



MARKET STUDY

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# Proposed Hotel- Palm Beach International Airport

1600 BELVEDERE ROAD  
WEST PALM BEACH, FLORIDA



**SUBMITTED TO:**

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**PREPARED BY:**

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May 4, 2015

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Re: Proposed Hotel  
West Palm Beach, Florida  
HVS Reference: 2015060056

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Jakarta  
London  
Milan  
New Delhi  
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Shenzhen  
Singapore

Dear Mr. Tompkins:

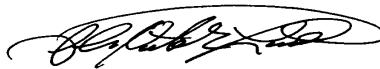
Pursuant to your request, we herewith submit our market study pertaining to the proposed hotel to be located within the grounds of Palm Beach International Airport. We have inspected the real estate and analyzed the hotel market conditions in the West Palm Beach, Florida area. We have studied the proposed project, and the results of our fieldwork and analysis are presented in this report.

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,



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# 1. Executive Summary

## Subject of the Market Study

The subject of the market study is a ±434,729-square-foot (±9.98-acre) parcel, a portion of which is to be improved with a hotel development. A hotel brand and room count has not been finalized as of the writing of this report. It is the intent of the airport to attract developers to lease and develop the “hotel pad’ within the ‘parent site’.

A list of available hotel brands has been included in this section of the report along with an appropriate room count.

The proposed hotel development will be located within Palm Beach International Airport grounds, proximate to the west of the intersection formed by Australian Avenue and Belvedere Road. The site is owned by Palm Beach County and measures ±10.0 acres, which is being offered for the lease and development of an on-airport hotel and other compatible commercial uses. The subject site’s location is 1600 Belvedere Road, West Palm Beach, Florida 33406.

## Pertinent Dates

The effective date of the report is May 4, 2015. The subject site was inspected by Shiv N. Ariyakula, CFA on April 17, 2015.

## Ownership Information

The client for this market study for the proposed subject hotel is CH2M Hill, Inc. The subject site is owned by Palm Beach County; thus, the parcel has not been sold or transferred over its history. The site is expected to be leased by Palm Beach County to the selected development company.

## Summary of Hotel Market Trends

Local employers and headquarter offices in the area, as well as tourism, represent the primary sources of demand for the selected set of competitive hotels in this West Palm Beach market. The trend data begins in year 2006, after which supply increases occurred in 2007 and 2008 due to the opening of the Hilton Garden Inn and the Hawthorn Suites by Wyndham. These additional rooms were not readily absorbed into the market upon their debut, resulting in a drop in occupancy rate from 71.5% from 2007 to 60.8% in 2009. Occupancy levels dropped to the lowest level in 2009 given the economic challenges and reduced level of discretionary spending caused by the Great Recession. However, demand began to strengthen in 2010 as the local and national economies began to recover; this positive trend, which was buoyed by a lack of new competitive supply, continued through the end of 2014. Occupancy rates increased from 64.6% in 2010 to 83.2% in 2014. Occupancy rates declined by 1.9% for the year-to-date period through March

2015, although this decrease was due to a strong increase in average rates as evidenced by the strong increase in RevPAR.

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 Available Room		Occupied Room		Average		RevPAR	Change		
	Room Count	Nights	Change	Nights	Change	Occupancy			Rate	
2006	801	292,365	—	200,027	—	68.4 %	\$121.01	—	\$82.79	—
2007	901	328,865	12.5 %	235,276	17.6 %	71.5	120.33	(0.6) %	86.09	4.0 %
2008	985	359,665	9.4	238,030	1.2	66.2	111.85	(7.1)	74.02	(14.0)
2009	1,013	369,745	2.8	224,803	(5.6)	60.8	95.04	(15.0)	57.78	(21.9)
2010	1,013	369,745	0.0	238,970	6.3	64.6	87.89	(7.5)	56.81	(1.7)
2011	1,013	369,745	0.0	241,871	1.2	65.4	87.30	(0.7)	57.11	0.5
2012	988	360,620	(2.5)	264,101	9.2	73.2	93.16	6.7	68.23	19.5
2013	988	360,620	0.0	290,463	10.0	80.5	98.63	5.9	79.44	16.4
2014	988	360,620	0.0	300,126	3.3	83.2	108.59	10.1	90.37	13.8
Average Annual Compounded										
Change: 2006-2014			2.7 %		5.2 %			(1.3) %		1.1 %
<b>Year-to-Date Through March</b>										
2014	988	88,920	—	81,939	—	92.1 %	\$147.83	—	\$136.22	—
2015	988	88,920	0.0 %	80,175	(2.2) %	90.2	169.78	14.8 %	153.08	12.4 %
<b>Hotels Included in Sample</b>				<b>Number</b>	<b>Year</b>	<b>Year</b>	<b>Competitive Status</b>			
				<b>of Rooms</b>	<b>Affiliated</b>	<b>Opened</b>				
Embassy Suites West Palm Beach Central				194	Jan 2012	Jun 1983	Secondary			
Doubletree Hotel West Palm Beach Airport				175	Mar 2008	Feb 1987	Secondary			
Holiday Inn Palm Beach Airport				199	Nov 2005	Mar 1987	Secondary			
Courtyard West Palm Beach Airport				103	Aug 2001	Aug 2001	Primary			
Hampton Inn West Palm Beach Central Airport				105	Dec 2004	Dec 2004	Primary			
Hilton Garden Inn West Palm Beach Airport				100	Jan 2007	Jan 2007	Primary			
Hawthorn Suites by Wyndham West Palm Beach				112	Apr 2008	Apr 2008	Secondary			
<b>Total</b>				<b>988</b>						

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 2012				Estimated 2013				Estimated 2014						
		Commercial	Meeting and Group	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Courtyard by Marriott West Palm Beach Airport	103	60 %	15 %	25 %	103	74 %	\$92.00	\$68.08	103	77 %	\$98.00	\$75.46	103	79 %	\$105.00	\$82.95	9.9 %	96.2 %	91.5 %
Hampton Inn West Palm Beach Central Airport	105	55	15	30	105	69	104.00	71.76	105	71	107.00	75.97	105	82	118.00	96.76	27.4	99.9	106.7
Hilton Garden Inn West Palm Beach Airport	100	55	15	30	100	68	114.00	77.52	100	77	111.00	85.47	100	82	120.00	98.40	15.1	99.9	108.6
<b>Sub-Totals/Averages</b>	<b>308</b>	<b>57 %</b>	<b>15 %</b>	<b>28 %</b>	<b>308</b>	<b>70.3 %</b>	<b>\$102.92</b>	<b>\$72.40</b>	<b>308</b>	<b>75.0 %</b>	<b>\$105.24</b>	<b>\$78.88</b>	<b>308</b>	<b>81.0 %</b>	<b>\$114.42</b>	<b>\$92.67</b>	<b>17.5 %</b>	<b>98.6 %</b>	<b>102.2 %</b>
Secondary Competitors	925	58 %	21 %	21 %	435	75.3 %	\$90.12	\$67.82	435	79.5 %	\$97.69	\$77.67	435	82.9 %	\$107.60	\$89.20	14.9 %	101.0 %	98.4 %
<b>Totals/Averages</b>	<b>1,233</b>	<b>57 %</b>	<b>19 %</b>	<b>24 %</b>	<b>743</b>	<b>73.2 %</b>	<b>\$95.22</b>	<b>\$69.72</b>	<b>743</b>	<b>77.6 %</b>	<b>\$100.71</b>	<b>\$78.17</b>	<b>743</b>	<b>82.1 %</b>	<b>\$110.39</b>	<b>\$90.64</b>	<b>16.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

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

Property	Number of Rooms	Est. Segmentation			Total Competitive Level	Estimated 2012				Estimated 2013				Estimated 2014			
		Commercial	Meeting and Group	Leisure		Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
DoubleTree by Hilton Hotel West Palm Beach Airport	175	55 %	15 %	30 %	50 %	88	79 %	\$82.00	\$64.78	88	82 %	\$91.00	\$74.62	88	79 %	\$100.00	\$79.00
Embassy Suites West Palm Beach Central	194	60	25	15	50	97	85	99.00	84.15	97	89	115.00	102.35	97	92	127.00	116.84
Hilton Palm Beach Airport	245	60	25	15	50	123	72	95.00	68.40	123	70	101.00	70.70	123	79	111.00	87.69
Holiday Inn Palm Beach Airport Conference Center	199	55	20	25	50	100	71	80.00	56.80	100	79	84.00	66.36	100	82	93.00	76.26
Hawthorn Suites by Wyndham	112	60	10	30	25	28	59	97.00	57.42	28	82	88.00	72.34	28	84	93.00	77.93
<b>Totals/Averages</b>	<b>925</b>	<b>58 %</b>	<b>21 %</b>	<b>21 %</b>	<b>47 %</b>	<b>435</b>	<b>75.3 %</b>	<b>\$90.12</b>	<b>\$67.82</b>	<b>435</b>	<b>79.5 %</b>	<b>\$97.69</b>	<b>\$77.67</b>	<b>435</b>	<b>82.9 %</b>	<b>\$107.60</b>	<b>\$89.20</b>

### Room Count Scenarios

We have arrived at an optimal room count of 150 for the subject hotel. Increasing the room count beyond 150 decreases the stabilized occupancy levels at a faster pace. However, a true measure of feasibility can be gauged from the returns achieved against the incremental increases in construction costs due to the additional rooms to be built. The occupancies achieved due to different room counts are shown in the table below:

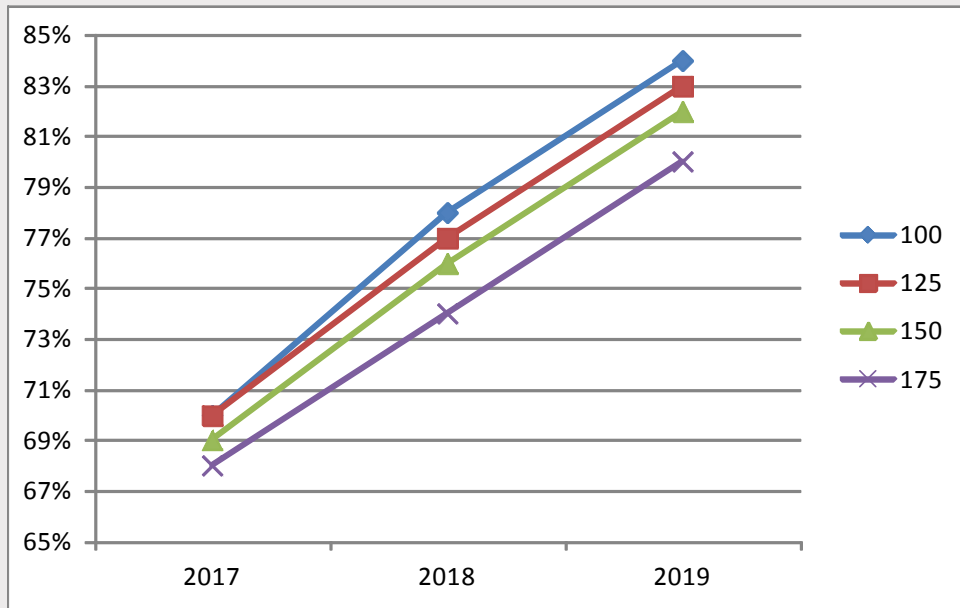
**FIGURE 1-4 OCCUPANCY SCENARIOS**

	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>100</b>	70%	78%	84%
<b>125</b>	70%	77%	83%
<b>150</b>	69%	76%	82%
<b>175</b>	68%	74%	80%

Some other observations in our room count conclusion are detailed below:

- The incremental increase in occupancy, due to a smaller room count, is not significant.
- The average room count of the five limited/select-service hotels in the competitive set is 124, whereas the average room count of the three full-service hotels (Embassy Suites, Hilton, and Doubletree) is 205. The overall average room count is 155.
- It is preferable for airport hotels to achieve high occupancy rates (generally in excess of 80%) as average rates can be quite low due to contract discounts for airline crews. Therefore, we suggest a room count of 150 for the proposed subject hotel.

**FIGURE 1-5 OCCUPANCY SCENARIOS**



Looking at the above graph, we have proposed a room count of 150, with a stabilized occupancy level of 82%.



**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 82% and a stabilized year average rate of \$143.00 (base-year rate position of \$110.00) 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 1-6 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST**

Year	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	82.1 %	—	\$110.39	—	—	\$110.00	99.6 %
2015	81.3	10.0 %	121.43	—	10.0 %	121.00	99.6
2016	82.2	5.0	127.50	—	5.0	127.05	99.6
2017	82.6	3.0	131.33	—	3.0	130.86	99.6
<b>2018</b>	<b>80.6</b>	<b>3.0</b>	<b>135.27</b>	<b>69.0 %</b>	<b>3.0</b>	<b>134.79</b>	<b>99.6</b>
2019	81.1	3.0	139.32	76.0	3.0	138.83	99.6
<b>2020</b>	<b>81.6</b>	<b>3.0</b>	<b>143.50</b>	<b>82.0</b>	<b>3.0</b>	<b>143.00</b>	<b>99.6</b>

The following table summarizes the proposed subject hotel’s forecast.

**FIGURE 1-7 FORECAST OF OCCUPANCY, AVERAGE RATE AND REVPAR**

Year	Occupancy	Average Rate	RevPAR
2018	69 %	\$134.79	\$93.00
2019	76	138.83	105.51
<b>2020</b>	<b>82</b>	<b>143.00</b>	<b>117.26</b>

Note: The opening year is 2018 and the stabilized year is 2020.

## Scope of Work

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

1. All information was collected and analyzed by the staff of HVS Consulting & Valuation. Information was supplied by the client.
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 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.
4. 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.
5. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. We have inspected the competitive lodging facilities summarized in this report.
6. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.

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

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

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

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

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

## 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 'parent' site is located slightly west of the intersection formed by Belvedere Road and Australian Avenue. This site is in the city of West Palm Beach, Florida.

### Physical Characteristics

The subject site measures approximately ±9.98 acres, or ±434,729 square feet. The parcel's adjacent boundaries and uses are set forth in the following table.

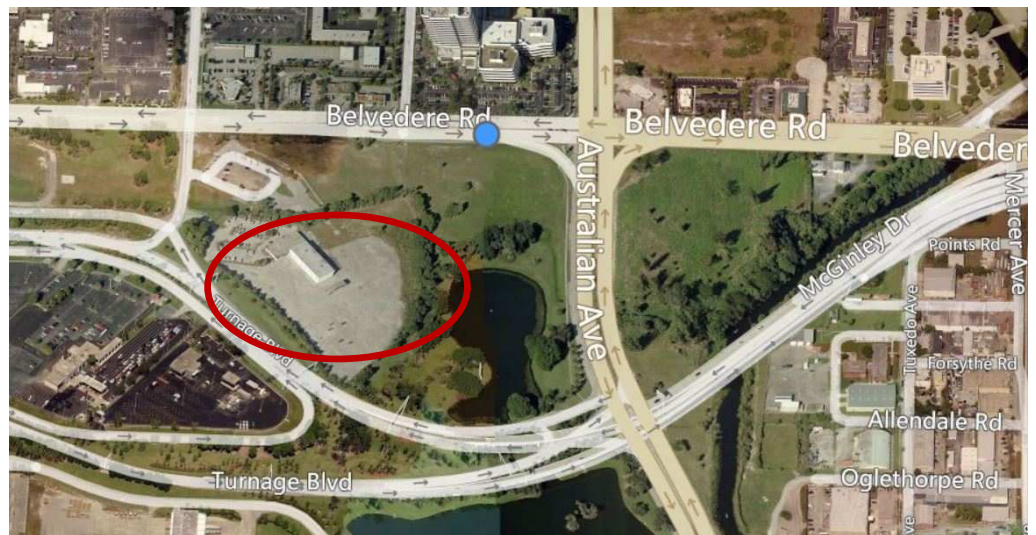
**FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES**

<u>Direction</u>	<u>Boundary</u>	<u>Adjacent Use</u>
North	Belvedere Road	BP Gas Station
South	James Turnage Blvd	Parking Lot
East	Australian Avenue	Land
West	Perimeter Road	Parking Lot

**VIEW OF SUBJECT SITE**



**BIRDS EYE VIEW- BING MAPS**





**AERIAL PHOTOGRAPH- PALM BEACH COUNTY PROPERTY APPRAISER**



**SUBJECT SITE**

**PALM BEACH COUNTY**  
**ENGINEERING AND PUBLIC WORKS**  
**ROADWAY PRODUCTION**  
 300 NORTH OCEAN ROAD  
 WEST PALM BEACH, FL 33411

PROJECT: **P.B.L. LEASE PARCEL N-II PBC BOUNDARY SURVEY**  
 S-5-14-3382DN S-3-14-338

SHEET: **2**  
 OF: **2**  
 PROJECT NO: **201405-10**

**VIEW FROM SITE TO THE NORTH**



**VIEW FROM SITE TO THE SOUTH**



**VIEW FROM SITE TO THE EAST**



**VIEW FROM SITE TO THE WEST**



Primary vehicular access to the proposed subject hotel will be provided by Belvedere Road. The topography of the parcel is generally flat, and the site's shape is slightly irregular.

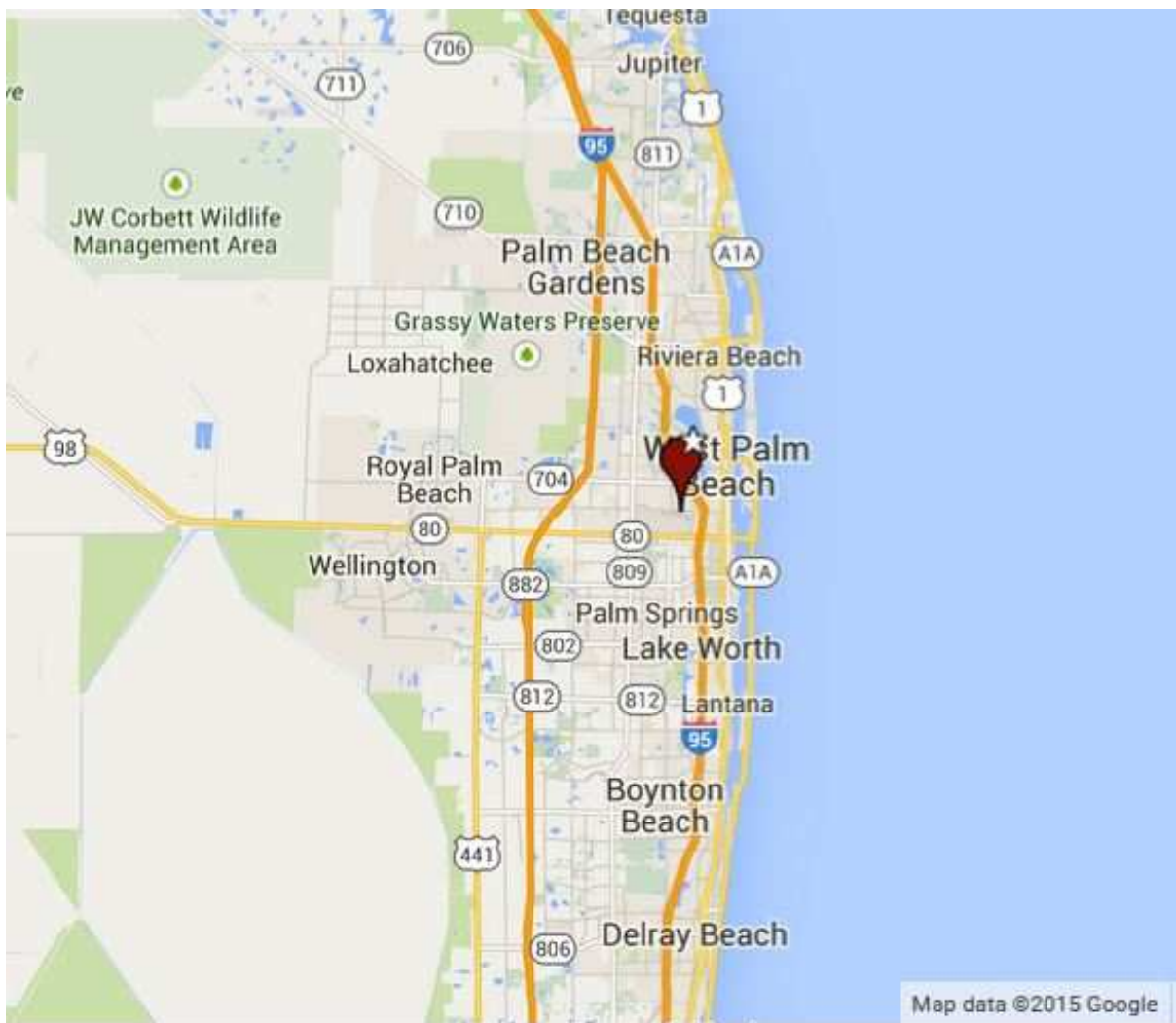
**Site Utility**

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 north/south Interstate 95, which extends to the city of Melbourne to the north and has its southern terminus just south of Miami. East/west State Highway 70 provides access to such cities as Okeechobee and Bradenton to the west, terminating in Fort Pierce to the east.



