



APPRAISAL REPORT

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# Proposed Home2 Suites by Hilton



19 MACARTHUR BOULEVARD  
SOMERS POINT, NEW JERSEY

**SUBMITTED TO:**

Ms. Cheryl Zaborowski  
Parke Bank  
601 Delsea Drive  
Sewell, New Jersey, 08080

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**PREPARED BY:**

HVS Consulting & Valuation  
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December 27, 2016

Ms. Cheryl Zaborowski  
Parke Bank  
601 Delsea Drive  
Sewell, New Jersey, 08080

Re: Proposed Home2 Suites by Hilton  
Somers Point, New Jersey  
HVS Reference: 2016021879

**HVS PHILADELPHIA**

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Dear Ms. Zaborowski:

Pursuant to your request, we herewith submit our narrative appraisal report pertaining to the above-captioned proposed hotel. We have inspected the real estate and analyzed the market conditions in the Somers Point, New Jersey area. We have also reviewed the proposed improvements for this site. Our report has been prepared in accordance with, and is subject to, the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation. This letter of transmittal is not valid as an opinion of value if detached from the supporting report.

The subject of the appraisal is the fee simple interest in a 113,692-square-foot (2.61-acre) site to be improved with an extended-stay lodging facility; the hotel will be associated with the Home2 Suites by Hilton brand. The site is currently cleared and ready for development. The site is planned to be improved with a 114-room Home2 Suites by Hilton. The property, which is expected to open on May 1, 2018, will feature 114 rooms, a breakfast dining area, an indoor pool, a fitness room, a lobby workstation, a market pantry, a guest laundry room, and vending areas. The hotel will also contain the appropriate parking capacity (125 ) and all necessary back-of-the-house space. This appraisal report is being prepared for use in the construction financing of the proposed subject hotel.

We have undertaken the appraisal process, and based on our analysis have concluded to the following opinions of market value:

	As Is	When Complete	When Stabilized
Date of Value	December 12, 2016	May 1, 2018	May 1, 2021
Exposure Time (Months)	five to seven	five to seven	five to seven
Real Property Value	\$2,100,000	\$14,800,000	\$18,700,000
Personal Property Value	0	2,500,000	700,000
Intangible Property Value	0	0	0
<b>Reconciled Value</b>	<b>\$2,100,000</b>	<b>\$17,300,000</b>	<b>\$19,400,000</b>
<b>Reconciled Value per Key</b>		<b>151,800</b>	<b>170,200</b>

The analysis is based on the extraordinary assumption that the described improvements have been completed as of the prospective "when complete" date of value. The reader should understand that the completed subject property does not yet exist as of the date of appraisal. Our appraisal does not address unforeseeable events that could alter the proposed project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, shall take place between the date of inspection and date of prospective value. The use of this extraordinary assumption may have affected the assignment results. We have made no other extraordinary assumptions specific to this appraisal. However, several important general assumptions have been made that apply to this appraisal and our valuations of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of 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,  
TS Worldwide, LLC

A handwritten signature in black ink, appearing to read 'Jerod S. Byrd'.

Jerod S. Byrd, MAI, Managing Director, Senior Partner  
jbyrd@hvs.com, +1 (901) 481-3058  
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## Table of Contents

<b>SECTION</b>	<b>TITLE</b>	<b>PAGE</b>
1.	Summary of Salient Data and Conclusions	5
2.	Nature of the Assignment	8
3.	Description of the Site and Neighborhood	14
4.	Description of the Proposed Project	21
5.	Market Area Analysis	30
6.	Supply and Demand Analysis	41
7.	Projection of Occupancy and Average Rate	53
8.	Highest and Best Use	58
9.	Approaches to Value	60
10.	Income Capitalization Approach	62
11.	Sales Comparison Approach	79
12.	Cost Approach	82
13.	Reconciliation of Value Indications	92
14.	Statement of Assumptions and Limiting Conditions	97
15.	Certification	100
	 Addenda	
	 Qualifications	
	Copy of Appraisal License	
	Copy of Engagement Letter	



# 1. Summary of Salient Data and Conclusions

Project: Proposed Home2 Suites by Hilton  
Location: 19 MacArthur Boulevard  
Somers Point, New Jersey 08244  
Interest Appraised: Fee Simple  
Highest and Best Use (as if vacant): Develop an extended-stay lodging facility

## LAND DESCRIPTION

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Area: 2.61 acres, or 113,692 square feet  
Zoning: HC-2 - Highway Commercial  
Assessor's Parcel Number(s): Block 1815, Lot 3; Block 1815, Lot 8; Block 1715, Lot 1; Block 1715, Lot 8  
FEMA Flood Zone: B

## PROPOSED IMPROVEMENTS DESCRIPTION

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Expected Opening Date: May 1, 2018  
Property Type: Extended-stay lodging facility  
Building Area: 69,029 square feet  
Guestrooms: 114  
Number of Stories: Five  
Food and Beverage Facilities: A breakfast dining area  
Meeting Space: TBD  
Additional Facilities: an indoor pool, a fitness room, a lobby workstation, a market pantry, a guest laundry room, and vending areas  
Parking Spaces: 125



**FIGURE 1-1 PROJECTED ROOMS REVENUE METRICS**

Year	Occupancy		Average Rate		RevPAR	
	Total	% Change	Total	% Change	Total	% Change
2018/19	63.0 %	—	\$121.04	—	\$76.26	—
2019/20	68.0	7.9 %	127.22	5.1 %	86.51	13.4 %
2020/21	72.0	5.9	131.03	3.0	94.34	9.1
Stabilized	73.0	1.4	134.96	3.0	98.52	4.4
2022/23	73.0	0.0	139.01	3.0	101.48	3.0

**FIGURE 1-2 PROJECTED REVENUE, HOUSE PROFIT, AND EBITDA LESS REPLACEMENT RESERVE**

Year	Total Revenue		House Profit		House Profit Ratio	EBITDA Less Replacement Reserve		
	Total	% Change	Total	% Change		Total	% Change	As a % of Ttl Rev
<b>Projected</b>								
2018/19	\$3,273,000	—	\$1,556,000	—	47.5 %	\$1,179,000	—	36.0 %
2019/20	3,705,000	13.2 %	1,841,000	18.3 %	49.7	1,400,000	18.7 %	37.8
2020/21	4,036,000	8.9	2,032,000	10.4	50.3	1,524,000	8.9	37.7
2021/22	4,214,000	4.4	2,138,000	5.2	50.8	1,611,000	5.7	38.3
2022/23	4,340,000	3.0	2,202,000	3.0	50.8	1,659,000	3.0	38.3



**FIGURE 1-3 SUMMARY OF INVESTMENT PARAMETERS AND MARKET VALUE OPINIONS**

	<b>As Is</b>	<b>When Complete</b>	<b>When Stabilized</b>
Date of Value	December 12, 2016	May 1, 2018	May 1, 2021
Number of Rooms		114	114
Interest Appraised	Fee Simple	Fee Simple	Fee Simple
Exposure Time (Months)	five to seven	five to seven	five to seven
<b><i>Approaches to Value</i></b>			
<b>INCOME CAPITALIZATION APPROACH</b>			
Discount Rate		0.11 %	0.11 %
Applied Terminal Cap Rate		0.1	0.1
Transaction Costs		0.0	0.0
<b>Income Approach Value Conclusion</b>		<b>\$17,300,000</b>	<b>\$19,400,000</b>
<b>Per Room</b>		<b>152,000</b>	<b>170,000</b>
Cap Rate - Year One NOI		0.1 %	0.1 %
<b>SALES COMPARISON APPROACH</b>		<b>\$16,554,646 -</b> <b>\$19,200,000</b>	N/A
<b>COST APPROACH</b>		<b>\$16,900,000</b>	N/A
Land Value	<b>\$1,300,000</b>	N/A	N/A
<b>REPLACEMENT COST FOR INSURANCE PURPOSES</b>		<b>\$11,200,000</b>	N/A
<b><i>Reconciled Value Opinion</i></b>			
Real Property Value	\$2,100,000	\$14,800,000	\$18,700,000
Personal Property Value	0	2,500,000	700,000
Intangible Property Value	0	0	0
<b>Reconciled Value</b>	<b>\$2,100,000</b>	<b>\$17,300,000</b>	<b>\$19,400,000</b>
<b>Per Room</b>		<b>151,800</b>	<b>170,200</b>



## 2. Nature of the Assignment

### Subject of the Appraisal

The subject of the appraisal is the fee simple interest in a 113,692-square-foot (2.61-acre) site to be improved with an extended-stay lodging facility; the hotel will be associated with the Home2 Suites by Hilton brand. The site is currently cleared and ready for development. The site is planned to be improved with a 114-room Home2 Suites by Hilton. The property, which is expected to open on May 1, 2018, will feature 114 rooms, a breakfast dining area, an indoor pool, a fitness room, a lobby workstation, a market pantry, a guest laundry room, and vending areas. The hotel will also contain the appropriate parking capacity (125 ) and all necessary back-of-the-house space.

The subject site's location is 19 MacArthur Boulevard, Somers Point, New Jersey, 08244.

### Property Rights Appraised

The property rights appraised are the fee simple ownership of the land and improvements, including the furniture, fixtures, and equipment. The fee simple estate is defined as "absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."<sup>1</sup>

The Proposed Home2 Suites by Hilton is appraised as an open and operating facility.

### Pertinent Dates

The effective date of the "when complete" prospective market value opinion is May 1, 2018. The effective date of the "when stabilized" prospective market value conclusion is May 1, 2021. All projections are expressed in inflated dollars. The subject property was inspected by Dinaker P. Mallya on December 12, 2016. The "as is" date of value is December 12, 2016. In addition to the inspection, Dinaker P. Mallya participated in the research for this assignment and assisted in the report's preparation. Jerod S. Byrd, MAI participated in the analysis and reviewed the findings, but did not personally inspect the property.

### Ownership, Franchise, and Management Assumptions

The developer of the proposed subject hotel is Fifth State Capital, LLC; the parent company of this owning partnership is PRA Development, which is based in Philadelphia, Pennsylvania. The subject site was last sold in October 2016; Fifth State Capital, LLC has owned the site since that time, having purchased it from TTC

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<sup>1</sup> Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).



Bay, LLC for a reported price of \$710,000. No other transfers of the property have reportedly occurred within the past three years. The site is neither listed nor under contract for sale; furthermore, we have no knowledge of any recent listings. The "as is" market value opinion in this appraisal is significantly higher than the 2016 sale. This difference is attributed to money spent following the sale for site approvals and permits. According to the developer, the site was purchased at a discount given the lack of necessary permits and approvals at the time, as well as a discount to reflect the previous owner's incentive to sell the land.

Details pertaining to management terms were not yet determined at the time of this report; however, we assume that the proposed hotel will be managed by a professional hotel-operating company, with fees deducted at rates consistent with current market standards. We have assumed a market-appropriate total management fee of 3.0% of total revenues in our study. Please refer to the Income Capitalization Approach chapter for additional discussion pertaining to our management fee assumptions.

The proposed subject hotel will reportedly operate under a franchise agreement with Hilton Worldwide as a Home2 Suites by Hilton; the agreement is expected to span 20 years. Based on our review of the terms, our forecast reflects a royalty fee of 3.0% of gross rooms revenue in the first year, 4.0% in the second year, and 5.0% thereafter. A marketing assessment of 3.0% of gross rooms revenue is also due.

### **Objective of the Appraisal**

The objective of the appraisal is to develop an opinion of the subject property's "as is" market value, "when complete" prospective market value, and "when stabilized" prospective market value. The following definition of market value has been agreed upon by the agencies that regulate federal financial institutions in the United States:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and



5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.<sup>2</sup>

“As is” market value is defined by the Appraisal Institute as follows:

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date.<sup>3</sup>

Prospective market value is defined by the Appraisal Institute as follows:

A value opinion effective as of a specified future date.<sup>4</sup>

The prospective value opinion upon stabilization estimates the market value of a property upon reaching a stabilized level of operation. Operations are stabilized at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property.

**Most Probable Buyer**

The proposed subject property will be a nationally branded, extended-stay hotel that should be attractive to active buyers. The proposed hotel will enjoy a favorable location in a secondary market and is expected to offer an appropriate array of facilities and amenities. It is our opinion that the most probable buyer of the subject property would be a regional or local entrepreneurial buyer or group. This type of buyer would seek to implement its own management team, or a third-party professional hotel operator, and to maintain a nationally recognized brand affiliation.

**Intended Use of the Appraisal**

This appraisal report is being prepared for use in the construction financing of the proposed subject hotel.

**Identification of the Client and Intended User(s)**

The client for this engagement is Parke Bank. This report is intended for the addressee firm, and may not be distributed to or relied upon by other persons or entities.

**Assignment Conditions**

The analysis is based on the extraordinary assumption that the described improvements have been completed as of the prospective "when complete" date of value. The reader should understand that the completed subject property does not yet exist as of the date of appraisal. Our appraisal does not address unforeseeable

<sup>2</sup> *Federal Register*, Vol. 75, No. 237, December 10, 2010: 77472.

<sup>3</sup> Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).

<sup>4</sup> *Ibid.*



events that could alter the proposed project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, shall take place between the date of inspection and date of prospective value. The use of this extraordinary assumption may have affected the assignment results. We have made no other extraordinary assumptions specific to this appraisal. However, several important general assumptions have been made that apply to this appraisal and our valuations of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

### **Marketing and Exposure Periods**

Our opinion is that the exposure period for the subject property, prior to our date of value, is estimated to be less than or equal to five to seven months, while the marketing period for the subject property, subsequent to our date of value, is less than or equal to five to seven months. Published surveys report marketing time, not the exposure period. Marketing time is an opinion of the amount of time it might take to sell a property at the concluded market value level during the period immediately after the effective date of an appraisal. According to the HVS Brokers Survey - Fall 2016, reported marketing times averaged 6.9 months for luxury/upper-upscale properties, 6.6 months for full-service hotels, and 5.1 months for select-service hotels. Marketing time for luxury/upper-upscale properties, full-service hotels, and select-service hotels averaged 6.3, 7.0, and 5.9 months, respectively, according to the PWC Real Estate Investor Survey - Third Quarter 2016. USRC reported average marketing times of 7.7 and 8.3 months, respectively, for full-service and limited-service hotels in its mid-year 2016 survey. Overall marketing time is averaging 5.3 months for hotels, as reported by the Situs Real Estate Research Corporation's Real Estate Report - Second Quarter 2016.

### **Competency**

Our qualifications are included as an addendum to this report. These qualifications reflect that we have the competence required to complete this engagement, in accordance with the competency provision of the Uniform Standards of Professional Appraisal Practice. Our knowledge and experience is appropriate for the complexity of this assignment.

### **Scope of Work**

The methodology used to develop this appraisal 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>5</sup> *Hotels, Motels and Restaurants: Valuations and Market Studies*,<sup>6</sup> *The Computerized Income Approach*

<sup>5</sup> Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

<sup>6</sup> Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).



to *Hotel/Motel Market Studies and Valuations*,<sup>7</sup> *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations*,<sup>8</sup> and *Hotels and Motels – Valuations and Market Studies*.<sup>9</sup>

1. All information was collected and analyzed by the staff of TS Worldwide, LLC. Information was supplied by the client and/or the property's development team.
2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.
3. The subject property's proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.
4. The surrounding economic environment, on both an area and neighborhood level, has been reviewed to identify specific hospitality-related economic and demographic trends that may have an impact on future demand for hotels.
5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travelers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.
6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.
7. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.

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<sup>7</sup> Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

<sup>8</sup> Stephen Rushmore, *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations* (Chicago: Appraisal Institute, 1992).

<sup>9</sup> Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies*. (Chicago: Appraisal Institute, 2001).



8. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the subject property.
9. The appraisal considers the following three approaches to value: cost, sales comparison, and income capitalization. We have investigated numerous improved sales in the market area and have spoken with buyers, sellers, brokers, property developers, and public officials. Because lodging facilities are income-producing properties that are normally bought and sold on the basis of capitalization of their anticipated stabilized earning power, the greatest weight is given to the value indicated by the income capitalization approach. We find that most hotel investors employ a similar procedure in formulating their purchase decisions, and thus the income capitalization approach most closely reflects the rationale of typical buyers.

The value conclusion of the appraisal is based on this investigation and analysis and is conveyed in this appraisal report. The analyses, opinions, and conclusions were developed based on, and this report has been prepared in conformance with, our interpretation of the guidelines and recommendations set forth in USPAP.



### 3. 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 overall value. Factors such as size, topography, access, visibility, and the availability of utilities have a direct impact on the desirability of a particular site.

The subject site is located in southeast Somers Point, northeast of the intersection formed by McArthur Boulevard and Braddock Avenue. This site is in the city of Somers Point, New Jersey.

#### Physical Characteristics

The subject site measures approximately 2.61 acres, or 113,692 square feet. The parcel's adjacent uses are set forth in the following table.

**FIGURE 3-1 SUBJECT PARCEL'S ADJACENT USES**

<b>Direction</b>	<b>Adjacent Use</b>
North	Econo Lodge
East	Industrial Space
South	Economy Motel Inn & Suites
West	McArthur Boulevard



## VIEW OF SUBJECT SITE

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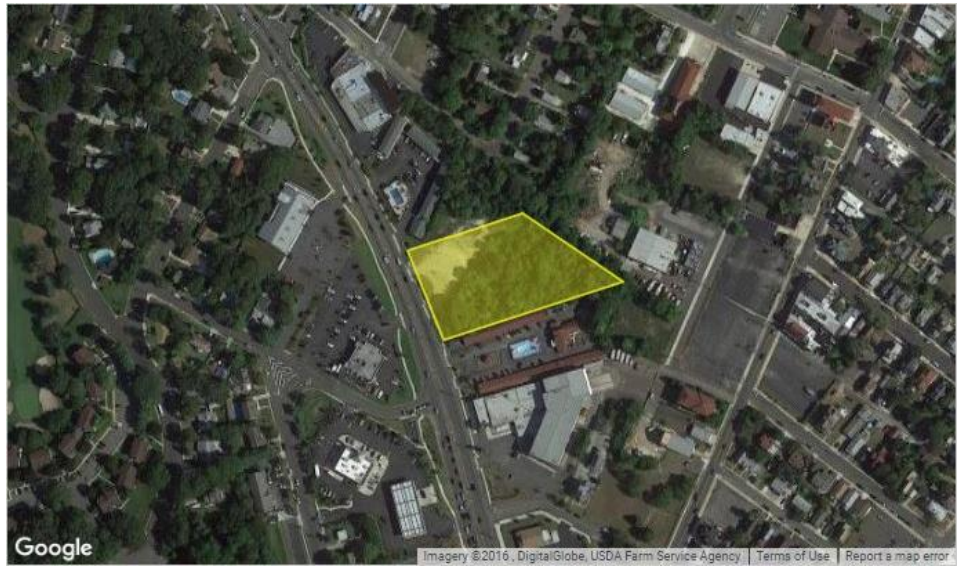


### Topography and Site Utility

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

### AERIAL PHOTOGRAPH

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### VIEW FROM SITE TO THE NORTH

### VIEW FROM SITE TO THE SOUTH

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**VIEW FROM SITE TO THE EAST**



**VIEW FROM SITE TO THE WEST**



**Access and Visibility**

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



## MAP OF REGIONAL ACCESS ROUTES



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

Vehicular access to the subject site will be provided by McArthur Boulevard. The subject site is located near a busy intersection and is relatively simple to locate from the Garden State Parkway, which is the nearest major highway. In addition, McArthur Boulevard continues into Stainton Memorial Causeway, which provides primary access to Ocean City. The proposed subject hotel is anticipated to have adequate signage at the street, as well as on its façade. Overall, the subject site benefits from very good accessibility, and the proposed hotel is expected to enjoy very good visibility from within its local neighborhood.

### Airport Access

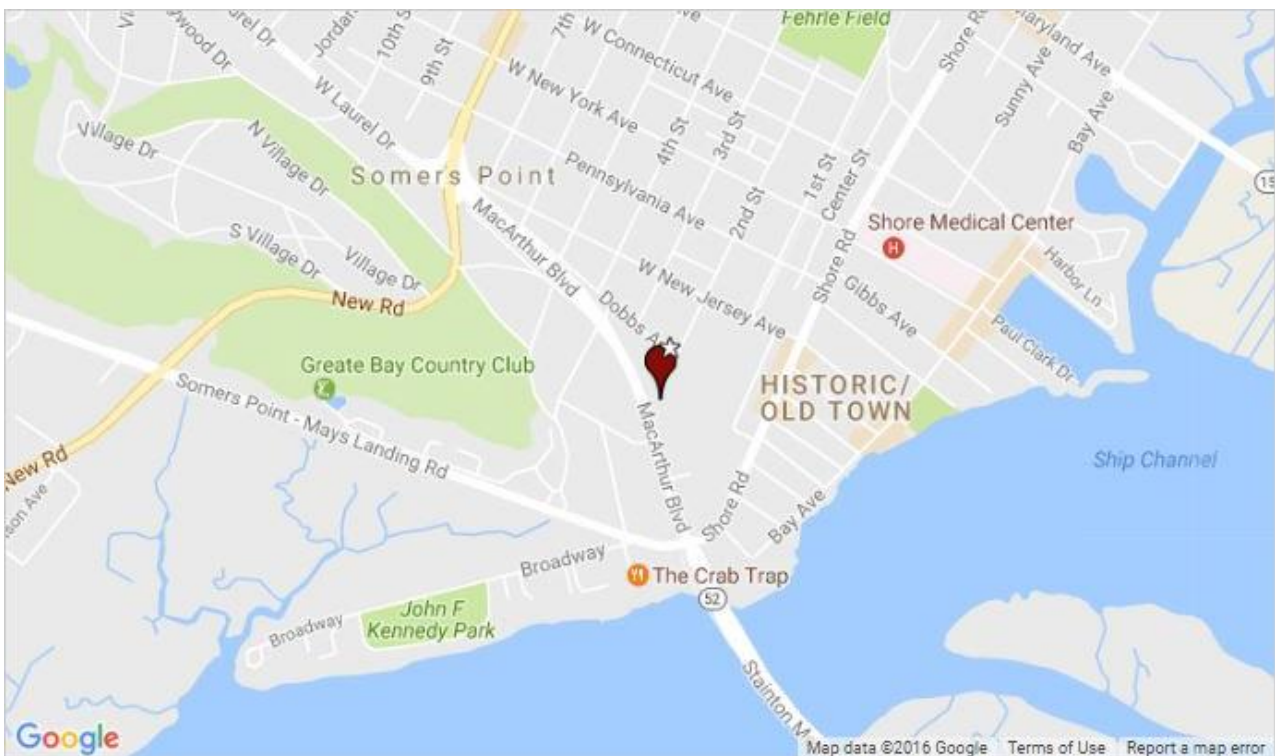
The proposed subject hotel will be served by the Atlantic City International Airport, which is located approximately nine miles to the northeast of the subject site.



## Neighborhood

The neighborhood that surrounds the subject site can be generally described as the McArthur Boulevard corridor between New Road to the northwest and Shore Road to the southeast. The neighborhood is characterized by restaurants, office buildings, and retail shops along the primary thoroughfares, with residential areas located along the secondary roadways. Some specific businesses and entities in the area include the Somers Point Veterinary Hospital, Surfside Casual Furniture, and the Greate Bay Country Club; nearby hotels include the Econo Lodge, Economy Motel Inn & Suites, and the Sonesta ES Suites. Restaurants located near the subject site include The Windjammer Diner Bar Grill, Di Griio's Circle Cafe, and Point Diner. In general, this neighborhood is in the stable stage of its life cycle. No notable changes within this neighborhood were observed. 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.

