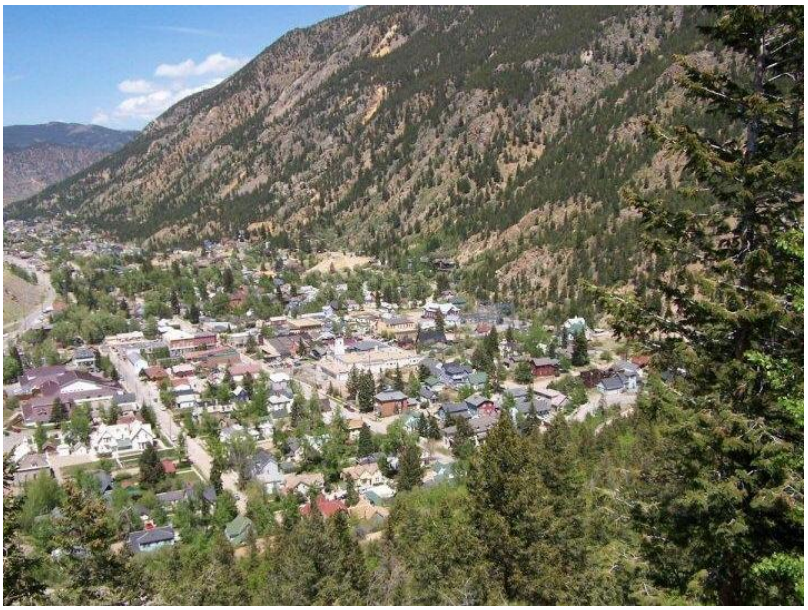
MARKET STUDY

Proposed Clear Creek County Select-Service Hotel

ARGENTINE STREET AT 22ND STREET
GEORGETOWN, COLORADO



SUBMITTED TO:

Ms. Peggy Stokstad
Clear Creek Economic Development Corporation
502 6th Street, Post Office Box 2030
Georgetown, Colorado, 80444

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PREPARED BY:

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July 17, 2014

Ms. Peggy Stokstad
Clear Creek Economic Development Corporation
502 6th Street, Post Office Box 2030
Georgetown, Colorado, 80444

Re: Proposed Clear Creek County Select-Service Hotel
Georgetown, Colorado
HVS Reference: 2014020273

Dear Ms. Stokstad:

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 Georgetown, Colorado area. We have studied the proposed project, and the results of our fieldwork and analysis are presented in this report. We have also reviewed the proposed improvements for this site. Our report was prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation.

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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1. Executive Summary

Subject of the Market Study

The subject of the market study is a parcel to be improved with a select-service lodging facility; the hotel will be affiliated with nationally recognized brand. The property is expected to open on April 1, 2016 and will feature 125 rooms, a restaurant and lounge, an indoor pool, an indoor whirlpool, a fitness room, a business center, a market pantry, a guest laundry facility, multiple vending areas, and a guest laundry room. The hotel will also feature all necessary back-of-the-house space.

Clear Creek County Economic Development is interested in determining if a hospitality project is feasible in the county. Thus, we analyzed eight different sites to determine the most suitable site to build a hotel. The Georgetown Lake site was chosen for a number of reasons. First, the site is cleared, ready for development, and on the market. Next, the site is clearly visible from the nearby interstate, as well as from the surrounding neighborhood. In addition, the site is located midway between Idaho Springs and the Loveland Ski area; furthermore, the location is a midway point between a variety of area demand generators. Lastly, the site benefits from being located on Georgetown Lake, and there is additional vacant land that is available for development, which could positively influence the neighborhood and proposed subject hotel in the long run. The subject site's location is Argentine Street at 22nd Street, Georgetown, Colorado, 80444.

Pertinent Dates

The effective date of the report is July 17, 2014. The subject site was inspected by Desiree M. Flanary, MAI on March 20, 2014. Kasia M. Russell participated in the analysis and reviewed the findings, but did not personally inspect the property.

Ownership, Franchise, and Management Assumptions

A developer of the proposed subject hotel had not been determined at the time of this report. The land we have identified for the development of a select-service hotel is part of a larger 18-acre site that is owned by the Berry Walter V & Idun Y Foundation. The 18-acre site is currently listed for sale at $795,000. No transfer of the property has reportedly occurred in over three years. Based upon current hotel lending parameters and our forecasted net income, a 10% difference exists between the value of the cash flow and the expected development cost of the hotel.

Details pertaining to management terms were not yet determined at the time of this report; therefore, our forecast fees represent a blended average of what would be expected on a base-fee and incentive-fee basis. We have assumed a market-appropriate total management fee of 3.0% of total revenues in our study.

We recommend that the proposed subject hotel operate as an upscale, select-service property. While we have placed heavy consideration on the Hilton Garden Inn brand, which is affiliated with Hilton Worldwide, 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 Hilton Garden Inn franchise is reflected in our forecasts with a royalty fee of 5.5% of rooms revenue, and a marketing assessment of 4.3% of rooms revenue. Reservations fees will also be due, and are included in the rooms expense line item of our forecast.

Summary of Hotel Market Trends

The tourism and mining industries represent the primary sources of demand for the selected set of competitive hotels in this Georgetown market. Demand and occupancy decreased in 2003 and 2004 concurrent with national trends. In 2005, demand started to increase, with strong growth realized from 2005 through 2007. In 2008, demand began to constrict, concurrent with the Great Recession, and demand decreased significantly in 2009, which was the lowest point of the downturn. The local economy started to slowly recover in 2010, and a significant increase in demand was reported in 2011 as market demand started to return to pre-recession levels. Demand slightly declined in 2012, primarily attributed to a weak winter season associated with a minimal amount of snowfall and a decline in skier visits. Overall demand and occupancy increased in 2013. Early indications for 2014 illustrate a positive trend, with an occupancy improvement of 13% over the level achieved during the same period in 2013. The occupancy improvement is partially attributed to a better start to the winter ski season when compared to the prior year.

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

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

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2002	1,049	382,885	—	201,470	—	52.6 %	$74.60	—	$39.25	—
2003	1,049	382,885	0.0 %	191,411	(5.0) %	50.0	73.18	(1.9) %	36.58	(6.8) %
2004	1,049	382,885	0.0	188,716	(1.4)	49.3	72.51	(0.9)	35.74	(2.3)
2005	1,037	378,505	(1.1)	199,055	5.5	52.6	75.85	4.6	39.89	11.6
2006	1,037	378,505	0.0	214,461	7.7	56.7	81.30	7.2	46.07	15.5
2007	1,037	378,505	0.0	224,101	4.5	59.2	86.47	6.4	51.19	11.1
2008	1,037	378,505	0.0	215,591	(3.8)	57.0	90.82	5.0	51.73	1.0
2009	1,037	378,505	0.0	179,246	(16.9)	47.4	85.23	(6.1)	40.36	(22.0)
2010	1,037	378,505	0.0	182,488	1.8	48.2	85.86	0.7	41.40	2.6
2011	1,040	379,729	0.3	202,199	10.8	53.2	89.66	4.4	47.74	15.3
2012	1,044	381,060	0.4	197,151	(2.5)	51.7	89.39	(0.3)	46.25	(3.1)
2013	1,044	381,060	0.0	210,780	6.9	55.3	91.12	1.9	50.40	9.0
Average Annual Compounded Change: 2002-2013			(0.0) %		0.4 %			1.8 %		2.3 %
Year-to-Date Through February										
2013	1,044	61,596	—	37,324	—	60.6 %	$101.66	—	$61.60	—
2014	1,044	61,596	0.0 %	42,328	13.4 %	68.7	111.83	10.0 %	76.85	24.7 %

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
Quality Inn & Suites Silverthorne	57	Feb 2001	Feb 2001
Comfort Suites Golden West On Evergreen Parkway	85	Dec 2011	Aug 1999
Ramada Limited Frisco	51	Jan 2011	May 1998
Comfort Suites Summitt County Dillon	101	Mar 1998	Mar 1998
Days Inn Summit County Silverthorne	73	Jun 1985	Jun 1985
Best Western Lake Dillon Lodge	127	Jun 1981	Jun 1981
Super 8 Dillon Breckenridge Area	60	Apr 1981	Apr 1981
La Quinta Inns & Suites Silverthorne Summit County	147	Jan 2005	Jun 1974
Super 8 Georgetown	54	Feb 1994	Jun 1973
Holiday Inn Summit County Frisco	216	May 2011	Feb 1971
Best Western Ptarmigan Lodge	73	Jun 1963	Jun 1963
Total	**1,044**		

Source: STR Global

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 2011				Estimated 2012				Estimated 2013						
		Leisure	Meeting and Group	Commercial	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Georgetown Mountain Inn	33	85 %	5 %	10 %	33	54 %	$83.00	$44.82	33	53 %	$83.00	$43.99	33	57 %	$85.00	$48.45	10.1 %	102.8 %	95.4 %
Hotel Chateau Chamonix	10	85	10	5	10	90	150.00	135.00	10	89	155.00	137.95	10	90	160.00	144.00	4.4	162.4	283.4
Super 8 Georgetown	54	75	10	15	54	50	68.00	34.00	54	49	68.00	33.32	54	54	70.00	37.80	13.4	97.4	74.4
Sub-Totals/Averages	**97**	**80 %**	**8 %**	**12 %**	**97**	**55.5 %**	**$86.68**	**$48.09**	**97**	**54.5 %**	**$87.61**	**$47.74**	**97**	**58.7 %**	**$89.17**	**$52.37**	**9.7 %**	**106.0 %**	**103.1 %**
Secondary Competitors	990	45 %	30 %	25 %	743	53.0 %	$90.00	$47.70	743	51.0 %	$89.00	$45.39	743	55.0 %	$92.00	$50.60	11.5 %	99.2 %	99.6 %
Totals/Averages	**1,087**	**49 %**	**27 %**	**23 %**	**840**	**53.3 %**	**$89.60**	**$47.75**	**840**	**51.4 %**	**$88.83**	**$45.66**	**840**	**55.4 %**	**$91.65**	**$50.80**	**11.3 %**	**100.0 %**	**100.0 %**

FIGURE 1-3 SECONDARY COMPETITORS – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation			Total Competitive Level	Estimated 2011				Estimated 2012				Estimated 2013			
		Leisure	Meeting and Group	Commercial		Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Secondary Competitors Aggregate	990	45 %	30 %	25 %	75 %	743	53 %	$90.00	$47.70	743	51 %	$89.00	$45.39	743	55 %	$92.00	$50.60
Totals/Averages	**990**	**45 %**	**30 %**	**25 %**	**75 %**	**743**	**53.0 %**	**$90.00**	**$47.70**	**743**	**51.0 %**	**$89.00**	**$45.39**	**743**	**55.0 %**	**$92.00**	**$50.60**

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 58% and a base-year rate position of $105.00 for the proposed subject hotel. The following table reflects a summary of our market-wide and proposed subject hotel occupancy and average rate projections.

FIGURE 1-4 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	55.4 %	—	$91.65	—	—	$105.00	114.6 %
2014	58.5	7.0 %	98.07	—	7.0 %	112.35	114.6
2015	59.2	5.0	102.97	—	5.0	117.97	114.6
2016	54.5	4.0	107.09	48.0 %	4.0	122.69	114.6
2017	54.2	3.0	110.30	52.0	3.0	126.37	114.6
2018	54.5	3.0	113.61	57.0	3.0	130.16	114.6
2019	54.8	3.0	117.02	58.0	3.0	134.06	114.6

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

FIGURE 1-5 FORECAST OF AVERAGE RATE

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2016/17	49 %	$123.59	5.0 %	$117.41
2017/18	53	127.30	0.0	127.30
2018/19	57	131.12	0.0	131.12

Summary of Forecast Income and Expense Statement

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

FIGURE 1-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2016/17	Begins April		2017/18			2018/19			Stabilized			2020/21		
Number of Rooms:	**125**			**125**			**125**			**125**			**125**		
Occupancy:	**49%**			**53%**			**57%**			**58%**			**58%**		
Average Rate:	**$117.41**			**$127.30**			**$131.12**			**$135.05**			**$139.11**		
RevPAR:	**$57.53**			**$67.47**			**$74.74**			**$78.33**			**$80.68**		
Days Open:	**365**			**365**			**365**			**365**			**365**		
Occupied Rooms:	**22,356**	**%Gross**	**PAR**	**24,181**	**%Gross**	**PAR**	**26,006**	**%Gross**	**PAR**	**26,463**	**%Gross**	**PAR**	**26,463**	**%Gross**	**PAR**
REVENUE															
Rooms	$2,625	83.8 %	$21,000	$3,078	84.9 %	$127.29	$3,410	85.3 %	$27,280	$3,574	85.4 %	$28,592	$3,681	85.4 %	$29,448
Food	254	8.1	2,029	277	7.6	11.44	301	7.5	2,405	314	7.5	2,510	323	7.5	2,585
Beverage	131	4.2	1,048	141	3.9	5.82	151	3.8	1,206	157	3.7	1,255	162	3.7	1,292
Other Operated Departments	41	1.3	328	43	1.2	1.79	45	1.1	364	47	1.1	376	48	1.1	388
Rentals & Other Income	82	2.6	657	86	2.4	3.57	91	2.3	727	94	2.2	753	97	2.2	775
Total Revenues	3,133	100.0	25,063	3,625	100.0	149.90	3,998	100.0	31,982	4,186	100.0	33,486	4,311	100.0	34,489
DEPARTMENTAL EXPENSES *															
Rooms	675	25.7	5,399	716	23.2	29.59	758	22.2	6,065	786	22.0	6,290	810	22.0	6,479
Food & Beverage	328	85.3	2,624	345	82.8	14.28	364	80.5	2,908	376	80.0	3,012	388	80.0	3,102
Other Operated Departments	42	103.4	340	44	101.9	1.82	46	100.4	365	47	100.0	376	48	100.0	388
Total	1,045	33.4	8,362	1,105	30.5	45.69	1,167	29.2	9,338	1,210	28.9	9,678	1,246	28.9	9,968
DEPARTMENTAL INCOME	2,088	66.6	16,701	2,520	69.5	104.21	2,831	70.8	22,644	2,976	71.1	23,808	3,065	71.1	24,520
UNDISTRIBUTED OPERATING EXPENSES															
Administrative & General	233	7.4	1,864	246	6.8	10.19	258	6.5	2,063	267	6.4	2,134	275	6.4	2,198
Marketing	168	5.4	1,346	178	4.9	7.36	186	4.7	1,490	193	4.6	1,541	198	4.6	1,587
Franchise Fee	257	8.2	2,058	302	8.3	12.47	334	8.4	2,673	350	8.4	2,802	361	8.4	2,886
Prop. Operations & Maint.	168	5.4	1,346	178	4.9	7.36	186	4.7	1,490	193	4.6	1,541	198	4.6	1,587
Utilities	181	5.8	1,450	192	5.3	7.92	201	5.0	1,605	207	5.0	1,660	214	5.0	1,709
Total	1,008	32.2	8,064	1,095	30.2	45.30	1,165	29.3	9,322	1,210	29.0	9,678	1,246	29.0	9,968
HOUSE PROFIT	1,080	34.4	8,637	1,425	39.3	58.91	1,665	41.5	13,323	1,766	42.1	14,130	1,819	42.1	14,552
Management Fee	94	3.0	752	109	3.0	4.50	120	3.0	959	126	3.0	1,005	129	3.0	1,035
INCOME BEFORE FIXED CHARGES	986	31.4	7,885	1,316	36.3	54.42	1,545	38.5	12,363	1,641	39.1	13,126	1,690	39.1	13,518
FIXED EXPENSES															
Property Taxes	142	4.5	1,133	145	4.0	6.00	149	3.7	1,196	154	3.7	1,232	159	3.7	1,269
Insurance	68	2.2	542	70	1.9	2.89	72	1.8	575	74	1.8	593	76	1.8	611
Reserve for Replacement	63	2.0	501	109	3.0	4.50	160	4.0	1,279	167	4.0	1,339	172	4.0	1,380
Total	272	8.7	2,176	324	8.9	13.39	381	9.5	3,051	395	9.5	3,164	407	9.5	3,259
NET INCOME	$714	22.7 %	$5,709	$992	27.4 %	$41.03	$1,164	29.0 %	$9,313	$1,245	29.6 %	$9,962	$1,282	29.6 %	$10,259

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

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

	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		2024/25		2025/26	
Number of Rooms:	**125**		**125**		**125**		**125**		**125**		**125**		**125**		**125**		**125**		**125**	
Occupied Rooms:	**22,356**		**24,181**		**26,006**		**26,463**		**26,463**		**26,463**		**26,463**		**26,463**		**26,463**		**26,463**	
Occupancy:	**49%**		**53%**		**57%**		**58%**		**58%**		**58%**		**58%**		**58%**		**58%**		**58%**	
Average Rate:	**$117.41**	**% of**	**$127.30**	**% of**	**$131.12**	**% of**	**$135.05**	**% of**	**$139.11**	**% of**	**$143.28**	**% of**	**$147.58**	**% of**	**$152.00**	**% of**	**$156.56**	**% of**	**$161.26**	**% of**
RevPAR:	**$57.53**	**Gross**	**$67.47**	**Gross**	**$74.74**	**Gross**	**$78.33**	**Gross**	**$80.68**	**Gross**	**$83.10**	**Gross**	**$85.59**	**Gross**	**$88.16**	**Gross**	**$90.81**	**Gross**	**$93.53**	**Gross**
REVENUE																				
Rooms	$2,625	83.8 %	$3,078	84.9 %	$3,410	85.3 %	$3,574	85.4 %	$3,681	85.4 %	$3,792	85.4 %	$3,905	85.4 %	$4,022	85.4 %	$4,143	85.4 %	$4,267	85.4 %
Food	254	8.1	277	7.6	301	7.5	314	7.5	323	7.5	333	7.5	343	7.5	353	7.5	364	7.5	375	7.5
Beverage	131	4.2	141	3.9	151	3.8	157	3.7	162	3.7	166	3.7	171	3.7	177	3.7	182	3.7	187	3.7
Other Operated Departments	41	1.3	43	1.2	45	1.1	47	1.1	48	1.1	50	1.1	51	1.1	53	1.1	55	1.1	56	1.1
Rentals & Other Income	82	2.6	86	2.4	91	2.3	94	2.2	97	2.2	100	2.2	103	2.2	106	2.2	109	2.2	112	2.2
Total	3,133	100.0	3,625	100.0	3,998	100.0	4,186	100.0	4,311	100.0	4,441	100.0	4,573	100.0	4,710	100.0	4,852	100.0	4,997	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	675	25.7	716	23.2	758	22.2	786	22.0	810	22.0	834	22.0	859	22.0	885	22.0	911	22.0	939	22.0
Food & Beverage	328	85.3	345	82.8	364	80.5	376	80.0	388	80.0	399	80.0	411	80.0	424	80.0	436	80.0	449	80.0
Other Operated Departments	42	103.4	44	101.9	46	100.4	47	100.0	48	100.0	50	100.0	51	100.0	53	100.0	55	100.0	56	100.0
Total	1,045	33.4	1,105	30.5	1,167	29.2	1,210	28.9	1,246	28.9	1,283	28.9	1,322	28.9	1,362	28.9	1,402	28.9	1,444	28.9
DEPARTMENTAL INCOME	2,088	66.6	2,520	69.5	2,831	70.8	2,976	71.1	3,065	71.1	3,158	71.1	3,252	71.1	3,349	71.1	3,450	71.1	3,553	71.1
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	233	7.4	246	6.8	258	6.5	267	6.4	275	6.4	283	6.4	291	6.4	300	6.4	309	6.4	318	6.4
Marketing	168	5.4	178	4.9	186	4.7	193	4.6	198	4.6	204	4.6	210	4.6	217	4.6	223	4.6	230	4.6
Franchise Fee	257	8.2	302	8.3	334	8.4	350	8.4	361	8.4	372	8.4	383	8.4	394	8.4	406	8.4	418	8.4
Prop. Operations & Maint.	168	5.4	178	4.9	186	4.7	193	4.6	198	4.6	204	4.6	210	4.6	217	4.6	223	4.6	230	4.6
Utilities	181	5.8	192	5.3	201	5.0	207	5.0	214	5.0	220	5.0	227	5.0	233	5.0	240	5.0	248	5.0
Total	1,008	32.2	1,095	30.2	1,165	29.3	1,210	29.0	1,246	29.0	1,283	29.0	1,322	29.0	1,361	29.0	1,402	29.0	1,444	29.0
HOUSE PROFIT	1,080	34.4	1,425	39.3	1,665	41.5	1,766	42.1	1,819	42.1	1,874	42.1	1,930	42.1	1,987	42.1	2,047	42.1	2,109	42.1
Management Fee	94	3.0	109	3.0	120	3.0	126	3.0	129	3.0	133	3.0	137	3.0	141	3.0	146	3.0	150	3.0
INCOME BEFORE FIXED CHARGES	986	31.4	1,316	36.3	1,545	38.5	1,641	39.1	1,690	39.1	1,741	39.1	1,792	39.1	1,846	39.1	1,902	39.1	1,959	39.1
FIXED EXPENSES																				
Property Taxes	142	4.5	145	4.0	149	3.7	154	3.7	159	3.7	163	3.7	168	3.7	173	3.7	178	3.7	184	3.7
Insurance	68	2.2	70	1.9	72	1.8	74	1.8	76	1.8	79	1.8	81	1.8	83	1.8	86	1.8	88	1.8
Reserve for Replacement	63	2.0	109	3.0	160	4.0	167	4.0	172	4.0	178	4.0	183	4.0	188	4.0	194	4.0	200	4.0
Total	272	8.7	324	8.9	381	9.5	395	9.5	407	9.5	420	9.5	432	9.5	445	9.5	458	9.5	472	9.5
NET INCOME	$714	22.7 %	$992	27.4 %	$1,164	29.0 %	$1,245	29.6 %	$1,282	29.6 %	$1,321	29.6 %	$1,360	29.6 %	$1,401	29.6 %	$1,443	29.6 %	$1,486	29.6 %

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

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,*[1] *Hotels, Motels and Restaurants: Valuations and Market Studies,*[2] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[3] *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations,*[4] and *Hotels and Motels – Valuations and Market Studies.*[5]

1. All information was collected and analyzed by the staff of 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 hostelry-related economic and demographic trends that may have an impact on future demand for hotels.
5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.

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

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

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

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

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

6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.

7. Documentation for an occupancy and average rate 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 subject property.

2. Description of the Site and Neighborhood

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

The subject site is located adjacent to Georgetown Lake, southeast of the intersection formed by Argentine Street and 22nd Street. This site is in the city of Georgetown, Colorado.

Physical Characteristics

The parcel's adjacent uses are set forth in the following table.

FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES

Direction	Adjacent Use
North	22nd Street
South	Vacant Land
East	Georgetown Lake
West	Argentine Street

VIEW OF SUBJECT SITE

AERIAL PHOTOGRAPH

Primary vehicular access to the proposed subject hotel is expected to be provided by Argentine Street. The topography of the parcel is generally flat, and the site's shape is irregular.