Florida's Turnpike is a toll road that traverses the state from northwest Orlando to Miami Gardens. The subject market is served by a variety of additional local highways, which are illustrated on the map.

The subject site is located slightly west of the intersection formed by Australian Avenue and Belvedere Road. The site borders Belvedere Road to its north. Overall, the subject site benefits from excellent accessibility, and the proposed hotel is expected to enjoy very good visibility attributes.

#### **Airport Access**

The proposed subject hotel will be served by the Palm Beach International Airport, which is located adjacent to the south of the subject site.

#### **Neighborhood**

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

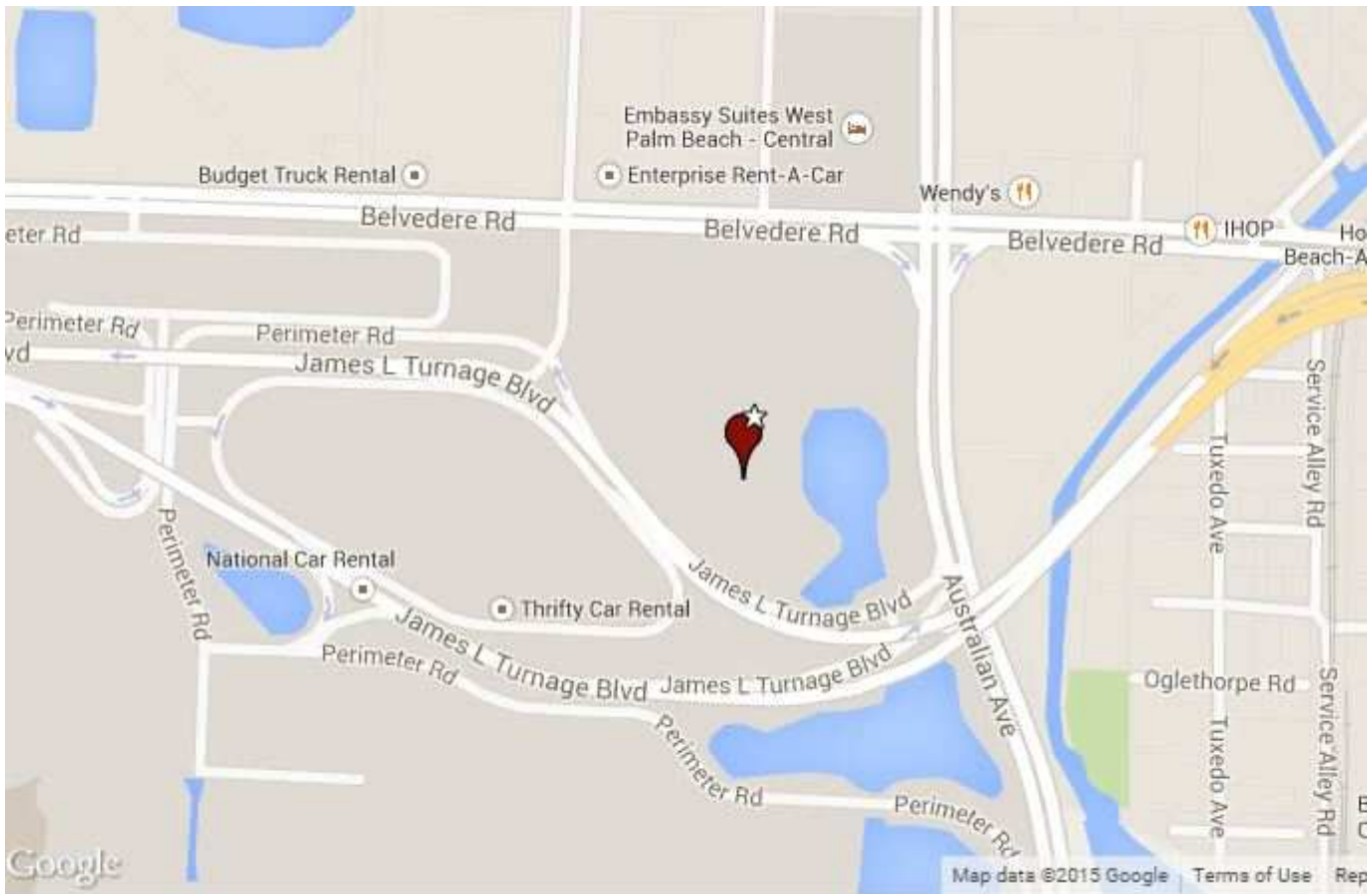
The neighborhood surrounding the subject site is generally defined by Belvedere Road to the north, Australian Avenue to the east, Palm Beach International Airport to the south, and North Congress Avenue to the west. This neighborhood is in the stable stage of its life cycle, with pockets of moderate growth occurring in the retail sector. Within the immediate proximity of the site, land use is primarily commercial in nature. The neighborhood is characterized by fast food restaurants, hotels, nationally recognized stores, and retail shopping centers.

Some specific businesses and entities in the greater area include Starbucks, Dunkin Donuts, Seven- Eleven, Embassy Suites, Hampton Inn, Hilton Garden Inn, Doubletree, Holiday Inn, Hilton, Wendy's, Subway, Burger King, KFC, Taco Bell, I Hop, Publix, Target, Wal-Mart, CVS Pharmacy and Cleveland Clinic. In general, we would characterize the neighborhood as 50% retail/restaurant use, 30% hotel use, and 20% other. The proposed subject hotel's opening should be a positive influence on the area; the hotel will be in character with and will complement surrounding land uses.

It is important to note that the subject site is also proximate to downtown West Palm Beach and City Place (an upscale lifestyle center in downtown). Downtown West Palm Beach is located  $\pm 2.0$  miles northeast of the subject site.



## 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.

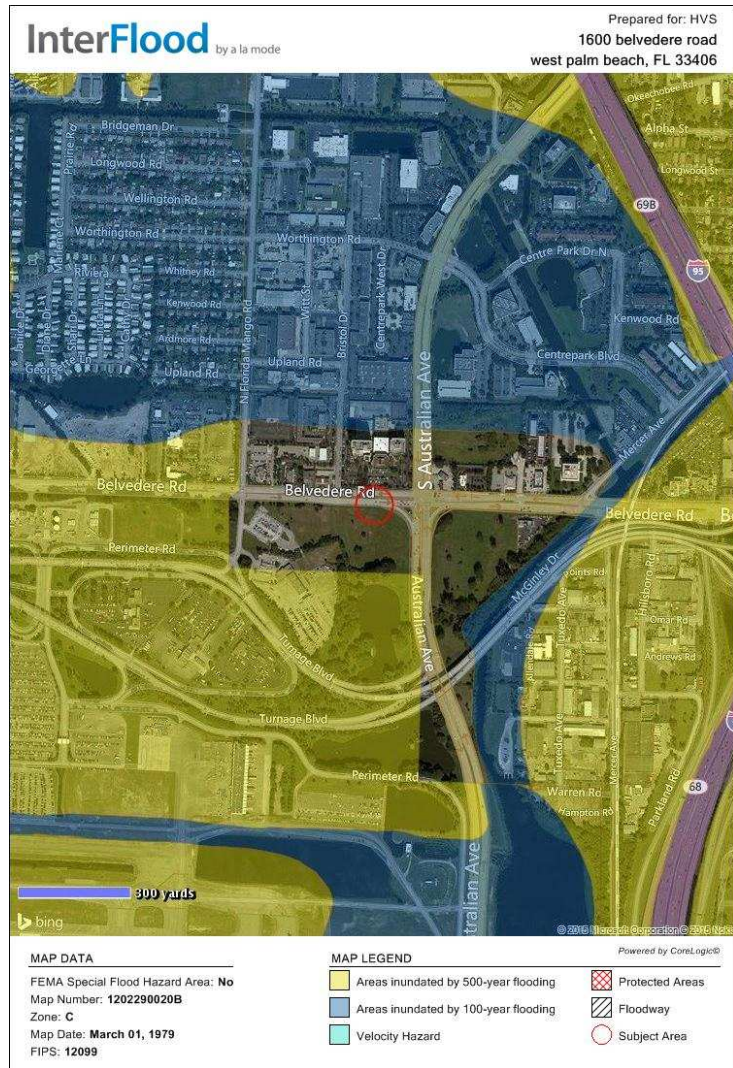
### Nuisances and Hazards

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 C .

**COPY OF FLOOD MAP AND COVER**



The flood zone definition for the C–designation is as follows: areas of minimal flooding.

**Zoning**

According to the Palm Beach County, the subject property is zoned as follows: AZO- Airport Zoning Overlay.

This zoning designation allows for commercial uses, including hotels. We assume that all necessary permits and approvals will be secured 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 located favorably within the grounds of Palm Beach International Airport. The subject site is also favorably located close to Interstate 95, Downtown West Palm Beach and City Place- West Palm Beach. 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 West Palm Beach, the county of Palm Beach, and the state of Florida. The West Palm Beach area is part of the greater Miami-Fort Lauderdale-Miami Beach economic base, which is the most populous MSA in the state of Florida and in the Southeastern U.S. region. Palm Beach County is the largest county southeast of the Mississippi River by land area and the third most populous county in the state of Florida. West Palm Beach sits along the Atlantic Ocean, roughly 60 miles north of Miami and 150 miles southeast of Orlando. The area has a rich history dating back to Ponce de León's expedition in 1513 in his quest for the Fountain of Youth; the Spanish influence is still prominent today, and the area contains several historic districts.

## WEST PALM BEACH

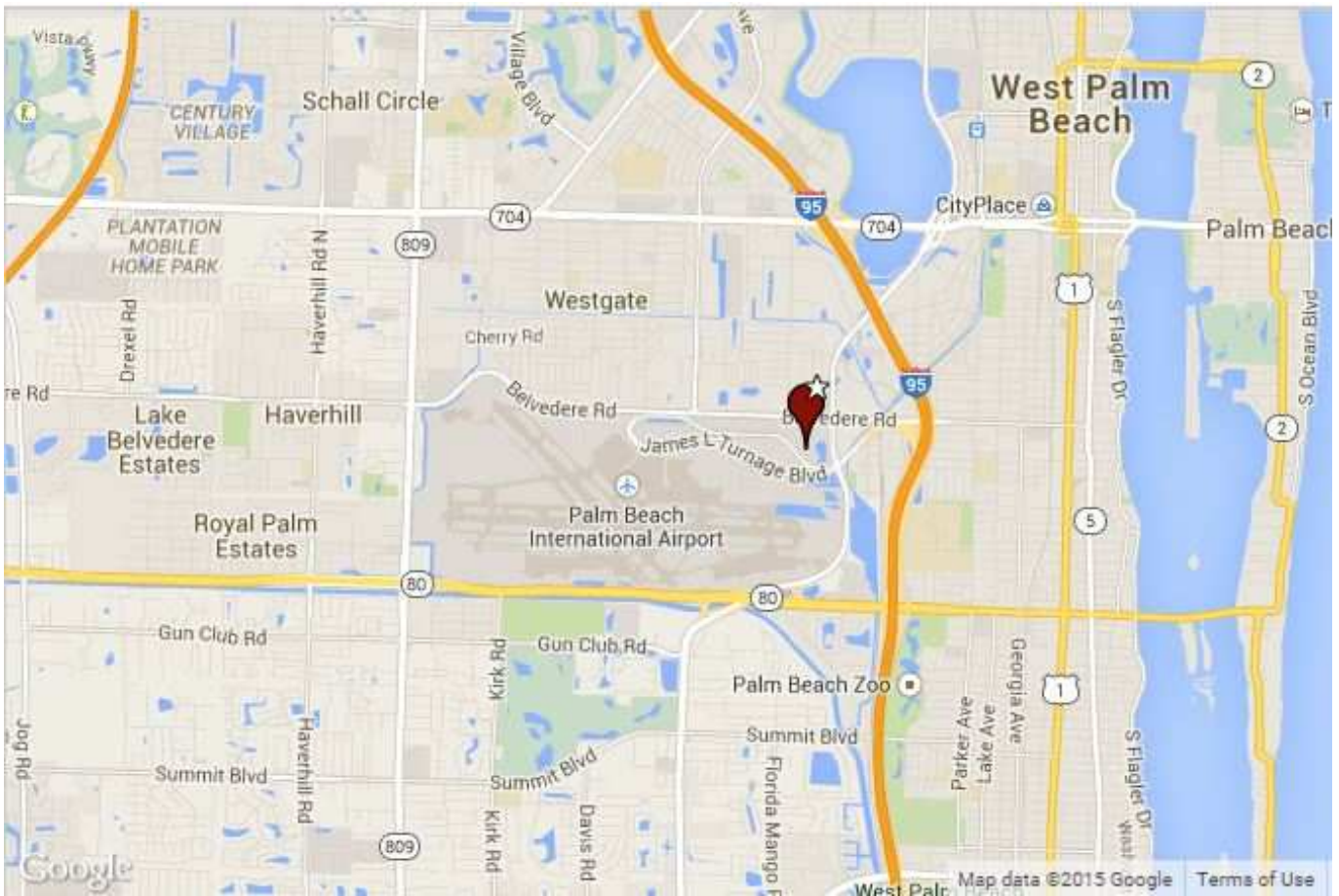
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The subject property's market area can be defined by its Metropolitan Statistical Area (MSA): Miami-Fort Lauderdale-Pompano Beach, FL MSA. The MSA is the most standard definition used in comparative studies of metropolitan areas. The federal government defines an MSA as a large population nucleus, which, together with adjacent counties, has a higher degree of social integration. 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	2014	2020	Average Annual Compounded Change		
					2000-10	2010-14	2014-20
<b>Resident Population (Thousands)</b>							
Palm Beach County	1,135.8	1,322.9	1,420.5	1,594.7	1.5 %	1.8 %	1.9 %
Miami-Fort Lauderdale-Pompano Beach, FL MSA	5,025.9	5,578.1	5,908.4	6,399.4	1.0	1.4	1.3
State of Florida	16,047.5	18,838.6	19,970.7	21,845.1	1.6	1.5	1.5
United States	282,162.4	309,330.2	320,976.9	340,554.3	0.9	0.9	1.0
<b>Per-Capita Personal Income*</b>							
Palm Beach County	\$48,674	\$47,284	\$46,273	\$49,734	(0.3)	(0.5)	1.2
Miami-Fort Lauderdale-Pompano Beach, FL MSA	35,386	37,600	38,023	41,183	0.6	0.3	1.3
State of Florida	32,375	34,397	34,631	37,391	0.6	0.2	1.3
United States	33,756	35,951	37,209	40,245	0.6	0.9	1.3
<b>W&amp;P Wealth Index</b>							
Palm Beach County	147.6	140.7	134.2	133.3	(0.5)	(1.2)	(0.1)
Miami-Fort Lauderdale-Pompano Beach, FL MSA	107.7	108.3	105.6	105.7	0.1	(0.6)	0.0
State of Florida	99.3	100.1	97.5	97.4	0.1	(0.7)	(0.0)
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
<b>Food and Beverage Sales (Millions)*</b>							
Palm Beach County	\$1,660	\$2,079	\$2,439	\$2,863	2.3	4.1	2.7
Miami-Fort Lauderdale-Pompano Beach, FL MSA	6,829	8,575	9,863	11,130	2.3	3.6	2.0
State of Florida	20,531	26,612	30,677	35,026	2.6	3.6	2.2
United States	341,369	408,974	461,843	512,773	1.8	3.1	1.8
<b>Total Retail Sales (Millions)*</b>							
Palm Beach County	\$18,383	\$18,785	\$22,000	\$26,030	0.2	4.0	2.8
Miami-Fort Lauderdale-Pompano Beach, FL MSA	74,121	81,842	94,589	108,074	1.0	3.7	2.2
State of Florida	223,582	252,984	292,460	336,689	1.2	3.7	2.4
United States	3,612,260	3,796,423	4,298,146	4,803,190	0.5	3.2	1.9

\* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The U.S. population has grown at an average annual compounded rate of 0.9% from 2010 through 2014. The county's population has grown at a quicker pace than the nation's population; the average annual growth rate of 1.8% between 2010 and 2014 reflects a gradually expanding area. Following this population trend, per-capita personal income decreased slowly, at -0.5% on average annually for the county between 2010 and 2014. Local wealth indexes have remained stable in recent years, registering a relatively high 134.2 level for the county in 2014.

Food and beverage sales totaled \$2,439 million in the county in 2014, versus \$2,079 million in 2010. This reflects a 4.1% average annual change, which is stronger than the 2.3% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 2.7%, which is forecast through 2020. The retail sales sector demonstrated an annual increase of 0.2% registered in the decade 2000 to 2010, followed by an increase of 4.0% in the period 2010 to 2014. An increase of 2.8% 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 2014, as well as a forecast for 2020.