## MAP OF NEIGHBORHOOD



## 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, the subject site is located in flood zone B. The flood zone definition for the B designation is as follows: areas between limits of the 100-year and 500-year flood; certain areas subject to 100-year flooding with average depths of less than one foot or where the contributing drainage area is less than one square mile; areas protected by levees from the base flood.

**Zoning**

According to the local planning office, the subject property is zoned as follows: HC-2 - Highway Commercial. Additional details pertaining to the proposed subject property’s zoning regulations are summarized in the following table.

**ZONING**

Municipality Governing Zoning	City of Somers Point, Atlantic County
Current Zoning	Highway Commercial
Current Use	Vacant Land
Is Current Use Permitted	N/A
Is Change in Zoning Likely	Not Applicable
Permitted Uses	Retail Establishments, Restaurants, Gasoline Stations, Office Space, Hotels and Motels
Hotel Allowed	Yes
Legally Non-Conforming	Not Applicable

**Easements and Encroachments**

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

**Conclusion**

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site is favorably located near a major highway and a major interchange. In general, the site should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.



## 4. Description of the Proposed Improvements

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

### Project Overview

The Proposed Home2 Suites by Hilton will be a extended-stay lodging facility containing 114 rentable units. The five-story property will open on May 1, 2018. The site is currently cleared and ready for development. The site is planned to be improved with a 114-room Home2 Suites by Hilton.

Home2 Suites by Hilton is a mid-tier, limited-service, extended-stay hotel by Hilton Worldwide that offers contemporary accommodations and a customizable guestroom design; furthermore, the Home2 Suites by Hilton commitment to sustainability is reinforced throughout every aspect of the brand. The hotel's all-suite configuration provides suites with flexible separate living and bedroom areas (divisible by a drape in the studio suite or partial wall in the one-bedroom suite). The guestroom suites feature an industry-unique "working wall" that incorporates the kitchen and a flexible working/media space; the kitchens include a refrigerator, a microwave, a dishwasher, and other typical kitchen amenities. The media/working zone includes a queen-size sofa sleeper, a 42-inch flat-screen television, a roll-around ottoman, ambient task lighting, an alarm clock with iPod port and MP3 jack, and various pieces of furniture that can be moved around to create customized living spaces and adjustable storage options. As of year-end 2015, there were 71 hotels (7,376 rooms) operating under the Home2 Suites by Hilton brand in the U.S. In 2015, the brand operated at an average occupancy level of 78.2%, with an average daily rate of \$114.74 and an average RevPAR of \$89.73 (worldwide).



## TYPICAL HOME2 SUITES BY HILTON EXTERIOR

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### Summary of the Facilities

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



**FIGURE 4-1 PROPOSED FACILITIES SUMMARY**

<b>Guestroom Configuration</b>		<b>Number of Units</b>
Queen Studio Suite		86
Queen/Queen Studio Suite		18
Queen One-Bedroom Suite		10
Total		114
<b>Food &amp; Beverage Facilities</b>		<b>Seating Capacity</b>
Breakfast Dining Area		18
<b>Indoor Meeting &amp; Banquet Facilities</b>		<b>Square Footage</b>
Meeting Room		TBD
<b>Amenities &amp; Services</b>		
Indoor Pool	Guest Laundry Room	
Fitness Room	Vending Area(s)	
Market Pantry		
<b>Infrastructure</b>		
Parking Spaces		125
Elevators		2 Guest
Life-Safety Systems	Sprinklers, Smoke Detectors	
Construction Details	Concrete Slab, Wood Structure	

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

The hotel's breakfast dining area will be located opposite the front desk in the lobby. The furnishings of the space are expected to be of a similar style and finish as lobby and guestroom furnishings. The hotel is expected to offer one meeting room that can be divided into two rooms, which will be located on the first floor. The hotel is planned to offer an indoor pool and a fitness room as recreational facilities. Other amenities are expected to include a lobby workstation, a guest



laundry room, a market pantry, and vending areas on select guestroom floors. The hotel will feature suite-style room configurations and the typical in-room amenities associated with the Home2 Suites by Hilton brand. Guestroom bathrooms should be of a standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a stone countertop. Overall, the facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

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

#### **TYPICAL HOME2 SUITES BY HILTON LOBBY**

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## TYPICAL HOME2 SUITES BY HILTON DINING AREA

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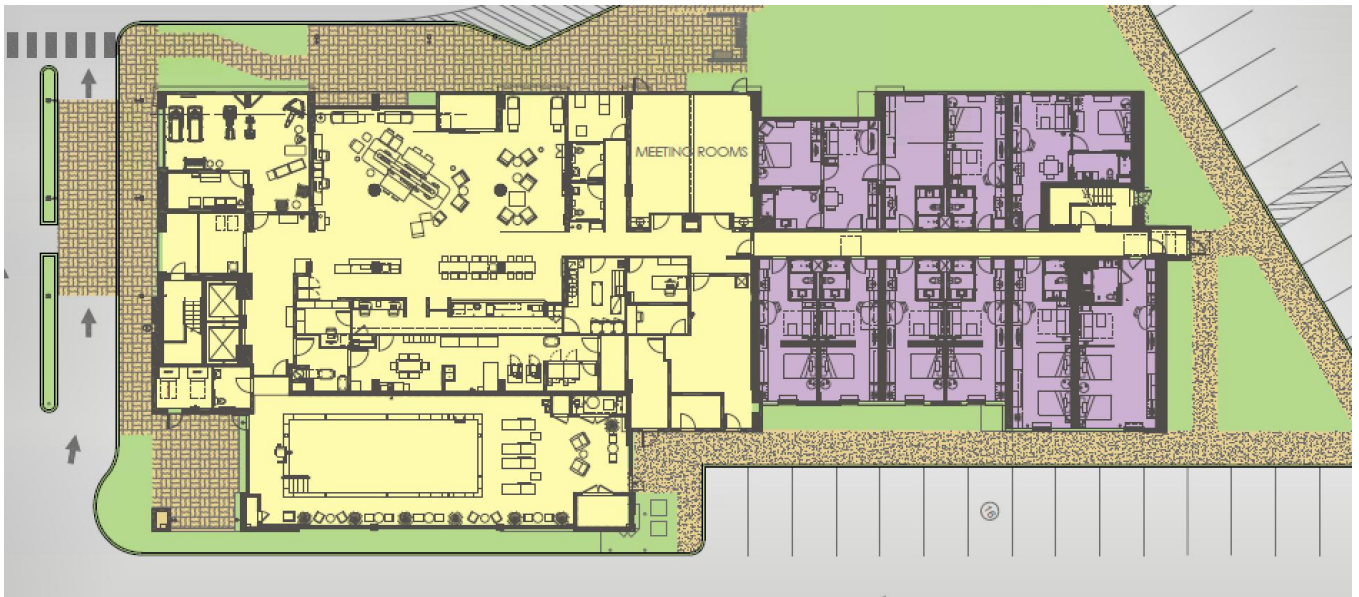
## TYPICAL HOME2 SUITES BY HILTON GUESTROOM

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## FIRST FLOOR PLAN





## GUESTROOM FLOOR PLAN



### ADA and Environmental

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

### Capital Expenditures

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

### Construction Budget

The construction budget for the 114-room subject hotel, as provided by the project developer, is illustrated in the following table.



**FIGURE 4-2 SUBJECT PROPERTY CONSTRUCTION BUDGET**

<b>Component</b>	<b>Cost</b>	<b>Cost per Room</b>
<b>Hard Costs &amp; Site Improvements</b>		
General Construction	\$9,764,500	\$85,654
<b>Subtotal Hard Cost &amp; Site Improvements</b>	<b>\$9,764,500</b>	<b>\$85,654</b>
<b>FF&amp;E</b>		
FF&E and Owner Provided Items	\$2,508,000	\$22,000
<b>Subtotal FFE &amp; OS&amp;E</b>	<b>2,508,000</b>	<b>\$22,000</b>
<b>Pre-Opening Costs and Working Capital</b>		
Pre-Opening Expenses	150,000	1,316
Working Capital	150,000	1,316
<b>Subtotal Pre-Opening and Working Capital</b>	<b>\$300,000</b>	<b>\$2,632</b>
<b>Soft Costs</b>		
Architecture & Engineering	\$400,000	\$3,509
Reimbursables	30,000	263
Testing & Inspections	100,000	877
Survey	\$20,000	\$175
Permits & Fees	120,000	1,053
Appraisals & Feasibility Studies	15,000	132
Environmental Reports	10,000	88
Title & Mortgage Insurance	21,000	184
Legal & Accounting	38,000	333
Construction Interest & Fees	600,000	5,263
Builders Risk/General Liability Insurance	45,000	395
Real Estate Taxes (During Construction)	45,000	395
Franchise Application	58,000	509
<b>Subtotal Soft Costs</b>	<b>\$1,502,000</b>	<b>\$13,175</b>
<b>Subtotal (without Land)</b>	<b>\$14,074,500</b>	<b>\$123,461</b>
<b>Estimated Site Cost (including site work)</b>	<b>\$2,850,000</b>	<b>\$25,000</b>
<b>Total</b>	<b>\$16,924,500</b>	<b>\$148,461</b>

**Conclusion**

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

## 5. Market Area Analysis

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

### Market Area Definition

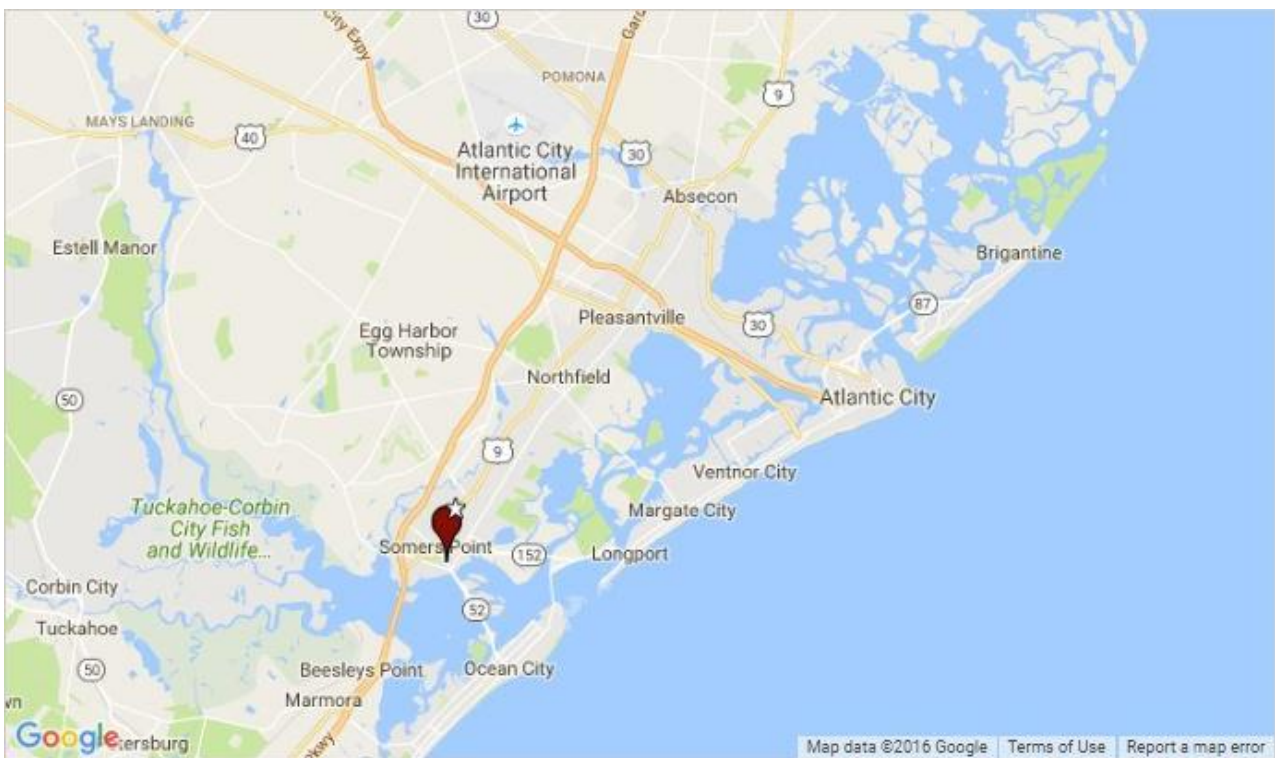
The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the city of Somers Point, the county of Atlantic, and the state of New Jersey. Somers Point is a bedroom community located west of Ocean City and southwest of Atlantic City, New Jersey. Atlantic City was developed as a regional destination resort, accessed primarily by railroad, and it reached a peak in popularity in the early 1900s. By the 1930s, however, Atlantic City's resort industry was in decline; travelers seeking vacation destinations in the Northeast suddenly had more choices, and better transportation was available to alternative locations. By the 1970s, Atlantic City was showing signs of economic decline. Tourism and convention business were slowing, hotels and motels were closing, and property tax revenues were depleting. Casino gambling was viewed as a remedy for the city's financial woes and was approved by a statewide voter referendum in 1976, with casino gaming beginning in 1978 at Resorts International. From 1978 to 1981, eight other casinos opened in the city, and several additional resorts have opened since this initial building boom. However, gaming demand has weakened in the last several years, resulting in the closure of five casinos from 2014 to 2016. With the decline in gaming, development has shifted toward the education sector and retail industry in efforts to supplement the closing of several casinos.

The proposed subject property's market area can be defined by its Combined Statistical Area (CSA): Philadelphia-Reading-Camden, PA-NJ-DE-MD. The CSA represents adjacent metropolitan and micropolitan statistical areas that have a moderate degree of employment interchange. Micropolitan statistical areas represent urban areas in the United States based around a core city or town with a population of 10,000 to 49,999; the MSA requires the presence of a core city of at



least 50,000 people and a total population of at least 100,000 (75,000 in New England). The following exhibit illustrates the market area.

### MAP OF MARKET AREA



### Economic and Demographic Review

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

These data are summarized in the following table.

**FIGURE 5-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY**

	2000	2010	2016	2020	Average Annual Compounded Change		
					2000-10	2010-16	2016-20
<b>Resident Population (Thousands)</b>							
Atlantic County	253.7	274.8	278.3	285.0	0.8 %	0.2 %	0.6 %
Atlantic City-Hammonton, NJ MSA	253.7	274.8	278.3	285.0	0.8	0.2	0.6
Philadelphia-Reading-Camden, PA-NJ-DE-MD CSA	6,696.0	7,075.4	7,230.6	7,374.9	0.6	0.4	0.5
State of New Jersey	8,430.6	8,803.6	9,022.1	9,205.8	0.4	0.4	0.5
United States	282,162.4	309,347.1	324,506.9	336,690.4	0.9	0.8	0.9
<b>Per-Capita Personal Income*</b>							
Atlantic County	\$37,648	\$38,902	\$41,208	\$43,817	0.3	1.0	1.5
Atlantic City-Hammonton, NJ MSA	37,648	38,902	41,208	43,817	0.3	1.0	1.5
Philadelphia-Reading-Camden, PA-NJ-DE-MD CSA	41,146	45,961	50,122	53,511	1.1	1.5	1.6
State of New Jersey	47,112	50,369	54,572	58,078	0.7	1.3	1.6
United States	36,812	39,622	43,613	46,375	0.7	1.6	1.5
<b>W&amp;P Wealth Index</b>							
Atlantic County	99.0	95.2	92.1	92.1	(0.4)	(0.5)	(0.0)
Atlantic City-Hammonton, NJ MSA	99.0	95.2	92.1	92.1	(0.4)	(0.5)	(0.0)
Philadelphia-Reading-Camden, PA-NJ-DE-MD CSA	109.0	112.3	111.5	111.8	0.3	(0.1)	0.1
State of New Jersey	124.2	123.2	121.7	121.8	(0.1)	(0.2)	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>							
Atlantic County	\$440	\$614	\$741	\$786	3.4	3.2	1.5
Atlantic City-Hammonton, NJ MSA	440	614	741	786	3.4	3.2	1.5
Philadelphia-Reading-Camden, PA-NJ-DE-MD CSA	8,463	10,109	12,336	12,977	1.8	3.4	1.3
State of New Jersey	10,554	12,346	14,954	15,749	1.6	3.2	1.3
United States	368,829	447,728	562,999	602,635	2.0	3.9	1.7
<b>Total Retail Sales (Millions)*</b>							
Atlantic County	\$4,173	\$4,511	\$4,986	\$5,260	0.8	1.7	1.3
Atlantic City-Hammonton, NJ MSA	4,173	4,511	4,986	5,260	0.8	1.7	1.3
Philadelphia-Reading-Camden, PA-NJ-DE-MD CSA	99,487	101,089	114,272	120,406	0.2	2.1	1.3
State of New Jersey	127,151	129,312	148,787	156,405	0.2	2.4	1.3
United States	3,902,830	4,130,414	4,846,834	5,181,433	0.6	2.7	1.7

\* Inflation Adjusted

Source: Woods & Poole Economics, Inc.



The U.S. population has grown at an average annual compounded rate of 0.8% from 2010 through 2016. The county's population has grown more slowly than the nation's population; the average annual growth rate of 0.2% between 2010 and 2016 reflects a gradually expanding area. Following this population trend, per-capita personal income increased slowly, at 1.0% on average annually for the county between 2010 and 2016. Local wealth indexes have remained stable in recent years, registering a relatively modest 92.1 level for the county in 2016.

Food and beverage sales totaled \$741 million in the county in 2016, versus \$614 million in 2010. This reflects a 3.2% average annual change, which is weaker than the 3.4% pace recorded in the prior decade. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 1.5%, which is forecast through 2020. The retail sales sector demonstrated an annual increase of 0.8% registered in the decade 2000 to 2010, followed by an increase of 1.7% in the period 2010 to 2016. An increase of 1.3% 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 2016, as well as a forecast for 2020.

**FIGURE 5-2 HISTORICAL AND PROJECTED EMPLOYMENT (000S)**

Industry	2000	Percent of Total	2010	Percent of Total	2016	Percent of Total	2020	Percent of Total	Average Annual Compounded Change		
									2000- 2010	2010- 2016	2016- 2020
Farm	1.7	1.0 %	1.7	0.9 %	2.1	1.2 %	2.1	1.2 %	(0.4) %	3.8 %	0.6 %
Forestry, Fishing, Related Activities And Other	0.3	0.1	0.6	0.3	0.2	0.1	0.2	0.1	8.3	(15.4)	0.8
Mining	0.1	0.0	0.3	0.2	0.2	0.1	0.2	0.1	14.9	(9.4)	1.5
Utilities	1.0	0.6	0.7	0.4	0.8	0.4	0.8	0.4	(3.2)	0.5	0.0
Construction	8.8	5.1	7.7	4.4	8.6	4.9	9.1	5.0	(1.4)	1.9	1.4
Manufacturing	5.3	3.0	2.5	1.5	2.7	1.5	2.7	1.5	(7.0)	1.1	(0.3)
Total Trade	21.1	12.2	21.8	12.5	23.0	13.1	23.4	12.8	0.3	0.9	0.5
Wholesale Trade	3.1	1.8	3.3	1.9	3.2	1.8	3.2	1.8	0.5	(0.4)	0.2
Retail Trade	18.0	10.4	18.5	10.6	19.7	11.3	20.2	11.0	0.3	1.1	0.6
Transportation And Warehousing	3.9	2.2	3.3	1.9	4.0	2.3	4.2	2.3	(1.5)	3.0	1.2
Information	1.9	1.1	1.3	0.8	1.2	0.7	1.2	0.6	(3.3)	(2.0)	0.3
Finance And Insurance	4.1	2.4	5.4	3.1	5.8	3.3	6.0	3.3	2.7	1.2	1.1
Real Estate And Rental And Lease	5.2	3.0	8.4	4.8	8.4	4.8	8.9	4.9	4.9	(0.1)	1.6
Total Services	99.6	57.4	95.6	54.9	93.4	53.3	98.6	53.7	(0.4)	(0.4)	1.4
Professional And Technical Services	7.6	4.4	7.6	4.4	7.4	4.2	7.4	4.0	0.1	(0.5)	0.1
Management Of Companies And Enterprises	0.9	0.5	1.2	0.7	0.9	0.5	1.0	0.5	3.8	(4.9)	0.9
Administrative And Waste Services	6.1	3.5	6.7	3.8	6.9	3.9	7.2	3.9	1.0	0.5	1.3
Educational Services	1.2	0.7	1.7	1.0	1.5	0.9	1.6	0.9	4.2	(2.3)	1.7
Health Care And Social Assistance	15.5	8.9	19.1	11.0	21.2	12.1	23.4	12.8	2.1	1.8	2.5
Arts, Entertainment, And Recreation	3.0	1.7	3.5	2.0	3.8	2.2	4.1	2.2	1.6	1.3	1.8
Accommodation And Food Services	58.7	33.8	47.9	27.5	43.0	24.5	44.7	24.4	(2.0)	(1.8)	1.0
Other Services, Except Public Administration	6.7	3.9	7.8	4.5	8.6	4.9	9.1	4.9	1.5	1.7	1.3
Total Government	20.5	11.8	24.9	14.3	25.1	14.3	26.2	14.3	2.0	0.1	1.1
Federal Civilian Government	2.6	1.5	3.0	1.7	2.6	1.5	2.6	1.4	1.4	(2.1)	(0.1)
Federal Military	0.8	0.4	0.9	0.5	0.9	0.5	0.9	0.5	1.6	0.5	0.1
State And Local Government	17.1	9.9	21.1	12.1	21.6	12.3	22.7	12.3	2.1	0.4	1.2
TOTAL	173.4	100.0 %	174.3	100.0 %	175.3	100.0 %	183.5	100.0 %	0.1 %	0.1 %	1.2 %
MSA	173.4	—	174.3	—	175.3	—	183.5	—	0.1 %	0.1 %	1.2 %
U.S.	165,370.9	—	173,034.7	—	191,870.8	—	203,418.4	—	0.9	1.7	1.5

Source: Woods & Poole Economics, Inc.



Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county grew at an average annual rate of 0.1%. This trend was on par with the growth rate recorded by the MSA and also lagged the national average. More recently, the pace of total employment growth in the county accelerated to 0.1% on an annual average from 2010 to 2016, reflecting the initial years of the recovery.

Of the primary employment sectors, Total Trade recorded the highest increase in number of employees during the period from 2010 to 2016, increasing by 1,142 people, or 5.2%, and rising from 12.5% to 13.1% of total employment. Of the various service sub-sectors, Accommodation And Food Services and Health Care And Social Assistance were the largest employers. Strong growth was also recorded in the Construction sector, as well as the Transportation And Warehousing sector, which expanded by 12.1% and 3.0%, respectively, in the period 2010 to 2016. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 1.2% on average annually through 2020. The trend is below the forecast rate of change for the U.S. as a whole during the same period.

The following table illustrates historical employment, households, population, and average household income data, as provided by REIS for the overall Atlantic-Cape May market.

**FIGURE 5-3 HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS**

Year	Total		Office		Industrial		Households		Population		Household	
	Employment	% Chg	Employment	% Chg	Employment	% Chg		% Chg		% Chg	Avg. Income	% Chg
2013	177,600	—	45,315	—	9,182	—	145,160	—	371,670	—	\$112,584	—
2014	172,460	(2.9) %	44,831	(1.1) %	9,318	1.5 %	144,780	(0.3) %	369,900	(0.5) %	117,960	4.8 %
2015	172,460	0.0	44,133	(1.6)	9,538	2.4	145,170	0.3	368,980	(0.2)	120,097	1.8

Source: REIS Report, 3rd Quarter, 2016

For the Atlantic-Cape May market, of the roughly 172,000 persons employed in 2015, 26% work in offices and are categorized as office employees, while 6% are categorized as industrial employees. Total employment decreased by 0.0% from 2014 to 2015. By comparison, office employment reflected contraction of -1.6% from 2014 to 2015.

