



December 30, 2008

*Financial Feasibility Study*  
**BEST WESTERN INN & SUITES EMORY**

United States Highway 69  
Emory, Texas

This study has been prepared to determine the financial feasibility of building and operating a 50 unit Best Western Inn & Suites hotel along the southern stretch of US Highway 69 (at FM 515) in Emory, Texas. The hotel is to be made up of at least 30% mini-suite units of approximately 400 square feet, with the rest of the rooms as standard units. The hotel site has good visibility and easy access to US Highway 69.

Project quality is set to meet the physical and operating standards of the Best Western brand. This level of quality and acceptance for a Best Western product has been assumed in developing this financial feasibility study. Operating costs are set at the level of similar Limited-Service hotel results.

**KEY FINDING:** Building and operating a Best Western Inn & Suites at this site in Emory produces a pre-tax return on invested capital approaching 15%, with a return on investor's equity of 41%. This return assumes a total investment of \$3,250,000 for the land and the hotel, with improvements per rental unit estimated at \$60,000. In our opinion this is a good hotel investment.<sup>1</sup>

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1. We have also examined the hotel as a Holiday Inn Express development at this site. See Page 47 for details.

Investment

Land Investment	\$ 250,000	for 2 acres <sup>2</sup>
Improvements	\$ <u>3,000,000</u>	at \$60,000 per unit
Total Investment	\$ 3,250,000	
Pre Tax Project Return*	14.62%	<sup>3</sup>
Return on Equity**	40.48%	

\* after reserves for renovations.

\*\* assuming 75% debt and 25% equity at a 6% pre tax debt cost; calculated weighted average.

Projections in this study begin in January of 2010<sup>4</sup> and are reliant upon the property operating under the proposed brand name for the next ten years and retaining the brand name at the time of sale. The hotel's projected cash flow, before-tax and after renovation reserves, should be available for debt service, income tax and dividends as follows:

	Occupancy Percent	Average \$ Rate	\$ REVPAR	Total Revenue	Cash Flow**
Year I	60.6%	\$77.32*	\$46.85	\$889,181	\$355,240
Year II	71.2%	\$79.64	\$56.74	\$1,076,863	\$446,910
Year III	74.2%	\$83.22	\$61.79	\$1,172,751	\$496,337
Year IV	74.2%	\$85.72	\$63.64	\$1,207,934	\$506,396
Year V	74.1%	\$88.48	\$65.55	\$1,244,172	\$490,084
Year VI	73.9%	\$89.81	\$66.39	\$1,260,096	\$481,950
Year VII	73.8%	\$91.16	\$67.24	\$1,276,224	\$492,537
Year VIII	73.6%	\$92.52	\$68.10	\$1,292,558	\$500,625
Year IX	73.4%	\$93.97	\$68.97	\$1,309,102	\$476,299
Year X	73.1%	\$95.56	\$69.82	\$1,325,096	\$3,991,194***

\* About \$75 in current market dollars, assuming 3% inflation; \*\*Before Income Tax & Financing expense, but reflecting \$711,222 in reserves for renovation (\$14,224 per unit). \*\*\*assumes valuing property at Year 10 cash flow at an 11% return to-buyer, less 4% expense of sale, plus year 11 cash flow.

The above cash flow, assuming a Year 10 sale, has been discounted at the rate of 14.62% to a present value of \$3,250,162, virtually equal to the developer's budgeted investment of \$3,250,000. This 14.62% is the project's unleveraged return, provided capital investment is kept at this level. If capital outlays were to vary from our estimated budget for this project, returns would vary accordingly. The estimated per room turn-key costs (excluding land) of \$60,000

