5.8    | 6.2   |
| 2015                      | 5.0   | 4.5   | 4.9    | 5.3   |
| 2016                      | 4.9   | 4.4   | 5.0    | 4.9   |
| 2017                      | 4.8   | 4.3   | 5.0    | 4.4   |
| 2018                      | 4.5   | 4.0   | 4.6    | 3.9   |
| <i>Recent Month - May</i> |       |       |        |       |
| 2018                      | 4.1 % | 3.6 % | 4.1 %  | 3.8 % |
| 2019                      | 3.5   | 3.1   | 3.5    | 3.6   |

Source: U.S. Bureau of Labor Statistics

Current U.S. unemployment levels are now firmly below the annual averages of the last economic cycle peak of 2006 and 2007, when annual averages were 4.6%. The unemployment rate for May and June of 2019 was a low 3.6% and 3.7%, respectively. Total nonfarm payroll employment increased by 216,000, 72,000, and 224,000 jobs in April, May, and June, respectively. Gains in June occurred in the professional and business services, health care, transportation, and warehousing sectors. Unemployment has remained under the 5.0% mark since May 2016, reflecting a trend of relative stability and the overall strength of the U.S. economy. As of June 2019, the number of unemployed persons was 6.0 million (versus 5.9 million in May 2019).

Locally, the unemployment rate was 4.5% in 2018; for this same area in 2019, the most recent month’s unemployment rate was registered at 3.5%, versus 4.1% for the same month in 2018. Unemployment rose in 2010 given the continued effects of the national recession. However, unemployment declined in 2011 as the economy rebounded, a trend that generally continued through 2018. The most recent comparative period illustrates improvement, indicated by the lower unemployment rate in the latest available data for 2019. Reportedly, local employment has

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remained strong within the fields of health care, distribution, and manufacturing, including healthy job numbers at such major employers as the Kroger Company and the University of Cincinnati.

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

**FIGURE 4-6 MAJOR EMPLOYERS**

| <b>Rank</b> | <b>Firm</b>  | <b>Number of Employees</b> |
|-------------|--|----------------------------|
| 1           | The Kroger Company                                 | 15,668                     |
| 2           | Cincinnati Children's Hospital Medical Center      | 15,661                     |
| 3           | Cincinnati/Northern Kentucky International Airport | 13,678                     |
| 4           | TriHealth  | 12,500                     |
| 5           | UC Health  | 10,991                     |
| 6           | University of Cincinnati                           | 10,798                     |
| 7           | Mercy Health                                       | 10,500                     |
| 8           | Procter & Gamble                                   | 10,000                     |
| 9           | General Electric                                   | 9,700                      |
| 10          | St. Elizabeth Healthcare                           | 8,587                      |

Source: Cincinnati Business Courier, 2018

The region's major employers are primarily related to consumer goods, higher education, and health care. Greater Cincinnati is home to eight Fortune 500 headquarters, as well as five Fortune 1000 headquarters, including Kroger, Procter & Gamble, and Macy's. The city is also home to headquarters for several financial services firms, such as American Financial Group, Fifth Third Bancorp, Western & Southern Financial Group, and Cincinnati Financial. Regarding healthcare, Cincinnati is home to TriHealth, Mercy Health, UC Health, and Cincinnati Children's Hospital. In the Uptown/Clifton neighborhood, significant development is planned as part of a focused redevelopment of the Reading Road corridor, near Martin Luther King Street. The area, known as the Innovation Corridor, is a focal point for public and private research and development activity. Key projects include a \$110-million laboratory for the National Institute for Occupational Health and Safety (NIOSH), which is anticipated to be completed by 2021. Other developments include The Uptown Gateway mixed-use project, to include a 162-room hotel, 450,000 square feet of Class-A office space, retail space, and two parking garages; the Node mixed-use project, to include office space, retail space, a hotel, and possible



residential units; The University of Cincinnati Innovation Center, a \$21-million, 100,000-square-foot facility; and UC Health’s \$60-million UC Neuroscience Institute.

### Office Space Statistics

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

**FIGURE 4-7 OFFICE SPACE STATISTICS – MARKET OVERVIEW**

| Submarket                       | Inventory  |                   | Occupied Office Space | Vacancy Rate  | Average Asking Lease Rate |
|---------------------------------|------------|-------------------|-----------------------|---------------|---------------------------|
|                                 | Buildings  | Square Feet       |                       |               |                           |
| 1 Midtown                       | 43         | 2,011,000         | 1,632,900             | 18.8 %        | \$20.33                   |
| 2 North Cincinnati/I-75         | 32         | 2,420,000         | 1,856,100             | 23.3          | 18.84                     |
| 3 CBD                           | 65         | 11,568,000        | 10,237,700            | 11.5          | 20.34                     |
| 4 Northern Kentucky             | 83         | 4,393,000         | 3,523,200             | 19.8          | 19.27                     |
| 5 Butler/Warren Counties        | 59         | 3,064,000         | 2,512,500             | 18.0          | 20.37                     |
| <b>6 East Hamilton/Clermont</b> | <b>32</b>  | <b>1,369,000</b>  | <b>1,085,600</b>      | <b>20.7</b>   | <b>18.62</b>              |
| 7 Blue Ash                      | 81         | 4,769,000         | 3,362,100             | 29.5          | 19.83                     |
| 8 I-71 North                    | 52         | 3,747,000         | 3,218,700             | 14.1          | 20.76                     |
| 9 West Hamilton                 | 26         | 1,181,000         | 894,000               | 24.3          | 16.15                     |
| <b>Totals and Averages</b>      | <b>473</b> | <b>34,522,000</b> | <b>28,322,800</b>     | <b>18.0 %</b> | <b>\$19.86</b>            |

Source: REIS Report, 1st Quarter, 2019

The greater Cincinnati market comprises a total of 34.5 million square feet of office space. For the 1st Quarter of 2019, the market reported a vacancy rate of 18.0% and an average asking rent of \$19.86. The subject property is located in the East Hamilton/Clermont submarket, which houses 1,369,000 square feet of office space. The submarket's vacancy rate of 20.7% is above the overall market average. The average asking lease rate of \$18.62 is below the average for the broader market.

The following table illustrates a trend of office space statistics for the overall Cincinnati market and the East Hamilton/Clermont submarket.

**FIGURE 4-8 HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET VS. SUBMARKET**

| Year                                  | Cincinnati Market      |       |                       |         |              |                   |       | East Hamilton/Clermont Submarket |         |                       |         |              |                   |       |
|---------------------------------------|------------------------|-------|-----------------------|---------|--------------|-------------------|-------|----------------------------------|---------|-----------------------|---------|--------------|-------------------|-------|
|                                       | Available Office Space | % Chg | Occupied Office Space | % Chg   | Vacancy Rate | Asking Lease Rate | % Chg | Available Office Space           | % Chg   | Occupied Office Space | % Chg   | Vacancy Rate | Asking Lease Rate | % Chg |
| 2006                                  | 32,282,000             | —     | 26,374,000            | —       | 18.3 %       | \$17.94           | —     | 1,504,000                        | —       | 1,244,000             | —       | 17.3 %       | \$14.96           | —     |
| 2007                                  | 32,549,000             | 0.8 % | 26,556,000            | 0.7 %   | 18.4         | 18.44             | 2.8 % | 1,565,000                        | 4.1 %   | 1,257,000             | 1.0 %   | 19.7         | 15.35             | 2.6 % |
| 2008                                  | 32,902,000             | 1.1   | 26,391,000            | (0.6)   | 19.8         | 18.68             | 1.3   | 1,369,000                        | (12.5)  | 1,094,000             | (13.0)  | 20.1         | 15.40             | 0.3   |
| 2009                                  | 32,742,000             | (0.5) | 26,435,000            | 0.2     | 19.3         | 18.74             | 0.3   | 1,369,000                        | 0.0     | 1,073,000             | (1.9)   | 21.6         | 15.67             | 1.8   |
| 2010                                  | 33,000,000             | 0.8   | 26,499,000            | 0.2     | 19.7         | 18.67             | (0.4) | 1,369,000                        | 0.0     | 1,031,000             | (3.9)   | 24.7         | 16.18             | 3.3   |
| 2011                                  | 33,800,000             | 2.4   | 26,848,000            | 1.3     | 20.6         | 18.64             | (0.2) | 1,369,000                        | 0.0     | 1,029,000             | (0.2)   | 24.8         | 16.26             | 0.5   |
| 2012                                  | 33,800,000             | 0.0   | 26,825,000            | (0.1)   | 20.6         | 18.62             | (0.1) | 1,369,000                        | 0.0     | 1,008,000             | (2.0)   | 26.4         | 16.19             | (0.4) |
| 2013                                  | 33,948,000             | 0.4   | 27,315,000            | 1.8     | 19.5         | 18.74             | 0.6   | 1,369,000                        | 0.0     | 1,061,000             | 5.3     | 22.5         | 16.61             | 2.6   |
| 2014                                  | 33,797,000             | (0.4) | 27,164,000            | (0.6)   | 19.6         | 19.07             | 1.8   | 1,369,000                        | 0.0     | 1,069,000             | 0.8     | 21.9         | 16.95             | 2.0   |
| 2015                                  | 33,896,000             | 0.3   | 27,941,000            | 2.9     | 17.6         | 19.25             | 0.9   | 1,369,000                        | 0.0     | 1,064,000             | (0.5)   | 22.3         | 17.38             | 2.5   |
| 2016                                  | 34,758,000             | 2.5   | 28,631,000            | 2.5     | 17.6         | 19.49             | 1.2   | 1,369,000                        | 0.0     | 1,095,000             | 2.9     | 20.0         | 17.58             | 1.2   |
| 2017                                  | 34,702,000             | (0.2) | 28,202,000            | (1.5)   | 18.7         | 19.65             | 0.8   | 1,369,000                        | 0.0     | 1,117,000             | 2.0     | 18.4         | 18.12             | 3.1   |
| 2018                                  | 34,522,000             | (0.5) | 28,359,000            | 0.6     | 17.9         | 19.88             | 1.2   | 1,369,000                        | 0.0     | 1,094,000             | (2.1)   | 20.1         | 18.42             | 1.7   |
| <b>Forecasts</b>                      |                        |       |                       |         |              |                   |       |                                  |         |                       |         |              |                   |       |
| 2019                                  | 34,522,000             | 0.0 % | 28,269,000            | (0.3) % | 18.1 %       | \$20.12           | 1.2 % | 1,369,000                        | 0.0 %   | 1,095,000             | 0.1 %   | 20.0 %       | \$18.55           | 0.7 % |
| 2020                                  | 34,585,000             | 0.2   | 28,375,000            | 0.4     | 18.0         | 20.40             | 1.4   | 1,369,000                        | 0.0     | 1,112,000             | 1.6     | 18.8         | 18.69             | 0.8   |
| 2021                                  | 34,692,000             | 0.3   | 28,572,000            | 0.7     | 17.6         | 20.69             | 1.4   | 1,369,000                        | 0.0     | 1,128,000             | 1.4     | 17.6         | 18.85             | 0.9   |
| 2022                                  | 34,874,000             | 0.5   | 28,894,000            | 1.1     | 17.1         | 21.00             | 1.5   | 1,369,000                        | 0.0     | 1,149,000             | 1.9     | 16.1         | 19.02             | 0.9   |
| 2023                                  | 35,064,000             | 0.5   | 29,222,000            | 1.1     | 16.7         | 21.33             | 1.6   | 1,369,000                        | 0.0     | 1,170,000             | 1.8     | 14.6         | 19.23             | 1.1   |
| <b>Average Annual Compound Change</b> |                        |       |                       |         |              |                   |       |                                  |         |                       |         |              |                   |       |
| 2006 - 2018                           |                        | 0.6 % |                       | 0.6 %   |              |                   | 0.9 % |                                  | (0.8) % |                       | (1.1) % |              |                   | 1.7 % |
| 2006 - 2007                           |                        | 0.8   |                       | 0.7     |              |                   | 2.8   |                                  | 4.1     |                       | 1.0     |              |                   | 2.6   |
| 2007 - 2010                           |                        | 0.5   |                       | (0.1)   |              |                   | 0.4   |                                  | (4.4)   |                       | (6.4)   |              |                   | 1.8   |
| 2010 - 2018                           |                        | 0.6   |                       | 0.9     |              |                   | 0.8   |                                  | (0.0)   |                       | 0.7     |              |                   | 1.6   |
| Forecast 2019 - 2023                  |                        | 0.4 % |                       | 0.7 %   |              |                   | 1.5 % |                                  | 0.0 %   |                       | 1.7 %   |              |                   | 0.9 % |

Source: REIS Report, 1st Quarter, 2019

The inventory of office space in the Cincinnati market increased at an average annual compound rate of 0.6% from 2006 through 2018, while occupied office space expanded at an average annual rate of 0.6% over the same period. During the period of 2006 through 2010, occupied office space expanded at an average annual compound rate of 0.7%. From 2010 through 2013, occupied office space remained relatively stable at an average annual compound rate of -0.1%, reflecting the impact of the recession. The onset of the recovery is evident in the 0.9% average annual change in occupied office space from 2013 to 2018. From 2019 through 2023, the inventory of occupied office space is forecast to increase at an average annual compound rate of 0.7%, with available office space expected to increase 0.4%, thus resulting in an anticipated vacancy rate of 16.7% as of 2023.

### Airport Traffic

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

Many major commercial airlines service the Cincinnati/Northern Kentucky International Airport (CVG). The airport is centrally located in Hebron, Kentucky and is convenient to several major markets such as Columbus (90 miles), Dayton (68 miles), Indianapolis (96 miles), Louisville (79 miles), and Lexington (68 miles). In May 2012, the main terminal, passenger tunnel, and Concourse A reopened after a \$36.5-million renovation including new technology enhancements and the addition of new shopping and dining options. Concourse A was expanded from eight gates to sixteen. All airlines currently operate out of one main terminal, with Delta utilizing Concourse B and all other carriers utilizing Concourse A. In 2017, Terminals 1 and 2 were demolished to make room for a centralized rental-car facility. Construction of this \$150-million project began in February 2018. In the summer of 2018, a portion of the Terminal 2 parking garage was demolished to make way for a new entry road. The road is expected to be completed by year-end 2019, while the 1.4-million-square-foot rental facility should be completed by the fourth quarter of 2021.

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

**FIGURE 4-9 AIRPORT STATISTICS - CINCINNATI/NORTHERN KENTUCKY INTERNATIONAL AIRPORT**

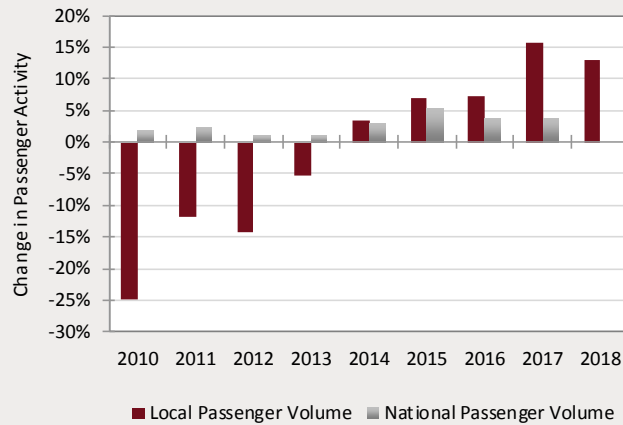
| Year                     | Passenger Traffic | Percent Change* | Percent Change** |
|--------------------------|-------------------|-----------------|------------------|
| 2009                     | 10,619,051        | —               | —                |
| 2010                     | 7,977,588         | (24.9) %        | (24.9) %         |
| 2011                     | 7,034,263         | (11.8)          | (18.6)           |
| 2012                     | 6,038,817         | (14.2)          | (17.2)           |
| 2013                     | 5,718,255         | (5.3)           | (14.3)           |
| 2014                     | 5,908,711         | 3.3             | (11.1)           |
| 2015                     | 6,316,332         | 6.9             | (8.3)            |
| 2016                     | 6,773,905         | 7.2             | (6.2)            |
| 2017                     | 7,842,149         | 15.8            | (3.7)            |
| 2018                     | 8,865,568         | 13.1            | (2.0)            |
| <i>Year-to-date, May</i> |                   |                 |                  |
| 2018                     | 3,439,591         | —               | —                |
| 2019                     | 3,534,806         | 2.8 %           | —                |

\*Annual average compounded percentage change from the previous year

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

Source: Cincinnati/Northern Kentucky International Airport

**FIGURE 4-10 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND**



Source: HVS, Local Airport Authority

This facility recorded 8,865,568 passengers in 2018. The change in passenger traffic between 2017 and 2018 was 13.1%. The average annual change during the period shown was -2.0%.

### Tourist Attractions

The subject market benefits from a variety of tourism and leisure attractions in the area. Leisure demand generators within Anderson Township include Coney Island Amusement Park, Riverbend Music Center, and Belterra Park. Additionally, the greater Cincinnati area offers a variety of leisure attractions including King's Island, The Cincinnati Zoo & Botanical Gardens, and Jack Cincinnati Casino. Special events also play a role during key weekends, such as Oktoberfest Zinzinnati, Cincinnati Music Festival, and the Western and Southern Open - Cincinnati Masters. No major changes related to these attributes of the market are expected in the near future.

## RIVERBEND MUSIC CENTER



### Conclusion

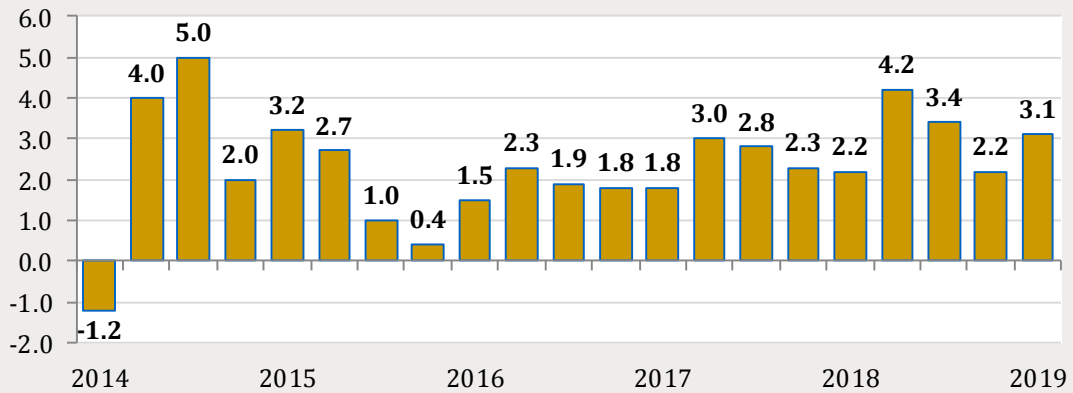
This section discussed a wide variety of economic indicators for the pertinent market area. Cincinnati is experiencing a period of economic strength and expansion, led by the healthcare sector and the manufacturing industry. Our market interviews and research revealed that the diverse economy has spurred population growth, which had previously been declining for over forty years. The greater Cincinnati market has fared better than other major cities in Ohio, bolstered by major redevelopment projects Downtown and in the urban core. As a testament to these improvements, Cincinnati was named the tenth most affordable city in the nation by *Livability.com* in 2018. Additionally, Cincinnati moved up from eighth to fourth on the “Best Cities for Jobs” list by *Glassdoor.com* in 2018. As such, the outlook for the market area is optimistic.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy expanded at an overall rate of 2.9% in 2018, compared to 2.2% in 2017, the highest growth registered since 2015. Growth hit a high of 4.2% in the second quarter of 2018, declining to 2.2% in the fourth quarter of 2018. Growth rebounded to 3.2% in the first quarter of 2019, surpassing expectations of 2.0% growth. GDP growth in 2018 was stimulated by the Tax Cut and Jobs Act, which was passed in December 2017, driven primarily by fixed investments and strong consumer spending, particularly personal consumption expenditures (PCE) and spending related to both non-durable and durable goods. Investment in equipment and intellectual property rose, while investment in structures and residential real estate declined. In the year-to-date 2019 period, economic expansion has been driven by increases in personal consumption



expenditures (PCE), private inventory investment, exports, state and local government spending, and nonresidential fixed investment.

**FIGURE 4-11 UNITED STATES GDP GROWTH RATE**



Source: tradingeconomics.com, Bureau of Economic Analysis

U.S. economic growth continues to support expansion of lodging demand. In 2018, demand growth registered 2.5%, just under the 2.7% level recorded in 2017. The economic growth, low unemployment, higher levels of personal income, and stability in the U.S. economy as of early 2019 is helping to maintain strong interest in hotel investments by a diverse array of market participants.

## 5. Supply and Demand Analysis

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

### Definition of Subject Hotel Market

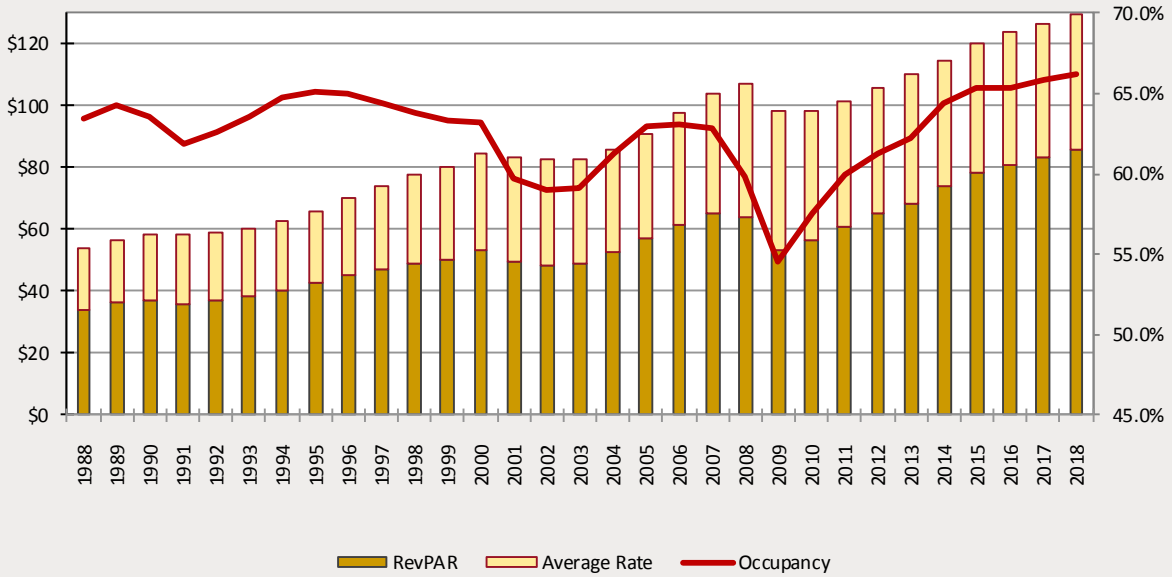
The subject site is located in the greater Cincinnati lodging market. This greater lodging market spans nearly 265 open and operating lodging facilities totaling roughly 29,500 guestrooms. Within this greater market, the direct submarket that will encompass the proposed subject hotel is southeast Cincinnati. The proposed subject hotel is expected to compete with six hotels on a primary level based on similarities in product and location. We have considered an additional eleven hotels as future secondary competitors given differences in submarket, price point, and service level.