The number of households in this market in 2015 totaled 145,000, reflecting an increase of 0.3% from the level registered in 2014. Population contracted during



## Unemployment Statistics

this same time frame, at a rate of -0.2%. Household average income grew by 1.8% in 2015, ending the year at roughly \$120,000.

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

**FIGURE 5-4 UNEMPLOYMENT STATISTICS**

<u>Year</u>	<u>County</u>	<u>State</u>	<u>U.S.</u>
2006	5.8 %	4.7 %	4.6 %
2007	5.9	4.3	4.6
2008	6.8	5.3	5.8
2009	11.9	9.1	9.3
2010	12.3	9.5	9.6
2011	12.5	9.3	8.9
2012	12.7	9.3	8.1
2013	11.6	8.2	7.4
2014	10.5	6.7	6.2
2015	9.4	5.6	5.3
<i>Recent Month - Oct</i>			
2015	7.6 %	4.8 %	5.0 %
2016	7.4	4.9	4.9

\* 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

After the U.S. unemployment rate declined to an annual average of 4.6% in 2006 and 2007, the Great Recession, which spanned December 2007 through June 2009, resulted in heightened unemployment rates. The unemployment rate peaked at 10.0% in October 2009, after which job growth resumed; the national unemployment rate has steadily declined since 2010. Total nonfarm payroll employment increased by 176,000, 191,000, and 161,000 jobs in August, September, and October 2016, respectively. The strongest gains in October were recorded in the health care, professional and business services, and financial activities sectors. The national unemployment rate was reported to be 4.9% in July and August, and then moved slightly higher to 5.0% in September, before returning to 4.9% in October; it has remained near the 5.0% mark since August 2015, reflecting a trend of relative stability and the overall strength of the U.S. economy.



## Major Business and Industry

Locally, the unemployment rate was 9.4% in 2015; for this same area in 2016, the most recent month's unemployment rate was registered at 7.4%, versus 7.6% for the same month in 2015. Unemployment began to rise in 2007 as the region entered an economic slowdown, and this trend continued through 2012, exceeding the national recovery period from the Great Recession. However, unemployment declined in 2013 through 2015 as the region's economy began to rebound. Data for 2016 illustrate a further decline in unemployment. According to local economic development officials, the closing of several casinos between 2014 and 2016 is expected to be offset by the growth at Richard Stockton College of New Jersey.

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 5-5 MAJOR EMPLOYERS**

<b>Firm*</b>
Borgata Hotel Casino & Spa
FAA Technical Center
Resorts Casino Hotel
Trump Entertainment

*\*in alphabetical order*  
Source: Choose New Jersey, 2016

Atlantic City's economy has been dominated by gaming for a few decades, and the city's top employers have historically represented casino hotel properties. The government sector, including the Federal Aviation Administration, New Jersey Air National Guard, U.S. Coast Guard, and Federal Air Marshal Service, continues to play a vital role in the local economy. Furthermore, retail is an important economic factor for the city; the two primary malls in the area are The Pier Shops at Caesars and The Walk outlet mall. While industry sectors such as government and healthcare remain stable, the leisure/tourism industry was significantly affected by the recent recession, and the recovery was hindered by the effects of Superstorm Sandy in 2012. Despite rebuilding efforts after the storm and the return of some gaming activity, the increase in casinos in neighboring states has negatively affected the local economy. Five casinos have closed since 2014: Showboat, Revel, Atlantic Club, Trump Taj Mahal, and Trump Plaza. Nonetheless, higher revenues were reportedly registered in November 2016 for the seven casinos that remain in operation. Furthermore, in 2014, Stockton University purchased the Showboat casino; it plans to convert the facility into its new "Island Campus," including student housing, university facilities, a parking garage, and



retail space. This \$207-million redevelopment, slated for completion in the fall of 2018, is anticipated to spur economic and community development.

### Office Space Statistics

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

**FIGURE 5-6 OFFICE SPACE STATISTICS – MARKET OVERVIEW**

Submarket	Year	Vacancy Rate	Average Asking Lease Rate
Metro Area	2013	16.6 %	\$20.97
	2014	16.3	21.13
	2015	15.9	21.28
CBD	2013	20.2 %	\$21.20
	2014	20.5	21.45
	2015	23.0	21.76
Non-CBD	<b>2013</b>	<b>15.5 %</b>	<b>\$20.90</b>
	<b>2014</b>	<b>15.0</b>	<b>21.03</b>
	<b>2015</b>	<b>13.6</b>	<b>21.12</b>

Source: REIS Report, 3rd Quarter, 2016

In greater Atlantic-Cape May market, REIS reported a vacancy rate of 15.9% and an average asking rent of \$21.28 for 2015. The subject property is located in the Non-CBD submarket. The submarket's vacancy rate of 13.6% is below the overall market average. The average asking lease rate of \$21.12 is below the average for the broader market.

### 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.

Atlantic City International Airport, formerly known as Pomona Field, is a public airport located nine miles northwest of Atlantic City, New Jersey. The airport serves as a base for the New Jersey Air National Guard and is a major research and



testing hub for the Federal Aviation Administration. The airport has been served solely by Spirit Airlines since 2011. An expansion project for the airport, completed in November 2012, included an additional 75,000 square feet and a new federal inspection station for international travel. The Atlantic City International Airport was taken over by the Port Authority of New York and New Jersey mid-year 2013 in an effort to attract more carriers and travelers to the airport.

The following table illustrates recent operating statistics for the Atlantic City International Airport, which is the primary airport facility serving the subject property's submarket.

**FIGURE 5-7 AIRPORT STATISTICS - ATLANTIC CITY INTERNATIONAL AIRPORT**

Year	Passenger Traffic	Percent Change*	Percent Change**
2006	948,336	—	—
2007	1,176,731	24.1 %	24.1 %
2008	1,097,537	(6.7)	7.6
2009	1,122,816	2.3	5.8
2010	1,426,799	27.1	10.8
2011	1,394,666	(2.3)	8.0
2012	1,385,878	(0.6)	6.5
2013	1,136,350	(18.0)	2.6
2014	1,211,667	6.6	3.1
2015	1,200,282	(0.9)	2.7
<i>Year-to-date, Oct</i>			
2015	1,004,296	—	—
2016	1,027,729	2.3 %	—

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

Source: Atlantic City International Airport

This facility recorded 1,200,282 passengers in 2015. The change in passenger traffic between 2014 and 2015 was -0.9%. The average annual change during the period shown was 2.7%.

**Tourist Attractions**

The subject market benefits from a variety of tourism and leisure attractions in the area given its location near Atlantic City and the numerous casinos and restaurant and retail venues throughout the area. The market is also proximate to the Ocean City beaches, OC Waterpark, Gillian's Wonderland Pier, and Playland's Castaway



Cove, contributing to lodging demand in the summer months. Special events also play a role during key weekends, such as concerts held at various casinos in Atlantic City throughout the year.

### **Conclusion**

This section discussed a wide variety of economic indicators for the pertinent market area. The Atlantic County market is beginning to rebound from the closure of several casinos in Atlantic City. The expanding education sector, growth within the retail industry, and increased tourism to the New Jersey beaches have helped to slightly offset the downturn in the gaming industry in this market. As such, the outlook is best described as cautiously optimistic.



## 6. Supply and Demand Analysis

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

### Definition of Subject Hotel Market

The subject site is located in the greater Atlantic County lodging market. Within this greater market, the proposed subject hotel will compete with a smaller set of hotels based on various factors, such as price point and product offering.

### Historical Supply and Demand Data

As previously noted, 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 Home2 Suites by Hilton. 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 6-1 HISTORICAL SUPPLY AND DEMAND TRENDS**

Year	Average Daily Available Room		Change	Occupied Room		Occupancy	Average		RevPAR	Change
	Room Count	Nights		Nights	Change		Rate	Change		
2007	319	116,586	—	78,957	—	67.7 %	\$110.63	—	\$74.92	—
2008	469	171,083	46.7 %	98,539	24.8 %	57.6	107.69	(2.7) %	62.02	(17.2) %
2009	550	200,750	17.3	98,406	(0.1)	49.0	104.00	(3.4)	50.98	(17.8)
2010	559	203,878	1.6	111,097	12.9	54.5	102.43	(1.5)	55.82	9.5
2011	567	206,955	1.5	122,207	10.0	59.1	103.27	0.8	60.98	9.3
2012	647	235,990	14.0	153,092	25.3	64.9	105.56	2.2	68.48	12.3
2013	686	250,543	6.2	154,483	0.9	61.7	106.31	0.7	65.55	(4.3)
2014	687	250,755	0.1	156,695	1.4	62.5	107.06	0.7	66.90	2.1
2015	687	250,755	0.0	162,165	3.5	64.7	108.68	1.5	70.29	5.1
<b>Year-to-Date Through October</b>										
2015	687	208,848	—	142,005	—	68.0 %	\$110.34	—	\$75.02	—
2016	687	208,848	0.0 %	142,137	0.1 %	68.1	114.31	3.6 %	77.79	3.7 %
Average Annual Compounded Change:										
2007 - 2010			20.5		12.1			(2.5)		(9.3)
2010 - 2015			4.2		7.9			1.2		4.7
<b>Hotels Included in Sample</b>				<b>Competitive Status</b>	<b>Number of Rooms</b>	<b>Year Affiliated</b>	<b>Year Opened</b>			
Best Western Plus Atlantic City West Extended Stay & Suites				Secondary	68	Feb 2011	Jan 1900			
Sonesta ES Suites Somers Point				Primary	120	Jul 2015	Sep 1986			
Comfort Inn & Suites Pleasantville				Secondary	124	Jul 2010	May 1988			
Holiday Inn Express & Suites Absecon Atlantic City Area				Secondary	86	Aug 2001	Aug 2001			
Residence Inn Atlantic City Airport Egg Harbor Township				Secondary	101	Jun 2008	Jun 2008			
Country Inn & Suites Absecon Atlantic City Galloway				Secondary	68	Aug 2008	Aug 2008			
Homewood Suites Atlantic City Egg Harbor Township				Secondary	120	May 2012	May 2012			
<b>Total</b>					<b>687</b>					

Source: STR



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

The STR data for the competitive set reflect a market-wide occupancy level of 2015 in 64.7%, which compares to 62.5% for 2014. The overall average occupancy level for the calendar years presented equates to 61.5%. The STR data for the competitive set reflect a market-wide average rate level of \$108.68 in 2015, which compares to \$107.06 For 2014. The average across all calendar years presented for average rate equates to \$105.83. These occupancy and average rate trends resulted in a RevPAR level of \$70.29 in 2015.

Both occupancy and average rate first peaked for this selected set of competitive hotels in 2007, resulting in a RevPAR of around \$70.00, before declining to a low point of roughly \$51.00 by year-end 2009 because of the recession. A strong recovery began in 2010 that extended through 2012. Thereafter, the entrance of new supply in 2012 caused a decline in RevPAR in 2013. As new supply was absorbed, occupancy and average rate increased, which resulted in RevPAR increases in 2014 and 2015. Year-to-date data illustrate relative stability in occupancy and a roughly \$4.00 gain in average rate. RevPAR reached its high point in the summer of 2016. The overall strengthening economy following the closure of several casinos in Atlantic City, as well as the effort of area hoteliers to obtain higher rates, contributed to this latest trend for 2016. The outlook for the remaining months of 2016 is optimistic, given the aforementioned year-to-date data.

## SUPPLY

The following table summarizes the important operating characteristics of the future primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, online resources, and our in-house database of operating and hotel facility data. The room count of each secondary competitor has been weighted based on its assumed degree of competitiveness with the Proposed Home2 Suites by Hilton.

**FIGURE 6-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE**

Property	Number of Rooms	Est. Segmentation				Weighted Annual Room Count	Estimated 2015			Weighted Annual Room Count	Estimated 2016			Occupancy Penetration	Yield Penetration
		Commercial	Leisure	Group	Extended-Stay		Occ.	Average Rate	RevPAR		Occ.	Average Rate	RevPAR		
Sonesta ES Suites Somers Point	120	55 %	20 %	5 %	20 %	120	60 - 65 %	\$110 - \$115	\$70 - \$75	120	60 - 65 %	\$115 - \$120	\$70 - \$75	90 - 95 %	95 - 100 %
<b>Sub-Totals/Averages</b>	<b>120</b>	<b>55 %</b>	<b>20 %</b>	<b>5 %</b>	<b>20 %</b>	<b>120</b>	<b>62.0 %</b>	<b>\$114.00</b>	<b>\$70.68</b>	<b>120</b>	<b>64.0 %</b>	<b>\$115.00</b>	<b>\$73.60</b>	<b>95.8 %</b>	<b>96.4 %</b>
Secondary Competitors	567	46 %	28 %	9 %	17 %	320	67.9 %	\$110.30	\$74.85	320	67.9 %	\$114.02	\$77.37	101.6 %	101.4 %
<b>Totals/Averages</b>	<b>687</b>	<b>49 %</b>	<b>26 %</b>	<b>8 %</b>	<b>18 %</b>	<b>440</b>	<b>66.3 %</b>	<b>\$111.25</b>	<b>\$73.71</b>	<b>440</b>	<b>66.8 %</b>	<b>\$114.28</b>	<b>\$76.34</b>	<b>100.0 %</b>	<b>100.0 %</b>

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

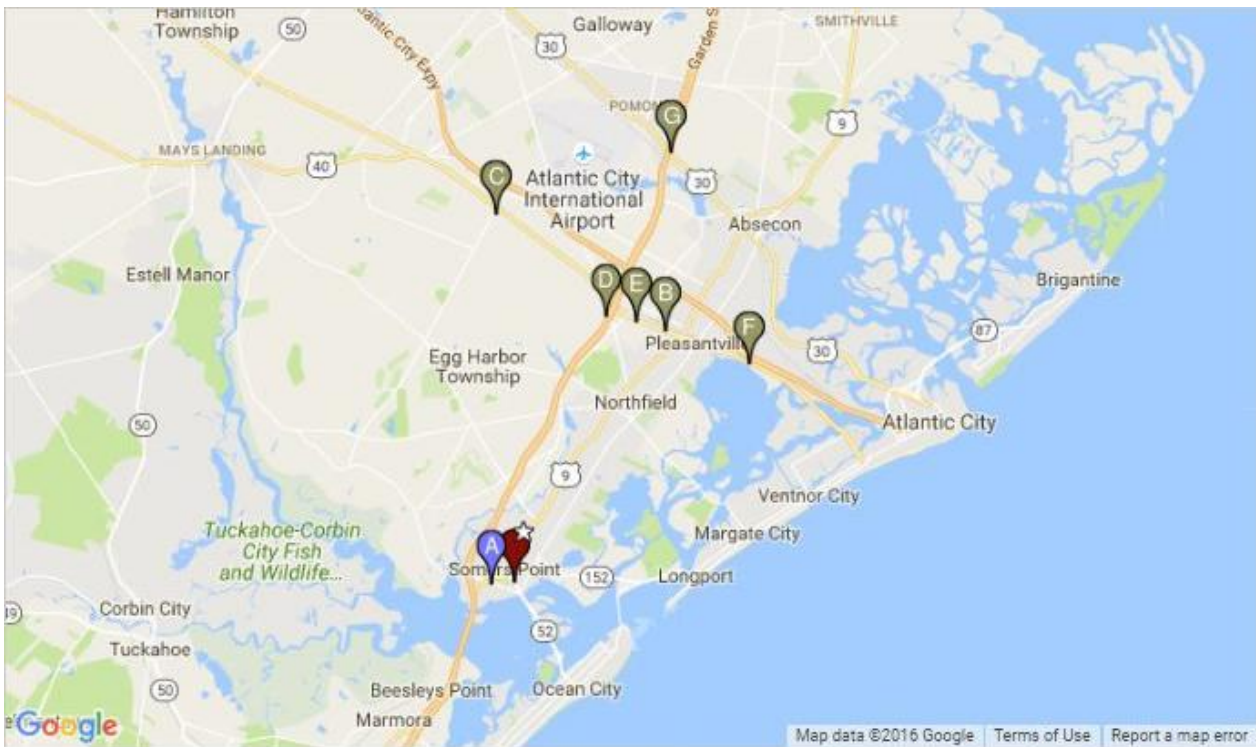
**FIGURE 6-3 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE**

Property	Number of Rooms	Est. Segmentation				Total Competitive Level	Estimated 2015			Estimated 2016				
		Commercial	Leisure	Group	Extended-Stay		Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Best Western Plus Atlantic City West Extended Stay & Suites	68	30 %	40 %	10 %	20 %	70 %	48	50 - 55 %	\$85 - \$90	\$45 - \$50	48	55 - 60 %	\$90 - \$95	\$50 - \$55
Homewood Suites by Hilton Atlantic City West Egg Harbor Township	120	50	15	10	25	75	90	75 - 80	120 - 125	90 - 95	90	75 - 80	120 - 125	95 - 100
Residence Inn by Marriott Atlantic City Airport Egg Harbor Township	101	50	20	5	25	70	71	75 - 80	120 - 125	95 - 100	71	80 - 85	125 - 130	100 - 105
Holiday Inn Express Absecon Atlantic City Area	86	60	30	10	0	40	34	60 - 65	105 - 110	65 - 70	34	65 - 70	110 - 115	70 - 75
Comfort Inn Atlantic City	124	30	60	10	0	40	50	45 - 50	85 - 90	40 - 45	50	45 - 50	90 - 95	45 - 50
Country Inn & Suites Galloway	68	50	40	10	0	40	27	60 - 65	90 - 95	55 - 60	27	45 - 50	100 - 105	50 - 55
<b>Totals/Averages</b>	<b>567</b>	<b>46 %</b>	<b>28 %</b>	<b>9 %</b>	<b>17 %</b>	<b>56 %</b>	<b>320</b>	<b>67.9 %</b>	<b>\$110.30</b>	<b>\$74.85</b>	<b>320</b>	<b>67.9 %</b>	<b>\$114.02</b>	<b>\$77.37</b>

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

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

**MAP OF COMPETITION**



-  Proposed Home2 Suites
-  Sonesta ES Suites Somers Point (Primary)
-  Best Western Plus Atlantic City West Extended Stay & Suites (Secondary)
-  Homewood Suites by Hilton Atlantic City West Egg Harbor Township (Secondary)
-  Residence Inn by Marriott Atlantic City Airport Egg Harbor Township (Secondary)
-  Holiday Inn Express West Atlantic City (Secondary)
-  Comfort Inn & Suites West Atlantic City (Secondary)
-  Country Inn & Suites Galloway (Secondary)

**Supply Changes**

It is important to consider any new hotels that may have an impact on the proposed subject hotel’s operating performance. The following chart sets forth the hotels that have recently opened, are under construction, or are in the stages of



early development in the Somers Point area. The list is categorized by the principal submarkets within the city.

**FIGURE 6-4 AREA DEVELOPMENT ACTIVITY**

Proposed Hotel Name	Estimated Number of Rooms	Hotel Product Tier	Development Stage	Expected Qtr. & Year of Opening	Address
<b>Downtown</b>					
Proposed Hampton Inn by Hilton Galloway	101	Upper-Midscale	Under Construction	Q1 '17	338 E. White Horse Pike

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

**FIGURE 6-5 NEW SUPPLY**

Proposed Property	Number of Rooms	Total Competitive Level	Weighted Room Count	Estimated Opening Date	Developer	Development Stage
Proposed Subject Property	114	100 %	114	May 1, 2018	PRA Development	Early Development
Proposed Hampton Inn by Hilton Galloway	101	50	51	February 1, 2017	ShoreRock Properties	Under Construction
<b>Totals/Averages</b>	<b>215</b>		<b>165</b>			

Given the ten-mile distance and limited-service product type of the Proposed Hampton Inn by Hilton Galloway, this proposed hotel has been weighted secondarily competitive in our analysis.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that will be opened in the future, or what their marketing strategies and effect in the market will be. Depending on the outcome of current and future projects, the future operating potential of the proposed subject hotel may be 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 Home2 Suites by Hilton. We have also investigated potential increases in competitive supply in this Somers Point submarket. The



Proposed Home2 Suites by Hilton should enter a dynamic market of varying product types and price points. Next, we will present our forecast for demand change, using the historical supply data presented as a starting point.

**DEMAND**

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

**FIGURE 6-6 HISTORICAL MARKET TRENDS**

Year	Accommodated		Room Nights		Market			Market	
	Room Nights	% Change	Available	% Change	Occupancy	Market ADR	% Change	RevPAR	% Change
Est. 2014	102,449	—	160,272	—	63.9 %	\$110.03	—	\$70.34	—
Est. 2015	106,288	3.7 %	160,418	0.1 %	66.3	111.25	1.1 %	73.71	4.8 %
Est. 2016	107,169	0.8	160,418	0.0	66.8	114.28	2.7	76.34	3.6
Avg. Annual Compounded Chg., Est. 2014-Est. 2016:		2.3 %		0.0 %			1.9 %		4.2 %

**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 2016 distribution of accommodated-room-night demand as follows.

**FIGURE 6-7 ACCOMMODATED ROOM-NIGHT DEMAND**

Market Segment	Marketwide	
	Accommodated Demand	Percentage of Total
Commercial	52,060	49 %
Leisure	27,487	26
Group	8,257	8
Extended-Stay	19,365	18
<b>Total</b>	<b>107,169</b>	<b>100 %</b>

The market’s demand mix comprises commercial demand, with this segment representing roughly 49% of the accommodated room nights in this Somers Point



submarket. The Leisure comprises 26% of the total, with the final portions Group and Extended-Stay in nature (8% and 18%, respectively).

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, four segments were defined as representing the proposed subject hotel’s lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following average annual compounded market-segment growth rates.

**FIGURE 6-8 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES**

Market Segment	Annual Growth Rate					
	2017	2018	2019	2020	2021	2022
Commercial	3.0 %	8.0 %	6.0 %	4.0 %	2.0 %	0.5 %
Leisure	3.0	8.0	6.0	4.0	2.0	0.5
Group	2.0	6.0	3.0	1.0	0.5	0.5
Extended-Stay	2.0	10.0	10.0	6.0	3.0	0.5
<b>Base Demand Growth</b>	<b>2.7 %</b>	<b>8.2 %</b>	<b>6.5 %</b>	<b>4.2 %</b>	<b>2.1 %</b>	<b>0.5 %</b>

**Latent Demand**

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

**Unaccommodated Demand**

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

Unaccommodated demand is further indicated if the market is at all seasonal, with distinct high and low seasons; such seasonality indicates that although year-end occupancy may not average in excess of 70%, the market may sell out certain nights during the year. To evaluate the incidence of unaccommodated demand in



the market, we have reviewed the average occupancy by the night of the week for the past twelve months for the competitive set, as reflected in the STR data. This is set forth in the following table.