2. EDC's estimate of land costs acreage. SSI estimate of turn key costs for hotel.

3. Includes the effect of a management fee on the property's cash flow.

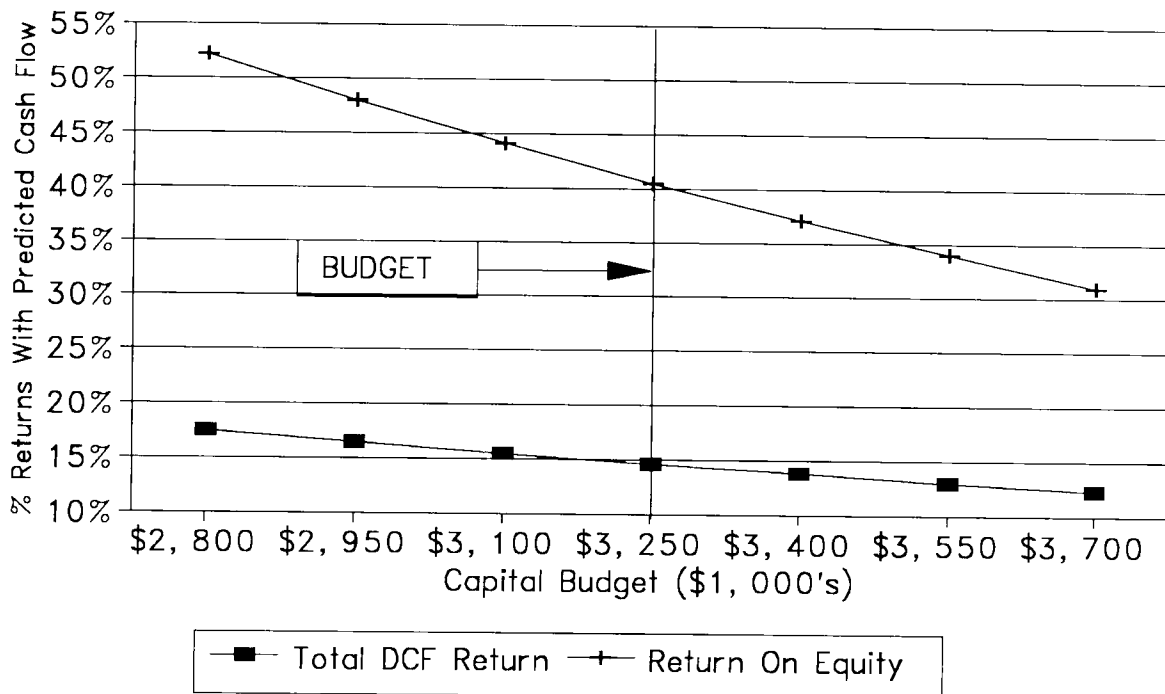
4. Altering the hotel's opening date by up to nine months will not significantly impact the ROIC or cash flow.

per unit is reasonable for this kind of hotel product, in our experience. The following table and graph illustrate the linear nature of financial returns if capital requirements vary.

Effect on Returns if Capital Investment Changes<sup>5</sup>

Variance	Improvement Budget		Land <sup>6</sup> Cost	Total Investment	Discounted Cash Flow	
	Unit\$	Total			Total Proj	On Equity
(85%)	\$51.0	\$2,550	\$250	\$2,800	17.53%	52.12%
(90%)	\$54.0	\$2,700	\$250	\$2,950	16.48%	47.92%
(95%)	\$57.0	\$2,850	\$250	\$3,100	15.52%	44.08%
<b>BUDGET</b>	<b>\$60.0</b>	<b>\$3,000</b>	<b>\$250</b>	<b>\$3,250</b>	<b>14.62%</b>	<b>40.48%</b>
(105%)	\$63.0	\$3,150	\$250	\$3,400	13.78%	37.12%
(110%)	\$66.0	\$3,300	\$250	\$3,550	12.99%	33.96%
(115%)	\$69.0	\$3,450	\$250	\$3,700	12.25%	31.00%

### DCF Project Returns If Capital Investment Varies



5. Discounted Cash Flow / Internal Rate of Return. All dollar figures in thousands ('000's).  
 6. EDC's estimate of land costs and land acreage. SSI estimate of turn key costs for hotel.

A detailed look at the Best Western Inn & Suites operation in Year III (the first year of peak performance after two years of ramping upwards) reveals the following:

<u>Year III - 2012</u>	
Room Revenues	\$1,127,645
Total Revenues	\$1,172,751
Income Before Fixed Costs	\$ 586,846 (50.0%)
Net Income Before Tax & Fin.	\$ 456,942 (39.0%)
Cash Flow Before Financing	\$ 496,337 (42.3%) <sup>7</sup>
Occupancy %	74.2%
Avg. Rate	\$ 83.22
\$ REVPAR	\$ 61.79
Per Occupied Room Costs	\$ 40.59

The critical statistic used in this study is REVPAR. REVPAR means revenue per available room per day, and reflects the average daily room revenue yield of every room in a property or market (not just occupied rooms). REVPAR is generated by multiplying occupancy times rate (i.e. REVPAR = % occupancy times average daily rate), and is the most effective and important tool in the evaluation of the success of any lodging concern.

#### SUMMARY OF CRITICAL ASSUMPTIONS:

Critical assumptions are summarized as follows, with detailed study and support following the **Methodology** section:

1. Local market REVPAR is projected - over the next nine years - to increase at a 3.1% compound growth rate, below the growth rate over the past nine years (3.2%).