### National Trends Overview

A hotel's local lodging market is most directly affected by the supply and demand trends within the immediate area. However, individual markets are also influenced by conditions in the national lodging market. We have reviewed national lodging trends to provide a context for the forecast of the supply and demand for the proposed subject hotel's competitive set.

STR is an independent research firm that compiles and publishes data on the lodging industry, and this information is routinely used by typical hotel buyers. The following STR diagram presents annual hotel occupancy and average rate data since 1988. The next two tables contain information that is more recent; the data are categorized by geographical region, price point, type of location, and chain scale, and the statistics include occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

**FIGURE 5-1 NATIONAL OCCUPANCY, AVERAGE RATE, AND REVPAR TRENDS**



Source: STR

**FIGURE 5-2 NATIONAL OCCUPANCY AND ADR TRENDS – YEAR-TO-DATE DATA**

|                    | Occupancy - YTD May |        |          | ADR - YTD May |          |          | RevPAR - YTD May |          |          | Percent Change |           |
|--------------------|---------------------|--------|----------|---------------|----------|----------|------------------|----------|----------|----------------|-----------|
|                    | 2018                | 2019   | % Change | 2018          | 2019     | % Change | 2018             | 2019     | % Change | Rms. Avail.    | Rms. Sold |
| United States      | 64.1 %              | 64.4 % | 0.4 %    | \$128.88      | \$130.42 | 1.2 %    | \$82.67          | \$84.02  | 1.6 %    | 2.0 %          | 2.5 %     |
| <b>Region</b>      |                     |        |          |               |          |          |                  |          |          |                |           |
| New England        | 58.7 %              | 57.8 % | (1.4) %  | \$141.28      | \$143.53 | 1.6 %    | \$82.87          | \$83.02  | 0.2 %    | 1.7 %          | 0.3 %     |
| Middle Atlantic    | 65.1                | 63.7   | (2.2)    | 153.45        | 154.40   | 0.6      | 99.97            | 98.38    | (1.6)    | 2.7            | 0.5       |
| South Atlantic     | 68.3                | 68.9   | 1.0      | 133.09        | 135.51   | 1.8      | 90.87            | 93.41    | 2.8      | 2.0            | 2.9       |
| E. North Central   | 56.6                | 56.6   | 0.0      | 105.61        | 106.53   | 0.9      | 59.76            | 60.28    | 0.9      | 2.0            | 2.0       |
| E. South Central   | 59.7                | 61.4   | 2.9      | 99.39         | 102.19   | 2.8      | 59.32            | 62.76    | 5.8      | 2.9            | 5.9       |
| W. North Central   | 52.8                | 53.7   | 1.7      | 96.58         | 95.91    | (0.7)    | 51.03            | 51.55    | 1.0      | 2.2            | 3.9       |
| W. South Central   | 63.8                | 63.7   | (0.2)    | 105.75        | 104.97   | (0.7)    | 67.44            | 66.82    | (0.9)    | 2.6            | 2.4       |
| Mountain           | 64.3                | 65.7   | 2.2      | 123.93        | 126.52   | 2.1      | 79.70            | 83.12    | 4.3      | 1.2            | 3.4       |
| Pacific            | 71.7                | 71.7   | (0.1)    | 164.28        | 167.65   | 2.1      | 117.87           | 120.13   | 1.9      | 1.5            | 1.3       |
| <b>Class</b>       |                     |        |          |               |          |          |                  |          |          |                |           |
| Luxury             | 70.2 %              | 70.3 % | 0.2 %    | \$293.14      | \$296.37 | 1.1 %    | \$205.76         | \$208.39 | 1.3 %    | 2.9 %          | 3.0 %     |
| Upper-Upscale      | 72.2                | 71.6   | (0.8)    | 186.42        | 189.47   | 1.6      | 134.58           | 135.66   | 0.8      | 2.6            | 1.8       |
| Upscale            | 70.5                | 70.2   | (0.5)    | 141.55        | 143.14   | 1.1      | 99.81            | 100.43   | 0.6      | 3.6            | 3.1       |
| Upper-Midscale     | 65.6                | 65.6   | 0.0      | 112.54        | 113.74   | 1.1      | 73.77            | 74.56    | 1.1      | 3.7            | 3.7       |
| Midscale           | 57.1                | 57.3   | 0.3      | 93.05         | 93.27    | 0.2      | 53.15            | 53.42    | 0.5      | 1.0            | 1.3       |
| Economy            | 56.4                | 57.6   | 2.0      | 72.31         | 72.73    | 0.6      | 40.81            | 41.88    | 2.6      | (0.5)          | 1.5       |
| <b>Location</b>    |                     |        |          |               |          |          |                  |          |          |                |           |
| Urban              | 71.7 %              | 71.4 % | (0.5) %  | \$177.21      | \$179.28 | 1.2 %    | \$127.14         | \$127.98 | 0.7 %    | 3.2 %          | 2.7 %     |
| Suburban           | 65.5                | 65.4   | (0.1)    | 109.97        | 110.81   | 0.8      | 72.01            | 72.49    | 0.7      | 2.2            | 2.1       |
| Airport            | 73.9                | 74.0   | 0.1      | 119.46        | 120.42   | 0.8      | 88.27            | 89.08    | 0.9      | 2.3            | 2.4       |
| Interstate         | 54.3                | 55.2   | 1.8      | 84.12         | 85.44    | 1.6      | 45.63            | 47.16    | 3.4      | 1.8            | 3.6       |
| Resort             | 70.4                | 70.8   | 0.5      | 187.63        | 191.18   | 1.9      | 132.16           | 135.26   | 2.3      | 1.5            | 2.0       |
| Small Town         | 53.2                | 54.2   | 1.9      | 97.37         | 99.00    | 1.7      | 51.80            | 53.65    | 3.6      | 1.0            | 2.9       |
| <b>Chain Scale</b> |                     |        |          |               |          |          |                  |          |          |                |           |
| Luxury             | 73.6 %              | 75.1 % | (2.1) %  | \$340.68      | \$348.74 | 2.4 %    | \$256.00         | \$256.59 | 0.2 %    | 2.1 %          | (0.1) %   |
| Upper-Upscale      | 73.3                | 74.0   | (1.0)    | 187.20        | 190.86   | 2.0      | 138.53           | 139.83   | 0.9      | 2.0            | 0.9       |
| Upscale            | 71.4                | 72.2   | (1.0)    | 141.09        | 142.31   | 0.9      | 101.84           | 101.67   | (0.2)    | 4.7            | 3.7       |
| Upper-Midscale     | 65.7                | 65.9   | (0.4)    | 110.77        | 111.81   | 0.9      | 73.05            | 73.42    | 0.5      | 3.6            | 3.2       |
| Midscale           | 55.8                | 55.8   | 0.0      | 84.56         | 84.53    | 0.0      | 47.20            | 47.20    | 0.0      | 2.4            | 2.4       |
| Economy            | 57.0                | 55.9   | 2.1      | 61.89         | 62.05    | 0.3      | 34.58            | 35.39    | 2.4      | (1.7)          | 0.4       |
| Independents       | 61.4                | 60.3   | 1.9      | 127.33        | 129.11   | 1.4      | 76.77            | 79.31    | 3.3      | 1.4            | 3.3       |

Source: STR - May 2019 Lodging Review

**FIGURE 5-3 NATIONAL OCCUPANCY AND ADR TRENDS – CALENDAR-YEAR DATA**

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

Source: STR - December 2018 Lodging Review

Following the significant RevPAR decline experienced during the last recession, demand growth resumed in 2010, led by select markets that had recorded growth trends in the fourth quarter of 2009. A return of business travel and some group activity contributed to these positive trends. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half of 2010. These discounting policies were largely phased out in the latter half of the year, balancing much of the early rate loss. Demand growth remained strong, but decelerated from 2011 through 2013, increasing at rates of 4.7%, 2.8%, and 2.0%, respectively. Demand growth then surged to 4.0% in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors. By 2014, occupancy had surpassed the 64% mark. Average rate rebounded similarly during this time, bracketing 4.0% annual gains from 2011 through 2014.

In 2015, demand growth continued to outpace supply growth, a relationship that has been in place since 2010. With a 2.9% increase in room nights, the nation's occupancy level reached a record high of 65.4% in 2015. Supply growth intensified modestly in 2015 (at 1.1%), following annual supply growth levels of 0.7% and 0.9% in 2013 and 2014, respectively. Average rate posted another strong year of growth, at 4.7% in 2015, in pace with the annual growth of the last four years. Robust job growth, heightened group and leisure travel, and waning price-sensitivity all contributed to the gains. In 2016, occupancy showed virtually no change, as demand growth kept pace with supply additions. Occupancy then moved even higher in 2017 and 2018, to new highs of 65.9% and 66.2%, respectively. Average rate increased 2.1% and 2.4% in 2017 and 2018, respectively. By year-end 2018, the net change in RevPAR was 2.9%, reflecting a healthy lodging market overall. Year-to-date statistics through May reflect a 0.3-point occupancy increase, while average rate increased by just over \$1.00, resulting in a 1.6% upward change in RevPAR.

### Historical Supply and Demand Data

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



**FIGURE 5-4 HISTORICAL SUPPLY AND DEMAND TRENDS**

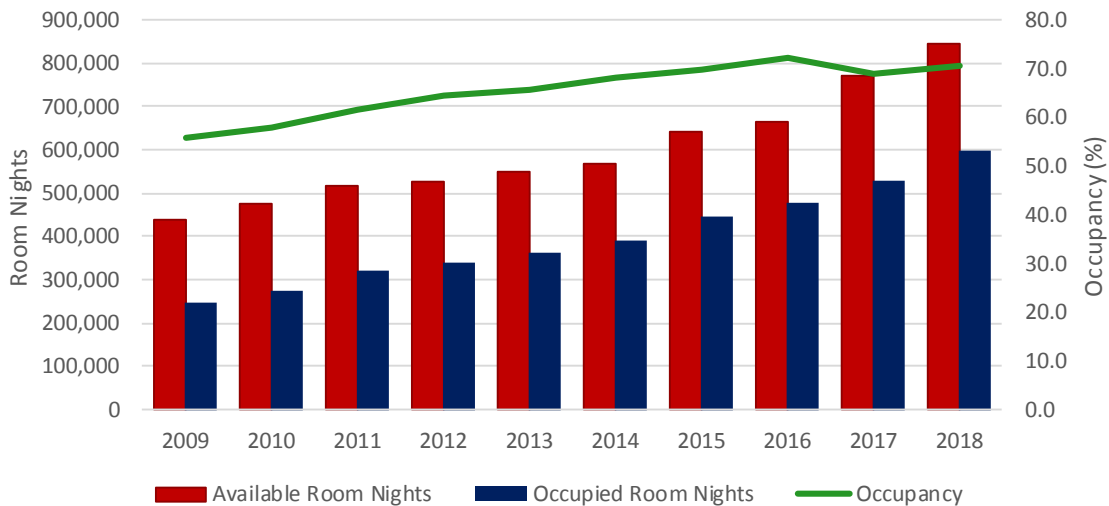
| Year                              | Available Room           |         |        | Occupied Room |        |           | Average  |             |         | RevPAR | Change |
|-----------------------------------|--------------------------|---------|--------|---------------|--------|-----------|----------|-------------|---------|--------|--------|
|                                   | Average Daily Room Count | Nights  | Change | Nights        | Change | Occupancy | Rate     | Change      |         |        |        |
| 2009                              | 1,206                    | 440,359 | —      | 246,443       | —      | 56.0 %    | \$96.20  | —           | \$53.84 | —      |        |
| 2010                              | 1,305                    | 476,325 | 8.2 %  | 275,502       | 11.8 % | 57.8      | 99.21    | 3.1 %       | 57.38   | 6.6 %  |        |
| 2011                              | 1,417                    | 517,329 | 8.6    | 319,246       | 15.9   | 61.7      | 105.22   | 6.1         | 64.93   | 13.2   |        |
| 2012                              | 1,439                    | 525,235 | 1.5    | 339,297       | 6.3    | 64.6      | 111.06   | 5.5         | 71.74   | 10.5   |        |
| 2013                              | 1,501                    | 547,867 | 4.3    | 360,839       | 6.3    | 65.9      | 117.34   | 5.7         | 77.28   | 7.7    |        |
| 2014                              | 1,562                    | 570,130 | 4.1    | 388,261       | 7.6    | 68.1      | 121.99   | 4.0         | 83.07   | 7.5    |        |
| 2015                              | 1,762                    | 643,069 | 12.8   | 447,771       | 15.3   | 69.6      | 128.66   | 5.5         | 89.59   | 7.8    |        |
| 2016                              | 1,821                    | 664,797 | 3.4    | 479,903       | 7.2    | 72.2      | 133.46   | 3.7         | 96.34   | 7.5    |        |
| 2017                              | 2,112                    | 770,797 | 15.9   | 530,785       | 10.6   | 68.9      | 134.41   | 0.7         | 92.56   | (3.9)  |        |
| 2018                              | 2,313                    | 844,285 | 9.5    | 596,795       | 12.4   | 70.7      | 129.75   | (3.5)       | 91.72   | (0.9)  |        |
| <b>Year-to-Date Through May</b>   |                          |         |        |               |        |           |          |             |         |        |        |
| 2018                              | 2,273                    | 343,223 | —      | 229,335       | —      | 66.8 %    | \$126.26 | —           | \$84.36 | —      |        |
| 2019                              | 2,393                    | 361,343 | 5.3 %  | 242,269       | 5.6 %  | 67.0      | 126.77   | 0.4 %       | 84.99   | 0.7 %  |        |
| Average Annual Compounded Change: |                          |         |        |               |        |           |          |             |         |        |        |
| 2009 - 2018                       |                          |         | 7.5 %  | 2009 - 2012   |        |           | 10.3 %   | 2012 - 2018 |         |        | 6.1 %  |
| 2009 - 2012                       |                          |         | 6.1    | 2009 - 2012   |        |           | 11.2     | 2012 - 2018 |         |        | 10.0   |
| 2012 - 2018                       |                          |         | 8.2    | 2012 - 2018   |        |           | 9.9      | 2012 - 2018 |         |        | 4.2    |

| Hotels Included in Sample                                 | Class                | Competitive Status | Number of Rooms | Year Affiliated | Year Opened | Comments             |
|---|----------------------|--------------------|-----------------|-----------------|-------------|----------------------|
| Holiday Inn Cincinnati Eastgate I 275 East                | Upper Midscale Class | Secondary          | 212             | Mar 1983        | Mar 1983    |                      |
| Best Western Plus Cincinnati Riverfront Downtown Area     | Upper Midscale Class | Secondary          | 127             | Jun 2017        | Jan 1997    | Formerly Hampton Inn |
| Comfort Suites Newport                                    | Upper Midscale Class | Secondary          | 124             | Jun 1997        | Jun 1997    |                      |
| Hampton Inn Cincinnati Eastgate                           | Upper Midscale Class | Primary            | 120             | Aug 1999        | Aug 1999    |                      |
| Courtyard Cincinnati Covington                            | Upscale Class        | Secondary          | 194             | Oct 1999        | Oct 1999    |                      |
| Comfort Inn & Suites Eastgate Cincinnati                  | Upper Midscale Class | Primary            | 72              | Nov 2000        | Nov 2000    |                      |
| Fairfield Inn & Suites Cincinnati Eastgate                | Upper Midscale Class | Primary            | 78              | Apr 2004        | Feb 2001    |                      |
| Comfort Inn & Suites Northern Kentucky Wilder             | Upper Midscale Class | Primary            | 74              | Nov 2017        | Apr 2006    | Formerly Country Inn |
| Holiday Inn Express & Suites Cincinnati Southeast Newport | Upper Midscale Class | Secondary          | 73              | Dec 2007        | Dec 2007    |                      |
| Springhill Suites Cincinnati Midtown                      | Upscale Class        | Secondary          | 122             | Apr 2009        | Apr 2009    |                      |
| Hampton Inn Wilder  | Upper Midscale Class | Primary            | 94              | Jan 2010        | Jan 2010    |                      |
| Residence Inn Cincinnati Downtown The Phelps              | Upscale Class        | Secondary          | 134             | Mar 2011        | Mar 2011    |                      |
| Courtyard Cincinnati Midtown Rookwood                     | Upscale Class        | Secondary          | 123             | Jul 2013        | Jul 2013    |                      |
| Hampton Inn Cincinnati Downtown                           | Upper Midscale Class | Secondary          | 144             | Mar 2015        | Mar 2015    |                      |
| Homewood Suites by Hilton Cincinnati Downtown             | Upscale Class        | Secondary          | 105             | Apr 2015        | Apr 2015    |                      |
| Hampton Inn & Suites Newport Cincinnati                   | Upper Midscale Class | Secondary          | 122             | Dec 2016        | Dec 2016    |                      |
| aloft Hotel Newport On The Levee                          | Upscale Class        | Secondary          | 144             | Jan 2017        | Jan 2017    |                      |
| Residence Inn Cincinnati Midtown Rookwood                 | Upscale Class        | Secondary          | 118             | Sep 2017        | Sep 2017    |                      |
| Holiday Inn Express & Suites Cincinnati South Wilder      | Upper Midscale Class | Primary            | 93              | Dec 2017        | Dec 2017    |                      |
| Hilton Garden Inn Cincinnati Midtown                      | Upscale Class        | Secondary          | 120             | Sep 2018        | Sep 2018    |                      |
|   |                      |                    | <b>Total</b>    | <b>2,393</b>    |             |                      |

Source: STR

**FIGURE 5-5 HISTORICAL SUPPLY AND DEMAND TRENDS (STR)**



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

The STR data for the competitive set reflect a market-wide occupancy level of 2018 in 70.7%, which compares to 68.9% for 2017. The STR data for the competitive set reflect a market-wide ADR level of \$129.75 in 2018, which compares to \$134.41 for 2017. These occupancy and ADR trends resulted in a RevPAR level of \$91.72 in 2018.

During the illustrated historical period, both occupancy and average rate generally followed a strengthening trend, with RevPAR increasing by roughly 70% between 2009 and 2018. This improvement in market conditions was driven largely by a steady influx of higher quality supply in the market, as well as year-over-year rate growth. Six hotels opened within this competitive set from 2010 through 2016. During that period, demand growth outpaced supply growth every year, indicative of a high amount of unaccommodated demand in the market. Four more hotels opened between 2017 and 2018, and occupancy declined slightly in 2017 before rebounding in 2018. Average rate increased year-over-year from 2010 through

2017, before declining in 2018 given increased rate competition from new supply. Year-to-date 2019 data illustrate a continued strengthening in occupancy and a roughly \$0.50 gain in average rate. RevPAR reached its high point in the summer of 2018. The entrance of new, high-rated supply and the overall strong economy have contributed to the latest trend. The near-term outlook is positive given the breadth of economic and leisure drivers in the greater market.

### Seasonality

Monthly occupancy and ADR trends are presented in the following tables.