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

Industry	2000	Percent of Total	2010	Percent of Total	2014	Percent of Total	2020	Percent of Total	Average Annual Compounded Change		
									2000-2010	2010-2014	2014-2020
Farm	7.6	1.2 %	4.4	0.6 %	4.6	0.6 %	5.0	0.6 %	(5.3) %	1.1 %	1.3 %
Forestry, Fishing, Related Activities And Other	6.1	1.0	4.6	0.6	5.0	0.6	5.3	0.6	(2.7)	2.0	1.0
Mining	0.9	0.1	2.0	0.3	2.1	0.3	2.2	0.2	8.2	2.0	0.9
Utilities	3.2	0.5	1.5	0.2	1.3	0.2	1.3	0.1	(7.6)	(3.0)	(0.2)
Construction	40.8	6.4	34.7	4.7	34.2	4.4	37.5	4.2	(1.6)	(0.3)	1.6
Manufacturing	27.8	4.3	17.6	2.4	17.9	2.3	17.7	2.0	(4.5)	0.4	(0.1)
Total Trade	96.8	15.1	102.0	14.0	110.7	14.1	128.2	14.3	0.5	2.1	2.5
Wholesale Trade	20.1	3.1	24.2	3.3	25.2	3.2	29.1	3.3	1.9	1.1	2.4
Retail Trade	76.7	11.9	77.8	10.7	85.5	10.9	99.1	11.1	0.1	2.4	2.5
Transportation And Warehousing	10.1	1.6	11.9	1.6	11.5	1.5	12.7	1.4	1.7	(0.9)	1.6
Information	14.2	2.2	11.6	1.6	11.9	1.5	13.2	1.5	(2.0)	0.7	1.7
Finance And Insurance	36.3	5.7	57.5	7.9	65.5	8.3	76.8	8.6	4.7	3.3	2.7
Real Estate And Rental And Lease	29.7	4.6	48.7	6.7	51.1	6.5	58.2	6.5	5.1	1.2	2.2
Total Services	307.8	48.0	366.4	50.2	403.5	51.4	463.8	51.9	1.8	2.4	2.3
Professional And Technical Services	44.6	7.0	56.5	7.7	60.2	7.7	68.0	7.6	2.4	1.6	2.0
Management Of Companies And Enterprises	7.8	1.2	10.5	1.4	13.2	1.7	15.0	1.7	3.0	5.9	2.1
Administrative And Waste Services	73.7	11.5	61.4	8.4	72.7	9.3	82.3	9.2	(1.8)	4.3	2.1
Educational Services	7.2	1.1	13.4	1.8	14.3	1.8	16.8	1.9	6.4	1.7	2.7
Health Care And Social Assistance	64.1	10.0	87.1	11.9	94.1	12.0	110.1	12.3	3.1	2.0	2.6
Arts, Entertainment, And Recreation	18.6	2.9	23.4	3.2	25.3	3.2	28.5	3.2	2.3	1.9	2.0
Accommodation And Food Services	44.8	7.0	56.3	7.7	61.7	7.9	70.6	7.9	2.3	2.3	2.3
Other Services, Except Public Administration	47.1	7.3	57.7	7.9	62.0	7.9	72.6	8.1	2.1	1.8	2.7
Total Government	60.2	9.4	67.4	9.2	66.1	8.4	72.4	8.1	1.1	(0.5)	1.5
Federal Civilian Government	5.8	0.9	6.9	0.9	7.5	1.0	8.5	0.9	1.7	2.1	2.1
Federal Military	2.5	0.4	2.7	0.4	2.7	0.3	2.7	0.3	0.9	(0.1)	0.1
State And Local Government	51.9	8.1	57.8	7.9	55.9	7.1	61.2	6.8	1.1	(0.8)	1.5
<b>TOTAL</b>	<b>641.5</b>	<b>100.0 %</b>	<b>730.3</b>	<b>100.0 %</b>	<b>785.4</b>	<b>100.0 %</b>	<b>894.4</b>	<b>100.0 %</b>	<b>1.3 %</b>	<b>1.8 %</b>	<b>2.2 %</b>
MSA	2,746.2	—	3,126.9	—	3,421.3	—	3,800.8	—	1.3 %	2.3 %	1.8 %
U.S.	165,370.9	—	173,767.3	—	181,869.5	—	197,077.4	—	0.7	1.1	1.3

Source: Woods &amp; 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 1.3%. This trend was on par with the growth rate recorded by the MSA and also outpaced the national average. More recently, the pace of total employment growth in the county accelerated to 1.8% on an annual average from 2010 to 2014, reflecting the initial years of the recovery.

Of the primary employment sectors, Total Services recorded the highest increase in number of employees during the period from 2010 to 2014, increasing by 37,128 people, or 10.1%, and rising from 50.2% to 51.4% of total employment. Of the various service sub-sectors, Health Care And Social Assistance and Administrative And Waste Services were the largest employers. Strong growth was also recorded in the Total Trade sector, as well as the Finance And Insurance sector, which expanded by 8.5% and 1.5%, respectively, in the period 2010 to 2014. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 2.2% on average annually through 2020. The trend is above the forecast rate of change for the U.S. as a whole during the same period.

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

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

Year	Total		Office		Industrial		Households	% Chg	Population	% Chg	Household	
	Employment	% Chg	Employment	% Chg	Employment	% Chg					Avg. Income	% Chg
2002	517,230	—	164,545	—	54,915	—	503,220	—	1,204,500	—	\$107,044	—
2003	518,930	0.3 %	165,298	0.5 %	52,831	(3.8) %	515,080	2.4 %	1,234,700	2.5 %	110,278	3.0 %
2004	539,700	4.0	174,317	5.5	52,922	0.2	528,010	2.5	1,267,730	2.7	120,093	8.9
2005	559,530	3.7	180,172	3.4	54,373	2.7	533,600	1.1	1,283,300	1.2	128,236	6.8
2006	569,270	1.7	182,146	1.1	54,590	0.4	533,350	(0.0)	1,284,910	0.1	138,705	8.2
2007	561,470	(1.4)	180,895	(0.7)	53,967	(1.1)	534,590	0.2	1,290,110	0.4	143,208	3.2
2008	533,670	(5.0)	172,729	(4.5)	51,846	(3.9)	538,010	0.6	1,300,540	0.8	133,610	(6.7)
2009	504,200	(5.5)	163,068	(5.6)	48,128	(7.2)	542,870	0.9	1,315,790	1.2	119,747	(10.4)
2010	505,870	0.3	164,739	1.0	47,474	(1.4)	547,450	0.8	1,330,300	1.1	126,605	5.7
2011	516,430	2.1	169,140	2.7	47,630	0.3	548,490	0.2	1,345,700	1.2	134,961	6.6
2012	529,130	2.5	173,015	2.3	49,037	3.0	550,170	0.3	1,365,190	1.4	143,629	6.4
2013	546,500	3.3	180,057	4.1	49,545	1.0	552,910	0.5	1,381,100	1.2	141,788	(1.3)
2014	562,400	2.9	181,659	0.9	50,030	1.0	556,740	0.7	1,406,150	1.8	149,554	5.5
<b>Forecasts</b>												
2015	581,150	3.3 %	187,277	3.1 %	50,850	1.6 %	569,810	2.3 %	1,439,260	2.4 %	\$157,283	5.2 %
2016	602,920	3.7	194,271	3.7	51,589	1.5	585,190	2.7	1,477,460	2.7	165,847	5.4
2017	616,430	2.2	199,595	2.7	51,985	0.8	601,520	2.8	1,518,990	2.8	174,089	5.0
2018	627,090	1.7	203,763	2.1	52,171	0.4	615,970	2.4	1,561,700	2.8	180,728	3.8
2019	637,040	1.6	207,195	1.7	52,264	0.2	629,680	2.2	1,605,370	2.8	186,633	3.3
<b>Average Annual Compound Change</b>												
2002 - 2014		0.7 %		0.8 %		(0.8) %		0.8 %		1.3 %		2.8 %
2002 - 2007		1.7		1.9		(0.3)		1.2		1.4		6.0
2007 - 2010		(3.4)		(3.1)		(4.2)		0.8		1.0		(4.0)
2010 - 2014		2.7		2.5		1.3		0.4		1.4		4.3
Forecast 2014 - 2019		2.5 %		2.7 %		0.9 %		2.5 %		2.7 %		4.5 %

Source: REIS Report, 4th Quarter, 2014

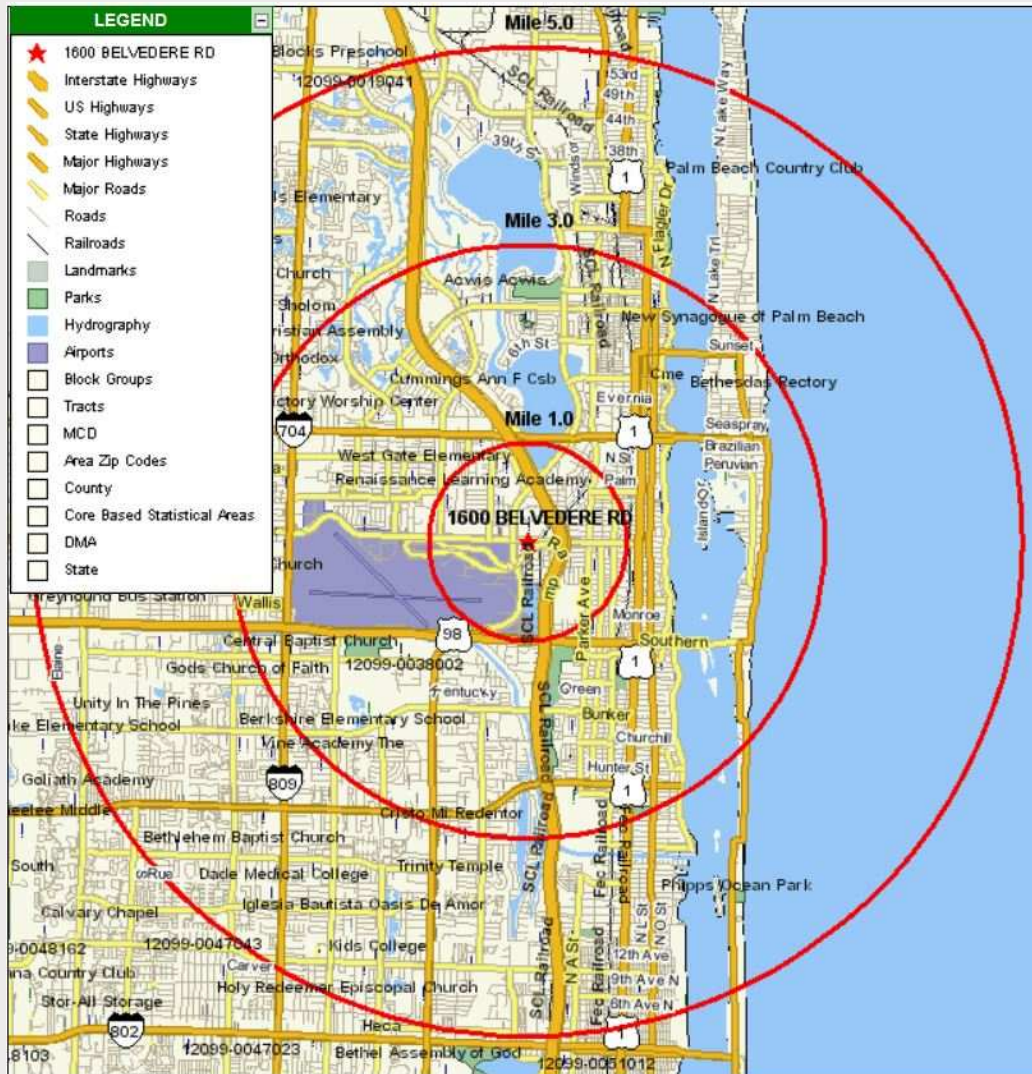
For the Palm Beach market, of the roughly 600,000 persons employed, 32% work in offices and are categorized as office employees, while 9% are categorized as industrial employees. Total employment decreased by an average annual compound rate of -3.4% during the recession of 2008 to 2011, followed by an improvement of 2.7% from 2011 to 2014. By comparison, office employment reflected compound change rates of -3.1% and 2.5%, during same respective periods. Total employment is expected to expand by 3.3% in 2015, while office employment is forecast to expand by 3.1% in 2015. Forecasts for the period 2014 through 2019 anticipate total employment will improve at an average annual compound rate of 2.5%, and office employment is forecast to improve by 2.7% on average annually during the same time frame.

The number of households are forecast to improve by 2.5% on average annually between 2014 and 2019. Population is forecast to expand during this same time frame, at an average annual compounded rate of 2.7%. Household average income is forecast to grow by 4.5% on average annually between 2014 through 2019.

#### **Radial Demographic Snapshot**

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

FIGURE 3-4 DEMOGRAPHICS BY RADIUS



**FIGURE 3-5 DEMOGRAPHICS BY RADIUS**

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
<b>Population</b>			
2020 Projection	8,416	92,036	263,927
2015 Estimate	7,985	87,605	250,517
2010 Census	7,568	83,773	238,687
2000 Census	6,867	77,746	212,079
Growth 2015-2020	5.4%	5.1%	5.4%
Growth 2010-2015	5.5%	4.6%	5.0%
Growth 2000-2010	10.2%	7.8%	12.6%
<b>Households</b>			
2020 Projection	2,909	36,637	105,293
2015 Estimate	2,742	34,623	99,727
2010 Census	2,571	32,728	94,772
2000 Census	2,483	31,346	88,668
Growth 2015-2020	6.1%	5.8%	5.6%
Growth 2010-2015	6.7%	5.8%	5.2%
Growth 2000-2010	3.6%	4.4%	6.9%
<b>Income</b>			
2015 Est. Average Household Income	\$50,762	\$62,440	\$57,557
2015 Est. Median Household Income	34,876	40,354	39,718
<b>2015 Est. Civ. Employed Pop 16+ by Occupation</b>			
Architect/Engineer	29	344	939
Arts/Entertainment/Sports	83	1,193	2,412
Building Grounds Maintenance	536	3,417	10,570
Business/Financial Operations	117	1,832	4,073
Community/Social Services	13	395	1,732
Computer/Mathematical	101	626	1,462
Construction/Extraction	397	2,806	8,218
Education/Training/Library	117	1,549	4,540
Farming/Fishing/Forestry	33	273	1,109
Food Prep/Serving	394	3,226	9,341
Health Practitioner/Technician	55	1,409	4,378
Healthcare Support	81	1,616	4,387
Maintenance Repair	76	1,171	3,970
Legal	73	750	1,675
Life/Physical/Social Science	8	82	344
Management	182	2,817	7,813
Office/Admin. Support	305	4,487	14,156
Production	162	1,306	4,155
Protective Services	80	804	2,870
Sales/Related	509	5,367	13,609
Personal Care/Service	128	1,675	4,383
Transportation/Moving	209	2,277	6,804

Source: The Nielsen Company

**Unemployment  
Statistics**

This source reports a population of 250,517 within a five-mile radius of the subject site, and 99,727 households within this same radius. Average household income within a five-mile radius of the subject site is currently reported at \$57,557, while the median is \$39,718.

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

**FIGURE 3-6 UNEMPLOYMENT STATISTICS**

Year	County	MSA	State	U.S.
2004	5.3 %	4.5 %	4.6 %	5.5 %
2005	4.3	3.6	3.7	5.1
2006	3.7	3.1	3.2	4.6
2007	4.4	3.6	4.0	4.6
2008	6.8	5.5	6.3	5.8
2009	10.7	10.0	10.4	9.3
2010	11.4(M)	10.6(M)	11.1	9.6
2011	10.4(M)	9.5(M)	10.0	8.9
2012	8.8(M)	8.1(M)	8.5	8.1
2013	7.5(M)	7.1(M)	7.3	7.4
<i>Recent Month - January</i>				
2014	6.7 %	6.5 %	6.6 %	6.6 %
2015	5.2	5.5	5.8	5.7

\* 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 5.5% in the period spanning from 2004 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 257,000 and 295,000 in the most recent months of January and February, respectively, with gains relatively widespread and particularly strong in the food services and drinking places, professional and business services, construction, health care, and transportation and warehousing categories. The unemployment rate was 5.5% in February of 2015, slightly lower than the 5.7% rate in January. The positive gains in employment reflect steady progress by the U.S. economy.

Locally, the unemployment rate was 7.5(M)% in 2013; for this same area in 2015, the most recent month's unemployment rate was registered at 5.2%, versus 6.7% for the same month in 2014. After showing year-over-year improvement, unemployment began to rise in 2007 as the region entered an economic slowdown, and this trend continued through 2010 to double-digits as the height of the national recession took hold. However, unemployment declined in 2011 as the economy rebounded, a trend that continued through 2014. The most recent comparative period illustrates improvement, indicated by the lower unemployment rate in the latest available data for 2015. Local economic development officials noted that area employment has remained strong within the healthcare, retail, agricultural, aviation and aeronautical manufacturing, and logistics and distribution fields, including healthy employment levels at major employers such as Florida Crystals, Pratt & Whitney, Office Depot, and Sikorsky Aircraft.

**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 3-7 MAJOR EMPLOYERS**

Rank	Firm	Number of Employees
1	Palm Beach County School Board	20,810
2	Palm Beach County Government	11,000
3	Tenet Healthcare Corp.	6,100
4	NextEra Energy (Florida Power & Light)	3,804
5	G4S (Wackenhut Corp.)	3,000
6	Florida Atlantic University	2,980
7	Hospital Corporation of America (HCA)	2,714
8	Veterans Health Administration	2,700
9	Bethesda Memorial Hospital	2,643
10	Boca Raton Regional Hospital	2,250

Source: Palm Beach County Comprehensive Annual Financial Report, 2013

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

- The economy of West Palm Beach is heavily rooted in agriculture, aviation and aeronautical manufacturing, logistics and distribution, and tourism. Western Palm Beach is the nation's leading sugar and sweet corn producer. The county produces roughly 18% of the nation's sugar, and its total agriculture production accounts for approximately \$3 billion of the county's GDP. Manufacturing is also a major economic anchor, particularly in the aviation



and aeronautical fields, with the presence of major companies such as Lockheed Martin, BE Aerospace, Sikorsky Aircraft, and Pratt & Whitney. According to economic development officials, the industry includes over 600 companies and employs over 20,000 people locally. In 2014, Pratt & Whitney opened its 90,000-square-foot West Palm Beach Engine Center, totaling a \$64-million investment and creating 230 new jobs. An additional 110 jobs will be added at the facility by the end of 2016. Logistics and distribution also plays a major role in the local economy with the presence of Office Depot, Publix, Sysco, TBC Corporation, Walgreens Distribution, and Cheney Brothers. Aldi, a no-frills grocery chain, broke ground on its \$50-million Royal Palm Distribution Center in 2013. The center will serve Aldi's major push for retail expansion (roughly 70 stores) planned throughout Florida and is slated to open mid-year 2015. Tourism is also a vital component of the West Palm Beach market, with over five million visitors annually. In addition to 47 miles of Atlantic coast beaches, the county boasts 160 public and private golf courses, which is more than any other county in the U.S. Health care is another notable employment sector, encompassing five of the top ten major employers for 2014; the area hosts 13 hospitals.