However, we expect market occupancy to remain near the estimated long term

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7. Before deductions of loan principal and interest, before income tax deductions, and before any equity payout.

equilibrium level of 50% expected for the hotels in the local market. Local market history and projections start on page 13.

SEVEN COUNTY AREA / EMORY MARKET<sup>8</sup>

<u>Year</u>	<u>Occupancy %</u>	<u>\$ REVPAR</u>
1999	52.2%	\$ 23.32
2001	48.7%	\$ 22.36
2003	48.6%	\$ 22.91
2005	51.1%	\$ 25.31
<b>2008</b>	<b>50.7%</b>	<b>\$ 30.35<sup>9</sup></b>
2012	50.1%	\$ 34.95
2017	50.1%	\$ 40.23

Future Annual Growth Rate

Next 9 Year Average	-0.1%	3.1%
Next 5 Year Average	-0.2%	3.3%

Historical Annual Growth Rate

Past 9 Years Average	-0.1%	3.2%
Past 4 Years Average	0.4%	6.3%
Past 1 Year Average	1.4%	11.2%

2. The REVPAR index of the proposed Best Western Inn & Suites averages 178% of a local market average REVPAR in Years III through V, thereafter, the index declines due to normal aging. The fully detailed REVPAR derivation logic and subsequent projections commence on page 22.

BEST WESTERN INN & SUITES DERIVATION

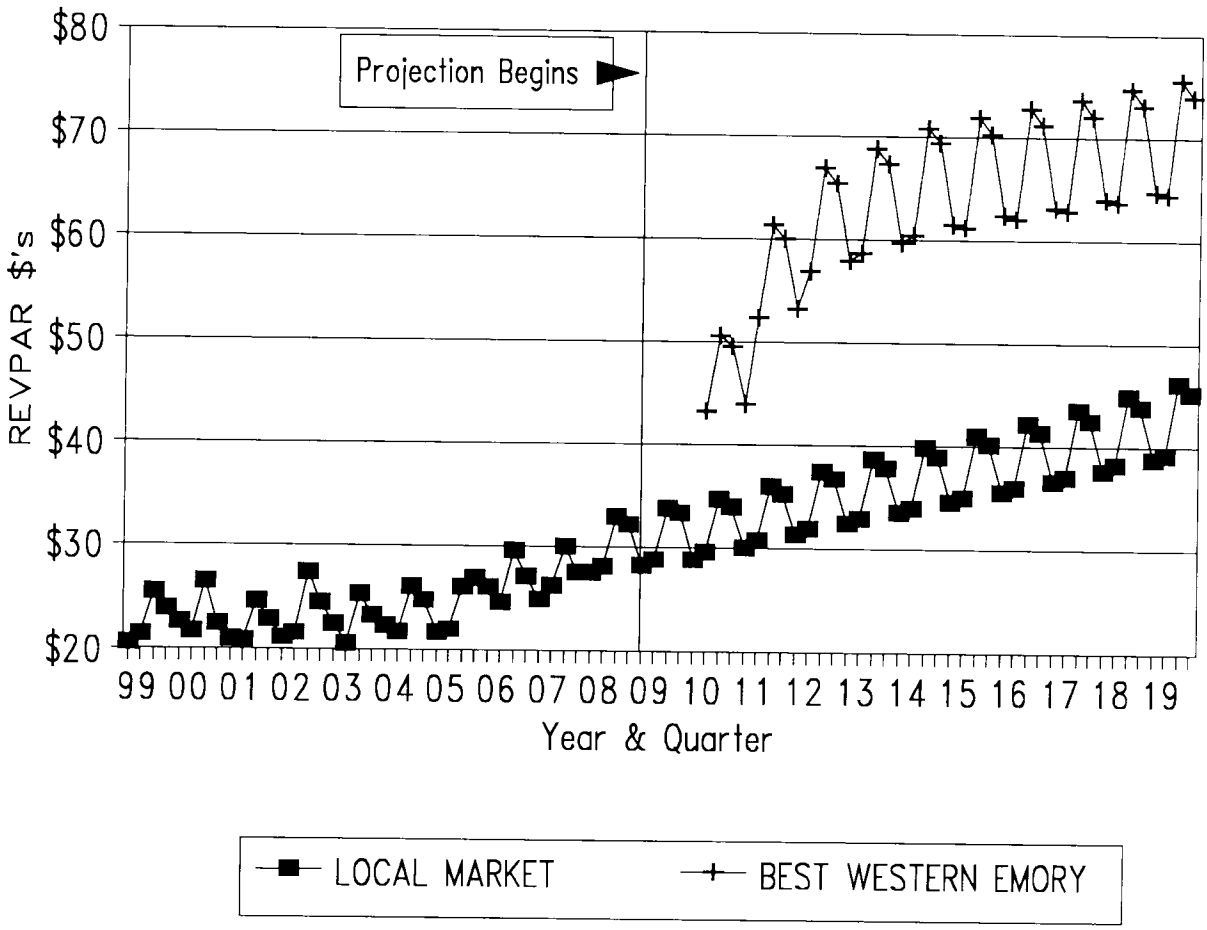
All Data in 2008 \$'s	<u>Year I</u>	<u>Year II</u>	<u>Year III</u>
<u>Base: Name Type &amp; Quality</u>	1.39	1.39	1.39
x Brand Age Adjustment	1.14	1.14	1.14
x Site Value Adjustment	0.85	0.85	0.85
x Size Adjustment	1.07	1.07	1.07
x Other Adjustments	1.10	1.10	1.10
<u>x Newness Adjustment</u>	<u>0.92</u>	<u>1.07</u>	<u>1.12</u>
=Theor. REVPAR Index	146%	170%	178%
<u>x Market REVPAR Avq 2008</u>	<u>\$30.35</u>	<u>\$30.35</u>	<u>\$30.35</u>
= Projected Performance	\$44.40	\$51.64	\$54.06