**FIGURE 5-6 MONTHLY OCCUPANCY TRENDS**

| Month                   | 2009          | 2010          | 2011          | 2012          | 2013          | 2014          | 2015          | 2016          | 2017          | 2018          | 2019          |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| January                 | 41.2 %        | 39.1 %        | 40.9 %        | 45.7 %        | 48.0 %        | 44.3 %        | 55.6 %        | 57.4 %        | 50.7 %        | 47.6 %        | 51.1 %        |
| February                | 49.0          | 49.5          | 50.2          | 57.5          | 59.2          | 58.7          | 61.0          | 65.9          | 55.2          | 57.4          | 64.0          |
| March                   | 50.2          | 51.8          | 55.2          | 62.8          | 65.3          | 66.6          | 61.3          | 72.3          | 67.7          | 70.8          | 71.0          |
| April                   | 52.3          | 61.8          | 58.7          | 67.5          | 70.6          | 71.7          | 68.7          | 75.9          | 72.3          | 80.3          | 72.7          |
| May                     | 59.1          | 64.3          | 63.6          | 73.7          | 70.1          | 72.5          | 69.2          | 72.4          | 73.9          | 77.4          | 76.3          |
| June                    | 71.8          | 73.0          | 71.8          | 81.1          | 83.0          | 80.6          | 81.6          | 81.0          | 81.9          | 85.7          | —             |
| July                    | 70.6          | 68.3          | 76.6          | 73.6          | 71.6          | 80.6          | 79.2          | 83.1          | 79.2          | 77.8          | —             |
| August                  | 63.4          | 64.8          | 76.8          | 72.3          | 75.8          | 77.5          | 79.1          | 84.4          | 80.1          | 78.7          | —             |
| September               | 62.0          | 64.4          | 70.7          | 65.9          | 71.2          | 70.7          | 77.4          | 81.5          | 81.0          | 77.8          | —             |
| October                 | 58.5          | 65.8          | 69.0          | 70.0          | 69.6          | 73.2          | 78.5          | 76.9          | 76.7          | 76.7          | —             |
| November                | 51.9          | 50.8          | 57.7          | 55.8          | 58.9          | 64.2          | 65.6          | 67.2          | 59.8          | 64.9          | —             |
| December                | 38.4          | 40.2          | 45.6          | 48.9          | 47.2          | 56.1          | 54.4          | 49.7          | 48.8          | 53.1          | —             |
| <b>Annual Occupancy</b> | <b>56.0 %</b> | <b>57.8 %</b> | <b>61.7 %</b> | <b>64.6 %</b> | <b>65.9 %</b> | <b>68.1 %</b> | <b>69.6 %</b> | <b>72.2 %</b> | <b>68.9 %</b> | <b>70.7 %</b> | <b>—</b>      |
| <b>Year-to-Date</b>     | <b>50.6 %</b> | <b>53.3 %</b> | <b>54.1 %</b> | <b>61.5 %</b> | <b>62.7 %</b> | <b>62.8 %</b> | <b>63.5 %</b> | <b>68.8 %</b> | <b>64.1 %</b> | <b>66.8 %</b> | <b>67.0 %</b> |

Source: STR

**FIGURE 5-7 MONTHLY ADR TRENDS**

| Month                      | 2009           | 2010           | 2011            | 2012            | 2013            | 2014            | 2015            | 2016            | 2017            | 2018            | 2019            |
|----------------------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| January                    | \$91.39        | \$91.45        | \$95.09         | \$101.47        | \$106.30        | \$112.06        | \$112.42        | \$118.66        | \$124.00        | \$115.06        | \$116.74        |
| February                   | 92.17          | 96.63          | 96.49           | 102.91          | 109.25          | 115.14          | 118.62          | 122.14          | 121.77          | 116.16          | 120.38          |
| March                      | 91.93          | 95.94          | 100.26          | 103.58          | 112.26          | 118.76          | 120.24          | 123.07          | 127.19          | 123.39          | 124.92          |
| April                      | 93.73          | 97.71          | 104.71          | 106.05          | 117.41          | 123.96          | 124.96          | 135.09          | 134.90          | 133.33          | 131.65          |
| May                        | 96.19          | 100.83         | 107.35          | 113.62          | 117.75          | 126.95          | 129.48          | 137.12          | 136.37          | 135.43          | 135.54          |
| June                       | 101.35         | 102.46         | 107.63          | 114.55          | 121.00          | 128.86          | 134.55          | 142.80          | 141.28          | 142.82          | —               |
| July                       | 99.87          | 101.90         | 110.74          | 121.37          | 122.63          | 132.51          | 152.42          | 147.52          | 148.24          | 139.49          | —               |
| August                     | 99.06          | 101.19         | 109.41          | 116.43          | 123.69          | 124.86          | 131.19          | 137.63          | 140.08          | 134.36          | —               |
| September                  | 99.96          | 103.58         | 110.13          | 113.82          | 121.91          | 122.54          | 133.48          | 139.65          | 143.20          | 135.83          | —               |
| October                    | 97.24          | 102.66         | 107.20          | 118.08          | 120.82          | 120.82          | 130.33          | 134.53          | 135.75          | 129.31          | —               |
| November                   | 93.37          | 96.65          | 104.45          | 108.51          | 114.46          | 114.58          | 123.29          | 129.49          | 125.11          | 120.80          | —               |
| December                   | 88.72          | 90.65          | 95.61           | 101.21          | 109.71          | 111.64          | 114.51          | 120.71          | 118.22          | 113.22          | —               |
| <b>Annual Average Rate</b> | <b>\$96.20</b> | <b>\$99.21</b> | <b>\$105.22</b> | <b>\$111.06</b> | <b>\$117.34</b> | <b>\$121.99</b> | <b>\$128.66</b> | <b>\$133.46</b> | <b>\$134.41</b> | <b>\$129.75</b> | <b>—</b>        |
| <b>Year-to-Date</b>        | <b>\$93.36</b> | <b>\$97.00</b> | <b>\$101.67</b> | <b>\$106.15</b> | <b>\$113.21</b> | <b>\$120.28</b> | <b>\$121.97</b> | <b>\$127.82</b> | <b>\$129.71</b> | <b>\$126.26</b> | <b>\$126.77</b> |

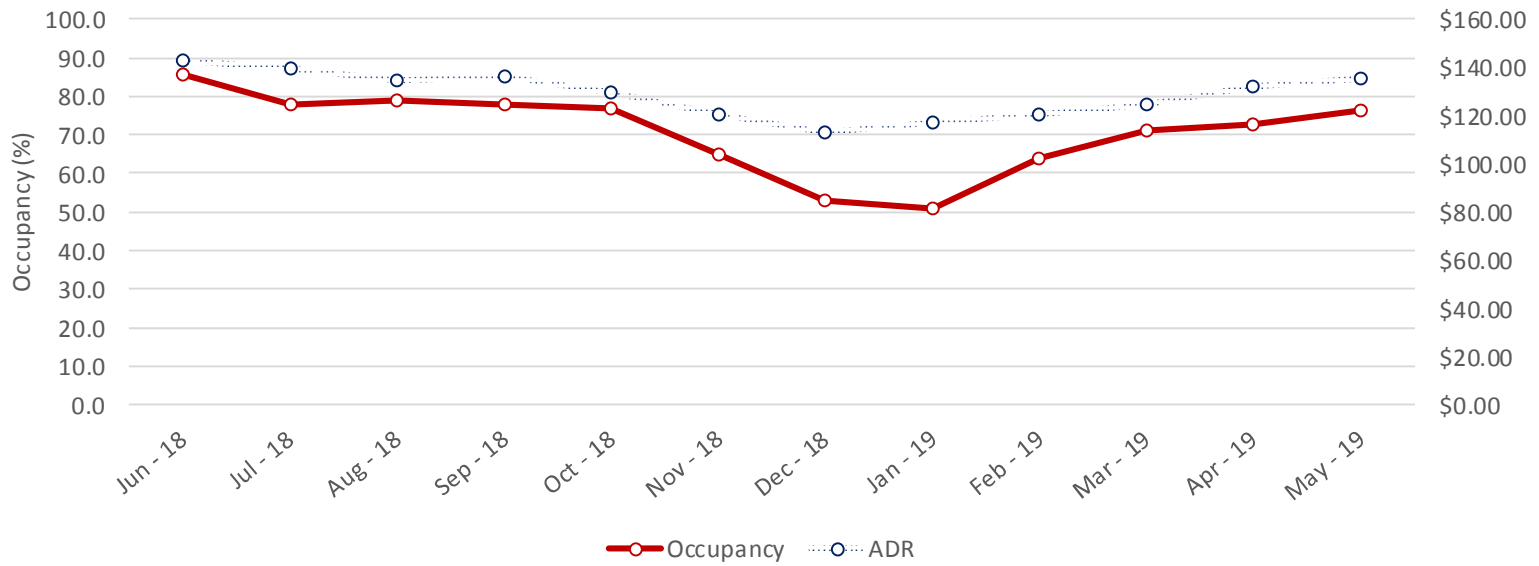
Source: STR

**FIGURE 5-8 SEASONALITY**

|  | 2009    | 2010     | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     | 2017     | 2018     |
|--|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>High Season - May, June, July, August, September, October</b> |         |          |          |          |          |          |          |          |          |          |
| Occupancy  | 64.2 %  | 66.8 %   | 71.4 %   | 72.8 %   | 73.4 %   | 75.9 %   | 77.5 %   | 79.9 %   | 78.8 %   | 79.0 %   |
| Average Rate   | \$99.05 | \$102.10 | \$108.81 | \$116.33 | \$121.38 | \$126.25 | \$135.39 | \$139.97 | \$140.86 | \$136.23 |
| RevPAR   | 63.61   | 68.16    | 77.72    | 84.64    | 89.13    | 95.78    | 104.93   | 111.81   | 110.96   | 107.57   |
| <b>Shoulder Season - February, March, April, November</b>        |         |          |          |          |          |          |          |          |          |          |
| Occupancy  | 50.9 %  | 53.5 %   | 55.7 %   | 61.0 %   | 63.5 %   | 65.4 %   | 64.3 %   | 70.4 %   | 63.9 %   | 68.5 %   |
| Average Rate   | \$92.86 | \$96.77  | \$101.85 | \$105.26 | \$113.57 | \$118.40 | \$122.07 | \$127.68 | \$127.77 | \$124.24 |
| RevPAR   | 47.28   | 51.79    | 56.69    | 64.19    | 72.10    | 77.48    | 78.53    | 89.89    | 81.66    | 85.13    |
| <b>Low Season - January, December</b>                            |         |          |          |          |          |          |          |          |          |          |
| Occupancy  | 39.8 %  | 39.7 %   | 43.4 %   | 47.3 %   | 47.6 %   | 50.2 %   | 54.9 %   | 53.4 %   | 49.7 %   | 50.4 %   |
| Average Rate   | \$90.05 | \$91.05  | \$95.38  | \$101.33 | \$108.06 | \$111.83 | \$113.53 | \$119.65 | \$121.03 | \$114.07 |
| RevPAR   | 35.80   | 36.13    | 41.37    | 47.97    | 51.41    | 56.09    | 62.38    | 63.92    | 60.15    | 57.54    |

Source: Smith Travel Research

**FIGURE 5-9 MONTHLY OCCUPANCY AND ADR TRENDS (TRAILING 12 MONTHS)**





The illustrated monthly occupancy and ADR patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate. The competitive market is characterized by a moderate degree of seasonality, which is evident in the monthly occupancy statistics. The strongest occupancy levels are recorded in the summer months, when demand from leisure travelers supplements the commercial segment that is the principal source of demand in this submarket. Average rate levels reflect a similar pattern. We note that the riverfront entertainment venues proximate to the Kellogg Road site all operate in summer months. However, Riverbend Music Center and Belterra Park have been expanding their schedules into the shoulder months, while Coney Island opens for themed events and small festivals in winter months as well.

#### **Patterns of Demand**

A review of the trends in occupancy and average rate by day of the week provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by STR, are illustrated in the following table(s).

**FIGURE 5-10 OCCUPANCY BY DAY OF WEEK (TRAILING 12 MONTHS)**

| Month          | Sunday        | Monday        | Tuesday       | Wednesday     | Thursday      | Friday        | Saturday      | Total Month   |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Jun - 18       | 61.7 %        | 88.4 %        | 95.0 %        | 93.2 %        | 86.5 %        | 84.7 %        | 89.8 %        | 85.7 %        |
| Jul - 18       | 55.3          | 77.7          | 82.9          | 85.5          | 77.4          | 83.0          | 87.1          | 77.8          |
| Aug - 18       | 56.3          | 81.8          | 89.6          | 86.0          | 72.2          | 77.3          | 87.6          | 78.7          |
| Sep - 18       | 56.5          | 72.1          | 86.7          | 88.9          | 79.6          | 76.7          | 87.0          | 77.8          |
| Oct - 18       | 55.4          | 73.8          | 81.8          | 81.3          | 77.5          | 77.8          | 87.7          | 76.7          |
| Nov - 18       | 41.7          | 61.5          | 70.7          | 73.5          | 64.8          | 66.4          | 75.3          | 64.9          |
| Dec - 18       | 37.4          | 56.5          | 59.3          | 58.2          | 50.1          | 49.7          | 61.6          | 53.1          |
| Jan - 19       | 33.1          | 58.1          | 58.6          | 61.4          | 48.0          | 43.8          | 51.3          | 51.1          |
| Feb - 19       | 39.5          | 64.8          | 77.5          | 74.7          | 56.2          | 64.1          | 71.0          | 64.0          |
| Mar - 19       | 44.5          | 71.1          | 80.3          | 79.8          | 66.8          | 73.2          | 84.2          | 71.0          |
| Apr - 19       | 39.0          | 73.6          | 85.9          | 84.3          | 71.9          | 74.5          | 76.0          | 72.7          |
| May - 19       | 52.5          | 69.6          | 85.1          | 83.6          | 72.1          | 79.5          | 90.2          | 76.3          |
| <b>Average</b> | <b>47.7 %</b> | <b>70.6 %</b> | <b>79.2 %</b> | <b>79.0 %</b> | <b>68.1 %</b> | <b>71.3 %</b> | <b>79.1 %</b> | <b>70.7 %</b> |

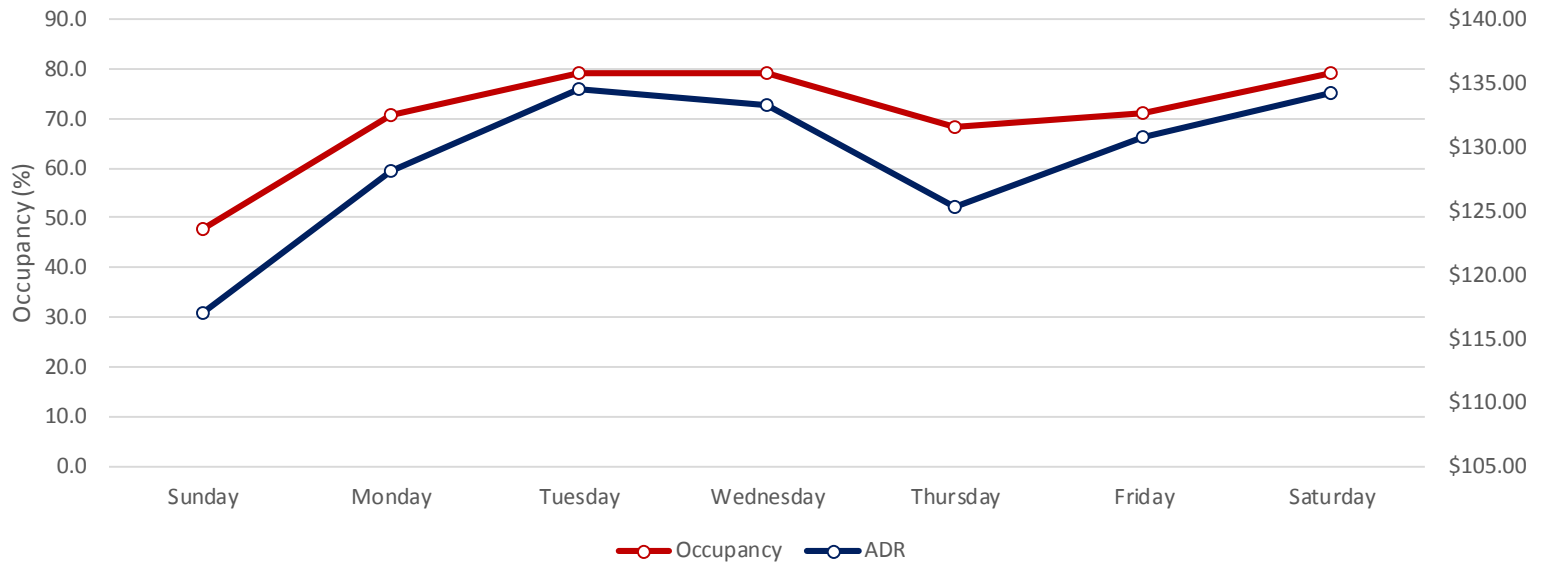
Source: STR

**FIGURE 5-11 AVERAGE RATE BY DAY OF WEEK (TRAILING 12 MONTHS)**

| Month          | Sunday          | Monday          | Tuesday         | Wednesday       | Thursday        | Friday          | Saturday        | Total Month     |
|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Jun - 18       | \$126.09        | \$138.07        | \$144.70        | \$144.15        | \$137.86        | \$148.15        | \$151.84        | \$142.82        |
| Jul - 18       | 118.43          | 130.89          | 139.86          | 138.87          | 132.17          | 155.71          | 157.03          | 139.49          |
| Aug - 18       | 116.09          | 133.86          | 140.93          | 137.57          | 127.53          | 133.60          | 143.77          | 134.36          |
| Sep - 18       | 128.95          | 133.34          | 139.93          | 138.58          | 131.73          | 133.32          | 141.22          | 135.83          |
| Oct - 18       | 115.83          | 126.28          | 131.35          | 130.78          | 124.78          | 131.77          | 138.76          | 129.31          |
| Nov - 18       | 110.52          | 118.73          | 128.12          | 127.80          | 117.83          | 116.67          | 122.25          | 120.80          |
| Dec - 18       | 105.31          | 117.05          | 120.68          | 118.64          | 111.71          | 106.97          | 109.70          | 113.22          |
| Jan - 19       | 110.50          | 120.64          | 124.87          | 123.33          | 113.33          | 105.63          | 108.39          | 116.74          |
| Feb - 19       | 111.46          | 121.44          | 126.54          | 126.53          | 114.59          | 116.14          | 119.57          | 120.38          |
| Mar - 19       | 112.50          | 124.46          | 129.42          | 130.35          | 124.46          | 123.24          | 125.99          | 124.92          |
| Apr - 19       | 117.55          | 133.00          | 137.91          | 136.29          | 127.01          | 129.73          | 129.50          | 131.65          |
| May - 19       | 118.72          | 132.73          | 140.34          | 137.13          | 129.73          | 139.66          | 142.36          | 135.54          |
| <b>Average</b> | <b>\$116.95</b> | <b>\$128.15</b> | <b>\$134.51</b> | <b>\$133.25</b> | <b>\$125.37</b> | <b>\$130.74</b> | <b>\$134.29</b> | <b>\$129.88</b> |

Source: STR

**FIGURE 5-12 OCCUPANCY AND AVERAGE RATE BY DAY OF WEEK (TRAILING 12 MONTHS)**



**FIGURE 5-13 OCCUPANCY, AVERAGE RATE, AND REVPAR BY DAY OF WEEK (MULTIPLE YEARS)**

| <b>Occupancy (%)</b>             | <b>Sunday</b> | <b>Monday</b> | <b>Tuesday</b> | <b>Wednesday</b> | <b>Thursday</b> | <b>Friday</b> | <b>Saturday</b> | <b>Total Year</b> |
|----------------------------------|---------------|---------------|----------------|------------------|-----------------|---------------|-----------------|-------------------|
| Jun 16 - May 17                  | 44.9 %        | 68.6 %        | 79.8 %         | 79.3 %           | 67.1 %          | 70.8 %        | 78.7 %          | 69.9 %            |
| Jun 17 - May 18                  | 47.4          | 68.4          | 77.5           | 77.6             | 68.0            | 71.5          | 78.5            | 69.9              |
| Jun 18 - May 19                  | 47.7          | 70.6          | 79.2           | 79.0             | 68.1            | 71.3          | 79.1            | 70.7              |
| <b>Change (Occupancy Points)</b> |               |               |                |                  |                 |               |                 |                   |
| FY 17 - FY 18                    | 2.5           | (0.2)         | (2.3)          | (1.7)            | 0.9             | 0.7           | (0.2)           | (0.1)             |
| FY 18 - FY 19                    | 0.2           | 2.2           | 1.7            | 1.4              | 0.1             | (0.2)         | 0.5             | 0.9               |
| <b>ADR (\$)</b>                  | <b>Sunday</b> | <b>Monday</b> | <b>Tuesday</b> | <b>Wednesday</b> | <b>Thursday</b> | <b>Friday</b> | <b>Saturday</b> | <b>Total Year</b> |
| Jun 16 - May 17                  | \$124.10      | \$133.37      | \$137.17       | \$136.24         | \$129.73        | \$133.44      | \$139.34        | \$134.08          |
| Jun 17 - May 18                  | 119.83        | 130.93        | 136.06         | 134.70           | 127.85          | 134.33        | 139.87          | 132.76            |
| Jun 18 - May 19                  | 116.95        | 128.15        | 134.51         | 133.25           | 125.37          | 130.74        | 134.29          | 129.88            |
| <b>Change (Dollars)</b>          |               |               |                |                  |                 |               |                 |                   |
| FY 17 - FY 18                    | (\$4.28)      | (\$2.43)      | (\$1.11)       | (\$1.53)         | (\$1.88)        | \$0.89        | \$0.52          | (\$1.32)          |
| FY 18 - FY 19                    | (2.88)        | (2.78)        | (1.56)         | (1.45)           | (2.48)          | (3.59)        | (5.57)          | (2.88)            |
| <b>Change (Percent)</b>          |               |               |                |                  |                 |               |                 |                   |
| FY 17 - FY 18                    | (3.4) %       | (1.8) %       | (0.8) %        | (1.1) %          | (1.5) %         | 0.7 %         | 0.4 %           | (1.0) %           |
| FY 18 - FY 19                    | (2.4)         | (2.1)         | (1.1)          | (1.1)            | (1.9)           | (2.7)         | (4.0)           | (2.2)             |
| <b>RevPAR (\$)</b>               | <b>Sunday</b> | <b>Monday</b> | <b>Tuesday</b> | <b>Wednesday</b> | <b>Thursday</b> | <b>Friday</b> | <b>Saturday</b> | <b>Total Year</b> |
| Jun 16 - May 17                  | \$55.72       | \$91.52       | \$109.46       | \$108.08         | \$87.05         | \$94.45       | \$109.70        | \$93.75           |
| Jun 17 - May 18                  | 56.84         | 89.55         | 105.47         | 104.55           | 86.94           | 96.03         | 109.85          | 92.73             |
| Jun 18 - May 19                  | 55.75         | 90.45         | 106.50         | 105.26           | 85.41           | 93.17         | 106.19          | 91.82             |
| <b>Change (Dollars)</b>          |               |               |                |                  |                 |               |                 |                   |
| FY 17 - FY 18                    | \$1.12        | (\$1.97)      | (\$3.99)       | (\$3.53)         | (\$0.11)        | \$1.58        | \$0.14          | (\$1.01)          |
| FY 18 - FY 19                    | (1.09)        | 0.90          | 1.03           | 0.71             | (1.52)          | (2.85)        | (3.66)          | (0.91)            |
| <b>Change (Percent)</b>          |               |               |                |                  |                 |               |                 |                   |
| FY 17 - FY 18                    | 2.0 %         | (2.2) %       | (3.6) %        | (3.3) %          | (0.1) %         | 1.7 %         | 0.1 %           | (1.1) %           |
| FY 18 - FY 19                    | (1.9)         | 1.0           | 1.0            | 0.7              | (1.8)           | (3.0)         | (3.3)           | (1.0)             |

Source: STR

In most markets, business travel, including individual commercial travelers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travelers and non-business-related groups generate a majority of demand on Friday and Saturday nights. Cincinnati is heavily dependent on corporate entities, with nine Fortune 500 headquarter offices in the area; accordingly, midweek demand is the strongest. Tuesday and Wednesday nights

typically sell out in this market during peak seasons, at higher room rates than those during other parts of the year. The influence of the leisure segment is evident in the occupancy and average rate levels recorded on Friday and Saturday nights of April through October. This source also generates supplemental demand during the week in the summer months.

