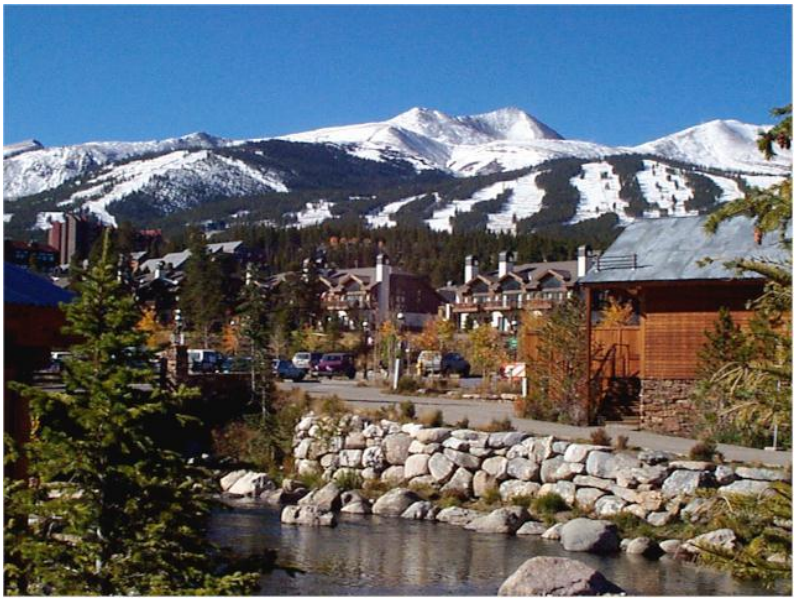
FEASIBILITY STUDY

Proposed Hotel Breckenridge

SOUTH PARK AVENUE
BRECKENRIDGE, COLORADO



SUBMITTED TO:

Town of Breckenridge
Mr. Peter Grosshuesch
150 Ski Hill Road
Breckenridge, Colorado, 80424

+1 (970) 453-3162

PREPARED BY:

HVS Consulting and Valuation Services
Division of TS Worldwide, LLC
413 South Howes Street
Fort Collins, CO 80521

+1 (720) 877-1376

Lowe Enterprises Real Estate Services, Inc.
PO Box 5600
Snowmass Village, CO 81615

HVS | LOWE ENTERPRISES | OZ ARCHITECTURE URBAN DESIGN INTERIOR DESIGN

May 19, 2013

Mr. Peter Grosshuesch
Town of Breckenridge
150 Ski Hill Road
Breckenridge, Colorado, 80424

Re: Proposed Hotel Breckenridge
Breckenridge, Colorado
HVS Reference: 2013020203

Dear Mr. Grosshuesch:

Pursuant to your request, we herewith submit our feasibility study pertaining to the above-captioned property. We have inspected the real estate and analyzed the hotel market conditions in the Breckenridge, Colorado area. We have also conducted interviews with the community key stakeholders and business leaders, have studied the site and its constraints, and the results of our fieldwork and analysis are presented in this report. We have also reviewed several development plan options for the proposed improvements for this site and have selected what we believe to be the best-suited plan and program for the analysis. Our report was prepared in collaboration with Oz Architecture and is in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), as provided by the Appraisal Foundation.

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

Sincerely,
TS Worldwide, LLC

DRAFT DOCUMENT

Brett E. Russell, Senior Vice President
BRussell@hvs.com, +1 (720) 877-1376
State Appraiser License (CO) CG100013757

HVS DENVER
413 South Howes Street
Fort Collins, CO 80521
Error! Not a valid link.
+1 (970) 493-2919 FAX
www.hvs.com

Lowe Enterprises Real Estate Services, Inc.

DRAFT DOCUMENT

Michael S. Tande, Senior Vice President
mtande@loweentrprises.com, +1(310) 820-6661

Table of Contents

1. Executive Summary

Subject of the Feasibility Study

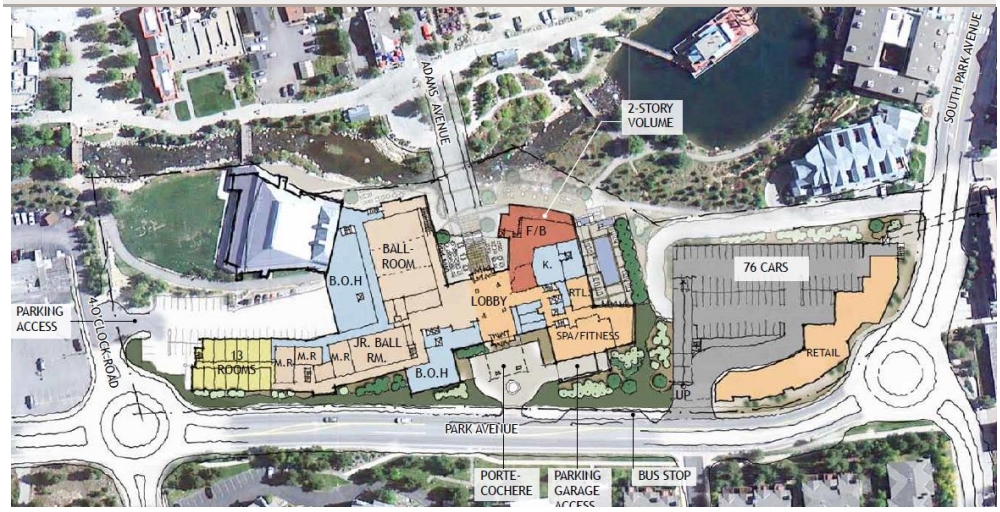
The report is in response to the Town of Breckenridge's ("Town") request of our team to conduct a hotel feasibility study of the subject site. The team is made up of Lowe Enterprises Real Estate Services, Inc. ("LERES"), HVS, and OZ Architecture. The team led by LERES was selected through a formal RFP and interview process. The scope of the assignment was to review the site and determine if a luxury hotel was appropriate for the site and if it would be feasible. As part of the scope, the Town identified four key elements to be evaluated 1) a need to address replacement of any parking that is lost from the development, 2) assessment of the impact of a new hotel on the existing lodging base in Breckenridge, 3) inclusion of the potential impact on the Riverwalk Center and 4) the magnitude, if any, of any Town participation or incentives required to assist with the development of the project. Our assessment of these factors are addressed herein.

An architectural site planning analysis was conducted for the subject site and was performed by OZ Architecture ("Designer"). After reviewing several different development plan options, which included hotel only with no conference space, our team concluded that the following program was the best-case scenario given the sites orientation and constraints.

The subject site's location is at F Lot (and Tiger Dredge lot) on South Park Avenue, Breckenridge, Colorado, 80424.

The subject of the feasibility study is a 315,810-square-foot (7.25-acre) parcel to be improved with a 200,505-square-foot, full service, conference and lodging facility; the hotel will be affiliated with an upper-upscale brand. The property is expected to open on January 1, 2018 and will feature 214 rooms and suites, a three-meal upscale restaurant, bar and lounge, a 22,135-square-foot meeting facility, a spa facility, an outdoor pool and whirlpools, an exercise room, a coffee shop, a business center, gift shop, retail/skier valet, and vending areas. The hotel will also feature all necessary back-of-the-house space including a 281-stall sub-terrain parking garage.

RENDERING OF PROJECT



The proposed hotel is expected to provide the town with a high-quality conference facility that can better accommodate large groups who have not chosen Breckenridge in the past. To further expand on the capabilities of the conference facility, the conceptual project's plan includes the potential addition of a temporary 800 to 1,600 person capacity event tent on the roof deck of the day-skier and Riverwalk Center parking structure. The tent can be designed to be taken down to accommodate peak season parking needs.

In addition, the hotel's proposed location in Downtown Breckenridge is one of the few remaining development sites in the core of the town. It is well-suited for a hotel that will greatly enhance and stimulate the activity and vibrancy of the town. The downtown core, including Main Street, offers a multitude of locally owned restaurants and retailers and is the quintessential ski mountain small town. The historic mining town has not lost its character, continues to be a unique destination, and is what helps to separates Breckenridge from other mountain towns and cities.

Local officials and industry professionals reported that groups of between 150 to 250 represent the greatest opportunity for the town of Breckenridge, while larger groups of 500 plus are currently not easily accommodated. As such, we believe the program for the proposed subject property is a 214-room, upper-upscale, full-service hotel with a 22,135 square foot meeting facility. Moreover, in order to attract large groups that have not chosen Breckenridge in the past, we recommend obtaining a nationally-recognized four-star brand that will attract new visitors to

Breckenridge. A prominent brand will allow local marketing officials to better sell Breckenridge as a premier mountain resort destination.