- Palm Beach County has become a desirable location for businesses given its accessibility to local highways and interstates, its international airport, and a highly educated workforce. National and international companies maintaining headquarters or major office complexes in the county include Dycom Industries, PGA of America, CEMEX USA, Sikorsky Aircraft, Scripps Research Institute, and ION Media Networks.
- The tourism industry is important within this region. The area offers miles of white sand beaches along the Atlantic coast, making this an ideal destination for boaters and individuals seeking water-related recreational activities. Hotel and resort properties of all asset classes also serve as primary destinations for visitors. According to information released by Discover the Palm Beaches, the official destination marketing organization for Palm Beach County, visitation reached all-time highs in 2014 with over six million visitors. Furthermore, the local tourism industry reportedly generates nearly \$7 billion in local economic impact annually, supporting approximately 60,000 jobs.
- High-end retail and major mixed-use developments also anchor for the local economy, drawing off the strength of the region's tourism industry and a population containing a high proportion of retirees and second-home owners. Alton by Kolter Homes is a growing mixed-use development in Palm Beach Gardens; upon completion, the community is expected to include 2,000 single and multi-family residential units, 700 apartment units, 300 hotel rooms, 500,000 square feet of retail space, and 136 acres of lakes, parks, nature preserves. The community is also expected to serve as the future home of The

Scripps Research Institute, which will occupy 3.8 million square feet of biotechnology and office space.

Spanning approximately 50 miles from north to south, Palm Beach County can be split into four distinct submarkets: northern/Palm Beach Gardens, central/Downtown West Palm Beach, southern Palm Beach County, and the eastern coastline. Growth reportedly remains strong across all four submarkets, with the number of employers and corporate headquarters in Palm Beach County continuing to increase. Supplemented by the strength of the region's tourism industry, the market is expected to remain strong through the near term.

### Office Space Statistics

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

**FIGURE 3-8 OFFICE SPACE STATISTICS – MARKET OVERVIEW**

Submarket	Inventory		Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
	Buildings	Square Feet			
1 Boca Raton West	82	6,679,000	5,710,500	14.5 %	\$29.91
2 Delray Beach	29	1,704,000	1,201,300	29.5	20.52
3 Boynton Bch	45	1,509,000	1,178,500	21.9	21.19
4 W Palm Bch-Dwntwn	47	4,079,000	3,561,000	12.7	37.33
<b>5 W Palm Bch-W of 95</b>	<b>38</b>	<b>1,402,000</b>	<b>1,239,400</b>	<b>11.6</b>	<b>26.36</b>
6 North Palm Beach	51	1,967,000	1,628,700	17.2	22.57
7 Jupiter/Juno	61	3,136,000	2,480,600	20.9	28.15
8 Boca Raton East	58	3,178,000	2,663,200	16.2	29.49
<b>Totals and Averages</b>	<b>411</b>	<b>23,654,000</b>	<b>19,663,200</b>	<b>16.9 %</b>	<b>\$28.85</b>

Source: REIS Report, 4th Quarter, 2014

The greater Palm Beach market comprises a total of 23.7 million square feet of office space. For the 4th Quarter of 2014, the market reported a vacancy rate of 16.9% and an average asking rent of \$28.85. The subject property is located in the W Palm Bch-W of 95 submarket, which houses 1,402,000 square feet of office space. The submarket's vacancy rate of 11.6% is below the overall market average. The average asking lease rate of \$26.36 is below the average for the broader market. The following table illustrates a trend of office space statistics for the overall Palm Beach market and the W Palm Bch-W of 95 submarket.

**FIGURE 3-9 HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET VS. SUBMARKET**

Year	Palm Beach Market							W Palm Bch-W of 95 Submarket						
	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2002	22,345,000	—	19,220,000	—	14.0 %	\$22.47	—	1,126,000	—	938,000	—	16.7 %	\$20.47	—
2003	22,510,000	0.7 %	19,225,000	0.0 %	14.6	23.00	2.4 %	1,126,000	0.0 %	980,000	4.5 %	13.0	20.76	1.4 %
2004	22,609,000	0.4	19,763,000	2.8	12.6	23.58	2.5	1,166,000	3.6	1,055,000	7.7	9.5	21.62	4.1
2005	22,237,000	(1.6)	20,159,000	2.0	9.3	24.57	4.2	1,189,000	2.0	1,076,000	2.0	9.5	22.42	3.7
2006	22,041,000	(0.9)	19,824,000	(1.7)	10.1	27.07	10.2	1,189,000	0.0	1,059,000	(1.6)	10.9	24.71	10.2
2007	22,074,000	0.1	19,558,000	(1.3)	11.4	28.77	6.3	1,330,000	11.9	1,189,000	12.3	10.6	25.59	3.6
2008	23,552,000	6.7	19,939,000	1.9	15.3	29.49	2.5	1,470,000	10.5	1,191,000	0.2	19.0	25.91	1.3
2009	23,501,000	(0.2)	18,996,000	(4.7)	19.2	29.04	(1.5)	1,428,000	(2.9)	1,171,000	(1.7)	18.0	25.80	(0.4)
2010	23,447,000	(0.2)	18,504,000	(2.6)	21.1	28.32	(2.5)	1,402,000	(1.8)	1,140,000	(2.6)	18.7	26.15	1.4
2011	23,561,000	0.5	18,511,000	0.0	21.4	28.18	(0.5)	1,402,000	0.0	1,157,000	1.5	17.5	26.29	0.5
2012	23,599,000	0.2	18,922,000	2.2	19.8	28.31	0.5	1,402,000	0.0	1,151,000	(0.5)	17.9	26.32	0.1
2013	23,599,000	0.0	19,137,000	1.1	18.9	28.41	0.4	1,402,000	0.0	1,176,000	2.2	16.1	26.29	(0.1)
2014	23,654,000	0.2	19,664,000	2.8	16.9	28.85	1.5	1,402,000	0.0	1,223,000	4.0	12.8	26.50	0.8
<b>Forecasts</b>														
2015	23,697,000	0.2 %	19,900,000	1.2 %	16.0 %	29.42	2.0 %	1,402,000	0.0 %	1,221,000	(0.2) %	12.9 %	\$26.48	(0.1) %
2016	23,977,000	1.2	20,227,000	1.6	15.6	30.26	2.9	1,402,000	0.0	1,214,000	(0.6)	13.4	26.47	(0.0)
2017	24,340,000	1.5	20,698,000	2.3	15.0	31.49	4.1	1,402,000	0.0	1,239,000	2.1	11.6	26.36	(0.4)
2018	24,682,000	1.4	21,124,000	2.1	14.4	32.88	4.4	1,402,000	0.0	1,239,000	0.0	11.6	26.36	0.0
2019	25,060,000	1.5	21,579,000	2.2	13.9	34.69	5.5	1,402,000	0.0	1,248,000	0.7	11.0	26.62	1.0
<b>Average Annual Compound Change</b>														
2002 - 2014		0.5 %		0.2 %			2.1 %		1.8 %		2.2 %			2.2 %
2002 - 2007		(0.2)		0.3			5.1		3.4		4.9			4.6
2007 - 2010		2.0		(1.8)			(0.5)		1.8		(1.4)			0.7
2010 - 2014		0.2		1.5			0.5		(0.0)		1.8			0.3
Forecast 2014 - 2019		1.2 %		1.9 %			3.8 %		0.0 %		0.4 %			0.1 %

Source: REIS Report, 4th Quarter, 2014

The inventory of office space in the Palm Beach market increased at an average annual compound rate of 0.5% from 2002 through 2014, while occupied office space expanded at an average annual rate of 0.2% over the same period. During the period of 2002 through 2008, occupied office space expanded at an average annual compound rate of 0.3%. From 2008 through 2011, occupied office space contracted at an average annual compound rate of -1.8%, reflecting the impact of the recession. The onset of the recovery is evident in the 1.5% average annual change in occupied office space from 2011 to 2014. From 2014 through 2019, the inventory of occupied office space is forecast to increase at an average annual compound rate of 1.9%, with available office space expected to increase 1.2%, thus resulting in an anticipated vacancy rate of 13.9% as of 2019. According to REIS, the greater Palm Beach market offers over 23 million square feet of Class A and B office space, with the majority of that space located in the Boca Raton West submarket. The subject site is located in the West Palm Beach- West of Interstate 95 office submarket that has realized an increase in demand thus far this year, with the vacancy rate remaining the lowest of all submarkets.

### Convention Activity

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

The Palm Beach County Convention Center is an \$84-million facility and encompasses 350,000 square feet. This center offers the most comprehensive technology available within an intricately designed building. The convention center features 100,000 square feet of exhibit hall space, a 22,000-square-foot ballroom, and 21,000 square feet of flexible meeting space, divisible into 19 breakout rooms. Located at the corner of Okeechobee Boulevard and Florida Avenue, the 19-acre site is situated opposite the Raymond F. Kravis Center for the Performing Arts and CityPlace, a \$600-million mixed-use complex with world-class restaurants, shopping and entertainment venues, and residential space in the heart of Downtown West Palm Beach. Convention center officials revealed that meeting planners have historically overlooked the facility due to the lack of adjacent hotel rooms; however, in 2010, city officials selected The Related Companies, developer of CityPlace, to develop a convention center hotel adjacent to the facility in order to attract more national events. After years of planning, construction on the new, 400-room Hilton West Palm Beach began in December of 2013; the hotel was originally slated to open in the fall of 2015, but the opening has since been delayed to the first quarter of 2016. Over the next decade, the

project is expected to add approximately 1,500 construction- and hospitality-related jobs and generate \$1 billion in economic activity.

### CONVENTION CENTER



### 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.

#### **Primary Airport:**

Palm Beach International Airport (PBI) is the gateway to Palm Beach County and is located just two and one-half miles west of West Palm Beach, Florida. The 560,000-square-foot terminal includes a concession mall that extends the length of the building and features a putting green, spa, and kids' play area. In 2010, the terminal underwent a \$7.5-million renovation, including new flooring throughout the structure and a complete overhaul of the restaurants and stores. Since 2013, several airlines have added additional routes to PBI, including Allegiant Air, Bahamasair, and American Airlines, which began nonstop service to Los Angeles and New York in August of 2013. In October of 2014, Frontier Airlines began service out of PBI with the addition of three new low-fare routes to Denver,

Trenton, and Washington, D.C. However, Frontier Airlines is operating only between the months of November to April.

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

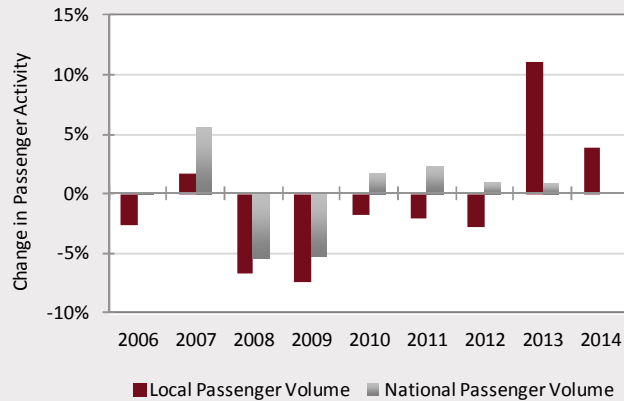
**FIGURE 3-10 AIRPORT STATISTICS - PALM BEACH INTERNATIONAL AIRPORT**

<b>Year</b>	<b>Passenger Traffic</b>	<b>Percent Change*</b>	<b>Percent Change**</b>
2005	7,014,237	—	—
2006	6,824,789	(2.7) %	(2.7) %
2007	6,936,449	1.6	(0.6)
2008	6,476,303	(6.6)	(2.6)
2009	5,994,606	(7.4)	(3.9)
2010	5,887,723	(1.8)	(3.4)
2011	5,769,583	(2.0)	(3.2)
2012	5,609,168	(2.8)	(3.1)
2013	6,229,860	11.1	(1.5)
2014	6,471,814	3.9	(0.9)
<i>Year-to-date, February</i>			
2014	1,091,835	—	—
2015	1,159,210	6.2 %	—

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

Source: Palm Beach International Airport

**FIGURE 3-11 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND**



Source: HVS, Local Airport Authority

This facility recorded 6,471,814 passengers in 2014. The change in passenger traffic between 2013 and 2014 was 3.9%. The average annual change during the period shown was -0.9%.

**Secondary Airport:**

Fort Lauderdale-Hollywood International Airport (FLL) consists of four passenger terminals with over 70 gates, restaurants, gift shops, and business centers. FLL is serviced by many major airlines that provide nonstop service to cities across the U.S. and internationally to Canada, the Bahamas, the Caribbean, Mexico, Latin America, and South America. In 2010, over \$52 million in improvements were completed at the airport, including an expansion of the baggage system, ramp rehabilitation, gate security enhancements, and climate-control-system upgrades. An elevated taxiway and bridge was also part of the redesign. The airport closed its north runway from May to July 2011 in order to complete critical construction projects and install safety enhancement features. In January of 2012, construction began on a \$791-million runway extension and an associated taxiway and bridge, which were completed in September of 2014. Furthermore, FLL's international terminal is currently being rebuilt at a cost of \$450 million. When the new terminal opens in 2017, it will foster international travel growth at the airport, helping to alleviate the high volumes of international traffic at the nearby Miami International Airport.



The following table illustrates recent operating statistics for the Fort Lauderdale Hollywood International Airport, which is the secondary airport facility serving the proposed subject property’s submarket.

**FIGURE 3-12 AIRPORT STATISTICS – FORT LAUDERDALE HOLLYWOOD INTERNATIONAL AIRPORT**

Year	Passenger Traffic	Percent Change*	Percent Change**
2005	22,390,285	—	—
2006	21,369,787	(4.6) %	(4.6) %
2007	22,681,903	6.1	0.6
2008	22,621,500	(0.3)	0.3
2009	21,060,131	(6.9)	(1.5)
2010	22,412,627	6.4	0.0
2011	23,349,835	4.2	0.7
2012	23,569,103	0.9	0.7
2013	23,559,779	(0.0)	0.6
2014	24,648,306	4.6	1.1
<i>Year-to-date, January</i>			
2014	2,002,905	—	—
2015	2,157,913	7.7 %	—

\*Annual average compounded percentage change from the previous

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

Source: Fort Lauderdale Hollywood International Airport

Fort Lauderdale Hollywood International Airport Air traffic registered 24,648,306 passengers in 2014. The change in passenger traffic between 2013 and 2014 was 4.6%.

**Tertiary Airport:**

Miami International Airport (MIA) sits on 3,230 acres in Miami-Dade County. MIA is the premier gateway between the U.S. and Latin America, making it the second largest U.S. airport in terms of international passenger traffic. Additionally, along with Atlanta's Hartsfield Jackson Airport, Miami is one of the largest aerial gateways, owing to its proximity to tourist attractions, local economic growth, large local Latin American and European populations, and strategic location to handle connecting traffic between North America, Latin America, and Europe. Numerous commercial airlines serve more than 700,000 domestic and



international passengers per week. The airport's recent capital improvement plan, which was completed in 2014, included a renovation and expansion of the North and South Terminals, as well as facility wide infrastructure improvements. The North Terminal's new three level international arrival facility opened on July 31, 2012, with a new 72-lane federal inspection area capable of serving 2,000 passengers per hour. In addition, the renovation included the construction of the new Miami Intermodal Center/Car Rental Center, which opened in 2010; the facility contains all rental car services in one central location and provides improved access to local transportation options. The MIA Mover, which opened in September of 2011, provides rail service from the car-rental facility to the terminal. The airport reportedly generates a \$33-billion economic impact annually.

The following table illustrates recent operating statistics for the Miami International Airport, which is the third airport facility serving the proposed subject property's submarket.

**FIGURE 3-13 AIRPORT STATISTICS – MIAMI INTERNATIONAL AIRPORT**

Year	Passenger Traffic	Percent Change*	Percent Change**
2005	31,008,453	—	—
2006	32,533,974	4.9 %	4.9 %
2007	33,740,416	3.7	4.3
2008	34,063,531	1.0	3.2
2009	33,886,025	(0.5)	2.2
2010	35,698,025	5.3	2.9
2011	38,314,389	7.3	3.6
2012	39,467,444	3.0	3.5
2013	40,562,948	2.8	3.4
2014	40,941,879	0.9	3.1
<i>Year-to-date, March</i>			
2014	10,493,226	—	—
2015	10,978,401	4.6 %	—

\*Annual average compounded percentage change from the previous year

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

Source: Miami International Airport

Miami International Airport Air traffic registered 40,941,879 passengers in 2014. The change in passenger traffic between 2013 and 2014 was 0.9%.

### **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 December to April. 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. While area beaches remain the primary driver of leisure demand for Palm Beach County, other attractions in the area include the following:

- The Palm Beach Zoo & Conservation Society, formerly known as the Palm Beach Zoo at Dreher Park, is a 23-acre site that houses over 700 animals from all over the world. Exhibits include an Asian rainforest, a jaguar habitat, and an Australian region, complete with wallabies, kangaroos, and kookaburras. The zoo also hosts a number of special events throughout the year and offers a children's zoo camp each summer season.
- Reminiscent of an Italian town center, CityPlace features premier shopping, dining, and entertainment in Downtown West Palm Beach. In addition to retail anchors such as Macy's, Tommy Bahama, and Kenneth Cole, CityPlace features over 60 specialty shops, 25 restaurants, and an IMAX theater.
- The International Polo Club Palm Beach in Wellington features nine polo fields, tennis courts, a tournament-approved croquet lawn, and a clubhouse. The Polo Club regularly hosts polo games and cups throughout the year, including the U.S. Open Polo Championship, the USPA Gold Cup, and the C.V. Whitney Cup.
- PGA National Golf Club features four 18-hole championship golf courses; a fifth affiliated course is located approximately five miles west of the main club. The club, which is home to the Honda Cup, also features an onsite resort and spa, which was fully renovated in 2012.

## CITY PLACE

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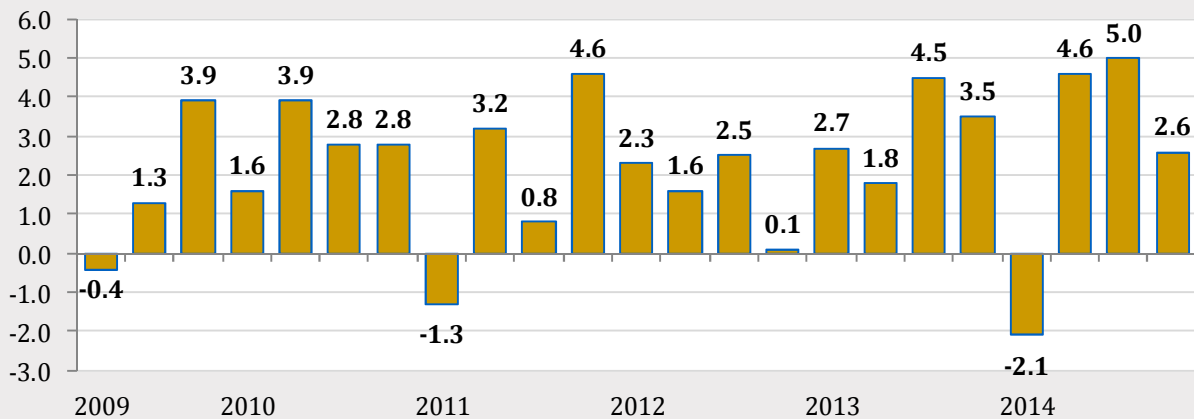


### Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. West Palm Beach is experiencing a period of economic strength and expansion, primarily led by the agricultural, aviation and aeronautical manufacturing, logistics and distribution, tourism, and retail industries or sectors. Our market interviews and research revealed that the area continues to benefit from corporate expansions and relocations to the area, as well as new construction across various sectors, including retail, commercial, and hospitality. According to economic development officials, significant development is occurring across Palm Beach County with roughly \$1.7 billion in projects that are in the permitting, planning, or construction stages as of the date of this report. A major positive influence on the region in 2014 was the completion of Phase I of the Palm Beach Outlets, which is the largest-scale redevelopment project since the Great Recession. In addition to the 100 stores opened in February 2014, the Palm Beach Outlets will total 850,000 square feet of retail space upon completion of Phase 2. The lifestyle complex will employ 1,500 people and have a \$319-million economic impact on Palm Beach County. Given the breadth of the economic anchors for the market and the significant level of construction activity in the region, 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 has entered a new phase of sustained economic expansion. The economy has grown at positive, albeit fluctuating, rates for the past three years, with the exception of the first quarter of 2014, largely attributed to the severe winter weather that hampered normal business activity throughout much of the country. A rebound in the second and third quarters registered robust 4.6% and 5.0% growth rates, respectively. Growth in the fourth quarter of 2014, which moderated to 2.6%, was driven by advances in personal consumption expenditures (PCE), private inventory investment, exports, nonresidential fixed investment, state and local government spending, and residential fixed investment.