8. Includes counties of Rains, Hunt, Van Zandt, Wood, Smith, Hopkins, & Kaufman. Excludes cities of Kilgore, Longview, Kaufman, Kleberg, Big Sandy, and Seagoville.

9. Twelve months ending September 30, 2008.

The projected REVPAR performance of the Best Western Inn & Suites reflects expectations for this hotel to peak at 178% of the market average. The hotel's REVPAR peaks in Years III through V, then grows slightly slower than the market REVPAR projection:

### REVPAR HISTORY & PROJECTION: SEVEN COUNTY AREA / BEST WESTERN EMORY



3. Operating costs are set at a level that matches the regional average for similar hotel products, in similar types of markets, established from Smith Travel Research's *Host Report*, inflated at 3% annually (Per Occupied Room). Details page 40.

### METHODOLOGY

To develop Pro Forma financial results for the proposed project, two major sets of assumptions are developed. First, the future market's average REVPAR is forecast on a reasonable and economically-sound basis; the performance of the project is dependent on this market forecast and varies from it only due to specific variables of the project. Second, these specific variables of the project are expressed as an index for each quarter of the forecast, an index that is used to adjust the overall market performance to the specific project.

#### Market REVPAR Forecast

The Seven County Area market is examined historically and projected. Market projections are based on growth rates in real demand (roomnights sold), prices (average daily rates), and supply (rooms available). The key in this projection is to stabilize the market in the future at a sustainable, average equilibrium for occupancy, a level which we have determined to be approximately 58% in markets of this type. Over the 20 years from 1987 through 2007, according to the **Source Strategies, Inc.** database, hotel occupancy in Texas has averaged 58%, and 59% in Texas metros. This occupancy level is highly relevant as a long-term, equilibrium occupancy, a level where investors are neutral about adding new hotel rooms to the market and an average that will reoccur over long periods of time (e.g. 20 years).

In this local market, we expect about a 50% equilibrium occupancy average for a long-term market projection, (see *Exhibit III for a specific listing of existing hotels and motels in the local market*). The examination of REVPAR growth rates are very important to inspect historically and to consider carefully the expected growth rates for the future. Any unusual qualities that may exist relative to the market area is taken into account (e.g. a faster or slower economic growth

outlook, a high number of new hotels at a high price level entering the market, etc.). The REVPAR projection of the local market is then *the pro forma market environment of the proposed subject development*; the project will vary from the norm for only project-specific differences, and then only relatively.

Project Specific Variables  
Development of the Project REVPAR Indices

The first variable from the averages to be developed has to do with the fact that each product type and brand have a typical and identifiable influence on REVPAR performance. This variable is based on its consumer acceptance, its product definition, its level of quality, the price it can command from the consumer, its marketing efforts, and other factors. The value of the brand and product type is termed the Base Value.

The second adjustment used on the dollar value of the local area's REVPAR is the Brand Age Adjustment. This is made to reflect the average age of similarly branded hotels on the subject property's performance versus the market average. In this case the opening dates of Best Western Inn & Suites hotels in the Exhibit IV market were examined in order to quantify this factor.