This project has a unique set of issues that were considered in our recommendations for the proposed hotel. Parking in Downtown Breckenridge is already an issue during the peak season and this hotel would be built on the largest parking lot near downtown and close to the QuickSilver Super6 lift which is located within the Village at Breckenridge. As such, a large parking structure is a component of the project, with as much parking as is currently available plus additional parking for the Riverwalk Center and downtown. The large parking structure limits the number of guestrooms and meeting space that can be built on the remaining portion of the 7.25-acre site.

Another constraint of the project is the buildable height of the new hotel and parking structure. The subject site is located one block west of Main Street and a large structure would obstruct views from downtown. In consideration of this, we have developed preliminary designs for the hotel that include two four-story structures that are linked by a central lobby and entryway and a underground parking structure. The separation of the two hotel guestroom structures would provide a view corridor between the two buildings along Adams Avenue.

Another consideration of the project is the opportunity for synergies between a new hotel and conference facility and the adjacent Riverwalk Center. The Riverwalk Center is a unique venue for music festivals, local concerts that includes the National Repertory Orchestra, and other events but also has its limitations. Upon review of the purposed reconfiguration of the center and our conversations with local officials and industry professionals, we understand that the back-of-house space is inefficient and that the venue is under-utilized. In addition, upon consultation with industry professionals and conference center manager's, we have determined that there are significant synergies of combining the conference facility with the Riverwalk Center's amphitheater. As such, in our preliminary design of the conference facility, we recommend that the conference center be built adjacent to the Riverwalk Center, eliminating its existing back-of-house, and utilizing the newly designed back-of-house and meeting areas of the proposed conference facility.

The new space can be designed to fully integrate the operational aspects of the Riverwalk Center and greatly enhance the overall functionality and guest experience. For instance, the restrooms can be conveniently located and adequately sized for the venue and the conference facility. The conference space adjacent to the amphitheater can be used as a pre-function or intermissions with the other smaller meeting rooms being utilized for warm-up, vocal practice, instrument rehearsals, multipurpose and backstage uses. Serving as dual purpose

space the repositioned Riverwalk Center with its 770-seat amphitheater gives Breckenridge a superior competitive advantage. Hence, the conference facility can utilize the amphitheater for its groups who are looking for this type of venue for product launches, interactive forums, and larger group meetings and company presentations. We see the repositioning of the Riverwalk Center along with the new conference facility being a key opportunity to increase corporate group business and incremental revenue to the Town while continuing to have the special events the RWC has enjoyed over the years. In addition, we recommend that the two facilities be managed together by a conference and theater specialist through the hotel or a third-party manager in order to take advantage of the synergies and revenue opportunities of both facilities.

Pertinent Dates

The effective date of the report is May 19, 2013. The subject site was inspected by Joseph Rael and Michael Tande on April 4, 2013. Brett Russell participated in the analysis, reviewed the findings, and also inspected the property.

Ownership, Franchise, and Management Assumptions

The developer of the proposed subject property has yet to be determined. The subject site is owned by the Town of Breckenridge and has not been sold during the last five years. The subject site is currently being used as two parking lots for visitors to Downtown Breckenridge and the Riverwalk Center.

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

We recommend that the proposed subject property operate as an upper-upscale, full-service hotel affiliated with a nationally recognized four-star brand such as Westin, Hyatt Regency, JW Marriott, or Renaissance. Resort-oriented brands or independent hotel and conference specialists such as Destination Hotels & Resorts, Dolce Hotels & Resorts, and RockResorts should also be considered given their success in these markets. A specific franchise affiliation and/or brand has yet to be determined. Based on our review of the agreement's terms or expected terms, the upper-upscale franchise is reflected in our forecasts with a royalty fee of 7% of rooms revenue, and a marketing assessment of 2% of rooms revenue. The forecast franchise fee also includes 3% of food and beverage revenue. Reservations fees will also be due, and are included in the rooms expense line item of our forecast.

Summary of Hotel Market Trends

The major ski resorts located in Summit and Eagle Counties serve as the primary sources of demand in this Breckenridge, Keystone, and Vail Valley market. As such, demand in the market is primarily made up of FIT guests who are visiting the

area for outdoor recreational activities, including skiing, snowboarding, biking, camping, hiking, and climbing. As discretionary spending became increasingly restricted during the economic downturn, demand at local hotels decreased significantly in 2008 and through much of 2009. New supply entered the market in mid-year 2010 when the RockResorts' One Ski Hill Place opened near the base of Peak 8 in Breckenridge. Occupancy in the market began to recover in 2010 due to a strong 2009/10 ski season, but remained stagnant in 2011 before beginning to increase again in the summer of 2012. Average rate recovery lagged behind occupancy, with a rebound in 2011 and a minimal increase in 2012. The latest year-to-date data for 2013 show strong occupancy and average rate improvements, attributed to a stronger 2012/13 ski season when compared to 2011/12.

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

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

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2002	2,126	775,815	3.2 %	400,656	1.9 %	51.6	177.27	2.5 %	91.55	1.2 %
2003	2,407	878,555	13.2	430,436	7.4	49.0	188.30	6.2	92.26	0.8
2004	2,407	878,555	0.0	469,508	9.1	53.4	193.16	2.6	103.23	11.9
2005	2,407	878,555	0.0	490,476	4.5	55.8	204.49	5.9	114.16	10.6
2006	2,342	854,662	(2.7)	519,782	6.0	60.8	207.21	1.3	126.02	10.4
2007	2,174	793,505	(7.2)	493,571	(5.0)	62.2	229.68	10.8	142.87	13.4
2008	2,146	783,433	(1.3)	430,436	(12.8)	54.9	249.08	8.4	136.85	(4.2)
2009	2,253	822,345	5.0	374,082	(13.1)	45.5	221.45	(11.1)	100.74	(26.4)
2010	2,225	812,230	(1.2)	404,071	8.0	49.7	215.94	(2.5)	107.43	6.6
2011	2,304	840,960	3.5	417,577	3.3	49.7	222.02	2.8	110.24	2.6
2012	2,304	840,960	0.0	450,852	8.0	53.6	222.93	0.4	119.52	8.4
Average Annual Compounded Change:										
2001-2012			1.0 %		1.3 %			2.3 %		2.6 %
Year-to-Date Through February										
2012	2,304	135,936	—	96,202	—	70.8 %	$299.79	—	$212.16	—
2013	2,304	135,936	0.0 %	106,456	10.7 %	78.3	313.14	4.5 %	245.23	15.6 %

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
Manor Vail Resort	128	Nov-08	Jun 1966
Keystone Lodge & Spa	152	Jun-74	Jun 1974
Village @ Breckenridge Hotel	60	Dec-10	Jun 1979
Marriott Vail Mountain Resort	344	Oct-94	Nov 1980
Vail Cascade Resort	292	Mar-96	Jun 1982
Doubletree Breckenridge	208	Nov-11	Jun 1985
Beaver Run Resort & Conference Center	550	Jun-86	Jun 1986
The Inn @ Keystone	103	Jan-08	Dec 1989
Park Hyatt Beaver Creek Resort & Spa	190	Dec-89	Dec 1989
Lodge @ Breckenridge	47	Jun-92	Jun 1992
Ritz-Carlton Bachelor Gulch	180	Nov-02	Nov 2002
RockResorts One Ski Hill Place	50	Jun-10	Jun 2010
Total	**2,304**		

Source: STR Global

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

FIGURE 1-2 PRIMARY COMPETITORS – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation FIT	Est. Segmentation Meeting and Group	Estimated 2010 Weighted Annual Room Count	Estimated 2010 Occ.	Estimated 2010 Average Rate	Estimated 2010 RevPAR	Estimated 2011 Weighted Annual Room Count	Estimated 2011 Occ.	Estimated 2011 Average Rate	Estimated 2011 RevPAR	Estimated 2012 Weighted Annual Room Count	Estimated 2012 Occ.	Estimated 2012 Average Rate	Estimated 2012 RevPAR	Estimated 2012 RevPAR Change	Estimated 2012 Occupancy Penetration	Estimated 2012 Yield Penetration
Beaver Run Resort	550	55 %	45 %	550	44 %	$164.00	$72.16	550	42 %	$163.00	$68.46	550	42 %	$166.00	$69.72	1.8 %	87.6 %	70.1 %
Village Hotel	60	65	35	60	49	135.00	66.15	60	45	140.00	63.00	60	56	148.00	82.88	31.6	116.8	83.3
DoubleTree by Hilton Breckenridge	208	65	35	208	44	159.00	69.96	208	40	176.00	70.40	208	49	150.00	73.50	4.4	102.2	73.9
Keystone Lodge & Spa	152	60	40	152	49	170.00	83.30	152	42	180.00	75.60	152	55	190.00	104.50	38.2	114.7	105.1
Sub-Totals/Averages	**970**	**59 %**	**41 %**	**970**	**45.1 %**	**$162.03**	**$73.06**	**970**	**41.8 %**	**$166.82**	**$69.66**	**970**	**46.4 %**	**$165.49**	**$76.79**	**10.2 %**	**96.8 %**	**77.2 %**
Secondary Competitors	3,935	69 %	31 %	1,402	45.2 %	$225.80	$102.09	1,416	46.5 %	$230.34	$107.04	1,416	49.0 %	$234.71	$115.01	7.4 %	102.2 %	115.6 %
Totals/Averages	**4,905**	**65 %**	**35 %**	**2,372**	**45.2 %**	**$199.76**	**$90.22**	**2,386**	**44.6 %**	**$206.14**	**$91.84**	**2,386**	**47.9 %**	**$207.48**	**$99.48**	**8.3 %**	**100.0 %**	**100.0 %**