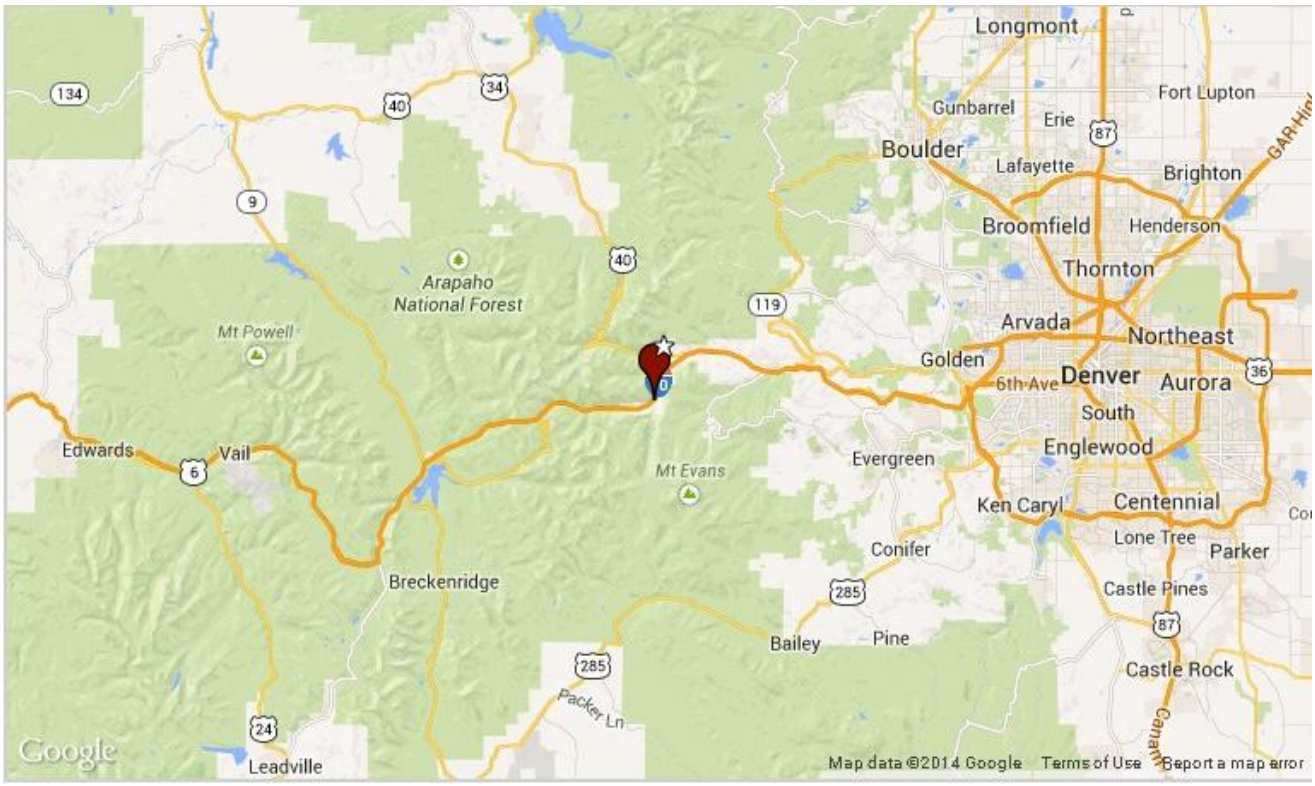
Site Utility

The subject site is expected to be part of a larger 18-acre development. We assume that the subject site will be parceled off as part of its development. Therefore, 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. The site is expected to be fully developed with site or building improvements, which will contribute to the overall profitability of the hotel.

Access and Visibility

It is important to analyze the site in regard to ease of access with respect to regional and local transportation routes and demand generators. 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



Primary regional access through the area is provided by east/west Interstate 70, which extends to such cities as Denver to the east and Grand Junction to the west. Other major highways in the area that intersect Interstate 70 through the central Colorado mountain region include U.S. Highway 40, State Highway 9, and State Highway 119. The subject market is served by a variety of additional local highways, which are illustrated on the map.

From Interstate 70, motorists take the Georgetown Exit and proceed south on this ramp until its intersection with 15th Street. Motorists execute a left turn onto 15th Street and travel east for approximately one-tenth a mile to Argentine Street. Motorists make a left-hand turn onto Argentine Street and proceed north two-thirds of a mile to the subject site, which is located on the motorists' right-hand side. The subject site is located near a busy intersection. The proposed subject hotel is expected to have adequate signage at the street; thus, the hotel should benefit from excellent visibility from within its local neighborhood. Overall, the subject site benefits from good accessibility, and the proposed hotel is expected to enjoy excellent visibility attributes.

Airport Access

The proposed subject hotel will be served by the Denver International Airport, which is located approximately 48 miles to the east of the subject site. From the airport, motorists will follow signs to Interstate 70 and travel west on this thoroughfare, continuing to the subject site as previously noted.

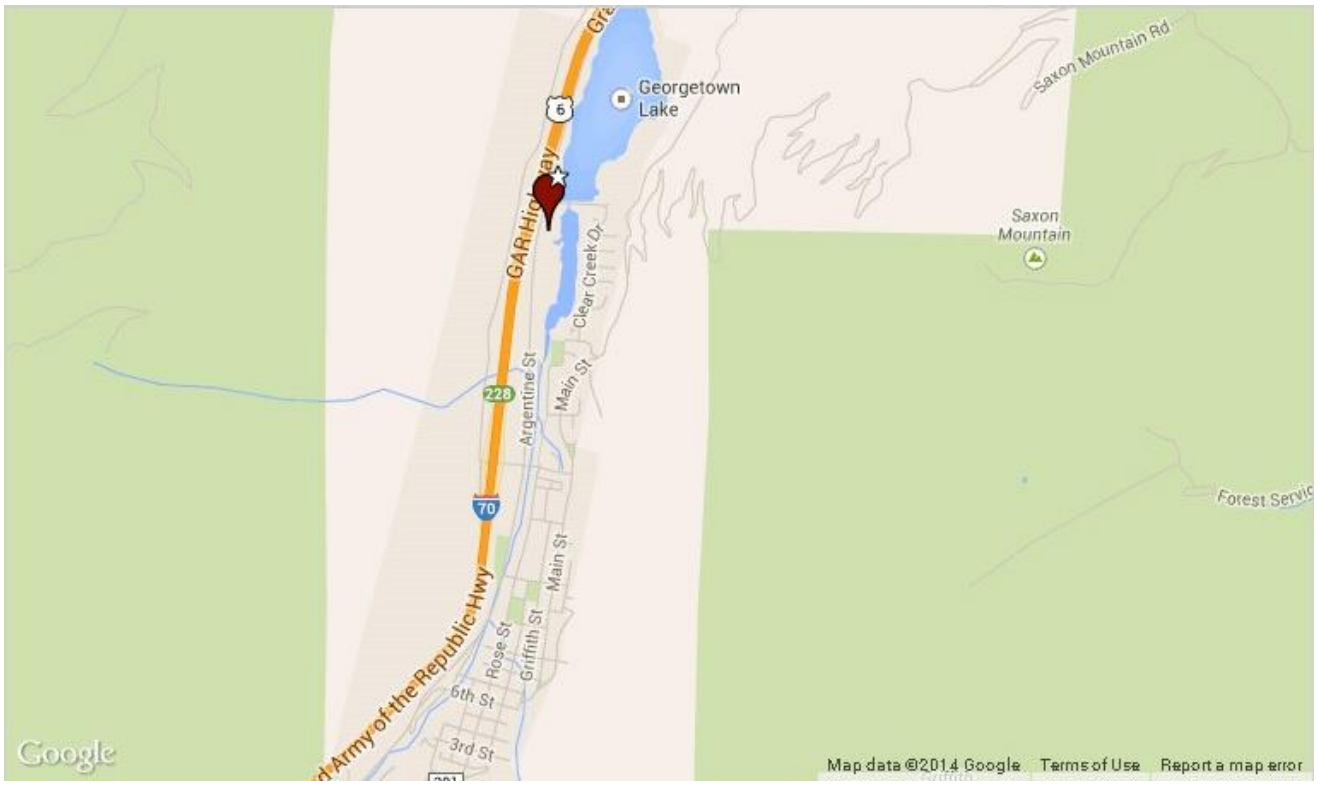
Neighborhood

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

The neighborhood surrounding the subject site includes all of Georgetown and is generally defined by Georgetown Lake to the north, Saxon Mountain Road to the east, Guanella Pass Road to the south, and Interstate 70 to the west. This neighborhood is in the stable of its life cycle. Within the immediate proximity of the site, land use is a mix of residential and commercial. The neighborhood is characterized by restaurants, office buildings, and retail shops along the primary thoroughfares, with residential areas located along the secondary roadways.

Some specific businesses and entities in the area include Georgetown Loop Railroad, Hotel de Paris Museum, Hamill House Museum, Clear Creek County offices, Georgetown Mountain Inn, Gateway Visitors Center, and Argent Real Estate. Restaurants within immediate proximity of the subject site include Subway, The Euro Grill, The Alpine Restaurant and Bar, and Mountain Buzz Cafe. A Family Dollar store is under construction and should open in June of 2014. In addition, the community is working to complete a trail system around Georgetown Lake; it is expected to be completed in the next twelve to twenty-four months, depending on funding. In general, we would characterize the neighborhood as 25% residential use, 20% lake, 20% retail/restaurant use, 10% office use, 10% other, 10% vacant, and 5% hotel use. The proposed subject hotel's opening should be a positive influence on the area; the hotel is expected to be in character with and to complement surrounding land uses.

MAP OF NEIGHBORHOOD



Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel.

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.

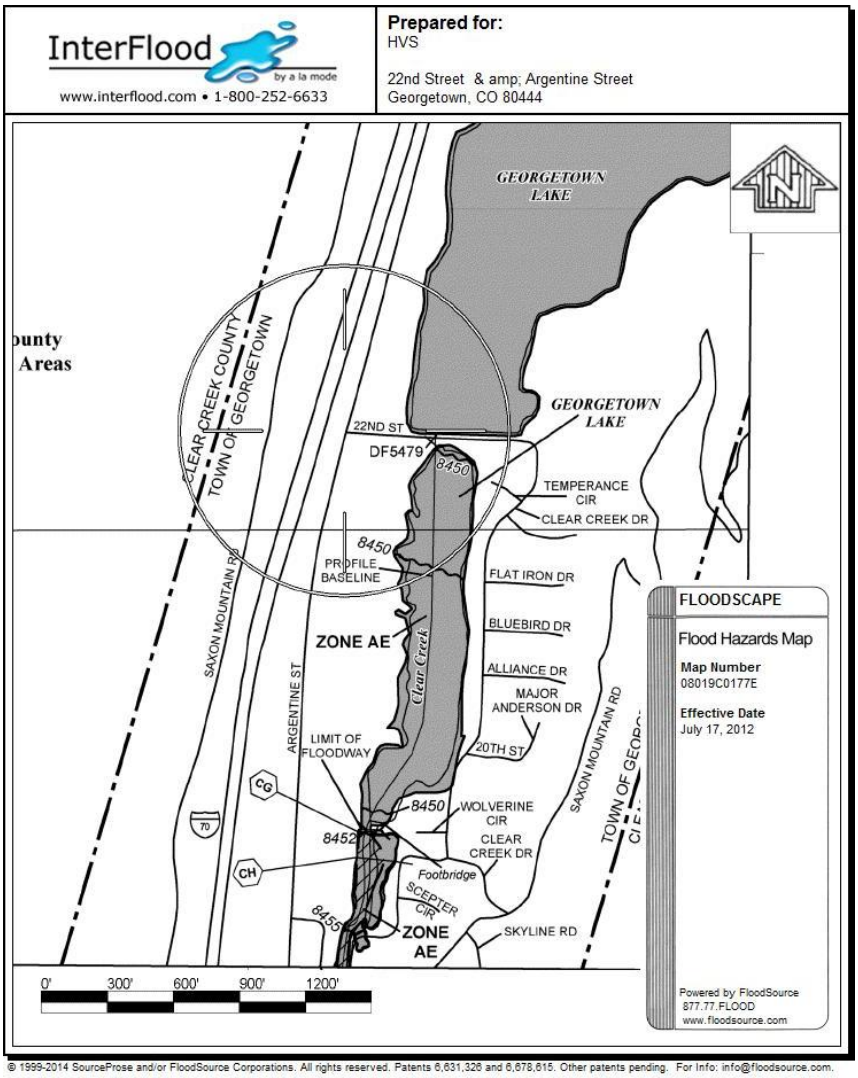
Nuisances and Hazards

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 flood zone X.

COPY OF FLOOD MAP AND COVER



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

Zoning

According to the local planning office, the subject property is zoned as follows: GMU - Gateway Mixed-Use. This zoning designation allows for most commercial and residential uses, including retail shops, service industries, public recreation, houses, and hotels and motels. 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 subject site is favorably located on a lake, with excellent visibility from the nearby interstate. In general, the site should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

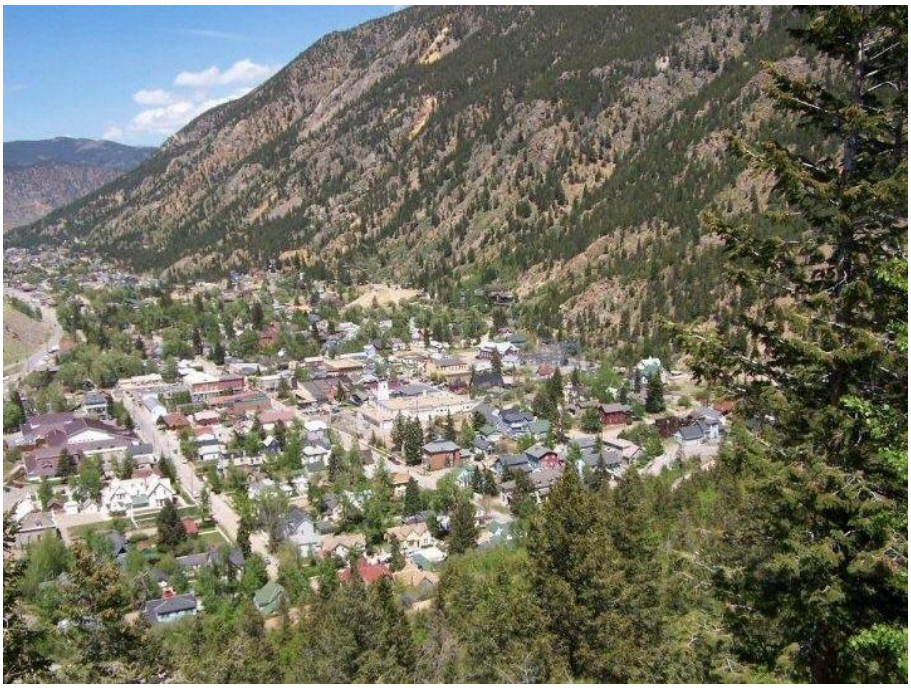
3. Market Area Analysis

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

Market Area Definition

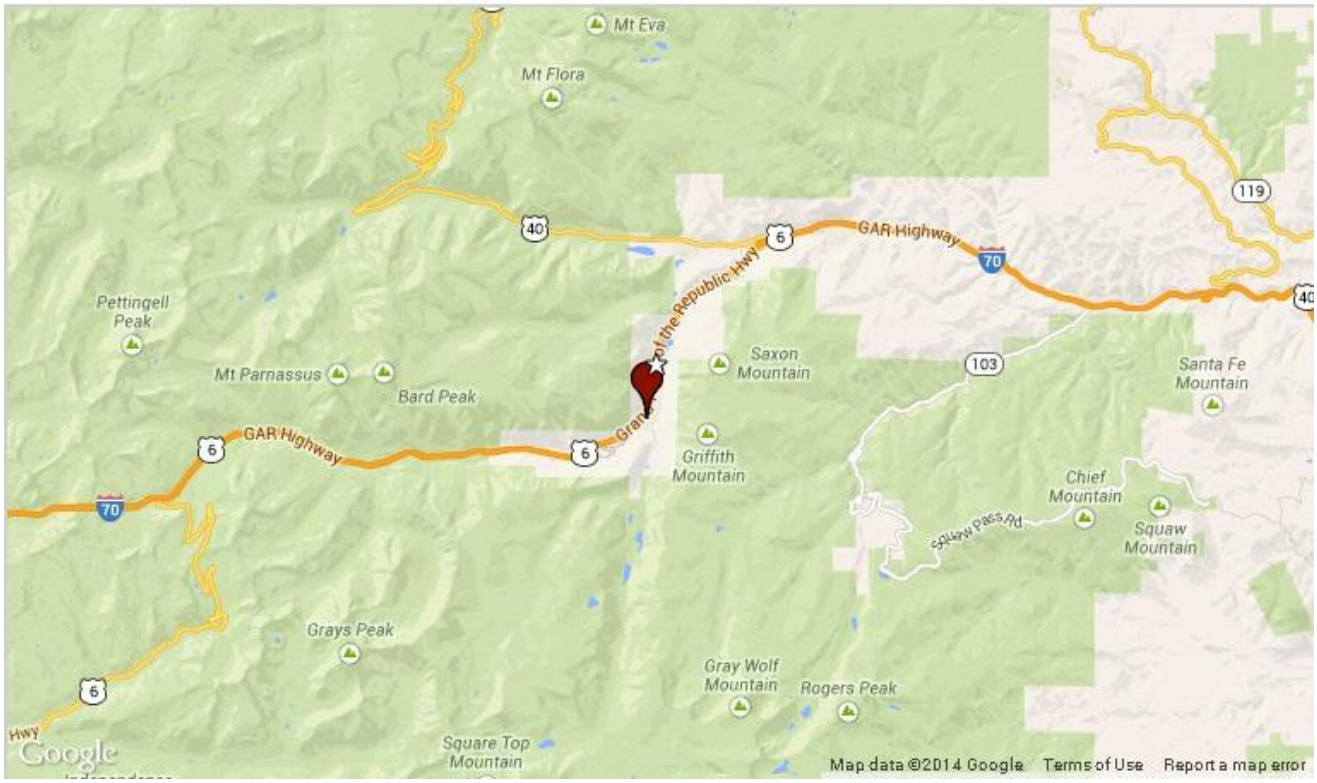
The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the town of Georgetown, the county of Clear Creek, and the state of Colorado. Georgetown is a small mountain community located off the heavily traveled east/west Interstate 70, which traverses the Rocky Mountains and the Continental Divide. Established in 1859, this territorial charter municipality is the county seat for Clear Creek County. Originally founded as a mining town during the Colorado Gold Rush in the mid-1800s, the economy remained heavily entrenched in the mining industry throughout its history. However, the tourism industry has become an important component of the economic complexion over the past several decades. Georgetown and its neighboring town, Silver Plume, comprise a federally designated historic district known as the Georgetown-Silver Plume Historic District.

GEORGETOWN



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

MAP OF MARKET AREA



Economic and Demographic Review

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

These data are summarized in the following table.

FIGURE 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2013	2020	Average Annual Compounded Change 2000-10	2010-13	2013-20
Resident Population (Thousands)							
Clear Creek County	9.3	9.1	9.5	10.5	(0.2) %	1.4 %	1.4 %
Denver-Aurora-Broomfield, CO MSA	2,170.1	2,523.6	2,641.8	2,927.3	1.5	1.5	1.5
Denver-Aurora-Boulder, CO CSA	2,647.2	3,105.2	3,254.0	3,613.1	1.6	1.6	1.5
State of Colorado	4,326.9	5,049.1	5,288.2	5,865.0	1.6	1.6	1.5
United States	282,162.4	309,349.7	318,515.7	341,069.5	0.9	1.0	1.0
Per-Capita Personal Income*							
Clear Creek County	$39,568	$49,405	$52,345	$57,329	2.2	1.9	1.3
Denver-Aurora-Broomfield, CO MSA	42,794	43,731	45,119	49,518	0.2	1.0	1.3
Denver-Aurora-Boulder, CO CSA	42,117	42,360	43,587	47,719	0.1	1.0	1.3
State of Colorado	37,856	38,933	40,022	44,010	0.3	0.9	1.4
United States	33,771	36,700	37,779	41,366	0.8	1.0	1.3
W&P Wealth Index							
Clear Creek County	123.4	139.6	142.7	142.5	1.2	0.7	(0.0)
Denver-Aurora-Broomfield, CO MSA	128.9	120.9	121.0	121.3	(0.6)	0.0	0.0
Denver-Aurora-Boulder, CO CSA	127.8	118.3	118.0	118.0	(0.8)	(0.1)	0.0
State of Colorado	115.2	108.8	108.5	108.9	(0.6)	(0.1)	0.1
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Clear Creek County	$18	$16	$17	$21	(1.6)	2.3	3.0
Denver-Aurora-Broomfield, CO MSA	3,405	4,474	4,859	5,680	2.8	2.8	2.3
Denver-Aurora-Boulder, CO CSA	4,069	5,329	5,798	6,808	2.7	2.9	2.3
State of Colorado	6,475	8,378	9,176	10,929	2.6	3.1	2.5
United States	341,525	406,373	435,874	498,869	1.8	2.4	1.9
Total Retail Sales (Millions)*							
Clear Creek County	$70	$63	$71	$84	(1.0)	3.7	2.5
Denver-Aurora-Broomfield, CO MSA	32,641	36,427	40,490	47,582	1.1	3.6	2.3
Denver-Aurora-Boulder, CO CSA	39,029	43,701	48,655	57,363	1.1	3.6	2.4
State of Colorado	61,874	68,988	77,084	91,512	1.1	3.8	2.5
United States	3,613,909	3,818,137	4,194,877	4,810,490	0.6	3.2	2.0

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The U.S. population has grown at an average annual compounded rate of 1.0% from 2010 through 2013. The county's population has grown at a quicker pace than the nation's population; the average annual growth rate of 1.4% between 2010 and 2013 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 2013. Local wealth indexes have remained stable in recent years, registering a relatively high 142.7 level for the county in 2013.

Food and beverage sales totaled $17 million in the county in 2013, versus $16 million in 2010. This reflects a 2.3% average annual change, which is stronger than the -1.6% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 3.0%, which is forecast through 2020. The retail sales sector demonstrated an annual decline of -1.0% registered in the decade 2000 to 2010, followed by an increase of 3.7% in the period 2010 to 2013. An increase of 2.5% average annual change is expected in county retail sales through 2020.

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 2013, as well as a forecast for 2020.

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

Industry	2000	Percent of Total	2010	Percent of Total	2013	Percent of Total	2020	Percent of Total	Average Annual Compounded Change 2000-2010	2010-2013	2013-2020
Farm	0.0	0.0 %	0.0	0.0 %	0.0	0.0 %	0.0	0.0 %	0.0 %	0.0 %	0.0 %
Forestry, Fishing, Related Activities And Other	0.0	0.3	0.1	1.2	0.1	1.1	0.1	1.0	17.6	(1.5)	0.5
Mining	0.1	1.3	0.4	5.0	0.4	4.8	0.4	4.6	17.3	0.2	1.0
Utilities	0.1	0.9	0.1	1.3	0.1	1.4	0.1	1.4	6.7	1.3	2.5
Construction	0.4	7.6	0.4	5.7	0.4	5.2	0.4	4.9	(0.1)	(2.5)	1.1
Manufacturing	0.1	1.3	0.1	1.3	0.1	1.4	0.1	1.3	2.8	2.8	0.6
Total Trade	0.6	10.2	0.6	7.4	0.6	7.7	0.8	8.5	(0.5)	2.5	3.2
Wholesale Trade	0.1	2.3	0.2	2.6	0.2	3.1	0.3	3.2	3.9	6.9	2.3
Retail Trade	0.5	7.9	0.4	4.8	0.4	4.6	0.5	5.3	(2.3)	(0.1)	3.8
Transportation And Warehousing	0.1	1.8	0.1	1.1	0.1	1.0	0.1	1.1	(2.3)	(0.8)	3.7
Information	0.1	2.2	0.2	2.1	0.2	2.1	0.2	1.9	2.5	0.0	0.4
Finance And Insurance	0.2	3.7	0.5	6.0	0.5	6.2	0.6	6.2	7.8	1.9	1.7
Real Estate And Rental And Lease	0.5	8.7	0.7	9.1	0.8	9.5	0.8	9.3	3.1	2.7	1.5
Total Services	2.9	50.2	3.9	50.9	4.1	51.6	4.7	52.9	2.9	1.5	2.1
Professional And Technical Services	0.6	10.5	1.0	12.5	1.0	12.9	1.2	13.0	4.5	2.1	1.9
Management Of Companies And Enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administrative And Waste Services	0.3	4.8	0.4	5.2	0.4	4.9	0.4	4.7	3.8	(1.3)	1.3
Educational Services	0.2	3.0	0.3	3.5	0.3	3.7	0.3	3.8	4.3	2.5	2.2
Health Care And Social Assistance	0.4	7.2	0.6	7.4	0.6	7.9	0.8	8.4	3.0	3.4	2.8
Arts, Entertainment, And Recreation	0.4	7.6	0.6	7.4	0.5	6.9	0.6	6.5	2.5	(1.3)	1.0
Accommodation And Food Services	0.7	11.1	0.7	9.5	0.8	10.3	1.0	11.0	1.1	3.7	2.8
Other Services, Except Public Administration	0.4	6.0	0.4	5.4	0.4	5.1	0.5	5.4	1.6	(0.7)	2.5
Total Government	0.7	11.6	0.7	8.8	0.6	8.0	0.6	7.0	(0.1)	(1.9)	(0.2)
Federal Civilian Government	0.0	0.8	0.0	0.6	0.0	0.6	0.0	0.5	0.0	(0.7)	1.2
Federal Military	0.0	0.4	0.0	0.3	0.0	0.3	0.0	0.2	(2.1)	(1.6)	0.0
State And Local Government	0.6	10.4	0.6	7.9	0.6	7.2	0.6	6.2	(0.0)	(2.0)	(0.3)
TOTAL	5.9	100.0 %	7.7	100.0 %	7.9	100.0 %	9.0	100.0 %	2.7 %	1.1 %	1.8 %
MSA	1,527.1	—	1,591.3	—	1,639.2	—	1,820.9	—	0.4 %	1.0 %	1.5 %
U.S.	165,370.9	—	172,936.0	—	178,104.4	—	195,598.1	—	0.6	1.0	1.3

Source: Woods & Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010 total employment in the county grew at an average annual rate of 2.7%. This trend was above the growth rate recorded by the MSA and also outpaced the national average. More recently, the pace of total employment growth in the county slowed to 1.1% on an annual average from 2010 to 2013.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2013, increasing by 181 people, or 4.6%, and rising from 50.9% to 51.6% of total employment. Of the various service sub-sectors, Professional And Technical Services and Accommodation And Food Services were the largest employers. Strong growth was also recorded in the Real Estate And Rental And Lease sector, as well as the Total Trade sector, which expanded by 8.2% and 7.6%, respectively, in the period 2010 to 2013. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.8% on average annually through 2020. The trend is above the forecast rate of change for the U.S. as a whole during the same period.