**FIGURE 6-9 OCCUPANCY BY NIGHT OF THE WEEK**

Month	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Month
Nov - 15	31.9 %	51.4 %	54.4 %	54.8 %	56.6 %	61.4 %	71.2 %	53.7 %
Dec - 15	29.5	39.2	44.8	42.4	51.1	41.0	48.7	42.7
Jan - 16	36.6	43.3	49.3	49.5	40.4	53.4	60.4	47.8
Feb - 16	44.8	45.9	49.6	51.6	44.5	56.9	86.4	54.0
Mar - 16	35.6	54.4	59.0	57.5	52.8	74.3	87.9	59.8
Apr - 16	48.6	60.5	62.1	61.0	53.6	73.0	86.0	64.6
May - 16	54.1	53.9	59.7	59.4	52.4	72.7	89.3	62.4
Jun - 16	64.5	73.9	75.9	71.8	66.1	89.8	93.8	76.0
Jul - 16	85.6	83.8	83.4	88.2	85.8	94.6	95.3	88.5
Aug - 16	91.0	93.1	93.8	93.0	95.9	96.9	97.5	94.4
Sep - 16	62.9	63.6	70.7	73.0	68.6	79.0	92.4	72.9
Oct - 16	46.9	52.7	56.8	56.2	53.0	66.4	81.2	59.1
<b>Average</b>	<b>52.5 %</b>	<b>59.7 %</b>	<b>63.4 %</b>	<b>63.5 %</b>	<b>60.1 %</b>	<b>71.9 %</b>	<b>82.3 %</b>	<b>64.7 %</b>

Source: STR

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

**FIGURE 6-10 UNACCOMMODATED DEMAND ESTIMATE**

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
Commercial	52,060	4.2 %	2,184
Leisure	27,487	13.6	3,740
Group	8,257	0.0	0
Extended-Stay	19,365	0.0	0
<b>Total</b>	<b>107,169</b>	<b>5.5 %</b>	<b>5,924</b>



Accordingly, we have forecast unaccommodated demand equivalent to 5.5% 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 proposed subject hotel's competitive environment, we have forecast growth rates for each market segment. Using the calculated potential demand for the market, we have determined market-wide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

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

**FIGURE 6-11 FORECAST OF MARKET OCCUPANCY**

	2017	2018	2019	2020	2021	2022
<b>Commercial</b>						
Base Demand	53,622	57,912	61,386	63,842	65,119	65,444
Unaccommodated Demand	2,249	2,429	2,575	2,678	2,732	2,745
Total Demand	55,871	60,341	63,961	66,520	67,850	68,190
Growth Rate	7.3 %	8.0 %	6.0 %	4.0 %	2.0 %	0.5 %
<b>Leisure</b>						
Base Demand	28,311	30,576	32,411	33,707	34,381	34,553
Unaccommodated Demand	3,852	4,160	4,410	4,586	4,678	4,701
Total Demand	32,164	34,737	36,821	38,294	39,059	39,255
Growth Rate	17.0 %	8.0 %	6.0 %	4.0 %	2.0 %	0.5 %
<b>Group</b>						
Base Demand	8,422	8,928	9,196	9,288	9,334	9,381
Total Demand	8,422	8,928	9,196	9,288	9,334	9,381
Growth Rate	2.0 %	6.0 %	3.0 %	1.0 %	0.5 %	0.5 %
<b>Extended-Stay</b>						
Base Demand	19,752	21,728	23,900	25,334	26,094	26,225
Total Demand	19,752	21,728	23,900	25,334	26,094	26,225
Growth Rate	2.0 %	10.0 %	10.0 %	6.0 %	3.0 %	0.5 %
<b>Totals</b>						
Base Demand	110,108	119,143	126,893	132,171	134,928	135,603
Unaccommodated Demand	6,102	6,590	6,985	7,265	7,410	7,447
Total Demand	116,210	125,733	133,878	139,435	142,338	143,050
less: Residual Demand	4,505	1,200	757	1,542	1,952	2,053
Total Accommodated Demand	111,705	124,533	133,121	137,893	140,386	140,997
<b>Overall Demand Growth</b>	4.2 %	11.5 %	6.9 %	3.6 %	1.8 %	0.4 %
<b>Market Mix</b>						
Commercial	48.1 %	48.0 %	47.8 %	47.7 %	47.7 %	47.7 %
Leisure	27.7	27.6	27.5	27.5	27.4	27.4
Group	7.2	7.1	6.9	6.7	6.6	6.6
Extended-Stay	17.0	17.3	17.9	18.2	18.3	18.3
<b>Existing Hotel Supply</b>						
	444	449	440	440	440	440
<b>Proposed Hotels</b>						
Proposed Subject Property <sup>1</sup>		77	114	114	114	114
Proposed Hampton Inn by Hilton Galloway <sup>2</sup>	46	51	51	51	51	51
Available Room Nights per Year	178,850	210,200	220,460	220,460	220,460	220,460
Nights per Year	365	365	365	365	365	365
<b>Total Supply</b>	490	576	604	604	604	604
Rooms Supply Growth	11.5 %	17.5 %	4.9 %	0.0 %	0.0 %	0.0 %
<b>Marketwide Occupancy</b>	<b>62.5 %</b>	<b>59.2 %</b>	<b>60.4 %</b>	<b>62.5 %</b>	<b>63.7 %</b>	<b>64.0 %</b>

<sup>1</sup> Opening in May 2018 of the 100% competitive, 114-room Proposed Subject Property

<sup>2</sup> Opening in February 2017 of the 50% competitive, 101-room Proposed Hampton Inn by Hilton Galloway



## 7. Projection of Occupancy and Average Rate

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

### **Forecast of Subject Property's Occupancy**

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

**FIGURE 7-1 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY**

<b>Market Segment</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Commercial</b>					
Demand	59,899	63,606	65,797	66,936	67,228
Market Share	13.5 %	20.4 %	21.1 %	21.1 %	21.1 %
Capture	8,062	12,957	13,863	14,103	14,165
Penetration	101 %	108 %	112 %	112 %	112 %
<b>Leisure</b>					
Demand	33,979	36,579	37,801	38,436	38,599
Market Share	13.2 %	20.1 %	20.8 %	20.8 %	20.8 %
Capture	4,470	7,336	7,854	7,986	8,020
Penetration	99 %	106 %	110 %	110 %	110 %
<b>Group</b>					
Demand	8,928	9,151	9,200	9,225	9,266
Market Share	11.5 %	18.0 %	18.7 %	18.7 %	18.7 %
Capture	1,027	1,643	1,723	1,727	1,735
Penetration	86 %	95 %	99 %	99 %	99 %
<b>Extended-Stay</b>					
Demand	21,728	23,785	25,095	25,789	25,904
Market Share	16.2 %	24.1 %	24.9 %	24.9 %	24.9 %
Capture	3,522	5,741	6,239	6,412	6,440
Penetration	121 %	128 %	132 %	132 %	132 %
<b>Total Room Nights Captured</b>	<b>17,080</b>	<b>27,677</b>	<b>29,679</b>	<b>30,228</b>	<b>30,360</b>
Available Room Nights	28,044	41,610	41,610	41,610	41,610
<b>Subject Occupancy</b>	<b>61 %</b>	<b>67 %</b>	<b>71 %</b>	<b>73 %</b>	<b>73 %</b>
Marketwide Available Room Nights	210,200	220,460	220,460	220,460	220,460
<b>Fair Share</b>	<b>13 %</b>	<b>19 %</b>	<b>19 %</b>	<b>19 %</b>	<b>19 %</b>
Marketwide Occupied Room Nights	124,533	133,121	137,893	140,386	140,997
<b>Market Share</b>	<b>14 %</b>	<b>21 %</b>	<b>22 %</b>	<b>22 %</b>	<b>22 %</b>
<b>Marketwide Occupancy</b>	<b>59 %</b>	<b>60 %</b>	<b>63 %</b>	<b>64 %</b>	<b>64 %</b>
<b>Total Penetration</b>	<b>103 %</b>	<b>110 %</b>	<b>114 %</b>	<b>114 %</b>	<b>114 %</b>

Within the commercial and leisure segments, the proposed subject hotel's occupancy penetration is positioned appropriately within the range of existing competitors; the proposed hotel's Hilton brand affiliation and all-suite product offering is expected to appeal to both commercial and leisure travelers alike. Furthermore, the presence of several corporations and government entities within the area, such as AtlantiCare, the FAA Technical Center, and the US Coast Guard, should further support these positioned levels. The proposed subject hotel's occupancy penetration in the group segment is positioned appropriately within



the range of existing competitors given the proposed hotel's available meeting space. Within the extended-stay segment, the proposed subject hotel's occupancy penetration is positioned above the market-average level, given the extended-stay product offering and proximity to several corporations and government entities, as previously mentioned. Overall, the proposed subject property is expected to obtain an occupancy penetration level above fair share by the stabilized year.

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

**FIGURE 7-2 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY**

	2018	2019	2020	2021	2022
Commercial	47 %	47 %	47 %	47 %	47 %
Leisure	26	27	26	26	26
Group	6	6	6	6	6
Extended-Stay	21	21	21	21	21
<b>Total</b>	100 %	100 %	100 %	100 %	100 %

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

**Average Rate Analysis**

The following table illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied underlying inflation rates of 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2016.



**FIGURE 7-3 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	66.8 %	—	\$114.28	—	—	\$112.00	98.0 %
2017	62.5	5.0 %	119.99	—	5.0 %	117.60	98.0
2018	59.2	4.0	124.79	61.0 %	4.0	122.30	98.0
2019	60.4	3.0	128.53	67.0	3.0	125.97	98.0
2020	62.5	3.0	132.39	71.0	3.0	129.75	98.0
2021	63.7	3.0	136.36	73.0	3.0	133.64	98.0
2022	64.0	3.0	140.45	73.0	3.0	137.65	98.0

As illustrated above, a 5.0% rate of change is expected for the proposed subject hotel's positioned 2016 room rate in 2017. This is followed by growth rates of 4.0% and 3.0% in 2018 and 2019, respectively. The Atlantic County market should experience rate growth through the near term. The proposed subject hotel's rate position should reflect growth similar to market trends because of the proposed hotel's new facility, strong brand affiliation, and extended-stay product offering. The proposed subject hotel's penetration rate is forecast to reach 98.0% by the stabilized period.

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the proposed subject hotel's average rates in the initial operating period have been discounted to reflect this likelihood. We forecast 2.0% and 0.0% discounts to the proposed subject hotel's forecast room rates in the first two operating years, which would be typical for a new operation of this type.

The following occupancies and average rates will be used to project the proposed subject hotel's rooms revenue. This forecast reflects years beginning on May 1, 2018 and corresponds with our financial projections.



**FIGURE 7-4 FORECAST OF OCCUPANCY, AVERAGE RATE, AND REVPAR**

<u>Year</u>	<u>Occupancy</u>	<u>Average Rate Before Discount</u>	<u>Discount</u>	<u>Average Rate After Discount</u>	<u>RevPAR</u>
2018/19	63 %	\$123.51	2.0 %	\$121.04	\$76.26
2019/20	68	127.22	0.0	127.22	86.51
2020/21	72	131.03	0.0	131.03	94.34
2021/22	73	134.96	0.0	134.96	98.52



## 8. Highest and Best Use

The concept of highest and best use is a fundamental element in the determination of value of real property, either as if vacant or as improved. Highest and best use is defined as follows:

The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.<sup>10</sup>

The concept of highest and best use is the premise upon which value is based and is a product of competitive forces in the marketplace. The principle of balance holds that real property value is created and sustained when contrasting, opposing, or interacting elements are in a state of equilibrium. This principle applies to relationships among various property components as well as the relationship between the costs of production and the property's productivity. The point of economic balance is achieved when the combination of land and building is optimal (i.e., when no marginal benefit or utility is achieved by adding another unit of capital). The law of increasing returns holds that larger amounts of the agents of production produce greater net income up to a certain point, after which the law of diminishing returns is applied.

### As if Vacant

Land value is derived from potential use rather than actual use. The highest and best use is that which generates the greatest return to the land. An analysis as to the highest and best use of the land should be made first and may be influenced by many factors. In estimating highest and best use, there are four stages of analysis:

1. Legally permissible use: What uses are permitted by zoning, deed restrictions, lease encumbrances, or any other legally binding codes, restrictions, or interests?

As detailed in the zoning section of this report, the subject site is located in a commercially zoned district that allows for hotel, office, and retail uses, among other uses.

2. Physically possible use: What uses of the site are physically possible?

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<sup>10</sup> Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015).



The subject site is large enough to support most smaller-scale commercial developments, certainly a hotel, office, or strip retail development, as defined under the permitted legal uses. The topography is appropriate and access is adequate for these types of developments.

3. Financially feasible use: Which possible and permissible uses will produce a net return to the owner of the site?

Given the attributes of the site, uses that would be financially feasible include retail, office, and hotel.

4. Maximally productive use: Among the feasible uses, which use will produce the highest net return or the highest present worth?

Given the attributes of the site and the multi-story capability of hotel use, the maximally productive use would be for a hotel.

**As if Vacant Conclusion**

In consideration of the foregoing factors influencing development in the immediate area, it is our opinion that the highest and best use of the subject site, as if vacant, would be for the development of an extended-stay lodging facility.

**Ideal Improvement**

The ideal improvement for the subject site is an extended-stay lodging facility that offers the appropriate amenities to operate competitively in this market.

**As Improved**

After determining the highest and best use of the land and the ideal improvement, an analysis should be made regarding the differences between the current improvements and the ideal improvement. These differences then form the basis for estimating deterioration and obsolescence in this report.

It is our opinion that the subject improvements be constructed in order to allow the site to conform to its ideal improvement.



## 9. Approaches to Value

In appraising real estate for market value, three approaches to value are considered: income capitalization, cost, and sales comparison. Basic summaries of each approach are provided as follows; please refer to the introduction of each respective chapter for additional description.

### **Income Capitalization Approach**

The income capitalization approach analyzes a property's ability to generate financial returns as an investment. The appraisal estimates a property's operating cash flow, and the result is utilized in a direct capitalization technique and a discounted-cash-flow analysis. The income capitalization approach is often selected as the preferred valuation method for operating properties because it most closely reflects the investment rationale of knowledgeable buyers.

### **Sales Comparison Approach**

The sales comparison approach estimates the value of a property by comparing it to similar properties sold on the open market. To obtain a supportable estimate of value, the sales price of a comparable property must be adjusted to reflect any dissimilarity between it and the property being appraised. The sales comparison approach is most useful in the case of simple forms of real estate such as vacant land and single-family homes, where the properties are homogeneous and the adjustments are few and relatively simple to compute. In the case of complex investments such as hotels, where the adjustments are numerous and more difficult to quantify, the sales comparison approach loses much of its reliability.

### **Cost Approach**

The cost approach estimates market value by computing the current cost of replacing the property and subtracting any depreciation resulting from deterioration and obsolescence. The value of the land is then added to the depreciated value.

The cost approach is most reliable for estimating the value of new properties; therefore, this approach is particularly applicable for this project given its proposed nature.

### **Reconciliation**

The final step in the valuation process is the reconciliation and correlation of the value indications. Factors that are considered in assessing the reliability of each approach include the purpose of the appraisal, the nature of the subject property, and the reliability of the data used. In the reconciliation, the applicability and supportability of each approach are considered and the range of value indications is examined. The most significant weight is given to the approach that produces the most reliable solution and most closely reflects the criteria used by typical



investors. Moreover, given the proposed nature of this project, the cost approach is also highly applicable.



## 10. Income Capitalization Approach

The income capitalization approach is based on the principle that the value of a property is indicated by its net return, known as the present worth of future benefits. The future benefits of income-producing properties, such as hotels, are net income before debt service and depreciation (as estimated by a forecast of income and expense) and any anticipated reversionary proceeds from a sale. These future benefits can be converted into an indication of market value through a capitalization process and discounted-cash-flow analysis.

### Comparable Operating Statements

In order to project future income and expense for the Proposed Home2 Suites by Hilton, we have included a sample of individual comparable operating statements from our database of hotel statistics. All financial data are presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). These historical income and expense statements will be used as benchmarks in our forthcoming forecast of income and expense.

**FIGURE 10-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						<b>Stabilized \$</b>
<b>Year:</b>	<b>2015/16</b>	<b>2015/16</b>	<b>2015</b>	<b>2015/16</b>	<b>2014/15</b>	<b>2016</b>
<b>Number of Rooms:</b>	<b>110 to 140</b>	<b>90 to 110</b>	<b>90 to 120</b>	<b>120 to 160</b>	<b>70 to 90</b>	<b>114</b>
<b>Days Open:</b>	<b>365</b>	<b>365</b>	<b>365</b>	<b>161</b>	<b>365</b>	<b>365</b>
<b>Occupancy:</b>	<b>79%</b>	<b>70%</b>	<b>71%</b>	<b>68%</b>	<b>79%</b>	<b>73%</b>
<b>Average Rate:</b>	<b>\$110</b>	<b>\$118</b>	<b>\$109</b>	<b>\$121</b>	<b>\$113</b>	<b>\$116</b>
<b>RevPAR:</b>	<b>\$87</b>	<b>\$83</b>	<b>\$77</b>	<b>\$82</b>	<b>\$89</b>	<b>\$85</b>
<b>REVENUE</b>						
Rooms	96.5 %	97.4 %	98.5 %	97.6 %	98.5 %	97.3 %
Other Operated Departments	1.3	1.6	0.3	2.4	1.5	1.7
Rentals & Other Income	2.2	1.0	1.2	0.0	0.0	1.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>DEPARTMENTAL EXPENSES*</b>						
Rooms	21.6	21.1	20.4	21.0	22.0	21.0
Other Operated Departments	91.7	68.4	306.1	68.7	43.3	60.0
<b>Total</b>	<b>22.1</b>	<b>21.7</b>	<b>20.9</b>	<b>22.2</b>	<b>22.4</b>	<b>21.4</b>
<b>DEPARTMENTAL INCOME</b>						
	<b>77.9</b>	<b>78.3</b>	<b>79.1</b>	<b>77.8</b>	<b>77.6</b>	<b>78.6</b>
<b>OPERATING EXPENSES</b>						
Administrative & General	7.5	6.5	8.3	6.6	8.3	6.9
Info. and Telecom. Systems	1.1	0.3	0.0	0.0	1.7	0.8
Marketing	2.8	1.8	4.6	2.7	4.8	3.4
Franchise Fee	7.5	7.1	5.8	7.1	5.2	7.8
Property Operations & Maintenance	3.3	2.5	4.2	2.8	2.8	2.7
Utilities	2.3	3.1	4.0	0.3	4.5	6.2
<b>Total</b>	<b>24.6</b>	<b>21.3</b>	<b>26.9</b>	<b>19.6</b>	<b>27.4</b>	<b>27.8</b>
<b>HOUSE PROFIT</b>						
	<b>53.3</b>	<b>57.0</b>	<b>52.2</b>	<b>58.2</b>	<b>50.2</b>	<b>50.7</b>
Management Fee	4.0	3.0	3.5	4.1	5.0	3.0
<b>INCOME BEFORE FIXED CHARGES</b>						
	<b>49.3</b>	<b>54.0</b>	<b>48.6</b>	<b>54.1</b>	<b>45.3</b>	<b>47.7</b>

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

**FIGURE 10-2 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2015/16	2015/16	2015	2015/16	2014/15	2016
Number of Rooms:	110 to 140	90 to 110	90 to 120	120 to 160	70 to 90	114
Days Open:	365	365	365	161	365	365
Occupancy:	79%	70%	71%	68%	79%	73%
Average Rate:	\$110	\$118	\$109	\$121	\$113	\$116
RevPAR:	\$87	\$83	\$77	\$82	\$89	\$85
<b>REVENUE</b>						
Rooms	\$31,588	\$30,177	\$28,154	\$13,159	\$32,560	\$31,020
Other Operated Departments	439	494	78	330	496	530
Rentals & Other Income	720	303	354	0	0	331
Total	32,746	30,974	28,586	13,489	33,055	31,882
<b>DEPARTMENTAL EXPENSES</b>						
Rooms	6,822	6,375	5,744	2,765	7,177	6,514
Other Operated Departments	402	338	239	227	215	318
Total	7,225	6,713	5,983	2,992	7,392	6,832
<b>DEPARTMENTAL INCOME</b>						
	25,521	24,261	22,603	10,497	25,663	25,050
<b>OPERATING EXPENSES</b>						
Administrative & General	2,455	2,013	2,369	891	2,756	2,190
Info. and Telecom. Systems	373	98	0	0	576	249
Marketing	928	570	1,318	371	1,586	1,095
Franchise Fee	2,468	2,191	1,661	958	1,720	2,482
Property Operations & Maintenance	1,090	788	1,193	375	934	871
Utilities	756	947	1,156	44	1,481	1,991
Total	8,070	6,608	7,698	2,639	9,054	8,876
<b>HOUSE PROFIT</b>						
	17,451	17,653	14,905	7,858	16,609	16,173
Management Fee	1,310	928	1,001	557	1,651	957
<b>INCOME BEFORE FIXED CHARGES</b>						
	16,142	16,725	13,904	7,300	14,959	15,217

**FIGURE 10-3 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM**

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized \$
Year:	2015/16	2015/16	2015	2015/16	2014/15	2016
<b>Number of Rooms:</b>	<b>110 to 140</b>	<b>90 to 110</b>	<b>90 to 120</b>	<b>120 to 160</b>	<b>70 to 90</b>	<b>114</b>
<b>Days Open:</b>	<b>365</b>	<b>365</b>	<b>365</b>	<b>161</b>	<b>365</b>	<b>365</b>
<b>Occupancy:</b>	<b>79%</b>	<b>70%</b>	<b>71%</b>	<b>68%</b>	<b>79%</b>	<b>73%</b>
<b>Average Rate:</b>	<b>\$110</b>	<b>\$118</b>	<b>\$109</b>	<b>\$121</b>	<b>\$113</b>	<b>\$116</b>
<b>RevPAR:</b>	<b>\$87</b>	<b>\$83</b>	<b>\$77</b>	<b>\$82</b>	<b>\$89</b>	<b>\$85</b>
<b>REVENUE</b>						
Rooms	\$109.96	\$117.87	\$109.23	\$120.66	\$113.13	\$116.42
Other Operated Departments	1.53	1.93	0.30	3.03	1.72	1.99
Rentals & Other Income	2.51	1.19	1.37	0.00	0.00	1.24
Total	113.99	120.99	110.91	123.69	114.85	119.65
<b>DEPARTMENTAL EXPENSES</b>						
Rooms	23.75	24.90	22.29	25.35	24.94	24.45
Other Operated Departments	1.40	1.32	0.93	2.08	0.75	1.19
Total	25.15	26.22	23.21	27.43	25.68	25.64
<b>DEPARTMENTAL INCOME</b>						
	88.84	94.77	87.69	96.25	89.17	94.01
<b>OPERATING EXPENSES</b>						
Administrative & General	8.55	7.86	9.19	8.17	9.58	8.22
Info. and Telecom. Systems	1.30	0.38	0.00	0.00	2.00	0.93
Marketing	3.23	2.23	5.11	3.40	5.51	4.11
Franchise Fee	8.59	8.56	6.45	8.78	5.98	9.31
Property Operations & Maintenance	3.79	3.08	4.63	3.44	3.25	3.27
Utilities	2.63	3.70	4.48	0.41	5.15	7.47
Total	28.09	25.81	29.87	24.20	31.46	33.31
<b>HOUSE PROFIT</b>						
	60.75	68.95	57.83	72.05	57.71	60.70
Management Fee	4.56	3.63	3.88	5.11	5.73	3.59
<b>INCOME BEFORE FIXED CHARGES</b>						
	56.19	65.33	53.94	66.94	51.97	57.11



The comparables' departmental income ranged from 77.6% to 79.1% of total revenue. The comparable properties achieved a house profit ranging from 50.2% to 58.2% of total revenue.

#### **Inflation Assumption**

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied underlying inflation rates of 2.0%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2016. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are discussed in our write-up of individual income and expense items.

#### **Summary of Projections**

Based on an analysis that will be detailed throughout this section, we have formulated a forecast of income and expense. The following table presents a detailed forecast through the fifth projection year, including amounts per available room and per occupied room. The second table illustrates our ten-year forecast of income and expense, presented with a lesser degree of detail. The forecasts pertain to years that begin on May 1, 2018, expressed in inflated dollars for each year.