## **SUPPLY**

Based on an evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are expected to be primarily competitive with the proposed subject hotel. If applicable, additional lodging facilities may be judged only secondarily competitive; although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primary competitive supply, they are expected to compete with the proposed subject hotel to some extent.

## **Primary Competitors**

The following table summarizes the important operating characteristics of the future primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, online resources, and our in-house database of operating and hotel facility data.

**FIGURE 5-14 PRIMARY COMPETITORS – OPERATING PERFORMANCE**

| Property   | Number of Rooms | Est. Segmentation |             |             | Estimated 2017             |               |                 |                | Estimated 2018             |               |                 |             | Occupancy Penetration | Yield Penetration |
|--|-----------------|-------------------|-------------|-------------|----------------------------|---------------|-----------------|----------------|----------------------------|---------------|-----------------|-------------|-----------------------|-------------------|
|  |                 | Commercial        | Leisure     | Group       | Weighted Annual Room Count | Occ.          | Average Rate    | RevPAR         | Weighted Annual Room Count | Occ.          | Average Rate    | RevPAR      |                       |                   |
| Hampton Inn Cincinnati Eastgate                        | 120             | 65 %              | 20 %        | 15 %        | 120                        | 65 - 70 %     | \$100 - \$105   | \$70 - \$75    | 120                        | 65 - 70 %     | \$100 - \$105   | \$70 - \$75 | 95 - 100 %            | 75 - 80 %         |
| Fairfield Inn & Suites by Marriott Cincinnati Eastgate | 78              | 65                | 20          | 15          | 78                         | 75 - 80       | 110 - 115       | 85 - 90        | 78                         | 75 - 80       | 105 - 110       | 80 - 85     | 110 - 120             | 90 - 95           |
| Comfort Inn & Suites Cincinnati                        | 72              | 65                | 25          | 10          | 72                         | 45 - 50       | 60 - 65         | 30 - 35        | 72                         | 45 - 50       | 60 - 65         | 30 - 35     | 65 - 70               | 30 - 35           |
| Hampton Inn & Suites Wilder                            | 94              | 60                | 25          | 15          | 94                         | 75 - 80       | 120 - 125       | 95 - 100       | 94                         | 70 - 75       | 120 - 125       | 85 - 90     | 100 - 110             | 95 - 100          |
| Comfort Inn & Suites Northern Kentucky                 | 74              | 50                | 30          | 20          | 74                         | 45 - 50       | 95 - 100        | 45 - 50        | 74                         | 60 - 65       | 95 - 100        | 60 - 65     | 90 - 95               | 65 - 70           |
| Holiday Inn Express & Suites Cincinnati South Wilder   | 93              | 60                | 25          | 15          | 8                          | 10 - 15       | 90 - 95         | 10 - 15        | 93                         | 65 - 70       | 105 - 110       | 70 - 75     | 90 - 95               | 75 - 80           |
| <b>Sub-Totals/Averages</b>                             | <b>531</b>      | <b>61 %</b>       | <b>24 %</b> | <b>15 %</b> | <b>446</b>                 | <b>66.0 %</b> | <b>\$103.30</b> | <b>\$68.14</b> | <b>531</b>                 | <b>67.6 %</b> | <b>\$102.93</b> | <b>\$70</b> | <b>\$96 %</b>         | <b>77.2 %</b>     |
| Secondary Competitors                                  | 1,862           | 57 %              | 27 %        | 16 %        | 1,261                      | 69.7 %        | \$142.76        | \$99.47        | 1,348                      | 71.7 %        | \$137.15        | \$98        | \$102 %               | 109.0 %           |
| <b>Totals/Averages</b>                                 | <b>2,393</b>    | <b>58 %</b>       | <b>26 %</b> | <b>16 %</b> | <b>1,706</b>               | <b>68.7 %</b> | <b>\$132.86</b> | <b>\$91.29</b> | <b>1,879</b>               | <b>70.6 %</b> | <b>\$127.88</b> | <b>\$90</b> | <b>\$100 %</b>        | <b>100.0 %</b>    |

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



**FIGURE 5-15 PRIMARY COMPETITORS – FACILITY PROFILES**

| Property  | Number of Rooms | Year Opened | Last Major Renovation(s) | Approx. Miles To Subject Property | Food and Beverage Outlets | Indoor Meeting Space (SF) | Meeting Space per Room | Facilities & Amenities   |
|---|-----------------|-------------|--------------------------|-----------------------------------|---------------------------|---------------------------|------------------------|--|
| Hampton Inn Cincinnati Eastgate<br>858 Eastgate North Drive                   | 120             | 1999        | 2017                     | 8.2                               | Breakfast Dining Area     | 400                       | 3.3                    | Business Center; Guest Laundry Area; Indoor Swimming Pool; Fitness Room; Vending Areas |
| Fairfield Inn & Suites by Marriott Cincinnati East<br>4521 Eastgate Boulevard | 78              | 2001        | 2009                     | 7.5                               | Breakfast Dining Area     | 0                         | —                      | Business Center; Guest Laundry Area; Market Pantry; Indoor Swimming Pool; Fitness Room |
| Comfort Inn & Suites Cincinnati<br>4421 Aicholtz Road                         | 72              | 2000        | 2013                     | 7.5                               | Breakfast Dining Area     | 600                       | 8.3                    | Guest Laundry Area; Indoor Swimming Pool; Fitness Room                                 |
| Hampton Inn & Suites Wilder<br>10 Hampton Lane                                | 94              | 2010        | —                        | 4.1                               | Breakfast Dining Area     | 600                       | 6.4                    | Business Center; Guest Laundry Area; Market Pantry; Indoor Swimming Pool; Fitness Room |
| Comfort Inn & Suites Northern Kentucky<br>10 Country Drive                    | 74              | 2006        | 2017                     | 4.2                               | Breakfast Dining Area     | 480                       | 6.5                    | Guest Laundry Area; Indoor Swimming Pool; Fitness Room; Indoor Whirlpool               |
| Holiday Inn Express & Suites Cincinnati South V<br>8 Hampton Lane             | 93              | 2017        | —                        | 4.2                               | Breakfast Dining Area     | 1,091                     | 11.7                   | Business Center; Guest Laundry Area; Indoor Swimming Pool; Fitness Room; Market Pantry |

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

### MAP OF COMPETITION



- |  |  |  |  |
|--|--|--|--|
|  | Anderson Township Hotel  |  | Residence Inn by Marriott Cincinnati Downtown/The Phelps (Secondary) |
|  | Hampton Inn Cincinnati Eastgate (Primary)                        |  | Aloft Newport on the Levee (Secondary)                               |
|  | Fairfield Inn & Suites by Marriott Cincinnati Eastgate (Primary) |  | Comfort Suites Newport (Secondary)                                   |
|  | Comfort Inn & Suites Cincinnati (Primary)                        |  | Holiday Inn Express Cincinnati Newport (Secondary)                   |
|  | Hampton Inn & Suites Wilder (Primary)                            |  | Best Western Plus Cincinnati Riverfront Downtown Area (Secondary)    |
|  | Comfort Inn & Suites Northern Kentucky (Primary)                 |  | Courtyard by Marriott Cincinnati Covington (Secondary)               |
|  | Holiday Inn Express & Suites Cincinnati South Wilder (Primary)   |  | Holiday Inn & Suites Cincinnati Eastgate (Secondary)                 |
|  | Courtyard by Marriott Cincinnati Midtown/Rookwood (Secondary)    |  | Hampton Inn & Suites Newport Cincinnati (Secondary)                  |
|  | SpringHill Suites by Marriott Cincinnati Midtown (Secondary)     |  | Residence Inn by Marriott Cincinnati Midtown Rookwood (Secondary)    |
|  | Hampton Inn & Suites Cincinnati Downtown (Secondary)             |  | Hilton Garden Inn Cincinnati Midtown (Secondary)                     |
|  | Homewood Suites by Hilton Cincinnati Downtown (Secondary)        |  |  |

Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities. Each primary competitor was inspected and evaluated. Descriptions of our findings are presented below.

**PRIMARY COMPETITOR #1 - HAMPTON INN CINCINNATI EASTGATE**



**Hampton Inn  
Cincinnati Eastgate  
858 Eastgate North  
Drive  
Cincinnati, OH**

**FIGURE 5-16 ESTIMATED HISTORICAL OPERATING STATISTICS**

| Year      | Wtd. Annual |           |               | RevPAR      | Occupancy   | Yield       |
|-----------|-------------|-----------|---------------|-------------|-------------|-------------|
|           | Room Count  | Occupancy | Average Rate  |             | Penetration | Penetration |
| Est. 2016 | 120         | 75 - 80 % | \$105 - \$110 | \$80 - \$85 | 100 - 110 % | 80 - 85 %   |
| Est. 2017 | 120         | 65 - 70   | 100 - 105     | 70 - 75     | 100 - 110   | 75 - 80     |
| Est. 2018 | 120         | 65 - 70   | 100 - 105     | 70 - 75     | 95 - 100    | 75 - 80     |

This hotel completed a comprehensive renovation in the fall of 2017. Overall, the property appeared to be in very good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Anderson Township Hotel.

**PRIMARY COMPETITOR #2 - FAIRFIELD INN & SUITES BY MARRIOTT  
CINCINNATI EASTGATE**



**Fairfield Inn & Suites  
by Marriott Cincinnati  
Eastgate  
4521 Eastgate  
Boulevard  
Cincinnati, OH**

**FIGURE 5-17 ESTIMATED HISTORICAL OPERATING STATISTICS**

| Year      | Wtd. Annual |           |               | RevPAR      | Occupancy   | Yield       |
|-----------|-------------|-----------|---------------|-------------|-------------|-------------|
|           | Room Count  | Occupancy | Average Rate  |             | Penetration | Penetration |
| Est. 2016 | 78          | 80 - 85 % | \$105 - \$110 | \$85 - \$90 | 110 - 120 % | 85 - 90 %   |
| Est. 2017 | 78          | 75 - 80   | 110 - 115     | 85 - 90     | 110 - 120   | 95 - 100    |
| Est. 2018 | 78          | 75 - 80   | 105 - 110     | 80 - 85     | 110 - 120   | 90 - 95     |

This hotel benefits from its Marriott brand affiliation. Overall, the property appeared to be in very good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Anderson Township Hotel.

**PRIMARY COMPETITOR #3 - COMFORT INN & SUITES CINCINNATI**



**Comfort Inn & Suites  
Cincinnati  
4421 Aicholtz Road  
Cincinnati, OH**

**FIGURE 5-18 ESTIMATED HISTORICAL OPERATING STATISTICS**

| Year      | Wtd. Annual Room Count | Occupancy | Average Rate | RevPAR      | Occupancy Penetration | Yield Penetration |
|-----------|------------------------|-----------|--------------|-------------|-----------------------|-------------------|
| Est. 2016 | 72                     | 45 - 50 % | \$65 - \$70  | \$30 - \$35 | 65 - 70 %             | 30 - 35 %         |
| Est. 2017 | 72                     | 45 - 50   | 60 - 65      | 30 - 35     | 65 - 70               | 30 - 35           |
| Est. 2018 | 72                     | 45 - 50   | 60 - 65      | 30 - 35     | 65 - 70               | 30 - 35           |

This hotel is somewhat disadvantaged by its lack of highway visibility. Overall, the property appeared to be in good condition. Its accessibility is similar to that of the subject site, and its visibility is inferior to the expected visibility of the Anderson Township Hotel.

**PRIMARY COMPETITOR #4 - HAMPTON INN & SUITES WILDER**



**Hampton Inn & Suites  
Wilder  
10 Hampton Lane  
Wilder, KY**

**FIGURE 5-19 ESTIMATED HISTORICAL OPERATING STATISTICS**

| Year      | Wtd. Annual |           |               | RevPAR      | Occupancy   | Yield       |
|-----------|-------------|-----------|---------------|-------------|-------------|-------------|
|           | Room Count  | Occupancy | Average Rate  |             | Penetration | Penetration |
| Est. 2016 | 94          | 70 - 75 % | \$125 - \$130 | \$90 - \$95 | 100 - 110 % | 95 - 100 %  |
| Est. 2017 | 94          | 75 - 80   | 120 - 125     | 95 - 100    | 110 - 120   | 100 - 110   |
| Est. 2018 | 94          | 70 - 75   | 120 - 125     | 85 - 90     | 100 - 110   | 95 - 100    |

This hotel benefits from being the closest hotel to Riverbend Music Center. Overall, the property appeared to be in very good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Anderson Township Hotel.



**PRIMARY COMPETITOR #5 - COMFORT INN & SUITES NORTHERN KENTUCKY**



**Comfort Inn & Suites  
Northern Kentucky  
10 Country Drive  
Wilder, KY**

**FIGURE 5-20 ESTIMATED HISTORICAL OPERATING STATISTICS**

| <u>Year</u> | <u>Wtd. Annual<br/>Room Count</u> | <u>Occupancy</u> | <u>Average Rate</u> | <u>RevPAR</u> | <u>Occupancy<br/>Penetration</u> | <u>Yield<br/>Penetration</u> |
|-------------|-----------------------------------|------------------|---------------------|---------------|----------------------------------|------------------------------|
| Est. 2016   | 65                                | 55 - 60 %        | \$105 - \$110       | \$65 - \$70   | 80 - 85 %                        | 65 - 70 %                    |
| Est. 2017   | 74                                | 45 - 50          | 95 - 100            | 45 - 50       | 70 - 75                          | 50 - 55                      |
| Est. 2018   | 74                                | 60 - 65          | 95 - 100            | 60 - 65       | 90 - 95                          | 65 - 70                      |

This hotel operated as a County Inn & Suites by Carlson until 2017, at which point the hotel underwent a major renovation and brand conversion. Upon renovation, the room count was expanded by nine rooms. Overall, the property appeared to be in very good condition. Its accessibility is similar to the accessibility attributes of the subject site, while its visibility is similar to the expected visibility of the Anderson Township Hotel.



**PRIMARY COMPETITOR #6 - HOLIDAY INN EXPRESS & SUITES CINCINNATI SOUTH WILDER**



**Holiday Inn Express & Suites Cincinnati South Wilder  
8 Hampton Lane  
Wilder, KY**

**FIGURE 5-21 ESTIMATED HISTORICAL OPERATING STATISTICS**

| <u>Year</u> | <u>Wtd. Annual Room Count</u> | <u>Occupancy</u> | <u>Average Rate</u> | <u>RevPAR</u> | <u>Occupancy Penetration</u> | <u>Yield Penetration</u> |
|-------------|-------------------------------|------------------|---------------------|---------------|------------------------------|--------------------------|
| Est. 2017   | 8                             | 10 - 15          | 90 - 95             | 10 - 15       | 15 - 20                      | 10 - 15                  |
| Est. 2018   | 93                            | 65 - 70          | 105 - 110           | 70 - 75       | 90 - 95                      | 75 - 80                  |

This hotel benefits from being the newest hotel in the Wilder submarket. Overall, the property appeared to be in excellent condition. Its accessibility is similar to the accessibility attributes of the subject site, while its visibility is similar to the expected visibility of the Anderson Township Hotel.

**Secondary  
Competitors**

We have also reviewed other area lodging facilities to determine whether any may compete with the proposed subject hotel on a secondary basis. The room count of each anticipated secondary competitor has been weighted based on its assumed degree of competitiveness in the future with the proposed subject hotel. By assigning degrees of competitiveness, we can assess how the proposed subject hotel and its future competitors may react to various changes in the market, including new supply, changes to demand generators, and renovations or franchise changes of existing supply. The following table sets forth the pertinent operating characteristics of the secondary competitors.

**FIGURE 5-22 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE**

| Property   | Number of Rooms | Est. Segmentation |             |             | Total Competitive Level | Estimated 2017             |               |                 |                | Estimated 2018             |               |                 |                |
|--|-----------------|-------------------|-------------|-------------|-------------------------|----------------------------|---------------|-----------------|----------------|----------------------------|---------------|-----------------|----------------|
|  |                 | Commercial        | Leisure     | Group       |                         | Weighted Annual Room Count | Occ.          | Average Rate    | RevPAR         | Weighted Annual Room Count | Occ.          | Average Rate    | RevPAR         |
| Courtyard by Marriott Cincinnati Midtown/Rookwood        | 123             | 60 %              | 25 %        | 15 %        | 80 %                    | 98                         | 80 - 85 %     | \$170 - \$180   | \$140 - \$150  | 98                         | 70 - 75 %     | \$160 - \$170   | \$120 - \$125  |
| SpringHill Suites by Marriott Cincinnati Midtown         | 122             | 60                | 20          | 20          | 80                      | 98                         | 75 - 80       | 140 - 150       | 105 - 110      | 98                         | 75 - 80       | 125 - 130       | 100 - 105      |
| Hampton Inn & Suites Cincinnati Downtown                 | 144             | 65                | 20          | 15          | 80                      | 115                        | 65 - 70       | 160 - 170       | 115 - 120      | 115                        | 65 - 70       | 160 - 170       | 105 - 110      |
| Homewood Suites by Hilton Cincinnati Downtown            | 105             | 70                | 20          | 10          | 70                      | 74                         | 70 - 75       | 160 - 170       | 120 - 125      | 74                         | 65 - 70       | 160 - 170       | 105 - 110      |
| Residence Inn by Marriott Cincinnati Downtown/The Phelps | 134             | 65                | 20          | 15          | 70                      | 94                         | 75 - 80       | 180 - 190       | 140 - 150      | 94                         | 75 - 80       | 180 - 190       | 140 - 150      |
| Aloft Newport on the Levee                               | 144             | 50                | 35          | 15          | 80                      | 115                        | 65 - 70       | 130 - 140       | 85 - 90        | 115                        | 75 - 80       | 130 - 140       | 95 - 100       |
| Comfort Suites Newport                                   | 124             | 40                | 50          | 10          | 80                      | 99                         | 50 - 55       | 115 - 120       | 60 - 65        | 99                         | 60 - 65       | 110 - 115       | 65 - 70        |
| Holiday Inn Express Cincinnati Newport                   | 73              | 55                | 35          | 10          | 80                      | 58                         | 60 - 65       | 115 - 120       | 75 - 80        | 58                         | 70 - 75       | 115 - 120       | 80 - 85        |
| Best Western Plus Cincinnati Riverfront Downtown Area    | 127             | 60                | 25          | 15          | 80                      | 102                        | 45 - 50       | 115 - 120       | 55 - 60        | 102                        | 60 - 65       | 110 - 115       | 70 - 75        |
| Courtyard by Marriott Cincinnati Covington               | 194             | 55                | 25          | 20          | 80                      | 155                        | 65 - 70       | 130 - 140       | 85 - 90        | 155                        | 65 - 70       | 110 - 115       | 75 - 80        |
| Holiday Inn & Suites Cincinnati Eastgate                 | 212             | 55                | 20          | 25          | 60                      | 127                        | 65 - 70       | 105 - 110       | 75 - 80        | 127                        | 65 - 70       | 105 - 110       | 70 - 75        |
| Hampton Inn & Suites Newport Cincinnati                  | 122             | 45                | 40          | 15          | 80                      | 98                         | 85 - 90       | 140 - 150       | 125 - 130      | 98                         | 90 - 95       | 140 - 150       | 130 - 140      |
| Residence Inn by Marriott Cincinnati Midtown Rookwood    | 118             | 70                | 20          | 10          | 70                      | 28                         | 50 - 55       | 160 - 170       | 80 - 85        | 83                         | 70 - 75       | 140 - 150       | 110 - 115      |
| Hilton Garden Inn Cincinnati Midtown                     | 120             | 65                | 20          | 15          | 80                      | 0                          | —             | —               | —              | 32                         | 45 - 50       | 125 - 130       | 55 - 60        |
| <b>Totals/Averages</b>                                   | <b>1,862</b>    | <b>57 %</b>       | <b>27 %</b> | <b>16 %</b> | <b>76 %</b>             | <b>1,261</b>               | <b>69.7 %</b> | <b>\$142.76</b> | <b>\$99.47</b> | <b>1,348</b>               | <b>71.7 %</b> | <b>\$137.15</b> | <b>\$98.36</b> |

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

We have identified fourteen hotels that are expected to compete with the proposed subject hotel on a secondary level. The Courtyard by Marriott Cincinnati Midtown, Hilton Garden Inn Midtown, Residence Inn by Marriott Midtown, and the SpringHill Suites by Marriott Cincinnati Midtown are anticipated to be competitive based on their brands and locations in Cincinnati; however, these hotels are anticipated to be secondarily competitive based on their midtown locations and higher price points. The Hampton Inn Cincinnati Downtown, Homewood Suites by Hilton Cincinnati Downtown, Residence Inn by Marriott Cincinnati Downtown, Aloft Newport, Hampton Inn & Suites Newport, Comfort Suites Newport, Holiday Inn Express Cincinnati Newport, Courtyard by Marriott Cincinnati Covington, and Best Western Plus Cincinnati Riverfront (formerly Hampton Inn Cincinnati Riverfront) are anticipated to be competitive based on their service levels and brand affiliations. However, due to their Downtown Cincinnati/Northern Kentucky locations, these properties have been considered secondarily competitive. The Holiday Inn & Suites Cincinnati Eastgate is competitive based on its Eastgate location; however, this is a full-service hotel with extensive meeting space.