Radial Demographic Snapshot

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

FIGURE 3-3 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2018 Projection	487	1,639	1,999
2013 Estimate	530	1,692	2,028
2010 Census	571	1,760	2,084
2000 Census	747	2,036	2,297
Growth 2013-2018	-8.1%	-3.1%	-1.4%
Growth 2010-2013	-7.1%	-3.9%	-2.7%
Growth 2000-2010	-23.6%	-13.6%	-9.3%
Households			
2018 Projection	247	814	985
2013 Estimate	267	833	991
2010 Census	285	859	1,009
2000 Census	342	921	1,034
Growth 2013-2018	-7.4%	-2.3%	-0.6%
Growth 2013-2018	-6.3%	-3.0%	-1.8%
Growth 2013-2018	-16.7%	-6.7%	-2.4%
Income			
2013 Est. Average Household Income	$53,958	$51,066	$50,063
2013 Est. Median Household Income	48,393	46,288	45,470
2013 Est. Civ Employed Pop 16+ by Occupation	319	1,004	1,197
Architect/Engineer	3	9	12
Arts/Entertain/Sports	12	28	30
Building Grounds Maint	12	50	65
Business/Financial Ops	11	28	31
Community/Soc Svcs	10	28	32
Computer/Mathematical	5	15	18
Construction/Extraction	28	97	120
Edu/Training/Library	10	26	28
Farm/Fish/Forestry	0	0	1
Food Prep/Serving	24	100	129
Health Practitioner/Tec	19	53	60
Healthcare Support	5	13	14
Maintenance Repair	8	25	31
Legal	3	7	8
Life/Phys/Soc Science	13	30	32
Management	26	81	98
Office/Admin Support	52	151	176
Production	10	30	35
Protective Svcs	10	29	33
Sales/Related	33	121	152
Personal Care/Svc	8	20	22
Transportation/Moving	19	61	73

Source: The Nielsen Company

This source reports a population of 2,028 within a five-mile radius of the subject property, and 991 households within this same radius. Average household income within a five-mile radius of the subject property is currently reported at $50,063, while the median is $45,470.

Unemployment Statistics

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

FIGURE 3-4 UNEMPLOYMENT STATISTICS

Year	County	State	U.S.
2004	5.7 %	5.6 %	5.5 %
2005	4.8	5.1	5.1
2006	4.0	4.3	4.6
2007	3.7	3.8	4.6
2008	4.6	4.8	5.8
2009	8.0(S)	8.1(G)	9.3
2010	8.3(E)	9.0(D)	9.6
2011	7.6(E)	8.5(D)	8.9
2012	7.3(E)	7.8(D)	8.1
2013	6.3(E)	6.8(D)	7.4
Recent Month - Mar			
2013	6.5 %	7.2 %	7.6 %
2014	5.9	6.6	6.7

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

The unemployment rate for the U.S. fluctuated within the narrow range of 4.6% to 6.0% in the period spanning from 2003 to 2007. The recession and financial crisis in 2007 and 2008 resulted in heightened unemployment rates, which peaked at 10.0% in October of 2009. Job growth resumed in late 2009; the national unemployment rate has steadily declined since 2010. Total nonfarm payroll employment increased by 217,000 in May of 2014; over the last twelve months, nonfarm payroll employment has increased on the average of 197,000 per month. The unemployment rate held at 6.3% in May of 2014, following a 0.4-point drop in April when compared to March. Over the last twelve months, the unemployment rate has declined by 1.2 points and 1.9 million persons. This positive trend reflects steady progress by the U.S. economy.

Locally, the unemployment rate was 6.3(E)% in 2013; for this same area in 2014, the most recent month's unemployment rate was registered at 5.9%, versus 6.5% for the same month in 2013. After showing year-over-year improvement, unemployment began to rise in 2008 as the region entered an economic slowdown, and this trend continued through 2010 as the height of the national

recession took hold. However, unemployment declined in 2011 as the economy rebounded, a trend that continued through 2013. The most recent comparative period illustrates further improvement, indicated by the lower unemployment rate in the latest available data for 2014. Reportedly, local employment has remained strong within the mining and government sectors, including healthy employment levels at major employers such as Henderson Mine and Clear Creek County.

Major Business and Industry

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

FIGURE 3-5 MAJOR EMPLOYERS

Major/Important Employers
Freeport-McMoRan Copper & Gold Inc. (Henderson Mine)
Clear Creek County
Clear Creek School District
Safeway
Loveland Ski Area
Georgetown Loop Railroad
Easter Seals Colorado
Tommyknocker Brewery
Clear Creek Rafting Company
TallGrass Spa

Source: Clear Creek County Economic Development Corporation

The following bullet points highlight major demand generators for this market:

- Georgetown has a long history in mining, and this industry remains strong today. Henderson Mine, located west of the town of Empire, accounts for nearly 70% of the gross domestic product of Clear Creek County, according to economic development officials. Now owned by Freeport McMoRan Copper & Gold Inc., the mine is used for the extraction of molybdenum ore, which is used in a variety of products globally. The ore travels nearly 15 miles by conveyor belt beneath the Continental Divide to a processing plant located near Parshall, Colorado. According to economic development officials, the Henderson Mine is slated to close in twelve years as the remaining molybdenum is depleted.

Officials are working to diversify the economic base and create a long-term redevelopment plan for the mine.

- Tourism plays an important role in the economic vitality of the area. According to Clear Creek County economic development officials, tourism accounts for approximately 30% of the area's economic base. Aside from travelers visiting the Georgetown-Silver Plume Historic District and its numerous shopping and restaurant outlets, the mountains of Colorado host a wealth of year-round visitors, especially those traveling along Interstate 70, the primary roadway across Colorado's Rocky Mountains. Tourism officials report that tourism is generally strongest during the summer season, and seasonal visitation has been growing. This increase is attributed to the larger and more populous tourism areas of Summit and Eagle Counties, which have heavily promoted the Colorado mountains during the summer season with various festivals and events; these efforts have extended tourism to include more than just Colorado's world-class skiing and snowboarding season, which generally runs from December through March. The Town of Georgetown has been working on growing annual events in the city to help drive tourism to the market, including the Slacker Half Marathon and the Hot Rod Hill Climb. In addition, county officials are working to build new fairgrounds in nearby Empire, scheduled for completion in the summer of 2015; the fairgrounds will be able to host a variety of events, from rodeos to weddings.

- Year-round recreational opportunities abound in Clear Creek County. The area is bounded by four national forests, lakes, trails, ski resorts, and rivers that draw outdoor enthusiasts to the region. Most notably, world-class ski resorts located near Georgetown include Loveland Ski Area, Keystone Ski Resort, Breckenridge Ski Resort, Copper Mountain Resort, Winter Park Resort, and Arapahoe Basin Ski Area, an area that offers the longest ski and snowboarding season in North America. The closest of these resorts to Georgetown is Loveland Ski Area, which straddles the eastern side of the Continental Divide along Interstate 70 at the location of the twin tunnels. Loveland Ski Area is known for opening early in the season, usually in October, which enables it to host international and domestic ski teams that are training for ski competitions until other nearby resorts start to open. In addition, the Front Range Ski Club drives skier demand in the area and operates a private ski-racing center at nearby Echo Mountain. Numerous resorts in Eagle and Summit Counties have also benefited from significant capital investment in the past several years, particularly those affiliated with Vail Resorts Management Company.

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.

Denver International Airport, commonly referred to as DIA, opened in 1995 at a cost of $4.8 billion. United Airlines and Frontier Airlines utilize the airport as a major hub, and Southwest Airlines is another primary user of the facility. DIA is currently undergoing a major South Terminal redevelopment project, which includes a new 519-room Westin hotel and conference center, a public transit center that will connect DIA via FasTracks with Downtown Denver, and a public plaza featuring restaurants and entertainment venues. The renovation is planned to occur in two phases, with the first phase scheduled for completion in 2016 when rail service will begin. The hotel is scheduled to open in July of 2015. The second phase will include the construction of another parking structure and a renovation of the existing terminal. Furthermore, five new gates will be added to Concourse C to accommodate steady growth by Southwest Airlines; the estimated date of completion for this expansion is November 2014.

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

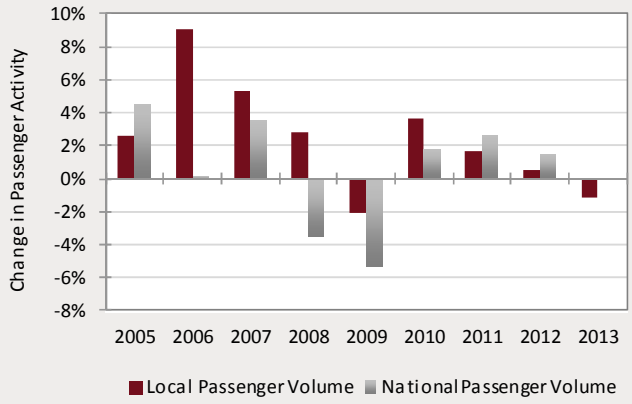
FIGURE 3-6 AIRPORT STATISTICS - DENVER INTERNATIONAL AIRPORT

Year	Passenger Traffic	Percent Change*	Percent Change**
2004	42,275,913	—	—
2005	43,387,513	2.6 %	2.6 %
2006	47,325,016	9.1	5.8
2007	49,863,352	5.4	5.7
2008	51,245,334	2.8	4.9
2009	50,167,485	(2.1)	3.5
2010	51,985,038	3.6	3.5
2011	52,849,132	1.7	3.2
2012	53,156,278	0.6	2.9
2013	52,556,359	(1.1)	2.4
Year-to-date, April			
2013	16,209,851	—	—
2014	16,542,752	2.1 %	—

*Annual average compounded percentage change from the previous yea
**Annual average compounded percentage change from first year of da

Source: Denver International Airport

FIGURE 3-7 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND



Source: HVS, Local Airport Authority

This facility recorded 52,556,359 passengers in 2013. The change in passenger traffic between 2012 and 2013 was -1.1%. The average annual change during the period shown was 2.4%.

Tourist Attractions

The market benefits from a variety of tourist and leisure attractions in the area. The peak season for tourism in this area is from May to September during the summer months and from late December through March during the winter season. During other times of the year, weekend demand comprises travelers passing through en route to other destinations, people visiting friends or relatives, and other similar weekend demand generators. Primary attractions in the area include the following:

- The Georgetown Loop Railroad travels from Devil's Gate Station in Georgetown through Clear Creek Canyon to Silver Plume, past the remains of several gold and silver mines. The steam locomotive train runs from the end of April until the end of December and offers day trips and dinner trains.
- The Guanella Pass Scenic Byway offers 22 miles of beautiful views with access to hiking trails in the Pike and Arapaho National Forests. It is considered one of the best places to view the turning of the aspens and a variety of Rocky Mountain wildlife.
- The Hotel de Paris, now listed on the National Register of Historic Place, dates to the silver mining boom, when it served as a first-class French restaurant, showroom for traveling salesmen, and luxurious hotel. Today, visitors can tour

the museum and learn about the hotel's founder, Louis Dupuy, as well as the history of Georgetown.

- The Georgetown-Silver Plume National Historic Landmark District features one of the largest concentrations of Victorian buildings in the country. The district encompasses both Georgetown and Silver Plume and the narrow-gauge railroad that straddles the high valley between the two towns. Today, visitors can get glimpse of Victorian life in an early mining town of the Rocky Mountains as private home owners and numerous historic sites open the doors to the public.

LOVELAND SKI AREA

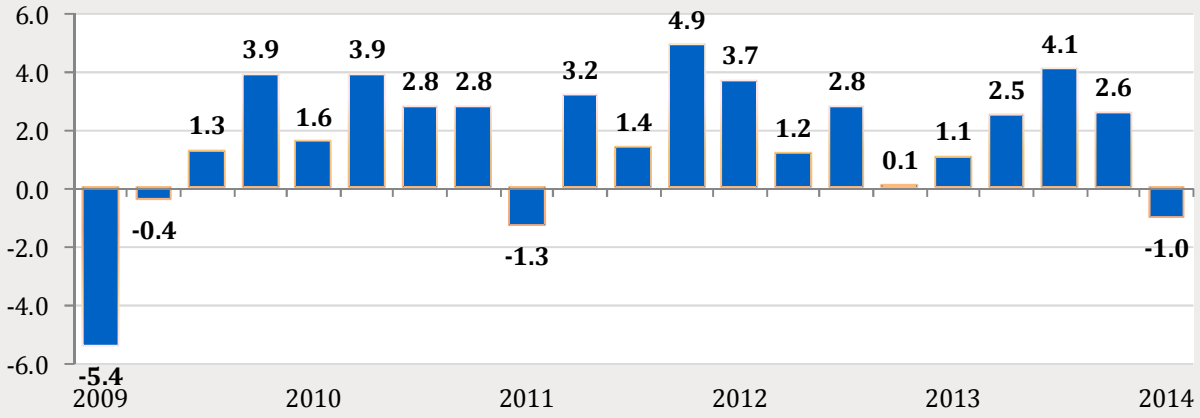
Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. Clear Creek County is experiencing a period of economic strength, led by the tourism and mining industries. Our market interviews and research revealed that the Henderson Mine remains a cornerstone of the market and is expected to remain that way for the next 15 to 20 years. According to our interviews, local officials are working to diversify the economy and increase demand to the area in order to offset the eventual closing of the Henderson Mine. This includes building a new county fairgrounds in Empire, helping local businesses to open and grow, and increasing the development of commercial properties in the area. The outlook for the market area is positive.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy began to pull out of the Great

Recession and financial crisis in 2010 and experienced four consecutive quarters of economic growth. Following a slight contraction in the first quarter of 2011, the economy grew at positive, albeit fluctuating, rates through the fourth quarter of 2013, as evidenced in the following table. During the first quarter of 2014, the economy contracted by a seasonally adjusted annual rate of 1%, largely attributed to the severe winter weather that hampered normal business activity throughout much of the country. A rebound in the second quarter is anticipated.

FIGURE 3-8 UNITED STATES GDP GROWTH RATE



Source: tradingeconomics.com, Bureau of Economic Analysis

The downturn is primarily attributed to declines in exports, private inventory investment, non-residential fixed investment, and state and local government spending. The performance of economic drivers of the lodging sector was positive, with real personal consumption expenditures increasing 3.1%, durable goods increasing 1.4%, and services increasing 4.3%. The economic outlook continues to be positive; GDP is projected to grow at an annual rate of 2.4% in 2014, according to Kiplinger's Economic Outlook, and by at least 3.0% during the second half of the year.

4. Overview of the U.S. Ski Industry

Data on the 2012/13 ski season from the National Ski Areas Association (NSAA) and the *Kottke National End of the Season Survey* show skier visits in the U.S. up 11.7% compared with numbers from the previous winter ski season. This increase reflects a partial rebound from the 15.8% decline in skier visits in the 2011/12 season due to the economic stagnation and low snowfall levels that affected skier visits nationwide that season. Despite a slow start to the winter season in many parts of the country, many ski areas experienced a strong Christmas holiday period and President's Day through March. Additionally, some areas experience large late season storms that help prolong favorable ski conditions into April. Increases in skier visits occurred in all of the regions of the U.S. with 21.0% growth in the Northeast, 17.7% growth in the Pacific Southwest, a 17.0% increase in the Southeast region, and 14.0% in the Midwest region. More modest increases in total skier visits were experienced in the Pacific Northwest and Rocky Mountains regions, which increased by 6.0% and 3.5%, respectively.

This increase in 2012/13 skier visits has brought the total skier visit number to within four million of the peak achieved in 2010/11 when skier visits rose to 60.5 million; this was slightly higher than the previous peak in 2007/08. A strong snowfall year, reportedly up 29% from the prior season, accounted for a significant portion of the high visitation levels in 2010/11. In 2012/13, average ski area snowfall was up 17% from the previous year, but remained below each of the four prior seasons (2007/08 to 2010/11) The strength of visit rebound in 2012/13 is impressive given that snow conditions were only marginally better than the 2011/12 winter which was the worst snowfall in 20 years.

To overcome certain demographic and lifestyle barriers that surveys found hindered growth, many resorts have developed on-mountain facilities that offer separate experiences for alpine skiers and snowboarders. Attitudinal conflict between the two user groups has largely been resolved. Slow skiing areas and slopes for youngsters and families have been developed and defined. New design technology has made equipment easier to use and made learning to ski or ride easier. Mountain access (parking, transportation, arrival points, etc.) has been improved. Services and support facilities have received new emphasis, and high-speed lifts have largely removed long-standing crowd bottlenecks at popular access points.

With the advent of shorter skis and better snowboard design, the industry has embarked on a national effort to encourage trial of snowsports by new

participants. The NSAA has developed the "Model for Growth" that shares information about successful introductory and retention programs. Additionally, individual resort companies have undertaken a variety of marketing and pricing initiatives that have encouraged more frequent participation. These include significantly discounted season passes and other types of value pricing, innovative learn-to-ski packages with compelling come-back incentives, and increasingly sophisticated marketing efforts utilizing email databases and "personalized" offers.

These long-term challenges may also be viewed as opportunities. Commissioning periodic market research and responding to its findings via new programs, pricing, services, and facilities can guide the industry in developing appropriate responses to potential demographic and lifestyle barriers.

The following tables detail U.S. ski industry statistics and trends.

FIGURE 4-1 U.S. SKI INDUSTRY SKIER VISITS

Season	Total Number of U.S. Skier Visits (in millions)	Year over Year Change*	Average Annual Compounded Change**	Average Annual Compounded Change***
1981/82	50.718	—	—	—
1982/83	46.861	(7.60) %	(7.60) %	—
1983/84	50.630	8.04	(0.09)	—
1984/85	51.354	1.43	0.42	—
1985/86	51.921	1.10	0.59	—
1986/87	53.749	3.52	1.17	—
1987/88	53.908	0.30	1.02	0.30 %
1988/89	53.335	(1.06)	0.72	(0.39)
1989/90	50.020	(6.22)	(0.17)	(2.37)
1990/91	46.722	(6.59)	(0.91)	(3.44)
1991/92	50.835	8.80	0.02	(1.11)
1992/93	54.032	6.29	0.58	0.09
1993/94	54.637	1.12	0.62	0.23
1994/95	52.677	(3.59)	0.29	(0.25)
1995/96	53.983	2.48	0.45	0.05
1996/97	52.520	(2.71)	0.23	(0.23)
1997/98	54.122	3.05	0.41	0.06
1998/99	51.950	(4.01)	0.14	(0.28)
1999/00	52.198	0.48	0.16	(0.22)
2000/01	57.337	9.85	0.65	0.46
2001/02	54.411	(5.10)	0.35	0.08
2002/03	57.594	5.85	0.61	0.43
2003/04	57.067	(0.92)	0.54	0.35
2004/05	56.882	(0.32)	0.50	0.32
2005/06	58.897	3.21	0.62	0.48
2006/07	55.068	(6.50)	0.33	0.12
2007/08	60.502	9.87	0.68	0.57
2008/09	57.354	(5.20)	0.46	0.30
2009/10	59.787	4.24	0.59	0.46
2010/11	60.540	1.30	0.61	0.50
2011/12	50.966	-15.8	0.02	(0.21)
2012/13	56.904	11.7	0.37	0.22

*From previous season

**From 1981/82 season

***From 1986/87 season

Source: National Ski Areas Association/ Kottke Survey July 2013

Total skier visits have remained relatively flat over the historical period, increasing at an average annual compounded rate of 0.37% since 1981/82. However, dramatic changes have occurred in skier visits on a year-to-year basis, as illustrated by decreases in skier visits as large as 7.6% in the 1982/83 season to increases as large as 9.87% in the 2007/08 season. In just the past two years, skier visits experienced a decline of 15.8% in 2011/12 and an increase of 11.7% in 2012/13. Factors influencing skier visitation in any given year include snowfall, the national economy, and international economic and political dynamics. National skier visit counts are likely to remain in the 50-to-60-million range in the near future, in consideration of the factors cited above and the absence of a cohesive and cooperative strategy to increase participation levels on a national basis.

As previously noted, the U.S. ski industry can be divided into six regions: Northeast, Southeast, Midwest, Rocky Mountain, Pacific Northwest, and Pacific Southwest. The following table shows the distribution of total U.S. skier visits among these six regions over the past three decades.

FIGURE 4-2 U.S. SKIER VISITS BY REGION (IN MILLIONS)

Season	Northeast	Southeast	Midwest	Rocky Mountains	Pacific Southwest	Pacific Northwest	Pacific West (total)*	Total
1981/82	11.467	5.064	7.846	15.337	—	—	11.004	50.718
1982/83	9.523	4.256	6.213	14.808	—	—	12.061	46.861
1983/84	12.087	5.175	6.961	16.801	—	—	9.606	50.630
1984/85	11.083	4.394	6.899	17.626	—	—	11.352	51.354
1985/86	12.836	5.218	7.201	16.869	—	—	9.797	51.921
1986/87	14.745	5.816	6.944	16.680	—	—	9.564	53.749
1987/88	14.421	5.885	6.783	16.564	—	—	10.255	53.908
1988/89	12.741	5.424	7.013	16.601	—	—	11.556	53.335
1989/90	13.299	4.447	6.915	16.048	—	—	9.311	50.020
1990/91	11.157	4.257	6.486	16.706	—	—	8.115	46.722
1991/92	12.252	4.425	6.535	17.687	—	—	9.936	50.835
1992/93	13.216	4.661	6.978	18.602	—	—	10.575	54.032
1993/94	13.718	5.808	7.364	17.503	—	—	10.244	54.637
1994/95	11.265	4.746	6.907	18.412	—	—	11.346	52.677
1995/96	13.825	5.693	7.284	18.148	6.012	3.022	—	53.983
1996/97	12.407	4.231	7.137	18.904	6.359	3.482	—	52.520
1997/98	12.712	4.343	6.707	19.191	7.918	3.251	—	54.122
1998/99	12.229	4.261	6.005	18.305	7.485	3.599	—	51.955
1999/00	12.025	5.919	6.422	18.109	6.651	3.800	—	52.198
2000/01	13.697	5.458	7.580	19.323	7.836	3.442	—	57.337
2001/02	12.188	4.994	6.980	18.123	7.947	4.179	—	54.411
2002/03	13.991	5.833	8.129	18.728	7.885	3.027	—	57.594
2003/04	12.892	5.588	7.773	18.868	8.033	3.912	—	57.067
2004/05	13.661	5.504	7.533	19.606	8.888	1.690	—	56.882
2005/06	12.505	5.839	7.787	20.717	7.916	4.133	—	58.897
2006/07	11.801	4.888	7.200	20.849	6.536	3.794	—	55.068
2007/08	14.261	5.204	8.099	21.324	7.617	3.998	—	60.502
2008/09	13.730	5.664	7.247	17.974	7.091	3.647	—	57.354
2009/10	13.411	6.016	7.718	20.378	8.411	3.853	—	59.787
2010/11	13.887	5.789	7.811	20.900	8.111	4.042	—	60.540
2011/12	11.021	4.405	6.382	19.130	6.066	3.962	—	50.966
2012/13	13.334	5.155	7.273	19.800	7.140	4.202	—	56.904
% of Total (2012/13)	***23.4%***	***9.1%***	***12.8%***	***34.8%***	***12.5%***	***7.4%***	***0.0%***	***100.0%***

*Pacific West Broken Out into Separate Regions Beginning in 1995/96

Source: National Ski Areas Association

- **Northeast**: The Northeast registered an increase of 21.0% in 2012/13 when compared to the 2011/12 season, with 13.334 million visits recorded. Its share of the national market was 23.4%, down from 21.6% in 2011/12.
- **Southeast:** At 5.155 million skier visits, the Southeast registered an increase of 17.0% when compared to the 2011/12 season. Its 9.1% share of the market increased from the 8.6% recorded level in 2011/12.
- **Midwest:** At 7.273 million visits in 2012/13, the Midwest registered an increase of 14.0% when compared to the 2011/12 season. Its share of market represented 12.8% in 2012/13, reflecting relative stability when compared to 2011/12 levels.
- **Rocky Mountains:** With 19.8 million visits in 2012/13, the Rockies illustrated the lowest level of growth amongst the regions at 3.5%. With 34.8% of the total U.S. market, the Rockies maintained its position as the market-share leader. However, the region declined from 37.5% market share in 2010/11.
- **Pacific Southwest:** With 7.14 million visits in 2012/13, the Pacific Southwest was up 17.7% when compared to 2011/12. Its 12.5% share of the market increased from the 11.9% recorded level in 2011/12.
- **Pacific Northwest:** With 4.202 million visits in 2012/13, the Pacific Northwest realized a 6.0% increase in visits over those recorded in 2011/12.