**FIGURE 3-14 UNITED STATES GDP GROWTH RATE**



Source: tradingeconomics.com, Bureau of Economic Analysis

The performance of the economic drivers of lodging demand was positive in the fourth quarter of 2014, with real personal consumption expenditures increasing 4.3%, durable goods increasing 7.4%, and services increasing 3.7%. The Conference Board Global Economic Outlook expects U.S. GDP growth to moderate to an annual rate of 2.6% in 2015 due to headwinds generated by the strong U.S. dollar and global economic weakness, while the Economist Intelligence Unit projects a stronger growth rate of 3.4%, driven by lower energy prices and strong employment gains. U.S. economic growth is anticipated to support continued expansion of lodging demand, which in turn is generating strong interest in hotel investments by a diverse array of market participants.

## 4. Supply and Demand Analysis

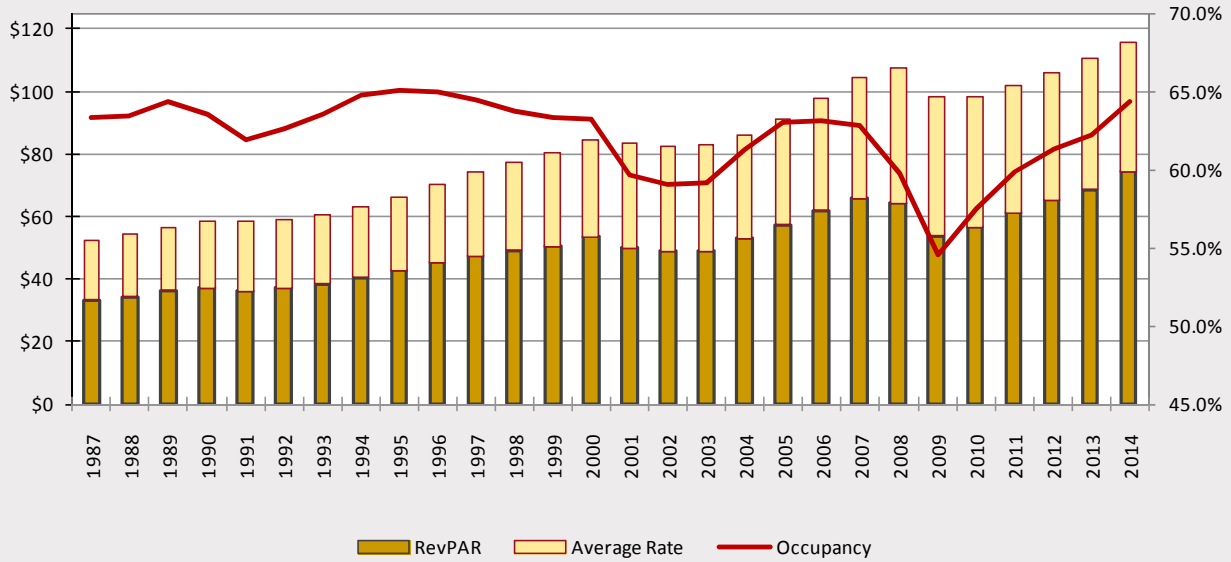
In the lodging industry, price varies directly, but not proportionately, with demand and inversely, but not proportionately, with supply. Supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied; the net effect of supply and demand toward equilibrium results in a prevailing price, or average 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.

### 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 4-1 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS**



Source: STR



**FIGURE 4-2 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – YEAR-TO-DATE DATA**

	Occupancy - Thru March			Average Rate - Thru March			RevPAR - Thru March		
	2014	2015	% Change	2014	2015	% Change	2014	2015	% Change
United States	59.3 %	61.1 %	3.1 %	\$111.83	\$117.05	4.7 %	\$66.27	\$71.53	7.9 %
<b>Region</b>									
New England	51.0 %	53.5 %	4.9 %	\$118.05	\$123.63	4.7 %	\$60.23	\$66.17	9.9 %
Middle Atlantic	56.3	56.9	1.1	141.09	139.68	(1.0)	79.41	79.46	0.1
South Atlantic	62.9	65.4	4.1	115.36	122.20	5.9	72.55	79.98	10.2
East North Central	50.9	52.0	2.1	89.16	93.75	5.1	45.42	48.76	7.3
East South Central	54.0	55.3	2.4	81.78	85.74	4.8	44.18	47.44	7.4
West North Central	50.0	51.4	2.9	84.54	87.45	3.4	42.25	44.95	6.4
West South Central	62.5	63.6	1.6	96.72	100.00	3.4	60.48	63.55	5.1
Mountain	60.8	63.1	3.9	112.67	119.03	5.6	68.45	75.10	9.7
Pacific	66.3	69.0	4.1	135.51	143.65	6.0	89.84	99.16	10.4
<b>Class</b>									
Luxury	66.4 %	68.2 %	2.8 %	\$272.16	\$283.84	4.3 %	\$180.64	\$193.64	7.2 %
Upper Upscale	68.4	69.5	1.6	163.86	171.25	4.5	112.05	119.02	6.2
Upscale	67.2	68.8	2.3	124.46	130.88	5.2	83.69	90.07	7.6
Upper Midscale	59.5	61.5	3.3	100.75	105.39	4.6	59.95	64.78	8.1
Midscale	52.6	54.6	3.7	82.08	85.94	4.7	43.17	46.88	8.6
Economy	52.2	54.3	4.0	58.45	61.84	5.8	30.53	33.58	10.0
<b>Location</b>									
Urban	66.5 %	68.2 %	2.6 %	\$151.25	\$156.48	3.5 %	\$100.53	\$106.74	6.2 %
Suburban	60.6	62.7	3.5	93.94	99.09	5.5	56.95	62.15	9.1
Airport	70.6	72.1	2.1	101.63	108.62	6.9	71.72	78.26	9.1
Interstate	49.5	51.1	3.2	74.27	77.04	3.7	36.75	39.35	7.1
Resort	65.4	67.5	3.3	170.07	179.57	5.6	111.22	121.27	9.0
Small Metro/Town	48.2	49.8	3.4	84.61	87.47	3.4	40.74	43.54	6.9
<b>Chain Scale</b>									
Luxury	73.5 %	73.6 %	0.2 %	\$305.50	\$321.93	5.4 %	\$224.52	\$236.98	5.5 %
Upper Upscale	70.4	71.3	1.3	164.49	172.23	4.7	115.79	122.78	6.0
Upscale	69.8	70.9	1.7	123.93	130.43	5.2	86.46	92.50	7.0
Upper Midscale	59.9	62.0	3.6	99.33	103.97	4.7	59.46	64.50	8.5
Midscale	52.2	54.2	3.9	76.11	79.68	4.7	39.72	43.21	8.8
Economy	52.1	54.0	3.5	52.26	55.15	5.5	27.25	29.76	9.2
Independents	55.2	57.5	4.0	109.54	114.70	4.7	60.49	65.90	8.9

Source: STR - March 2015 Lodging Review

**FIGURE 4-3 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS – CALENDAR YEAR DATA**

	Occupancy			Average Rate			RevPAR		
	2013	2014	% Change	2013	2014	% Change	2013	2014	% Change
United States	62.2 %	64.4 %	3.6 %	\$110.30	\$115.32	4.6 %	\$68.58	\$74.28	8.3 %
<b>Region</b>									
New England	62.4 %	63.7 %	2.1 %	\$131.85	\$138.68	5.2 %	\$82.22	\$88.32	7.4 %
Middle Atlantic	65.9	66.9	1.6	155.90	160.45	2.9	102.73	107.40	4.5
South Atlantic	61.9	64.8	4.8	106.63	111.20	4.3	65.96	72.09	9.3
East North Central	59.0	60.6	2.7	95.64	99.65	4.2	56.47	60.40	7.0
East South Central	56.8	59.1	4.1	82.00	86.35	5.3	46.54	51.01	9.6
West North Central	57.7	59.6	3.3	86.52	90.13	4.2	49.97	53.76	7.6
West South Central	61.4	63.7	3.8	93.06	96.44	3.6	57.10	61.42	7.6
Mountain	60.2	63.2	4.9	98.97	104.47	5.6	59.62	65.99	10.7
Pacific	69.4	71.5	3.0	133.75	142.44	6.5	92.83	101.85	9.7
<b>Price</b>									
Luxury	68.6 %	70.0 %	2.2 %	\$256.22	\$269.13	5.0 %	\$175.64	\$188.47	7.3 %
Upper upscale	70.1	71.8	2.4	159.84	167.25	4.6	112.12	120.16	7.2
Upscale	69.4	71.8	3.4	123.14	129.07	4.8	85.48	92.64	8.4
Upper midscale	63.2	65.8	4.0	101.44	105.77	4.3	64.15	69.55	8.4
Midscale	56.8	59.0	3.9	83.13	86.37	3.9	47.19	50.93	7.9
Economy	55.2	57.4	4.0	60.02	63.02	5.0	33.11	36.17	9.2
<b>Location</b>									
Urban	70.5 %	72.3 %	2.7 %	\$160.81	\$167.99	4.5 %	\$113.31	\$121.53	7.3 %
Suburban	62.8	65.4	4.1	92.60	97.16	4.9	58.15	63.50	9.2
Airport	69.7	72.4	3.9	97.37	102.80	5.6	67.87	74.43	9.7
Interstate	54.7	56.8	3.8	76.23	78.85	3.4	41.70	44.75	7.3
Resort	64.0	66.2	3.6	150.30	158.15	5.2	96.13	104.75	9.0
Small Metro/Town	54.7	56.5	3.3	89.45	92.66	3.6	48.91	52.34	7.0
<b>Chain Scale</b>									
Luxury	74.6 %	75.2 %	0.9 %	\$290.61	\$306.83	5.6 %	\$216.71	\$230.84	6.5 %
Upper Upscale	71.9	73.6	2.3	160.98	169.09	5.0	115.82	124.47	7.5
Upscale	71.6	73.9	3.3	121.74	127.80	5.0	87.14	94.48	8.4
Mid-scale w/ F&B	63.8	66.4	4.0	100.37	104.45	4.1	64.05	69.34	8.2
Mid-scale w/o F&B	55.9	58.3	4.3	76.64	79.63	3.9	42.82	46.39	8.3
Economy	55.2	57.3	3.8	53.83	56.37	4.7	29.73	32.33	8.7
Independents	58.5	60.7	3.7	109.02	113.84	4.4	63.82	69.12	8.3

Source: STR - December 2014 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 7.3% 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.

Demand growth remained strong, but decelerated from 2011 through 2013, increasing at rates of 4.7%, 2.8%, and 2.0%, respectively. Demand growth then surged to 4.0% in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors. Average rate rebounded by respective rates of 3.8% and 4.2% in 2011 and 2012, followed by increases of 4.0% and 4.6%, respectively, in 2013 and 2014. In 2012, occupancy reached 61.3% (exceeding the ten-year average); moreover, occupancy gained another point in 2013, ending the year at 62.2%. The nation's occupancy in 2014 registered an additional gain of just over two points, finishing the year at 64.4% and approaching a level not experienced since the mid-1990s. Average rate finished the year just over \$110 in 2013, with a 4.6% gain registered in 2014; as a result, average rate ended 2014 at \$115.32. As shown, demand and average rates continue to strengthen. These trends, combined with the low levels of supply growth anticipated through the end of this year, should boost occupancy beyond its prior mid-1990's peak in 2015. We forecast U.S. hotel occupancy to reach 65.5% and 66.0% in 2015 and 2016, respectively. On a national average, strengthening occupancy levels should also permit hotels to increase room rates by 5.5% in both 2015 and 2016, above the 4.6% achieved in 2014.

### Definition of Subject Hotel Market

The competitive market surrounding the subject site offers seven hotels spanning 988 rooms, resulting in an average room count of 141. The two largest hotels are the 199-room Holiday Inn and the 194-room Embassy Suites.

*We note that in order to satisfy STR requirements, we have excluded the 245-room Hilton Palm Beach due to Hilton's room count exceeding the 60% threshold established by STR. This exclusion is believed to have only a negligible effect on the overall statistics. However, the Hilton has been included as a secondary competitor in our room night analysis.*

Of this larger supply set, the proposed subject hotel is expected to compete primarily with three hotels and secondarily with five hotels based on various factors. These factors may include location, price point, product quality, length of

**Historical Supply  
and Demand Data**

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 West Palm Beach area begins after our review of national occupancy, average rate, and RevPAR trends.

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 4-4 HISTORICAL SUPPLY AND DEMAND TRENDS**

Year	Average Daily Available Room		Occupied Room			Average		RevPAR	Change	
	Room Count	Nights	Change	Nights	Change	Occupancy	Rate			
2006	801	292,365	—	200,027	—	68.4 %	\$121.01	—	\$82.79	—
2007	901	328,865	12.5 %	235,276	17.6 %	71.5	120.33	(0.6) %	86.09	4.0 %
2008	985	359,665	9.4	238,030	1.2	66.2	111.85	(7.1)	74.02	(14.0)
2009	1,013	369,745	2.8	224,803	(5.6)	60.8	95.04	(15.0)	57.78	(21.9)
2010	1,013	369,745	0.0	238,970	6.3	64.6	87.89	(7.5)	56.81	(1.7)
2011	1,013	369,745	0.0	241,871	1.2	65.4	87.30	(0.7)	57.11	0.5
2012	988	360,620	(2.5)	264,101	9.2	73.2	93.16	6.7	68.23	19.5
2013	988	360,620	0.0	290,463	10.0	80.5	98.63	5.9	79.44	16.4
2014	988	360,620	0.0	300,126	3.3	83.2	108.59	10.1	90.37	13.8
Average Annual Compounded										
Change: 2006-2014			2.7 %		5.2 %			(1.3) %		1.1 %
<b><u>Year-to-Date Through March</u></b>										
2014	988	88,920	—	81,939	—	92.1 %	\$147.83	—	\$136.22	—
2015	988	88,920	0.0 %	80,175	(2.2) %	90.2	169.78	14.8 %	153.08	12.4 %
<b>Hotels Included in Sample</b>					<b>Number</b>	<b>Year</b>	<b>Year</b>	<b>Competitive Status</b>		
					<b>of Rooms</b>	<b>Affiliated</b>	<b>Opened</b>			
Embassy Suites West Palm Beach Central					194	Jan 2012	Jun 1983	Secondary		
Doubletree Hotel West Palm Beach Airport					175	Mar 2008	Feb 1987	Secondary		
Holiday Inn Palm Beach Airport					199	Nov 2005	Mar 1987	Secondary		
Courtyard West Palm Beach Airport					103	Aug 2001	Aug 2001	Primary		
Hampton Inn West Palm Beach Central Airport					105	Dec 2004	Dec 2004	Primary		
Hilton Garden Inn West Palm Beach Airport					100	Jan 2007	Jan 2007	Primary		
Hawthorn Suites by Wyndham West Palm Beach					112	Apr 2008	Apr 2008	Secondary		
<b>Total</b>					<b>988</b>					

Source: STR Global

**STR Trend Set  
Requirements**

Per STR, the following data requirements for ordering a trend report must be met:

1. All data request samples must include a minimum of four (4) reporting properties for the period covered.
2. No single property or brand can account for more than 40% of the aggregate room supply among the reporting hotels in a trend report sample. Due to this reason, one of the secondary competitors namely the Courtyard by Marriott could not be included in the STR Trend Report, due to the Marriott Brand of hotels exceeding 40% of the total room count.
3. No single company can account for more than 60% of the aggregate room supply among the reporting hotels in the sample.
4. Property changes to any TREND report sample must involve a minimum of two reporting hotels (cannot add/delete one reporting property).
5. All properties included in a TREND report must be located in the same state or within the vicinity of the majority of the properties in the set. Exceptions may be made on a case-by-case basis.

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.

**Occupancy Rate:**

The STR data for the competitive set reflect a market-wide occupancy level of 83.2% in 2014, which compares to 80.5% for 2013. Local employers and headquarter offices in the area, as well as demand from Palm Beach International Airport, represent the primary sources of demand for the selected set of competitive hotels in this West Palm Beach market. The trend data begins in year 2006, after which supply increases occurred in 2007 and 2008 due to the opening of the Hilton Garden Inn and the Hawthorn Suites by Wyndham. These additional rooms were not readily absorbed into the market upon their debut, resulting in a drop in occupancy rate from 71.5% from 2007 to 60.8% in 2009. Occupancy levels dropped to the lowest level in 2009 given the economic challenges and reduced level of discretionary spending caused by the Great Recession. However, demand



began to strengthen in 2010 as the local and national economies began to recover; this positive trend, which was buoyed by a lack of new competitive supply, continued through the end of 2014. Occupancy rates increased from 64.6% in 2010 to 83.2% in 2014. Occupancy rates have declined by 1.9% for the year-to-date period through March 2015, but this was due to a big increase in average rates as evidenced by the strong increase in RevPAR.

#### **Average Rate:**

The STR data for the competitive set reflect a market-wide average rate level of \$108.59 in 2014, which compares to \$98.63 for 2013. Meanwhile, average rate in the market declined year-over-year through 2010, with notable declines during the recessionary years of 2009 and 2010. In 2011, average rate remained stagnant while occupancy levels started to recover. In 2012, average rate improved moderately, and this positive trend continued through 2013. Average rates then increased substantially for 2014 at 10.1%. Data through the year-to-date period for March 2015 indicates that average rates have further grown at 14.8% or an increase of \$22 over the prior year-to-date period through March 2014. Average rates for calendar year 2015 are expected to surpass the previous peak that was achieved back in 2006.

#### **RevPAR:**

RevPAR levels for the market have grown at modest rates over the eight-year period. The average annual increase was 1.1%, increasing from \$82.79 in 2006 to \$90.37 in 2014. RevPAR levels decreased from 2008 to 2010 due to the effects of the recession. The decrease was substantial in both 2008 and 2009, reaching \$56.81 in 2010. RevPAR levels then started to increase from year 2011, with double-digit increases from 2012 to 2014. The latest year-to-date period through March 2015 has shown an 12.4% increase over the previous period. RevPAR levels for the competitive market have crossed \$90 for the 2014 calendar year, surpassing the previous peak of \$86 that was achieved back in 2007.