FIGURE 1-3 SECONDARY COMPETITORS – OPERATING PERFORMANCE

Property	Number of Rooms	Est. Segmentation FIT	Est. Segmentation Meeting and Group	Total Competitive Level	Estimated 2010 Weighted Annual Room Count	Estimated 2010 Occ.	Estimated 2010 Average Rate	Estimated 2010 RevPAR	Estimated 2011 Weighted Annual Room Count	Estimated 2011 Occ.	Estimated 2011 Average Rate	Estimated 2011 RevPAR	Estimated 2012 Weighted Annual Room Count	Estimated 2012 Occ.	Estimated 2012 Average Rate	Estimated 2012 RevPAR
One Ski Hill Place Breckenridge	50	80 %	20 %	70 %	21	43 %	$160.00	$68.80	35	45 %	$172.00	$77.40	35	60 %	$194.00	$116.40
Lodge & Spa at Breckenridge	47	50	50	40	19	47	92.00	43.24	19	57	112.00	63.84	19	65	111.00	72.15
Ritz-Carlton Residences Vail	180	65	35	50	90	47	415.00	195.05	90	55	384.00	211.20	90	61	385.00	234.85
Park Hyatt Beaver Creek Resort	190	60	40	60	114	59	325.00	191.75	114	62	317.00	196.54	114	61	336.00	204.96
Marriott Vail Resort	344	55	45	70	241	61	213.00	129.93	241	61	219.00	133.59	241	63	229.00	144.27
Vail Cascade Hotel & Club	292	55	45	60	175	51	235.00	119.85	175	54	238.00	128.52	175	54	231.00	124.74
Manor Vail Lodge	128	65	35	40	51	45	225.00	101.25	51	46	257.00	118.22	51	50	253.00	126.50
Inn at Keystone	103	55	45	40	41	48	120.00	57.60	41	46	122.00	56.12	41	58	135.00	78.30
Aggregate Breckenridge Lodging Units	2,601	90	10	25	650	35	183.00	64.05	650	35	190.00	66.50	650	37	194.00	71.78
Totals/Averages	**3,935**	**69 %**	**31 %**	**36 %**	**1,402**	**45.2 %**	**$225.80**	**$102.09**	**1,416**	**46.5 %**	**$230.34**	**$107.04**	**1,416**	**49.0 %**	**$234.71**	**$115.01**

Summary of Forecast Occupancy and Average Rate

Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, we have chosen to use a stabilized occupancy level of 59% and a base-year rate position of $218.00 (2012 dollars) for the proposed subject property. The following table reflects a summary of our market-wide and proposed subject property occupancy and average rate projections.

FIGURE 1-4 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	47.9 %	—	$207.48	—	—	$218.00	105.1 %
2013	49.7	4.0 %	215.78	—	4.0 %	226.72	105.1
2014	50.7	6.0	228.73	—	6.0	240.32	105.1
2015	51.1	6.0	242.45	—	6.0	254.74	105.1
2016	51.1	4.0	252.15	—	4.0	264.93	105.1
2017	51.2	3.0	259.71	—	3.0	272.88	105.1
2018	49.8	3.0	267.50	51.0 %	4.5	285.16	106.6
2019	50.0	3.0	275.53	56.0	4.5	297.99	108.2
2020	50.0	3.0	283.80	58.0	3.0	306.93	108.2
2021	49.9	3.0	292.31	59.0	3.0	316.14	108.2

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

FIGURE 1-5 FORECAST OF AVERAGE RATE

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount
2018	51 %	$285.16	2.0 %	$279.46
2019	56	297.99	1.0	295.01
2020	58	306.93	0.0	306.93
2021	59	316.14	0.0	316.14

Summary of Forecast Income and Expense Statement

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

FIGURE 1-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2018 (Calendar Year)				2019				2020				Stabilized				2022			
Number of Rooms:	**214**				**214**				**214**				**214**				**214**			
Occupancy:	**51%**				**56%**				**58%**				**59%**				**59%**			
Average Rate:	**$279.46**				**$295.01**				**$306.93**				**$316.14**				**$325.62**			
RevPAR:	**$142.52**				**$165.21**				**$178.02**				**$186.52**				**$192.12**			
Days Open:	**365**				**365**				**365**				**365**				**365**			
Occupied Rooms:	**39,836**	**%Gross**	**PAR**	**POR**	**43,742**	**%Gross**	**PAR**	**POR**	**45,304**	**%Gross**	**PAR**	**POR**	**46,085**	**%Gross**	**PAR**	**POR**	**46,085**	**%Gross**	**PAR**	**POR**
REVENUE																				
Rooms	$11,132	56.1 %	$52,019	$279.45	$12,904	57.6 %	$60,299	$295.01	$13,905	58.1 %	$64,977	$306.93	$14,569	58.3 %	$68,079	$316.13	$15,006	58.3 %	$70,121	$325.62
Food	5,385	27.1	25,163	135.17	5,939	26.5	27,751	135.77	6,279	26.3	29,339	138.59	6,550	26.2	30,609	142.13	6,747	26.2	31,527	146.40
Beverage	1,510	7.6	7,057	37.91	1,636	7.3	7,644	37.40	1,718	7.2	8,027	37.92	1,786	7.1	8,348	38.76	1,840	7.1	8,598	39.93
Other Operated Departments	941	4.7	4,397	23.62	995	4.4	4,649	22.75	1,035	4.3	4,838	22.85	1,072	4.3	5,009	23.26	1,104	4.3	5,159	23.96
Garage/Parking	254	1.3	1,187	6.38	274	1.2	1,278	6.25	287	1.2	1,339	6.33	298	1.2	1,391	6.46	307	1.2	1,433	6.65
Rentals & Other Income	627	3.2	2,931	15.75	663	3.0	3,099	15.16	690	2.9	3,225	15.24	715	2.9	3,339	15.51	736	2.9	3,439	15.97
Total Revenues	19,849	100.0	92,754	498.27	22,410	100.0	104,721	512.33	23,914	100.0	111,746	527.85	24,990	100.0	116,775	542.26	25,740	100.0	120,278	558.52
DEPARTMENTAL EXPENSES *																				
Rooms	3,279	29.5	15,320	82.30	3,498	27.1	16,346	79.97	3,653	26.3	17,069	80.63	3,788	26.0	17,701	82.20	3,902	26.0	18,232	84.66
Food & Beverage	5,255	76.2	24,557	131.92	5,566	73.5	26,009	127.25	5,796	72.5	27,084	127.94	6,002	72.0	28,049	130.25	6,183	72.0	28,890	134.15
Other Operated Departments	775	82.4	3,622	19.46	805	80.9	3,760	18.39	831	80.3	3,884	18.35	857	80.0	4,007	18.61	883	80.0	4,127	19.16
Garage/Parking	174	68.3	811	4.36	181	66.2	846	4.14	187	65.4	876	4.14	194	65.0	904	4.20	199	65.0	931	4.33
Total	9,482	47.8	44,310	238.03	10,050	44.8	46,960	229.75	10,467	43.8	48,913	231.05	10,841	43.4	50,661	235.25	11,167	43.4	52,181	242.31
DEPARTMENTAL INCOME	10,367	52.2	48,444	260.24	12,361	55.2	57,760	282.59	13,446	56.2	62,833	296.80	14,148	56.6	66,114	307.01	14,573	56.6	68,097	316.22
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,762	8.9	8,233	44.23	1,854	8.3	8,663	42.38	1,926	8.1	9,000	42.51	1,991	8.0	9,303	43.20	2,051	8.0	9,582	44.50
Marketing	1,223	6.2	5,717	30.71	1,287	5.7	6,016	29.43	1,337	5.6	6,250	29.52	1,383	5.5	6,461	30.00	1,424	5.5	6,654	30.90
Franchise Fee	1,209	6.1	5,648	30.34	1,389	6.2	6,489	31.75	1,491	6.2	6,969	32.92	1,561	6.2	7,296	33.88	1,608	6.2	7,515	34.90
Prop. Operations & Maint.	881	4.4	4,116	22.11	927	4.1	4,331	21.19	963	4.0	4,500	21.26	995	4.0	4,652	21.60	1,025	4.0	4,791	22.25
Utilities	783	3.9	3,659	19.66	824	3.7	3,850	18.84	856	3.6	4,000	18.89	885	3.5	4,135	19.20	911	3.5	4,259	19.78
Total	5,858	29.5	27,374	147.05	6,281	28.0	29,349	143.58	6,574	27.5	30,719	145.11	6,815	27.2	31,846	147.88	7,020	27.2	32,802	152.32
HOUSE PROFIT	4,509	22.7	21,070	113.19	6,080	27.2	28,412	139.00	6,872	28.7	32,114	151.70	7,333	29.4	34,268	159.13	7,553	29.4	35,296	163.90
Management Fee	595	3.0	2,783	14.95	672	3.0	3,142	15.37	717	3.0	3,352	15.84	750	3.0	3,503	16.27	772	3.0	3,608	16.76
INCOME BEFORE FIXED CHARGES	3,913	19.7	18,287	98.24	5,408	24.2	25,270	123.63	6,155	25.7	28,762	135.86	6,584	26.4	30,765	142.86	6,781	26.4	31,687	147.14
FIXED EXPENSES																				
Property Taxes	592	3.0	2,767	14.86	601	2.7	2,808	13.74	613	2.6	2,865	13.53	631	2.5	2,950	13.70	650	2.5	3,039	14.11
Insurance	164	0.8	769	4.13	169	0.8	792	3.87	175	0.7	815	3.85	180	0.7	840	3.90	185	0.7	865	4.02
Reserve for Replacement	397	2.0	1,855	9.97	672	3.0	3,142	15.37	957	4.0	4,470	21.11	1,000	4.0	4,671	21.69	1,030	4.0	4,811	22.34
Total	1,154	5.8	5,391	28.96	1,443	6.5	6,742	32.98	1,744	7.3	8,150	38.50	1,811	7.2	8,461	39.29	1,865	7.2	8,715	40.47
NET INCOME	$2,760	13.9 %	$12,897	$69.28	$3,965	17.7 %	$18,528	$90.65	$4,411	18.4 %	$20,612	$97.36	$4,773	19.2 %	$22,303	$103.57	$4,916	19.2 %	$22,972	$106.67