The following table illustrates the change in estimated skier visits between the 2011/12 and 2012/13 ski seasons for the various states and regions.

FIGURE 4-3 ESTIMATED SKIER VISITS BY REGION/STATE – 2011/12 VS. 2012/13

Region/State	Estimated Skier Visits 2012/13	Estimated Skier Visits 2011/12	% Change	Operating Ski Areas 2012/13	Operating Ski Areas 2011/12
Northeast					
Maine	1,351,661	1,240,060	9.0 %	16	16
New Hampshire	2,207,872	1,844,252	19.7	27	27
Vermont	4,392,073	3,499,721	25.5	24	24
Massachusetts	1,400,606	1,076,757	30.1	13	13
CT & RI	297,782	307,405	(3.1)	6	6
New York	3,683,578	3,052,562	20.7	51	51
	13,333,572	11,020,757	21.0	137	137
Southeast					
Pennsylvania	3,029,732	2,622,160	15.5 %	28	28
New Jersey	347,768	295,013	17.9	4	4
VA & MD	522,246	446,640	16.9	6	6
West Virginia	601,646	486,678	23.6	5	5
NC, TN, & AL	653,746	554,163	18.0	8	8
	5,155,138	4,404,654	17.0	51	51
Midwest					
ND & SD	222,552	193,739	14.9 %	7	7
Minnesota	1,416,588	1,301,133	8.9	18	18
Wisconsin	2,152,463	1,936,420	11.2	31	31
Michigan	2,323,391	1,947,797	19.3	43	43
Iowa and Missouri	319,905	263,625	21.3	6	6
Illinois & Indiana	397,406	350,912	13.2	8	8
Ohio	441,160	388,550	13.5	6	6
	7,273,465	6,382,176	14.0	119	119
Rocky Mountains					
Montana	1,393,450	1,287,893	8.2 %	16	16
Wyoming	774,677	745,464	3.9	9	9
Colorado	11,545,496	11,031,406	4.7	30	30
New Mexico	754,208	889,858	(15.2)	9	9
Idaho	1,383,887	1,362,796	1.5	16	16
Utah	3,948,686	3,813,051	3.6	14	14
	19,800,404	19,130,468	3.5	94	94
Pacific Southwest					
Nevada	477,299	350,902	36.0 %	5	5
Arizona	346,329	247,207	40.1	4	4
California	6,316,513	5,468,165	15.5	28	28
	7,140,141	6,066,274	17.7	37	37
Pacific Northwest					
Oregon	1,784,709	1,568,604	13.8	12	12
Washington	1,976,817	1,928,520	2.5	15	15
Alaska	439,981	464,953	(5.4)	10	10
	4,201,507	3,962,077	6.0 %	37	37
U.S. TOTAL	**56,904,227**	**50,966,406**	11.7 %	**475**	**475**

Source: Kottke National End of Season Survey July 2013

Local Ski Market

The subject market is located in the Rocky Mountain region in the state of Colorado. Colorado typically ranks in the top 5 states in the nation for total skier visits. According to NSAA data, Colorado's ski resorts captured 11,545,000 skier visits in 2012/13, a .05% decrease compared with the 11,031,000 skier visits in 2011/12. Overall, Colorado's ski industry generates more than $1.5 billion in revenues per year, with the average ski trip consisting of 4.5 nights at a hotel or other type of lodging facility.

The following table details skier visitation levels to Colorado since the 2002/03 season.

FIGURE 4-4 COLORADO HISTORICAL SKIER VISITS

Season	Colorado Skier Visits (in millions)	% Change*	Average Annual Compounded Change**
2002/03	11.600	—	—
2003/04	11.200	(3.4) %	(3.45) %
2004/05	11.779	5.2	0.77
2005/06	12.493	6.1	2.50
2006/07	12.560	0.5	2.01
2007/08	12.520	(0.3)	1.54
2008/09	11.863	(5.2)	0.37
2009/10	11.882	0.2	0.34
2010/11	12.323	3.7	0.76
2011/12	11.031	(10.5)	(0.56)
2012/13	11.545	4.7 %	(0.05) %

*From previous season

**From 2002/03 season

Source: National Ski Areas Association/ Kottke Survey

Aside from fluctuations caused by economic and weather conditions, overall visitor counts range between a low of 11 million to a high of 12.6 million skier visits, putting Colorado's ski resort markets ahead of others in the nation in terms of total annual visitation.

International Skier Visits

A significant source of potential skier visits for the U.S. is the international skier market. As reported by RRC, the publisher of the *Kottke National End of Season Survey*, 5.8% of the recorded skier visits in the United States during the 2012/13 season represented international visitors. This figure decreased slightly from the 2011/12 level of 5.9%. In general, due to the distance traveled and the length of

vacation time, international skiers typically stay longer at a resort, spend an estimated five times more than domestic skiers, and visit more than two resorts on their trip. U.S. residents dominate the visitor base across all locations and size classifications of resorts:

- 94.2% of visitors are from the United States
- 2.2% of visitors are from Canada
- 3.6% of visitors are from other foreign countries

By region, foreign visitation is highest in the Northeast (8.2%), followed by the Rocky Mountains (7.3%), Pacific Southwest (3.8%), Southeast (2.9%), Pacific Northwest (2.5%), and Midwest (2.1%).

U.S. Ski Resorts and Consolidation

There has been a significant amount of ski resort consolidation since the early 1980s. In general, smaller resorts are either dropping out of the market or are being acquired by larger entities in order to be combined with other resorts. The following table illustrates this trend with data through the 2012/13 season, the most recent available.

FIGURE 4-5 U.S. SKI RESORTS

Year	Total Number of U.S. Ski Resorts
1983/84	735
1984/85	727
1985/86	709
1986/87	674
1987/88	622
1988/89	611
1989/90	591
1990/91	569
1991/92	546
1992/93	529
1993/94	516
1994/95	524
1995/96	519
1996/97	507
1997/98	521
1998/99	509
1999/00	503
2000/01	490
2001/02	493
2002/03	490
2003/04	494
2004/05	492
2005/06	478
2006/07	485
2007/08	481
2008/09	473
2009/10	471
2010/11	486
2011/12	475
2012/13	478

Source: National Ski Areas Association

The number of ski areas operating in the U.S. has shrunk from over 700 in the early to mid-1980s to 478 during the 2012/13 season. The vast majority of resorts that have closed have been smaller, undercapitalized resorts, often in marginal locations and with limited facilities. Furthermore, some resorts have replaced their skiing operations for snow-tubing. Finally, some new resorts have been opened in

recent years, including Tamarack Resort in Idaho and Moonlight Basin and the Yellowstone Club in Montana.

In general, the expansion in lift capacity by progressive areas has, to-date, more than offset the capacity lost to ski areas going out of business. The table below indicates annual growth in lift capacity (measured in vertical transport feet per hour) on an annual basis nationwide, as tracked in the NSAA *Kottke National End of Season Survey*.

FIGURE 4-6 CHANGE IN LIFT CAPACITY AT U.S. SKI AREAS

Year	Change
2012/13	0.90%
2011/12	1.20%
2010/11	0.81%
2009/10	0.80%
2008/09	2.00%
2007/08	1.60%
2006/07	0.80%
2005/06	1.30%
2004/05	1.80%
2003/04	1.50%
2002/03	1.80%
2001/02	1.40%
2000/01	1.90%
1999/00	2.70%
1998/99	3.60%
1997/98	3.40%
1996/97	3.80%

The *Kottke* survey also reported that total expenditures on capital improvements at ski resorts declined slightly from $274 million in 2011/12 to $262 million in 2012/13; however, this figure is projected to increase to near $300 million in the following couple of years as resorts are showing a wiliness to invest in making improvements to the experience at ski areas across the country and to add improvements to decrease seasonality at the resort area. Based on cumulative past and planned spending over a three-year period (2011/12 to 2013/14), the largest share of investment over the period is earmarked for on-mountain facilities and

support (55%), real estate (22%), new and upgraded lifts (19%), and summer/fall-specific activities and support (5%).

The consolidation trend in the ski resort business has all but ended. Still, poor operating weather, especially in consecutive seasons, will force other small and mid-sized resorts, particularly day areas and regional-destination resorts, into closure of one nature or another. For those that survive, proximity to a significant population base and a well-defined market *niche* (read: product differentiation, service, and targeted clientele) will be the key to keeping pace with the cost of technology.

The impetus behind the multiple acquisitions and mergers was the same as that in other unrelated industries, that is, anticipated economic strength and efficiencies in numbers via:

- Buying efficiencies (food service, retail, insurance, equipment, and infrastructure)
- Opportunity for self-insurance
- Enhanced leasing power
- Consolidation of staff and management
- Enhanced licensing opportunities
- Sharing of "best practices"
- Enhanced outside commercial endorsements

For the most part, the planned efficiencies from consolidation have occurred in mixed fashion:

- The individual resorts have largely maintained independence in staffing, marketing, and operational facets of the business. Perhaps the most prevalent marketing "efficiency" has come in the form of multi-resort season ticket pricing plans, especially among those companies with regional resort clusters.
- Regional diversity has generally resulted in the mitigation of weather inconsistencies between regions, though on a year-to-year basis, there is no guarantee.
- In some cases, what has been gained in enhanced savings has been lost by the addition of a high-paid corporate staff, a factor that did not exist prior to the establishment of the conglomerate resorts. That said, over the last couple of years, some of the largest conglomerates have announced staffing

consolidation at the upper levels of management that could signal new management trends aimed at reducing the "corporate" overhead.

An inherent economic attribute and risk of the ski industry is that "supply leads demand" – a phenomenon often observed in the study of skier visit trends for areas investing in new lifts, new technology, significant base amenities upgrades, or new ski terrain. Such investments enhance *quality factors* as well as overall capacity. Historically, the short-term result has been a positive impact on skier visit counts – *impact-capture*. As a result, the ski areas with the capital to regularly acquire new technology and introduce significant improvements tend to capture a greater share of the market.

However, as the industry has matured and added business volume, the result of capital expansion is becoming less guaranteed. More and more, market survey data reveal that skiers are looking for a high-quality experience with a variety of services and amenities, not only on the ski mountain but also as part of the total trip experience (lodging, dining, off-snow activities, etc.).

Ski Industry Environment

The maturity of the U.S. ski industry, as seen by the relatively stable number of skier visits over the past 30 years, creates a highly competitive industry. Consequently, resorts have to develop distinctive marketing tools capable of attracting and maintaining skier visits. One popular approach has been an interchangeable lift ticket. With the amount of ownership consolidation occurring in the industry, many resorts are able to offer an interchangeable lift ticket with one or more resort(s) under the same parent company. In cases where resort locations are not conducive to interchangeable lift tickets, companies are offering other incentives to entice skiers to their slopes.

While the number of resorts operating in the U.S. has experienced a relatively consistent downward trend, very few new resorts have opened over the historical period. This is due particularly to the environmental concerns of the U.S. Forest Service and other special interest groups, as well as the difficulty in securing financing for such a seasonal and volatile business. Additionally, a new resort can take up to twenty years from conception to operation, making return on investment forecasting very difficult. Consequently, the preferred trend has been to expand or to purchase existing resorts rather than to develop entirely new mountain facilities. However, it should be noted that three mid-size resorts have opened in recent years: the Tamarack Resort in Idaho, the Moonlight Basin in Montana, and the Yellowstone Club in Montana. The Yellowstone Club in Montana is a private ski resort in which a membership must be purchased in order to utilize the facility. Tamarack Resort filed for bankruptcy protection in February of 2008. In March of 2008, Credit Suisse sued Tamarack Resort after the resort defaulted on a $300 million loan. In October of 2008, a judge dismissed Tamarack's request for bankruptcy protection and issued an order for an outside firm to manage the ski

resort. Yellowstone Club operated under bankruptcy protection between November 2008 and July 2009 until the resort was sold for $115 million to CrossHarbor Capital Partners.

Weather Risks

The most significant variable impacting the ski resort business is weather. Few other industries are as closely tied to it. The weather factor thereby imputes great risk to ownership-participants in the industry, in contrast to other investments for a number of reasons.

Inherent weather problems include lack of natural snowfall, above-normal temperatures that prohibit snowmaking, below-normal temperatures that discourage outdoor recreation, rain/thaw cycles, and too much snowfall negatively impacting travel to ski areas. Good or bad winters will continually cause upward or downward spikes in skier visitation trends on a year-to-year basis. It is important to have natural snow, or at least cold temperatures for snowmaking, in time to capture the Christmas market share, often 20% or more of annual gross income. That being said, even if early season business is weak, ski areas can sometimes make up for the losses later in the season, essentially recovering lost ground. The Martin Luther King three-day weekend, "Presidents Week" and/or Spring Break weeks are generally more certain and have become the true "peak" income-producing periods. During warm temperatures, ski resorts cannot "store" their critical product: snow. No snow means under-utilized supply (capacity), regardless of available demand.

The primary weather hedge a ski resort has is sufficient snowmaking—a significant capital investment—to accommodate peak demand periods. Without an adequate system, smaller areas can be forced out of business (either temporarily or permanently). Larger resorts in recent years have been able to arrange business insurance coverage for low skier visit counts for various reasons, including weather. Evidence of these weather issues is provided in the 2011/12 and 2012/13 *Kottke* survey, which documents the extent to which resorts in the industry were forced to open late, close early, or during the season because of weather, mechanical issues, or other reasons. For the 2011/12 season, 51% of responding ski areas opened late, 8% closed early, and 40% closed at least once for unplanned reasons in between the resort's scheduled opening and closing. In 2012/13, the trends was more moderate, as nationally more resorts opened up late (44%) than early (18%). However, more resorts also closed late (31%) rather than closed early (10%).

It is interesting to note that when snow and weather patterns are favorable, business at many regional destination resorts is good but not overwhelming, as business is more widely dispersed within the market region. When weather patterns are more adverse, areas with greater snowmaking capacity—

traditionally, larger resorts—often increase their business volume. Resorts in the Rockies generally have more moderate weather fluctuations, with the primary weather concern being adequate quantities of snow at the beginning and (to a lesser extent) end of the season. Also critical is having adequate periodic snowfall during the season to ensure the high-quality snow that skiers expect. In periods of low snow, however, Rocky Mountain resorts lose valuable local participation. Although droughts do occasionally occur in the Rocky Mountain region as evident this past season, it is rare for these resorts to experience mid-season thaws to such a degree that resort operations are seriously hampered.

Environmental Activism

Throughout the 1980s and 1990s, ski resort operators faced continually increasing challenges to development due to heightened environmental awareness and activism, as well as a greater emphasis on the public review process. The planning requirements and costs created by governmental and environmental regulations have grown to such an extent that the development of new facilities is extremely limited. Additionally, expansion of existing ski areas may now require years of planning, environmental analysis, and documentation. This is especially true where public lands are involved, or when the National Environmental Policy Act (NEPA) is invoked, and the preparation of a comprehensive Environmental Impact Statement (EIS) may be required. The most mountainous states (Vermont, Colorado, and California) also have among the toughest development standards in the country.

Environmental issues that are particularly important today are wetlands, threatened and endangered species, water flows, and water quality. In addition, the impact on surrounding communities is seriously debated and can lead to significant modification or reduction in the scope of a development plan.

Energy Costs

In addition to the costs of environmental regulations, energy costs are a constant concern for ski resort operators, particularly in areas that are heavily dependent upon imported oil (e.g. the New England region). War and general unrest in the Middle East along with escalating oil prices have to be of concern to all businesses heavily dependent on imported fossil fuels. Most ski resort operators work cooperatively with their state agencies and/or local utilities to negotiate energy rates and demand periods to establish lower rate schedules. In addition, new energy sources may contribute to declining energy costs.

Immediate Industry Challenges

One of the ski industry's greatest challenges is largely defined by "price." The cost of entry (equipment, lessons, tickets, clothing, etc.) makes it an expensive recreational activity. This attribute will continue to limit entry-level participants and serve to turn individuals toward alternative, less-expensive winter adventures such as snowshoeing, skating, and indoor sports.

Lead ticket prices at major destination resorts are typically over $85, with some entering the $100+ range. However, on the average, resorts usually collect 50% to 60% of the lead ticket price from each skier visit given the wide variety of ticket discounts. The 2012/13 NSAA *Kottke National End of Season Survey* reports that lead ticket prices nationwide averaged $85.52, while resorts collected an average of only $42.06 per skier visit, for a ticket yield (amount collected as a proportion of price) of 49.2%. This ratio reflects the discount on the stated top-ticket attributed to off-peak prices, multi-day tickets, "comp" skiing, the less-expensive children's tickets, and season-pass usage. The ticket-yield ratio in 2012/13 was down slightly from the previous season. The lowest ticket-yield ratio occurred in the Midwest Region, at 46.2%, against the average ticket yield of $22.15 on an average lead price of $47.95. In the 2012/13 season, the highest ticket-yield ratio occurred in the Southeast (57.5%).

Some ski industry observers cite price as the most significant factor in the recent lack of growth in participation. It follows, then, that growth at current price levels must come from "horizontal" rather than "vertical" markets, that is, from people of similar rather than differing income levels, from foreign markets, and from competing leisure-time markets. Consecutive multi-day tickets (generally purchased by destination customers) and multi-packs of tickets also bring down the cost of a daily ticket. When marketed as a complete package, with lodging, ski school, rental services, and airfare, the cost of the lift ticket remains "hidden." Thus "bundled," a ski trip may compare favorably with other vacation options.

Leisure Time Competition

The ski industry competes with a number of other leisure industries such as cruise lines and warm-climate resorts. Whereas the quantity of time available for individual leisure pursuits has been dramatically compressed for many Americans, the quality of the leisure experience is perceived as being of even greater importance now than ever before. As a result, successful resorts focus on developing a broad level of alternative athletic pursuits, family-oriented entertainment, and "bad weather" options. Ski resorts nationwide, on the average, now collect less than half of their gross revenue from ticket sales.

In conclusion, diversification of resort facility utilization into the non-ski months will be increasingly important to future profitability. This will likely include:

- Year-round recreational and entertainment activities
- Facilities for meetings, conventions, and weddings
- Functions and facilities/amenities
- Special events and festivals
- Development of real estate

The fastest growing resorts will be those that can diversify with a broader "non-skiing" scope and year-round appeal.

Conclusion

Despite the overall maturity of the U.S. ski industry, large resorts located in popular skiing regions continue to increase ski visits. Large resorts (over 2,200 skiable acres) located in California, Colorado, and Utah represent examples of ski resorts that continue to prosper despite overall industry maturity.

The ski industry is affected by a large and diverse group of variables, including but not limited to factors such as snowfall, disposable personal income, inflation, and the overall state of the economy. Based upon historical skier visits, it is reasonable to conclude that a moderate to strong economy will positively affect skier visitation in the future.

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 rate. 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 125-room Proposed Clear Creek County Select-Service Hotel will be located in Georgetown, Colorado. The greater market surrounding the subject site offers 20 hotels and motels, spanning 1,106 rooms. The two largest hotels are the 216-room Holiday Inn and the 127-room Best Western.

Of this larger supply set, the proposed subject hotel is expected to compete with a smaller set of hotels based on various factors. These factors may include location, price point, product quality, length of stay (such as an extended-stay focus vs. non-extended-stay focus), room type (all-suite vs. standard), hotel age, or brand, among other factors. We have reviewed these pertinent attributes and established an expected competitive set based upon this review. Our review of the proposed subject hotel's specific competitive set within the Georgetown area begins after our review of national occupancy, average rate, and RevPAR trends.

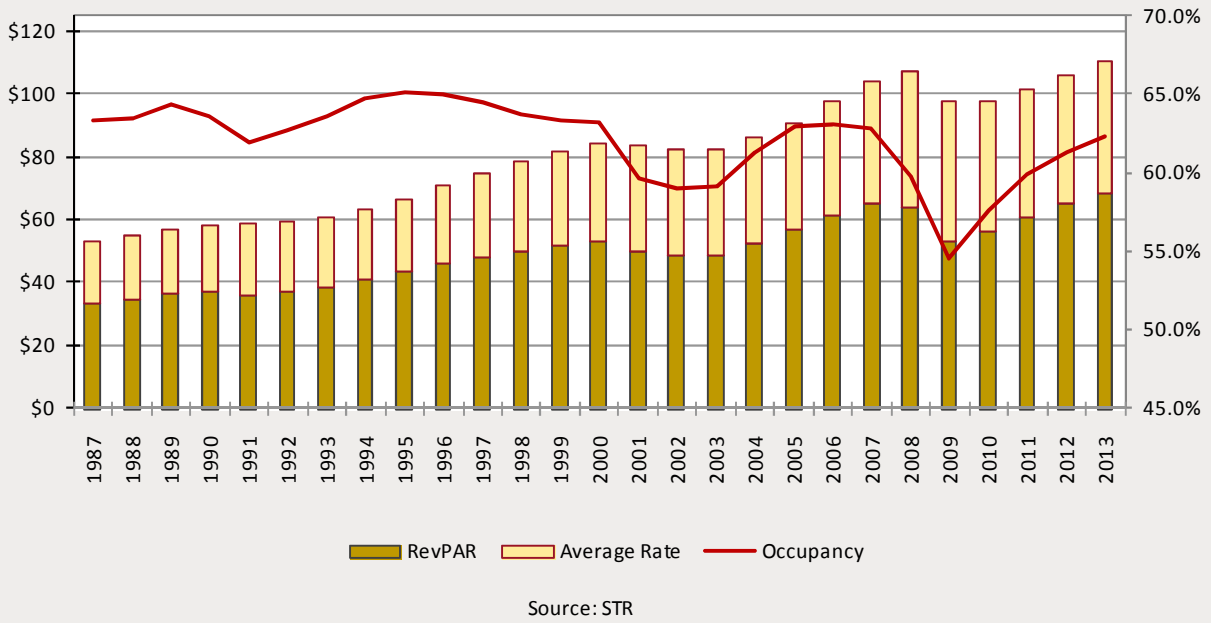
National Trends Overview

The proposed subject 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.