#### **Seasonality**

Monthly occupancy and average rate trends are presented in the following tables. The shaded cells refer to the high season (months of peak occupancy and high average rate).

**FIGURE 4-5 MONTHLY OCCUPANCY TRENDS**

Month	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	65.3 %	77.6 %	80.4 %	70.5 %	73.0 %	73.3 %	76.8 %	81.6 %	90.8 %	84.9 %
February	84.3	84.2	81.4	73.6	84.7	84.1	86.8	91.7	94.7	94.4
March	85.2	88.4	88.1	79.7	82.9	86.8	87.7	88.8	91.2	91.7
April	70.5	77.7	68.5	71.4	72.1	72.8	77.6	82.0	87.1	—
May	69.1	70.9	57.4	56.4	59.8	62.6	71.3	80.4	81.0	—
June	73.0	71.8	62.8	60.8	62.6	66.9	69.2	77.5	77.2	—
July	61.4	60.5	58.0	51.8	63.7	56.1	64.8	74.6	83.5	—
August	60.4	68.8	60.2	58.0	60.4	55.5	72.3	75.5	79.0	—
September	49.9	56.7	45.4	42.5	46.2	45.5	61.5	68.1	70.1	—
October	60.6	66.5	64.4	50.1	53.2	60.9	69.1	77.3	80.2	—
November	72.6	72.1	70.6	58.2	55.3	59.3	70.3	85.5	79.3	—
December	70.0	64.4	63.3	57.5	62.9	62.4	72.3	84.3	85.0	—
<b>Annual Occupancy</b>	<b>68.4 %</b>	<b>71.5 %</b>	<b>66.2 %</b>	<b>60.8 %</b>	<b>64.6 %</b>	<b>65.4 %</b>	<b>73.2 %</b>	<b>80.5 %</b>	<b>83.2 %</b>	—

Source: STR Global

**FIGURE 4-6 MONTHLY AVERAGE RATE TRENDS**

Month	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
January	\$157.61	\$145.04	\$149.00	\$119.85	\$100.47	\$95.75	\$107.22	\$115.72	\$136.42	\$156.77
February	167.92	167.24	158.73	123.32	112.16	107.40	118.97	131.83	154.67	179.49
March	166.63	167.61	159.49	116.69	108.28	107.78	118.37	135.51	152.77	172.79
April	134.80	124.33	117.83	102.44	88.54	95.41	98.23	107.14	121.70	—
May	103.68	105.67	102.30	85.49	82.05	78.91	86.08	88.87	91.46	—
June	97.81	97.67	93.35	83.99	79.50	79.59	79.19	81.43	84.23	—
July	94.02	95.86	90.35	78.64	79.58	75.51	79.62	82.91	84.02	—
August	92.64	94.62	86.66	79.91	78.53	75.35	79.18	78.36	81.27	—
September	96.38	100.73	88.42	81.53	76.66	75.78	79.39	79.38	81.53	—
October	103.33	104.06	87.95	82.48	77.19	79.13	85.72	91.05	98.28	—
November	105.43	107.72	91.47	81.94	76.96	78.40	85.55	89.98	97.07	—
December	103.43	103.87	88.87	77.20	73.54	77.19	86.08	89.75	101.05	—
<b>Annual Average Rate</b>	<b>\$121.01</b>	<b>\$120.33</b>	<b>\$111.85</b>	<b>\$95.04</b>	<b>\$87.89</b>	<b>\$87.30</b>	<b>\$93.16</b>	<b>\$98.63</b>	<b>\$108.59</b>	—

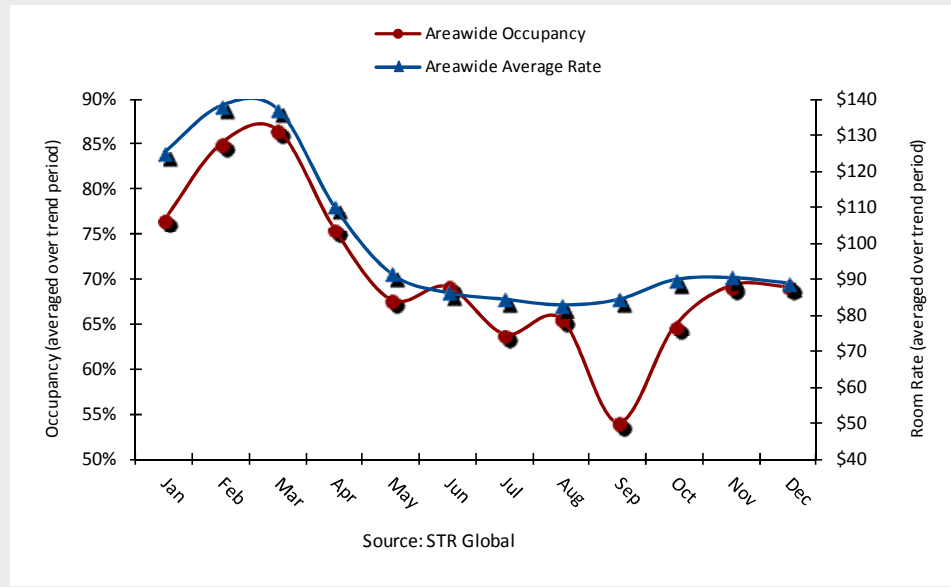
Source: STR Global

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 80% during the months of January through May, July, October and December based on the latest data for year 2014. For the most recent period from 2014, occupancy rates have exceeded 90% for January, February and March. The market attracts a significant amount of leisure demand from the Northeast; as such, the traditionally colder months tend to represent high season for the West Palm Beach area. Leisure demand drops from May through September, when South Florida's weather is hotter and more humid, with a higher chance of hurricane activity. Average rate levels follow similar trends to those of occupancy, allowing for average rates over \$120 during the winter and spring months, with lower average rates during the summer and fall months. The most recent period for 2014, has average rate at \$101.05 for December, \$136.42 for January, \$154.67 for February, \$152.77 for March and \$121.70 for April.

Based on the above seasonality patterns, we have forecast unaccommodated demand for 11 months of the year. This unaccommodated demand has been included in our 'room night analysis' model due to the opening of the subject hotel. Please refer to Figure 4-22 and Figure 4-23 for further details on unaccommodated demand.

**FIGURE 4-7 SEASONALITY – OCCUPANCY AND AVERAGE RATE**



**FIGURE 4-8 OCCUPANCY RATE TRENDS**

	Base Year Monthly Occupancy	Trend Maximum Occupancy	Trend Minimum Occupancy
January	90.8%	90.8%	65.3%
February	94.7%	94.7%	73.6%
March	91.2%	91.2%	79.7%
April	87.1%	87.1%	68.5%
May	81.0%	81.0%	56.4%
June	77.2%	77.5%	60.8%
July	83.5%	83.5%	51.8%
August	79.0%	79.0%	55.5%
September	70.1%	70.1%	42.5%
October	80.2%	80.2%	50.1%
November	79.3%	85.5%	55.3%
December	85.0%	85.0%	57.5%
	83.2%	83.2%	60.8%

Source: Smith Travel Research

The chart above identifies base year (2014) occupancy rates comparative to the historical minimums and maximums between 2007 and 2014. The following chart compares monthly average rate changes over the prior year.

**FIGURE 4-9 AVERAGE RATE TRENDS – MONTHLY CHANGES**

Month	2007 ADR	2008 ADR	2009 ADR	2010 ADR	2011 ADR	2012 ADR	2013 ADR	2014 ADR
January	-8.0	2.7	-19.6	-16.2	-4.7	12.0	7.9	17.9
February	-0.4	-5.1	-22.3	-9.0	-4.2	10.8	10.8	17.3
March	0.6	-4.8	-26.8	-7.2	-0.5	9.8	14.5	12.7
April	-7.8	-5.2	-13.1	-13.6	7.8	3.0	9.1	13.6
May	1.9	-3.2	-16.4	-4.0	-3.8	9.1	3.2	2.9
June	-0.1	-4.4	-10.0	-5.3	0.1	-0.5	2.8	3.4
July	2.0	-5.7	-13.0	1.2	-5.1	5.4	4.1	1.3
August	2.1	-8.4	-7.8	-1.7	-4.1	5.1	-1.0	3.7
September	4.5	-12.2	-7.8	-6.0	-1.1	4.8	0.0	2.7
October	0.7	-15.5	-6.2	-6.4	2.5	8.3	6.2	7.9
November	2.2	-15.1	-10.4	-6.1	1.9	9.1	5.2	7.9
December	0.4	-14.4	-13.1	-4.7	5.0	11.5	4.3	12.6
<b>Annual Change</b>	<b>-0.6</b>	<b>-7.1</b>	<b>-15.0</b>	<b>-7.5</b>	<b>-0.7</b>	<b>6.7</b>	<b>5.9</b>	<b>10.1</b>

The above chart indicates that average rate growth occurs most during the peak season between December and April.

**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. The shaded cells refer to the days of high occupancy and high average rates.

**FIGURE 4-10 OCCUPANCY, AVERAGE RATE AND REVPAR BY DAY OF WEEK**

<b>Occupancy (%)</b>	<b>Sunday</b>	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>	<b>Saturday</b>	<b>Total Year</b>
Apr 12 - Mar 13	58.5 %	68.8 %	75.3 %	77.2 %	78.0 %	79.4 %	81.9 %	74.1 %
Apr 13 - Mar 14	66.4	76.8	83.8	86.3	84.8	85.5	88.7	81.8
Apr 14 - Mar 15	68.6	79.2	86.4	87.9	85.1	84.2	87.5	82.7
<b>Change (Occupancy Points)</b>								
FY 13 - FY 14	8.0	7.9	8.5	9.1	6.8	6.1	6.8	7.6
FY 14 - FY 15	2.2	2.5	2.6	1.5	0.3	-1.3	-1.2	1.0
<b>ADR (\$)</b>	<b>Sunday</b>	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>	<b>Saturday</b>	<b>Total Year</b>
Apr 12 - Mar 13	\$93.31	\$97.51	\$100.22	\$100.45	\$97.94	\$95.03	\$95.10	\$97.16
Apr 13 - Mar 14	100.87	105.04	106.82	107.75	105.54	102.56	102.87	104.59
Apr 14 - Mar 15	108.75	112.41	117.46	118.36	115.38	112.00	113.96	114.25
<b>Change (Dollars)</b>								
FY 13 - FY 14	\$7.56	\$7.53	\$6.60	\$7.29	\$7.61	\$7.53	\$7.77	\$7.43
FY 14 - FY 15	7.88	7.37	10.64	10.61	9.84	9.44	11.09	9.66
<b>Change (Percent)</b>								
FY 13 - FY 14	8.1 %	7.7 %	6.6 %	7.3 %	7.8 %	7.9 %	8.2 %	7.6 %
FY 14 - FY 15	7.8	7.0	10.0	9.9	9.3	9.2	10.8	9.2
<b>RevPAR (\$)</b>	<b>Sunday</b>	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>	<b>Saturday</b>	<b>Total Year</b>
Apr 12 - Mar 13	\$54.56	\$67.11	\$75.48	\$77.56	\$76.44	\$75.45	\$77.86	\$72.02
Apr 13 - Mar 14	67.01	80.62	89.55	93.03	89.50	87.73	91.25	85.51
Apr 14 - Mar 15	74.66	89.06	101.50	104.00	98.24	94.36	99.75	94.53
<b>Change (Dollars)</b>								
FY 13 - FY 14	\$12.46	\$13.51	\$14.07	\$15.47	\$13.06	\$12.28	\$13.40	\$13.50
FY 14 - FY 15	7.64	8.44	11.95	10.97	8.74	6.63	8.49	9.01
<b>Change (Percent)</b>								
FY 13 - FY 14	22.8 %	20.1 %	18.6 %	19.9 %	17.1 %	16.3 %	17.2 %	18.7 %
FY 14 - FY 15	11.4	10.5	13.3	11.8	9.8	7.6	9.3	10.5

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.



The historical supply and demand data compiled for the representative set of hotels located in the Palm Beach region is particularly beneficial in examining day-of-week demand trends. For this market, it is evident that peak occupancies are achieved on Tuesday, Wednesday, Thursday and Friday nights, while Sunday demand is weak in comparison. Room-night demand on Monday is fairly strong as well, historically reported in the mid- to high-70% range. Historically, mid-week occupancies have bracketed the low-80% and high-80% levels. This points to the market's strong commercial and group room-night demand presence.

## 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 three properties that are expected to be primarily competitive and five properties that are expected to be secondarily competitive with the proposed subject hotel. These hotels are positioned to be secondarily competitive as their 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. 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.

### Note:

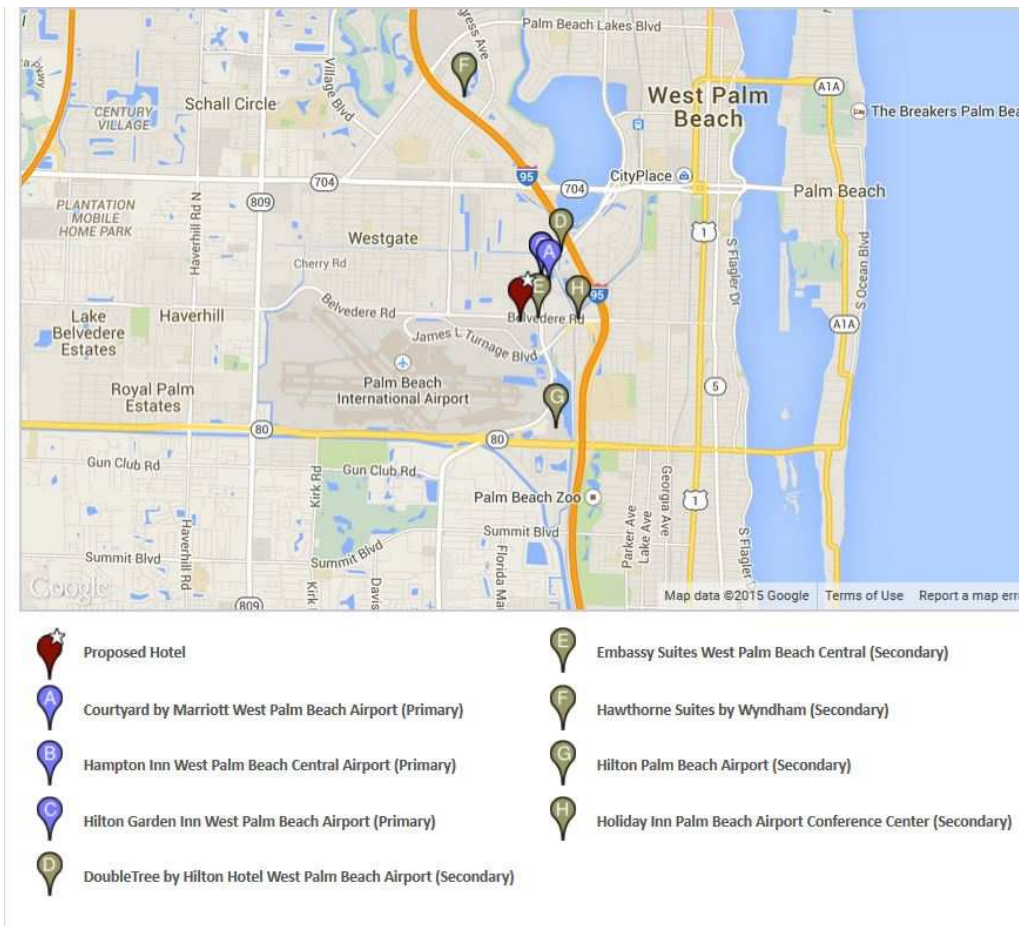
1. All the primary competitors belong to the limited/select-service product tier, whereas only two of the five secondary competitors belong to the limited/select-service product tier.
2. Full-service hotels have been considered as secondary competitors in our analysis due to their high room count, extensive meeting space, food and beverage facilities and greater focus on demand from the meeting and group segment.

**FIGURE 4-11 COMPETITORS – OPERATING PERFORMANCE**

Property	Number of Rooms	Est. Segmentation			Estimated 2012				Estimated 2013				Estimated 2014						
		Commercial	Meeting and Group	Leisure	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Courtyard by Marriott West Palm Beach Airport	103	60 %	15 %	25 %	103	74 %	\$92.00	\$68.08	103	77 %	\$98.00	\$75.46	103	79 %	\$105.00	\$82.95	9.9 %	96.2 %	91.5 %
Hampton Inn West Palm Beach Central Airport	105	55	15	30	105	69	104.00	71.76	105	71	107.00	75.97	105	82	118.00	96.76	27.4	99.9	106.7
Hilton Garden Inn West Palm Beach Airport	100	55	15	30	100	68	114.00	77.52	100	77	111.00	85.47	100	82	120.00	98.40	15.1	99.9	108.6
<b>Sub-Totals/Averages</b>	<b>308</b>	<b>57 %</b>	<b>15 %</b>	<b>28 %</b>	<b>308</b>	<b>70.3 %</b>	<b>\$102.92</b>	<b>\$72.40</b>	<b>308</b>	<b>75.0 %</b>	<b>\$105.24</b>	<b>\$78.88</b>	<b>308</b>	<b>81.0 %</b>	<b>\$114.42</b>	<b>\$92.67</b>	<b>17.5 %</b>	<b>98.6 %</b>	<b>102.2 %</b>
Secondary Competitors	925	58 %	21 %	21 %	435	75.3 %	\$90.12	\$67.82	435	79.5 %	\$97.69	\$77.67	435	82.9 %	\$107.60	\$89.20	14.9 %	101.0 %	98.4 %
<b>Totals/Averages</b>	<b>1,233</b>	<b>57 %</b>	<b>19 %</b>	<b>24 %</b>	<b>743</b>	<b>73.2 %</b>	<b>\$95.22</b>	<b>\$69.72</b>	<b>743</b>	<b>77.6 %</b>	<b>\$100.71</b>	<b>\$78.17</b>	<b>743</b>	<b>82.1 %</b>	<b>\$110.39</b>	<b>\$90.64</b>	<b>16.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

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 - COURTYARD BY MARRIOTT WEST PALM BEACH AIRPORT**



**Courtyard by Marriott  
West Palm Beach  
Airport**  
1800 Centrepark Drive  
East  
West Palm Beach, FL

**FIGURE 4-12 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2012	103	74 %	\$92	\$68	101.1 %	97.6 %
Estimated 2013	103	77	98	75	99.2	96.5
Estimated 2014	103	79	105	83	96.2	91.5

The 103-room Courtyard by Marriott is owned by IHP West Palm Beach FL Owner LLC. The property is located ±0.6 miles northeast of the subject site. Facilities include a light fare restaurant (known as The Bistro) serving breakfast, lunch and dinner, an outdoor pool and whirlpool, an exercise room, and 1,537 square feet of meeting space. The hotel, which was built in 2001, was renovated in 2009; upgrades included new guestroom soft goods, select case goods, and 32-inch flat screen televisions. The favorable entrance of the competing Hilton Garden Inn has caused the Courtyard to lose market share since 2007. The market mix of the Courtyard is similar to that of the Hilton Garden Inn and the Hampton Inn, but operates at a lower ADR due to its older facilities. Overall, the property appeared to be in very good condition. Its accessibility is inferior to that of the subject site.