### Supply Changes

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

**FIGURE 5-23 AREA DEVELOPMENT ACTIVITY**

| Proposed Hotel Name                      | Estimated       |                    | Development Stage   | Expected               |                                 | Address |
|--|-----------------|--------------------|---------------------|------------------------|---------------------------------|---------|
|  | Number of Rooms | Hotel Product Tier |                     | Qtr. & Year of Opening |                                 |         |
| <b>Downtown</b>                          |                 |                    |                     |                        |                                 |         |
| Lytle Park Autograph Collection Hotel    | 106             | Upper-Upscale      | Under Construction  | Q1 '20                 | 2401-2411 Reading Road          |         |
| Kinley Hotel                             | 102             | Upscale            | Under Construction  | Q3 '20                 | 37 W Seventh Street             |         |
| TownePlace Suites by Marriott            | 84              | Upper-Midscale     | Early Development   | Q1 '21                 | 106 W. Seventh Street           |         |
| Over the Rhine Boutique Hotel            | 20              | Upper-Upscale      | Speculative         | TBD                    | 208-212 W 12th Street           |         |
| The Baldwin Hotel                        | 120             | Upper-Upscale      | Speculative         | TBD                    | 655 Eden Park Drive             |         |
| Kimpton Downtown                         | 153             | Upper-Upscale      | Development on Hold | Q3 '20                 | 432 Walnut Street               |         |
| Cambria Hotel - Duttenhofer Building     | 130             | Upscale            | Development on Hold | TBD                    | 299 East 6th Street             |         |
| Macy's Department Store Redevelopment    | 101-150         | Upscale            | Rumored             | TBD                    | 505 Vine Street                 |         |
| Terrace Hotel Redevelopment              | 200-300         | Upscale            | Speculative         | TBD                    | 15 W. 6th Street                |         |
| Ingalls Building Hotel                   | 140             | Upscale            | Early Development   | Q1 '21                 | 6 East 4th Street               |         |
| OTR Boutique Hotel                       | 70              | Upscale            | Speculative         | TBD                    | 1401 Central Parkway            |         |
| Canopy by Hilton Downtown                | 150             | Upscale            | Early Development   | Q1 '21                 | 105 E 4th Street                |         |
| Hilton Garden Inn Downtown               | 150             | Upscale            | Early Development   | Q1 '21                 | 105 E 4th Street                |         |
| Convention Headquarter Hotel             | 600             | Upper-Upscale      | Seeking Developer   | TBD                    | 4th and Plum                    |         |
| <b>Suburban</b>                          |                 |                    |                     |                        |                                 |         |
| TownePlace Suites by Marriott Millford   | 85              | Upper-Midscale     | Speculative         | TBD                    | 610 Chamber Drive, Milford      |         |
| Blue Ash Airport Redevelopment Hotel     | 100-250         | Upper-Midscale     | Speculative         | TBD                    | Summit Park/Blue Ash Airport    |         |
| Holiday Inn Express Liberty West Chester | 116             | Upper-Midscale     | Recently Opened     | Q1 '18                 | 8567 Cincinnati-Dayton Road     |         |
| Montgomery Hotel                         | 100             | Upper-Midscale     | Early Development   | TBD                    | Downtown Montgomery             |         |
| Residence Inn Mason/Kings Island         | 106             | Upscale            | Recently Opened     | Q1 '19                 | 2511 Kings Center Courty, Mason |         |
| Tru by Hilton Sharonville                | 98              | Midscale           | Under Construction  | Q2 '20                 | 11163 Dowlin Drive              |         |
| Aloft West Chester                       | 116             | Upscale            | Under Construction  | Q3 '19                 | 9183 Centre Pointe Drive        |         |
| Hyatt House Liberty Way                  | 156             | Upscale            | Early Development   | TBD                    | Liberty Way                     |         |
| Anderson Township Hotel                  | 120             | Upper-Midscale     | Speculative         | TBD                    |                                 |         |
| <b>Northern Kentucky</b>                 |                 |                    |                     |                        |                                 |         |
| Fairfield Inn by Marriott Florence       | 91              | Midscale           | Under Construction  | Q3 '19                 | 5910 Merchants Drive, Florence  |         |
| Staybridge Suites Florence               | 89              | Upscale            | Under Construction  | Q4 '19                 | 3255 Ted Bushelman Boulevard    |         |
| Tru By Hilton Florence                   | 98              | Midscale           | Under Construction  | Q2 '19                 | 1090 Vandercar Way              |         |
| TownePlace Suites by Marriott Florence   | 101             | Upper-Midscale     | Early Development   | Q3 '20                 | Turfway Road                    |         |
| Holiday Inn Express Florence             | 93              | Upper-Midscale     | Under Construction  | Q3 '19                 | 1055 Vandercar Way              |         |
| Home2 Suites Downtown Newport            | 144             | Upper-Midscale     | Early Development   | Q1 '21                 | York and Fifth Street, Newport  |         |
| <b>Uptown and North I-71 Cincinnati</b>  |                 |                    |                     |                        |                                 |         |
| Fairfield Inn by Marriott Uptown         | 115             | Upper-Midscale     | Recently Opened     | Q3 '16                 | 2500 South Market Street        |         |
| Residence Inn Rookwood                   | 118             | Upscale            | Recently Opened     | Q3 '17                 | 3815 Edwards Road               |         |
| Hilton Garden Inn Dana Avenue            | 140             | Upscale            | Recently Opened     | Q3 '18                 | 2145 Dana Avenue                |         |
| Dolce Hotel The Summit                   | 239             | Luxury             | Recently Opened     | Q1 '18                 | 5345 Medpace Way                |         |
| Homewood Suites Oakley Station           | 108             | Upscale            | Recently Opened     | Q3 '18                 | 4605 Factory Colony Lane        |         |
| Uptown Gateway Hotel                     | 158             | Upscale            | Early Development   | Q1 '21                 | 3025 Concordia Street           |         |
| MLK Hotel                                | 140             | Upscale            | Early Development   | Q1 '21                 | 3100 Reading Boulevard          |         |
| Residence Inn Uptown                     | 162             | Upscale            | Early Development   | Q4 '20                 | Reading and Martin Luther King  |         |
| Kenwood Mixed-Use Development            | 130             | Upscale            | Speculative         | Q3' '21                | Kenwood Road, Sycamore Township |         |
| Comfort Suites/Mainstay Suites Uptown    | 113             | Midscale           | Under Construction  | Q4 '19                 | 2347 Reading Road               |         |

Of the hotels listed in the preceding table, we have identified the following new supply that is expected to have some degree of competitive interaction with the proposed subject hotel based on location, anticipated market orientation and price point, and/or operating profile.

**FIGURE 5-24 NEW SUPPLY**

| <u>Proposed Property</u>      | <u>Number of Rooms</u> | <u>Total Competitive Level</u> | <u>Weighted Room Count</u> | <u>Estimated Opening Date</u> | <u>Developer</u> | <u>Development Stage</u> |
|-------------------------------|------------------------|--------------------------------|----------------------------|-------------------------------|------------------|--------------------------|
| Proposed Subject Property     | 120                    | 100 %                          | 120                        | January 1, 2022               | TBD              | Early Development        |
| Home2 Suites Downtown Newport | 144                    | 70                             | 101                        | January 1, 2022               | Shaun Pan        | Early Development        |
| <b>Totals/Averages</b>        | <b>264</b>             |                                | <b>221</b>                 |                               |                  |                          |

A Home2 Suites by Hilton has been proposed for development on a site in downtown Newport; however, given its anticipated extended-stay product type, it has been weighted secondarily competitive in our analysis. Furthermore, we note that a hotel is proposed for a site in Highland Heights, proximate to Northern Kentucky University. However, this hotel would be a component of a \$112-million mixed-use development that is in the early planning stages. A hotel developer, brand, and chain scale have yet to be selected; therefore, the proposed NKU hotel has only been considered qualitatively in our positioning of the proposed subject hotel's stabilized occupancy level. Furthermore, we note that within the greater Cincinnati market, several projects are in various phases of development; however, given differences in submarkets, service level, and development phase, these projects have only been considered qualitatively in our positioning of the proposed subject hotel's stabilized occupancy level.

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

**Supply Conclusion**

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

**DEMAND**

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

weighted if there are secondary competitors present. In this respect, the information in the table differs from the previously presented STR data and is consistent with the supply and demand analysis developed for this report.

**FIGURE 5-25 HISTORICAL MARKET TRENDS**

| Year  | Accommodated |          | Room Nights |          | Market    |            |          | Market  |          |
|---|--------------|----------|-------------|----------|-----------|------------|----------|---------|----------|
|   | Room Nights  | % Change | Available   | % Change | Occupancy | Market ADR | % Change | RevPAR  | % Change |
| Est. 2016   | 388,244      | —        | 538,955     | —        | 72.0 %    | \$133.20   | —        | \$95.95 | —        |
| Est. 2017   | 427,943      | 10.2 %   | 622,839     | 15.6 %   | 68.7      | 132.86     | (0.3) %  | 91.29   | (4.9) %  |
| Est. 2018   | 483,862      | 13.1     | 685,685     | 10.1     | 70.6      | 127.88     | (3.7)    | 90.24   | (1.1)    |
| Avg. Annual Compounded Chg., Est. 2016-Est. 2018: |              | 11.6 %   |             | 12.8 %   |           |            | (2.0) %  |         | (3.0) %  |

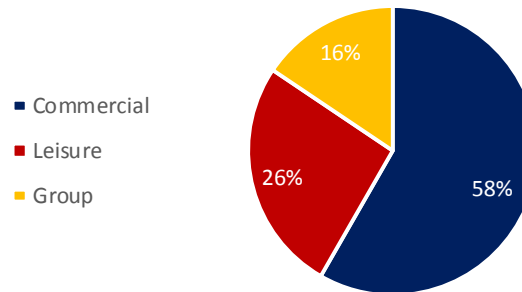
**Demand Analysis  
Using Market  
Segmentation**

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2018 distribution of accommodated-room-night demand as follows.

**FIGURE 5-26 ACCOMMODATED-ROOM-NIGHT DEMAND**

| Market Segment | Marketwide          |                     |
|----------------|---------------------|---------------------|
|                | Accommodated Demand | Percentage of Total |
| Commercial     | 282,053             | 58 %                |
| Leisure        | 126,336             | 26                  |
| Group          | 75,473              | 16                  |
| <b>Total</b>   | <b>483,862</b>      | <b>100 %</b>        |



**FIGURE 5-27 MARKET-WIDE ACCOMMODATED-ROOM-NIGHT DEMAND**

The market's demand mix comprises commercial demand, with this segment representing roughly 58% of the accommodated room nights in this Cincinnati submarket. The leisure segment comprises 26% of the total, with the final portion group in nature, reflecting 16%.

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room-night demand.

### Commercial Segment

Commercial demand consists mainly of individual businesspeople passing through the subject market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as "preferred" accommodations in return for more favorable rates, which are discounted in proportion to the number of room nights produced by a commercial client. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods. Primary commercial demand generators for the greater Cincinnati market include major corporate offices in the area, such as Proctor and Gamble, Kroger, and GE. As mentioned previously, corporate demand within Anderson Township is minimal; however, Mercy Health Anderson creates a modest amount of commercial demand.

### Leisure Segment

Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room

nights booked through Internet sites such as Expedia, Hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest on Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels. The various leisure attractions in the area generate high levels of leisure demand during weekends and on weekdays during peak travel months. Within Anderson Township, leisure demand is primarily generated by Riverbend Music Center, Coney Island Amusement Park, and Belterra Park.

### Group Segment

In the limited-service sector, group demand is most commonly generated by groups that require ten or more room nights but which need little to no meeting space within the hotel. Examples of these groups include family reunions, sports teams, and bus tours. In some markets, limited-service hotels may also accommodate demand from groups or individuals attending events at the local convention center or at one of the larger convention hotels in the area. Training groups from nearby companies generate meeting demand for local hotels; furthermore, social groups and sports tournaments represent primary sources of demand during weekend and holiday periods.

### Base Demand Growth Rates

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

**FIGURE 5-28 AVERAGE ANNUAL COMPOUNDED MARKET-SEGMENT GROWTH RATES**

| Market Segment            | Annual Growth Rate |              |              |              |              |              |
|---------------------------|--------------------|--------------|--------------|--------------|--------------|--------------|
|                           | 2019               | 2020         | 2021         | 2022         | 2023         | 2024         |
| Commercial                | 6.0 %              | 2.5 %        | 2.0 %        | 1.5 %        | 0.5 %        | 0.5 %        |
| Leisure                   | 6.0                | 3.0          | 2.0          | 1.0          | 0.5          | 0.0          |
| Group                     | 4.0                | 2.0          | 1.0          | 1.0          | 0.5          | 0.0          |
| <b>Base Demand Growth</b> | <b>5.7 %</b>       | <b>2.6 %</b> | <b>1.8 %</b> | <b>1.3 %</b> | <b>0.5 %</b> | <b>0.3 %</b> |

### Latent Demand

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

### Unaccommodated Demand

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

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

**FIGURE 5-29 OCCUPANCY BY NIGHT OF THE WEEK**

| Month          | Sunday        | Monday        | Tuesday       | Wednesday     | Thursday      | Friday        | Saturday      | Total Month   |
|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Jun - 18       | 61.7 %        | 88.4 %        | 95.0 %        | 93.2 %        | 86.5 %        | 84.7 %        | 89.8 %        | 85.7 %        |
| Jul - 18       | 55.3          | 77.7          | 82.9          | 85.5          | 77.4          | 83.0          | 87.1          | 77.8          |
| Aug - 18       | 56.3          | 81.8          | 89.6          | 86.0          | 72.2          | 77.3          | 87.6          | 78.7          |
| Sep - 18       | 56.5          | 72.1          | 86.7          | 88.9          | 79.6          | 76.7          | 87.0          | 77.8          |
| Oct - 18       | 55.4          | 73.8          | 81.8          | 81.3          | 77.5          | 77.8          | 87.7          | 76.7          |
| Nov - 18       | 41.7          | 61.5          | 70.7          | 73.5          | 64.8          | 66.4          | 75.3          | 64.9          |
| Dec - 18       | 37.4          | 56.5          | 59.3          | 58.2          | 50.1          | 49.7          | 61.6          | 53.1          |
| Jan - 19       | 33.1          | 58.1          | 58.6          | 61.4          | 48.0          | 43.8          | 51.3          | 51.1          |
| Feb - 19       | 39.5          | 64.8          | 77.5          | 74.7          | 56.2          | 64.1          | 71.0          | 64.0          |
| Mar - 19       | 44.5          | 71.1          | 80.3          | 79.8          | 66.8          | 73.2          | 84.2          | 71.0          |
| Apr - 19       | 39.0          | 73.6          | 85.9          | 84.3          | 71.9          | 74.5          | 76.0          | 72.7          |
| May - 19       | 52.5          | 69.6          | 85.1          | 83.6          | 72.1          | 79.5          | 90.2          | 76.3          |
| <b>Average</b> | <b>47.7 %</b> | <b>70.6 %</b> | <b>79.2 %</b> | <b>79.0 %</b> | <b>68.1 %</b> | <b>71.3 %</b> | <b>79.1 %</b> | <b>70.7 %</b> |

Source: STR

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

**FIGURE 5-30 UNACCOMMODATED DEMAND ESTIMATE**

| <b>Market Segment</b> | <b>Accommodated Room Night Demand</b> | <b>Unaccommodated Demand Percentage</b> | <b>Unaccommodated Room Night Demand</b> |
|-----------------------|---------------------------------------|---|---|
| Commercial            | 282,053                               | 2.4 %                                   | 6,862                                   |
| Leisure               | 126,336                               | 3.3                                     | 4,114                                   |
| Group                 | 75,473                                | 4.3                                     | 3,260                                   |
| <b>Total</b>          | <b>483,862</b>                        | <b>2.9 %</b>                            | <b>14,236</b>                           |

Accordingly, we have forecast unaccommodated demand equivalent to 2.9% of the base-year demand, resulting from our analysis of monthly and weekly peak demand and sell-out trends.

**Induced Demand**

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities. Although increases in demand are expected in the local market, we have accounted for this growth in the determination of market-segment growth rates rather than induced demand.

**Accommodated Demand and Market-wide Occupancy**

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

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

**FIGURE 5-31 FORECAST OF MARKET OCCUPANCY**

|  | 2018          | 2019          | 2020          | 2021          | 2022          | 2023          | 2024          |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Commercial</b>                          |               |               |               |               |               |               |               |
| Base Demand                                | 282,053       | 298,977       | 306,451       | 312,580       | 317,269       | 318,855       | 320,449       |
| Unaccommodated Demand                      | 6,862         | 7,273         | 7,455         | 7,604         | 7,718         | 7,757         | 7,796         |
| Total Demand                               | 288,915       | 306,250       | 313,906       | 320,184       | 324,987       | 326,612       | 328,245       |
| Growth Rate                                |               | 6.0 %         | 2.5 %         | 2.0 %         | 1.5 %         | 0.5 %         | 0.5 %         |
| <b>Leisure</b>                             |               |               |               |               |               |               |               |
| Base Demand                                | 126,336       | 133,917       | 137,934       | 140,693       | 142,100       | 142,810       | 142,810       |
| Unaccommodated Demand                      | 4,114         | 4,361         | 4,492         | 4,582         | 4,627         | 4,651         | 4,651         |
| Total Demand                               | 130,450       | 138,278       | 142,426       | 145,274       | 146,727       | 147,461       | 147,461       |
| Growth Rate                                |               | 6.0 %         | 3.0 %         | 2.0 %         | 1.0 %         | 0.5 %         | 0.0 %         |
| <b>Group</b>                               |               |               |               |               |               |               |               |
| Base Demand                                | 75,473        | 78,492        | 80,061        | 80,862        | 81,671        | 82,079        | 82,079        |
| Unaccommodated Demand                      | 3,260         | 3,390         | 3,458         | 3,493         | 3,528         | 3,545         | 3,545         |
| Total Demand                               | 78,733        | 81,882        | 83,520        | 84,355        | 85,198        | 85,624        | 85,624        |
| Growth Rate                                |               | 4.0 %         | 2.0 %         | 1.0 %         | 1.0 %         | 0.5 %         | 0.0 %         |
| <b>Totals</b>                              |               |               |               |               |               |               |               |
| Base Demand                                | 483,862       | 511,385       | 524,446       | 534,135       | 541,039       | 543,744       | 545,338       |
| Unaccommodated Demand                      | 14,236        | 15,025        | 15,405        | 15,679        | 15,873        | 15,953        | 15,991        |
| Total Demand                               | 498,098       | 526,409       | 539,851       | 549,813       | 556,912       | 559,697       | 561,330       |
| less: Residual Demand                      | 14,236        | 16,915        | 24,202        | 31,608        | 3,880         | 4,436         | 4,760         |
| Total Accommodated Demand                  | 483,862       | 509,495       | 515,649       | 518,206       | 553,032       | 555,260       | 556,570       |
| <b>Overall Demand Growth</b>               |               | 5.3 %         | 1.2 %         | 0.5 %         | 6.7 %         | 0.4 %         | 0.2 %         |
| <b>Market Mix</b>                          |               |               |               |               |               |               |               |
| Commercial                                 | 58.3 %        | 58.2 %        | 58.1 %        | 58.2 %        | 58.4 %        | 58.4 %        | 58.5 %        |
| Leisure                                    | 26.1          | 26.3          | 26.4          | 26.4          | 26.3          | 26.3          | 26.3          |
| Group                                      | 15.6          | 15.6          | 15.5          | 15.3          | 15.3          | 15.3          | 15.3          |
| <b>Existing Hotel Supply</b>               | 1,879         | 1,943         | 1,943         | 1,943         | 1,943         | 1,943         | 1,943         |
| <b>Proposed Hotels</b>                     |               |               |               |               |               |               |               |
| <sup>1</sup> Proposed Subject Property     |               |               |               |               | 120           | 120           | 120           |
| <sup>2</sup> Home2 Suites Downtown Newport |               |               |               |               | 101           | 101           | 101           |
| Available Room Nights per Year             | 685,685       | 709,013       | 709,013       | 709,013       | 789,605       | 789,605       | 789,605       |
| Nights per Year                            | 365           | 365           | 365           | 365           | 365           | 365           | 365           |
| <b>Total Supply</b>                        | 1,879         | 1,943         | 1,943         | 1,943         | 2,163         | 2,163         | 2,163         |
| Rooms Supply Growth                        | —             | 3.4 %         | 0.0 %         | 0.0 %         | 11.4 %        | 0.0 %         | 0.0 %         |
| <b>Marketwide Occupancy</b>                | <b>70.6 %</b> | <b>71.9 %</b> | <b>72.7 %</b> | <b>73.1 %</b> | <b>70.0 %</b> | <b>70.3 %</b> | <b>70.5 %</b> |

<sup>1</sup> Opening in January 2022 of the 100% competitive, 120-room Proposed Subject Property

<sup>2</sup> Opening in January 2022 of the 70% competitive, 144-room Home2 Suites Downtown Newport

The defined competitive market of hotels should experience modest occupancy growth in the near future as the market stabilizes from the recent surge of new supply. Following this normalizing period, occupancy should decline upon the opening of the subject hotel. Based on historical occupancy levels in this market, and taking into consideration typical supply and demand cyclicity, market occupancy is forecast to stabilize in the low 70s.

## 6. Description of the Proposed Improvements

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

### Project Overview

The Anderson Township Hotel will be a select-service lodging facility containing 100 rentable units. The 4-story property is expected to open on January 1, 2022. The Anderson Township market area currently does not contain any hotels. The Township is primarily a bedroom community for the Greater Cincinnati area. While a particular brand has yet to be determined for this project, our study assumes that the proposed subject hotel will operate as an upscale, limited- or select-service hotel under a brand not currently represented in the nearby submarkets.

We recommend that the proposed subject hotel operate as an upscale, limited- or select-service property, such as a SpringHill Suites by Marriott, an AC Hotel by Marriott, or a Hampton Inn by Hilton. While we have placed heavy consideration on the SpringHill Suites by Marriott brand, which is affiliated with Marriott International, a specific franchise affiliation and/or brand has yet to be finalized.