**FIGURE 10-4 DETAILED FORECAST OF INCOME AND EXPENSE**

	2018/19 Begins May				2019/20				2020/21				Stabilized			
Number of Rooms:	114				114				114				114			
Occupancy:	63%				68%				72%				73%			
Average Rate:	\$121.04				\$127.22				\$131.03				\$134.96			
RevPAR:	\$76.26				\$86.51				\$94.34				\$98.52			
Days Open:	365				365				365				365			
Occupied Rooms:	26,214	%Gross	PAR	POR	28,295	%Gross	PAR	POR	29,959	%Gross	PAR	POR	30,375	%Gross	PAR	POR
<b>OPERATING REVENUE</b>																
Rooms	\$3,173	96.9 %	\$27,833	\$121.04	\$3,600	97.2 %	\$31,579	\$127.23	\$3,926	97.3 %	\$34,439	\$131.04	\$4,100	97.3 %	\$35,965	\$134.98
Other Operated Departments	62	1.9	540	2.35	65	1.7	568	2.29	68	1.7	594	2.26	70	1.7	615	2.31
Miscellaneous Income	38	1.2	337	1.47	40	1.1	355	1.43	42	1.0	372	1.41	44	1.0	384	1.44
<b>Total Operating Revenues</b>	<b>3,273</b>	<b>100.0</b>	<b>28,710</b>	<b>124.85</b>	<b>3,705</b>	<b>100.0</b>	<b>32,501</b>	<b>130.95</b>	<b>4,036</b>	<b>100.0</b>	<b>35,405</b>	<b>134.72</b>	<b>4,214</b>	<b>100.0</b>	<b>36,964</b>	<b>138.73</b>
<b>DEPARTMENTAL EXPENSES *</b>																
Rooms	745	23.5	6,532	28.41	789	21.9	6,923	27.89	831	21.2	7,292	27.75	861	21.0	7,552	28.34
Other Operated Departments	38	61.8	333	1.45	39	60.9	346	1.39	41	60.2	358	1.36	42	60.0	369	1.38
<b>Total</b>	<b>783</b>	<b>23.9</b>	<b>6,866</b>	<b>29.86</b>	<b>829</b>	<b>22.4</b>	<b>7,269</b>	<b>29.29</b>	<b>872</b>	<b>21.6</b>	<b>7,649</b>	<b>29.11</b>	<b>903</b>	<b>21.4</b>	<b>7,921</b>	<b>29.73</b>
<b>DEPARTMENTAL INCOME</b>	<b>2,490</b>	<b>76.1</b>	<b>21,844</b>	<b>95.00</b>	<b>2,877</b>	<b>77.6</b>	<b>25,233</b>	<b>101.66</b>	<b>3,164</b>	<b>78.4</b>	<b>27,755</b>	<b>105.61</b>	<b>3,311</b>	<b>78.6</b>	<b>29,043</b>	<b>109.00</b>
<b>UNDISTRIBUTED OPERATING EXPENSES</b>																
Administrative & General	255	7.8	2,235	9.72	268	7.2	2,352	9.48	280	6.9	2,456	9.35	289	6.9	2,538	9.53
Info. & Telecom. Systems	29	0.9	254	1.10	30	0.8	267	1.08	32	0.8	279	1.06	33	0.8	288	1.08
Marketing	127	3.9	1,118	4.86	134	3.6	1,176	4.74	140	3.5	1,228	4.67	145	3.4	1,269	4.76
Franchise Fee	190	5.8	1,670	7.26	252	6.8	2,211	8.91	314	7.8	2,755	10.48	328	7.8	2,877	10.80
Prop. Operations & Maint.	101	3.1	889	3.87	107	2.9	936	3.77	111	2.8	977	3.72	115	2.7	1,010	3.79
Utilities	232	7.1	2,032	8.84	244	6.6	2,139	8.62	255	6.3	2,233	8.50	263	6.2	2,308	8.66
<b>Total</b>	<b>935</b>	<b>28.6</b>	<b>8,197</b>	<b>35.65</b>	<b>1,035</b>	<b>27.9</b>	<b>9,081</b>	<b>36.59</b>	<b>1,132</b>	<b>28.1</b>	<b>9,928</b>	<b>37.78</b>	<b>1,173</b>	<b>27.8</b>	<b>10,290</b>	<b>38.62</b>
<b>GROSS HOUSE PROFIT</b>	<b>1,556</b>	<b>47.5</b>	<b>13,647</b>	<b>59.35</b>	<b>1,841</b>	<b>49.7</b>	<b>16,152</b>	<b>65.08</b>	<b>2,032</b>	<b>50.3</b>	<b>17,827</b>	<b>67.84</b>	<b>2,138</b>	<b>50.8</b>	<b>18,753</b>	<b>70.38</b>
Management Fee	98	3.0	861	3.75	111	3.0	975	3.93	121	3.0	1,062	4.04	126	3.0	1,109	4.16
<b>INCOME BEFORE NON-OPER. INC. &amp; EXP.</b>	<b>1,458</b>	<b>44.5</b>	<b>12,786</b>	<b>55.60</b>	<b>1,730</b>	<b>46.7</b>	<b>15,177</b>	<b>61.15</b>	<b>1,911</b>	<b>47.3</b>	<b>16,765</b>	<b>63.79</b>	<b>2,011</b>	<b>47.8</b>	<b>17,644</b>	<b>66.22</b>
<b>NON-OPERATING INCOME AND EXPENSE</b>																
Property Taxes	183	5.6	1,609	7.00	188	5.1	1,649	6.64	194	4.8	1,698	6.46	199	4.7	1,749	6.56
Insurance	30	0.9	264	1.15	31	0.8	272	1.10	32	0.8	280	1.07	33	0.8	288	1.08
Reserve for Replacement	65	2.0	574	2.50	111	3.0	975	3.93	161	4.0	1,416	5.39	169	4.0	1,479	5.55
<b>Total</b>	<b>279</b>	<b>8.5</b>	<b>2,447</b>	<b>10.64</b>	<b>330</b>	<b>8.9</b>	<b>2,896</b>	<b>11.67</b>	<b>387</b>	<b>9.6</b>	<b>3,394</b>	<b>12.92</b>	<b>401</b>	<b>9.5</b>	<b>3,516</b>	<b>13.20</b>
<b>EBITDA LESS RESERVE</b>	<b>\$1,179</b>	<b>36.0 %</b>	<b>\$10,339</b>	<b>\$44.96</b>	<b>\$1,400</b>	<b>37.8 %</b>	<b>\$12,281</b>	<b>\$49.48</b>	<b>\$1,524</b>	<b>37.7 %</b>	<b>\$13,371</b>	<b>\$50.88</b>	<b>\$1,611</b>	<b>38.3 %</b>	<b>\$14,128</b>	<b>\$53.02</b>

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

**FIGURE 10-5 TEN-YEAR FORECAST OF INCOME AND EXPENSE**

	2018/19		2019/20		2020/21		2021/22		2022/23		2023/24		2024/25		2025/26		2026/27		2027/28	
<b>Number of Rooms:</b>	<b>114</b>		<b>114</b>		<b>114</b>		<b>114</b>		<b>114</b>		<b>114</b>		<b>114</b>		<b>114</b>		<b>114</b>		<b>114</b>	
<b>Occupied Rooms:</b>	<b>26,214</b>		<b>28,295</b>		<b>29,959</b>		<b>30,375</b>		<b>30,375</b>		<b>30,375</b>		<b>30,375</b>		<b>30,375</b>		<b>30,375</b>		<b>30,375</b>	
<b>Occupancy:</b>	<b>63%</b>		<b>68%</b>		<b>72%</b>		<b>73%</b>		<b>73%</b>		<b>73%</b>		<b>73%</b>		<b>73%</b>		<b>73%</b>		<b>73%</b>	
<b>Average Rate:</b>	<b>\$121.04</b>	<b>% of</b>	<b>\$127.22</b>	<b>% of</b>	<b>\$131.03</b>	<b>% of</b>	<b>\$134.96</b>	<b>% of</b>	<b>\$139.01</b>	<b>% of</b>	<b>\$143.18</b>	<b>% of</b>	<b>\$147.48</b>	<b>% of</b>	<b>\$151.90</b>	<b>% of</b>	<b>\$156.46</b>	<b>% of</b>	<b>\$161.15</b>	<b>% of</b>
<b>RevPAR:</b>	<b>\$76.26</b>	<b>Gross</b>	<b>\$86.51</b>	<b>Gross</b>	<b>\$94.34</b>	<b>Gross</b>	<b>\$98.52</b>	<b>Gross</b>	<b>\$101.48</b>	<b>Gross</b>	<b>\$104.52</b>	<b>Gross</b>	<b>\$107.66</b>	<b>Gross</b>	<b>\$110.89</b>	<b>Gross</b>	<b>\$114.22</b>	<b>Gross</b>	<b>\$117.64</b>	<b>Gross</b>
<b>OPERATING REVENUE</b>																				
Rooms	\$3,173	96.9 %	\$3,600	97.2 %	\$3,926	97.3 %	\$4,100	97.3 %	\$4,223	97.3 %	\$4,349	97.3 %	\$4,480	97.3 %	\$4,614	97.3 %	\$4,752	97.3 %	\$4,895	97.3 %
Other Operated Departments	62	1.9	65	1.7	68	1.7	70	1.7	72	1.7	74	1.7	77	1.7	79	1.7	81	1.7	84	1.7
Miscellaneous Income	38	1.2	40	1.1	42	1.0	44	1.0	45	1.0	46	1.0	48	1.0	49	1.0	51	1.0	52	1.0
Total Operating Revenue	3,273	100.0	3,705	100.0	4,036	100.0	4,214	100.0	4,340	100.0	4,470	100.0	4,604	100.0	4,742	100.0	4,884	100.0	5,031	100.0
<b>DEPARTMENTAL EXPENSES*</b>																				
Rooms	745	23.5	789	21.9	831	21.2	861	21.0	887	21.0	913	21.0	941	21.0	969	21.0	998	21.0	1,028	21.0
Other Operated Departments	38	61.8	39	60.9	41	60.2	42	60.0	43	60.0	45	60.0	46	60.0	47	60.0	49	60.0	50	60.0
Total	783	23.9	829	22.4	872	21.6	903	21.4	930	21.4	958	21.4	987	21.4	1,016	21.4	1,047	21.4	1,078	21.4
<b>DEPARTMENTAL INCOME</b>																				
	2,490	76.1	2,877	77.6	3,164	78.4	3,311	78.6	3,410	78.6	3,512	78.6	3,618	78.6	3,726	78.6	3,837	78.6	3,953	78.6
<b>UNDISTRIBUTED OPERATING EXPENSES</b>																				
Administrative & General	255	7.8	268	7.2	280	6.9	289	6.9	298	6.9	307	6.9	316	6.9	326	6.9	335	6.9	346	6.9
Info. & Telecom. Systems	29	0.9	30	0.8	32	0.8	33	0.8	34	0.8	35	0.8	36	0.8	37	0.8	38	0.8	39	0.8
Marketing	127	3.9	134	3.6	140	3.5	145	3.4	149	3.4	153	3.4	158	3.4	163	3.4	168	3.4	173	3.4
Franchise Fee	190	5.8	252	6.8	314	7.8	328	7.8	338	7.8	348	7.8	358	7.8	369	7.8	380	7.8	392	7.8
Prop. Operations & Maint.	101	3.1	107	2.9	111	2.8	115	2.7	119	2.7	122	2.7	126	2.7	130	2.7	133	2.7	137	2.7
Utilities	232	7.1	244	6.6	255	6.3	263	6.2	271	6.2	279	6.2	287	6.2	296	6.2	305	6.2	314	6.2
Total	935	28.6	1,035	27.9	1,132	28.1	1,173	27.8	1,208	27.8	1,244	27.8	1,282	27.8	1,320	27.8	1,360	27.8	1,401	27.8
<b>GROSS HOUSE PROFIT</b>																				
	1,556	47.5	1,841	49.7	2,032	50.3	2,138	50.8	2,202	50.8	2,267	50.8	2,336	50.8	2,406	50.8	2,477	50.8	2,552	50.8
Management Fee	98	3.0	111	3.0	121	3.0	126	3.0	130	3.0	134	3.0	138	3.0	142	3.0	147	3.0	151	3.0
<b>INCOME BEFORE NON-OPER. INC. &amp; EXP.</b>																				
	1,458	44.5	1,730	46.7	1,911	47.3	2,011	47.8	2,072	47.8	2,133	47.8	2,198	47.8	2,263	47.8	2,331	47.8	2,401	47.8
<b>NON-OPERATING INCOME AND EXPENSE</b>																				
Property Taxes	183	5.6	188	5.1	194	4.8	199	4.7	205	4.7	212	4.7	218	4.7	224	4.7	231	4.7	238	4.7
Insurance	30	0.9	31	0.8	32	0.8	33	0.8	34	0.8	35	0.8	36	0.8	37	0.8	38	0.8	39	0.8
Reserve for Replacement	65	2.0	111	3.0	161	4.0	169	4.0	174	4.0	179	4.0	184	4.0	190	4.0	195	4.0	201	4.0
Total	279	8.5	330	8.9	387	9.6	401	9.5	413	9.5	425	9.5	438	9.5	451	9.5	465	9.5	479	9.5
<b>EBITDA LESS RESERVE</b>																				
	\$1,179	36.0 %	\$1,400	37.8 %	\$1,524	37.7 %	\$1,611	38.3 %	\$1,659	38.3 %	\$1,708	38.3 %	\$1,760	38.3 %	\$1,812	38.3 %	\$1,866	38.3 %	\$1,923	38.3 %

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



### **Forecast of Income and Expense**

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take four years for the subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the subject property's operating budget and comparable income and expense statements. The forecast is based upon fiscal years beginning May 1, 2018, expressed in inflated dollars for each year.

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

### **Property Taxes**

Property (or ad valorem) tax is one of the primary revenue sources of municipalities. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value, so properties with equal market values will have similar assessments and properties with higher and lower values will have proportionately larger and smaller assessments. Depending on the taxing policy of the municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property. We have based our estimate of the proposed subject property's market value (for tax purposes) on an analysis of assessments of comparable hotel properties in the local municipality.



**FIGURE 10-6 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS**

Hotel	Year Open	Land	Improvements	Total
Subject Property	2018	\$1,017,900	\$0	\$1,017,900
Sonesta ES Suites Somers Point	1986	\$1,520,500	\$5,879,500	\$7,400,000
Best Western Plus Atlantic City West Extended Stay & Suites		954,500	2,045,500	3,000,000
Homewood Suites by Hilton Atlantic City West Egg Harbor Township	2012	1,500,000	13,811,000	15,311,000
Residence Inn by Marriott Atlantic City Airport Egg Harbor Township	2008	1,262,500	8,007,400	9,269,900
Holiday Inn Express Absecon Atlantic City Area	2001	1,720,000	3,440,000	5,160,000
Comfort Inn Atlantic City	1980	1,176,000	3,353,500	4,529,500
Country Inn & Suites Galloway	2008	231,000	1,755,200	1,986,200
<i>Assessments per Room</i>				
	<i># of Rms</i>			
Sonesta ES Suites Somers Point	120	\$12,671	\$48,996	\$61,667
Best Western Plus Atlantic City West Extended Stay & Suites	68	14,037	30,081	44,118
Homewood Suites by Hilton Atlantic City West Egg Harbor Township	120	12,500	115,092	127,592
Residence Inn by Marriott Atlantic City Airport Egg Harbor Township	101	12,500	79,281	91,781
Holiday Inn Express Absecon Atlantic City Area	86	20,000	40,000	60,000
Comfort Inn Atlantic City	189	6,222	17,743	23,966
Country Inn & Suites Galloway	68	3,397	25,812	29,209
<b>Positioned Subject - Per Room</b>	<b>114</b>	<b>\$12,500</b>	<b>\$42,000</b>	<b>\$54,500</b>
<b>Positioned Subject - Total</b>		<b>\$1,425,000</b>	<b>\$4,788,000</b>	<b>\$6,213,000</b>

Source: Atlantic County Assessor's Office

Tax rates are based on the city and county budgets, which change annually. The most recent tax rate in this jurisdiction was reported at 2.823%. The following table shows changes in the tax rate during the last several years.

**FIGURE 10-7 COUNTY TAX RATES**

Year	Real Property Tax Rate
2014	2.700
2015	2.794
2016	2.823

Source: Atlantic County Assessor's Office

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



**FIGURE 10-8 PROJECTED PROPERTY TAX BURDEN (BASE YEAR)**

	<u>Real Property</u> <u>Total</u>
Equalization Rate	1.000
Tax Rate	<u>2.823</u>
Tax Burden as of Base Year	\$175,393

**FIGURE 10-9 PROJECTED PROPERTY TAX EXPENSE - REAL PROPERTY**

Year	<u>Real Property</u>		
	<u>Total Tax Burden</u> <u>(Positioned Prior to Increase)</u>	<u>Base Rate of Tax</u> <u>Burden Increase</u>	<u>Taxes</u> <u>Payable</u>
Positioned	\$175,393	—	\$175,393
2018/19	\$175,393	4.5 %	\$183,373
2019/20	183,373	2.5	187,958
2020/21	187,958	3.0	193,596
2021/22	193,596	3.0	199,404

**INCOME  
CAPITALIZATION**

The subject property upon completion has been valued via the income approach through the application of a ten-year mortgage-equity technique and a discounted-cash-flow analysis. The conversion of the subject property's forecasted EBITDA Less Replacement Reserve into an estimate of value was based on the premise that investors typically leverage their real estate investments to enhance their equity yield. Typically, the majority of a transaction is capitalized with mortgage financing (50% to 80%), with equity comprising the balance (20% to 50%). The amounts and terms of available mortgage financing and the rates of return that are required to attract sufficient equity capital formed the basis for allocating the net income between the mortgage and equity components and deriving a value estimate.

**Mortgage Component**

Based on our analysis of the current lodging industry mortgage market and adjustments for specific factors, such as the property's site, proposed facility, and conditions in the Somers Point hotel market, it is our opinion that a 5.00% interest, 25-year amortization mortgage with a 0.070151 constant is appropriate for the proposed subject hotel. In the mortgage-equity analysis, we have applied a loan-to-value ratio of 70%, which is reasonable to expect based on this interest rate and current parameters.

**Equity Component &  
Equity Yield Rate**

The remaining capital required for a hotel investment generally comes from the equity investor. The following table summarizes the range of equity yields



indicated by hotel sales and investor interviews. We note that there tends to be lag between the sales data and current market conditions, and thus, the full effect of the change in the economy and capital markets may not yet be reflected.

**FIGURE 10-10 SUMMARY OF EQUITY YIELD OR INTERNAL RATE OF RETURN REQUIREMENTS**

<b>Source</b>	<b>Data Point Range</b>	<b>Average</b>
HVS Hotel Sales - Full-Service & Luxury	10.3% - 22.7%	17.4%
HVS Hotel Sales - Select-Service & Extended-Stay	14.2% - 22.1%	18.7%
HVS Hotel Sales - Budget/Economy	10% - 24.7%	19.9%
HVS Investor Interviews	13% - 25%	

Based on the assumed 70% loan-to-value ratio, the risk inherent in achieving the projected income stream, and the age, condition, and anticipated market position of the subject property, it is our opinion that an equity investor is likely to require an equity yield rate of 19.0%. While the lack of attainable yields on alternate investments has continued to put downward pressure on equity-yield rates, increasing leverage levels are enabling investors to earn higher returns. Competition for quality assets remains strong among all hotel asset types. These influences are keeping equity yields from increasing significantly. Intense competition for assets in the major metro areas is pushing investors to pursue acquisitions with greater upside in secondary and tertiary markets.

**Terminal Capitalization Rate**

We have reviewed several recent investor surveys, and the following table summarizes the data. Note that survey data lag the market and do not necessarily reflect the most current market conditions.



**FIGURE 10-11 TERMINAL CAPITALIZATION RATES DERIVED FROM INVESTOR SURVEYS**

<b>Source</b>	<b>Data Point Range</b>	<b>Average</b>
PWC Real Estate Investor Survey - 3rd Quarter 2016		
Select-Service Hotels	7.0% - 10.75%	9.0%
Full-Service Hotels	7.0% - 10.0%	8.4%
Luxury Hotels	5.5% - 9.5%	7.2%
USRC Hotel Investment Survey - Winter 2016		
Full-Service Hotels	7.5% - 9.0%	8.0%
Situs RERC Real Estate Report - 2nd Quarter 2016		
First Tier Hotels	7.0% - 10.5%	8.3%

For purposes of this analysis, we have applied a terminal capitalization rate of 9.0%. Our final position for the terminal capitalization rate reflects the current market for hotel investments. In tandem with overall lower return expectations, terminal capitalization rates for quality hotel assets in markets with high barriers to entry have declined to new lows, while terminal capitalization rates for older assets or for those suffering from functional obsolescence and/or weak market conditions remain elevated, reflecting the market's recognition that certain assets have less opportunity for significant appreciation.

**Mortgage-Equity  
Method –  
Value Opinion**

The valuation of the mortgage and equity components is accomplished using an algebraic equation that calculates the exact amount of debt and equity that the hotel will be able to support based on the anticipated cash flow (as estimated by the forecast of income and expense) and the specific return requirements demanded by the mortgage lender (interest) and the equity investor (equity yield). Thus, the anticipated net income (before debt service and depreciation) is allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. The total of the mortgage component and the equity component equals the value of the property. Using this method of the income capitalization approach with the variables set forth, we estimate the value of the Fee Simple interest in the subject property, as of May 1, 2018, to be \$17,300,000.

The discount rate (before debt service), the yield to the lender, and the yield to the equity position have been calculated by computer with the following results.



**FIGURE 10-12 TOTAL PROPERTY VALUE AND INTERNAL RATES OF RETURN**

<b>Position</b>	<b>Value</b>	<b>Projected Yield (Internal Rate of Return) Over Holding Period</b>
Total Property	\$17,273,000	10.6 %
Mortgage	\$12,091,000	4.9
Equity	\$5,182,000	19.0

Note: Whereas the mortgage constant and value are calculated on the basis of monthly mortgage payments, the mortgage yield in this proof assumes single annual payments. As a result, the proof's derived yield may be slightly less than that actually input.

The position of the total property yield or unlevered discount rate reflects the current market conditions for both debt and equity capital. Debt remains available at favorable interest rates, though some lenders have pulled out of the market and underwriting standards have become more stringent. Equity and mezzanine financing is readily available due to the attractive yields being generated by hotels when compared with other forms of commercial real estate. We continue to interview hotel investors to assess the movement in yield rates and their impact on value.

The following tables demonstrate that the property receives its anticipated yields, proving that the value is correct based on the assumptions used in this approach.