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

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

	2018		2019		2020		2021		2022		2023		2024		2025		2026		2027	
Number of Rooms:	**214**		**214**		**214**		**214**		**214**		**214**		**214**		**214**		**214**		**214**	
Occupied Rooms:	**39,836**		**43,742**		**45,304**		**46,085**		**46,085**		**46,085**		**46,085**		**46,085**		**46,085**		**46,085**	
Occupancy:	**51%**		**56%**		**58%**		**59%**		**59%**		**59%**		**59%**		**59%**		**59%**		**59%**	
Average Rate:	**$279.46**	**% of**	**$295.01**	**% of**	**$306.93**	**% of**	**$316.14**	**% of**	**$325.62**	**% of**	**$335.39**	**% of**	**$345.45**	**% of**	**$355.82**	**% of**	**$366.49**	**% of**	**$377.49**	**% of**
RevPAR:	**$142.52**	**Gross**	**$165.21**	**Gross**	**$178.02**	**Gross**	**$186.52**	**Gross**	**$192.12**	**Gross**	**$197.88**	**Gross**	**$203.82**	**Gross**	**$209.93**	**Gross**	**$216.23**	**Gross**	**$222.72**	**Gross**
REVENUE																				
Rooms	$11,132	56.1 %	$12,904	57.6 %	$13,905	58.1 %	$14,569	58.3 %	$15,006	58.3 %	$15,457	58.3 %	$15,920	58.3 %	$16,398	58.3 %	$16,890	58.3 %	$17,396	58.3 %
Food	5,385	27.1	5,939	26.5	6,279	26.3	6,550	26.2	6,747	26.2	6,949	26.2	7,158	26.2	7,372	26.2	7,594	26.2	7,821	26.2
Beverage	1,510	7.6	1,636	7.3	1,718	7.2	1,786	7.1	1,840	7.1	1,895	7.1	1,952	7.1	2,011	7.1	2,071	7.1	2,133	7.1
Other Operated Departments	941	4.7	995	4.4	1,035	4.3	1,072	4.3	1,104	4.3	1,137	4.3	1,171	4.3	1,206	4.3	1,243	4.3	1,280	4.3
Garage/Parking	254	1.3	274	1.2	287	1.2	298	1.2	307	1.2	316	1.2	325	1.2	335	1.2	345	1.2	356	1.2
Rentals & Other Income	627	3.2	663	3.0	690	2.9	715	2.9	736	2.9	758	2.9	781	2.9	804	2.9	828	2.9	853	2.9
Total	19,849	100.0	22,410	100.0	23,914	100.0	24,990	100.0	25,740	100.0	26,513	100.0	27,307	100.0	28,127	100.0	28,971	100.0	29,839	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	3,279	29.5	3,498	27.1	3,653	26.3	3,788	26.0	3,902	26.0	4,019	26.0	4,139	26.0	4,263	26.0	4,391	26.0	4,523	26.0
Food & Beverage	5,255	76.2	5,566	73.5	5,796	72.5	6,002	72.0	6,183	72.0	6,368	72.0	6,559	72.0	6,756	72.0	6,958	72.0	7,167	72.0
Other Operated Departments	775	82.4	805	80.9	831	80.3	857	80.0	883	80.0	910	80.0	937	80.0	965	80.0	994	80.0	1,024	80.0
Garage/Parking	174	68.3	181	66.2	187	65.4	194	65.0	199	65.0	205	65.0	211	65.0	218	65.0	224	65.0	231	65.0
Total	9,482	47.8	10,050	44.8	10,467	43.8	10,841	43.4	11,167	43.4	11,502	43.4	11,847	43.4	12,202	43.4	12,568	43.4	12,945	43.4
DEPARTMENTAL INCOME	10,367	52.2	12,361	55.2	13,446	56.2	14,148	56.6	14,573	56.6	15,011	56.6	15,460	56.6	15,925	56.6	16,402	56.6	16,894	56.6
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,762	8.9	1,854	8.3	1,926	8.1	1,991	8.0	2,051	8.0	2,112	8.0	2,176	8.0	2,241	8.0	2,308	8.0	2,377	8.0
Marketing	1,223	6.2	1,287	5.7	1,337	5.6	1,383	5.5	1,424	5.5	1,467	5.5	1,511	5.5	1,556	5.5	1,603	5.5	1,651	5.5
Franchise Fee	1,209	6.1	1,389	6.2	1,491	6.2	1,561	6.2	1,608	6.2	1,656	6.2	1,706	6.2	1,757	6.2	1,810	6.2	1,864	6.2
Prop. Operations & Maint.	881	4.4	927	4.1	963	4.0	995	4.0	1,025	4.0	1,056	4.0	1,088	4.0	1,120	4.0	1,154	4.0	1,189	4.0
Utilities	783	3.9	824	3.7	856	3.6	885	3.5	911	3.5	939	3.5	967	3.5	996	3.5	1,026	3.5	1,057	3.5
Total	5,858	29.5	6,281	28.0	6,574	27.5	6,815	27.2	7,020	27.2	7,230	27.2	7,447	27.2	7,671	27.2	7,901	27.2	8,138	27.2
HOUSE PROFIT	4,509	22.7	6,080	27.2	6,872	28.7	7,333	29.4	7,553	29.4	7,781	29.4	8,013	29.4	8,254	29.4	8,502	29.4	8,756	29.4
Management Fee	595	3.0	672	3.0	717	3.0	750	3.0	772	3.0	795	3.0	819	3.0	844	3.0	869	3.0	895	3.0
INCOME BEFORE FIXED CHARGES	3,913	19.7	5,408	24.2	6,155	25.7	6,584	26.4	6,781	26.4	6,985	26.4	7,194	26.4	7,410	26.4	7,633	26.4	7,861	26.4
FIXED EXPENSES																				
Property Taxes	592	3.0	601	2.7	613	2.6	631	2.5	650	2.5	670	2.5	690	2.5	711	2.5	732	2.5	754	2.5
Insurance	164	0.8	169	0.8	175	0.7	180	0.7	185	0.7	191	0.7	196	0.7	202	0.7	208	0.7	215	0.7
Reserve for Replacement	397	2.0	672	3.0	957	4.0	1,000	4.0	1,030	4.0	1,061	4.0	1,092	4.0	1,125	4.0	1,159	4.0	1,194	4.0
Total	1,154	5.8	1,443	6.5	1,744	7.3	1,811	7.2	1,865	7.2	1,921	7.2	1,979	7.2	2,038	7.2	2,099	7.2	2,162	7.2
NET INCOME	$2,760	13.9 %	$3,965	17.7 %	$4,411	18.4 %	$4,773	19.2 %	$4,916	19.2 %	$5,064	19.2 %	$5,216	19.2 %	$5,372	19.2 %	$5,533	19.2 %	$5,699	19.2 %

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

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

Feasibility Conclusion

The Feasibility Analysis chapter of this report converts these cash flows into a net present value indication assuming set-forth debt and equity requirements. The conclusion indicates that an equity investor contributing $25,593,000 (roughly 35% of a $73,100,000 development cost/value findings) would expect to receive a 7.3% internal rate of return over a ten-year holding period.