## TYPICAL EXTERIOR

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### Summary of the Facilities

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



**FIGURE 6-1 PROPOSED FACILITIES SUMMARY**

| <b>Guestroom Configuration</b>                 |                               | <b>Number of Units</b>  |
|--|-------------------------------|-------------------------|
| King   |                               | 50                      |
| Queen/Queen                                    |                               | 70                      |
| Total  |                               | 120                     |
| <b>Food &amp; Beverage Facilities</b>          |                               | <b>Seating Capacity</b> |
| Breakfast Dining Area                          |                               | 40                      |
| <b>Indoor Meeting &amp; Banquet Facilities</b> |                               | <b>Square Footage</b>   |
| Meeting Room                                   |                               | 1,200                   |
| <b>Amenities &amp; Services</b>                |                               |                         |
| Indoor Swimming Pool                           | Guest Laundry Area            |                         |
| Fitness Room                                   | Market Pantry                 |                         |
| Business Center                                |                               |                         |
| <b>Infrastructure</b>                          |                               |                         |
| Parking Spaces                                 | 125 Surface                   |                         |
| Elevators                                      | 2 Guest                       |                         |
| Life-Safety Systems                            | Sprinklers, Smoke Detectors   |                         |
| Construction Details                           | Wood Framing, Poured Concrete |                         |

**Site Improvements and Hotel Structure**

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

**Planned Facilities**

The hotel's breakfast dining area should be located opposite the front desk in the lobby. Its size and layout should be appropriate for the hotel. The furnishings of the space are expected to be of a similar style and finish as lobby and guestroom furnishings. The hotel is anticipated to offer one meeting room, which should be located on the first floor. This meeting space should be adequate and appropriate for a hotel of this type. The hotel should offer an indoor pool and a fitness room as

recreational facilities. Other amenities are likely to include a small business center, a market pantry, and a guest laundry area. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

### TYPICAL LOBBY

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### TYPICAL DINING AREA

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## Guestrooms

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

### TYPICAL GUESTROOM

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## Back-of-the-House, ADA, and Environmental

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

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

**Capital Expenditures**

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

**Conclusion**

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

## 7. Projection of Occupancy and Average Rate

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

### Penetration Rate Analysis

The proposed subject hotel's forecasted market share and occupancy levels are based upon its anticipated competitive position within the market, as quantified by its penetration rate. The penetration rate is the ratio of a hotel's market share to its fair share.

### Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate secondary competitors are set forth for each segment for the base year.

**FIGURE 7-1 HISTORICAL PENETRATION RATES**

| Property   | Commercial | Leisure | Group | Overall |
|--|------------|---------|-------|---------|
| Hampton Inn Cincinnati Eastgate                        | 111 %      | 76 %    | 95 %  | 99 %    |
| Fairfield Inn & Suites by Marriott Cincinnati Eastgate | 123        | 85      | 106   | 111     |
| Comfort Inn & Suites Cincinnati                        | 77         | 66      | 45    | 69      |
| Hampton Inn & Suites Wilder                            | 108        | 100     | 101   | 105     |
| Comfort Inn & Suites Northern Kentucky                 | 79         | 106     | 118   | 92      |
| Holiday Inn Express & Suites Cincinnati South Wilder   | 96         | 90      | 90    | 94      |
| Secondary Competition                                  | 100        | 105     | 103   | 102     |

The Fairfield Inn & Suites by Marriott Cincinnati Eastgate achieved the highest penetration rate within the commercial segment. The highest penetration rate in the leisure segment was achieved by the Comfort Inn & Suites Northern Kentucky,

**Forecast of Subject  
Property's Occupancy**

while the Comfort Inn & Suites Northern Kentucky led the market with the highest group penetration rate.

Because the supply and demand balance for the competitive market is dynamic, there is a circular relationship between the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market and, consequently, upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (when a poorly maintained or marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture, and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply or a change in the relative penetration performance of one or more hotels in the competitive market. Our projections of penetration, demand capture, and occupancy performance for the proposed subject hotel account for these types of adjustments to market share within the defined competitive market.

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

**FIGURE 7-2 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY**

| <b>Market Segment</b>             | <b>2022</b>   | <b>2023</b>   | <b>2024</b>   |
|-----------------------------------|---------------|---------------|---------------|
| <b>Commercial</b>                 |               |               |               |
| Demand                            | 322,738       | 324,041       | 325,481       |
| Market Share                      | 5.5 %         | 5.7 %         | 5.8 %         |
| Capture                           | 17,783        | 18,460        | 18,834        |
| Penetration                       | 99 %          | 103 %         | 104 %         |
| <b>Leisure</b>                    |               |               |               |
| Demand                            | 145,693       | 146,279       | 146,196       |
| Market Share                      | 5.5 %         | 5.8 %         | 6.0 %         |
| Capture                           | 8,060         | 8,443         | 8,795         |
| Penetration                       | 100 %         | 104 %         | 108 %         |
| <b>Group</b>                      |               |               |               |
| Demand                            | 84,600        | 84,941        | 84,893        |
| Market Share                      | 4.5 %         | 4.8 %         | 5.0 %         |
| Capture                           | 3,838         | 4,067         | 4,282         |
| Penetration                       | 82 %          | 86 %          | 91 %          |
| <b>Total Room Nights Captured</b> | <b>29,681</b> | <b>30,969</b> | <b>31,911</b> |
| Available Room Nights             | 43,800        | 43,800        | 43,800        |
| <b>Subject Occupancy</b>          | <b>68 %</b>   | <b>71 %</b>   | <b>73 %</b>   |
| Market-wide Available Room Nights | 789,605       | 789,605       | 789,605       |
| <b>Fair Share</b>                 | <b>6 %</b>    | <b>6 %</b>    | <b>6 %</b>    |
| Market-wide Occupied Room Nights  | 553,032       | 555,260       | 556,570       |
| <b>Market Share</b>               | <b>5 %</b>    | <b>6 %</b>    | <b>6 %</b>    |
| <b>Market-wide Occupancy</b>      | <b>70 %</b>   | <b>70 %</b>   | <b>70 %</b>   |
| <b>Total Penetration</b>          | <b>97 %</b>   | <b>101 %</b>  | <b>103 %</b>  |

Within the commercial segment, the proposed subject hotel's occupancy penetration is positioned appropriately within the range of existing competitors, supported by the expected service level and strong brand affiliation. The proposed subject hotel's occupancy penetration in the group segment is positioned below the market-average level given the proposed hotel's limited meeting space and expected focus on leisure demand. Within the leisure segment, the proposed subject hotel's occupancy penetration is positioned above the market-average level, largely attributed to the proposed hotel's proximity to the riverfront entertainment venues and its easy access to Interstate 275.

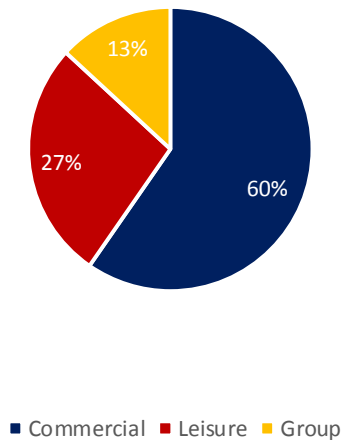


These positioned segment penetration rates result in the following market segmentation forecast.

**FIGURE 7-3 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY**

|              | 2022         | 2023         | 2024         |
|--------------|--------------|--------------|--------------|
| Commercial   | 60 %         | 60 %         | 59 %         |
| Leisure      | 27           | 27           | 28           |
| Group        | 13           | 13           | 13           |
| <b>Total</b> | <b>100 %</b> | <b>100 %</b> | <b>100 %</b> |

**FIGURE 7-4 STABILIZED MARKET SEGMENTATION – SUBJECT PROPERTY**



Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 73%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the proposed subject hotel may operate at occupancies above this stabilized level, we believe it equally possible for new

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

### **Average Rate Analysis**

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

### **Competitive Position**

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

**FIGURE 7-5 BASE-YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS**

| <b>Property</b>   | <b>Estimated 2018<br/>Average Room<br/>Rate</b> | <b>Average Room<br/>Rate Penetration</b> | <b>Rooms Revenue<br/>Per Available<br/>Room (RevPAR)</b> | <b>RevPAR<br/>Penetration</b> |
|---|---|--|--|-------------------------------|
| Hampton Inn Cincinnati Eastgate                           | \$100 - \$105                                   | 75 - 80 %                                | \$70 - \$75  | 75 - 80 %                     |
| Fairfield Inn & Suites by Marriott<br>Cincinnati Eastgate | 105 - 110                                       | 80 - 85                                  | 80 - 85  | 90 - 95                       |
| Comfort Inn & Suites Cincinnati                           | 60 - 65   | 45 - 50                                  | 30 - 35  | 30 - 35                       |
| Hampton Inn & Suites Wilder                               | 120 - 125                                       | 90 - 95                                  | 85 - 90  | 95 - 100                      |
| Comfort Inn & Suites Northern Kentucky                    | 95 - 100  | 70 - 75                                  | 60 - 65  | 65 - 70                       |
| Holiday Inn Express & Suites Cincinnati<br>South Wilder   | 105 - 110                                       | 80 - 85                                  | 70 - 75  | 75 - 80                       |
| <b>Average - Primary Competitors</b>                      | <b>\$102.93</b>                                 | <b>80.5 %</b>                            | <b>\$69.62</b>   | <b>77.2 %</b>                 |
| <b>Average - Secondary Competitors</b>                    | <b>137.15</b>                                   | <b>107.3</b>                             | <b>98.36</b>   | <b>109.0</b>                  |
| <b>Overall Average</b>                                    | <b>\$127.88</b>                                 | <b>100.0 %</b>                           | <b>\$90.24</b>   | <b>100.0 %</b>                |
| <b>Subject As If Stabilized (In 2018 Dollars)</b>         | <b>\$125.00</b>                                 | <b>97.7 %</b>                            | <b>\$91.17</b>   | <b>101.0 %</b>                |

The defined primary competitive market realized an overall average rate of \$102.93 in the 2018 base year, declining from the 2017 level of \$103.30. We have selected the rate position of \$125.00, in base-year dollars, for the proposed subject hotel.

Based on these considerations, the following table illustrates the projected average rate and the growth rates assumed. As a context for the ADR growth factors, note that we have applied underlying inflation rates of 2.5%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2018.

**FIGURE 7-6 COMPARISON OF HISTORICAL AND PROJECTED OCCUPANCY, ADR, AND REVPAR – PROPOSED SUBJECT PROPERTY AND MARKET**

|                                | 2016                   | 2017     | 2018     | Projected |          |          |          |          |          |
|--------------------------------|------------------------|----------|----------|-----------|----------|----------|----------|----------|----------|
|                                |                        |          |          | 2019      | 2020     | 2021     | 2022     | 2023     | 2024     |
| <b>Anderson Township Hotel</b> |                        |          |          |           |          |          |          |          |          |
| Occupancy                      |                        |          |          | — %       | — %      | — %      | 67.8 %   | 70.7 %   | 72.9 %   |
| Change in Points               |                        |          |          | —         | —        | —        | —        | 2.9      | 2.2      |
| Occupancy Penetration          |                        |          |          | —         | —        | —        | 96.8 %   | 100.5 %  | 103.4 %  |
| Average Rate                   |                        |          | \$125.00 | \$126.88  | \$129.41 | \$133.29 | \$136.61 | \$140.71 | \$145.65 |
| Change                         |                        |          |          | —         | 2.0 %    | 3.0 %    | 2.5 %    | 3.0 %    | 3.5 %    |
| Average Rate Penetration       |                        |          |          | 97.7 %    | 97.7 %   | 97.7 %   | 97.3 %   | 97.3 %   | 97.7 %   |
| RevPAR                         |                        |          |          | —         | —        | —        | \$92.57  | \$99.49  | \$106.12 |
| Change                         |                        |          |          | —         | —        | —        | —        | 7.5 %    | 6.7 %    |
| RevPAR Penetration             |                        |          |          | —         | —        | —        | 94.1 %   | 97.8 %   | 101.0 %  |
|                                | Historical (Estimated) |          |          | Projected |          |          |          |          |          |
|                                | 2017                   | 2017     | 2018     | 2019      | 2020     | 2021     | 2022     | 2023     | 2024     |
| <b>Cincinnati Submarket</b>    |                        |          |          |           |          |          |          |          |          |
| Occupancy                      | 72.0 %                 | 68.7 %   | 70.6 %   | 71.9 %    | 72.7 %   | 73.1 %   | 70.0 %   | 70.3 %   | 70.5 %   |
| Change in Points               | —                      | (3.3)    | 1.9      | 1.3       | 0.9      | 0.4      | (3.0)    | 0.3      | 0.2      |
| Average Rate                   | \$133.20               | \$132.86 | \$127.88 | \$129.80  | \$132.39 | \$136.37 | \$140.46 | \$144.67 | \$149.01 |
| Change                         | —                      | (0.3) %  | (3.7) %  | 1.5 %     | 2.0 %    | 3.0 %    | 3.0 %    | 3.0 %    | 3.0 %    |
| RevPAR                         | \$95.95                | \$91.29  | \$90.24  | \$93.27   | \$96.29  | \$99.67  | \$98.37  | \$101.73 | \$105.03 |
| Change                         | —                      | (4.9) %  | (1.1) %  | 3.4 %     | 3.2 %    | 3.5 %    | (1.3) %  | 3.4 %    | 3.2 %    |

\* The forecast for the proposed subject property does not include rate discounts that are expected to occur during the initial year(s) of operation.

The final forecast reflects years beginning on January 1, 2022, and corresponds with our financial projections, as shown below.

**FIGURE 7-7 ADR FORECAST – MARKET AND PROPOSED SUBJECT HOTEL**

| Calendar Year  | 2018            | 2019     | 2020     | 2021            | 2022            | 2023            | 2024            | 2025            | 2026            |
|--|-----------------|----------|----------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Market ADR   | \$127.88        | \$129.80 | \$132.39 | \$136.37        | \$140.46        | \$144.67        | \$149.01        | \$153.48        | \$158.08        |
| Projected Market ADR Growth Rate                             | —               | 1.5%     | 2.0%     | 3.0%            | 3.0%            | 3.0%            | 3.0%            | 3.0%            | 3.0%            |
| Proposed Subject Property ADR (As-If Stabilized)             | <b>\$125.00</b> | \$126.88 | \$129.41 | \$133.29        | \$137.29        | \$141.41        | \$145.65        | \$150.02        | \$154.53        |
| ADR Growth Rate  | —               | 1.5%     | 2.0%     | 3.0%            | 3.0%            | 3.0%            | 3.0%            | 3.0%            | 3.0%            |
| Proposed Subject Stabilized ADR Penetration                  | 98%             | 98%      | 98%      | 98%             | 98%             | 98%             | 98%             | 98%             | 97.7%           |
| Fiscal Year  |                 |          |          | 2021            | 2022            | 2023            | 2024            | 2025            | 2026            |
| Proposed Subject Property Average Rate                       |                 |          |          | \$133.29        | \$137.29        | \$141.41        | \$145.65        | \$150.02        | \$154.53        |
| Opening Discount   |                 |          |          | 0.0%            | 0.5%            | 0.5%            | 0.0%            | 0.0%            | 0.0%            |
| <b>Average Rate After Discount</b>                           |                 |          |          | <b>\$133.29</b> | <b>\$136.61</b> | <b>\$140.71</b> | <b>\$145.65</b> | <b>\$150.02</b> | <b>\$154.53</b> |
| Real Average Rate Growth                                     |                 |          |          | —               | 2.5%            | 3.0%            | 3.5%            | 3.0%            | 3.0%            |
| Market ADR   |                 |          |          | \$136.37        | \$140.46        | \$144.67        | \$149.01        | \$153.48        | \$158.08        |
| Proposed Subject ADR Penetration (After Discount)            |                 |          |          | 98%             | 97%             | 97%             | 98%             | 98%             | 98%             |
| ADR Expressed in Base-Year Dollars Deflated @ Inflation Rate |                 |          |          | \$123.18        | \$122.56        | \$122.56        | \$123.18        | \$123.18        | \$123.18        |

The Cincinnati market should experience rate growth through the near term. The proposed subject hotel's rate position should reflect growth similar to market trends because of the proposed hotel's new facility, strong brand affiliation, and service level. The proposed subject hotel's ADR penetration level is forecast to reach 97.7 % by the stabilized period, consistent with our stabilized ADR positioning.

Discounts of 0.5% and 0.5% have been applied to the stabilized room rates projected for the first two years of operation, as would be expected for a new property of this type as it builds its reputation and becomes established in the market.

The following occupancies and average rates will be used to project the proposed subject hotel's rooms revenue; this forecast reflects years beginning on January 1, 2022, which correspond with our financial projections.

**FIGURE 7-8 FORECASTS OF OCCUPANCY, AVERAGE RATE, AND REVPAR**

| <u>Year</u> | <u>Occupancy</u> | <u>Average Rate<br/>Before Discount</u> | <u>Discount</u> | <u>Average Rate<br/>After Discount</u> |
|-------------|------------------|---|-----------------|--|
| 2022        | 68 %             | \$137.29                                | 0.5 %           | \$136.61                               |
| 2023        | 71               | 141.41                                  | 0.5             | 140.71                                 |
| 2024        | 73               | 145.65                                  | 0.0             | 145.65                                 |

## 8. Projection of Income and Expense

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

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over its remaining economic life given any or all applicable stages of build-up, plateau, and decline in the life cycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The ten-year period reflects the typical holding period of large real estate assets such as hotels. In addition, the ten-year period provides for the stabilization of income streams and comparison of yields with alternate types of real estate. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.

### Comparable Operating Statements

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

**FIGURE 8-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES**

|                                    | Comp 1    | Comp 2     | Comp 3    | Comp 4    | Comp 5    | Subject       |
|------------------------------------|-----------|------------|-----------|-----------|-----------|---------------|
|                                    |           |            |           |           |           | Stabilized \$ |
| Year:                              | 2018/19   | 2018/19    | 2018      | 2017/18   | 2017      | 2018          |
| Edition:                           | 11        | 11         | 11        | 11        | 11        | 11            |
| Number of Rooms:                   | 80 to 100 | 110 to 140 | 70 to 100 | 80 to 110 | 90 to 110 | 120           |
| Days Open:                         | 365       | 365        | 365       | 365       | 365       | 365           |
| Occupancy:                         | 79%       | 77%        | 69%       | 72%       | 77%       | 73%           |
| Average Rate:                      | \$116     | \$114      | \$126     | \$114     | \$121     | \$123         |
| RevPAR:                            | \$91      | \$88       | \$86      | \$83      | \$93      | \$90          |
| <b>REVENUE</b>                     |           |            |           |           |           |               |
| Rooms                              | 97.7 %    | 97.2 %     | 98.7 %    | 99.0 %    | 98.6 %    | 97.0 %        |
| Other Operated Departments         | 0.6       | 2.6        | 1.0       | 0.4       | 1.3       | 2.4           |
| Miscellaneous Income               | 1.7       | 0.2        | 0.4       | 0.6       | 0.1       | 0.6           |
| Total                              | 100.0     | 100.0      | 100.0     | 100.0     | 100.0     | 100.0         |
| <b>DEPARTMENTAL EXPENSES*</b>      |           |            |           |           |           |               |
| Rooms                              | 20.2      | 21.9       | 23.1      | 22.5      | 22.3      | 22.0          |
| Other Operated Departments         | 74.0      | 58.8       | 48.3      | 64.7      | 25.2      | 60.0          |
| Total                              | 20.2      | 22.8       | 23.2      | 22.6      | 22.3      | 22.8          |
| <b>DEPARTMENTAL INCOME</b>         |           |            |           |           |           |               |
|                                    | 79.8      | 77.2       | 76.8      | 77.4      | 77.7      | 77.2          |
| <b>OPERATING EXPENSES</b>          |           |            |           |           |           |               |
| Administrative & General           | 6.1       | 7.2        | 8.9       | 5.8       | 6.8       | 7.7           |
| Info. and Telecom. Systems         | 1.0       | 1.4        | 2.2       | 1.7       | 1.4       | 1.3           |
| Marketing                          | 4.0       | 5.1        | 5.4       | 5.2       | 6.7       | 4.7           |
| Franchise Fee                      | 9.8       | 8.8        | 7.9       | 10.6      | 9.9       | 7.8           |
| Property Operations & Maintenance  | 2.5       | 4.3        | 5.0       | 3.6       | 3.9       | 3.3           |
| Utilities                          | 3.6       | 2.6        | 2.7       | 3.3       | 3.5       | 3.5           |
| Total                              | 27.1      | 29.4       | 32.1      | 30.2      | 32.1      | 28.3          |
| <b>HOUSE PROFIT</b>                |           |            |           |           |           |               |
|                                    | 52.7      | 47.8       | 44.7      | 47.2      | 45.6      | 48.9          |
| Management Fee                     | 3.8       | 4.0        | 3.0       | 5.0       | 3.0       | 3.0           |
| <b>INCOME BEFORE FIXED CHARGES</b> |           |            |           |           |           |               |
|                                    | 48.9      | 43.9       | 41.7      | 42.2      | 42.5      | 45.9          |