**FIGURE 10-13 VALUE OF THE MORTGAGE COMPONENT**

Year	Total Annual Debt Service		Present Worth of \$1 Factor at 4.9%	=	Discounted Cash Flow
2018/19	\$848,000	x	0.952980	=	\$808,000
2019/20	848,000	x	0.908170	=	770,000
2020/21	848,000	x	0.865467	=	734,000
2021/22	848,000	x	0.824773	=	699,000
2022/23	848,000	x	0.785991	=	667,000
2023/24	848,000	x	0.749034	=	635,000
2024/25	848,000	x	0.713814	=	605,000
2025/26	848,000	x	0.680250	=	577,000
2026/27	848,000	x	0.648264	=	550,000
2027/28	9,787,000 *	x	0.617783	=	<u>6,046,000</u>
Value of Mortgage Component					\$12,091,000

\*10th year debt service of \$848,000 plus outstanding mortgage balance of \$8,939,000

**FIGURE 10-14 VALUE OF THE EQUITY COMPONENT**

Year	Net Income to Equity		Present Worth of \$1 Factor at 19.0%	=	Discounted Cash Flow
2018/19	\$331,000	x	0.840316	=	\$278,000
2019/20	552,000	x	0.706131	=	390,000
2020/21	676,000	x	0.593373	=	401,000
2021/22	763,000	x	0.498621	=	380,000
2022/23	811,000	x	0.418999	=	340,000
2023/24	860,000	x	0.352092	=	303,000
2024/25	912,000	x	0.295868	=	270,000
2025/26	964,000	x	0.248623	=	240,000
2026/27	1,018,000	x	0.208922	=	213,000
2027/28	13,487,000 *	x	0.175560	=	<u>2,368,000</u>
Value of Equity Component					\$5,183,000

\*10th year net income to equity of \$1,075,000 plus sales proceeds of \$12,412,000



**FIGURE 10-15 VALUE OF THE EQUITY, DEBT AND TOTAL PROPERTY**

Year	Net Income Available for Debt Service		Present Worth of \$1 Factor at 10.6%	=	Discounted Cash Flow
2018/19	\$1,179,000	x	0.904116	=	\$1,066,000
2019/20	1,400,000	x	0.817425	=	1,144,000
2020/21	1,524,000	x	0.739046	=	1,126,000
2021/22	1,611,000	x	0.668183	=	1,076,000
2022/23	1,659,000	x	0.604115	=	1,002,000
2023/24	1,708,000	x	0.546190	=	933,000
2024/25	1,760,000	x	0.493819	=	869,000
2025/26	1,812,000	x	0.446469	=	809,000
2026/27	1,866,000	x	0.403660	=	753,000
2027/28	23,274,000 *	x	0.364955	=	8,494,000
Total Property Value					\$17,272,000

\*10th year net income of \$1,923,000 plus sales proceeds of \$21,351,000

**Direct Capitalization**

The following table reflects the capitalization rates for the proposed subject hotel that have been derived based on our estimate of market value via the discounted-cash-flow analysis. Note that the stabilized year's net income has been deflated to first-year dollars.

**FIGURE 10-16 DERIVED CAPITALIZATION RATES**

Year	EBITDA Less Reserves	Derived Capitalization Rate
Forecast 2018/19	\$1,179,000	6.8 %
Deflated Stabilized (2018/19) Dollars	1,481,000	8.6

The derived capitalization rates are considered appropriate for a proposed lodging facility such as the Proposed Home2 Suites by Hilton. The derived capitalization rates that are based on the forecasted net operating income fall in line with acceptable returns for a hotel of this caliber. We note that these capitalization rates reflect the expectation of continued improvement in profitability over the initial years of the forecast. Investors are acquiring assets at “going-in”



capitalization rates that reflect the anticipation of a future upside as the economy is expected to remain resilient.

**Discounted Cash Flow Analysis – “When Complete”**

The income approach can also be applied through the application of an overall discount rate. We have selected a discount rate of 10.50% for our analysis. Utilizing the discount rate set forth, the discounted-cash-flow procedure is summarized as follows.

**FIGURE 10-17 DISCOUNTED CASH FLOW ANALYSIS – WHEN COMPLETE**

Year	EBITDA Less Reserve	Discount Factor @ 10.50%	Discounted Cash Flow
2018/19	\$1,179,000	0.90498	\$1,066,968
2019/20	1,400,000	0.81898	1,146,578
2020/21	1,524,000	0.74116	1,129,531
2021/22	1,611,000	0.67073	1,080,554
2022/23	1,659,000	0.60700	1,007,013
2023/24	1,708,000	0.54932	938,241
2024/25	1,760,000	0.49712	874,937
2025/26	1,812,000	0.44989	815,192
2026/27	1,866,000	0.40714	759,716
2027/28	23,274,000 *	0.36845	8,575,197
		<b>Estimated Value</b>	\$17,393,926
		(SAY)	\$17,400,000
		Per Room	\$153,000
<b>Reversion Analysis</b>			
	11th Year's EBITDA Less Reserves		\$1,981,000
	Capitalization Rate		<u>9.0%</u>
	Total Sales Proceeds		\$22,011,111
	Less: Transaction Costs @ 3.0%		<u>660,333</u>
	Net Sales Proceeds		\$21,350,778
*10th year net income of \$1,923,000 plus sales proceeds of \$21,351,000			

**Discounted Cash Flow Analysis – “When Stabilized”**

The preceding valuation process was repeated using the projected cash flows beginning as of the stabilized year. An adjustment, if applicable, is applied to the discount rate to reflect potential changes in the investment climate by the date of stabilization. The discounted-cash-flow procedure is summarized as follows.



**FIGURE 10-18 DISCOUNTED CASH FLOW ANALYSIS—STABILIZED VALUE**

Year	EBITDA Less Reserve	Discount Factor @ 10.50%	Discounted Cash Flow
2021/22	\$1,611,000	0.90498	\$1,458,000
2022/23	1,659,000	0.81898	1,359,000
2023/24	1,708,000	0.74116	1,266,000
2024/25	1,760,000	0.67073	1,180,000
2025/26	1,812,000	0.60700	1,100,000
2026/27	1,866,000	0.54932	1,025,000
2027/28	1,923,000	0.49712	956,000
2028/29	1,981,000	0.44989	891,000
2029/30	2,040,000	0.40714	831,000
2030/31	25,424,000 *	0.36845	9,367,000
		<b>Estimated Value</b>	\$19,433,000
		(SAY)	\$19,400,000
		Per Room	\$170,000
<b>Reversion Analysis</b>			
	11th Year's EBITDA Less Reserves		\$2,164,000
	Capitalization Rate		<u>9.0%</u>
	Total Sales Proceeds		\$24,044,000
	Less: Transaction Costs @ 3.0%		<u>721,000</u>
	Net Sales Proceeds (Say)		\$23,323,000
*10th year net income of \$2,101,000 plus sales proceeds of \$23,323,000			

Based on this procedure, it is our opinion that the prospective market value, as of May 1, 2021, is \$19,400,000; this equates to \$170,200 per room.

**Conclusion**

Using the income capitalization approach, the subject property was valued by a mortgage-equity analysis, a straightforward discounted-cash-flow analysis, and a direct capitalization technique. Based on our review of each method and their inherent strengths and weaknesses, as well as investor attitudes and methodologies, we have reconciled the “when complete” value indication via the income capitalization approach to \$17,300,000. Furthermore, it is our opinion that the “when stabilized” value is \$19,400,000.



## 11. Sales Comparison Approach

The sales comparison approach is based on the principle of substitution, which defines a property's value as the cost of acquiring an equally desirable substitute (assuming that no costly delay is incurred in making the substitution). Thus, the sales comparison approach can be used to form an opinion of a property's market value from the price at which equally desirable properties have sold, or for which they can be purchased, on the open market.

To present our selection of comparable sales, we conducted a comprehensive search for recent transactions of hotels that bear comparison to the proposed subject hotel in one or more key areas. When possible, we gave priority to transactions occurring in the same state or region as the proposed subject hotel. We also considered factors such as operational and physical similarities to the proposed subject hotel, including brand affiliation and revenue-generating aspects. All of the data have been verified by HVS or obtained from a verifying source. The following transactions involved hotels that have some degree of similitude with the proposed subject hotel.

**FIGURE 11-1 SUMMARY OF SELECTED COMPARABLE SALES**

Property	Location	Sale Date	Price	Rooms	Price/Rm	Overall Cap	Year Opened
Homewood Suites by Hilton Baltimore Arundel Mills	Hanover, MD	Sep-16	\$40,250,000	250	\$161,000	—	2009
Residence Inn by Marriott Philadelphia Conshohocken	Conshohocken, PA	Dec-15	26,500,000	137	193,431	—	2001
Homewood Suites by Hilton Pittsburgh Southpointe	Canonsburg, PA	Jun-15	31,700,000	148	214,189	5.5%	2009
Hampton Inn Parsippany	Parsippany, NJ	Mar-15	27,578,088	152	181,435	7.4%	2008

### Review of Comparable Sales

The following table sets forth the adjustment grid used to account for differences between the transacted properties and the proposed subject hotel.

**FIGURE 11-2 COMPARABLE SALES ADJUSTMENT GRID**

Elements of Comparison	Subject Property	Sale #1	Sale #2	Sale #3	Sale #4
		Homewood Suites by Hilton Baltimore Arundel Mills, Hanover, MD	Residence Inn by Marriott Philadelphia Conshohocken, PA	Homewood Suites by Hilton Pittsburgh Southpointe, Canonsburg, PA	Hampton Inn Parsippany, Parsippany, NJ
Sale Price		\$40,250,000	\$26,500,000	\$31,700,000	\$27,578,088
Number of Rooms	114	250	137	148	152
Price per Room		\$161,000	\$193,431	\$214,189	\$181,435
Year Open	2018	2009	2001	2009	2008
Date of Sale		September-16	December-15	June-15	March-15
<b>Adjustments for Transaction Characteristics (Per Room)</b>					
Property Rights Conveyed	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		161,000	193,431	214,189	181,435
Financing Terms		Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		161,000	193,431	214,189	181,435
Conditions of Sale		Normal	Normal	Normal	Normal
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		161,000	193,431	214,189	181,435
Market Conditions		Similar	Superior	Superior	Superior
Adjustment		0.0 %	(5.0) %	(10.0) %	(10.0) %
Adjusted Sales Price		161,000	183,759	192,770	163,291
Adjusted Price		\$161,000	\$183,759	\$192,770	\$163,291
<b>Adjustments for Property Characteristics</b>					
Location/Market		Similar	Similar	Similar	Similar
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %
Physical Condition/Facilities		Inferior	Inferior	Inferior	Inferior
Adjustment		10.0	5.0	10.0	5.0
Other Revenue Sources		Similar	Similar	Similar	Similar
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %
Market Orientation (RevPAR)	\$85.39	\$106.48	\$113.24	\$110.20	\$93.44
Adjustment		(19.8) %	(24.6) %	(22.5) %	(8.6) %
Cumulative Percentage Adjustment		(9.8) %	(19.6) %	(12.5) %	(3.6) %
Net Adjust. for Property Characteristics		(15,784)	(36,000)	(24,118)	(5,898)
Adjusted Price Per Room		\$145,216	\$147,759	\$168,653	\$157,394

Sales #2, #3, and #4 received adjustments for superior market conditions given their dates of sale. Otherwise, the sales comparables were transacted in terms that were similar to the subject property; thus, no other adjustments were made for differences in transaction characteristics. No adjustments for location/market characteristics were deemed necessary given all assets' locations in similar markets with respect to demand generators. Upward adjustments for physical condition were applied to all sales given the assets' earlier dates of construction; furthermore, Sales #1 and #3 received more substantial adjustments given the assets' required renovations upon sale. No adjustments for other revenue sources were deemed necessary, as all sales featured assets with comparable revenue-generating sources.

Hotels are purchased and sold on their ability to generate revenue and net income. Thus, we find that a reliable way to adjust hotel sales is by comparing RevPARs. Revenue per available room inherently reflects the relative revenue-producing ability of each of the comparable sales, the primary consideration of hotel purchasers. The best way to adjust comparable hotel sales is to calculate the difference between a comparable hotel's RevPAR at the time of sale with the proposed subject hotel's deflated stabilized-year RevPAR. RevPAR adjustments also inherently account for differences in physical condition and the passage of time. As such, we have adjusted the per-room sales price for each sale by the percentage differential between the proposed subject hotel's deflated, stabilized-year RevPAR and that of each property at the time of its sale. Therefore, we have applied adjustments based on these factors.

## Conclusion

Prior to adjustments, the comparable sales transacted for amounts ranging from \$161,000 to \$214,000 per room. Following quantitative and qualitative adjustments, the selected sales indicate a range of \$145,000 to \$169,000 per room. Based on our review of the adjusted sales, we have selected a per key range of \$145,000 to \$169,000, which equates to a concluded value via the sales comparison approach of \$16,600,000 to \$19,200,000 for the 114-room subject property upon completion.



## 12. Cost Approach

The cost approach reflects a set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of, or replacement for, the existing structure; deducting accrued depreciation from the reproduction or replacement cost; and adding the estimated land value plus an entrepreneurial profit. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.

Because the subject property is proposed, the cost approach has significant applicability. In this report section, we will estimate the replacement cost as new of the improvements, review the hotel’s construction budget, estimate the market value of the site, and add an entrepreneurial profit incentive to arrive at the total cost new to develop the subject property. The total cost new to build the facility is often used by hotel buyers as a benchmark against the income and sales indications, particularly for new hotels.

### Land Valuation

Land value may be estimated in a variety of ways including the sales comparison approach and the allocation, extraction, or ground rent capitalization methods. For the majority of hostelry properties, the two primary methods used are the sales comparison approach and the ground-lease capitalization approach. For purposes of this appraisal, we have relied on the sales comparison approach.

We note that the subject site was purchased in October 2016 for a reported consideration of \$710,000, or \$6.25 per square foot.

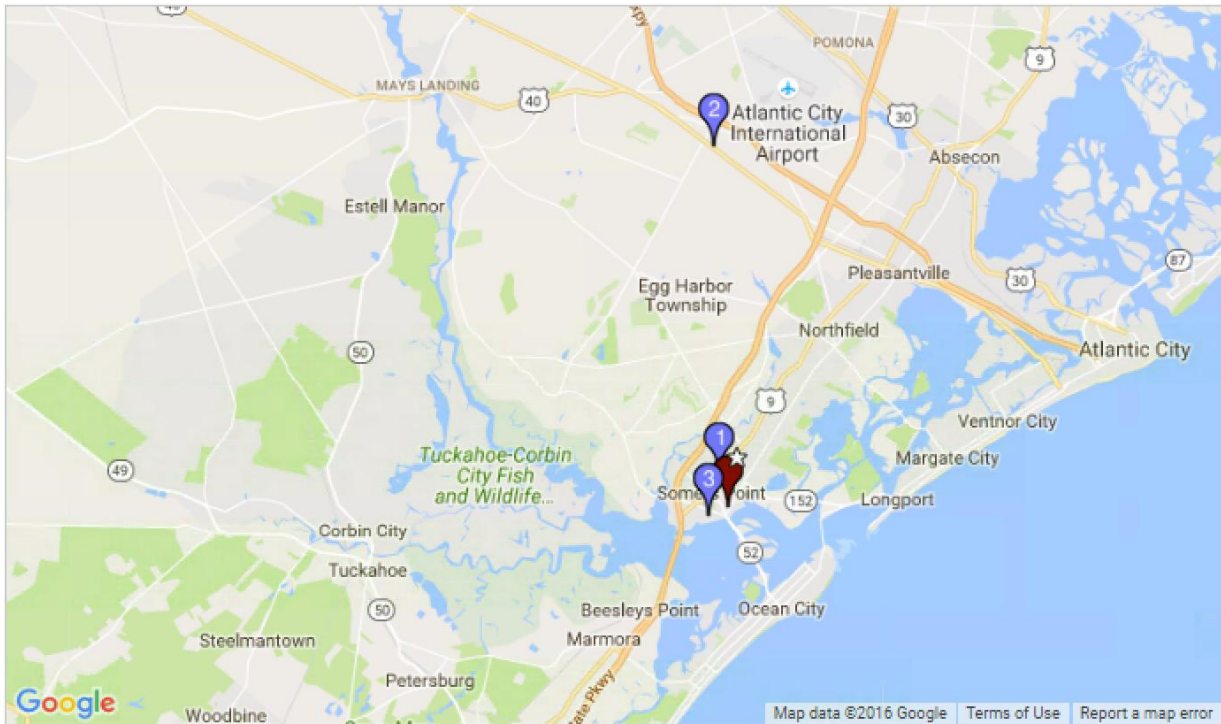
The following sales support our conclusion of land value via the ground lease approach.



**FIGURE 12-1 SELECTED LAND SALES**

Parcel	Seller	Buyer	Sale Date	Size (SF)	Sale Price	Price per SF
New Rd & Massachusetts Rd, Somers Point, NJ	Bnb Real Estate Holding Llc	Waterfall Olympic REO 2014-01 LLC	June-14	43,560	\$475,274	\$10.91
6124 Black Horse Pike, Egg Harbor Twp, NJ	New Vistas LP	Wheat Road Plaza LLC	February-13	67,008	585,000	8.73
Macarthur Blvd @ Route 9, Somers Point, NJ	Not Listed	Sp Rt 52 Llc	December-12	66,647	755,000	11.33



## MAP OF LAND SALES



Parcel	Sale Date	Sale Price	Size	Price/Unit
 Subject Property				
 New Rd & Massachusetts Rd	Jun-2014	475,274.00 USD	43,560.00 sq ft	10.91 USD
 6124 Black Horse Pike	Feb-2013	585,000.00 USD	67,008.00 sq ft	8.73 USD
 Macarthur Blvd @ Route 9	Dec-2012	755,000.00 USD	66,646.00 sq ft	11.33 USD

We have applied the following adjustments to these selected sales.



**FIGURE 12-2 LAND SALES ADJUSTMENT GRID**

Elements of Comparison	Subject Site	Sale #1	Sale #2	Sale #3
<b>Sale Price</b>		\$475,274	\$585,000	\$755,000
<b>Size (SF)</b>	113,692	43,560	67,008	66,647
<b>Price per SF</b>		\$10.91	\$8.73	\$11.33
<b>Date of Sale</b>		Jun-14	Feb-13	Dec-12
<b>Adjustments for Transaction Characteristics</b>				
<b>Property Rights Conveyed</b>	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Adjustment		0.0%	0.0%	0.0%
Adjusted Sales Price		\$475,274	\$585,000	\$755,000
<b>Financing Terms</b>		Cash Equivalent	Cash Equivalent	Cash Equivalent
Adjustment		0.0%	0.0%	0.0%
Adjusted Sales Price		\$475,274	\$585,000	\$755,000
<b>Conditions of Sale</b>		Normal	Normal	Normal
Adjustment		0.0%	0.0%	0.0%
Adjusted Sales Price		\$475,274	\$585,000	\$755,000
<b>Market Conditions</b>		Inferior	Inferior	Inferior
Adjustment		10%	15%	15%
Adjusted Sales Price		\$522,801	\$672,750	\$868,250
<b>Adjusted Unit Price</b>		\$12.00	\$10.04	\$13.03
<b>Adjustments for Site Characteristics</b>				
<b>Location</b>		Similar	Similar	Similar
Adjustment		=	=	=
<b>Functional Utility*</b>		Similar	Similar	Similar
Adjustment		=	=	=
<b>Size</b>		Smaller	Smaller	Smaller
Adjustment		-	-	-
<b>Final Adjusted Unit Price</b>		<b>\$10.80</b>	<b>\$9.54</b>	<b>\$12.38</b>

As shown in the previous table, a range of \$9.54 to \$12.38 per square foot is reflected for the subject site by these adjusted sales. Based on our review of this approach, we have reconciled our opinion of land value to \$1,300,000, or \$11.43 per square foot, which is in line with the aforementioned range.

**Replacement Cost**

Replacement cost is the current construction cost of a building with the same utility as the subject property, but built with modern materials and according to current construction and design standards. For a proposed hotel, it is typically the development cost, unless the developer plans many over improvements.

As a basis for estimating the developmental costs, we have used a hotel development cost survey conducted by HVS. The survey presents the range of per-



room costs associated with various components of hotel development, including improvements, furniture, and equipment; pre-opening expenses; and operating capital. Statistics are compiled for budget hotels, midscale hotels with and without food and beverage, extended-stay hotels, full-service hotels, and luxury hotels and resorts. If available, we have used the construction budget for the proposed subject hotel as a benchmark, which has been provided and illustrated in this chapter as well. The results of the development cost survey are presented in the following table.

**FIGURE 12-3 HOTEL DEVELOPMENT COST SURVEY (AMOUNTS PER ROOM)**

	Land		Building and Site Improvements		Soft Costs		FF&E		Pre-Opening and Working Capital		Total	
<b>2015/16</b>												
Budget/Economy Hotels	\$6,500	- \$31,200	\$41,500	- \$103,700	\$1,200	- \$13,400	\$5,400	- \$17,900	\$1,400	- \$7,100	\$54,000	- \$166,200
Midscale Hotels w/o F&B	7,600	- 73,100	57,700	- 132,000	2,300	- 63,000	6,600	- 28,200	2,800	- 26,500	73,500	- 208,500
Extended-Stay Hotels	10,000	- 47,600	71,700	- 168,200	2,600	- 86,700	8,300	- 25,800	2,900	- 26,100	91,900	- 264,700
Midscale Hotels w/ F&B	10,000	- 68,100	88,600	- 187,300	3,800	- 53,000	10,900	- 39,200	3,500	- 19,500	111,000	- 355,100
Full-Service Hotels	23,600	- 124,900	139,000	- 408,900	4,700	- 99,300	23,200	- 57,900	14,000	- 88,100	206,000	- 769,100
Luxury Hotels and Resorts	45,700	- 266,800	234,400	- 635,300	24,300	- 120,400	37,900	- 129,300	19,100	- 83,000	513,600	- 1,005,500

Source: HVS



The proposed property will open in 2018 and will feature 114 rooms, a breakfast dining area, an indoor pool, a fitness room, a lobby workstation, a market pantry, a guest laundry room, and vending areas. The hotel will also feature all necessary back-of-the-house space.

**Building, Site  
Improvements, and  
Soft Costs**

Building and site improvements include all buildings and other relatively permanent structures located on, or attached to, the subject parcel. The cost of the improvements includes costs of materials, fees, and labor to construct the subject property's improvements.

Soft costs include items other than labor and material that are necessary for construction, but are not typically part of the construction contract. Soft costs can include professional fees, financing costs and the interest paid on construction loans, taxes and the builder's or developer's all-risk insurance during construction, marketing, sales, and lease-up costs incurred to achieve occupancy or sales.

We estimate the replacement cost of the subject property's improvements and soft costs to be roughly \$85,000 per room, or a total of \$9,690,000 .

**Furniture, Fixtures and  
Equipment**

Furniture, fixtures, and equipment (FF&E) include all non-permanent, removable items at the subject property, such as guestroom furnishings, kitchen equipment, and items of décor. The cost of the furniture, fixtures, and equipment, along with all fees associated with the installation of such items, comprise the total cost of furniture, fixtures, and equipment. Based on our understanding of the expected quality of furnishings, we estimate the replacement cost of the subject property's furniture, fixtures, and equipment (as if new) at approximately \$22,000 per room, or a total of \$2,508,000.

**Pre-Opening and  
Working Capital Costs**

Pre-opening costs include expenses such as marketing, staffing, training, and administrative expenditures. Working capital includes a working capital reserve to maintain adequate cash flow until the operation reaches a break-even point. We estimate the pre-opening costs for the subject property to be roughly \$3,000 per room, or a total of \$342,000 ..

**Replacement Cost  
Summary**

Based on the preceding analysis, we estimate the replacement cost of the subject property as follows.



**FIGURE 12-4 REPLACEMENT COST SUMMARY**

<b>Item</b>	<b>Cost per Room</b>	<b>Cost</b>
Building	\$85,000	\$9,690,000
Furniture, Fixtures, & Equipment	22,000	2,508,000
Pre-Opening & Working Capital	3,000	342,000
Soft Costs	13,000	1,482,000
Land	11,404	1,300,000
<b>Total</b>	<b>\$134,404</b>	<b>\$15,322,000</b>
Plus Developer's Incentive	\$13,440	\$1,532,200
<b>Total Cost New Estimate</b>	<b>\$147,844</b>	<b>\$16,854,200</b>

As a check against this estimate, we have also reviewed the construction budget for the proposed improvements, which is illustrated in the following table.