Based on these parameters, the proposed subject property is not feasible. Based on the current projection of net income, utilizing standard financing and investing parameters for this type of asset, a gap of about $28,000,000 exists. In order for the hotel to eliminate the gap that currently exists, the property would need to perform with a stabilized RevPAR between $250 to $255 in 2021. This RevPAR would be the equivalent of a hotel operating at 61% occupancy with an average rate around $320 in 2012 dollars. This could provide acceptable return parameters for development of the hotel and its parking garage. To provide acceptable returns for the hotel and both parking structures (an additional $15 million in cost) a stabilized RevPAR would need to be in the $265 to $270 range. This higher stabilized RevPAR is the equivalent of a hotel operating at 61% occupancy with an average daily rate around $340 in today's dollars. Additionally, the property is expected to operate on a 99-year ground lease with the Town. We have not forecasted any ground lease payments at this time, due to the economic challenges of the project. This ground lease structure could be adjusted if and when the project becomes feasible.

The factors that attribute to the subject property not being feasible are:

1) High construction costs – mountain resort premium

2) Low operation margins due to the seasonality of the subject property

3) Occupancy barriers due to the seasonality of the market

4) Cost burden to provide underground parking for hotel

Since the project, in its current format, would be unfeasible as a private development, several options are available to help make it more attractive for private development including:

1) Potentially converting the upper floor units to condominiums

2) Postpone development until the economy further recovers

3) Provide developer subsides

4) Pursue a public/private option

We have spoken to representatives of various mountain communities on how they are attracting hotel development. While none of the towns has active projects they are reviewing options to enhance lodging development. If the Town of Breckenridge were to entertain a public private partnership or developer subsides the following, which were derived from other towns examples, could be explored to improve the feasibility of the project:

1) Lodging Tax rebates

2) Real Property Tax rebates

3) Parking structure bond where the revenue from a portion of the lodging tax pays back the bond's principle and interest. Once paid off the lodging tax reverts to the Town.

4) Creation of a metro district and bond with a special tax assessment at the property level

5) Tax Increment Financing (TIF)/ Infrastructure bonding vehicle

6) Favorable ground lease rate and terms

7) Publicly financed and constructed parking facilities – Hotel and Day-skier Riverwalk Center parking structures

Assignment Conditions

"Extraordinary Assumption" is defined in USPAP as follows:

> An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conclusions external to the property, such as market conditions or trends; or about the integrity of the data used in an analysis.[1]

[1] Appraisal Institute, Uniform Standards of Professional Appraisal Practice, 2012 – 2013 ed.

The analysis is based on the extraordinary assumption that the described improvements have been completed as of the stated date of opening. The reader should understand that the completed subject property does not yet, in fact, exist as of the date of this report. Our feasibility study 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, will take place between the date of inspection and stated date of opening. We have made no other extraordinary assumptions specific to this feasibility study. However, several important general assumptions have been made that apply to this feasibility study and our studies of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report.

"Hypothetical Condition" is defined in USPAP as follows:

> That which is contrary to what exists but is supposed for the purpose of analysis. Comment: Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.[2]

We have made no assumptions of hypothetical conditions in our report.

We have not made any jurisdictional exceptions to the Uniform Standards of Professional Appraisal Practice in our analysis or report.

Intended Use of the Feasibility Study

This feasibility report is being prepared for use in the development of the proposed subject property.

Identification of the Client and Intended User(s)

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

Scope of Work

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels,*[3] *Hotels, Motels and*

[2] Appraisal Institute, Uniform Standards of Professional Appraisal Practice, 2012 – 2013 ed.

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

Restaurants: Valuations and Market Studies,[4] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[5] *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations,*[6] and *Hotels and Motels – Valuations and Market Studies.*[7]

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

---

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

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

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

[7] 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. A feasibility analysis is performed that compares the net present value of the forecast cash flows to the development cost of the hotel.

2. Description of the Site and Neighborhood

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

The subject site is located in Downtown Breckenridge, situated southeast of the intersection formed by South Park Avenue/State Highway 9 and Four O'clock Road. This site is in the town of Breckenridge, Colorado.

Physical Characteristics

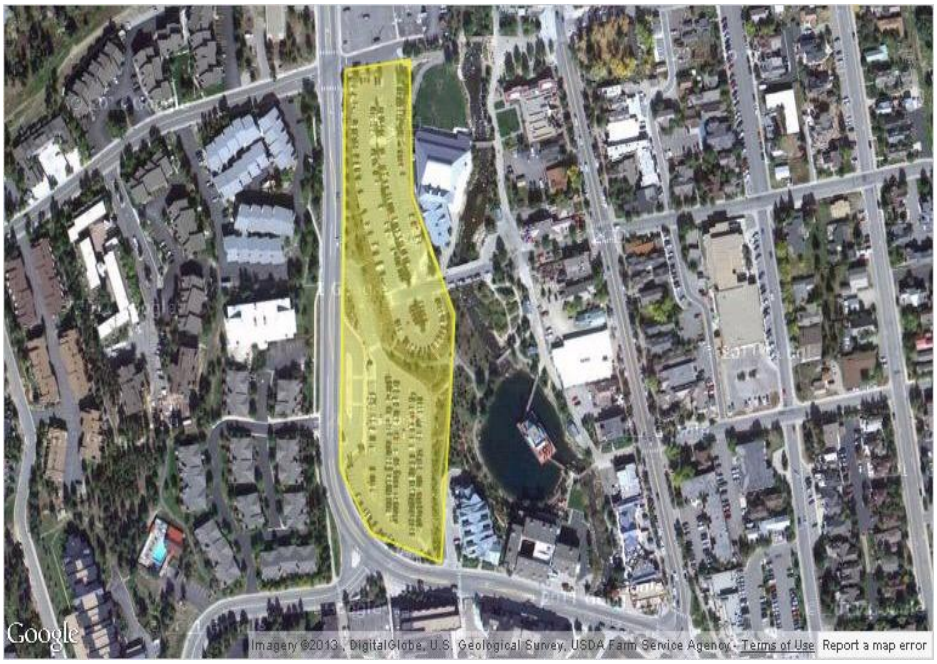
The subject site measures approximately 7.25 acres, or 315,810 square feet. The parcel's adjacent uses are set forth in the following table.

FIGURE 2-1 SUBJECT PARCEL'S ADJACENT USES

Direction	Adjacent Use
North	Retail Center
South	South Park Avenue/State Highway 9
East	Blue River Bikeway
West	South Park Avenue/State Highway 9

VIEW OF SUBJECT SITE

AERIAL PHOTOGRAPH



VIEW FROM SITE TO THE NORTH

VIEW FROM SITE TO THE SOUTH

VIEW FROM SITE TO THE EAST

VIEW FROM SITE TO THE WEST

Primary vehicular access to the proposed subject property will be provided by South Park Avenue/State Highway 9. Secondary access is available via an easement with the Town along the Park Avenue Loft property. The proposed subject property will also be accessible from three pedestrian bridges that extend across the Blue River to Main Street. The topography of the parcel is sloping but has been graded into to generally flat, tiered parcels, which have irregular shapes.

Site Utility

Upon completion of construction, the subject site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. The site is expected to be fully developed with site or building improvements, which will contribute to the overall profitability of the hotel.

Access and Visibility

It is important to analyze the site in regard to ease of access with respect to regional and local transportation routes and demand generators. The subject site is readily accessible to a variety of local and county roads, as well as state and interstate highways. Please refer to the designer's plan in the addendum for pedestrian access and linkages.

MAP OF REGIONAL ACCESS ROUTES

Primary regional access through the area is provided by east/west Interstate 70, which extends to such cities as Denver to the east and Vail to the west. North/south State Highway 9 is another major highway, which provides access to such cities as Fairplay to the south and Frisco to the north. The subject market is served by a variety of additional local highways, which are illustrated on the map.