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



**FIGURE 8-2 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM**

|                                    | Comp 1    | Comp 2     | Comp 3    | Comp 4    | Comp 5    | Subject               |
|------------------------------------|-----------|------------|-----------|-----------|-----------|-----------------------|
|                                    | 2018/19   | 2018/19    | 2018      | 2017/18   | 2017      | Stabilized \$<br>2018 |
| Year:                              | 2018/19   | 2018/19    | 2018      | 2017/18   | 2017      | 2018                  |
| Edition:                           | 11        | 11         | 11        | 11        | 11        | 11                    |
| Number of Rooms:                   | 80 to 100 | 110 to 140 | 70 to 100 | 80 to 110 | 90 to 110 | 120                   |
| Days Open:                         | 365       | 365        | 365       | 365       | 365       | 365                   |
| Occupancy:                         | 79%       | 77%        | 69%       | 72%       | 77%       | 73%                   |
| Average Rate:                      | \$116     | \$114      | \$126     | \$114     | \$121     | \$123                 |
| RevPAR:                            | \$91      | \$88       | \$86      | \$83      | \$93      | \$90                  |
| <b>REVENUE</b>                     |           |            |           |           |           |                       |
| Rooms                              | \$33,236  | \$32,226   | \$31,533  | \$30,115  | \$33,832  | \$32,820              |
| Other Operated Departments         | 192       | 852        | 307       | 127       | 444       | 799                   |
| Miscellaneous Income               | 585       | 60         | 115       | 179       | 39        | 200                   |
| Total                              | 34,013    | 33,138     | 31,955    | 30,421    | 34,315    | 33,820                |
| <b>DEPARTMENTAL EXPENSES</b>       |           |            |           |           |           |                       |
| Rooms                              | 6,714     | 7,044      | 7,275     | 6,785     | 7,555     | 7,220                 |
| Other Operated Departments         | 142       | 500        | 148       | 82        | 112       | 480                   |
| Total                              | 6,856     | 7,544      | 7,423     | 6,867     | 7,667     | 7,700                 |
| <b>DEPARTMENTAL INCOME</b>         |           |            |           |           |           |                       |
|                                    | 27,157    | 25,594     | 24,531    | 23,554    | 26,648    | 26,120                |
| <b>OPERATING EXPENSES</b>          |           |            |           |           |           |                       |
| Administrative & General           | 2,090     | 2,388      | 2,840     | 1,772     | 2,320     | 2,600                 |
| Info. and Telecom. Systems         | 357       | 451        | 695       | 512       | 489       | 450                   |
| Marketing                          | 1,356     | 1,704      | 1,719     | 1,576     | 2,289     | 1,600                 |
| Franchise Fee                      | 3,334     | 2,903      | 2,528     | 3,225     | 3,385     | 2,626                 |
| Property Operations & Maintenance  | 861       | 1,417      | 1,593     | 1,103     | 1,334     | 1,100                 |
| Utilities                          | 1,215     | 870        | 871       | 996       | 1,211     | 1,200                 |
| Total                              | 9,212     | 9,733      | 10,246    | 9,185     | 11,028    | 9,575                 |
| <b>HOUSE PROFIT</b>                |           |            |           |           |           |                       |
|                                    | 17,945    | 15,861     | 14,285    | 14,369    | 15,620    | 16,544                |
| Management Fee                     | 1,309     | 1,325      | 960       | 1,526     | 1,030     | 1,015                 |
| <b>INCOME BEFORE FIXED CHARGES</b> |           |            |           |           |           |                       |
|                                    | 16,635    | 14,536     | 13,326    | 12,843    | 14,591    | 15,529                |

**FIGURE 8-3 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM**

|                                    | Comp 1    | Comp 2     | Comp 3    | Comp 4    | Comp 5    | Subject       |
|------------------------------------|-----------|------------|-----------|-----------|-----------|---------------|
|                                    |           |            |           |           |           | Stabilized \$ |
| Year:                              | 2018/19   | 2018/19    | 2018      | 2017/18   | 2017      | 2018          |
| Edition:                           | 11        | 11         | 11        | 11        | 11        | 11            |
| Number of Rooms:                   | 80 to 100 | 110 to 140 | 70 to 100 | 80 to 110 | 90 to 110 | 120           |
| Days Open:                         | 365       | 365        | 365       | 365       | 365       | 365           |
| Occupancy:                         | 79%       | 77%        | 69%       | 72%       | 77%       | 73%           |
| Average Rate:                      | \$116     | \$114      | \$126     | \$114     | \$121     | \$123         |
| RevPAR:                            | \$91      | \$88       | \$86      | \$83      | \$93      | \$90          |
| <b>REVENUE</b>                     |           |            |           |           |           |               |
| Rooms                              | \$115.71  | \$114.43   | \$125.67  | \$114.34  | \$121.05  | \$123.18      |
| Other Operated Departments         | 0.67      | 3.02       | 1.22      | 0.48      | 1.59      | 3.00          |
| Miscellaneous Income               | 2.03      | 0.21       | 0.46      | 0.68      | 0.14      | 0.75          |
| Total                              | 118.41    | 117.67     | 127.35    | 115.50    | 122.78    | 126.93        |
| <b>DEPARTMENTAL EXPENSES</b>       |           |            |           |           |           |               |
| Rooms                              | 23.37     | 25.01      | 28.99     | 25.76     | 27.03     | 27.10         |
| Other Operated Departments         | 0.49      | 1.78       | 0.59      | 0.31      | 0.40      | 1.80          |
| Total                              | 23.87     | 26.79      | 29.59     | 26.07     | 27.43     | 28.90         |
| <b>DEPARTMENTAL INCOME</b>         |           |            |           |           |           |               |
|                                    | 94.54     | 90.88      | 97.77     | 89.43     | 95.35     | 98.03         |
| <b>OPERATING EXPENSES</b>          |           |            |           |           |           |               |
| Administrative & General           | 7.28      | 8.48       | 11.32     | 6.73      | 8.30      | 9.76          |
| Info. and Telecom. Systems         | 1.24      | 1.60       | 2.77      | 1.95      | 1.75      | 1.69          |
| Marketing                          | 4.72      | 6.05       | 6.85      | 5.98      | 8.19      | 6.00          |
| Franchise Fee                      | 11.61     | 10.31      | 10.07     | 12.25     | 12.11     | 9.85          |
| Property Operations & Maintenance  | 3.00      | 5.03       | 6.35      | 4.19      | 4.77      | 4.13          |
| Utilities                          | 4.23      | 3.09       | 3.47      | 3.78      | 4.33      | 4.50          |
| Total                              | 32.07     | 34.56      | 40.83     | 34.87     | 39.46     | 35.94         |
| <b>HOUSE PROFIT</b>                |           |            |           |           |           |               |
|                                    | 62.47     | 56.32      | 56.93     | 54.56     | 55.89     | 62.09         |
| Management Fee                     | 4.56      | 4.71       | 3.82      | 5.80      | 3.68      | 3.81          |
| <b>INCOME BEFORE FIXED CHARGES</b> |           |            |           |           |           |               |
|                                    | 57.91     | 51.61      | 53.11     | 48.76     | 52.21     | 58.28         |

The departmental income of the comparable properties ranged from 76.8% to 79.8% of total revenue. The comparable properties achieved a house profit ranging from 44.7% to 52.7% of total revenue. We will refer to the comparable operating data in our discussion of each line item, which follows later in this section of the report.

### Fixed and Variable Component Analysis

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a systematic approach, following the format of the *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

### Inflation Assumption

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied underlying inflation rates of 2.5%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2018. This stabilized inflation rate considers normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

### Forecast of Revenue and Expense

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of income and expense. The following table presents a detailed forecast through the fifth projection year, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on January 1, 2022, expressed in inflated dollars for each year.

**FIGURE 8-4 DETAILED FORECAST OF INCOME AND EXPENSE**

|   | 2022 (Calendar Year) |               |                 | 2023           |                |               | Stabilized      |                |                | 2025          |                 |                | 2026           |               |                 |                |                |               |                 |                |
|---|----------------------|---------------|-----------------|----------------|----------------|---------------|-----------------|----------------|----------------|---------------|-----------------|----------------|----------------|---------------|-----------------|----------------|----------------|---------------|-----------------|----------------|
| Number of Rooms:                              | 120                  |               |                 | 120            |                |               | 120             |                |                | 120           |                 |                | 120            |               |                 |                |                |               |                 |                |
| Occupancy:                                    | 68%                  |               |                 | 71%            |                |               | 73%             |                |                | 73%           |                 |                | 73%            |               |                 |                |                |               |                 |                |
| Average Rate:                                 | \$136.61             |               |                 | \$140.71       |                |               | \$145.65        |                |                | \$150.02      |                 |                | \$154.53       |               |                 |                |                |               |                 |                |
| RevPAR:                                       | \$92.89              |               |                 | \$99.90        |                |               | \$106.33        |                |                | \$109.52      |                 |                | \$112.80       |               |                 |                |                |               |                 |                |
| Days Open:                                    | 365                  |               |                 | 365            |                |               | 365             |                |                | 365           |                 |                | 365            |               |                 |                |                |               |                 |                |
| Occupied Rooms:                               | 29,784               | %Gross        | PAR             | POR            | 31,098         | %Gross        | PAR             | POR            | 31,974         | %Gross        | PAR             | POR            | 31,974         | %Gross        | PAR             | POR            |                |               |                 |                |
| <b>OPERATING REVENUE</b>                      |                      |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |
| Rooms   | \$4,069              | 96.9 %        | \$33,908        | \$136.62       | \$4,376        | 97.0 %        | \$36,467        | \$140.72       | \$4,657        | 97.0 %        | \$38,808        | \$145.65       | \$4,797        | 97.0 %        | \$39,975        | \$150.03       | \$4,941        | 97.0 %        | \$41,175        | \$154.53       |
| Other Operated Departments                    | 105                  | 2.5           | 873             | 3.52           | 109            | 2.4           | 910             | 3.51           | 113            | 2.4           | 945             | 3.55           | 117            | 2.4           | 974             | 3.65           | 120            | 2.4           | 1,003           | 3.76           |
| Miscellaneous Income                          | 26                   | 0.6           | 218             | 0.88           | 27             | 0.6           | 228             | 0.88           | 28             | 0.6           | 236             | 0.89           | 29             | 0.6           | 243             | 0.91           | 30             | 0.6           | 251             | 0.94           |
| <b>Total Operating Revenues</b>               | <b>4,200</b>         | <b>100.0</b>  | <b>34,999</b>   | <b>141.01</b>  | <b>4,513</b>   | <b>100.0</b>  | <b>37,604</b>   | <b>145.11</b>  | <b>4,799</b>   | <b>100.0</b>  | <b>39,990</b>   | <b>150.08</b>  | <b>4,943</b>   | <b>100.0</b>  | <b>41,192</b>   | <b>154.60</b>  | <b>5,091</b>   | <b>100.0</b>  | <b>42,428</b>   | <b>159.24</b>  |
| <b>DEPARTMENTAL EXPENSES *</b>                |                      |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |
| Rooms   | 939                  | 23.1          | 7,828           | 31.54          | 984            | 22.5          | 8,199           | 31.64          | 1,025          | 22.0          | 8,538           | 32.04          | 1,055          | 22.0          | 8,794           | 33.01          | 1,087          | 22.0          | 9,058           | 34.00          |
| Other Operated Departments                    | 64                   | 60.9          | 531             | 2.14           | 66             | 60.3          | 549             | 2.12           | 68             | 60.0          | 567             | 2.13           | 70             | 60.0          | 584             | 2.19           | 72             | 60.0          | 602             | 2.26           |
| <b>Total Expenses</b>                         | <b>1,003</b>         | <b>23.9</b>   | <b>8,359</b>    | <b>33.68</b>   | <b>1,050</b>   | <b>23.3</b>   | <b>8,748</b>    | <b>33.76</b>   | <b>1,093</b>   | <b>22.8</b>   | <b>9,105</b>    | <b>34.17</b>   | <b>1,125</b>   | <b>22.8</b>   | <b>9,378</b>    | <b>35.20</b>   | <b>1,159</b>   | <b>22.8</b>   | <b>9,660</b>    | <b>36.25</b>   |
| <b>DEPARTMENTAL INCOME</b>                    | <b>3,197</b>         | <b>76.1</b>   | <b>26,640</b>   | <b>107.33</b>  | <b>3,463</b>   | <b>76.7</b>   | <b>28,856</b>   | <b>111.35</b>  | <b>3,706</b>   | <b>77.2</b>   | <b>30,885</b>   | <b>115.91</b>  | <b>3,818</b>   | <b>77.2</b>   | <b>31,814</b>   | <b>119.40</b>  | <b>3,932</b>   | <b>77.2</b>   | <b>32,769</b>   | <b>122.98</b>  |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>       |                      |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |
| Administrative & General                      | 342                  | 8.1           | 2,846           | 11.47          | 355            | 7.9           | 2,961           | 11.43          | 369            | 7.7           | 3,074           | 11.54          | 380            | 7.7           | 3,167           | 11.88          | 391            | 7.7           | 3,262           | 12.24          |
| Info & Telecom Systems                        | 59                   | 1.4           | 493             | 1.98           | 62             | 1.4           | 513             | 1.98           | 64             | 1.3           | 532             | 2.00           | 66             | 1.3           | 548             | 2.06           | 68             | 1.3           | 565             | 2.12           |
| Marketing                                     | 210                  | 5.0           | 1,751           | 7.06           | 219            | 4.8           | 1,822           | 7.03           | 227            | 4.7           | 1,892           | 7.10           | 234            | 4.7           | 1,949           | 7.31           | 241            | 4.7           | 2,007           | 7.53           |
| Franchise Fee                                 | 326                  | 7.8           | 2,713           | 10.93          | 350            | 7.8           | 2,917           | 11.26          | 373            | 7.8           | 3,105           | 11.65          | 384            | 7.8           | 3,198           | 12.00          | 395            | 7.8           | 3,294           | 12.36          |
| Prop. Operations & Maint.                     | 130                  | 3.1           | 1,084           | 4.37           | 143            | 3.2           | 1,190           | 4.59           | 156            | 3.3           | 1,301           | 4.88           | 161            | 3.3           | 1,340           | 5.03           | 166            | 3.3           | 1,380           | 5.18           |
| Utilities                                     | 158                  | 3.8           | 1,314           | 5.29           | 164            | 3.6           | 1,367           | 5.27           | 170            | 3.5           | 1,419           | 5.33           | 175            | 3.5           | 1,462           | 5.49           | 181            | 3.5           | 1,505           | 5.65           |
| <b>Total Expenses</b>                         | <b>1,224</b>         | <b>29.2</b>   | <b>10,200</b>   | <b>41.10</b>   | <b>1,292</b>   | <b>28.7</b>   | <b>10,771</b>   | <b>41.56</b>   | <b>1,359</b>   | <b>28.3</b>   | <b>11,323</b>   | <b>42.50</b>   | <b>1,400</b>   | <b>28.3</b>   | <b>11,663</b>   | <b>43.77</b>   | <b>1,442</b>   | <b>28.3</b>   | <b>12,013</b>   | <b>45.08</b>   |
| <b>GROSS HOUSE PROFIT</b>                     | <b>1,973</b>         | <b>46.9</b>   | <b>16,440</b>   | <b>66.24</b>   | <b>2,170</b>   | <b>48.0</b>   | <b>18,086</b>   | <b>69.79</b>   | <b>2,347</b>   | <b>48.9</b>   | <b>19,562</b>   | <b>73.42</b>   | <b>2,418</b>   | <b>48.9</b>   | <b>20,151</b>   | <b>75.63</b>   | <b>2,491</b>   | <b>48.9</b>   | <b>20,756</b>   | <b>77.90</b>   |
| Management Fee                                | 126                  | 3.0           | 1,050           | 4.23           | 135            | 3.0           | 1,128           | 4.35           | 144            | 3.0           | 1,200           | 4.50           | 148            | 3.0           | 1,236           | 4.64           | 153            | 3.0           | 1,273           | 4.78           |
| <b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b> | <b>1,847</b>         | <b>43.9</b>   | <b>15,390</b>   | <b>62.01</b>   | <b>2,035</b>   | <b>45.0</b>   | <b>16,958</b>   | <b>65.44</b>   | <b>2,203</b>   | <b>45.9</b>   | <b>18,362</b>   | <b>68.91</b>   | <b>2,270</b>   | <b>45.9</b>   | <b>18,915</b>   | <b>70.99</b>   | <b>2,338</b>   | <b>45.9</b>   | <b>19,483</b>   | <b>73.12</b>   |
| <b>NON-OPERATING INCOME &amp; EXPENSE</b>     |                      |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |                |               |                 |                |
| Property Taxes                                | 127                  | 3.0           | 1,061           | 4.27           | 525            | 11.6          | 4,371           | 16.87          | 540            | 11.3          | 4,502           | 16.90          | 557            | 11.3          | 4,638           | 17.40          | 573            | 11.3          | 4,777           | 17.93          |
| Insurance                                     | 27                   | 0.6           | 223             | 0.90           | 28             | 0.6           | 230             | 0.89           | 28             | 0.6           | 236             | 0.89           | 29             | 0.6           | 244             | 0.91           | 30             | 0.6           | 251             | 0.94           |
| Reserve for Replacement                       | 84                   | 2.0           | 700             | 2.82           | 135            | 3.0           | 1,128           | 4.35           | 192            | 4.0           | 1,600           | 6.00           | 198            | 4.0           | 1,648           | 6.18           | 204            | 4.0           | 1,697           | 6.37           |
| <b>Total Expenses</b>                         | <b>238</b>           | <b>5.6</b>    | <b>1,984</b>    | <b>7.99</b>    | <b>687</b>     | <b>15.2</b>   | <b>5,729</b>    | <b>22.11</b>   | <b>761</b>     | <b>15.9</b>   | <b>6,339</b>    | <b>23.79</b>   | <b>783</b>     | <b>15.9</b>   | <b>6,529</b>    | <b>24.50</b>   | <b>807</b>     | <b>15.9</b>   | <b>6,725</b>    | <b>25.24</b>   |
| <b>EBITDA LESS RESERVE</b>                    | <b>\$1,609</b>       | <b>38.3 %</b> | <b>\$13,406</b> | <b>\$54.01</b> | <b>\$1,347</b> | <b>29.8 %</b> | <b>\$11,228</b> | <b>\$43.33</b> | <b>\$1,443</b> | <b>30.0 %</b> | <b>\$12,023</b> | <b>\$45.12</b> | <b>\$1,486</b> | <b>30.0 %</b> | <b>\$12,386</b> | <b>\$46.49</b> | <b>\$1,531</b> | <b>30.0 %</b> | <b>\$12,758</b> | <b>\$47.88</b> |