Smith Travel Research (STR) is an independent research firm that compiles and publishes data on the lodging industry, routinely used by typical hotel buyers. Figure 4-1 presents annual hotel occupancy and average rate data since 1987. Figures 4-2 and 4-3 illustrate the more recent trends, categorized by geography, price point, type of location, and chain scale. 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 AND AVERAGE RATE TRENDS



Source: STR

FIGURE 5-2 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – YEAR-TO-DATE DATA

	Occupancy - Thru April			Average Rate - Thru April			RevPAR - Thru April		
	2013	2014	% Change	2013	2014	% Change	2013	2014	% Change
United States	59.1 %	60.8 %	3.0 %	$108.86	$113.07	3.9 %	$64.30	$68.78	7.0 %
Region									
New England	52.9 %	53.7 %	1.4 %	$116.96	$122.10	4.4 %	$61.88	$65.51	5.9 %
Middle Atlantic	59.9	59.3	(1.1)	142.43	146.03	2.5	85.35	86.53	1.4
South Atlantic	62.3	64.4	3.5	112.66	116.61	3.5	70.16	75.14	7.1
East North Central	52.1	52.8	1.5	88.71	90.96	2.5	46.18	48.07	4.1
East South Central	54.2	55.7	2.7	80.03	83.64	4.5	43.40	46.58	7.3
West North Central	50.4	51.9	2.9	82.94	85.52	3.1	41.79	44.36	6.1
West South Central	61.5	63.3	3.0	94.87	98.01	3.3	58.30	62.05	6.4
Mountain	58.0	61.5	6.0	104.76	110.13	5.1	60.78	67.76	11.5
Pacific	65.3	67.8	3.7	129.06	136.22	5.5	84.29	92.29	9.5
Class									
Luxury	67.2 %	68.0 %	1.2 %	$257.60	$270.12	4.9 %	$173.17	$183.81	6.1 %
Upper Upscale	68.4	69.9	2.3	158.62	164.85	3.9	108.44	115.31	6.3
Upscale	67.7	69.5	2.6	121.24	125.95	3.9	82.07	87.48	6.6
Upper Midscale	59.4	61.3	3.3	98.17	101.39	3.3	58.28	62.20	6.7
Midscale	52.7	54.3	3.0	79.84	82.33	3.1	42.06	44.67	6.2
Economy	51.4	53.2	3.4	57.24	59.65	4.2	29.45	31.73	7.8
Location									
Urban	67.6 %	68.7 %	1.7 %	$151.43	$156.19	3.1 %	$102.36	$107.32	4.9 %
Suburban	59.9	62.1	3.7	91.23	95.16	4.3	54.63	59.09	8.2
Airport	68.6	71.7	4.5	98.21	102.18	4.0	67.39	73.27	8.7
Interstate	49.8	51.4	3.1	73.02	75.07	2.8	36.37	38.55	6.0
Resort	64.5	66.3	2.7	160.15	168.85	5.4	103.32	111.88	8.3
Small Metro/Town	48.7	49.8	2.3	82.45	84.86	2.9	40.18	42.30	5.3
Chain Scale									
Luxury	74.6 %	75.1 %	0.6 %	$292.32	$306.68	4.9 %	$218.14	$230.19	5.5 %
Upper Upscale	70.7	72.1	2.1	160.08	166.73	4.2	113.11	120.28	6.3
Upscale	70.0	71.8	2.7	120.23	125.03	4.0	84.12	89.82	6.8
Upper Midscale	60.0	62.0	3.2	97.23	100.32	3.2	58.36	62.16	6.5
Midscale	52.0	53.7	3.3	73.96	76.39	3.3	38.45	41.03	6.7
Economy	51.2	53.0	3.5	51.39	53.39	3.9	26.31	28.29	7.5
Independents	55.1	56.7	2.9	106.37	110.43	3.8	58.59	62.58	6.8

Source: STR - April 2014 Lodging Review

FIGURE 5-3 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – CALENDAR YEAR DATA

	Occupancy			Average Rate			RevPAR		
	2012	2013	% Change	2012	2013	% Change	2012	2013	% Change
United States	61.3 %	62.3 %	1.5 %	$106.25	$110.35	3.9 %	$65.15	$68.69	5.4 %
Region									
New England	61.4 %	62.5 %	1.8 %	$127.18	$131.46	3.4 %	$78.11	$82.19	5.2 %
Middle Atlantic	66.5	66.0	(0.7)	150.64	155.74	3.4	100.12	102.83	2.7
South Atlantic	60.8	62.0	1.9	103.49	106.64	3.0	62.89	66.06	5.0
East North Central	58.4	59.1	1.2	92.47	95.70	3.5	53.97	56.53	4.7
East South Central	56.2	56.9	1.2	79.48	82.24	3.5	44.69	46.78	4.7
West North Central	57.3	57.9	1.0	84.20	86.54	2.8	48.23	50.07	3.8
West South Central	60.5	61.4	1.5	88.87	93.19	4.9	53.75	57.20	6.4
Mountain	59.1	60.3	1.9	96.20	99.02	2.9	56.86	59.67	4.9
Pacific	67.8	69.5	2.5	126.30	133.73	5.9	85.65	92.94	8.5
Price									
Luxury	69.5 %	70.6 %	1.6 %	$175.21	$181.98	3.9 %	$121.73	$128.52	5.6 %
Upscale	65.5	66.1	0.9	129.00	133.43	3.4	84.48	88.16	4.4
Midprice	62.3	63.1	1.4	101.65	104.91	3.2	63.29	66.24	4.7
Economy	56.2	57.3	2.1	75.40	78.44	4.0	42.36	44.99	6.2
Budget	55.5	56.3	1.5	59.24	61.68	4.1	32.86	34.73	5.7
Location									
Urban	69.4 %	70.5 %	1.6 %	$154.02	$160.80	4.4 %	$106.85	$113.31	6.0 %
Suburban	61.6	62.8	1.9	89.74	92.80	3.4	55.30	58.26	5.3
Airport	68.0	69.8	2.6	94.75	97.53	2.9	64.46	68.08	5.6
Interstate	54.5	54.8	0.6	74.29	76.18	2.5	40.49	41.77	3.1
Resort	63.2	64.1	1.4	142.28	150.22	5.6	89.99	96.36	7.1
Small Metro/Town	54.3	54.9	1.0	86.79	89.14	2.7	47.16	48.91	3.7
Chain Scale									
Luxury	73.3 %	74.6 %	1.8 %	$274.81	$290.31	5.6 %	$201.36	$216.47	7.5 %
Upper Upscale	70.9	71.9	1.5	154.36	161.04	4.3	109.40	115.84	5.9
Upscale	70.9	71.7	1.2	116.89	121.72	4.1	82.85	87.28	5.3
Mid-scale w/ F&B	63.0	63.8	1.2	97.42	100.29	2.9	61.42	63.99	4.2
Mid-scale w/o F&B	54.8	55.8	1.8	74.62	76.33	2.3	40.89	42.57	4.1
Economy	54.2	55.0	1.5	52.54	54.27	3.3	28.46	29.85	4.9
Independents	58.0	58.9	1.6	105.15	108.90	3.6	60.94	64.11	5.2

Source: STR - December 2013 Lodging Review

Following the significant occupancy and 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. The pace of demand growth accelerated through the year; in 2010, lodging demand in the U.S. increased by 7.7% over that registered in 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. Average rate decreased by only 0.1% in 2010 when compared to 2009.

Strong demand growth continued in 2011 and 2012, at 5.0% and 3.0%, respectively. Demand increased 2.1% in the year-to-date through November 2013 period. Average rate rebounded by respective rates of 3.7% and 4.2%, in 2011 and 2012, followed by a 3.9% increase in 2013. In 2012, occupancy reached 61.3% (exceeding the ten-year average); moreover, occupancy gained another point in 2013, ending the year at 62.3%. Average rate finished the year just over $106 in 2012, with just over a $4 gain in rate registered in 2013. Demand and average rates should continue to strengthen in the near term. These trends, combined with the low levels of supply growth anticipated through 2014, should boost occupancy to approximately 63% by year-end 2014. We forecast national occupancy to approach 64.0% by 2016. On a national average, strengthening occupancy levels should also permit hotels to increase room rates beyond the 3.9% achieved in 2013. HVS forecasts U.S. average rate growth of 4.5%, 5.0%, and 5.25% for 2014, 2015, and 2016, respectively.

Historical Supply and Demand Data

Smith Travel Research (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	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2002	1,049	382,885	—	201,470	—	52.6 %	$74.60	—	$39.25	—
2003	1,049	382,885	0.0 %	191,411	(5.0) %	50.0	73.18	(1.9) %	36.58	(6.8) %
2004	1,049	382,885	0.0	188,716	(1.4)	49.3	72.51	(0.9)	35.74	(2.3)
2005	1,037	378,505	(1.1)	199,055	5.5	52.6	75.85	4.6	39.89	11.6
2006	1,037	378,505	0.0	214,461	7.7	56.7	81.30	7.2	46.07	15.5
2007	1,037	378,505	0.0	224,101	4.5	59.2	86.47	6.4	51.19	11.1
2008	1,037	378,505	0.0	215,591	(3.8)	57.0	90.82	5.0	51.73	1.0
2009	1,037	378,505	0.0	179,246	(16.9)	47.4	85.23	(6.1)	40.36	(22.0)
2010	1,037	378,505	0.0	182,488	1.8	48.2	85.86	0.7	41.40	2.6
2011	1,040	379,729	0.3	202,199	10.8	53.2	89.66	4.4	47.74	15.3
2012	1,044	381,060	0.4	197,151	(2.5)	51.7	89.39	(0.3)	46.25	(3.1)
2013	1,044	381,060	0.0	210,780	6.9	55.3	91.12	1.9	50.40	9.0
Average Annual Compounded Change: 2002-2013			(0.0) %		0.4 %			1.8 %		2.3 %
Year-to-Date Through February										
2013	1,044	61,596	—	37,324	—	60.6 %	$101.66	—	$61.60	—
2014	1,044	61,596	0.0 %	42,328	13.4 %	68.7	111.83	10.0 %	76.85	24.7 %

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
Quality Inn & Suites Silverthorne	57	Feb 2001	Feb 2001
Comfort Suites Golden West On Evergreen Parkway	85	Dec 2011	Aug 1999
Ramada Limited Frisco	51	Jan 2011	May 1998
Comfort Suites Summitt County Dillon	101	Mar 1998	Mar 1998
Days Inn Summit County Silverthorne	73	Jun 1985	Jun 1985
Best Western Lake Dillon Lodge	127	Jun 1981	Jun 1981
Super 8 Dillon Breckenridge Area	60	Apr 1981	Apr 1981
La Quinta Inns & Suites Silverthorne Summit County	147	Jan 2005	Jun 1974
Super 8 Georgetown	54	Feb 1994	Jun 1973
Holiday Inn Summit County Frisco	216	May 2011	Feb 1971
Best Western Ptarmigan Lodge	73	Jun 1963	Jun 1963
Total	**1,044**		

Source: STR Global

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

We note that not all of the hotels in the subject property's competitive set report data to STR. Therefore, STR has compiled historical supply and demand data for a representative set of hotels that are either located in the region or that are comparable in some degree to the proposed subject property. The STR data for the competitive set reflect a market-wide occupancy level of 55.3% in 2013, which compares to 51.7% for 2012. The overall average occupancy level for the calendar years presented equates to 52.1%. The tourism and mining industries represent the primary sources of demand for the selected set of competitive hotels in this Georgetown market. Demand and occupancy decreased in 2003 and 2004 concurrent with national trends. In 2005, demand started to increase, with strong growth realized from 2005 through 2007. In 2008, demand began to constrict, concurrent with the Great Recession, and demand decreased significantly in 2009, which was the lowest point of the downturn. The local economy started to slowly recover in 2010, and a significant increase in demand was reported in 2011 as market demand started to return to pre-recession levels. Demand slightly declined in 2012, primarily attributed to a weak winter season associated with a minimal amount of snowfall and a decline in skier visits. Overall demand and occupancy increased in 2013. Early indications for 2014 illustrate a positive trend, with an occupancy improvement of 13% over the level achieved during the same period in 2013. The occupancy improvement is partially attributed to a better start to the winter ski season when compared to the prior year.

The STR data for the competitive set reflect a market-wide average rate level of $91.12 in 2013, which compares to $89.39 for 2012. The average across all calendar years presented for average rate equates to $88.83. Average rate in the local market registered positive growth mid-decade. The strength of the economy during that time, with little rate-resistance from corporate and leisure users, allowed hotel operators to increase rates. Upon the onset of the economic recession, average rate growth began to slow in 2008. Average rates declined in 2009, and this downward trend continued through the year along with the contraction of the national economy. Rates started to rebound in 2010, and this positive trend continued in 2011. Average rate declined in 2012 concurrent with a slow winter season; however, rate increased in 2013 as the national and local lodging markets began to normalize along with stronger economic conditions. Early indications for 2014

show a continuation of this trend, with significant increases in rate primarily attributed to a strong winter season when compared to 2012/13. These occupancy and average rate trends resulted in a RevPAR level of $50.40 in 2013.

Seasonality

Monthly occupancy and average rate trends are presented in the following tables.

FIGURE 5-5 MONTHLY OCCUPANCY TRENDS

Month	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	55.9 %	56.6 %	55.3 %	53.2 %	62.9 %	65.0 %	65.2 %	53.3 %	46.8 %	54.7 %	52.4 %	54.8 %	65.5 %
February	70.5	65.2	62.5	66.7	71.9	74.5	68.6	59.2	52.2	65.2	61.5	67.0	72.3
March	83.4	74.6	68.0	77.0	80.7	80.9	75.5	58.5	66.7	73.3	68.8	74.5	—
April	37.3	34.5	35.9	40.6	45.2	46.0	44.8	39.6	35.5	43.6	31.3	38.2	—
May	34.2	29.6	26.8	28.6	30.2	31.7	36.3	30.1	29.5	30.3	33.2	33.5	—
June	51.5	45.9	48.9	51.6	54.0	63.6	55.1	48.0	48.3	51.9	57.2	53.2	—
July	64.2	67.0	64.0	67.4	70.9	75.8	72.1	67.3	64.2	67.7	68.3	72.1	—
August	59.8	62.8	53.4	58.9	63.7	67.3	71.3	55.1	57.8	65.2	61.8	68.2	—
September	43.7	45.9	47.4	48.3	56.3	54.8	56.1	46.8	50.1	52.9	55.3	56.9	—
October	34.1	36.2	37.9	35.8	38.4	43.0	41.8	31.7	33.2	40.3	40.0	42.9	—
November	41.5	30.7	33.8	42.2	44.0	45.2	40.6	32.8	41.3	40.2	36.6	45.8	—
December	55.8	51.0	57.8	61.2	62.2	63.4	56.2	46.2	52.7	53.8	54.4	57.0	—
Annual Occupancy	**52.6 %**	**50.0 %**	**49.3 %**	**52.6 %**	**56.7 %**	**59.2 %**	**57.0 %**	**47.4 %**	**48.2 %**	**53.2 %**	**51.7 %**	**55.3 %**	**—**
Year-to-Date	**62.8**	**60.7**	**58.7**	**59.6**	**67.2**	**69.5**	**66.8 %**	**56.1 %**	**49.3 %**	**59.7 %**	**56.7 %**	**60.6 %**	**68.7 %**

Source: STR Global

FIGURE 5-6 MONTHLY AVERAGE RATE TRENDS

Month	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	$80.39	$80.97	$79.44	$78.10	$85.95	$94.00	$102.61	$98.85	$95.67	$97.39	$93.73	$98.59	$107.95
February	85.90	84.67	82.31	85.87	94.31	101.38	112.10	99.99	100.52	108.04	104.40	104.44	115.71
March	99.48	94.26	87.30	94.97	103.14	110.41	121.36	102.68	101.95	112.20	105.97	108.61	—
April	64.96	61.55	60.97	65.93	67.83	75.13	80.46	78.99	77.76	77.86	77.37	76.29	—
May	58.21	60.02	60.85	63.63	67.66	71.22	76.20	74.33	72.26	72.38	75.49	75.91	—
June	62.97	63.06	62.86	65.90	67.70	72.95	77.18	75.47	76.25	80.96	83.65	84.44	—
July	70.03	69.58	70.15	73.06	76.82	78.92	82.07	81.54	83.98	88.39	88.84	91.31	—
August	68.63	66.44	66.90	69.01	74.63	78.85	84.49	80.30	82.66	84.56	88.49	89.30	—
September	61.88	59.37	62.25	65.68	70.16	75.02	75.06	73.55	77.10	79.91	79.99	80.50	—
October	59.42	58.44	58.12	62.99	66.97	71.06	72.78	69.59	71.77	72.10	73.63	76.17	—
November	59.22	59.14	61.06	63.76	66.68	73.55	74.68	69.94	71.03	73.53	72.13	73.04	—
December	87.06	88.18	90.95	93.26	102.76	107.06	102.23	96.40	99.14	100.11	103.78	109.10	—
Annual Average Rate	**$74.60**	**$73.18**	**$72.51**	**$75.85**	**$81.30**	**$86.47**	**$90.82**	**$85.23**	**$85.86**	**$89.66**	**$89.39**	**$91.12**	**—**
Year-to-Date	**$83.33**	**$82.86**	**$80.89**	**$82.23**	**$90.20**	**$97.75**	**$107.24**	**$99.42**	**$98.10**	**$102.91**	**$99.22**	**$101.66**	**$111.83**

Source: STR Global

The illustrated monthly occupancy and average rates patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate. The market area is highly seasonal in nature, with occupancy levels typically exceeding 70% during the months of February and March. Demand drops significantly in April, as ski resorts close and the mountain areas experience a time period known as "mud season." Demand picks up again in July and August, also peak months, before dropping down to low occupancies in October and November. Average rate levels follow similar trends to those of occupancy, allowing for average rates over $100 during the ski season months. Despite strong occupancy levels during the months of July and August, average rates fall below those achieved during the winter months.

Patterns of Demand

A review of the trends in occupancy, average rate, and RevPAR per day of the week over the past three fiscal years provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The data, as provided by Smith Travel Research, are illustrated in the following table.

FIGURE 5-7 OCCUPANCY, AVERAGE RATE AND REVPAR BY DAY OF WEEK

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Mar 11 - Feb 12	44.1 %	46.7 %	49.2 %	50.8 %	51.5 %	61.1 %	66.1 %	52.8 %
Mar 12 - Feb 13	43.3	45.6	47.2	49.4	52.1	61.3	67.7	52.4
Mar 13 - Feb 14	47.4	50.1	51.3	53.4	56.0	67.4	70.7	56.6
Change (Occupancy Points)								
FY 12 - FY 13	-0.9	-1.1	-2.0	-1.4	0.6	0.2	1.6	-0.4
FY 13 - FY 14	4.1	4.4	4.1	4.1	3.8	6.1	3.0	4.3

ADR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Mar 11 - Feb 12	$87.58	$83.41	$83.38	$83.63	$85.56	$95.86	$98.25	$88.92
Mar 12 - Feb 13	87.47	84.36	82.11	83.13	86.01	98.58	101.11	89.97
Mar 13 - Feb 14	91.72	85.40	84.59	84.55	88.62	105.38	105.21	93.36
Change (Dollars)								
FY 12 - FY 13	-$0.10	$0.95	-$1.27	-$0.50	$0.45	$2.73	$2.86	$1.05
FY 13 - FY 14	4.25	1.04	2.48	1.43	2.61	6.79	4.10	3.40
Change (Percent)								
FY 12 - FY 13	-0.1 %	1.1 %	-1.5 %	-0.6 %	0.5 %	2.8 %	2.9 %	1.2 %
FY 13 - FY 14	4.9	1.2	3.0	1.7	3.0	6.9	4.1	3.8

RevPAR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Mar 11 - Feb 12	$38.64	$38.96	$41.04	$42.49	$44.09	$58.53	$64.90	$46.92
Mar 12 - Feb 13	37.85	38.47	38.76	41.03	44.84	60.40	68.45	47.11
Mar 13 - Feb 14	43.45	42.75	43.39	45.17	49.60	71.02	74.35	52.87
Change (Dollars)								
FY 12 - FY 13	-$0.79	-$0.49	-$2.28	-$1.46	$0.75	$1.88	$3.55	$0.19
FY 13 - FY 14	5.60	4.27	4.63	4.14	4.76	10.62	5.90	5.76
Change (Percent)								
FY 12 - FY 13	-2.0 %	-1.3 %	-5.6 %	-3.4 %	1.7 %	3.2 %	5.5 %	0.4 %
FY 13 - FY 14	14.8	11.1	11.9	10.1	10.6	17.6	8.6	12.2

Source: STR Global

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.

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.

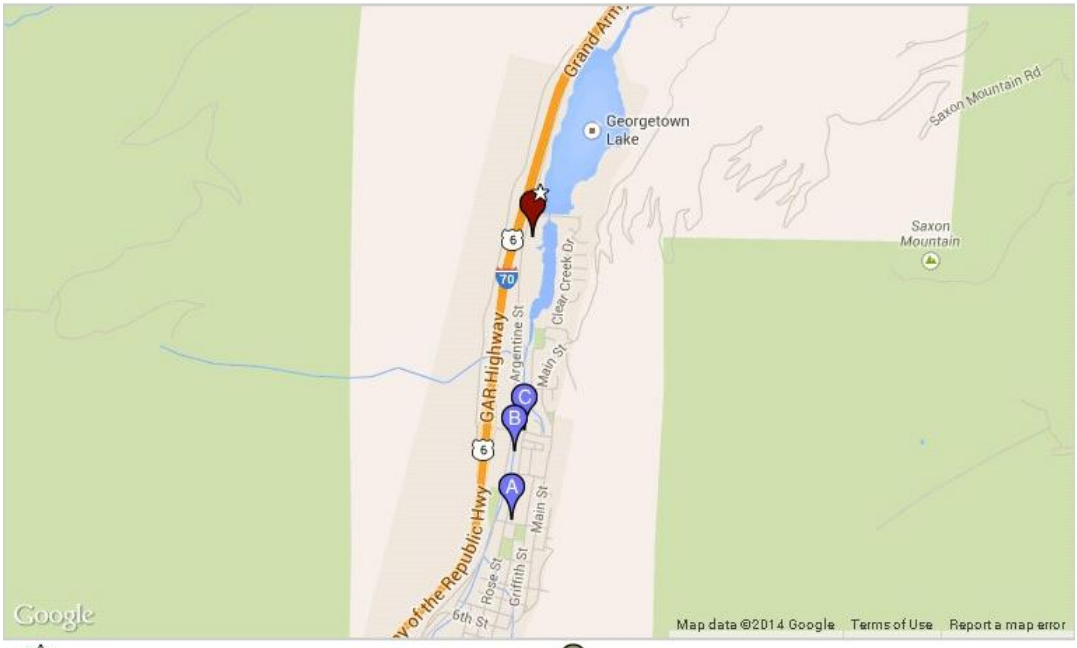
The following table summarizes the important operating characteristics of the future primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table also sets forth each property's penetration factors; penetration is the ratio between a specific hotel's operating results and the corresponding data for the market. If the penetration factor is greater than 100%, the property is performing better than the market as a whole; conversely, if the penetration is less than 100%, the hotel is performing at a level below the market-wide average.

FIGURE 5-8 COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2011				Estimated 2012				Estimated 2013						
Property	Number of Rooms	Leisure	Meeting and Group	Commercial	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Georgetown Mountain Inn	33	85 %	5 %	10 %	33	54 %	$83.00	$44.82	33	53 %	$83.00	$43.99	33	57 %	$85.00	$48.45	10.1 %	102.8 %	95.4 %
Hotel Chateau Chamonix	10	85	10	5	10	90	150.00	135.00	10	89	155.00	137.95	10	90	160.00	144.00	4.4	162.4	283.4
Super 8 Georgetown	54	75	10	15	54	50	68.00	34.00	54	49	68.00	33.32	54	54	70.00	37.80	13.4	97.4	74.4
Sub-Totals/Averages	**97**	**80 %**	**8 %**	**12 %**	**97**	**55.5 %**	**$86.68**	**$48.09**	**97**	**54.5 %**	**$87.61**	**$47.74**	**97**	**58.7 %**	**$89.17**	**$52.37**	**9.7 %**	**106.0 %**	**103.1 %**
Secondary Competitors	990	45 %	30 %	25 %	743	53.0 %	$90.00	$47.70	743	51.0 %	$89.00	$45.39	743	55.0 %	$92.00	$50.60	11.5 %	99.2 %	99.6 %
Totals/Averages	**1,087**	**49 %**	**27 %**	**23 %**	**840**	**53.3 %**	**$89.60**	**$47.75**	**840**	**51.4 %**	**$88.83**	**$45.66**	**840**	**55.4 %**	**$91.65**	**$50.80**	**11.3 %**	**100.0 %**	**100.0 %**

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

MAP OF COMPETITION



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 - GEORGETOWN MOUNTAIN INN

Georgetown Mountain Inn
1100 Rose Street
Georgetown, CO

FIGURE 5-9 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2011	33	54 %	$83	$45	101.3 %	93.9 %
Estimated 2012	33	53	83	44	103.1	96.3
Estimated 2013	33	57	85	48	102.8	95.4

The Georgetown Mountain Inn is owned and operated by BMC, Inc. Facilities and amenities include a small breakfast dining area (a complimentary breakfast is served), an indoor pool, an outdoor whirlpool, a lobby workstation, a vending area, and a guest laundry room. The hotel, which opened in 1930, has not undergone any recent major renovations; however, minor upgrades and replacements occur annually as needed. According to hotel management, the carpeting in the property was replaced in 2014. This hotel benefits from its established presence in the market, but is somewhat disadvantaged by its older, exterior-corridor structure. 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 Proposed Clear Creek County Select-Service Hotel.