The next step to developing a project REVPAR index is to determine any further adjustment based on deviation from a normal project Size. If the number of proposed rooms in the project is significantly above or below the average for that brand and product-type, its performance will also vary from the norm. A lower than average number of rooms should increase per room performance and vice versa. *This is due to the fact that consumer demand for a single brand is demand at the project's site, regardless of the number of rooms offered by the hotel (a minor exception here would be a convention hotel).*

An empirical proof of this evaluation of Size is the major increase in volume enjoyed by the numerous hotels throughout Texas that have split into two branded operations, using two different brand names. For example, the Hilton Hotel Towers Austin added \$1,000,000 annually to revenues by splitting off its adjacent, ground-based rooms as a Super 8 Motel. By creating another brand at the same site, the Super 8 began to fill demand for budget properties in the immediate area, while the Hilton Towers kept its current customer base of upscale consumers. Hence, smaller room counts than average generate higher occupancy than average. Further proof is the correlation between project size and occupancy: the smaller the property, the higher the occupancy.<sup>10</sup>

A further, 'Other,' segment adjustment may be made if the proposed product type is under- or over- supplied in the local market. In other words, a product type commanding 10% of the Texas market - but zero locally - would command a higher daily rate or occupancy locally because it is a relatively scarce commodity.

Then the REVPAR potential of the subject Site, regardless of brand, is developed in two ways. First, all other property factors except site are calculated for nearby competitors, the site factor then being used to bring the calculated REVPAR into a match with actual REVPAR performance. In other words, combining all factors including a 'plugged' site factor results in the *theoretical* REVPAR projection equalling *actual* REVPAR for each property studied, revealing the mathematical value of individual hotel sites. While there is usually a reasonably consistent pattern of site factors for the nearby local chain properties selected, these factors often vary because of unique situations, including: 1) visibility

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10. Study detailed in *size factor derivation* in analysis section.

and access differences between nearby sites; 2) any large variation from the norm in the usual number of rooms for a local chain property at a site; 3) a nearby property's quality, the quality of management, last renovation, etc.; and 4) any major new commercial development nearby (e.g. shopping center, office complex, hospital). Adjustments can be made for these differences within forecast site factor, based on industry experience. This is the Segment, or Other adjustment.

With the development of the adjustments for Brand/product type, overall Brand Age, Segment, project Size, and Site, a revenue projection for the proposed operation begins to take form by combining these factors into a combined index that is applied to the overall market-wide REVPAR projection, resulting in the forecast of the project's dollar REVPAR. However, this combined index changes with the cumulative age the specific project.

The physical Age of the individual project impacts this REVPAR index. A first-year start-up adjustment of -8% and a second year adjustment of +7%, followed by a +12% adjustment for years III-V. This factor reflects the major revenue-generating power of new versus old properties. In the sixth year and thereafter, the REVPAR index is then diminished at a rate of 1.67% per annum in order to reflect aging and the normal life-cycle of a hotel. This pattern of declining performance with property aging is based on major studies of economic life-cycle patterns. The first study was conducted on a census of all 25,000 Texas rooms built between 1980 and 1982 (study published in September 1994 issues of *MarketShare*<sup>11</sup> and the October 1994 issue of *Hotel & Motel Management*); the second investigation was conducted on all 17,231 rooms built in Texas from 1990 through 1995. These **Source Strategies, Inc.** studies confirm a similar, major study

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11. Now *Hotel Brand Report*.

conducted in 1982 at the Holiday corporation on 160 company-owned and company-operated Holiday Inn hotels. Lastly, a 2006 computer study of the latest year performance of 265,900 Texas hotel rooms shows that new chain hotels outperform old chain hotels by 22% (*Hotel Brand Report*, "The Best Surprise is No Surprise," published December 2006).

Combining all of these factors - Product Type, Brand Age, Site, Size, Segment (other), and Newness (Age) - results in the REVPAR stream for the project. A REVPAR stream from which room revenues, estimated rate, occupancy and roomnights sold are derived. At this point, the investment and operational costs can be laid against the revenue line to generate pro forma financial performance and discounted cash flow analysis.

The calculation of the statistic of Operating Costs Per Occupied Room (before fixed/capital costs are deducted) is typically the important cost to examine carefully because it is highly stable and predictable, regardless of occupancy and rate. The *Smith Travel Research Host Report of Hotel Operating Statistics*, 2008 edition (2007 data) with dollar costs inflated, and **Source Strategies, Inc.** financial models are the source of operating cost statistics.