From Interstate 70, motorists take the State Highway 9 South/Frisco/Breckenridge Exit and proceed south on this thoroughfare for approximately eight miles to South Park Avenue in Breckenridge. Motorists merge to the right onto Park Avenue/State Highway 9 and travel west and then south for approximately one mile to the subject site, which is located on the motorists' left-hand side. The proposed subject property is located along South Park Avenue/State Highway 9, a major thoroughfare through the town; thus, the site benefits from very good visibility from within its local neighborhood and from South Park Avenue/State Highway 9. Overall, the proposed subject property benefits from very good accessibility and visibility attributes.

Airport Access

The proposed subject property will be served by the Denver International Airport, which is located approximately 75 miles to the northeast of the subject site. From the airport, motorists will follow signs to Peña Boulevard and travel west and then south on this thoroughfare to Interstate 70. Motorists will then proceed westbound on Interstate 70, continuing to the subject site as previously noted. The proposed subject property will also be served by Eagle County Regional Airport, which is located approximately 50 miles to the west of the subject site.

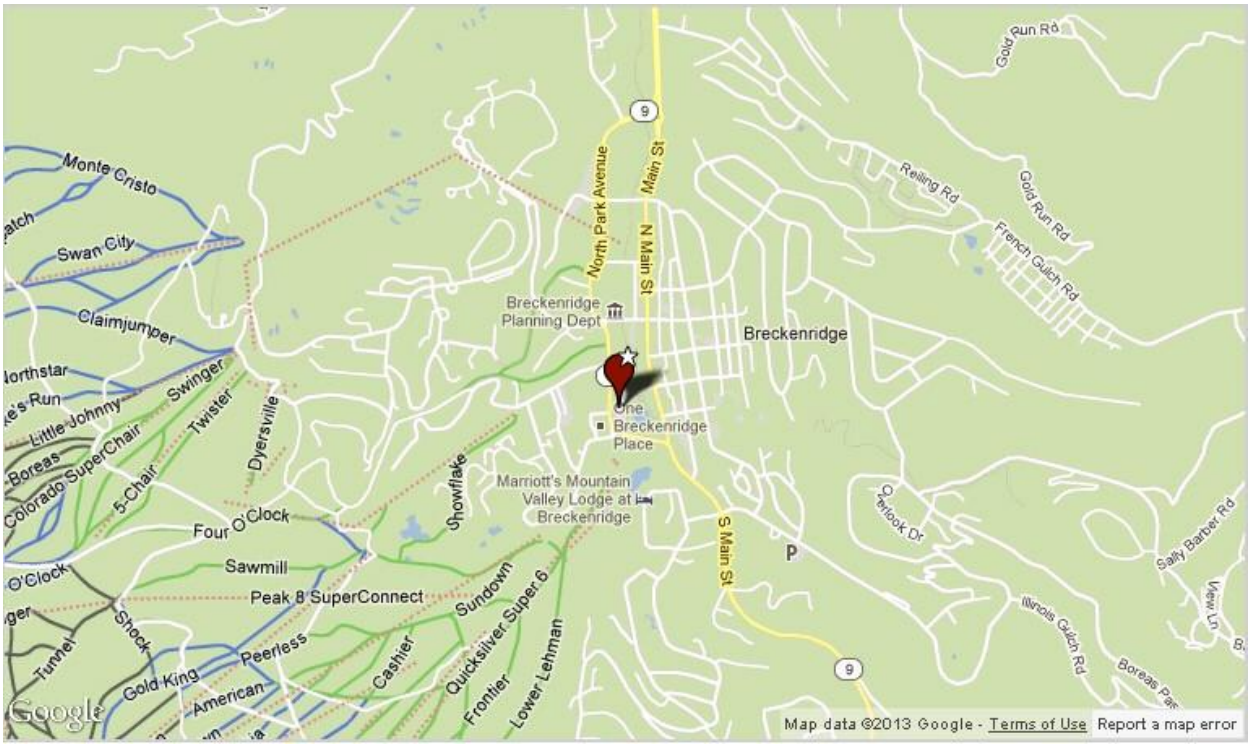
Neighborhood

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

The proposed subject property's neighborhood is generally defined by Park Avenue/State Highway 9 to the north and west, Boreas Pass Road to the south, and High Street to the east. In general, this neighborhood is in the stable stage of its life cycle. Within the immediate proximity of the site, land use is primarily commercial in nature. The neighborhood is characterized by restaurants 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 Riverwalk Center, Village at Breckenridge, Kenosha Steakhouse, Breckenridge Brewery, Bubba Gump Shrimp Company, as well as many other retail shops and restaurants along Main Street. In general, we would characterize the neighborhood as 45% retail/restaurant use, 35% residential use, 10% hotel use, 5% vacant, and 5% other. The proposed subject property's opening should be a positive influence on the area; the hotel is expected to be in character with and will complement surrounding land uses.

MAP OF NEIGHBORHOOD



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

Utilities

The subject site will reportedly be served by all necessary utilities. There is a main sewer line running along the subject property's east property line that will need to be relocated. An existing storm drain is stubbed into to subject property's corner at South Park Avenue and 4 O'clock Road.

Soil and Subsoil Conditions

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

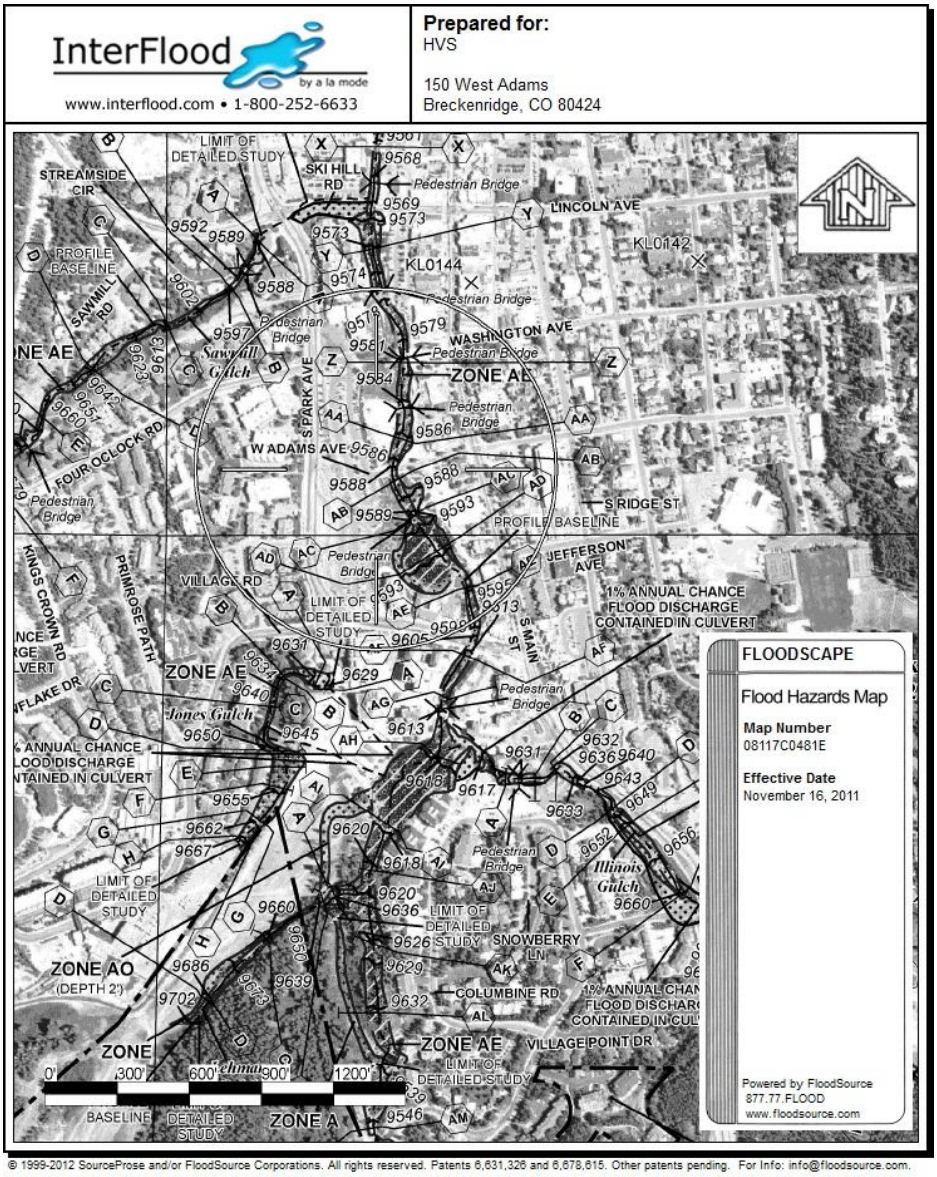
Nuisances and Hazards

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

Flood Zone

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

COPY OF FLOOD MAP AND COVER



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

Zoning

According to the local planning office, the subject property is zoned as follows: District 23. This zoning designation allows for most commercial uses, including restaurants, retail centers, lodges, and hotels and motels. We assume that all necessary permits and approvals will be secured (including the appropriate liquor license if applicable) and that the subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

Easements and Encroachments

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

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. The subject site is favorably located in Downtown Breckenridge, adjacent to the Riverwalk Center. In general, the site should be well suited for future hotel use, with acceptable access, visibility, and topography for an effective operation.