PRIMARY COMPETITOR #2 - HOTEL CHATEAU CHAMONIX

Hotel Chateau Chamonix
1414 Argentine
Georgetown, CO

FIGURE 5-10 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2011	10	90 %	$150	$135	168.9 %	282.7 %
Estimated 2012	10	89	155	138	173.1	302.1
Estimated 2013	10	90	160	144	162.4	283.4

The Hotel Chateau Chamonix is owned and operated by Dunbartonshire Investments LLC. The hotel operates similar to a bed and breakfast, and a complimentary breakfast is delivered to each guestroom every morning. Each guestroom is different, offering either a fireplace or private outdoor whirlpool, as well as an espresso machine, flat-panel television, and a private balcony or patio. The hotel, which opened in 2008, has not undergone any major renovations. However, this ten-unit property is well maintained and considered the only luxury property in Clear Creek County. This hotel benefits from its product offering. Overall, the property appeared to be in very good condition. Its accessibility is superior to that of the subject site, and its visibility is inferior to the expected visibility of the Proposed Clear Creek County Select-Service Hotel.

PRIMARY COMPETITOR #3 - SUPER 8 GEORGETOWN

Super 8 Georgetown
1600 Argentine Street
Georgetown, CO

FIGURE 5-11 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2011	54	50 %	$68	$34	93.8 %	71.2 %
Estimated 2012	54	49	68	33	95.3	73.0
Estimated 2013	54	54	70	38	97.4	74.4

The Super 8 is owned and operated by Mumuminki, GP. Facilities include a breakfast dining area (a complimentary breakfast is served), an indoor whirlpool, and a guest laundry room. The hotel, which opened in 1972, received a new exterior facade in 2011. In 2013, a guestroom building's pipes were replaced; otherwise, no recent upgrades or renovations were noted. This hotel benefits from being the only hotel in Georgetown affiliated with a national brand; however, it is somewhat disadvantaged by its lack of recent renovations and dated guestrooms. Overall, the property appeared to be in fair condition. Its accessibility is superior to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Clear Creek County Select-Service Hotel.

Secondary Competitors

Only one of the lodging properties in the Georgetown market reports to Smith Travel Research. The primary competitive set is based on the properties located in Georgetown. The secondary competitive set is a composite of hotels that were chosen based on nearby cities that pull demand from Interstate 70 and other regional demand generators. This representation allows us to determine a base line for the expected performance of the local market and proposed subject hotel. In addition, the hotels in the secondary competitive set were chosen based on their product offerings.

FIGURE 5-12 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation			Total Competitive Level	Estimated 2011				Estimated 2012				Estimated 2013			
		Leisure	*Meeting and Group*	*Commercial*		Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Secondary Competitors Aggregate	990	45 %	30 %	25 %	75 %	743	53 %	$90.00	$47.70	743	51 %	$89.00	$45.39	743	55 %	$92.00	$50.60
Totals/Averages	**990**	**45 %**	**30 %**	**25 %**	**75 %**	**743**	**53.0 %**	**$90.00**	**$47.70**	**743**	**51.0 %**	**$89.00**	**$45.39**	**743**	**55.0 %**	**$92.00**	**$50.60**

Supply Changes

It is important to consider any new hotels that may have an impact on the proposed subject hotel's operating performance. Based upon our research and inspection (as applicable), new supply considered in our analysis is presented in the following table.

FIGURE 5-13 NEW SUPPLY

Proposed Property	Number of Rooms	Total Competitive Level	Weighted Room Count	Estimated Opening Date	Developer	Development Stage
Proposed Clear Creek County Select-Service Hotel	125	100 %	125	April 1, 2016		Speculative
Proposed Hampton Inn Summit County	88	50	44	September 1, 2015	Mace Pacific Holding	Early Development
Totals/Averages	**213**		**169**			

According to Clear Creek County officials, no new hotels are planned for development in the county as this time; however, an 88-unit Hampton Inn & Suites is under development in Silverthorne, a town in Summit County. Given its location and distance, it has been weighted secondarily competitive in our analysis.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the future operating potential of the proposed subject hotel may be positively or negatively 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 Georgetown submarket. The Proposed Clear Creek County Select-Service 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 in some cases weighted if there are secondary competitors present. In this respect,

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

FIGURE 5-14 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2011	163,281	—	306,418	—	53.3 %	$89.60	—	$47.75	—
Est. 2012	157,507	(3.5) %	306,418	0.0 %	51.4	88.83	(0.9) %	45.66	(4.4) %
Est. 2013	169,851	7.8	306,418	0.0	55.4	91.65	3.2	50.80	11.3
Avg. Annual Compounded									

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 2013 distribution of accommodated-room-night demand as follows.

FIGURE 5-15 ACCOMMODATED ROOM NIGHT DEMAND

Market Segment	Marketwide Accommodated Demand	Marketwide Percentage of Total
Leisure	83,686	49 %
Meeting and Group	46,453	27
Commercial	39,712	23
Total	**169,851**	**100 %**

The market's demand mix comprises leisure demand, with this segment representing roughly 49% of the accommodated room nights in this Georgetown submarket. The remaining portion comprises meeting and group at 27%, with the final portion commercial in nature, reflecting 23%.

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.

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 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.

Leisure demand is driven primarily by destination ski areas, such as Loveland, Breckenridge, Keystone, Arapahoe Basin, and Copper Mountain; visitors to the Outlets at Silverthorne; and travelers along Interstate 70. In addition, the historic districts in Clear Creek County and opportunities for a variety of outdoor activities drive demand to the area. Visitors from the Front Range, population centers located along the eastern slope of the Rocky Mountains spanning from Fort Collins in the north to Colorado Springs in the south, also make up a large portion of this demand segment. While visitors from the Front Range typically have shorter stays than other leisure travelers, they are likely to visit the Colorado Rocky Mountain region several times during one season. Travelers from Texas, Illinois, Florida, and California also comprise a considerable portion of this segment; these visitors tend to stay for longer periods than local travelers and in hotels located in submarkets closer to the ski resorts, such as Keystone and Breckenridge. Market participants have indicated that congestion along Interstate 70, which facilitates travel between the noted ski areas and the surrounding cities, as well as Denver International Airport, is an important factor contributing to increased weekend lodging demand as local guests attempt to avoid peak hours of traffic congestion. The widespread popularity of local ski resorts and the interstate traffic should enable the leisure segment to achieve moderate growth over the long term. Considering both current and historical trends, we project demand change rates of 7.0% in 2014, 4.0% in 2015, and 3.0% in 2016. After these first three projection years, we have forecast demand change rates of 2.5% in 2017 and 0.5% in 2018.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social,

military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week, most commonly in the spring and fall months. These groups tend to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food and beverage and/or banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and during the summer months or holiday season, when greater discounts are usually available; these groups generate limited ancillary revenues. Association demand is generally divided on a geographical basis, with national, regional, and state associations representing the most common sources. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends. The profile and revenue potential of associations varies depending on the group and the purpose of the meeting or event.

In the local market, meeting and group demand is generated by a variety of sources. Ski teams and tournaments generate room nights during the winter season. Youth sports teams generally utilize the I-70 corridor hotels en route to tournaments and competitions across the state and extended regional area. Wedding groups, typically from destination weddings in the resort submarkets, also comprise a significant portion of group demand. The area is popular for corporate meetings and retreats as well, typically during the shoulder and summer seasons. Moreover, the area's accessibility, natural beauty, and diversity of appealing activities are expected to continue to attract recreational groups, such as tourists and bicyclists. These factors should bode well for future growth within this segment. Considering both current and historical trends, we project demand change rates of 5.0% in 2014, 2.5% in 2015, and 2.0% in 2016. After these first three projection years, we have forecast demand change rates of 1.5% in 2017 and 0.5% in 2018.

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.

Commercial demand is limited in this market. The majority of commercial-related demand is attributed to the Henderson Mine, including suppliers, vendors, and

other people that visit the mine for a variety of reasons. In addition, local employers provide a small amount of demand. The Georgetown area is also a midway point for commercial travelers along the Interstate 70 corridor. Construction projects in the area generate a modest amount of commercial demand, in particular the Twin Tunnels Interstate 70 westbound expansion, which is scheduled for completion in September of 2015. Furthermore, the U.S. Forest Service and truckers contribute to this demand segment as well. Growth related to these sources should continue to expand minimally in the future. Considering both current and historical trends, we project demand change rates of 3.0% in 2014, 1.5% in 2015, and 1.0% in 2016. After these first three projection years, we have forecast demand change rates of 0.5% in 2017 and 0.5% in 2018.

Conclusion

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 subject property'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 5-16 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

	Annual Growth Rate					
Market Segment	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Leisure	7.0 %	4.0 %	3.0 %	2.5 %	0.5 %	0.5 %
Meeting and Group	5.0	2.5	2.0	1.5	0.5	0.5
Commercial	3.0	1.5	1.0	0.5	0.5	0.5
Base Demand Growth	**5.5 %**	**3.0 %**	**2.3 %**	**1.8 %**	**0.5 %**	**0.5 %**

Latent Demand

A table presented earlier in this section illustrated the accommodated-room-night demand in the subject property'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; this type of demand can be divided into unaccommodated demand and induced demand.

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. The following table summarizes our estimate of induced demand.

FIGURE 5-17 INDUCED DEMAND CALCULATION

	Induced Room Nights					
Market Segment	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Leisure	0	0	1,800	2,400	2,400	2,400
Meeting and Group	0	0	3,789	5,052	5,052	5,052
Commercial	0	0	0	0	0	0
Total	**0**	**0**	**5,589**	**7,452**	**7,452**	**7,452**

A significant amount of Loveland Ski Area lodging demand is currently lost to the surrounding counties because of a limited number of quality hotels with enough rooms and meeting space to accommodate travelers in Clear Creek County. Based on our market interviews, we have forecast a return of demand from Loveland Ski Area to the market with the addition of a high-quality hotel. In addition, the Easter Seals Camp located in Georgetown provides lodging to area travelers from September to May every year, again, because of a minimal amount of lodging accommodations in this particular market. Based on our interviews, we have forecast demand that will return to typical hotel accommodations with the opening of a new, upscale hotel in the market. The opening of the Blackstone Ranch should also induce considerable demand into this market. The ranch should draw new groups to this market, as these groups with planned meetings and weddings would have likely chosen an alternate destination if it were not for the availability of the new Blackstone Ranch facility. Accordingly, we have incorporated 7,000 room nights (rounded) into our analysis, phased-in over an appropriate ramp-up period.

Accommodated Demand and Market-wide Occupancy

Based upon a review of the market dynamics in the subject property'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 5-18 FORECAST OF MARKET OCCUPANCY

	2016	2017	2018	2019
Leisure				
Base Demand	95,920	98,318	98,809	99,303
Induced Demand	1,800	2,400	2,400	2,400
Total Demand	97,720	100,718	101,209	101,703
Growth Rate	4.9 %	3.1 %	0.5 %	0.5 %
Meeting and Group				
Base Demand	50,995	51,760	52,019	52,279
Induced Demand	3,789	5,052	5,052	5,052
Total Demand	54,784	56,812	57,071	57,331
Growth Rate	9.6 %	3.7 %	0.5 %	0.5 %
Commercial				
Base Demand	41,932	42,141	42,352	42,564
Total Demand	41,932	42,141	42,352	42,564
Growth Rate	1.0 %	0.5 %	0.5 %	0.5 %
Totals				
Base Demand	188,847	192,219	193,180	194,146
Induced Demand	5,589	7,452	7,452	7,452
Total Demand	194,436	199,671	200,632	201,598
Overall Demand Growth	5.3 %	2.7 %	0.5 %	0.5 %
Market Mix				
Leisure	50.3 %	50.4 %	50.4 %	50.4 %
Meeting and Group	28.2	28.5	28.4	28.4
Commercial	21.6	21.1	21.1	21.1
Existing Hotel Supply	840	840	840	840
Proposed Hotels				
Proposed Clear Creek County Select-Service [1]	94	125	125	125
Proposed Hampton Inn Summit County [2]	44	44	44	44
Available Rooms per Night	356,853	368,103	368,103	368,103
Nights per Year	365	365	365	365
Total Supply	978	1,009	1,009	1,009
Rooms Supply Growth	14.5 %	3.2 %	0.0 %	0.0 %
Marketwide Occupancy	**54.5 %**	**54.2 %**	**54.5 %**	**54.8 %**

[1] Opening in April 2016 of the 100% competitive, 125-room Proposed Clear Creek County Select-Service Hc

[2] Opening in September 2015 of the 50% competitive, 88-room Proposed Hampton Inn Summit County

These room-night projections for the market area will be used in forecasting the proposed subject hotel's occupancy and average rate in Chapter 6.

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 Proposed Clear Creek County Select-Service Hotel will be a select-service lodging facility containing 125 rentable units. The four-story property will open on April 1, 2016. Clear Creek County Economic Development is interested in determining if a hospitality project is feasible in the county. Thus, we analyzed eight different sites to determine the most suitable site to build a hotel. The Georgetown Lake site was chosen for a number of reasons. First, the site is cleared, ready for development, and on the market. Next, the site is clearly visible from the nearby interstate, as well as from the surrounding neighborhood. In addition, the site is located midway between Idaho Springs and the Loveland Ski area; furthermore, the location is a midway point between a variety of area demand generators. Lastly, the site benefits from being located on Georgetown Lake, and there is additional vacant land that is available for development, which could positively influence the neighborhood and proposed subject hotel in the long run.

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

Proposed Guestroom Configuration	Estimated Number of Units
King	50
Queen/Queen	50
Suite	25
Total	125

Food & Beverage Facilities	Seating Capacity
Restaurant & Lounge	TBD

Indoor Meeting & Banquet Facilities	Square Footage
Meeting Space	TBD

Estimated Amenities & Services	
Indooor Swimming Pool	Fitness Room
Indoor Whirlpool	Business Center
Vending Areas	Market Pantry
Guest Laundry Facility	

Infrastructure	
Parking Spaces	TBD
Elevators	2 Guest
Life-Safety Systems	Sprinklers, Smoke Detectors
Construction Details	TBD

Site Improvements and Hotel Structure

Once guests enter the site, ample parking should be available on the surface lot around the perimeter of the hotel. Site improvements should include freestanding signage, which should be located on the west side of the site (additional signage is expected to be placed on the exterior of the building). We assume that all signage will adequately identify the property and meet brand standards. Landscaping should allow for a positive guest impression and competitive exterior appearance. Sidewalks are expected to be present along the front entrance and around the perimeter of the hotel. Other site improvements should include a sundeck, as well as a trash area toward the rear of the property. Overall, the site improvements for the property are expected to be adequate.

The hotel structure is expected to comprise one single building. The exterior of the hotel should be finished with wood paneling and feature stone accents on the ground level and near the main entrance. An estimated two stairways and two elevators will provide internal vertical transportation within the main structure.

The hotel's roof is expected to be made of wood trusses, covered with plywood and roof tiles or composition shingles. Double-paned windows should be installed to reduce noise transmission into the rooms. Heating and cooling will likely be provided by through-the-wall units and several large units for the public areas. Overall, the building components are expected to be normal for a hotel of this type and should meet the standards for this market. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that would affect the future operating potential of the hotel or delay its assumed opening date.

Lobby

Guests should to enter the hotel through a single set of automatic doors, which will open to a vestibule, and then through a second set of automatic doors. The lobby is expected to be large and appropriate for an upscale, select-service property. The lobby walls should be finished with wallcovering, and the floor should be finished with stone tiles. The front desk should feature a stone countertop, installed with appropriate property management and telephone systems. The furnishings and finishes in this space should offer an appropriate first impression, and the design of the space should lend itself to adequate efficiency. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

Food and Beverage Facilities

The hotel is expected to feature a restaurant and lounge located off the lobby. The size and layout of the space should be appropriate for the hotel. The furnishings of the spaces should be of a similar style and finish as lobby and guestroom furnishings.

Overall, the hotel is anticipated to provide a competitive offering of food and beverage facilities for a property of this type.

Meeting and Banquet Space

The hotel is expected to offer a modest amount of meeting space that is likely to be located on the first floor. This meeting space should be appropriate for a hotel of this type and should meet brand standards. Public restrooms near the entrance to the meeting space should enhance the overall functionality of the area.

Recreational Amenities

The hotel should offer an indoor pool, an indoor whirlpool, and a fitness room as recreational facilities. Restrooms are expected to be present off of the pool area.

Additional Amenities

Other amenities are expected to include a 24-hour complimentary business center and a market pantry, as well as ice machines and vending machines on each guestroom floor. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

Guestrooms

The hotel is anticipated to feature standard and suite-style guestroom configurations, and guestrooms are expected to be present on all floors within the single building. The guestrooms should be spacious and offer typical amenities for this product type. In addition to the standard furnishings, guestrooms are expected to feature a high-definition television, a work desk with ergonomic chair, an armchair with ottoman, a dresser, bedside tables, an iron and ironing board, and a microwave and small refrigerator, as well as a coffeemaker. Suites should feature a separate living area. All guestrooms should offer complimentary wired and wireless high-speed Internet access. Overall, the guestrooms would be expected to offer a competitive product for this market area.

Guestroom bathrooms are expected to be of a standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a stone countertop. The floors should be finished with tile, and the walls should be finished with knockdown texture. Bathroom amenities for this product type should include a hairdryer and complimentary toiletries. The bathroom design is anticipated to meet the standards for an upscale, select-service hotel.

The interior guestroom corridors should be wide and functional, permitting the easy passage of housekeeping carts. Corridor carpet, wallcovering, signage, and lighting are expected to be in keeping with the overall look and design of the rest of the property.

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

The hotel is expected to be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and a full-service kitchen to serve the needs of the restaurant. 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 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, beverages, other operated departments, and rentals and other income) are driven by the number of guests, and many expense levels vary with occupancy. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical, professional hotel management team to achieve an optimal mix of occupancy and average rate.

Penetration Rate Analysis

The subject property'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 property's market share to its fair share. A complete discussion of the concept of penetration is presented in the addenda.

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	Leisure	Meeting and Group	Commercial	Overall
Georgetown Mountain Inn	177 %	19 %	44 %	103 %
Hotel Chateau Chamonix	280	59	35	162
Super 8 Georgetown	148	36	63	97
Secondary Competition	91	109	106	99

The Hotel Chateau Chamonix achieved the highest penetration rate within the leisure segment. The highest penetration rate in the meeting and group segment was achieved by the secondary competition, while the secondary competition led the market with the highest commercial penetration rate.

Forecast of Subject Property's Occupancy

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 subject property account for these types of adjustments to market share within the defined competitive market. Consequently, the actual penetration factors applicable to the subject property and its competitors for each market segment in each projection year may vary somewhat from the penetration factors delineated in the previous tables.

The following tables set forth, by market segment, the projected adjusted penetration rates for the proposed subject hotel and each hotel in the competitive set.

FIGURE 7-2 LEISURE SEGMENT ADJUSTED PENETRATION RATES

Hotel	2013	2014	2015	2016	2017	2018	2019
Georgetown Mountain Inn	177 %	177 %	177 %	178 %	176 %	173 %	173 %
Hotel Chateau Chamonix	280	280	280	282	278	273	273
Super 8 Georgetown	148	148	148	149	147	144	144
Secondary Competition	91	91	91	91	90	88	88
Proposed Clear Creek County Select-Service Hotel	—	—	—	**90**	**99**	**112**	**112**
Proposed Hampton Inn Summit County	—	—	100	111	119	117	117

Within the leisure segment, the proposed subject hotel's penetration is positioned at an above-market-average level by the stabilized period due to its expected brand affiliation and new, upscale product offering. Additionally, through central

reservations, branded products are marketed toward brand-loyal travelers, which makes the proposed subject hotel a viable option for leisure travelers seeking to benefit from a rewards program. Furthermore, the product offering and location in Georgetown, near I-70, should bode well for price-sensitive travelers that want to pay less than the rates at Summit County hotels during the peak seasons. The property's location near a variety of outdoor attractions was also considered in the positioning of the proposed hotel's penetration level.

FIGURE 7-3 MEETING AND GROUP SEGMENT ADJUSTED PENETRATION RATES

Hotel	2013	2014	2015	2016	2017	2018	2019
Georgetown Mountain Inn	19 %	19 %	19 %	19 %	19 %	19 %	19 %
Hotel Chateau Chamonix	59	59	60	61	60	59	59
Super 8 Georgetown	36	36	36	37	36	36	36
Secondary Competition	109	109	110	112	110	109	109
Proposed Clear Creek County Select-Service Hotel	—	—	—	**93**	**101**	**110**	**110**
Proposed Hampton Inn Summit County	—	—	45	62	76	75	75

The proposed hotel should be able to capture a significant amount of meeting and group demand derived from ski teams, youth sports teams, weddings, reunions, and other tourist and recreational groups. Moreover, the proposed subject hotel's I-70 corridor location, strong brand affiliation, and flexible meeting space should allow it to become a popular destination for small social events and other SMERFE-related group bookings. These factors, in addition to the proposed subject hotel's modest amount of on-site meeting space, should lead to a robust penetration rate within this segment for a property of this type.

FIGURE 7-4 COMMERCIAL SEGMENT ADJUSTED PENETRATION RATES

Hotel	2013	2014	2015	2016	2017	2018	2019
Georgetown Mountain Inn	44 %	44 %	44 %	46 %	46 %	46 %	46 %
Hotel Chateau Chamonix	35	35	35	36	36	36	36
Super 8 Georgetown	63	63	63	65	65	65	65
Secondary Competition	106	106	107	111	111	110	110
Proposed Clear Creek County Select-Service Hotel	—	—	—	**73**	**78**	**83**	**83**
Proposed Hampton Inn Summit County	—	—	50	68	78	78	78

Within the commercial segment, the proposed subject hotel's penetration is positioned at a below-market-average level by the stabilized period due to its location in Clear Creek County, which has a limited amount of commercial demand compared to the surrounding areas. However, the proposed hotel's expected

brand affiliation, as well as an overall marketing focus that is expected to cater toward local corporate travel, was considered in the positioning of the commercial penetration rate. While the other branded hotel in Georgetown caters to more price-sensitive travelers, the proposed subject hotel will be ideally suited for local corporate demand.

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

FIGURE 7-5 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2016	2017	2018	2019
Leisure	52 %	52 %	54 %	54 %
Meeting and Group	30	30	30	30
Commercial	18	17	17	17
Total	100 %	100 %	100 %	100 %

The subject property'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 7-6 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2016	2017	2018	2019
Leisure				
Demand	97,720	100,718	101,209	101,703
Market Share	8.7 %	12.3 %	13.9 %	13.9 %
Capture	8,485	12,376	14,043	14,111
Penetration	90 %	99 %	112 %	112 %
Meeting and Group				
Demand	54,784	56,812	57,071	57,331
Market Share	8.9 %	12.5 %	13.6 %	13.6 %
Capture	4,866	7,119	7,770	7,805
Penetration	93 %	101 %	110 %	110 %
Commercial				
Demand	41,932	42,141	42,352	42,564
Market Share	7.0 %	9.7 %	10.3 %	10.3 %
Capture	2,948	4,089	4,355	4,377
Penetration	73 %	78 %	83 %	83 %
Total Room Nights Captured	**16,299**	**23,584**	**26,167**	**26,293**
Available Room Nights	34,250	45,625	45,625	45,625
Subject Occupancy	**48 %**	**52 %**	**57 %**	**58 %**
Marketwide Available Room Nights	356,853	368,103	368,103	368,103
Fair Share	**10 %**	**12 %**	**12 %**	**12 %**
Marketwide Occupied Room Nights	194,436	199,671	200,632	201,598
Market Share	**8 %**	**12 %**	**13 %**	**13 %**
Marketwide Occupancy	**54 %**	**54 %**	**55 %**	**55 %**
Total Penetration	**87 %**	**95 %**	**105 %**	**105 %**

Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 58%. 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 subject property 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 subject property's future primary competitors.