From national average occupancies, costs are categorized as fixed, semi-variable or variable, resulting in the highly-leveraged profit performance characteristic of lodging products, depending on occupancy and REVPAR performance (i.e. variable costs increase proportionately with higher occupancy levels while fixed costs do not).

Furthermore, with a capital expenditures profile provided by the International Society of Hospitality Consultants' CapEx, A Study of Capital Expenditures in the U.S. Hotel Industry, a method has been applied to determine an appropriate amount of renovation reserves to ensure that the property is maintained at the franchisers required level. Adjustments are made for any expected cost deviations from the norm (i.e. delivering higher- or lower- levels of quality).

All-study area chain and independent hotel/motel revenue, occupancy, rate and REVPAR histories are included in the study, using the **Source Strategies, Inc.** database of all Texas hotels and motels. The methodology of this database is attached as an exhibit.

LOCAL MARKET HISTORY & PROJECTION

1. In the latest twelve months, the local hotel market generated an occupancy of 51% and a \$30.35 REVPAR:

<u>LODGING MARKET: SEVEN COUNTY AREA</u>											
<u>PERIOD: TWELVE MONTHS ENDING SEPTEMBER 30, 2008</u>											
<u>BRAND</u>	<u>#*</u>	<u>RMS</u>	<u>%</u>	<u>EST.</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>EST.</u>	<u>\$</u>	<u>\$</u>	
	<u>HTL</u>	<u>000S</u>	<u>RMS</u>	<u>000S</u>	<u>RNS</u>	<u>000S</u>	<u>AMT</u>	<u>%OCC</u>	<u>RATE</u>	<u>RPAR</u>	
<u>COMPARABLE CHAINS</u>											
BEST WESTERN CANTON	.1	3.1	14	3.0	789	2.7	48.1	54.76	26.35		
HOLID EXP GREENVI	.1	3.0	19	3.9	1,671	5.7	65.7	87.07	57.23		
BEST WESTERN MINEOL	.1	1.9	11	2.3	859	3.0	61.3	76.75	47.07		
COMFO STE	2	.1	4.2	18	3.7	1,397	4.8	44.0	78.20	34.39	
BEST WEST	3	.2	7.2	44	9.1	2,715	9.3	63.8	61.41	39.17	
COMFO INN	2	.1	4.1	22	4.5	1,274	4.4	55.2	58.58	32.32	
HAMPTON	2	.1	5.2	37	7.5	3,470	11.9	73.3	94.69	69.40	
HOLID EXP	3	.2	7.1	41	8.4	3,524	12.1	60.2	86.33	52.01	
LA QUINTA	2	.1	5.5	29	6.0	2,184	7.5	54.8	75.38	41.30	
<u>TOT LTD SVE</u>	<u>12</u>	<u>.8</u>	<u>29.2</u>	<u>172</u>	<u>35.5</u>	<u>13,167</u>	<u>45.3</u>	<u>61.7</u>	<u>76.37</u>	<u>47.13</u>	
BST VALUE	1	.1	2.3	8	1.6	237	.8	34.7	31.20	10.83	
DAYS INN	3	.1	5.1	25	5.1	1,120	3.9	49.9	45.50	22.73	
ECONOLODG	1	.0	1.6	7	1.4	259	.9	44.2	38.28	16.92	
MOTEL 6	2	.1	5.4	25	5.2	756	2.6	48.7	29.70	14.48	
QUALITY	2	.1	5.1	25	5.0	1,152	4.0	49.9	47.00	23.46	
SUPER 8	3	.1	5.3	24	5.0	1,118	3.8	47.1	46.41	21.87	
OTHER BUD	1	.0	1.1	6	1.3	318	1.1	56.3	51.58	29.04	
<u>TOT BUDGET</u>	<u>13</u>	<u>.7</u>	<u>26.1</u>	<u>119</u>	<u>24.5</u>	<u>4,959</u>	<u>17.1</u>	<u>47.7</u>	<u>41.61</u>	<u>19.85</u>	
<u>TOT CHAINS</u>	<u>30</u>	<u>1.8</u>	<u>67.5</u>	<u>354</u>	<u>72.9</u>	<u>22,843</u>	<u>78.6</u>	<u>54.7</u>	<u>64.48</u>	<u>35.29</u>	
<u>INDEPENDENTS</u>											
\$100+ ADR	4	.0	.8	3	.7	495	1.7	43.2	149.40	64.52	
\$60-99ADR	9	.2	6.2	27	5.5	2,137	7.3	45.0	80.43	36.18	
LT \$60ADR	17	.7	24.8	99	20.3	3,456	11.9	41.5	35.07	14.56	
BENT TREE	1	.0	.7	3	.7	150	.5	47.0	46.18	21.69	
<u>TOTAL INDEP</u>	<u>31</u>	<u>.9</u>	<u>32.5</u>	<u>132</u>	<u>27.1</u>	<u>6,237</u>	<u>21.4</u>	<u>42.3</u>	<u>47.37</u>	<u>20.06</u>	
<u>TOTAL MARKET</u>	<u>61</u>	<u>2.6</u>	<u>100.0</u>	<u>486</u>	<u>100.0</u>	<u>29,080</u>	<u>100</u>	<u>50.7</u>	<u>59.85</u>	<u>30.35</u>	