3. Market Area Analysis

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

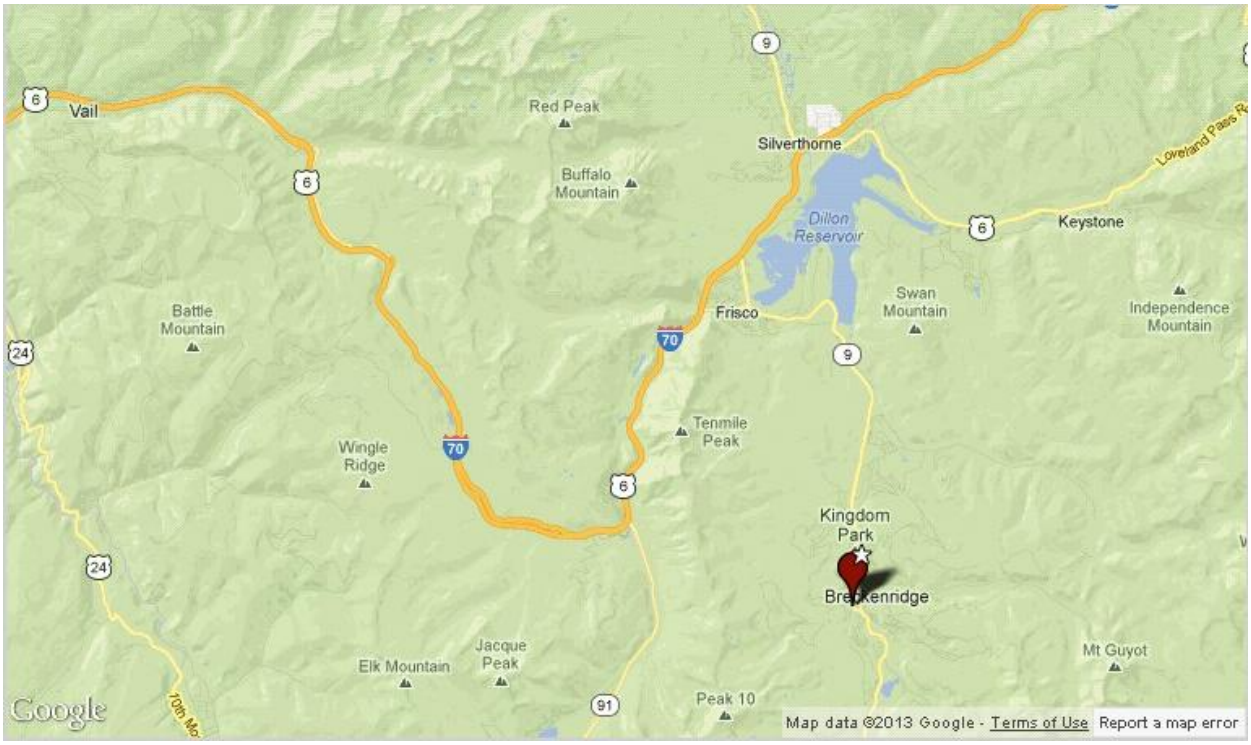
Market Area Definition

The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the town of Breckenridge, the county of Summit, and the state of Colorado. The town of Breckenridge was founded in 1859 as a settlement for miners after gold was discovered along the Blue River. In 1961, the Breckenridge Ski Area opened and recorded 17,000 visitors during the first ski season. Today, Breckenridge Ski Resort is one of the most popular ski resorts in the world and welcomes over one million visitors each year. Owing to the boom of the skiing industry, Breckenridge has transformed into a small community defined by local business and tourism. During the winter months, nearly three million people travel to the surrounding Summit County area to visit one of the four ski resorts – Breckenridge, Keystone, Copper Mountain, and Arapahoe Basin. The area is also popular in the summer for recreational activities such as hiking, mountain biking, rafting, boating, fishing, and golf.

BRECKENRIDGE

The following exhibit illustrates the market area.

MAP OF MARKET AREA



Economic and Demographic Review

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

These data are summarized in the following table.

FIGURE 3-1 ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

	2000	2010	2012	2020	Average Annual Compounded Change 2000-10	2010-12	2012-20
Resident Population (Thousands)							
Summit County	23.7	28.1	29.4	35.0	1.7 %	2.4 %	2.2 %
State of Colorado	4,326.9	5,049.1	5,207.3	5,865.0	1.6	1.6	1.5
United States	282,162.4	309,349.7	315,387.6	341,069.5	0.9	1.0	1.0
Per-Capita Personal Income*							
Summit County	$40,119	$37,463	$36,418	$38,855	(0.7)	(1.4)	0.8
State of Colorado	37,856	38,933	39,795	44,010	0.3	1.1	1.3
United States	33,771	36,700	37,571	41,366	0.8	1.2	1.2
W&P Wealth Index							
Summit County	153.3	127.1	122.3	119.4	(1.9)	(1.9)	(0.3)
State of Colorado	115.2	108.8	108.5	108.9	(0.6)	(0.2)	0.1
United States	100.0	100.0	100.0	100.0	0.0	0.0	0.0
Food and Beverage Sales (Millions)*							
Summit County	$115	$141	$154	$203	2.1	4.4	3.5
State of Colorado	6,475	8,378	8,943	10,929	2.6	3.3	2.5
United States	341,525	406,373	427,462	498,869	1.8	2.6	1.9
Total Retail Sales (Millions)*							
Summit County	$662	$726	$806	$1,041	0.9	5.4	3.3
State of Colorado	61,874	68,988	75,178	91,512	1.1	4.4	2.5
United States	3,613,909	3,818,137	4,113,614	4,810,490	0.6	3.8	2.0

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

The U.S. population has grown at an average annual compounded rate of 1.0% from 2010 through 2012. The county's population has grown at a quicker pace than the nation's population; the average annual growth rate of 2.4% between 2010 and 2012 reflects a rapidly expanding area. Following this population trend, per-capita personal income decreased slowly, at -1.4% on average annually for the county between 2010 and 2012. Local wealth indexes have remained stable in recent years, registering a relatively high 122.3 level for the county in 2012.

Food and beverage sales totaled $154 million in the county in 2012, versus $141 million in 2010. This reflects a 4.4% average annual change, which is stronger than the 2.1% pace recorded in the prior decade, the latter years of which were adversely affected by the recession. The strong growth recorded in the period 2010 to 2012 reflects the impact of the recovery on the local economy. Over the long term, the pace of growth is forecast to moderate to a more sustainable level of 3.5%, which is forecast through 2020. The retail sales sector demonstrated a similar pattern, with a minimal annual increase of 0.9% in the decade 2000 to 2010, followed by an increase of 5.4% in the period 2010 to 2012. A more normalized increase of 3.3% 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 2012, as well as a forecast for 2020.