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

Property	Estimated 2013 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Georgetown Mountain Inn	$85.00	92.7 %	$48.45	95.4 %
Hotel Chateau Chamonix	160.00	174.6	144.00	283.4
Super 8 Georgetown	70.00	76.4	37.80	74.4
Average - Primary Competitors	$89.17	97.3 %	$52.37	103.1 %
Average - Secondary Competitors	92.00	100.4	50.60	99.6
Overall Average	**$91.65**		**$50.80**	

The defined primarily competitive market realized an overall average rate of $89.17 in the 2013 base year, improving from the 2012 level of $87.61. The Hotel Chateau Chamonix achieved the highest estimated average rate in the local competitive market, by a significant margin, because of its luxury product offering and small room count, thus enabling ownership to drive rate during peak season. Other important rate aspects of this market include proximity to area demand generators, hotel amenities, and the levels of snowfall during the winter season. The selected rate position for the proposed subject hotel, in base-year dollars, takes into consideration factors such as its Georgetown location, expected product offering, and anticipated national brand recognition. The RevPAR of the three primary competitors varies significantly because of the limited amount of supply in the market and the notable differences among the hotel properties. The Hotel Chateau Chamonix is a luxury, independent property with only ten units, while the Super 8 is a budget-oriented, nationally branded hotel with 54 guestrooms. The

Georgetown Inn is an economy, independent, older property. We have selected the rate position of $105.00, in base-year dollars, for the proposed subject.

As illustrated previously, the average rate for the primarily competitive market averaged $87.61 in 2012, before reaching $89.17 in 2013. Average rates in this primarily leisure-oriented market began to modestly trend upward in 2010, concurrent with higher levels of visitation due to stronger consumer confidence and spending. This trend is expected to continue in the near term given that the greater market area remains a popular destination for visitation, while nearby ski resorts continue to attract local, national, and international visitors for ski vacations.

Based on these considerations, the following table illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied underlying inflation rates of 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2013.

FIGURE 7-8 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	55.4 %	—	$91.65	—	—	$105.00	114.6 %
2014	58.5	7.0 %	98.07	—	7.0 %	112.35	114.6
2015	59.2	5.0	102.97	—	5.0	117.97	114.6
2016	54.5	4.0	107.09	48.0 %	4.0	122.69	114.6
2017	54.2	3.0	110.30	52.0	3.0	126.37	114.6
2018	54.5	3.0	113.61	57.0	3.0	130.16	114.6
2019	54.8	3.0	117.02	58.0	3.0	134.06	114.6

As illustrated above, a 7.0% rate of change is expected for the proposed subject hotel's positioned 2013 room rate in 2014. This is followed by growth rates of 5.0% and 4.0% in 2015 and 2016, respectively. The Georgetown market should enjoy positive 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 location. The proposed subject hotel's penetration rate is forecast to reach 114.6% by the stabilized period.

The North American lodging market bottomed out in late 2009, at which time demand rebounded and the supply pipeline diminished. In 2010, occupancy

rebounded strongly, and by 2011, average rates in most U.S. markets showed increases. By year-end 2013, occupancy approached the levels realized during the 2005–2007 timeframe, and average rate surpassed the prior 2008 peak. In many primary markets, strong occupancy levels and a lack of new supply are allowing hotel operators to make continued, aggressive average rate gains in 2014. While average rate growth is strong in some secondary and tertiary markets, it may be limited in the near term by the entrance of new supply. With demand now recovered from the correction in 2009, and new supply remaining muted in 2014 and 2015, markets should be able to support healthy average rate gains in the near term.

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the proposed subject hotel's average rates in the initial operating period have been discounted to reflect this likelihood. We forecast 5.0% and 0.0% discounts to the proposed subject hotel's forecast room rates in the first two operating years, which would be typical for a new operation of this type.

The following occupancies and average rates will be used to project the subject property's rooms revenue. This forecast reflects years beginning on April 1, 2016 and corresponds with our financial projections.

FIGURE 7-9 FORECAST OF OCCUPANCY, AVERAGE RATE, AND REVPAR

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount	RevPAR
2016/17	49 %	$123.59	5.0 %	$117.41	$57.53
2017/18	53	127.30	0.0	127.30	67.47
2018/19	57	131.12	0.0	131.12	74.74

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 average rate 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). The following data reflect the performance of five hotel properties. The properties were chosen based on similarities in product, brand affiliation, size, and price positioning. 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:	**2010**	**2008**	**2011**	**2011**	**2011/12**	**2013**
Number of Rooms:	**100 to 130**	**90 to 130**	**100 to 130**	**90 to 120**	**120 to 160**	**125**
Days Open:	**365**	**366**	**365**	**365**	**366**	**365**
Occupancy:	**59%**	**58%**	**62%**	**58%**	**65%**	**58%**
Average Rate:	**$114**	**$116**	**$108**	**$106**	**$100**	**$113**
RevPAR:	**$68**	**$67**	**$67**	**$61**	**$65**	**$66**
REVENUE						
Rooms	84.6 %	82.8 %	83.0 %	91.3 %	88.1 %	85.4 %
Food & Beverage	11.2	10.4	15.6	6.1	7.9	11.2
Other Operated Departments	4.1	0.0	0.8	0.0	4.0	1.1
Rentals & Other Income	0.1	6.8	0.6	2.6	0.0	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	15.4	22.3	28.0	18.6	21.7	22.0
Food & Beverage	138.7	122.6	64.5	112.9	85.3	80.0
Other Operated Departments	21.4	0.0	99.4	0.0	72.7	100.0
Rentals & Other Income	0.0	27.5	0.0	0.0	0.0	0.0
Total	29.5	33.1	34.1	24.5	28.8	28.9
DEPARTMENTAL INCOME	70.5	66.9	65.9	75.5	71.2	71.1
OPERATING EXPENSES						
Administrative & General	11.5	8.4	5.7	9.9	6.0	6.4
Marketing	3.1	6.0	3.2	5.1	4.4	4.6
Franchise Fee	9.2	4.0	7.7	5.0	7.8	8.4
Property Operations & Maintenance	6.7	7.5	2.9	2.7	4.2	4.6
Utilities	3.9	4.9	4.6	4.4	6.0	5.0
Total	34.4	33.5	24.1	27.3	28.3	28.9
HOUSE PROFIT	36.1	33.4	41.8	48.2	42.9	42.2
Management Fee	3.0	4.0	4.0	2.0	3.0	3.0
INCOME BEFORE FIXED CHARGES	33.1	29.4	37.8	46.2	39.9	39.2

* 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
						Stabilized $
Year:	**2010**	**2008**	**2011**	**2011**	**2011/12**	**2013**
Number of Rooms:	**100 to 130**	**90 to 130**	**100 to 130**	**90 to 120**	**120 to 160**	**125**
Days Open:	**365**	**366**	**365**	**365**	**366**	**365**
Occupancy:	**59%**	**58%**	**62%**	**58%**	**65%**	**58%**
Average Rate:	**$114**	**$116**	**$108**	**$106**	**$100**	**$113**
RevPAR:	**$68**	**$67**	**$67**	**$61**	**$65**	**$66**
REVENUE						
Rooms	$24,661	$24,664	$24,294	$22,303	$23,711	$23,944
Food & Beverage	3,263	3,091	4,565	1,495	2,113	3,153
Other Operated Departments	1,186	0	234	0	1,085	315
Rentals & Other Income	34	2,018	170	642	0	631
Total	29,144	29,773	29,262	24,440	26,908	28,043
DEPARTMENTAL EXPENSES						
Rooms	3,805	5,509	6,793	4,147	5,155	5,268
Food & Beverage	4,525	3,791	2,944	1,688	1,803	2,522
Other Operated Departments	254	0	232	165	789	315
Rentals & Other Income	0	555	0	0	0	0
Total	8,585	9,855	9,969	6,000	7,746	8,105
DEPARTMENTAL INCOME	20,559	19,918	19,293	18,440	19,162	19,938
OPERATING EXPENSES						
Administrative & General	3,339	2,500	1,670	2,422	1,606	1,787
Marketing	915	1,791	922	1,257	1,190	1,291
Franchise Fee	2,678	1,200	2,267	1,229	2,092	2,347
Property Operations & Maintenance	1,966	2,236	854	670	1,120	1,291
Utilities	1,127	1,455	1,351	1,083	1,613	1,390
Total	10,025	9,964	7,063	6,661	7,620	8,105
HOUSE PROFIT	10,534	9,954	12,230	11,779	11,542	11,833
Management Fee	873	1,191	1,162	486	810	841
INCOME BEFORE FIXED CHARGES	9,661	8,764	11,068	11,294	10,732	10,992

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

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2010**	**2008**	**2011**	**2011**	**2011/12**	**2013**
Number of Rooms:	**100 to 130**	**90 to 130**	**100 to 130**	**90 to 120**	**120 to 160**	**125**
Days Open:	**365**	**366**	**365**	**365**	**366**	**365**
Occupancy:	**59%**	**58%**	**62%**	**58%**	**65%**	**58%**
Average Rate:	**$114**	**$116**	**$108**	**$106**	**$100**	**$113**
RevPAR:	**$68**	**$67**	**$67**	**$61**	**$65**	**$66**
REVENUE						
Rooms	$113.85	$116.18	$107.54	$105.99	$100.01	$113.11
Food & Beverage	15.06	14.56	20.21	7.11	8.91	14.89
Other Operated Departments	5.48	0.00	1.03	0.00	4.57	1.49
Rentals & Other Income	0.16	9.51	0.75	3.05	0.00	2.98
Total	134.55	140.25	129.54	116.14	113.49	132.47
DEPARTMENTAL EXPENSES						
Rooms	17.57	25.95	30.07	19.71	21.74	24.88
Food & Beverage	20.89	17.86	13.03	8.02	7.60	11.91
Other Operated Departments	1.17	0.00	1.03	0.78	3.33	1.49
Rentals & Other Income	0.00	2.61	0.00	0.00	0.00	0.00
Total	39.63	46.42	44.13	28.51	32.67	38.29
DEPARTMENTAL INCOME	94.92	93.83	85.41	87.63	80.82	94.18
OPERATING EXPENSES						
Administrative & General	15.42	11.78	7.39	11.51	6.77	8.44
Marketing	4.23	8.44	4.08	5.97	5.02	6.10
Franchise Fee	12.36	5.65	10.03	5.84	8.82	11.08
Property Operations & Maintenance	9.08	10.53	3.78	3.18	4.72	6.10
Utilities	5.20	6.85	5.98	5.14	6.80	6.57
Total	46.29	46.94	31.27	31.65	32.14	38.28
HOUSE PROFIT	48.63	46.89	54.14	55.98	48.68	55.89
Management Fee	4.03	5.61	5.14	2.31	3.42	3.97
INCOME BEFORE FIXED CHARGES	44.60	41.28	48.99	53.67	45.27	51.92

The comparables' departmental income ranged from 65.9% to 75.5% of total revenue. The comparable properties achieved a house profit ranging from 33.4% to 48.2% 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

A general rate of inflation must be established that will be applied to most revenue and expense categories. The following table shows inflation estimates made by economists at some noted institutions and corporations.

FIGURE 8-4 INFLATION ESTIMATES

Name	Firm	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier) Dec. 2013	June 2014	Dec. 2014	June 2015	Dec. 2015
Lewis Alexander	Nomura Securities International	1.3 %	1.9 %	1.9 %	1.9 %	2.0 %
Paul Ashworth	Capital Economics	1.4	1.8	1.9	2.0	2.0
Beth Ann Bovino	Standard and Poor's	1.1	1.5	1.7	1.7	1.9
Jay Brinkmann	Mortgage Bankers Association	1.5	2.1	2.0	2.1	2.3
Michael Carey	Credit Agricole CIB	1.5	1.4	1.8	1.9	2.0
Joseph Carson	AllianceBernstein	1.8	2.0	2.0	2.2	2.4
Julia Coronado	BNP Paribas	1.5	1.3	1.7	1.8	1.8
Mike Cosgrove	Econoclast	1.8	2.0	2.0	2.3	2.4
Lou Crandall	Wrightson ICAP	1.4	1.5	2.2	2.4	2.5
J. Dewey Daane	Vanderbilt University	1.0	2.0	2.0	2.0	2.0
Douglas Duncan	Fannie Mae	1.1	1.5	1.6	1.7	1.8
Robert Dye	Comerica Bank	1.2	1.7	1.8	1.8	1.9
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	1.3	1.8	1.8	—	—
Doug Handler	IHS Global Insight	1.5	1.5	1.5	1.6	1.7
Ethan Harris	Bank of America Securities- Merrill Lynch	1.5	1.4	1.4	—	—
Maury Harris	UBS	1.2	1.8	2.4	2.5	2.5
Jan Hatzius	Goldman, Sachs & Co.	1.2	1.7	1.7	1.8	2.0
Tracy Herrick	Avidbank	2.6	2.7	2.9	3.4	3.9
Stuart Hoffman	PNC Financial Services Group	1.2	1.8	2.0	2.2	2.2
Joseph LaVorgna	Deutsche Bank Securities, Inc.	1.8	2.7	2.6	2.4	2.2
Edward Leamer/David Shulman	UCLA Anderson Forecast	1.4	1.6	2.0	2.4	2.3
Don Leavens/Tim Gill	NEMA Business Information Services	1.6	1.9	2.0	2.1	2.2
John Lonski	Moody's Investors Service	1.3	1.6	1.8	1.8	1.6
Dean Maki	Barclays Capital	1.7	1.7	2.2	—	—
Aneta Markowska	Societe Generale	1.3	1.4	2.0	2.0	2.4
Jim Meil/Arun Raha	Eaton Corp.	1.0	1.4	1.8	2.0	2.1
Robert Mellman	JP Morgan Chase & Co.	1.2	1.6	1.6	1.8	1.9
Michael P. Niemira	International Council of Shopping Centers	1.5	2.2	2.3	2.5	2.5
Jim O'Sullivan	High Frequency Economics	1.2	1.7	2.3	2.4	2.5
Dr. Joel Prakken/ Chris Varvares	Macroeconomic Advisers	1.1	1.7	1.7	1.7	1.8
Vincent Reinhart	Morgan Stanley	1.7	1.9	2.0	2.0	2.1
John Ryding/Conrad DeQuadros	RDQ Economics	1.3	1.8	2.3	—	—
Ian Shepherdson	Pantheon Macroeconomics	1.7	1.9	1.9	2.0	2.0
Allen Sinai	Decision Economics, Inc.	1.4	1.6	2.8	2.2	2.3
James F. Smith	Parsec Financial Management	1.0	1.0	1.1	1.2	1.3
Sean M. Snaith	University of Central Florida	1.0	1.9	1.6	1.6	1.7
Sung Won Sohn	California State University	1.8	1.9	1.7	1.6	1.9
Neal Soss	CSFB	1.5	1.4	1.7	—	—
Stephen Stanley	Pierpont Securities	1.6	2.0	2.4	2.6	2.9
Susan M. Sterne	Economic Analysis Associates Inc.	1.6	1.9	2.6	2.1	2.0
Diane Swonk	Mesirow Financial	1.2	1.3	1.4	1.5	1.6
Carl Tannenbaum	The Northern Trust	1.5	1.6	2.0	2.1	2.2
Bart van Ark	The Conference Board	1.2	1.8	2.0	2.1	2.2
Brian S. Wesbury/ Robert Stein	First Trust Advisors, L.P.	1.3	1.9	2.0	2.3	2.5
William T. Wilson	Skolkovo Institute for Emerging Market Studies	0.9	1.1	1.2	1.6	1.8
Lawrence Yun	National Association of Realtors	1.2	2.3	2.8	3.3	3.4
	Averages:	1.4 %	1.7 %	2.0 %	2.1 %	2.2 %

Source: wsj.com, January 15, 2014

As the preceding table indicates, the financial analysts who were surveyed in December of 2013 anticipated inflation rates ranging from 0.9% to 2.6% (on an annualized basis) for December 2013; the average of these data points was 1.4%. The same group expects a slightly higher annualized 1.7% inflation rate for June 2014. These rates are lower than the inflation rate averages for December 2014 and June 2015, shown at 2.0% and 2.1%, respectively.

As a further check on these inflation projections, we have reviewed historical increases in the Consumer Price Index (CPI-U). Because the value of real estate is predicated on cash flows over a relatively long period, inflation should be considered from a long-term perspective.

FIGURE 8-5 NATIONAL CONSUMER PRICE INDEX (ALL URBAN CONSUMERS)

Year	National Consumer Price Index	Percent Change from Previous Year
2003	184.0	—
2004	188.9	2.7 %
2005	195.3	3.4
2006	201.6	3.2
2007	207.3	2.8
2008	215.3	3.8
2009	214.5	-0.4
2010	218.1	1.6
2011	224.9	3.1
2012	229.6	2.1
2013	233.0	1.5
Average Annual Compounded Change		
2003 - 2013:		2.4 %
2008 - 2013:		1.6

Source: Bureau of Labor Statistics

Between 2003 and 2013, the national CPI increased at an average annual compounded rate of 2.4%; from 2008 to 2013, the CPI rose by a slightly lower average annual compounded rate of 1.6%. In 2013, the CPI rose by 1.5%, a decrease from the level of 2.1% recorded in 2012.

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 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2013. This stabilized inflation rate takes into account 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.

Summary of Projections

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 April 1, 2016, expressed in inflated dollars for each year.

FIGURE 8-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2016/17	Begins April			2017/18			2018/19				Stabilized				2020/21			
Number of Rooms:	**125**				**125**			**125**				**125**				**125**			
Occupancy:	**49%**				**53%**			**57%**				**58%**				**58%**			
Average Rate:	**$117.41**				**$127.30**			**$131.12**				**$135.05**				**$139.11**			
RevPAR:	**$57.53**				**$67.47**			**$74.74**				**$78.33**				**$80.68**			
Days Open:	**365**				**365**			**365**				**365**				**365**			
Occupied Rooms:	**22,356**	**%Gross**		**PAR**	**POR**	**24,181**	**%Gross**	**PAR**	**POR**	**26,006**	**%Gross**	**PAR**	**POR**	**26,463**	**%Gross**	**PAR**	**POR**	**26,463**	**%Gross**	**PAR**	**POR**
REVENUE																					
Rooms	$2,625	83.8	%	$21,000	$117.42	$3,078	84.9	%	$127.29	$3,410	85.3	%	$27,280	$131.12	$3,574	85.4	%	$28,592	$135.06	$3,681	85.4	%	$29,448	$139.10
Food	254	8.1		2,029	11.35	277	7.6		11.44	301	7.5		2,405	11.56	314	7.5		2,510	11.85	323	7.5		2,585	12.21
Beverage	131	4.2		1,048	5.86	141	3.9		5.82	151	3.8		1,206	5.80	157	3.7		1,255	5.93	162	3.7		1,292	6.11
Other Operated Departments	41	1.3		328	1.84	43	1.2		1.79	45	1.1		364	1.75	47	1.1		376	1.78	48	1.1		388	1.83
Rentals & Other Income	82	2.6		657	3.67	86	2.4		3.57	91	2.3		727	3.50	94	2.2		753	3.56	97	2.2		775	3.66
Total Revenues	3,133	100.0		25,063	140.13	3,625	100.0		149.90	3,998	100.0		31,982	153.72	4,186	100.0		33,486	158.18	4,311	100.0		34,489	162.91
DEPARTMENTAL EXPENSES *																								
Rooms	675	25.7		5,399	30.19	716	23.2		29.59	758	22.2		6,065	29.15	786	22.0		6,290	29.71	810	22.0		6,479	30.60
Food & Beverage	328	85.3		2,624	14.67	345	82.8		14.28	364	80.5		2,908	13.98	376	80.0		3,012	14.23	388	80.0		3,102	14.65
Other Operated Departments	42	103.4		340	1.90	44	101.9		1.82	46	100.4		365	1.75	47	100.0		376	1.78	48	100.0		388	1.83
Total	1,045	33.4		8,362	46.76	1,105	30.5		45.69	1,167	29.2		9,338	44.88	1,210	28.9		9,678	45.72	1,246	28.9		9,968	47.09
DEPARTMENTAL INCOME	2,088	66.6		16,701	93.38	2,520	69.5		104.21	2,831	70.8		22,644	108.84	2,976	71.1		23,808	112.46	3,065	71.1		24,520	115.83
UNDISTRIBUTED OPERATING EXPENSES																								
Administrative & General	233	7.4		1,864	10.42	246	6.8		10.19	258	6.5		2,063	9.92	267	6.4		2,134	10.08	275	6.4		2,198	10.38
Marketing	168	5.4		1,346	7.53	178	4.9		7.36	186	4.7		1,490	7.16	193	4.6		1,541	7.28	198	4.6		1,587	7.50
Franchise Fee	257	8.2		2,058	11.51	302	8.3		12.47	334	8.4		2,673	12.85	350	8.4		2,802	13.24	361	8.4		2,886	13.63
Prop. Operations & Maint.	168	5.4		1,346	7.53	178	4.9		7.36	186	4.7		1,490	7.16	193	4.6		1,541	7.28	198	4.6		1,587	7.50
Utilities	181	5.8		1,450	8.11	192	5.3		7.92	201	5.0		1,605	7.71	207	5.0		1,660	7.84	214	5.0		1,709	8.07
Total	1,008	32.2		8,064	45.09	1,095	30.2		45.30	1,165	29.3		9,322	44.81	1,210	29.0		9,678	45.71	1,246	29.0		9,968	47.08
HOUSE PROFIT	1,080	34.4		8,637	48.29	1,425	39.3		58.91	1,665	41.5		13,323	64.04	1,766	42.1		14,130	66.75	1,819	42.1		14,552	68.74
Management Fee	94	3.0		752	4.20	109	3.0		4.50	120	3.0		959	4.61	126	3.0		1,005	4.75	129	3.0		1,035	4.89
INCOME BEFORE FIXED CHARGES	986	31.4		7,885	44.09	1,316	36.3		54.42	1,545	38.5		12,363	59.42	1,641	39.1		13,126	62.00	1,690	39.1		13,518	63.85
FIXED EXPENSES																								
Property Taxes	142	4.5		1,133	6.33	145	4.0		6.00	149	3.7		1,196	5.75	154	3.7		1,232	5.82	159	3.7		1,269	5.99
Insurance	68	2.2		542	3.03	70	1.9		2.89	72	1.8		575	2.77	74	1.8		593	2.80	76	1.8		611	2.88
Reserve for Replacement	63	2.0		501	2.80	109	3.0		4.50	160	4.0		1,279	6.15	167	4.0		1,339	6.33	172	4.0		1,380	6.52
Total	272	8.7		2,176	12.17	324	8.9		13.39	381	9.5		3,051	14.66	395	9.5		3,164	14.95	407	9.5		3,259	15.39
NET INCOME	$714	22.7	%	$5,709	$31.92	$992	27.4	%	$41.03	$1,164	29.0	%	$9,313	$44.76	$1,245	29.6	%	$9,962	$47.06	$1,282	29.6	%	$10,259	$48.46