**FIGURE 12-5 SUBJECT PROPERTY CONSTRUCTION BUDGET**

<b>Component</b>	<b>Cost</b>	<b>Cost per Room</b>
<b>Hard Costs &amp; Site Improvements</b>		
General Construction	\$9,764,500	\$85,654
<b>Subtotal Hard Cost &amp; Site Improvements</b>	<b>\$9,764,500</b>	<b>\$85,654</b>
<b>FF&amp;E</b>		
FF&E and Owner Provided Items	\$2,508,000	\$22,000
<b>Subtotal FFE &amp; OS&amp;E</b>	<b>2,508,000</b>	<b>\$22,000</b>
<b>Pre-Opening Costs and Working Capital</b>		
Pre-Opening Expenses	150,000	1,316
Working Capital	150,000	1,316
<b>Subtotal Pre-Opening and Working Capital</b>	<b>\$300,000</b>	<b>\$2,632</b>
<b>Soft Costs</b>		
Architecture & Engineering	\$400,000	\$3,509
Reimbursables	30,000	263
Testing & Inspections	100,000	877
Survey	\$20,000	\$175
Permits & Fees	120,000	1,053
Appraisals & Feasibility Studies	15,000	132
Environmental Reports	10,000	88
Title & Mortgage Insurance	21,000	184
Legal & Accounting	38,000	333
Construction Interest & Fees	600,000	5,263
Builders Risk/General Liability Insurance	45,000	395
Real Estate Taxes (During Construction)	45,000	395
Franchise Application	58,000	509
<b>Subtotal Soft Costs</b>	<b>\$1,502,000</b>	<b>\$13,175</b>
<b>Subtotal (without Land)</b>	<b>\$14,074,500</b>	<b>\$123,461</b>
<b>Estimated Site Cost (including site work)</b>	<b>\$2,850,000</b>	<b>\$25,000</b>
<b>Total</b>	<b>\$16,924,500</b>	<b>\$148,461</b>

**Allocation of Developer's Profit**

Developer's profit represents the entrepreneurial incentive anticipated by hotel developers to induce the construction of a new hotel project. Given the influence of economic conditions on the hotel industry, developer's profit has not always been in evidence. If the economic value of a new hotel does not exceed the development cost, indicating that developers will not earn any profit from their efforts, it is unlikely that the project will be completed because the financial incentive is not present.



We have made a developer's profit estimate as a component of the total development cost, which is illustrated in the following table.

**FIGURE 12-6 ENTREPRENEURIAL INCENTIVE ESTIMATE**

<b>Item</b>	<b>Profit Percentage</b>	<b>Cost</b>	<b>Developer's Profit</b>
Building, Pre-Opening, Soft Costs	10.0 %	\$11,514,000	\$1,151,400
Furniture, Fixtures, & Equipment	10.0	2,508,000	250,800
Land Value	10.0	1,300,000	130,000
<b>Total Developer's Incentive</b>			<b>\$1,532,200</b>

**Conclusion**

In the estimation of development cost for the proposed improvements, the costs of several components of the total property were quantified. For a property owned in fee simple interest, the land value was estimated by the ground lease approach. The development cost of the building improvements was estimated based on a hotel development cost survey conducted by HVS, as well as our review of the hotel's construction budget (if available). The following table summarizes our estimate of the total cost new to rebuild the subject property.

**FIGURE 12-7 RECAP OF TOTAL COST NEW ESTIMATE**

<b>Item</b>	<b>Cost per Room</b>	<b>Cost</b>
Building	\$85,000	\$9,690,000
Furniture, Fixtures, & Equipment	22,000	2,508,000
Pre-Opening & Working Capital	3,000	342,000
Soft Costs	13,000	1,482,000
Land	11,404	1,300,000
<b>Total</b>	<b>\$134,404</b>	<b>\$15,322,000</b>
Plus Developer's Incentive	\$13,440	\$1,532,200
<b>Total Cost New Estimate</b>	<b>\$147,844</b>	<b>\$16,854,200</b>

This estimate has been rounded to \$16,900,000. Due to the hotel's proposed status, this value estimate is considered applicable to our appraisal analysis.

**Value of the Personal Property**

Personal property is an integral part of a transient lodging facility. Without furniture, fixtures, and equipment, a hotel could not operate its facilities and rent its guestrooms, and thus would not be able to generate any income attributable to the real property. Personal property and real property are uniquely combined in a



hotel; unlike an office or other commercial building, a hotel would have to close its doors without furniture, fixtures, and equipment.

The physical separation of personal property from real property in a hotel is a theoretical issue rather than a practical matter. Lodging facilities are generally sold with their furniture, fixtures, and equipment in place. While a lender may be restricted from financing the purchase of personal property, a hotel's real property would have little value without personal property.

The removal of personal property from a hotel for sale would result in a minimal sales price for the personal property. Furniture, fixtures, and equipment, once installed, depreciate very rapidly. Most furnishings in a hotel can command little more than a salvage value substantially lower than the original cost when sold separately from the improvements. Given the proposed nature of the subject property, the value of the personal property is reflected by the furniture, fixtures, and equipment estimate presented previously, rounded to \$2,500,000. By the stabilized year, we assume the effective age of the personal property would be four, which would imply a depreciation level of 75.0% based upon the HVS standard depreciation schedule. By applying this ratio to an inflated replacement cost by the stabilized year, a value of \$700,000 is indicated for the personal property as of May 1, 2021.



## 13. Reconciliation of Value Indications

The reconciliation, which is the last step in the appraisal process, involves summarizing and correlating the data and procedures employed throughout the analysis. The final value conclusion is arrived at after reviewing the estimates indicated by the income capitalization, sales comparison, and cost approaches. The relative significance, applicability, and defensibility of each indicated value are considered, and the greatest weight is given to that approach deemed most appropriate for the property being appraised.

The purpose of this report is to estimate the market value of the fee simple interest in the proposed subject hotel; our appraisal involves a careful analysis of the property itself and the economic, demographic, political, physical, and environmental factors that influence real estate values.

### **Income Capitalization Approach**

To estimate the proposed subject hotel's value via the income capitalization approach, we have analyzed the local market for transient accommodations, examined the competitive environment, projected occupancy and average rate levels, and developed a forecast of income and expense that reflects anticipated income trends and cost components through a stabilized year of operation. The proposed subject hotel's projected net income before debt service was allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. Through a discounted cash flow and income capitalization procedure, the value of each component was calculated; the total of the mortgage and equity components equates to the value of the property.

Our nationwide experience indicates that the procedures used in estimating market value by the income capitalization approach are comparable to those employed by the hotel investors who constitute the marketplace. For this reason, we believe that the income capitalization approach produces the most supportable value estimate, and it is given the greatest weight in our final estimate of the proposed subject hotel's market value.

### **Sales Comparison Approach**

The sales comparison approach uses actual sales of similar properties to provide an indication of the proposed subject hotel's value. Although we have investigated a number of sales in an attempt to develop a range of value indications, several adjustments are necessary to render these sales prices applicable to the subject property. The adjustments, which tend to be subjective, diminish the reliability of the sales comparison approach; furthermore, typical hotel investors employ a sales comparison procedure only to establish broad value parameters.



The hotel sales outlined earlier in this report indicate an adjusted value range of \$145,000 to \$169,000 per available room. The income capitalization approach indicates a per room value of \$151,800. This information supports the value indicated by the income capitalization approach.

**Cost Approach**

As discussed in the Cost Approach chapter, this methodology is applicable for this property, as it is proposed, and has been heavily considered in our reconciliation process.

**Value Conclusion**

Careful consideration has been given to the strengths and weaknesses of the three approaches to value discussed above. In recognition of the purpose of this appraisal, we have given primary weight to the value indicated by the income capitalization approach.

As of the date of our inspection, we estimate that the project is 5% complete, inclusive of all executed pre-development activity, as applicable. Based on this assumption and the set-forth land value opinion of \$1,300,000, the “as is” value of the property is calculated as follows.

**FIGURE 13-1 “AS IS” VALUE CALCULATION**

<b>"As Is" Value Calculation</b>	<b>Amount</b>
"When Complete" Prospective Value Opinion	\$17,300,000
Land Value Opinion	1,300,000
<hr/>	
"When Complete" Value Less Land	16,000,000
Percent Complete As Of Date Of Value*	5%
Value Less Land, Amount Completed	800,000
<hr/>	
Adjusted Value Less Land, Plus Land Value Opinion	\$2,100,000
<hr/>	
Cost To Demolish Existing Improvements, As Applicable	0
Adjusted Value, Less Demolition Cost, As Applicable	\$2,100,000
<b>Rounded to:</b>	<b>\$2,100,000</b>

*\* Includes pre-construction activity, such as design and permitting.*

Based on our analysis, it is our opinion that the “as is” market value of the fee simple interest in the Proposed Home2 Suites by Hilton, as of December 12, 2016, is \$2,100,000.



Based on our analysis, it is our opinion that the “when complete” market value of the fee simple interest in the real and personal property of the Proposed Home2 Suites by Hilton, as of May 1, 2018, will be:

\$17,300,000

SEVENTEEN MILLION THREE HUNDRED THOUSAND DOLLARS

This value estimate equates to \$151,800 per room. We have also estimated the prospective market value of the subject property as of its projected date of stabilization. Based on our analysis, it is our opinion that the “when stabilized” prospective market value of the fee simple interest in the real and personal property of the Proposed Home2 Suites by Hilton, as of May 1, 2021, will be:

\$19,400,000

NINETEEN MILLION FOUR HUNDRED THOUSAND DOLLARS

This value opinion equates to \$170,200 per room. The estimates of market value include the land, the improvements, and the furniture, fixtures, and equipment. The appraisal assumes that the hotel is open and operational.

The analysis is based on the extraordinary assumption that the described improvements have been completed as of the prospective "when complete" date of value. The reader should understand that the completed subject property does not yet exist as of the date of appraisal. Our appraisal does not address unforeseeable events that could alter the proposed project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, shall take place between the date of inspection and date of prospective value. The use of this extraordinary assumption may have affected the assignment results. We have made no other extraordinary assumptions specific to this appraisal. However, several important general assumptions have been made that apply to this appraisal and our valuations of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

#### Allocation of Value

USPAP requires the appraiser to “identify any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal” and “to analyze the effect on value of such non-real property items.”<sup>11</sup> The estimates of

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<sup>11</sup> The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice*, 2016–2017 ed.



prospective market value include the land, improvements, and personal property. The appraisal assumes that the hotel is open and operational at this time.

Hotels comprise three primary components: the real property (land and improvements), personal property, and intangible property. Real property is defined as “the interests, benefits, and rights inherent in the ownership of real estate (land and improvements.”<sup>12</sup> Personal property is defined as “identifiable tangible objects that are considered by the general public as being ‘personal’—for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.”<sup>13</sup>

The personal property consists of the furniture, fixtures, and equipment (FF&E) and the inventories in place at the subject property as of the date of value. Personal property is an integral part of a transient lodging facility. The allocation of a portion of the overall hotel’s value to the personal property is not explicitly considered by hotel investors in making their pricing decisions. Lodging facilities are usually sold with their personal property in place. In accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), we have delineated the market value of the subject hotel’s personal property.

USPAP defines intangible property as “nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.”<sup>14</sup> All value attributable to the intangible property has been removed with the assumed expense of a management fee and a franchise fee (if applicable) in the valuation process.

Our concluded opinions of the proposed subject hotel’s market value include the value of the real property (land and improvements) and the value of the personal property only.

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<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> Ibid.



**FIGURE 13-1 ALLOCATION OF REAL PROPERTY VALUE**

<b>Property Value Component Represented</b>		<b>Allocation</b>
Real Property		\$14,800,000
Building Allocation	\$13,500,000	
Land Allocation	1,300,000	
Personal Property		2,500,000
Intangible Property		0
<b>Total "When Complete" Market Value</b>		<b>\$17,300,000</b>

**Allocation –  
Prospective Market  
Value upon  
Stabilization**

The value allocation upon stabilization of the subject property, as of May 1, 2021, was also estimated. The stabilized value opinion is allocated as follows:

**FIGURE 13-2 ALLOCATION OF REAL PROPERTY VALUE – STABILIZED VALUE**

<b>Property Value Component Represented</b>		<b>Allocation</b>
Real Property		\$18,700,000
Building Allocation	\$17,400,000	
Land Allocation	1,300,000	
Personal Property		700,000
Intangible Property		0
<b>Total "When Stabilized" Market Value</b>		<b>\$19,400,000</b>

## 14. Statement of Assumptions and Limiting Conditions

1. We note that the development of our value opinion(s) for the proposed subject hotel assumes this extraordinary assumption: specifically that the described improvements have been completed as of the date of value. The reader should understand that:
  - a. The improved subject property does not yet, in fact, exist as of the date of appraisal;
  - b. Certain events need to occur, as disclosed in the report, before the property appraised with the proposed improvements will in fact exist; and
  - c. 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 buyer as of the stated date(s) of valuation.
2. This report is to be used in whole and not in part.
3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.
4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would affect the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.

5. We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. We are not qualified to detect hazardous substances and urge the client to retain an expert in this field if desired.
6. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed the proposed hotel would be designed and constructed to be in full compliance with the ADA.
7. We have made no survey of the site, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate will be within the boundaries of the property described, and that no encroachment will exist.
8. All information, financial operating statements, estimates, and opinions obtained from parties not employed by TS Worldwide, LLC are assumed true and correct. We can assume no liability resulting from misinformation.
9. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject 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 the appropriate liquor license if applicable), and that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.
12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
13. We are not required to give testimony or attendance in court because of this analysis without previous arrangements, and shall do so only when our standard per-diem fees and travel costs have been paid prior to the appearance.
14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.



15. We take no responsibility for any events or circumstances that take place subsequent to either the date of value or the date of our field inspection, whichever occurs first.
16. The quality of a lodging facility's onsite management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
17. 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.
18. 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.
19. 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.
20. 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.
21. Our report has been prepared in accordance with, and is subject to, the requirements of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the Uniform Standards of Professional Practice (USPAP), as provided by the Appraisal Foundation.
22. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide, LLC as employees, rather than as individuals.



## 15. Certification

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

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Dinaker P. Mallya personally inspected the property described in this report; Jerod S. Byrd, MAI participated in the analysis and reviewed the findings, but did not personally inspect the property;
9. Dinaker P. Mallya provided significant real property appraisal assistance to Jerod S. Byrd, MAI, and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this appraisal report; Jerod S. Byrd, MAI has not performed services, as an appraiser or in any other capacity, on the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment;



10. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;
11. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and
12. as of the date of this report, Jerod S. Byrd, MAI has completed the continuing education program for Designated Members of the Appraisal Institute.

A handwritten signature in black ink, appearing to read 'Jerod S. Byrd'.

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Jerod S. Byrd, MAI  
Managing Director, Senior Partner  
TS Worldwide, LLC  
State Appraiser License (NJ) 42RG00234100

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# Jerod Byrd, MAI

## EMPLOYMENT

2007 to present	HVS CONSULTING AND VALUATION SERVICES Philadelphia, Pennsylvania
2006	MERCURY INVESTMENT MANAGEMENT Memphis, Tennessee
2005	BLENNERHASSETT HOTEL Parkersburg, West Virginia

## EDUCATION AND OTHER TRAINING

BS – Business Administration, University of Memphis

*Other Specialized Training Classes Completed:*

- Uniform Standards of Professional Appraisal Practice – 15 hours
- Basic Appraisal Principles – 30 hours
- Basic Appraisal Procedures – 30 hours
- General Appraiser Income Approach (Parts I and II) – 60 hours
- General Appraiser Market Analysis and HBU – 30 hours
- General Appraiser Site Valuation and Cost Approach – 30 hours
- General Appraiser Sales Comparison Approach – 30 hours
- Business Practices and Ethics – 7 hours
- Statistics, Modeling and Finance – 15 hours
- General Appraiser Report Writing and Case Studies – 30 hours
- Advanced Income Capitalization – 40 hours
- Delaware Law Rules and Regulations – 3 hours
- An Introduction to Valuing Commercial Green Buildings – 7 hours
- Apartment Appraisal, Concepts & Applications – 16 hours
- Fundamentals of Separating Real, Personal Property, and Intangible Business Assets – 15 hours
- Advanced Concepts and Case Studies – 35 hours
- PA Law Class – 2 hours
- Business Practices and Ethics – 7 hours
- DE Law Rules and Regulations – 3 hours
- CT Law Update with Supervisor/Provisional Education – 3 hours
- Advanced Income – 35 hours
- Advanced Hotel Appraisals – 7 hours
- USPAP Update – 2010, 2012, 2014, 2016

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**STATE CERTIFICATIONS**

Connecticut, Delaware, District of Columbia, Maine, Maryland, New Jersey, New York, Pennsylvania, Virginia

**PROFESSIONAL AFFILIATIONS**

Appraisal Institute – Designated Member (MAI)

**PUBLISHED ARTICLES**

*HVS Journal*

“In Focus: Washington, D.C.,” co-authored with Chelsey Leffet, July 2014

*HVS Journal*

“HVS Market Intelligence Report: Philadelphia,” co-authored with Chelsey Leffet, August 2013

*HVS Journal*

“HVS Market Intelligence Report: Greater Wilmington, Delaware,” co-authored with Chelsey Leffet, April 2013

*HVS Journal*

“HVS Market Intelligence Report: Wilmington and Newark, Delaware,” August 2009

*HVS Journal*

“HVS Market Intelligence Report: Philadelphia, Pennsylvania,” January 2009

*HVS Journal*

“HVS Market Intelligence Report: Baltimore-Washington International Airport,” October 2007

**EXAMPLES OF PROPERTIES APPRAISED OR EVALUATED**

**PORTFOLIO ANALYSIS**

Portfolio of 50 Sun Suites, Crestwood Suites, and Home Towne Suites, Various Locations  
Interbank Portfolio of 7, Various Locations

**ALABAMA**

Baymont Inn & Suites, Oxford  
Hilton Garden Inn, Tuscaloosa

**ARIZONA**

Marriott University Park, Tucson

**CALIFORNIA**

Days Inn, Anaheim  
Travelodge, Anaheim  
Land Appraisal, El Segundo  
Embassy Suites on Monterey Bay, Seaside

**COLORADO**

Super 8, Colorado Springs  
DoubleTree, Westminster

**CONNECTICUT**

Holiday Inn Express, Branford  
Baymont Inn, East Windsor  
Holiday Inn Express, East Windsor  
Travel Inn, Hartford  
Fairfield Inn Conversion to Days Inn, Milford  
Hyatt Place, Milford  
La Quinta Inn & Suites New Britain Farmington, New Britain  
Premiere Hotel & Suites, New Haven  
Red Roof Inn, New London  
Hampton Inn, Shelton

Honeyspot Motor Lodge, Stratford  
Courtyard by Marriott, Waterbury  
The Delmar, West Hartford  
Comfort Inn, Wethersfield  
SpringHill Suites by Marriott, Windsor Locks

**DELAWARE**

Crowne Plaza, Claymont  
Holiday Inn, Dover  
Microtel Inn & Suites, Dover  
Proposed La Quinta Inn & Suites, Dover  
Proposed Hotel, Georgetown  
Microtel Inn & Suites, Georgetown  
Hampton Inn, Milford  
Comfort Suites (Four Points Conversion), Newark  
Four Points Conversion (Closed), Newark  
Proposed Four Points, Newark  
Proposed Hampton Inn & Suites, Newark  
Proposed Hotel, Newark  
Proposed SpringHill Suites, Newark  
Red Roof Inn, Newark  
TownePlace Suites by Marriott, Newark  
Proposed Tru by Hilton, Rehoboth Beach  
Best Western Brandywine Valley Inn, Wilmington  
Courtyard by Marriott, Wilmington  
DoubleTree, Wilmington  
Inn at Wilmington, Wilmington  
Proposed Hampton Inn, Wilmington  
Proposed Residence Inn or Hilton Garden Inn, Wilmington  
Proposed SpringHill Suites, Wilmington  
Proposed Westin Downtown, Wilmington

**DISTRICT OF COLUMBIA**

Capella Hotel Georgetown

Embassy Washington, D.C.  
Hyatt Place E-Street  
Marriott Marquis  
Proposed Cambria Suites  
Proposed Canopy Hotel  
Proposed Embassy Suites  
Proposed Hampton Inn  
Proposed Homewood Suites by Hilton  
Proposed Hyatt Place  
Proposed InterContinental  
Proposed Marriott Marquis  
Proposed SpringHill Suites  
Quality Inn Redevelopment 1 - Proposed Hampton Inn  
Quality Inn Redevelopment 2 - Proposed Homewood Suites  
Washington Hilton  
Willard Intercontinental Hotel and Office

**FLORIDA**

Proposed W, Boca Raton  
Hampton Inn, Bonita Springs  
Homewood Suites by Hilton, Bonita Springs  
Seagate Hotel and Beach Club, Del Ray Beach  
Ritz-Carlton (formerly St. Regis), Fort Lauderdale  
TownePlace Suites, Miami  
TownePlace Suites, Miami Lakes  
Hard Rock Hotel at Universal Studios, Orlando  
Loews Portofino Bay Hotel, Orlando  
Loews Royal Pacific Resort at Universal Orlando, Orlando  
Proposed Hotel Saba, Rosemary Beach  
Holiday Inn & Suites, Sunrise  
Holiday Inn, Tallahassee  
Embassy Suites, Tampa

**GEORGIA**

Fairfield Inn Six Flags, Atlanta  
Hampton Inn Airport, Atlanta  
Westin Airport, Atlanta

Holiday Inn Express, Augusta  
 Hampton Inn, Cartersville  
 Days Inn, College Park  
 Hampton Inn, Fairburn  
 Holiday Inn, Jekyll Island  
 Hampton Inn, Marietta  
 Hospital, Montezuma  
 Clarion Inn & Suites (Conversion to a Hilton Garden Inn), Savannah  
 Hampton Inn, Waycross

**HAWAII**

Kona Kamehameha, Kona

**ILLINOIS**

Hotel Allegro, Chicago  
 Ramada Inn, Plymouth

**INDIANA**

Holiday Inn Express, Greenfield  
 Country Inn & Suites, Indianapolis  
 Staybridge Suites, Merrillville

**IOWA**

Sheraton, West Des Moines

**KANSAS**

Radisson (conversion to Crowne Plaza), Lenexa  
 Capitol Plaza, Topeka

**KENTUCKY**

Proposed Hilton Garden Inn, Louisville

**LOUISIANA**

Holiday Inn New Orleans Westbank, Gretna  
 Holiday Inn, New Orleans  
 Land Appraisal, New Orleans

**MAINE**

Proposed Homewood Suites by Hilton, Augusta  
 Comfort Inn, Brunswick  
 Country Inn, Bangor  
 Proposed Hampton Inn, Kennebunk  
 Bourne B&B, Ogunquit  
 Colonial Village Resort, Ogunquit  
 Proposed Hotel, Oxford  
 Proposed Hotel, South Portland  
 Haven by the Sea, Wells  
 Lighthouse Inn, York

**MARYLAND**

Brookshire Suites, Baltimore  
 Embassy Suites Airport, Baltimore  
 Holiday Inn Inner Harbor, Baltimore  
 Hotel Indigo, Baltimore  
 Hotel Monaco, Baltimore  
 Proposed Canopy by Hilton, Baltimore  
 Proposed Extended-Stay Hotel, Baltimore  
 Proposed Four Points by Sheraton, Baltimore  
 Proposed Holiday Inn Express, Baltimore  
 Proposed Hotel Indigo, Baltimore  
 Proposed Staybridge Suites, Baltimore  
 Radisson Cross Keys, Baltimore  
 Sheraton Baltimore City Center, Baltimore  
 Comfort Inn of Solomons, Beacons Marina  
 Homewood Suites by Hilton, Bel Air  
 Proposed Hotel, Bel Air  
 Residence Inn by Marriott, Bethesda  
 Country Inn & Suites, Capitol Heights  
 Proposed Select-Service Hotel, Capitol Heights  
 Hilton Columbia, Columbia  
 Holiday Inn Express, Easton  
 Courtyard by Marriott, Frederick  
 Wyndham Garden Hotel, Gaithersburg  
 Proposed Courtyard, Germantown  
 Residence Inn by Marriott, Greenbelt