**PRIMARY COMPETITOR #2 - HAMPTON INN WEST PALM BEACH CENTRAL AIRPORT**



**Hampton Inn West Palm Beach Central Airport**  
 1601 Worthington Road  
 West Palm Beach, FL

**FIGURE 4-13 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2012	105	69 %	\$104	\$72	94.2 %	102.9 %
Estimated 2013	105	71	107	76	91.5	97.2
Estimated 2014	105	82	118	97	99.9	106.7

The 105-room Hampton Inn is located adjacent to the Hilton Garden Inn, and is owned and operated by Green Park Management LLC, an affiliate of RLJ Development. The property is located ±0.3 miles north of the subject site on Australian Avenue. Facilities include a breakfast dining area (a complimentary hot breakfast is served), an outdoor pool, an exercise room, and 1,008 square feet of meeting space. The hotel, which was built in 2004, was renovated in 2010; upgrades included new guestroom soft goods. This hotel employs a sound yield-management strategy that targets commercial related business and group demand, which is evidenced in the property's above market average yield penetration rate. Due to its relatively older facilities, the Hampton Inn lags the Hilton Garden Inn (under the same brand umbrella) in average rates, but achieves the second highest ADR among the limited/select-service hotels. Overall, the property appeared to be in excellent condition. Its accessibility is similar to that of the subject site.

**PRIMARY COMPETITOR #3 - HILTON GARDEN INN WEST PALM BEACH AIRPORT**



**Hilton Garden Inn West Palm Beach Airport**  
 1611 Worthington Road  
 West Palm Beach, FL

**FIGURE 4-14 ESTIMATED HISTORICAL OPERATING STATISTICS**

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2012	100	68 %	\$114	\$78	92.9 %	111.2 %
Estimated 2013	100	77	111	85	99.2	109.3
Estimated 2014	100	82	120	98	99.9	108.6

The 100-room Hilton Garden Inn is also owned and operated by Green Park Management LLC, an affiliate of RLJ Development. The property, which opened in 2007, features a stylish pool area for its product type. Other facilities include a restaurant (known as the Garden Grille and Bar) and lounge, a market pantry, a business center, a fitness center, and approximately 750 square feet of meeting space. The hotel benefits from its superior product and a market orientation that caters to leisure travelers, which is reflected in the property’s high ADR penetration. In the last three years, the Hilton Garden Inn has achieved the highest ADR among all limited/select-service hotels, trailing only the Embassy Suites in the local market. Overall, the property appeared to be in excellent condition, due to its relatively recent construction. Its accessibility is similar to that of the subject site.



**Secondary  
Competitors**

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

**FIGURE 4-15 SECONDARY COMPETITORS – OPERATING PERFORMANCE**

Property	Number of Rooms	Est. Segmentation			Total Competitive Level	Estimated 2012				Estimated 2013				Estimated 2014			
		Commercial	Meeting and Group	Leisure		Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
DoubleTree by Hilton Hotel West Palm Beach Airport	175	55 %	15 %	30 %	50 %	88	79 %	\$82.00	\$64.78	88	82 %	\$91.00	\$74.62	88	79 %	\$100.00	\$79.00
Embassy Suites West Palm Beach Central	194	60	25	15	50	97	85	99.00	84.15	97	89	115.00	102.35	97	92	127.00	116.84
Hilton Palm Beach Airport	245	60	25	15	50	123	72	95.00	68.40	123	70	101.00	70.70	123	79	111.00	87.69
Holiday Inn Palm Beach Airport Conference Center	199	55	20	25	50	100	71	80.00	56.80	100	79	84.00	66.36	100	82	93.00	76.26
Hawthorn Suites by Wyndham	112	60	10	30	25	28	59	97.00	57.42	28	82	88.00	72.34	28	84	93.00	77.93
<b>Totals/Averages</b>	<b>925</b>	<b>58 %</b>	<b>21 %</b>	<b>21 %</b>	<b>47 %</b>	<b>435</b>	<b>75.3 %</b>	<b>\$90.12</b>	<b>\$67.82</b>	<b>435</b>	<b>79.5 %</b>	<b>\$97.69</b>	<b>\$77.67</b>	<b>435</b>	<b>82.9 %</b>	<b>\$107.60</b>	<b>\$89.20</b>

We have identified five hotels that are expected to compete with the proposed subject hotel on a secondary level. Hotels including the Embassy Suites, Hilton, and Doubletree have been included as a secondary competitor due to their full-service product. The Holiday Inn has been included as a secondary competitor due to its significant meeting space, and a older product, that opened in 1987. The Hawthorn Suites by Wyndham has been positioned as a secondary competitor (with a low weighting) due to its location four miles north on Interstate 95. However, it is in excellent condition and the most recent hotel to open in the sub-market in 2008.

### 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, new supply considered in our analysis is presented in the following table.

**FIGURE 4-16 COMPETITIVE NEW SUPPLY- CONSIDERED QUANTITATIVELY**

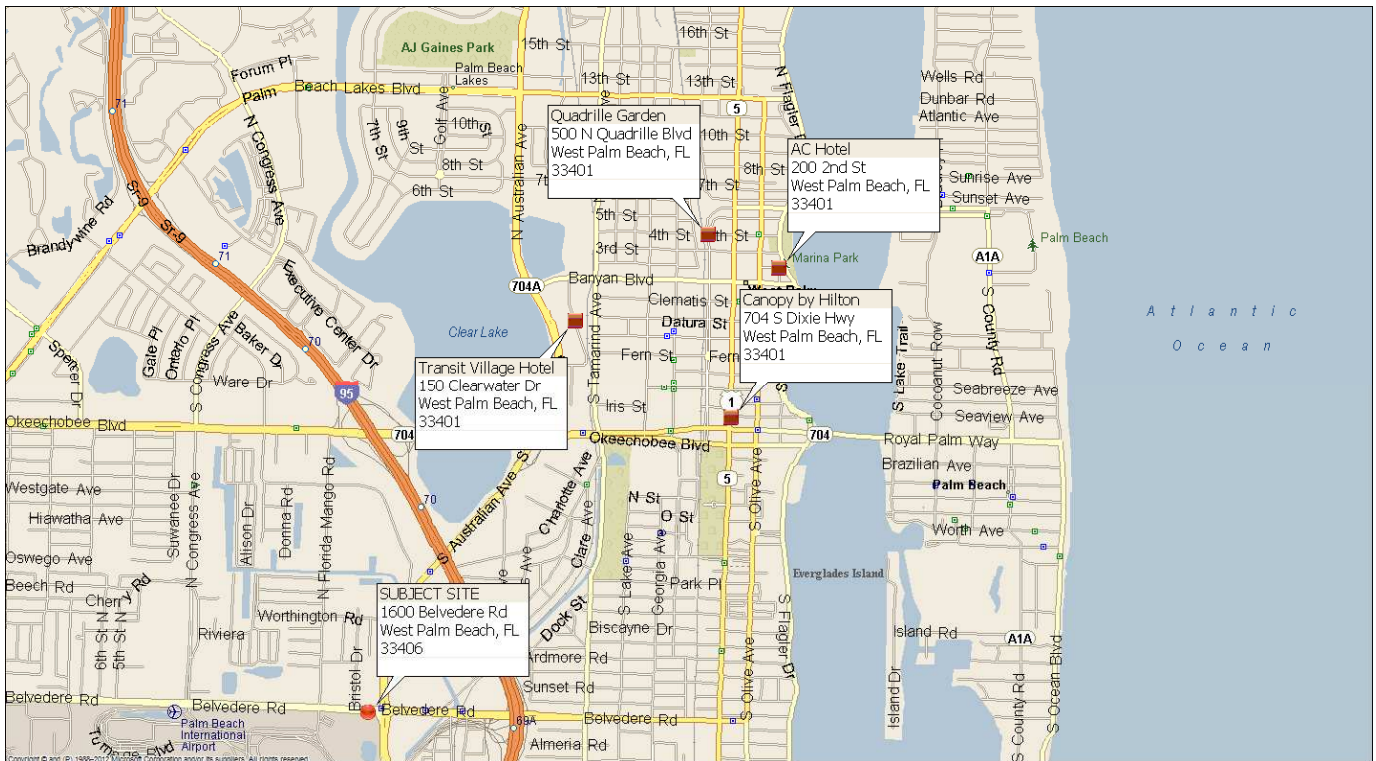
<b>Proposed Property</b>	<b>Rooms</b>	<b>Address/Location</b>	<b>Total Competitive Level</b>	<b>Estimated Opening Date</b>	<b>Development Stage</b>
Proposed Hotel	150	1600 Belvedere Road	100 %	January 1, 2018	Early Development
<b>Totals/Averages</b>	<b>150</b>				

We have qualitatively considered four proposed hotels in West Palm Beach. These hotels are not expected to compete with the proposed subject hotel due to their locations in Downtown West Palm Beach, and their full-service product and orientation. These developments are explained in detail on the following page:

**FIGURE 4-17 NON-COMPETITIVE NEW SUPPLY- CONSIDERED QUALITATIVELY**

Proposed Property	Rooms	Address/Location	Estimated Opening Date	Development Stage
AC Hotel West Palm Beach	178	200 2nd Street	TBD	Early Development
Canopy by Hilton West Palm Beach	150	704 S Dixie Highway	TBD	Early Development
Quadrille Garden District Hotel	300	500 N Quadrille Boulevard	TBD	Early Development
West Palm Beach Transit Village Hotel	300	150 Clearwater Drive	TBD	Early Development
<b>Totals/Averages</b>	<b>928</b>			

**MAP OF NEW HOTEL SUPPLY**



**AC Hotel West Palm Beach:**

The City of West Palm Beach has entered into negotiations with Navarro Lowrey for redevelopment of Old City Hall site on the downtown waterfront. In response to a Request for Proposals issued in July 2014, Navarro Lowrey proposed a mixed-use complex including 294 apartment units, a 178-room AC Hotel and 38,000 square feet of retail. The hotel will be developed in partnership with Concord Hospitality. Negotiations with Navarro Lowrey were authorized on February 2, 2015, by the West Palm Beach Community Redevelopment Agency.

**Canopy by Hilton West Palm Beach:**

Driftwood Hospitality is planning to develop a Canopy by Hilton hotel in West Palm Beach. The developer's architect recently met with planning staff to discuss preliminary plans for a vacant site at the corner of Dixie Highway and Trinity Place, located between downtown and the CityPlace shopping center. This site

is approximately a half acre and adjoins the Two City Plaza condominium tower. To date no formal plans have been filed, though the developer has indicated that plans are in progress.

**Quadrille Garden District Hotel:**

An affiliate of billionaire real estate investor Jeff Green is planning a 300-room, full-service hotel as part of a proposed mixed-use development at the north end of downtown West Palm Beach. Other components of the project would include a 30-story Class A office tower and 180,000 square feet of residential use. In February, the West Palm Beach City Commission approved ordinances that would allow increased height and density for the development.

**West Palm Beach Transit Village Hotel:**

Tampa-based Forge Capital Partners is proceeding with a mixed-use development adjacent to the West Palm Beach Tri-Rail and Amtrak station. In 2012, Palm Beach County Commissioners agreed to sell around six acres to a Forge Capital affiliate for development of a transient-oriented project that would include a mix of office, retail, residential and hotel use. The affiliate has now submitted a formal site plan that indicates a 336,000 square-foot office building, 420 residential units and a 300-room hotel.

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 West Palm Beach submarket. Next, we will present our forecast for demand change, using the historical supply data presented as a starting point.

### DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the competitors discussed previously in this section; performance results are estimated, rounded for the competition, and in some cases weighted if there are secondary competitors present. In this respect, the information in the table differs from the previously presented STR data and is consistent with the supply and demand analysis developed for this report.

**FIGURE 4-18 HISTORICAL MARKET TRENDS**

Year	Accommodated		Room Nights		Market			Market	
	Room Nights	% Change	Available	% Change	Occupancy	Market ADR	% Change	RevPAR	% Change
Est. 2012	198,438	—	271,013	—	73.2 %	\$95.22	—	\$69.72	—
Est. 2013	210,354	6.0 %	271,013	0.0 %	77.6	100.71	5.8 %	78.17	12.1 %
Est. 2014	222,527	5.8	271,013	0.0	82.1	110.39	9.6	90.64	16.0
Avg. Annual Compounded									
Chg., Est. 2012-Est. 2014:		5.9 %		0.0 %			7.7 %		14.0 %

### Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2014 distribution of accommodated-room-night demand as follows.

**FIGURE 4-19 ACCOMMODATED ROOM NIGHT DEMAND**

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Commercial	127,698	57 %
Meeting and Group	41,229	19
Leisure	53,600	24
<b>Total</b>	<b>222,527</b>	<b>100 %</b>

The market’s demand mix comprises commercial demand, with this segment representing roughly 57% of the accommodated room nights in this West Palm Beach submarket. The remaining portion comprises meeting and group at 19%, with the final portion leisure in nature, reflecting 24%.

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

**Commercial Segment**

Commercial demand consists mainly of individual businesspeople passing through the subject market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as “preferred” accommodations in return for more favorable rates, which are discounted in proportion to the number of room nights produced by a commercial client. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

The commercial segment includes numerous smaller classifications; however, the primary categories considered in this analysis are individual business travelers and high-volume corporate accounts. Most individual business travelers are visiting firms in the immediate area or passing through en route to other destinations. Their lodging choices are influenced by brand loyalty (and frequent traveler programs in particular), as well as location and convenience with respect to businesses and amenities. High-volume corporate accounts are generated by local companies; demand in this sub-segment may include employees of the firm or its affiliates, and often consists of training groups. These companies typically designate hotels as “preferred” accommodations; in return, the selected lodging



facilities generally offer a significant discount from their published rates. Typically, these rates are negotiated on an annual basis, and the size of the discount is tied to the number of room nights produced. Considering both current and historical trends, we project demand change rates of -1.0% in 2015, 2.0% in 2016, and 2.0% in 2017. After these first three projection years, we have forecast demand change rates of 2.0% in 2018 and thereafter.

### 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.

Corporate groups are one of the most profitable components of this segment, because they exhibit limited price sensitivity and often sponsor banquets and other events that generate revenue for the host hotel. This demand may take the form of training programs, sales meetings, division conferences, and similar events with a business purpose. Due to the proximity of Palm Beach International Airport, group demand from airline crews represents a major portion of meeting and group demand within this sub-market. Considering both current and historical trends, we project demand change rates of -1.0% in 2015, 2.0% in 2016, and 2.0% in 2017. After these first three projection years, we have forecast demand change rates of 2.0% in 2018 and thereafter.

### 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 in the area is primarily generated by the shopping venues along City Place and visitors to the coastal location. Palm Beach is well known as a winter destination because many residents migrate south to visit their winter home. Portions of the leisure demand are residual from persons visiting these "Snow Bird" residents. Summer demand in the leisure market segment is derived from cities in other areas of the state as well as a small amount of eastern European visitors. Considering both current and historical trends, we project demand change rates of -1.0% in 2015, 2.0% in 2016, and 2.0% in 2017. After these first three projection years, we have forecast demand change rates of 2.0% in 2018 and thereafter.

**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 4-20 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES**

Market Segment	Annual Growth Rate					
	2015	2016	2017	2018	2019	2020
Commercial	-1.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Meeting and Group	-1.0	2.0	2.0	2.0	2.0	2.0
Leisure	-1.0	2.0	2.0	2.0	2.0	2.0
<b>Base Demand Growth</b>	<b>-1.0 %</b>	<b>2.0 %</b>	<b>2.0 %</b>	<b>2.0 %</b>	<b>2.0 %</b>	<b>2.0 %</b>

Note: The long-term demand growth rate of 2.0% is based on the following data for Palm Beach County:

1. As per Woods & Poole data in Figure 3-1, long-term (2014-2020) growth in population for Palm Beach County is expected at 1.9%.
2. As per REIS data in Figure 3-3, total employment growth (2014-2019) is expected at 2.5%.
3. As per REIS data in Figure 3-8, growth in occupied office space (2014-2019) is expected at 1.9%.
4. The eight-year (2006-2014) data presented by Smith Travel Research in Figure 4-4 indicates occupied room night growth at an average of 5.2% per year, or 2.5% per year after accounting for the supply increase.

#### **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.

#### **Unaccommodated Demand**

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

Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 75%, the market sells out many nights during the year.

**FIGURE 4-21 AVERAGE MONTHLY OCCUPANCIES**

Month	2006	2007	2008	2009	2010	2011	2012	2013	2014
January	65.3 %	77.6 %	80.4 %	70.5 %	73.0 %	73.3 %	76.8 %	81.6 %	90.8 %
February	84.3	84.2	81.4	73.6	84.7	84.1	86.8	91.7	94.7
March	85.2	88.4	88.1	79.7	82.9	86.8	87.7	88.8	91.2
April	70.5	77.7	68.5	71.4	72.1	72.8	77.6	82.0	87.1
May	69.1	70.9	57.4	56.4	59.8	62.6	71.3	80.4	81.0
June	73.0	71.8	62.8	60.8	62.6	66.9	69.2	77.5	77.2
July	61.4	60.5	58.0	51.8	63.7	56.1	64.8	74.6	83.5
August	60.4	68.8	60.2	58.0	60.4	55.5	72.3	75.5	79.0
September	49.9	56.7	45.4	42.5	46.2	45.5	61.5	68.1	70.1
October	60.6	66.5	64.4	50.1	53.2	60.9	69.1	77.3	80.2
November	72.6	72.1	70.6	58.2	55.3	59.3	70.3	85.5	79.3
December	70.0	64.4	63.3	57.5	62.9	62.4	72.3	84.3	85.0

In the competitive market, as illustrated in Figure 4-21 above, room night demand, and the occupancy rates related thereto are historically very strong for 11 months of the year, indicating the presence of unaccommodated demand.

Unaccommodated demand is historically strongest during winter and spring months. HVS has forecast that 25% of the accommodated demand for all segments during February, 20% of the accommodated demand for all segments during January, March, April, and December, and 15% of the accommodated demand for all segments during May, July and October, and 10% of the accommodated demand for all segments during June, August and November represents the amount of unaccommodated demand. The following table highlights our estimates, and equates them to the total number of unaccommodated room nights sold per month.

**FIGURE 4-22 FORECAST OF UNACCOMMODATED ROOM NIGHT DEMAND PER MONTH**

	Commercial		Meeting and Group		Leisure	
	%	Room Nights	%	Room Nights	%	Room Nights
January	20 %	2,367	20 %	764	20 %	993
February	25	2,786	25	899	25	1,169
March	20	2,378	20	768	20	998
April	20	2,198	20	710	20	922
May	15	1,584	15	512	15	665
June	10	974	10	314	10	409
July	15	1,633	15	527	15	685
August	10	1,029	10	332	10	432
September	0	0	0	0	0	0
October	15	1,568	15	506	15	658
November	10	999	10	323	10	420
December	20	2,216	20	715	20	930
<b>Total</b>	<b>15.5 %</b>	<b>19,731</b>	<b>15.5 %</b>	<b>6,370</b>	<b>15.5 %</b>	<b>8,282</b>

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

**FIGURE 4-23 UNACCOMMODATED DEMAND ESTIMATE**

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Commercial	127,698	15.5 %	19,731
Meeting and Group	41,229	15.5	6,370
Leisure	53,600	15.5	8,282
<b>Total</b>	<b>222,527</b>	<b>15.5 %</b>	<b>34,383</b>

Accordingly, we have forecast unaccommodated demand equivalent to 15.5% of the base-year demand, resulting from our analysis of monthly and weekly peak demand and sell-out trends.