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

FIGURE 8-7 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2016/17		2017/18		2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		2024/25		2025/26	
Number of Rooms:	**125**		**125**		**125**		**125**		**125**		**125**		**125**		**125**		**125**		**125**	
Occupied Rooms:	**22,356**		**24,181**		**26,006**		**26,463**		**26,463**		**26,463**		**26,463**		**26,463**		**26,463**		**26,463**	
Occupancy:	**49%**		**53%**		**57%**		**58%**		**58%**		**58%**		**58%**		**58%**		**58%**		**58%**	
Average Rate:	**$117.41**	**% of**	**$127.30**	**% of**	**$131.12**	**% of**	**$135.05**	**% of**	**$139.11**	**% of**	**$143.28**	**% of**	**$147.58**	**% of**	**$152.00**	**% of**	**$156.56**	**% of**	**$161.26**	**% of**
RevPAR:	**$57.53**	**Gross**	**$67.47**	**Gross**	**$74.74**	**Gross**	**$78.33**	**Gross**	**$80.68**	**Gross**	**$83.10**	**Gross**	**$85.59**	**Gross**	**$88.16**	**Gross**	**$90.81**	**Gross**	**$93.53**	**Gross**
REVENUE																				
Rooms	$2,625	83.8 %	$3,078	84.9 %	$3,410	85.3 %	$3,574	85.4 %	$3,681	85.4 %	$3,792	85.4 %	$3,905	85.4 %	$4,022	85.4 %	$4,143	85.4 %	$4,267	85.4 %
Food	254	8.1	277	7.6	301	7.5	314	7.5	323	7.5	333	7.5	343	7.5	353	7.5	364	7.5	375	7.5
Beverage	131	4.2	141	3.9	151	3.8	157	3.7	162	3.7	166	3.7	171	3.7	177	3.7	182	3.7	187	3.7
Other Operated Departments	41	1.3	43	1.2	45	1.1	47	1.1	48	1.1	50	1.1	51	1.1	53	1.1	55	1.1	56	1.1
Rentals & Other Income	82	2.6	86	2.4	91	2.3	94	2.2	97	2.2	100	2.2	103	2.2	106	2.2	109	2.2	112	2.2
Total	3,133	100.0	3,625	100.0	3,998	100.0	4,186	100.0	4,311	100.0	4,441	100.0	4,573	100.0	4,710	100.0	4,852	100.0	4,997	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	675	25.7	716	23.2	758	22.2	786	22.0	810	22.0	834	22.0	859	22.0	885	22.0	911	22.0	939	22.0
Food & Beverage	328	85.3	345	82.8	364	80.5	376	80.0	388	80.0	399	80.0	411	80.0	424	80.0	436	80.0	449	80.0
Other Operated Departments	42	103.4	44	101.9	46	100.4	47	100.0	48	100.0	50	100.0	51	100.0	53	100.0	55	100.0	56	100.0
Total	1,045	33.4	1,105	30.5	1,167	29.2	1,210	28.9	1,246	28.9	1,283	28.9	1,322	28.9	1,362	28.9	1,402	28.9	1,444	28.9
DEPARTMENTAL INCOME	2,088	66.6	2,520	69.5	2,831	70.8	2,976	71.1	3,065	71.1	3,158	71.1	3,252	71.1	3,349	71.1	3,450	71.1	3,553	71.1
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	233	7.4	246	6.8	258	6.5	267	6.4	275	6.4	283	6.4	291	6.4	300	6.4	309	6.4	318	6.4
Marketing	168	5.4	178	4.9	186	4.7	193	4.6	198	4.6	204	4.6	210	4.6	217	4.6	223	4.6	230	4.6
Franchise Fee	257	8.2	302	8.3	334	8.4	350	8.4	361	8.4	372	8.4	383	8.4	394	8.4	406	8.4	418	8.4
Prop. Operations & Maint.	168	5.4	178	4.9	186	4.7	193	4.6	198	4.6	204	4.6	210	4.6	217	4.6	223	4.6	230	4.6
Utilities	181	5.8	192	5.3	201	5.0	207	5.0	214	5.0	220	5.0	227	5.0	233	5.0	240	5.0	248	5.0
Total	1,008	32.2	1,095	30.2	1,165	29.3	1,210	29.0	1,246	29.0	1,283	29.0	1,322	29.0	1,361	29.0	1,402	29.0	1,444	29.0
HOUSE PROFIT	1,080	34.4	1,425	39.3	1,665	41.5	1,766	42.1	1,819	42.1	1,874	42.1	1,930	42.1	1,987	42.1	2,047	42.1	2,109	42.1
Management Fee	94	3.0	109	3.0	120	3.0	126	3.0	129	3.0	133	3.0	137	3.0	141	3.0	146	3.0	150	3.0
INCOME BEFORE FIXED CHARGES	986	31.4	1,316	36.3	1,545	38.5	1,641	39.1	1,690	39.1	1,741	39.1	1,792	39.1	1,846	39.1	1,902	39.1	1,959	39.1
FIXED EXPENSES																				
Property Taxes	142	4.5	145	4.0	149	3.7	154	3.7	159	3.7	163	3.7	168	3.7	173	3.7	178	3.7	184	3.7
Insurance	68	2.2	70	1.9	72	1.8	74	1.8	76	1.8	79	1.8	81	1.8	83	1.8	86	1.8	88	1.8
Reserve for Replacement	63	2.0	109	3.0	160	4.0	167	4.0	172	4.0	178	4.0	183	4.0	188	4.0	194	4.0	200	4.0
Total	272	8.7	324	8.9	381	9.5	395	9.5	407	9.5	420	9.5	432	9.5	445	9.5	458	9.5	472	9.5
NET INCOME	$714	22.7 %	$992	27.4 %	$1,164	29.0 %	$1,245	29.6 %	$1,282	29.6 %	$1,321	29.6 %	$1,360	29.6 %	$1,401	29.6 %	$1,443	29.6 %	$1,486	29.6 %

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

Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take four years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the proposed subject hotel's operating budget and comparable income and expense statements. The forecast is based upon fiscal years beginning April 1, 2016, expressed in inflated dollars for each year.

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 58% with an average rate of $135.05 in 2019/20. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

Food and Beverage Revenue

Food and beverage revenue is generated by a hotel's restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. With the exception of properties with active lounges or banquet facilities that draw local residents, in-house guests generally represent a substantial percentage of a hotel's food and beverage patrons. In the case of the Proposed Clear Creek County Select-Service Hotel, the food and beverage department will include a restaurant and lounge.

Although food and beverage revenue varies directly with changes in occupancy, the small portion generated by banquet sales and outside capture is relatively fixed. The comparable statements illustrated food and beverage revenue between 7.9 % and 15.6 % of rooms revenue, or $7.11 and $20.21 per occupied room.

The proposed subject hotel's food and beverage operation is expected to be an important component of the hotel. Therefore, based upon our review of comparable operating statements, we have positioned an appropriate revenue level given the hotel's planned facility and price point. We would expect future moderate growth to occur within this category after the hotel's opening. We project food and beverage revenue to be $11.35 and $5.86 per occupied room, respectively, in the first projection year, or respectively 9.7% and 5.0% of rooms revenue. These per-occupied-room amounts increase to $11.85 and $5.93 for respective food and beverage revenue categories by the stabilized year, or respectively 8.8% and 4.4% of rooms revenue. As a percentage of food revenue, beverage revenue is forecast at 51.6% in the first projection year, stabilizing at 50.0%.

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 food and beverage. The proposed subject hotel's other operated departments revenue sources are expected to include the hotel's telephone charges, market pantry sales, guest laundry fees, in-room movie and game charges, and meeting room rentals. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel.

The comparable operating statements illustrate other operated departments revenue ranging from 1.0% to 4.8% of rooms revenue and $1.03 to $5.48 per occupied room. We forecast the proposed subject hotel's other operated departments revenue to stabilize at 1.3% of rooms revenue or $1.78 per occupied room by the stabilized year, 2019/20.

Rentals & Other Income

The rentals and other income sources comprise those other than guestrooms, food and beverage, and the other operated departments. The proposed subject hotel's rentals and other income revenues are expected to be generated primarily by the hotel's cancelation charges, pet fees, and commissions, among other small items. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel. Rentals and other income revenue for the comparables ranged 0.0 % to 6.8 % of rooms revenue or $0.16 to $9.51 on a per-occupied-room basis. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. We forecast the proposed subject hotel's rentals and other income to stabilize at $3.56 per occupied room by the stabilized year, 2019/20.

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.

The comparables illustrated rooms expense ranging between 15.4% and 28.0% of rooms revenue; on a per-occupied-room basis, the range was between $17.57 and

$30.07. We have projected rooms expense for the proposed subject hotel at 25.7% in the first year (or $30.19 per occupied room), stabilizing at 22.0% in 2019/20 (or $29.71 per occupied room). The proposed subject hotel's rooms department expense has been positioned based upon our review of the comparable operating data and our understanding of the hotel's future service level and price point.

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.

The comparables illustrate food and beverage expense ranging between 64.5% and 138.7% of food and beverage revenue. We have projected a stabilized expense ratio of 80.0% in 2019/20. The proposed subject hotel's food and beverage operation is expected to be efficiently managed and operate at an expense level that is in line with other comparable operations.

Other Operated Departments Expense

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories. This was previously discussed in this chapter. The comparables illustrated other operated departments expense ranging between $0.00 and $3.33 per occupied room. We have projected a stabilized expense ratio of 100.0% in 2019/20. The proposed subject hotel's other operated departments revenue sources are expected to include the hotel's telephone charges, market pantry sales, guest laundry fees, in-room movie and game charges, and meeting room rentals. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject hotel.

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.

As a percentage of total revenue, the comparable operations indicate an administrative and general expense range from 5.7% to 11.5%, or $1,606 to $3,339 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the administrative and general expense level at a market- and property-supported level. In the first projection year, we have projected administrative and general expense for the proposed subject hotel to be $1,864 per available room, or 7.4% of total revenue. By the 2019/20 stabilized year, these amounts change to $2,134 per available room and 6.4% of total revenue.

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.

As a percentage of total revenue, the comparable operations indicate a marketing expense range from 3.1% to 6.0%, or $915 to $1,791 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject hotel, we have positioned the marketing expense level at a market- and property-supported level. In the first projection year, we have projected marketing expense for the proposed subject hotel to be $1,346 per available room, or 5.4% of total revenue. By the 2019/20 stabilized year, these amounts change to $1,541 per available room and 4.6% of total revenue.

Franchise Fee

As previously discussed, the subject is expected to be franchised under the Hilton Garden Inn 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, they have not eliminated or saved the expenditure; they have only deferred payment 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.

As a percentage of total revenue, the comparable operations indicate a property operations and maintenance expense range from 2.7% to 7.5%, or $670 to $2,236 per available room. We expect the proposed subject hotel's maintenance operation to be well managed, and expense levels should stabilize at a typical level for a property of this type. Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, we have projected property operations and maintenance expense for the proposed subject hotel to be $1,346 per available room, or 5.4% of total revenue. By the 2019/20 stabilized year, these amounts change to $1,541 per available room and 4.6% of total revenue.

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.

As a percentage of total revenue, the comparable operations indicate a utilities expense range from 3.9% to 6.0%, or $1,083 to $1,613 per available room. 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. In the first projection year, we have projected utilities expense for the proposed subject hotel to be $1,450 per available room, or 5.8% of total revenue. By the 2019/20 stabilized year, these amounts change to $1,660 per available room and 5.0% of total revenue.

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 8-8 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Number of Rooms	Total Assessment			
		Land	Improvements	Personal	Total
Georgetown Mountain Inn	33	$8,350	$273,770	$5,270	$287,390
Super 8 Georgetown	54	12,200	400,070	15,010	427,280
Hotel Chateau Chamonix	10	7,430	153,440	7,690	168,560
Argo Inn & Suites Idaho Springs	44	7,880	258,410	9,160	275,450
Assessments per Room					
Georgetown Mountain Inn		$253	$8,296	$160	$8,709
Super 8 Georgetown		226	7,409	278	7,913
Hotel Chateau Chamonix		743	15,344	769	16,856
Argo Inn & Suites Idaho Springs		179	5,873	208	6,260
Positioned Subject - Per Room	**125**	**$250**	**$15,000**	**$750**	**$16,000**
Positioned Subject - Total		**$31,250**	**$1,875,000**	**$93,750**	**$2,000,000**

Source: Clear Creek County Assessor

We have positioned the future assessment levels of the subject site and proposed improvements, as well as the planned personal property, based upon the illustrated comparable data. We have positioned these assessments closest to the Hotel Chateau Chamonix because it is the mostly recently constructed hotel in Georgetown; 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 69.40600%. The following table shows changes in the tax rate during the last several years.

FIGURE 8-9 COUNTY TAX RATES

Year	Personal Property Tax Rate	Real Property Tax Rate
2013	69.40600	69.40600

Source: Clear Creek 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 8-10 PROJECTED PROPERTY TAX EXPENSE

Year	Assessed Value			Total	Pers. Prop. Tax Rate	Property Tax Rate	Tax Forecast
	Land	Improvements	Personal				
Positioned	$31,250	$1,875,000	$93,750	$2,000,000	69.406	69.406	$138,812
2016/17	$31,250	$1,875,000	$93,750	$2,000,000	70.794	70.794	$141,588
2017/18	31,250	1,875,000	93,750	2,000,000	72.564	72.564	145,128
2018/19	31,250	1,875,000	93,750	2,000,000	74.741	74.741	149,482

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.

Based on comparable data and the structural attributes of the proposed project, we have forecast the proposed subject hotel's insurance expense at $593 per available room by the stabilized year (positioned at $500 on a per-available-room basis in base-year dollars). This forecast equates to 1.8% of total revenue on a stabilized basis. In subsequent years, this amount is assumed to increase in tandem with inflation.

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) undertook a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent findings

of the study were published in a report in 2007.[6] 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 on the results of this study, our review of the subject asset and comparable lodging facilities, and our industry expertise, we estimate that a reserve for replacement of 4% of total revenues is sufficient to provide for the timely and periodic replacement of the subject property's furniture, fixtures, and equipment. This amount is ramped up during the initial projection period.

Conclusion

In conclusion, our analysis reflects a profitable operation, with net income expected to total 29.6% of total revenue by the stabilized year. The stabilized total revenue comprises primarily rooms and food and beverage revenue, with a secondary portion derived from other income sources. On the cost side, departmental expenses total 28.9% of revenue by the stabilized year, while undistributed operating expenses total 29.0% of total revenues; this assumes that the property will be operated competently by a well-known hotel operator. After a 3.0% of total revenues management fee, and 9.5% of total revenues in fixed expenses, a net income ratio of 29.6% is forecast by the stabilized year.

[6] The International Society of Hotel Consultants, *CapEx 2007, A Study of Capital Expenditure in the U.S. Hotel Industry*.

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 to be marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would impact the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
5. We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
6. 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 to be true and correct. We can assume no liability resulting from misinformation.
9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate), 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 by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.

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 on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.

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, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.

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.

10. Certification

The undersigned hereby certify that, to the best of our knowledge and belief:

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Desiree M. Flanary, MAI personally inspected the property described in this report; Kasia M. Russell participated in the analysis and reviewed the findings, but did not personally inspect the property;
9. Desiree M. Flanary, MAI provided significant assistance to Kasia M. Russell, and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report;
10. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;

11. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and

12. as of the date of this report, Kasia M. Russell has completed the Standards and Ethics Education Requirement of the Appraisal Institute for Associate Members; and as of the date of this report, Kasia M. Russell has completed the requirements of the continuing education program of the Appraisal Institute.

DRAFT REPORT

Desiree M. Flanary, MAI
Vice President

DRAFT REPORT

Kasia M. Russell
Senior Vice President, Partner
TS Worldwide, LLC

11. SWOT Analysis

Strengths, Weaknesses, Opportunities, and Threats Analysis			
Strengths	**Site 1**	**Site 2**	**Site 3**
Address	**12 acre Georgetown**	**Shadow Ranch Georgetown**	**Downieville/Dumont Site**
Accessibility	Main Georgetown Exit	Access is from Georgetown exit and south exit, both sides of the road and north side of I-70, non-accessible or buildable	Dumont/Downieville Exit
Visibility	Visible from highway	Visible from highway	Visible from highway
Site Characteristics	Flat, lakefront	convert venues, 3-4 days concerts, Huge piece of land on both sides of highway, not all of it buildable. Flat in places, mountainous in others, with a creek running through it	Flat mostly, not near a town and/or restaurants, shops, things hotel guest prefer
Surrounding Characteristics	near downtown Georgetown	near Georgetown	Truck stop, close to highway (sound could be an issue)
Weaknesses			
Zoning	divided in multiple parcels and rezoned	well and septic on-site, town would be interested in annexing and bringing water and sewer.	no issue
Topography	soil is fairly benign, soil tested required	Not all of it buildable because of topography	primarily flat
Easements	city utilities	not aware of any, but land divided by Interstate 70	Colorado Mountain express picks up at star bucks, the guy closed the burger king and closed the one in evergreen, midway between DIA and ski resorts, popular stopping point
Size	plenty of space	too large for hotel development, developer would more than likely only want to purchase a portion of it	assemblage required
Location	flat, on lake, little canoeing, few small sail boats, ice fishing, ice driving, just about ready to put in trail systems around the lake - will be in a year	beautiful location, but challenges for construction depending on location	Colorado Mountain express picks up at Starbucks, popular stopping point for local drivers, vacant Burger King
Opportunities			
Major Demand Generators	Local events	Local events	limited because of location
	Georgetown	Georgetown	Interstate 70
	Loveland Ski Area	Loveland Ski Area	
	Interstate 70	Interstate 70	
Threats			
Obstacles to overcome?	Nothing significant	$4-million listed price, debt against it is $1.4-million, no water or flood issues, blue ribbon fishing at creek, visible from 70, just not readily accessible. Might work for a smaller, independent, boutique, maybe build some cabins on other side of road, small lodge, typical guestrooms and meeting space, with event venue. Not good spot for a typical branded property	prime for redevelopment port of entry at the location. Truck stop, really qualify as blighted area, goes down to closed burger king - to corner, from this quadrant to corner. It would take an investment to come her and purchase multiple properties with different owners and a hotel could be one of the uses, 8 acres, restaurant and shopping, not sure if there isn't too much else around her. this part is blighted, but the it is one of the busiest Conoco in the world and the Starbucks in owned by Vail, busiest per square foot anywhere.
Negative economic conditions?	n/a	n/a	n/a
Government regulation?	City of Georgetown	City of Georgetown	County?
Changing business climate?	positive	positive	positive
Vulnerabilities?	Nothing significant	atypical development, so a developer willing to take higher risk would be needed	assemblage required, surrounding area not conducive to upper or midscale hotel

Strengths, Weaknesses, Opportunities, and Threats Analysis			
Strengths	**Site 4**	**Site 5**	**Site 6**
Address	**Idaho Redevelopment**	**Idaho Springs Tunnel**	**Floyd Hill**
Accessibility	East Idaho Springs Exit	Idaho Springs Exit, but drive required, not right off highway. Power lines, storage, and gas canisters, all not great to see during drive	access would be from the Floyd hill exit, or the southern exit and go up Beaverton brook
Visibility	Visible from highway	Up on hill, hard to see if heading from the east to the west	Visible from highway
Site Characteristics	Existing Motel on site, would have to be demolished	power lines would be an issue, as well as topography	water would need to be purchased, the rights
Surrounding Characteristics	City of Idaho Springs	hills, residential, tunnel	East side of Clear Creek, not to far from Evergreen/Golden. Near new high school
Weaknesses			
Zoning	no issue	no issue	no issue
Topography	primarily flat	Not all of it buildable because of topography. Would required significant infrastructure to build at such a grade	some grade, but nothing significant
Easements	not aware of any	Not sure, but power lines could be an issue	nothing major
Size	assemblage might be required. None of sites are actively for sale	plenty of space, but not all buildable, so might not	plenty of space
Location	Idaho Springs	Idaho Springs	East side of Clear Creek, not to far from Evergreen/Golden. Close enough to Denver, would be considered a negative for trying to get skier demand
Opportunities			
Major Demand Generators	Local events	Local events	Interstate 70
	Idaho Springs	Idaho Springs	limited due to proximity to Denver/Golden
	Loveland Ski Area (less degree then Georgetown)	Loveland Ski Area (less degree then Georgetown)	
	Blackstone Ranch/Interstate 70	Blackstone Ranch/Interstate 70	
Threats			
Obstacles to overcome?	None of sites for sales, demolition of existing businesses (that are currently open), also assemblage might be required	topography	water rights
Negative economic conditions?	n/a	n/a	n/a
Government regulation?	Idaho Springs	Idaho Springs	County?
Changing business climate?	positive	positive	positive
Vulnerabilities?	purchasing of land and demolishing of existing building/s	topography, access	water rights, proximity to city

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

A market has three existing hotels with the following operating statistics:

BASE-YEAR OCCUPANCY AND PENETRATION LEVELS

Property	Number of Rooms	Fair Share	Commercial	Meeting and Group	Leisure	Occupancy	Penetration
Hotel A	100	23.5 %	60 %	20 %	20 %	75.0 %	100.8 %
Hotel B	125	29.4	70	10	20	65.0	87.4
Hotel C	200	47.1	30	60	10	80.0	107.5
Totals/Average	**425**	**100.0 %**	**47 %**	**38 %**	**15 %**	**74.4 %**	**100.0** %

Based upon each hotel's room count, market segmentation, and annual occupancy, the annual number of room nights accommodated in the market from each market segment can be quantified, as set forth below.

MARKET-WIDE ROOM NIGHT DEMAND

Market Segment	Annual Room Night Demand	Percentage of Total
Commercial	54,704	47.4 %
Meeting and Group	43,481	37.7
Leisure	17,246	14.9
Total	**115,431**	**100.0 %**

The following discussion will be based upon an analysis of the commercial market segment. The same methodology is applied for each market segment to derive an estimate of a hotel's overall occupancy. The table below sets forth the commercial demand accommodated by each hotel. Each hotel's commercial penetration factor is computed by:

1) calculating the hotel's market share % of commercial demand (commercial room nights accommodated by subject hotel divided by total commercial room nights accommodated by all hotels) and

2) dividing the hotel's commercial market share % by the hotel's fair share %.

The following table sets forth each hotel's fair share, commercial market share, and commercial penetration factor.

COMMERCIAL SEGMENT PENETRATION FACTORS

Property	Number of Rooms	Fair Share	Commercial Capture	Commercial Market Share	Commercial Penetration
Hotel A	100	23.5 %	16,425	30.0 %	127.6 %
Hotel B	125	29.4	20,759	37.9	129.0
Hotel C	200	47.1	17,520	32.0	68.1
Totals/Average	**425**	**100.0 %**	**54,704**	**100.0 %**	**100.0 %**

If a new 100-room hotel enters the market, the fair share of each hotel changes because of the new denominator, which has increased by the 100 rooms that have been added to the market.

COMMERCIAL SEGMENT FAIR SHARE

Property	Number of Rooms	Fair Share
Hotel A	100	19.0 %
Hotel B	125	23.8
Hotel C	200	38.1
New Hotel	100	19.0
Total	**525**	**100.0 %**

The new hotel's penetration factor is projected for its first year of operation. It is estimated that the hotel will capture (penetrate) only 85% of its fair share as it establishes itself in the market. The new hotel's market share and room night capture can be calculated based upon the hotel's estimated penetration factor. When the market share of the existing hotels and that of the new hotel are added up, they no longer equal 100% because of the new hotel's entry into the market. The market share of each hotel must be adjusted to reflect the change in the denominator that comprises the sum of each hotel's market share.

This adjustment can be mathematically calculated by dividing each hotel's market share percentages by the new denominator of 97.1%. The resulting calculations reflect each hotel's new adjusted market share. The sum of the adjusted market shares equals 100%, indicating that the adjustment has been successfully completed. Once the market shares have been calculated, the penetration factors can be recalculated (adjusted market share divided by fair share) to derive the adjusted penetration factors based upon the new hotel's entry into the market. Note that each existing hotel's penetration factor actually increases because the new hotel is capturing (penetrating) less than its fair share of demand.

COMMERCIAL SEGMENT PROJECTIONS (YEAR 1)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	127.6 %	24.3 %	25.0 %	131.4 %	13,688
Hotel B	125	23.8	129.0	30.7	31.6	132.8	17,299
Hotel C	200	38.1	68.1	25.9	26.7	70.1	14,600
New Hotel	100	19.0	85.0	16.2	16.7	87.5	9,117
Totals/Average	**525**	**100.0 %**		**97.1 %**	**100.0 %**		**54,704**

In its second year of operation, the new hotel is projected to penetrate above its fair share of demand. A penetration rate of 130% has been chosen, as the new hotel is expected to perform at a level commensurate with Hotel A and Hotel B in this market segment. The same calculations are performed to adjust market share and penetration factors. Note that now the penetration factors of the existing hotels decline below their original penetration rates because of the new hotel's above-market penetration. Also, note that after the market share adjustment, the new hotel retains a penetration rate commensurate with Hotel A and Hotel B, though the penetration rates of all three hotels have declined by approximately nine percentage points because of the reapportionment of demand.

Once the market shares of each hotel have been adjusted to reflect the entry of the new hotel into the market, the commercial room nights captured by each hotel may be projected by multiplying the hotel's market share percentage by the total commercial room-night demand. This calculation is shown below.

COMMERCIAL SEGMENT PROJECTIONS (YEAR 2)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	131.4 %	25.0 %	23.1 %	121.5 %	12,662
Hotel B	125	23.8	132.8	31.6	29.3	122.9	16,004
Hotel C	200	38.1	70.1	26.7	24.7	64.8	13,507
New Hotel	100	19.0	130.0	24.8	22.9	120.3	12,531
Totals/Average	**525**	**100.0 %**		**108.1 %**	**100.0 %**		**54,704**