Comfort Inn & Suites, Hagerstown  
 Sleep Inn & Suites, Hagerstown  
 Proposed Aloft, Hanover/Arundel Mills  
 Proposed Element, Hanover/Arundel Mills  
 Super 8, Havre de Grace  
 Comfort Inn, Hunt Valley  
 Courtyard Baltimore Hunt Valley, Hunt Valley  
 Proposed Hyatt Place, Kent Narrows  
 Super 8, La Vale  
 SpringHill Suites by Marriott BWI, Linthicum  
 Staybridge Suites BWI, Linthicum  
 Sleep Inn BWI, Linthicum Heights  
 Metro Points Hotel, New Carrollton  
 Courtyard by Marriott, Ocean City  
 Proposed Aloft, Ocean City  
 Proposed Homewood Suites by Hilton, Ocean City  
 Proposed Residence Inn by Marriott, Ocean City  
 Proposed Select-Service Hotel & Conference Center, Queen Anne's County  
 Proposed Mirbeau Inn & Spa, Queenstown  
 Hilton Garden Inn/Homewood Suites, Rockville  
 Harbourtown Resort, St. Michaels  
 Inn at Perry Cabin, St. Michaels  
 Super 8, Thurmont  
 Proposed Hampton Inn, Timonium  
 Radisson, Timonium  
 Holiday Inn, Towson  
 Proposed Residence Inn by Marriott, Upper Marlboro

**MASSACHUSETTS**

Proposed Hampton Inn, Amesbury  
 DoubleTree by Hilton Bedford Glen, Bedford  
 Hotel Commonwealth, Boston  
 Proposed Limited-Service Hotel, Boston

Quality Inn, Chicopee  
 Hilton, Dedham  
 Cape Cod Resort, Hyannis  
 New Englander Motor Court, Malden  
 Proposed Holiday Inn Express,  
 Plainville  
 Mirbeau Inn & Spa at the Pinehills,  
 Plymouth  
 Proposed Home2 Suites by Hilton,  
 Watertown  
 Courtyard by Marriott, Westborough

**MICHIGAN**

Proposed Detroit Boutique Hotel,  
 Detroit

**MISSISSIPPI**

Comfort Suites, Starkville

**MISSOURI**

La Quinta Inn, Kansas City  
 Holiday Inn Riverfront, St. Joseph

**NEBRASKA**

American Inn, Alliance  
 Carlisle Hotel, Omaha  
 Comfort Inn & Suites, Omaha

**NEW HAMPSHIRE**

Days Inn, Campton  
 Proposed Hotel, Hampton  
 Proposed Lilac Center at Granite Hills,  
 Hooksett  
 Fairfield Inn Conversion to Red Roof  
 Inn, Manchester

**NEW JERSEY**

Proposed Hampton Inn, Atlantic City  
 Proposed Hotel, Asbury Park  
 Hampton Inn, Blackwood  
 Proposed Red Roof Inn, Bordentown

Hyatt House, Branchburg  
 Proposed Hotel, Brick  
 Proposed Courtyard by Marriott,  
 Bridgewater  
 Proposed Residence Inn by Marriott,  
 Bridgewater  
 Days Inn, Brooklawn  
 Holiday Inn, Budd Lake  
 Capt. Samuel Ewing  
 Mansion/Expansion, Cape May  
 Clarion Hotel Conversion, Cherry Hill  
 Days Inn, Cherry Hill  
 Quality Inn, Cookstown  
 Proposed Hampton Inn, Cranbury  
 Residence Inn, Cranbury  
 Proposed SpringHill Suites, East  
 Rutherford  
 Residence Inn by Marriott, Egg Harbor  
 Proposed Sheraton Hotel, Elmwood  
 Park  
 Courtyard by Marriott, Ewing  
 Element, Ewing  
 Proposed Hyatt Place, Fort Lee  
 Country Inn & Suites, Galloway  
 Land Appraisal, Gloucester City  
 Proposed Hampton Inn, Jersey City  
 Proposed Holiday Inn Express, Jersey  
 City  
 Proposed Homewood Suites, Jersey  
 City  
 Proposed Hotel, Lakewood  
 Proposed Limited-Service Hotel,  
 Lakewood  
 Courtyard by Marriott, Lebanon  
 Proposed Fairfield Inn & Suites,  
 Millville  
 Proposed Hotel, Millville  
 Proposed TownePlace Suites, Millville  
 Hyatt House, Morristown  
 Hampton Inn, Mount Holly  
 Hilton Garden Inn, Mount Laurel  
 Proposed Aloft, Mount Laurel  
 TownePlace Suites by Marriott, Mount  
 Laurel  
 Proposed Homewood Suites, Neptune  
 Proposed Hotel, Neptune  
 Hilton Downtown, Newark

Wyndham Garden Newark Airport,  
 Newark  
 Clarion, North Brunswick  
 Ramada Inn, North Bordentown  
 Proposed Courtyard by Marriott,  
 North Brunswick  
 Proposed Staybridge Suites, North  
 Brunswick  
 Holiday Inn Express, Paramus  
 Fairfield Inn & Suites, Parsippany  
 Hyatt House Parsippany-East,  
 Parsippany  
 Hampton Inn, Pennsville  
 Quality Inn, Pleasantville  
 Best Western, Pompton Plains  
 Courtyard by Marriott, Princeton  
 Best Western, Ramsey  
 Hampton Inn, Ridgefield Park  
 Crowne Plaza, Saddle Brook  
 Desert Palm Inn, Seaside Park  
 Courtyard by Marriott, Secaucus  
 Drifting Sands Motel, Ship Bottom  
 Proposed Home2 Suites by Hilton,  
 Somers Point  
 Madison Suites Hotel, Somerset  
 Residence Inn, Somerset  
 Residence Inn by Marriott, Stanhope  
 Proposed TownePlace Suites,  
 Swedesboro  
 Proposed Hotel, Union City  
 Proposed Select-Service Hotel Union  
 City, Union City  
 Comfort Inn, Vineland  
 Travel Inn, Vineland  
 Broadway Motel, Washington  
 Proposed Courtyard by Marriott,  
 Wayne  
 Hampton Inn, Westampton  
 La Quinta Inn, West Long Branch  
 Proposed Cambria Suites, West Orange  
 Best Western, Westampton  
 Hyatt House, Whippany  
 Hilton, Woodcliff Lake

**NEW YORK**

Comfort Inn, Albany

Comfort Inn & Suites, Albany  
 Days Inn, Albany  
 Desmond Hotel, Albany  
 Holiday Inn, Albany  
 Inn at the Finger Lakes, Auburn  
 Proposed Hampton Inn, Amherst  
 The Anchor Inn, Bayside  
 Comfort Inn, Bellerose  
 Motel 6, Binghamton  
 Capri Whitestone Motel, Bronx  
 Proposed Comfort Inn, Bronx  
 Proposed Holiday Inn Express, Bronx  
 Proposed South Bronx Hotel, Bronx  
 Ramada, Bronx  
 Hampton Inn, Brookhaven  
 Brooklyn A Hotel, Brooklyn  
 Comfort Inn, Brooklyn  
 Hotel 718, Brooklyn  
 Proposed Best Western, Brooklyn  
 Proposed Hotel, Brooklyn  
 Proposed Limited-Service Hotel, Brooklyn  
 Proposed Monumental Hotel, Brooklyn  
 Proposed TownePlace Suites by Marriott, Brooklyn  
 DoubleTree by Hilton, Buffalo  
 Quality Inn, Catskill  
 Comfort Suites, Clifton Park  
 Park Manor Hotel, Clifton Park  
 Inn at Cobleskill, Cobleskill  
 Proposed Limited-Service Hotel, Cortland  
 Hampton Inn, East Aurora  
 Honor's Resort & Spa, Ellenville  
 Days Inn, Elmsford  
 Elmsford Motel, Elmsford  
 Endicott Inn, Endicott  
 Americas Best Value Inn, Farmington  
 Marco Hotel & Condos, Flushing  
 Marco LaGuardia Hotel & Suites, Flushing  
 Proposed Courtyard by Marriott, Fresh Meadows  
 Proposed Fairfield Inn & Suites by Marriott, Fresh Meadows  
 Hyatt Place, Garden City  
 Americas Best Value Inn, Geneva

Holiday Inn Express, Hauppauge  
 Comfort Inn & Suites, Hogansburg  
 Clarion Hotel, Ithaca  
 Ramada Inn, Ithaca  
 Proposed Quality Inn, Jamaica  
 Holiday Inn Express, Jamaica  
 Days Inn, Jamaica  
 Best Western, Jamaica  
 Econo Lodge, Jamaica  
 DoubleTree by Hilton, Jamestown  
 Hostway Motor Inn, Jericho  
 Mirror Lake Inn, Lake Placid  
 Holiday Inn/Office Building, Liverpool  
 Proposed Ascend Collection Hotel, Long Island City  
 Proposed Boutique Hotel, Long Island City  
 Proposed Crowne Plaza, Long Island City  
 Proposed Hampton Inn, Long Island City  
 Proposed Limited-Service Hotel, Long Island City  
 Super 8, Massena  
 Gaslight Motor Inn, Medford  
 Monticello Motel, Monticello  
 Proposed Ascend, New Rochelle  
 Affinia, New York  
 King and Grove Hotel, New York City  
 Proposed Courtyard by Marriott, New York City  
 Tribeca Blu Hotel, New York City  
 Proposed La Quinta Inn & Suites, Niagara Falls  
 Holiday Inn (Conv. to Quality Inn), Oneonta  
 Proposed Courtyard by Marriott, Oneonta  
 Brookwood Inn, Pittsford  
 Stonehelm Motel, Plattsburgh  
 Proposed Comfort Inn, Queens  
 Proposed Best Western, Richmond  
 Holiday Inn Airport, Rochester  
 Lexington Inn & Suites, Rochester  
 Proposed Lake Ontario Place, Rochester  
 Land Appraisal, Ronkonkoma

Proposed Comfort Inn, Roslyn  
 Hotel Saranac, Saranac Lake  
 Hilton Garden Inn, Saratoga Springs  
 Proposed Hotel, Saratoga Springs  
 Proposed Lexington Club Hotel, Saratoga Springs  
 Proposed Courtyard by Marriott, Schenectady  
 Gould Hotel, Seneca Falls  
 Proposed Holiday Inn, Staten Island  
 Hotel Skyler, Syracuse  
 Proposed Element, Syracuse  
 Proposed Home2 Suites by Hilton, Syracuse  
 Best Western Plus, Victor  
 Fairfield Inn & Suites by Marriott, Watertown  
 Holiday Inn Express, Webster  
 Queens Motor Inn, Woodside

#### **NORTH CAROLINA**

Hampton Inn, Aberdeen  
 Embassy Suites, Cary  
 Comfort Inn, Charlotte  
 Holiday Inn Express, Kinston  
 Super 8 (Conversion to Hawthorn Suites), Kinston  
 Hampton Inn, Raleigh  
 Holiday Motel, Whiteville  
 Full-Service Restaurant, Winston-Salem

#### **OKLAHOMA**

Bestway Inn, Blackwell

#### **OREGON**

Embassy Suites Airport, Portland

#### **PENNSYLVANIA**

Comfort Suites, Altoona  
 Proposed Holiday Inn Express, Altoona  
 Howard Johnson, Bartonsville  
 Travelodge, Bedford

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Courtyard, Bensalem	Fairfield Inn & Suites, Hazleton	Hampton Inn & Suites, Phoenixville
Sleep Inn, Bensalem	Proposed Candlewood Suites, Hazelton	Proposed Hilton Garden Inn, Phoenixville
Hotel Bethlehem, Bethlehem	Residence Inn Hazleton, Hazleton	Holiday Inn Express, Pittsburgh
Hyatt Place, Bethlehem	Hampton Inn, Hershey	Hotel Monaco, Pittsburgh
Best Western, Blakeslee	Holiday Inn Express, Hershey	Hyatt Place, Pittsburgh
Normandy Conference Hotel, Blue Bell	Proposed Holiday Inn & Suites, Horsham	Proposed Hotel Indigo, Pittsburgh
Proposed Wyndham Garden, Boalsburg	Holiday Inn Express, Hummelstown	Proposed Moxy, Pittsburgh
Hilton Garden Inn, Breinigsville	Comfort Inn, Huntingdon	SpringHill Suites, Pittsburgh
Days Inn, Brookville	Proposed Best Western, Jonestown	Super 8, Pittsburgh
Bushkill Inn & Conference Center, Bushkill	Proposed TownePlace Suites by Marriott, King of Prussia	Hampton Inn, Plymouth Meeting
Red Roof Inn, Carlisle	Cove Haven Resort, Lakeville	Proposed Resort & Marina, Raystown Lake
Residence Inn by Marriott, Carlisle	Econo Lodge, Lancaster	Abraham Lincoln Hotel, Reading
Sleep Inn, Carlisle	Proposed Hotel, Lancaster	Proposed Hotel, Reading
Clarion Inn (Conversion to Red Lion), Chambersburg	Proposed Holiday Inn Express, Lebanon	Proposed SpringHill Suites, Royersford
Econo Lodge, Clarion	Holiday Inn Express, Langhorne	Proposed Staybridge Suites, Royersford
Proposed Microtel Inn & Suites, Clarion	Residence Inn by Marriott, Langhorne	Great Wolf Lodge Poconos, Scotrun
Super 8, Danville	Days Inn, Lewisburg	Proposed Hyatt Place, State College
Quality Inn & Suites, Danville	Holiday Inn Express, Limerick	Proposed Holiday Inn Express, Strasburg
Holiday Inn Express, Dickson	Desmond Great Valley, Malvern	Holiday Inn Express, Stroudsburg
Comfort Inn, Duncansville	DoubleTree by Hilton, Mars	Crowne Plaza, Trevoise
Pocono Palace Resort, East Stroudsburg	Proposed Holiday Inn Express, Mechanicsburg	George Washington Hotel, Washington
Avalon Hotel, Erie	Wingate Inn, Mechanicsburg	Proposed TownePlace Suites by Marriott, Washington
Baymont Inn & Suites, Erie	Proposed Hampton Inn, Media	Courtyard Philadelphia Valley Forge, Wayne
Super 8, Erie	Holiday Inn, Middletown	Proposed Warner Hotel, West Chester
Quality Inn & Suites, Erie	Paradise Stream Resort, Mount Pocono	Proposed Boutique Hotel & Restaurant, West Chester
Wyndham Garden (conversion to Holiday Inn), Essington	Clarion Hotel & Conference Center, New Cumberland	Proposed Hotel, West Chester
Wyndham Garden, Exton	Proposed Hotel, Newtown Square	Days Inn, Wilkes-Barre
Sheraton Great Valley, Frazer	Four Points Philadelphia, Northeast Philadelphia	Red Roof Inn, Wilkes-Barre
Proposed Holiday Inn Express, Fort Washington	Best Western Plus, Philadelphia	Proposed Fairfield Inn by Marriott, Willow Grove
Proposed Hotel, Gettysburg	Hawthorn Suites, Philadelphia	Econo Lodge, Wexford
Crowne Plaza, Harrisburg	Hotel Monaco, Philadelphia	Holiday Inn Manchester Mall, York
Days Inn, Harrisburg	Le Méridien, Philadelphia	Proposed Tru by Hilton, York
Econo Lodge, Harrisburg	Parker Spruce (Fairfield Conversion), Philadelphia	
Hilton, Harrisburg	Proposed AC by Marriott, Philadelphia	<b>RHODE ISLAND</b>
Holiday Inn Express Harrisburg East, Harrisburg	Proposed Hampton Inn, Philadelphia	Proposed Holiday Inn Express, Providence
TownePlace Suites by Marriott, Harrisburg	Proposed Hilton Garden Inn, Philadelphia	
Woodloch Spa Resort, Hawley	Proposed Hotel Falcon, Philadelphia	<b>SOUTH CAROLINA</b>
Hampton Inn Hazleton, Hazleton	Proposed Hyatt Place, Philadelphia	
	Sheraton Suites, Philadelphia	

Hampton Inn, Bluffton  
 Ramada, Clemson  
 Hampton Inn, Columbia  
 Holiday Inn Express, Greer  
 Courtyard by Marriott, Myrtle Beach  
 Econo Lodge, North Charleston

**TENNESSEE**

Holiday Inn Express, Germantown  
 Crowne Plaza Downtown, Memphis  
 Holiday Inn, Memphis  
 La Quinta Inn & Suites, Memphis  
 Hampton Inn, Murfreesboro

**TEXAS**

Country Inn & Suites, Dallas  
 Land Appraisal, Southlake

**VERMONT**

Equinox Golf Resort & Spa, Manchester  
 Holiday Inn, Rutland  
 Proposed Hampton Inn, St. Albans  
 Autumn Inn, Bennington  
 Super 8, Brattleboro  
 Equinox Golf Resort & Spa, Manchester

**VIRGINIA**

Comfort Inn, Alexandria  
 Courtyard by Marriott, Alexandria  
 Days Inn, Alexandria  
 Monaco, Alexandria  
 Morrison House, Alexandria  
 Proposed Hilton Garden Inn,  
 Alexandria  
 DoubleTree Crystal City, Arlington  
 Embassy Suites Crystal City, Arlington  
 Marriott Crystal Gateway, Arlington  
 Holiday Inn, Charlottesville  
 Proposed Hotel, Charlottesville  
 Baymont Inn & Suites, Chesapeake  
 TownePlace Suites, Chesapeake  
 River Edge Inn, Colonial Beach

Holiday Inn Express & Suites, Emporia  
 Courtyard Fairfax Fair Oaks, Fairfax  
 Proposed SpringHill Suites by  
 Marriott, Gainesville  
 Courtyard Herndon Reston, Herndon  
 Roseloe Motel, Hot Springs  
 Courtyard by Marriott, Lynchburg  
 Hilton, McLean  
 Proposed Mirbeau Inn & Spa, New  
 Kent  
 Holiday Inn (Courtyard Conversion),  
 Norfolk  
 Americas Best Value Inn, Richmond  
 Days Inn, Richmond  
 Residence Inn by Marriott, Richmond  
 Residence Inn by Marriott Northwest,  
 Richmond  
 Proposed Home2 Suites by Hilton,  
 Roanoke  
 Sheraton Roanoke Hotel & Conference  
 Center, Roanoke  
 Fairfield Inn & Suites, South Boston  
 Hilton, Springfield  
 Comfort Inn, Stephens City  
 Country Inn & Suites, Sterling  
 Proposed Vienna MetroWest Hotel,  
 Vienna  
 DoubleTree by Hilton, Virginia Beach  
 Fairfield Inn by Marriott, Virginia  
 Beach  
 Residence Inn by Marriott, Virginia  
 Beach  
 Studio 4 Less, Virginia Beach  
 Econo Lodge, Williamsburg  
 Holiday Inn Express, Williamsburg  
 Holiday Inn Express, Woodstock

**WEST VIRGINIA**

Days Inn, Bridgeport  
 Embassy Suites, Charleston  
 Holiday Inn, Martinsburg

**INTERNATIONAL**

**Mexico**

Gran Caribe, Cancun  
 Royal Cancun, Cancun  
 Gran Porto, Playa del Carmen  
 Royal Porto, Playa del Carmen

**State Of New Jersey**  
**New Jersey Office of the Attorney General**  
**Division of Consumer Affairs**

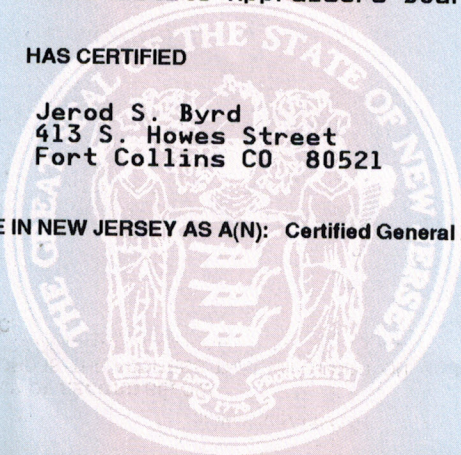


THIS IS TO CERTIFY THAT THE  
**Real Estate Appraisers Board**

HAS CERTIFIED

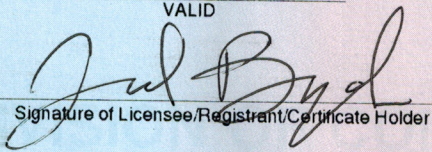
**Jerod S. Byrd**  
**413 S. Howes Street**  
**Fort Collins CO 80521**

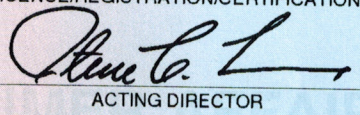
**FOR PRACTICE IN NEW JERSEY AS A(N): Certified General Appraiser**



**10/30/2015 TO 12/31/2017**  
VALID

**42RG00234100**  
LICENSE/REGISTRATION/CERTIFICATION #

  
Signature of Licensee/Registrant/Certificate Holder

  
ACTING DIRECTOR



Mr. Jerod Byrd  
US Hotel Appraisals  
1601 Concord Pike, Suite 70  
Wilmington, De

November 25, 2016

Dear Jerod:

This is to your authorization to proceed with an appraisal assignment for *Parke Bank*, the Client and Intended User of the appraisal report. The Intended use of the report will be to assist in a credit decision being made by the Bank. The Bank's request for you to perform an *Appraisal Report* (unless otherwise specified here) of the following property:

Name: **Joseph Pacitti**

Address: **19 McArthur Blvd, Block 1815 Lots 3 & 8. Block 1715 Lot 1 & 8**

Description: **Proposed Home 2 Suites**

This request is in regards to: **New Construction**

The value(s) requested for the assignment are: **As-Is (Land) As-Complete**

**\* All appraisal reports must conform in all respects to the Uniform Standards of Professional Appraisal Practice (USPAP), Title XI of FIRREA, and any implementing regulations in effect as of the effective date of the report.**

**\* All appraisal reports must include an opinion of the "As Is" value of the real property as of the effective date of the appraisal report, even if a different value (going concern, subject to, prospective, etc.) is requested by the client.**

**\* All appraisal reports must include a certification statement that the report was performed in accordance with the requirements of Title XI of FIRREA and any implementing regulations.**

**\* All interior inspection appraisal reports (Commercial or Residential) must include interior photos.**

**\* All interior inspection Residential property appraisal reports must include a building sketch or plans of the building to be built if it is proposed as of the effective date of the report.**

**\* All commercial properties that are leased must include the Income Approach along with any other applicable approach and Leased Fee Interest must be valued if existing leases have over 12 months remaining.**

**\* All form style residential reports must be completely filled out.**

**\* All appraisal reports must include a map showing comparable sales locations.**

If you need additional information, please contact: **Mr. Joseph Pacitti @ 215-869-1593 for access**. All documents furnished to the appraiser are to be considered confidential information pursuant to the disclosure requirements in the confidentiality section of USPAP. As previously agreed, your fee for this assignment is **\$9,000.00** and the report is due in to the Bank before close of business on **December 27, 2016**.

Your capacity in this assignment is as an independent contractor and not as an employee or agent of Parke Bank. Any report you prepare is to be addressed to: **Cheryl Zaborowski at Parke Bank 601 Delsea Drive, Sewell, NJ 08080** and solely for the use of this Bank unless otherwise noted in this request.

Acceptance of this assignment indicates an agreement the report will not include any limit of liability by the appraiser to the client. The client will not be responsible for any expenses incurred if the report does include such language.

**Please include a signed copy of this Engagement Letter as part of your final appraisal report.** Provide an invoice of payment as well as the original and two hard copies (or one electronic) of the appraisal report.

We appreciate your prompt attention in completing this report. Please contact me if you have any questions or desire any further property information.

Sincerely,

**Cheryl Zaborowski**

Cheryl Zaborowski  
Credit Risk  
Parke Bank  
856-256-2500

Accepted By:

 11/27/16  
\_\_\_\_\_  
Appraiser's Signature Date