\* All figures annualized. Includes taxed and est non-tax room revenues. Independents are categorized by price: \$100+, \$60-99.99, and under \$60.

Seven County Area Market REVPAR History:

2. Over the past nine years, the local market has shown an average annual real growth of 3.1% (roomnights sold). With room prices rising at a rate of 3.3% annually, resulting total room revenues gained 6.5% annually. REVPAR rose 3.2% annually, occupancy fell by 0.1% per year, while supply rose by 3.2% per year.

Over the past four years, annual demand growth of 5%, was followed by an annual supply gain of 4.5%. Occupancy rose 0.4% per year. Revenues over this period increased by 11.1% per year, aided by room rates gaining 5.8% yearly. REVPAR increased by a steeply climbing 6.3% annual rate.

Over the last two years, demand rose 6.5% per year, while supply rose by 7.9% annually. This trend caused occupancy to fall over the period by 1.4% annually. REVPAR rose 6.1% annually due to price rises of 7.5% year over year, and revenues rose 14.6%.

Most recent history (latest 12 months) shows demand continuing to climb, rising 10% over the previous year. Supply continued to rise also, by 8.3% versus the previous year. Prices gained 9.6% and REVPAR rose by 11.2%. Market revenues rose 20.8%, while occupancy rose by 1.4%.