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

**FIGURE 8-5 TEN-YEAR FORECAST OF INCOME AND EXPENSE**

|   | 2022         |              | 2023         |              | 2024         |              | 2025         |              | 2026         |              | 2027         |              | 2028         |              | 2029         |              | 2030         |              | 2031         |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Number of Rooms:</b>                       | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              | 120          |              |
| <b>Occupied Rooms:</b>                        | 29,784       |              | 31,098       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              | 31,974       |              |
| <b>Occupancy:</b>                             | 68%          |              | 71%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              | 73%          |              |
| <b>Average Rate:</b>                          | \$136.61     | % of         | \$140.71     | % of         | \$145.65     | % of         | \$150.02     | % of         | \$154.53     | % of         | \$159.16     | % of         | \$163.94     | % of         | \$168.85     | % of         | \$173.92     | % of         | \$179.14     | % of         |
| <b>RevPAR:</b>                                | \$92.89      | Gross        | \$99.90      | Gross        | \$106.33     | Gross        | \$109.52     | Gross        | \$112.80     | Gross        | \$116.19     | Gross        | \$119.67     | Gross        | \$123.26     | Gross        | \$126.96     | Gross        | \$130.77     | Gross        |
| <b>OPERATING REVENUE</b>                      |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| Rooms   | \$4,069      | 96.9 %       | \$4,376      | 97.0 %       | \$4,657      | 97.0 %       | \$4,797      | 97.0 %       | \$4,941      | 97.0 %       | \$5,089      | 97.0 %       | \$5,242      | 97.0 %       | \$5,399      | 97.0 %       | \$5,561      | 97.0 %       | \$5,728      | 97.0 %       |
| Other Operated Departments                    | 105          | 2.5          | 109          | 2.4          | 113          | 2.4          | 117          | 2.4          | 120          | 2.4          | 124          | 2.4          | 128          | 2.4          | 131          | 2.4          | 135          | 2.4          | 140          | 2.4          |
| Miscellaneous Income                          | 26           | 0.6          | 27           | 0.6          | 28           | 0.6          | 29           | 0.6          | 30           | 0.6          | 31           | 0.6          | 32           | 0.6          | 33           | 0.6          | 34           | 0.6          | 35           | 0.6          |
| <b>Total Operating Revenues</b>               | <b>4,200</b> | <b>100.0</b> | <b>4,513</b> | <b>100.0</b> | <b>4,799</b> | <b>100.0</b> | <b>4,943</b> | <b>100.0</b> | <b>5,091</b> | <b>100.0</b> | <b>5,244</b> | <b>100.0</b> | <b>5,402</b> | <b>100.0</b> | <b>5,563</b> | <b>100.0</b> | <b>5,730</b> | <b>100.0</b> | <b>5,902</b> | <b>100.0</b> |
| <b>DEPARTMENTAL EXPENSES *</b>                |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| Rooms   | 939          | 23.1         | 984          | 22.5         | 1,025        | 22.0         | 1,055        | 22.0         | 1,087        | 22.0         | 1,120        | 22.0         | 1,153        | 22.0         | 1,188        | 22.0         | 1,223        | 22.0         | 1,260        | 22.0         |
| Other Operated Departments                    | 64           | 60.9         | 66           | 60.3         | 68           | 60.0         | 70           | 60.0         | 72           | 60.0         | 74           | 60.0         | 77           | 60.0         | 79           | 60.0         | 81           | 60.0         | 84           | 60.0         |
| <b>Total Expenses</b>                         | <b>1,003</b> | <b>23.9</b>  | <b>1,050</b> | <b>23.3</b>  | <b>1,093</b> | <b>22.8</b>  | <b>1,125</b> | <b>22.8</b>  | <b>1,159</b> | <b>22.8</b>  | <b>1,194</b> | <b>22.8</b>  | <b>1,230</b> | <b>22.8</b>  | <b>1,267</b> | <b>22.8</b>  | <b>1,305</b> | <b>22.8</b>  | <b>1,344</b> | <b>22.8</b>  |
| <b>DEPARTMENTAL INCOME</b>                    |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
|   | 3,197        | 76.1         | 3,463        | 76.7         | 3,706        | 77.2         | 3,818        | 77.2         | 3,932        | 77.2         | 4,050        | 77.2         | 4,172        | 77.2         | 4,297        | 77.2         | 4,426        | 77.2         | 4,559        | 77.2         |
| <b>UNDISTRIBUTED OPERATING EXPENSES</b>       |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| Administrative & General                      | 342          | 8.1          | 355          | 7.9          | 369          | 7.7          | 380          | 7.7          | 391          | 7.7          | 403          | 7.7          | 415          | 7.7          | 428          | 7.7          | 441          | 7.7          | 454          | 7.7          |
| Info & Telecom Systems                        | 59           | 1.4          | 62           | 1.4          | 64           | 1.3          | 66           | 1.3          | 68           | 1.3          | 70           | 1.3          | 72           | 1.3          | 74           | 1.3          | 76           | 1.3          | 79           | 1.3          |
| Marketing                                     | 210          | 5.0          | 219          | 4.8          | 227          | 4.7          | 234          | 4.7          | 241          | 4.7          | 248          | 4.7          | 256          | 4.7          | 263          | 4.7          | 271          | 4.7          | 279          | 4.7          |
| Franchise Fee                                 | 326          | 7.8          | 350          | 7.8          | 373          | 7.8          | 384          | 7.8          | 395          | 7.8          | 407          | 7.8          | 419          | 7.8          | 432          | 7.8          | 445          | 7.8          | 458          | 7.8          |
| Prop. Operations & Maint.                     | 130          | 3.1          | 143          | 3.2          | 156          | 3.3          | 161          | 3.3          | 166          | 3.3          | 171          | 3.3          | 176          | 3.3          | 181          | 3.3          | 186          | 3.3          | 192          | 3.3          |
| Utilities                                     | 158          | 3.8          | 164          | 3.6          | 170          | 3.5          | 175          | 3.5          | 181          | 3.5          | 186          | 3.5          | 192          | 3.5          | 197          | 3.5          | 203          | 3.5          | 209          | 3.5          |
| <b>Total Expenses</b>                         | <b>1,224</b> | <b>29.1</b>  | <b>1,292</b> | <b>28.6</b>  | <b>1,359</b> | <b>28.3</b>  | <b>1,400</b> | <b>28.3</b>  | <b>1,442</b> | <b>28.3</b>  | <b>1,485</b> | <b>28.3</b>  | <b>1,529</b> | <b>28.3</b>  | <b>1,575</b> | <b>28.3</b>  | <b>1,622</b> | <b>28.3</b>  | <b>1,671</b> | <b>28.3</b>  |
| <b>GROSS HOUSE PROFIT</b>                     |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
|   | 1,973        | 47.0         | 2,170        | 48.1         | 2,347        | 48.9         | 2,418        | 48.9         | 2,491        | 48.9         | 2,565        | 48.9         | 2,642        | 48.9         | 2,722        | 48.9         | 2,803        | 48.9         | 2,887        | 48.9         |
| Management Fee                                | 126          | 3.0          | 135          | 3.0          | 144          | 3.0          | 148          | 3.0          | 153          | 3.0          | 157          | 3.0          | 162          | 3.0          | 167          | 3.0          | 172          | 3.0          | 177          | 3.0          |
| <b>INCOME BEFORE NON-OPR. INC. &amp; EXP.</b> |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
|   | 1,847        | 44.0         | 2,035        | 45.1         | 2,203        | 45.9         | 2,270        | 45.9         | 2,338        | 45.9         | 2,408        | 45.9         | 2,480        | 45.9         | 2,555        | 45.9         | 2,631        | 45.9         | 2,710        | 45.9         |
| <b>NON-OPERATING INCOME &amp; EXPENSE</b>     |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
| Property Taxes                                | 127          | 3.0          | 525          | 11.6         | 540          | 11.3         | 557          | 11.3         | 573          | 11.3         | 590          | 11.3         | 608          | 11.3         | 626          | 11.3         | 645          | 11.3         | 664          | 11.3         |
| Insurance                                     | 27           | 0.6          | 28           | 0.6          | 28           | 0.6          | 29           | 0.6          | 30           | 0.6          | 31           | 0.6          | 32           | 0.6          | 33           | 0.6          | 34           | 0.6          | 35           | 0.6          |
| Reserve for Replacement                       | 84           | 2.0          | 135          | 3.0          | 192          | 4.0          | 198          | 4.0          | 204          | 4.0          | 210          | 4.0          | 216          | 4.0          | 223          | 4.0          | 229          | 4.0          | 236          | 4.0          |
| <b>Total Expenses</b>                         | <b>238</b>   | <b>5.7</b>   | <b>687</b>   | <b>15.2</b>  | <b>761</b>   | <b>15.9</b>  | <b>783</b>   | <b>15.8</b>  | <b>807</b>   | <b>15.8</b>  | <b>831</b>   | <b>15.9</b>  | <b>856</b>   | <b>15.8</b>  | <b>882</b>   | <b>15.8</b>  | <b>908</b>   | <b>15.8</b>  | <b>935</b>   | <b>15.8</b>  |
| <b>EBITDA LESS RESERVE</b>                    |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |              |
|   | \$1,609      | 38.3 %       | \$1,347      | 29.8 %       | \$1,443      | 30.0 %       | \$1,486      | 30.0 %       | \$1,531      | 30.0 %       | \$1,577      | 30.0 %       | \$1,624      | 30.0 %       | \$1,673      | 30.0 %       | \$1,723      | 30.0 %       | \$1,775      | 30.0 %       |

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take three years for the proposed subject hotel to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the proposed subject hotel's operating budget and comparable income and expense statements. The forecast is based upon calendar years beginning January 1, 2022, expressed in inflated dollars for each year.

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

### Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. The proposed subject hotel is expected to stabilize at an occupancy level of 73% with an average rate of \$145.65 in 2024. Following the stabilized year, the proposed subject hotel's average rate is projected to increase along with the underlying rate of inflation.

### Other Operated Departments Revenue

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

**FIGURE 8-6 OTHER OPERATED DEPARTMENTS REVENUE**

|                       | Comparable Operating Statements |        |        |        |        | Proposed Subject Property Forecast |                     |
|-----------------------|---------------------------------|--------|--------|--------|--------|------------------------------------|---------------------|
|                       | #1                              | #2     | #3     | #4     | #5     | 2022                               | Deflated Stabilized |
| Percentage of Revenue | 0.6 %                           | 2.6 %  | 1.0 %  | 0.4 %  | 1.3 %  | 2.5 %                              | 2.4 %               |
| Per Available Room    | \$192                           | \$852  | \$307  | \$127  | \$444  | \$873                              | \$799               |
| Per Occupied Room     | \$0.67                          | \$3.02 | \$1.22 | \$0.48 | \$1.59 | \$3.52                             | \$3.00              |

### Miscellaneous Income

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

**FIGURE 8-7 MISCELLANEOUS INCOME**

|                       | Comparable Operating Statements |        |        |        |        | Proposed Subject Property Forecast |                     |
|-----------------------|---------------------------------|--------|--------|--------|--------|------------------------------------|---------------------|
|                       | #1                              | #2     | #3     | #4     | #5     | 2022                               | Deflated Stabilized |
| Percentage of Revenue | 1.7 %                           | 0.2 %  | 0.4 %  | 0.6 %  | 0.1 %  | 0.6 %                              | 0.6 %               |
| Per Available Room    | \$585                           | \$60   | \$115  | \$179  | \$39   | \$218                              | \$200               |
| Per Occupied Room     | \$2.03                          | \$0.21 | \$0.46 | \$0.68 | \$0.14 | \$0.88                             | \$0.75              |

**Rooms Expense**

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

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

**FIGURE 8-8 ROOMS EXPENSE**

|                       | Comparable Operating Statements |         |         |         |         | Proposed Subject Property Forecast |                     |
|-----------------------|---------------------------------|---------|---------|---------|---------|------------------------------------|---------------------|
|                       | #1                              | #2      | #3      | #4      | #5      | 2022                               | Deflated Stabilized |
| Percentage of Revenue | 20.2 %                          | 21.9 %  | 23.1 %  | 22.5 %  | 22.3 %  | 23.1 %                             | 22.0 %              |
| Per Available Room    | \$6,714                         | \$7,044 | \$7,275 | \$6,785 | \$7,555 | \$7,828                            | \$7,220             |
| Per Occupied Room     | \$23.37                         | \$25.01 | \$28.99 | \$25.76 | \$27.03 | \$31.54                            | \$27.10             |

**Food and Beverage Expense**

Food expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. The costs associated with food sales and payroll are moderately to highly correlated to food revenues. Items such as china, linen, and uniforms are less dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor. Beverage expenses consist of items necessary for the operation of a hotel's lounge and bar areas. The costs associated with beverage sales and payroll are moderately to highly correlated to beverage revenues.

**FIGURE 8-9 FOOD AND BEVERAGE EXPENSE**

|                       | Comparable Operating Statements |        |        |        |        | Proposed Subject Property Forecast |                     |
|-----------------------|---------------------------------|--------|--------|--------|--------|------------------------------------|---------------------|
|                       | #1                              | #2     | #3     | #4     | #5     | 2022                               | Deflated Stabilized |
| Percentage of Revenue | 0.0 %                           | 0.0 %  | 0.0 %  | 0.0 %  | 0.0 %  | 0.0 %                              | 0.0 %               |
| Per Available Room    | \$0                             | \$0    | \$0    | \$0    | \$0    | \$0                                | \$0                 |
| Per Occupied Room     | \$0.00                          | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00                             | \$0.00              |

**Other Operated Departments Expense**

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories, as discussed previously in this chapter.

**FIGURE 8-10 OTHER OPERATED DEPARTMENTS EXPENSE**

|                       | Comparable Operating Statements |        |        |        |        | Proposed Subject Property Forecast |                     |
|-----------------------|---------------------------------|--------|--------|--------|--------|------------------------------------|---------------------|
|                       | #1                              | #2     | #3     | #4     | #5     | 2022                               | Deflated Stabilized |
| Percentage of Revenue | 74.0 %                          | 58.8 % | 48.3 % | 64.7 % | 25.2 % | 60.9 %                             | 60.0 %              |
| Per Available Room    | \$142                           | \$500  | \$148  | \$82   | \$112  | \$531                              | \$480               |
| Per Occupied Room     | \$0.49                          | \$1.78 | \$0.59 | \$0.31 | \$0.40 | \$2.14                             | \$1.80              |

**Administrative and General Expense**

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume.

**FIGURE 8-11 ADMINISTRATIVE AND GENERAL EXPENSE**

|                       | Comparable Operating Statements |         |         |         |         | Proposed Subject Property Forecast |                     |
|-----------------------|---------------------------------|---------|---------|---------|---------|------------------------------------|---------------------|
|                       | #1                              | #2      | #3      | #4      | #5      | 2022                               | Deflated Stabilized |
| Percentage of Revenue | 6.1 %                           | 7.2 %   | 8.9 %   | 5.8 %   | 6.8 %   | 8.1 %                              | 7.7 %               |
| Per Available Room    | \$2,090                         | \$2,388 | \$2,840 | \$1,772 | \$2,320 | \$2,846                            | \$2,600             |
| Per Occupied Room     | \$7.28                          | \$8.48  | \$11.32 | \$6.73  | \$8.30  | \$11.47                            | \$9.76              |



**Information and Telecommunications Systems Expense**

Information and telecommunications systems expense consists of all costs associated with a hotel’s technology infrastructure. This includes the costs of cell phones, administrative call and Internet services, and complimentary call and Internet services. Expenses in this category are typically organized by type of technology or the area benefiting from the technology solution.

**Marketing Expense**

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities.

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be projected accurately.

Marketing expenditures are unusual because, although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

**FIGURE 8-12 MARKETING EXPENSE**

|                       | Comparable Operating Statements |         |         |         |         | Proposed Subject Property Forecast |                     |
|-----------------------|---------------------------------|---------|---------|---------|---------|------------------------------------|---------------------|
|                       | #1                              | #2      | #3      | #4      | #5      | 2022                               | Deflated Stabilized |
| Percentage of Revenue | 4.0 %                           | 5.1 %   | 5.4 %   | 5.2 %   | 6.7 %   | 5.0 %                              | 4.7 %               |
| Per Available Room    | \$1,356                         | \$1,704 | \$1,719 | \$1,576 | \$2,289 | \$1,751                            | \$1,600             |
| Per Occupied Room     | \$4.72                          | \$6.05  | \$6.85  | \$5.98  | \$8.19  | \$7.06                             | \$6.00              |

**Franchise Fee**

As previously discussed, the proposed subject property is expected to be franchised under the Independent brand. Costs associated with this franchise are summarized in the introductory chapter in this report.

**Property Operations and Maintenance**

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, the expenditure has not been eliminated, only

deferred until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long term.

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

**FIGURE 8-13 PROPERTY OPERATIONS AND MAINTENANCE EXPENSE**

|                       | Comparable Operating Statements |         |         |         |         | Proposed Subject Property Forecast |                     |
|-----------------------|---------------------------------|---------|---------|---------|---------|------------------------------------|---------------------|
|                       | #1                              | #2      | #3      | #4      | #5      | 2022                               | Deflated Stabilized |
| Percentage of Revenue | 2.5 %                           | 4.3 %   | 5.0 %   | 3.6 %   | 3.9 %   | 3.1 %                              | 3.3 %               |
| Per Available Room    | \$861                           | \$1,417 | \$1,593 | \$1,103 | \$1,334 | \$1,084                            | \$1,100             |
| Per Occupied Room     | \$3.00                          | \$5.03  | \$6.35  | \$4.19  | \$4.77  | \$4.37                             | \$4.13              |

**Utilities Expense**

The utilities consumption of a lodging facility takes several forms, including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel utilities are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their utility requirements with less expensive sources, such as gas and oil, for heating and cooking. The changes in this utilities line item through the projection period are a result of the application of the underlying inflation rate and projected changes in occupancy.

**FIGURE 8-14 UTILITIES EXPENSE**

|                       | Comparable Operating Statements |        |        |        |         | Proposed Subject Property Forecast |                     |
|-----------------------|---------------------------------|--------|--------|--------|---------|------------------------------------|---------------------|
|                       | #1                              | #2     | #3     | #4     | #5      | 2022                               | Deflated Stabilized |
| Percentage of Revenue | 3.6 %                           | 2.6 %  | 2.7 %  | 3.3 %  | 3.5 %   | 3.8 %                              | 3.5 %               |
| Per Available Room    | \$1,215                         | \$870  | \$871  | \$996  | \$1,211 | \$1,314                            | \$1,200             |
| Per Occupied Room     | \$4.23                          | \$3.09 | \$3.47 | \$3.78 | \$4.33  | \$5.29                             | \$4.50              |

**Management Fee**

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand-name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are often based on a percentage of total revenue, which means they have no fixed component. While base fees typically range from 2% to 4% of total revenue, incentive fees are deal specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity. Total management fees for the proposed subject hotel have been forecast at 3.0% of total revenue.

**Property Taxes**

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

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

**FIGURE 8-15 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS**

| Hotel  | Year Open       | Land             | Improvements       | Total              |
|--|-----------------|------------------|--------------------|--------------------|
| Subject Property   | 2019            | \$160,951        | \$0                | \$160,951          |
| Courtyard by Marriott Cincinnati Midtown/Rookwood        | 2013            | 574,682          | 4,220,531          | 4,795,213          |
| SpringHill Suites by Marriott Cincinnati Midtown         | 2009            | 769,580          | 3,218,586          | 3,988,166          |
| Homewood Suites by Hilton Cincinnati Downtown            | 2015            | 849,387          | 7,810,586          | 8,659,973          |
| Residence Inn by Marriott Cincinnati Downtown/The Phelps | 2011            | 474,754          | 5,327,396          | 5,802,150          |
| Residence Inn by Marriott Cincinnati Midtown Rookwood    | 2017            | 509,366          | 4,377,275          | 4,886,641          |
| Hilton Garden Inn Cincinnati Midtown                     | 2018            | 72,398           | 1,296,134          | 1,368,532          |
| <i>Assessments per Room</i>                              | <i># of Rms</i> |                  |                    |                    |
| Courtyard by Marriott Cincinnati Midtown/Rookwood        | 123             | 4,672            | 34,313             | 38,985             |
| SpringHill Suites by Marriott Cincinnati Midtown         | 122             | 6,308            | 26,382             | 32,690             |
| Homewood Suites by Hilton Cincinnati Downtown            | 249             | 3,411            | 31,368             | 34,779             |
| Residence Inn by Marriott Cincinnati Downtown/The Phelps | 134             | 3,543            | 39,757             | 43,300             |
| Residence Inn by Marriott Cincinnati Midtown Rookwood    | 118             | 4,317            | 37,096             | 41,412             |
| Hilton Garden Inn Cincinnati Midtown                     | 120             | 603              | 10,801             | 11,404             |
| <b>Positioned Subject - Per Room</b>                     | <b>120</b>      | <b>\$5,000</b>   | <b>\$35,000</b>    | <b>\$40,000</b>    |
| <b>Positioned Subject - Total</b>                        |                 | <b>\$600,000</b> | <b>\$4,200,000</b> | <b>\$4,800,000</b> |

Source: Hamilton County Assessor

We have positioned the future assessment levels of the subject sites and proposed improvements based upon the illustrated comparable data. We have positioned these assessments closest to the Courtyard by Marriott Cincinnati Rookwood because of the similarities, including age and product type; overall, the positioned assessments are well supported by the market data.

Tax rates are based on the city and county budgets, which change annually. The most recent tax rate in this jurisdiction was reported at 95.19012 mills. The following table shows changes in the tax rate during the last several years.

**FIGURE 8-16 COUNTY TAX RATES**

| Year | Real Property Millage Rate |
|------|----------------------------|
| 2015 | 90.19060                   |
| 2016 | 91.86060                   |
| 2017 | 92.10565                   |
| 2018 | 95.19012                   |

Source: Hamilton County Assessor

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

**FIGURE 8-17 PROJECTED PROPERTY TAX BURDEN (BASE YEAR)**

|                             | <u>Real Property</u><br><u>Total</u> |
|-----------------------------|--------------------------------------|
| Positioned (Assessed Value) | \$4,800,000                          |
| Equalization Rate           | 1.00000                              |
| Millage Rate                | 95.19012                             |
| Tax Burden as of Base Year  | \$456,913                            |

**FIGURE 8-18 PROJECTED PROPERTY TAX EXPENSE – REAL PROPERTY**

| Year       | <u>Real Property</u>   |   |  |                                |
|------------|--|---|--|--------------------------------|
|            | <u>Total Tax Burden</u><br><u>(Positioned Prior to Increase)</u> | <u>Base Rate of Tax</u><br><u>Burden Increase</u> | <u>% Positioned</u><br><u>Tax Burden</u> | <u>Taxes</u><br><u>Payable</u> |
| Positioned | \$456,913  | —   |  | \$456,913                      |
| 2022       | \$456,913  | 11.5 %  | 25 %                                     | \$127,320                      |
| 2023       | 509,278  | 3.0   | 100                                      | \$524,557                      |
| 2024       | 524,557  | 3.0   | 100                                      | \$540,293                      |
| 2025       | 540,293  | 3.0   | 100                                      | \$556,502                      |

**Insurance Expense**

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage.

Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

**FIGURE 8-19 INSURANCE EXPENSE**

|                       | <u>Comparable Operating Statements</u> |           |           |           |           | <u>Proposed Subject Property Forecast</u> |                            |
|-----------------------|--|-----------|-----------|-----------|-----------|---|----------------------------|
|                       | <u>#1</u>                              | <u>#2</u> | <u>#3</u> | <u>#4</u> | <u>#5</u> | <u>2022</u>                               | <u>Deflated Stabilized</u> |
| Percentage of Revenue | 2.1 %                                  | 1.1 %     | 0.7 %     | 1.2 %     | 0.7 %     | 0.6 %                                     | 0.6 %                      |
| Per Available Room    | \$708                                  | \$360     | \$210     | \$373     | \$245     | \$223                                     | \$200                      |
| Per Occupied Room     | \$2.46                                 | \$1.28    | \$0.84    | \$1.42    | \$0.88    | \$0.90                                    | \$0.75                     |

## 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 furniture, fixtures, and equipment 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.

The International Society of Hospitality Consultants (ISHC) oversees a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent study was published in 2014.<sup>6</sup> Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year to year and depend upon both the actual and effective ages of a property. The results of this study showed that hotel lenders and investors are requiring reserves for replacement ranging from 4% to 5% of total revenue.

Based upon the results of our analysis, our review of the proposed subject asset, and current industry norms, a reserve for replacement equal to 4% of total revenues has been factored into our forecast of revenue and expense for funding the periodic replacement of the proposed subject property's furniture, fixtures, and equipment. This amount has been ramped up during the initial projection period.

## Forecast of Revenue and Expense Conclusion

Projected total revenue, house profit, and EBITDA Less Replacement Reserve are set forth in the following table.

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<sup>6</sup> The International Society of Hotel Consultants, *CapEx 2014, A Study of Capital Expenditure in the U.S. Hotel Industry*.

**FIGURE 8-20 FORECAST OF REVENUE AND EXPENSE CONCLUSION**

|                  | Year | Total Revenue |          | House Profit |          | House Profit Ratio | EBITDA Less Replacement Reserve |          |                   |
|------------------|------|---------------|----------|--------------|----------|--------------------|---------------------------------|----------|-------------------|
|                  |      | Total         | % Change | Total        | % Change |                    | Total                           | % Change | As a % of Ttl Rev |
| <b>Projected</b> | 2022 | \$4,200,000   | —        | \$1,973,000  | —        | 46.9 %             | \$1,609,000                     | —        | 38.3 %            |
|                  | 2023 | 4,513,000     | 7.5 %    | 2,170,000    | 10.0 %   | 48.0               | 1,347,000                       | (16.3) % | 29.8              |
|                  | 2024 | 4,799,000     | 6.3      | 2,347,000    | 8.2      | 48.9               | 1,443,000                       | 7.1      | 30.0              |
|                  | 2025 | 4,943,000     | 3.0      | 2,418,000    | 3.0      | 48.9               | 1,486,000                       | 3.0      | 30.0              |
|                  | 2026 | 5,091,000     | 3.0      | 2,491,000    | 3.0      | 48.9               | 1,531,000                       | 3.0      | 30.0              |



## 9. Statement of Assumptions and Limiting Conditions

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

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

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