**Induced Demand**

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

**Accommodated Demand and Market-wide Occupancy**

Based upon a review of the market dynamics in the 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 4-24 FORECAST OF MARKET OCCUPANCY**

	2014	2015	2016	2017	2018	2019	2020	2021
<b>Commercial</b>								
Base Demand	127,698	126,421	128,949	131,528	134,159	136,842	139,579	142,371
Unaccommodated Demand		19,533	19,924	20,322	20,729	21,143	21,566	21,998
Total Demand		145,954	148,873	151,851	154,888	157,986	161,145	164,368
Growth Rate		14.3 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
<b>Meeting and Group</b>								
Base Demand	41,229	40,817	41,633	42,466	43,315	44,182	45,065	45,967
Unaccommodated Demand		6,307	6,433	6,561	6,693	6,826	6,963	7,102
Total Demand		47,124	48,066	49,028	50,008	51,008	52,028	53,069
Growth Rate		14.3 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
<b>Leisure</b>								
Base Demand	53,600	53,064	54,125	55,208	56,312	57,438	58,587	59,759
Unaccommodated Demand		8,199	8,363	8,530	8,701	8,875	9,052	9,233
Total Demand		61,263	62,488	63,738	65,012	66,313	67,639	68,992
Growth Rate		14.3 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
<b>Totals</b>								
Base Demand	222,527	220,302	224,708	229,202	233,786	238,462	243,231	248,096
Unaccommodated Demand		34,039	34,719	35,414	36,122	36,845	37,581	38,333
Total Demand		254,341	259,428	264,616	269,908	275,307	280,813	286,429
less: Residual Demand		34,039	36,672	40,660	7,186	11,051	14,999	19,797
Total Accommodated Demand		220,302	222,755	223,956	262,723	264,256	265,814	266,632
<b>Overall Demand Growth</b>		(1.0) %	1.1 %	0.5 %	17.3 %	0.6 %	0.6 %	0.3 %
<b>Market Mix</b>								
Commercial	57.4 %	57.4 %	57.4 %	57.4 %	57.4 %	57.4 %	57.4 %	57.4 %
Meeting and Group	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5
Leisure	24.1	24.1	24.1	24.1	24.1	24.1	24.1	24.1
<b>Existing Hotel Supply</b>	743	743	743	743	743	743	743	743
<b>Proposed Hotels</b>								
Proposed Hotel					150	150	150	150
Available Rooms per Night	271,013	271,013	271,013	271,013	325,763	325,763	325,763	325,763
Nights per Year	365	365	365	365	365	365	365	365
<b>Total Supply</b>	743	743	743	743	893	893	893	893
Rooms Supply Growth	—	0.0 %	0.0 %	0.0 %	20.2 %	0.0 %	0.0 %	0.0 %
<b>Marketwide Occupancy</b>	<b>82.1 %</b>	<b>81.3 %</b>	<b>82.2 %</b>	<b>82.6 %</b>	<b>80.6 %</b>	<b>81.1 %</b>	<b>81.6 %</b>	<b>81.8 %</b>

The above room night analysis shows the peak market wide occupancy level of roundly 82.6% forecast for 2017, declining in 2018 and 2019, given the addition of new hotel supply, which includes the subject hotel. The market occupancy level returns to the low 80% range by 2021, which is more than the long-term average as indicated by Smith Travel Research in Figure 4-4. These room-night projections



for the market area will be used in forecasting the proposed subject hotel's occupancy and average rate in Chapter 5.

## 5. 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 (2014).

**FIGURE 5-1 HISTORICAL PENETRATION RATES**

Property	Commercial	Meeting and Group	Leisure	Overall
Courtyard by Marriott West Palm Beach Airport	101 %	78 %	100 %	96 %
Hampton Inn West Palm Beach Central Airport	96	81	124	100
Hilton Garden Inn West Palm Beach Airport	96	81	124	100
Secondary Competition	102	114	89	101

The Hampton Inn and Hilton Garden Inn both achieved the highest penetration rate within the segment. The highest penetration rate in the meeting and group segment and commercial segments were achieved by the secondary competition (which includes three full-service hotels).

### Forecast of Subject Property's Occupancy

Among the primary competitors, the Hilton Garden Inn and the Hampton Inn achieved the highest overall penetration rate at 100%, resulting in an occupancy rate for 2014 at 82%.

Among the secondary competitors, the Embassy Suites the highest overall penetration rate of 115%, resulting in occupancy rate for 2014 at 92%.

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 5-2 COMMERCIAL SEGMENT ADJUSTED PENETRATION RATES**

Hotel	2014	2015	2016	2017	2018	2019	2020
Courtyard by Marriott West Palm Beach Airport	101 %	101 %	101 %	101 %	101 %	99 %	98 %
Hampton Inn West Palm Beach Central Airport	96	96	96	96	96	94	93
Hilton Garden Inn West Palm Beach Airport	96	96	96	96	96	94	93
Secondary Competition	102	102	102	102	102	100	99
<b>Proposed Hotel</b>	—	—	—	—	<b>100</b>	<b>108</b>	<b>112</b>

Within the commercial segment, the proposed subject hotel’s occupancy penetration is positioned at an above-market-average level by the stabilized period due to its location on the grounds of Palm Beach International Airport.

**FIGURE 5-3 MEETING AND GROUP SEGMENT ADJUSTED PENETRATION RATES**

Hotel	2014	2015	2016	2017	2018	2019	2020
Courtyard by Marriott West Palm Beach Airport	78 %	78 %	78 %	78 %	79 %	78 %	77 %
Hampton Inn West Palm Beach Central Airport	81	81	81	81	82	81	80
Hilton Garden Inn West Palm Beach Airport	81	81	81	81	82	81	80
Secondary Competition	114	114	114	114	116	114	112
<b>Proposed Hotel</b>	—	—	—	—	<b>92</b>	<b>100</b>	<b>108</b>

Limited/select-service hotels are not known for meeting and group accommodations; however, this property will be located proximate to the Palm Beach International Airport (PBI). As noted previously, airport area hotels benefit from significant demand from airline crews and therefore have been positioned at an above-market average level by the stabilized period. This demand is expected from groups relating to the airline crews and not from meeting space. Therefore, the proposed subject hotel is expected to obtain a lower occupancy penetration in the meeting segment due to the abundant meeting space at the Hilton, Embassy Suites and Holiday Inn. These hotels obtain an above-market occupancy penetration level in the meeting demand segment.

**FIGURE 5-4 LEISURE SEGMENT ADJUSTED PENETRATION RATES**

Hotel	2014	2015	2016	2017	2018	2019	2020
Courtyard by Marriott West Palm Beach Airport	100 %	100 %	100 %	100 %	111 %	109 %	107 %
Hampton Inn West Palm Beach Central Airport	124	124	124	124	138	136	133
Hilton Garden Inn West Palm Beach Airport	124	124	124	124	138	136	133
Secondary Competition	89	89	89	89	98	97	95
<b>Proposed Hotel</b>	—	—	—	—	<b>44</b>	<b>55</b>	<b>64</b>

Within the leisure segment, the proposed subject hotel’s occupancy penetration is positioned at a below-average level by the stabilized period due to its location on the grounds of Palm Beach International Airport. Leisure travelers will prefer the Courtyard, Hilton Garden Inn, Hampton Inn and the Hawthorn Suites.

**FIGURE 5-5 OVERALL SEGMENT ADJUSTED PENETRATION RATES**

Hotel	2014	2015	2016	2017	2018	2019	2020
Courtyard by Marriott West Palm Beach Airport	96 %	96 %	96 %	96 %	99 %	97 %	96 %
Hampton Inn West Palm Beach Central Airport	100	100	100	100	103	102	100
Hilton Garden Inn West Palm Beach Airport	100	100	100	100	103	102	100
Secondary Competition	101 %	101 %	101 %	101 %	104	102	101
<b>Proposed Hotel</b>	—	—	—	—	<b>85</b>	<b>94</b>	<b>100</b>

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

**FIGURE 5-6 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY**

	2018	2019	2020
Commercial	67 %	66 %	64 %
Meeting and Group	20	20	20
Leisure	13	14	16
<b>Total</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

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 5-7 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY**

<b>Market Segment</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Commercial</b>			
Demand	150,764	151,644	152,538
Market Share	16.8 %	18.2 %	18.9 %
Capture	25,338	27,572	28,757
Penetration	100 %	108 %	112 %
<b>Meeting and Group</b>			
Demand	48,677	48,961	49,249
Market Share	15.4 %	16.8 %	18.2 %
Capture	7,489	8,229	8,954
Penetration	92 %	100 %	108 %
<b>Leisure</b>			
Demand	63,282	63,651	64,026
Market Share	7.5 %	9.2 %	10.8 %
Capture	4,731	5,840	6,922
Penetration	44 %	55 %	64 %
<b>Total Room Nights Captured</b>	<b>37,558</b>	<b>41,640</b>	<b>44,633</b>
Available Room Nights	54,750	54,750	54,750
<b>Subject Occupancy</b>	<b>69 %</b>	<b>76 %</b>	<b>82 %</b>
Marketwide Available Room Nights	325,763	325,763	325,763
<b>Fair Share</b>	<b>17 %</b>	<b>17 %</b>	<b>17 %</b>
Marketwide Occupied Room Nights	262,723	264,256	265,814
<b>Market Share</b>	<b>14 %</b>	<b>16 %</b>	<b>17 %</b>
<b>Marketwide Occupancy</b>	<b>81 %</b>	<b>81 %</b>	<b>82 %</b>
<b>Total Penetration</b>	<b>85 %</b>	<b>94 %</b>	<b>100 %</b>

Based on our analysis of the proposed subject hotel and market area, we have selected a stabilized occupancy level of 82%. 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 5-8 BASE-YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS**

Property	Estimated 2014 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Hilton Garden Inn West Palm Beach Airport	\$120.00	108.7 %	\$98.40	108.6 %
Hampton Inn West Palm Beach Central Airport	118.00	106.9	96.76	106.7
Courtyard by Marriott West Palm Beach Airport	105.00	95.1	82.95	91.5
Average - Primary Competitors	\$114.42	103.6 %	\$92.67	102.2 %
Average - Secondary Competitors	107.60	97.5	89.20	98.4
<b>Overall Average</b>	<b>\$110.39</b>		<b>\$90.64</b>	

The defined primarily competitive market realized an overall average rate of \$114.42 in the 2014 base year, improving from the 2013 level of \$105.24. The Embassy Suites achieved the highest estimated average rate in the local competitive market, by a modest margin, because of its strong brand affiliation with Hilton, all-suite product, superior location (at the intersection of Australian Avenue and Belvedere Road), and proximity to Palm Beach International Airport. The selected rate position for the proposed subject hotel, in base-year dollars,



takes into consideration factors such as its location on the grounds of the Palm Beach International Airport and its new construction within the competitive market.

We have selected the rate position of \$110.00, in base-year (2014) dollars, for the proposed subject hotel. This ADR positioning is lower than the Hampton Inn at \$118, and the Hilton Garden Inn at \$120. This rate position is on par with the Hilton Palm Beach which achieved \$111 in the base year 2014, and higher than the 2014 ADR of the Hawthorn Suites at \$93.00, Holiday Inn at \$93.00, Doubletree at \$100.00, and the Courtyard at \$105.00.

**FIGURE 5-9 BASE YEAR AVERAGE RATE**

<u>Property</u>	<u>2014- ADR</u>
Embassy Suites West Palm Beach Central	\$127.00
Hilton Garden Inn West Palm Beach Airport	120.00
Hampton Inn West Palm Beach Central Airport	118.00
Hilton Palm Beach Airport	111.00
<b>PROPOSED SUBJECT HOTEL</b>	<b>110.00</b>
DoubleTree by Hilton Hotel West Palm Beach Airport	100.00
Courtyard by Marriott West Palm Beach Airport	105.00
Holiday Inn Palm Beach Airport Conference Center	93.00
Hawthorn Suites by Wyndham	93.00

According to the STR Trend Report, market average rates began to trend upward starting in 2011, increasing from \$87.30 in 2011 to \$108.59 in 2014. Marketwide rates have not yet reached the prior peak level of \$121.01 that was reached back in 2006. Therefore, we expect average rates to continue to improve further over the immediate two-year period before reaching a stabilized level. Year-to-date data through March reveals that average rates have grown by 14.8%, or approximately \$22. We expect marketwide average rates to grow by 10.0% for calendar year 2015, and by 5.0% for year 2016 before reaching a stabilized growth rate at inflation for future years.

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 an underlying inflation rate 3.0% thereafter for each respective year following the stabilized year of operations.

**FIGURE 5-10 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST**

Year	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	82.1 %	—	\$110.39	—	—	\$110.00	99.6 %
2015	81.3	10.0 %	121.43	—	10.0 %	121.00	99.6
2016	82.2	5.0	127.50	—	5.0	127.05	99.6
2017	82.6	3.0	131.33	—	3.0	130.86	99.6
<b>2018</b>	<b>80.6</b>	<b>3.0</b>	<b>135.27</b>	<b>69.0 %</b>	<b>3.0</b>	<b>134.79</b>	<b>99.6</b>
2019	81.1	3.0	139.32	76.0	3.0	138.83	99.6
<b>2020</b>	<b>81.6</b>	<b>3.0</b>	<b>143.50</b>	<b>82.0</b>	<b>3.0</b>	<b>143.00</b>	<b>99.6</b>

As illustrated above, a 10.0% rate of change is expected for the proposed subject hotel's positioned 2014 room rate in 2015. This is followed by growth rates of 5.0% and 3.0% in 2016 and 2017, respectively. The competitive submarket should realize strong rate growth through the near term, followed by lower growth rates starting in 2017. The proposed subject hotel's rate position should reflect growth similar to market trends because of its new upscale facility, anticipated strong brand affiliation, and location within the grounds of Palm Beach International Airport. The proposed subject hotel's penetration rate is forecast to reach 99.6% 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 2014, occupancy approached the levels realized during the 1994–1996 timeframe, and average rate remained well above 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 2015. 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 2015 and 2016, markets should be able to support continued, healthy average rate gains in the near term.

The following occupancies and average rates will be used to project the subject property's rooms revenue. This forecast reflects years beginning on January 1, 2018 and stabilizing on January 1, 2020.

**FIGURE 5-11 FORECAST OF OCCUPANCY, AVERAGE RATE, AND REVPAR**

Year	Occupancy	Average Rate	RevPAR
2018	69 %	\$134.79	\$93.00
2019	76	138.83	105.51
2020	82	143.00	117.26

**Hotel Brand Recommendation**

We have considered hotels within the limited/select-service product tier to be an optimal fit for the proposed hotel. Full-service hotels require a three-meal restaurant along with ample meeting space in order to satisfy most brand standards. The development costs for building such a product is generally higher by as much as 50%. This information is based on available data for Marriott and Hilton hotels.

However, as indicated by the data in Figure 1-2 and Figure 1-3, average rates for the Hilton Garden Inn (select-service hotel) and Hampton Inn (limited-service hotel) exceed the rates achieved by the Doubletree, and Hilton Palm Beach Airport. The Embassy Suites, an all-suite, full-service hotel, is the rate leader by a minimal margin of \$7.00 over the Hilton Garden Inn. Therefore, in this Palm Beach Airport market, the additional costs for the full-service product may not be justified by the operating results based on the existing hotel inventory. Therefore, it is our opinion that a limited or a select-service hotel product to be the optimal fit for this development.

Four hotels are located west of the intersection formed by Interstate 95 and 45<sup>th</sup> Street. This intersection is located ±6.8 miles north of the subject site. These four hotels are SpringHill Suites, Residence Inn, Holiday Inn Express and Homewood Suites. Therefore, these brands have been excluded from consideration for the subject hotel. The list of available limited/select-service hotels is shown in Figure 1-6.

**FIGURE 1-8 LIMITED/SELECT-SERVICE HOTEL BRANDS**

Hotel Brand	Chain Scale	Parent Company	2014- Brandwide RevPAR
Candlewood Suites	limited-service	IHG	\$58
TownePlace Suites by Marriott	limited-service	Marriott International	\$72
Staybridge Suites	limited-service	IHG	\$87
Aloft by Starwood	select-service	Starwood Hotel Group	\$94

Note that we have not considered any brands affiliated with Hilton Hotels due to the presence of five properties within the competitive market including Hampton Inn, Hilton Garden Inn, Embassy Suites, Hilton and Doubletree.

## 6. Statement of Assumptions and Limiting Conditions

1. This report is set forth as a market study of the proposed subject hotel; this is not an appraisal report.
2. This report is to be used in whole and not in part.
3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would 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 HVS Consulting & Valuation are assumed true and correct. We can assume no liability resulting from misinformation.
9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.
10. The property is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including 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 because of this analysis without previous arrangements, and shall do so only when our standard per-diem fees and travel costs have been paid prior to the appearance.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.
16. The quality of a lodging facility's 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 HVS Consulting & Valuation. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of HVS Consulting & Valuation as employees, rather than as individuals.



## 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
<b>Totals/Average</b>	<b>425</b>	<b>100.0 %</b>	<b>47 %</b>	<b>38 %</b>	<b>15 %</b>	<b>74.4 %</b>	<b>100.0 %</b>

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
<b>Total</b>	<b>115,431</b>	<b>100.0 %</b>

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.

<b>COMMERCIAL SEGMENT PENETRATION FACTORS</b>					
<b>Property</b>	<b>Number of Rooms</b>	<b>Fair Share</b>	<b>Commercial Capture</b>	<b>Commercial Market Share</b>	<b>Commercial Penetration</b>
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
<b>Totals/Average</b>	<b>425</b>	<b>100.0 %</b>	<b>54,704</b>	<b>100.0 %</b>	<b>100.0 %</b>

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.

<b>COMMERCIAL SEGMENT FAIR SHARE</b>		
<b>Property</b>	<b>Number of Rooms</b>	<b>Fair Share</b>
Hotel A	100	19.0 %
Hotel B	125	23.8
Hotel C	200	38.1
New Hotel	100	19.0
<b>Total</b>	<b>525</b>	<b>100.0 %</b>

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
<b>Totals/Average</b>	<b>525</b>	<b>100.0 %</b>		<b>97.1 %</b>	<b>100.0 %</b>		<b>54,704</b>

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)

<b>Property</b>	<b>Number of Rooms</b>	<b>Fair Share</b>	<b>Hist./Proj. Penetration Factor</b>	<b>Hist./Proj. Market Share</b>	<b>Adjusted Market Share</b>	<b>Adjusted Penetration Factor</b>	<b>Projected Capture</b>
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
<b>Totals/Average</b>	<b>525</b>	<b>100.0 %</b>		<b>108.1 %</b>	<b>100.0 %</b>		<b>54,704</b>