SEVEN COUNTY AREA MARKET HISTORY

Year & Quarter	# Htls and Mtls	# Rooms	Room- <sup>1</sup> Total		% <sup>2</sup>	\$ <sup>3</sup>	\$ <sup>4</sup>	%Growth Vs Yr Ago				
			nites sold 000's	Room Revenues \$ 000's				Sply	Real	ADR	\$ Rev	
984	42	1,885	82	3,548	47.3	43.25	20.46					
991	44	1,963	85	3,779	48.0	44.56	21.39					
992	45	2,012	100	4,656	54.3	46.80	25.43					
993	46	2,034	102	4,465	54.4	43.82	23.86					
994	46	1,997	95	4,136	51.8	43.44	22.51	5.9	16.1	0.4	16.6	
001	47	2,086	92	4,075	49.0	44.27	21.70	6.3	8.5	-0.7	7.8	
002	49	2,054	106	4,966	56.8	46.76	26.57	2.1	6.7	-0.1	6.7	
003	47	2,107	98	4,343	50.3	44.50	22.40	3.6	-4.2	1.6	-2.7	
004	47	2,088	91	4,012	47.2	44.29	20.89	4.6	-4.8	2.0	-3.0	
011	45	2,060	86	3,858	46.3	44.95	20.81	-1.2	-6.7	1.5	-5.3	
012	49	2,156	104	4,825	52.9	46.48	24.59	5.0	-2.3	-0.6	-2.8	
013	50	2,217	101	4,664	49.7	45.98	22.87	5.2	3.9	3.3	7.4	
014	48	2,192	93	4,251	46.0	45.87	21.08	5.0	2.3	3.6	6.0	
021	51	2,222	92	4,311	45.9	46.93	21.56	7.9	7.1	4.4	11.7	
022	55	2,227	115	5,548	56.5	48.45	27.38	3.3	10.3	4.2	15.0	
023	54	2,273	107	5,122	51.1	47.89	24.49	2.5	5.5	4.2	9.8	
024	52	2,191	95	4,530	47.3	47.47	22.47	-0.0	2.9	3.5	6.6	
031	54	2,219	87	4,107	43.7	47.06	20.56	-0.1	-5.0	0.3	-4.7	
032	58	2,250	107	5,205	52.4	48.54	25.42	1.0	-6.4	0.2	-6.2	
033	54	2,209	101	4,741	49.8	46.80	23.33	-2.8	-5.3	-2.3	-7.4	
034	55	2,180	97	4,463	48.2	46.17	22.25	-0.5	1.4	-2.7	-1.5	
041	57	2,178	90	4,251	46.1	47.07	21.69	-1.8	3.4	0.0	3.5	
042	59	2,243	108	5,322	53.1	49.09	26.08	-0.3	1.1	1.1	2.2	
043	55	2,199	104	5,021	51.5	48.23	24.82	-0.5	2.8	3.1	5.9	
044	53	2,165	94	4,318	47.2	45.96	21.68	-0.7	-2.9	-0.5	-3.2	
051	57	2,249	94	4,449	46.3	47.48	21.98	3.3	3.8	0.9	4.7	
052	59	2,261	110	5,379	53.6	48.81	26.14	0.8	1.7	-0.6	1.1	
053	55	2,252	107	5,592	51.7	52.16	26.99	2.4	3.0	8.1	11.4	
054	50	2,151	104	5,165	52.6	49.63	26.10	-0.6	10.9	8.0	19.6	
061	52	2,243	99	4,976	48.9	50.44	24.65	-0.3	5.3	6.2	11.8	
062	55	2,316	116	6,234	55.0	53.83	29.58	2.4	5.1	10.3	15.9	
063	55	2,314	110	5,778	51.6	52.62	27.14	2.8	2.4	0.9	3.3	
064	54	2,330	102	5,346	47.6	52.45	24.94	8.3	-2.1	5.7	3.5	
071	57	2,395	106	5,643	49.2	53.22	26.18	6.8	7.4	5.5	13.4	
072	59	2,416	118	6,607	53.7	55.91	30.05	4.3	2.1	3.9	6.0	
073	61	2,556	116	6,484	49.2	56.07	27.57	10.5	5.3	6.6	12.2	
074	58	2,437	110	6,170	49.0	56.19	27.52	4.6	7.8	7.1	15.4	
081	61	2,592	111	6,566	47.5	59.24	28.15	8.2	4.5	11.3	16.4	
082	62	2,698	130	8,102	52.8	62.47	33.00	11.7	9.7	11.7	22.6	
083	64	2,774	136	8,241	53.2	60.74	32.29	8.5	17.4	8.3	27.1	
<b>CGR% Past 9yrs</b>		<b>3.2%</b>	<b>3.1%</b>	<b>6.5%</b>	<b>-0.1%</b>	<b>3.3%</b>	<b>3.2%</b>					
<b>" 4yrs</b>		<b>4.5%</b>	<b>5.0%</b>	<b>11.1%</b>	<b>0.4%</b>	<b>5.8%</b>	<b>6.3%</b>					
<b>" 2yrs</b>		<b>7.9%</b>	<b>6.5%</b>	<b>14.6%</b>	<b>-1.4%</b>	<b>7.5%</b>	<b>6.1%</b>					
<b>" 1yr</b>		<b>8.3%</b>	<b>10.0%</b>	<b>20.8%</b>	<b>1.4%</b>	<b>9.6%</b>	<b>11.2%</b>					

1. Roomnights sold (derived from est. rate and actual revenues) 2. Occupancy nights sold divided by nights available for sale. 3. Avg. price for roomnights sold; Directories, Surveys, & experience. 4. \$ Revenue per available room per day (room sales per day)

3. Over the course of the projection of the local area hotel market, occupancy is expected to remain near the estimated long-term equilibrium occupancy level of 50%. Over the next nine years, real demand (room nights sold) is projected at an average 2.7% growth rate, *just below the net annual supply growth of 2.8%.* With 3.3% average daily rate inflation expected, market gross revenues should gain 6% annually during the nine year forecast. Some of the rate inflation represents a continuing industry trend of improving quality.

These assumptions relative to demand, supply, and occupancy also reflect the fact that over the past 20 years overall occupancy in Texas has averaged about 58%, the average for branded and independent hotels, and a level considered to be 'Equilibrium Occupancy.' These occupancies do not consider the fact that urban and metro area markets generate higher overall occupancy and REVPAR numbers than state averages, while highway and rural areas lag these averages (**Source Strategies, Inc.** database). 'Equilibrium Occupancy' is further explained by the fact that new investment money is eventually attracted to an *under-supplied* market until market occupancy falls and lower returns on capital are the result. The equilibrium occupancy point is where net, new supply is being added at about the same rate as growth in demand, and where return on investment is in balance with the cost of capital.

Fueled by steady demand growth, the market has room for *appropriately-positioned* new development, added at similar rates to demand. Higher-quality new lodging products at or above mid-priced levels are performing extremely well in the market despite overall performance numbers being moderated by the large number of older, obsolete hotels. These older, existing competitors are highly vulnerable to the superior attractiveness of new branded/chain competition. Given this growth