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

Industry	2000	Percent of Total	2010	Percent of Total	2012	Percent of Total	2020	Percent of Total	Average Annual Compounded Change 2000-2010	2010-2012	2012-2020
Farm	0.0	0.2 %	0.1	0.2 %	0.1	0.2 %	0.1	0.2 %	0.8 %	0.0 %	0.5 %
Forestry, Fishing, Related Activities And Other	0.0	0.2	0.1	0.2	0.1	0.2	0.1	0.2	2.4	(1.9)	(0.2)
Mining	0.1	0.3	0.3	1.1	0.3	1.2	0.5	1.6	11.9	4.0	6.5
Utilities	0.1	0.3	0.1	0.3	0.1	0.4	0.1	0.3	2.1	4.3	(1.2)
Construction	3.0	11.7	1.9	7.7	1.8	7.3	2.2	7.5	(4.6)	(2.1)	2.4
Manufacturing	0.2	0.8	0.1	0.5	0.1	0.5	0.1	0.5	(5.0)	0.8	1.7
Total Trade	3.6	13.9	3.0	12.3	3.0	12.1	3.7	12.8	(1.7)	(0.5)	2.8
Wholesale Trade	0.3	1.1	0.2	0.7	0.2	0.7	0.2	0.7	(4.4)	0.6	2.8
Retail Trade	3.3	12.9	2.8	11.6	2.8	11.4	3.5	12.0	(1.5)	(0.5)	2.8
Transportation And Warehousing	0.4	1.5	0.3	1.4	0.3	1.4	0.4	1.4	(1.4)	1.5	2.6
Information	0.3	1.3	0.2	0.8	0.2	0.8	0.2	0.8	(4.9)	(1.7)	2.6
Finance And Insurance	0.7	2.6	0.9	3.6	0.9	3.7	1.0	3.5	2.9	2.5	1.4
Real Estate And Rental And Lease	2.9	11.4	2.8	11.4	3.0	12.1	3.5	11.9	(0.5)	4.0	1.9
Total Services	12.4	48.2	12.4	51.0	12.6	50.9	14.8	50.6	0.1	0.5	2.1
Professional And Technical Services	1.2	4.7	1.4	5.6	1.4	5.6	1.6	5.6	1.2	0.3	2.2
Management Of Companies And Enterprises	0.0	0.2	0.1	0.5	0.1	0.6	0.2	0.6	10.1	10.7	2.6
Administrative And Waste Services	1.2	4.6	1.2	4.8	1.2	4.7	1.4	4.6	(0.1)	(0.8)	2.1
Educational Services	0.1	0.4	0.3	1.0	0.3	1.1	0.4	1.3	9.6	4.0	4.1
Health Care And Social Assistance	0.6	2.5	0.9	3.7	0.9	3.5	1.0	3.5	3.5	(1.7)	1.9
Arts, Entertainment, And Recreation	1.3	5.1	1.5	6.2	1.5	6.1	1.6	5.6	1.5	(0.4)	1.1
Accommodation And Food Services	7.0	27.2	6.1	25.2	6.3	25.4	7.4	25.3	(1.3)	1.0	2.1
Other Services, Except Public Administration	0.9	3.5	1.0	4.0	1.0	4.0	1.2	4.1	0.9	(0.2)	2.5
Total Government	1.9	7.6	2.3	9.4	2.3	9.2	2.5	8.7	1.7	(0.7)	1.4
Federal Civilian Government	0.1	0.4	0.1	0.3	0.1	0.3	0.1	0.2	(3.8)	(0.0)	1.1
Federal Military	0.1	0.3	0.1	0.3	0.1	0.3	0.1	0.2	0.1	(0.7)	0.2
State And Local Government	1.8	6.9	2.2	8.9	2.1	8.7	2.4	8.2	2.0	(0.7)	1.4
TOTAL	25.6	100.0 %	24.4	100.0 %	24.7	100.0 %	29.2	100.0 %	(0.5) %	0.6 %	2.1 %
U.S.	165,370.9	—	172,936.0	—	175,736.3	—	195,598.1	—	0.5	0.8	1.3

Source: Woods & Poole Economics, Inc.

Woods & Poole Economics, Inc. reports that during the period from 2000 to 2010, total employment in the county contracted at an average annual rate of -0.5%. This trend lagged the national average. More recently, the pace of total employment growth in the county accelerated to 0.6% on an annual average from 2010 to 2012, reflecting the initial years of the recovery.

Of the primary employment sectors, Real Estate And Rental And Lease recorded the highest increase in number of employees during the period from 2010 to 2012, increasing by 224 people, or 8.1%, and rising from 11.4% to 12.1% of total employment. Of the various service sub-sectors, Accommodation And Food Services and Arts, Entertainment, And Recreation were the largest employers. Strong growth was also recorded in the Total Services sector, as well as the Finance And Insurance sector, which expanded by 5.0% and 5.0%, respectively, in the period 2010 to 2012. Forecasts developed by Woods & Poole Economics, Inc. anticipate that total employment in the county will change by 2.1% on average annually through 2020. The trend is above the forecast rate of change for the U.S. as a whole during the same period.

Radial Demographic Snapshot

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

FIGURE 3-3 DEMOGRAPHICS BY RADIUS

	0.00 - 1.00 miles	0.00 - 3.00 miles	0.00 - 5.00 miles
Population			
2017 Projection	3,805	7,804	10,044
2012 Estimate	3,569	7,217	9,262
2000 Census	2,878	5,469	6,936
1990 Census	1,691	3,039	3,804
Growth 2012-2017	6.6%	8.1%	8.4%
Growth 2000-2012	24.0%	32.0%	33.5%
Growth 1990-2000	70.2%	80.0%	82.3%
Households			
2017 Projection	1,635	3,280	4,205
2012 Estimate	1,532	3,048	3,900
2000 Census	1,199	2,223	2,795
1990 Census	715	1,259	1,555
Growth 2012-2017	6.7%	7.6%	7.8%
Growth 2000-2012	27.8%	37.1%	39.5%
Growth 1990-2000	67.7%	76.6%	79.7%
Income			
2012 Est. Average Household Income	$81,038	$82,721	$84,206
2012 Est. Median Household Income	57,536	59,325	61,216
2012 Est. Per Capita Income	40,772	38,046	37,880
2012 Est. Civ Employed Pop 16+ by Occupation	2,587	5,177	6,678
Architect/Engineer	54	130	168
Arts/Entertain/Sports	60	122	162
Building Grounds Maint	50	98	130
Business/Financial Ops	98	198	245
Community/Soc Svcs	44	71	81
Computer/Mathematical	35	54	61
Construction/Extraction	316	596	774
Edu/Training/Library	267	551	690
Farm/Fish/Forestry	24	38	43
Food Prep/Serving	259	481	592
Health Practitioner/Tec	68	153	205
Healthcare Support	25	50	64
Maintenance Repair	70	138	216
Legal	20	44	63
Life/Phys/Soc Science	31	65	96
Management	305	594	766
Office/Admin Support	255	521	659
Production	65	144	199
Protective Svcs	71	173	213
Sales/Related	315	613	775
Personal Care/Svc	98	226	327
Transportation/Moving	56	117	148

Source: The Nielsen Company

This source reports a population of 9,262 within a five-mile radius of the subject property, and 3,900 households within this same radius. Average household income within a five-mile radius of the subject property is currently reported at $84,206, while the median is $61,216.

Unemployment Statistics

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

FIGURE 3-4 UNEMPLOYMENT STATISTICS

Year	County	State	U.S.
2003	4.9 %	6.1 %	5.8 %
2004	4.3	5.6	6.0
2005	3.9	5.1	5.5
2006	3.1	4.3	5.1
2007	2.8	3.8	4.6
2008	3.7	4.8(G)	4.6
2009	6.8	8.1(G)	5.8
2010	7.9	9.0(D)	9.3
2011	7.5	8.6(D)	9.6
2012	7.3(P)	8.0(P)	8.9
Recent Month - January			
2012	5.9 %	8.8 %	8.3 %
2013	5.3	7.6	7.9

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.
**Year-end 2012 data were not available at the time of this report.

Source: U.S. Bureau of Labor Statistics

The unemployment rate for the U.S. fluctuated within the narrow range of 4.6% to 6.0% in the period spanning from 2002 to 2007. The recession and financial crisis in 2007 and 2008 resulted in heightened unemployment rates from 2008 through 2010. Job growth resumed in 2010, generating a decline in the unemployment rate from 2011 through early 2013. In February of 2013, the national unemployment rate declined to 7.7%, the lowest level recorded since December of 2008, a positive trend that reflects steady progress by the U.S. economy.

Locally, the unemployment rate was 7.3(P)% in 2012; for this same area in 2013, the most recent month's unemployment rate was registered at 5.3%, versus 5.9% for the same month in 2012. After four consecutive years of declining unemployment levels, unemployment increased in 2008 as companies cut jobs in

response to the national economic recession. This trend continued in 2009 and 2010; however, 2011 and 2012 illustrate modest improvements, concurrent with the slow economic recovery noted at leisure destinations throughout the country. The most recent comparative period reflects a slight improvement in the unemployment rate. As the ski resorts represent the major employers in the area, employment patterns in the market are highly seasonal, with the lowest unemployment rates occurring in the winter months.

Major Business and Industry

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

- Breckenridge Ski Resort offers a more than 3,400-foot vertical drop and 2,358 acres of ski/ride terrain with 31 lifts. It is one of the most popular ski resorts in the world, with well over one million visitors each year. In 2010, Vail Resorts Development Company completed Breckenridge's newest master-planned development, known as The Breckenridge Peaks. The master plan comprised the development of Peaks 7 and 8, including the 46-residence Crystal Peak Lodge and the 88-residence luxury One Ski Hill Place. The base of Peak 8 offers a ski-in/ski-out experience; features include an aquatics center, a conference center, a private owner's lounge, a fitness facility, a two-lane bowling alley, and the BreckConnect Gondola for access to the town of Breckenridge. In 2012, Vail Resorts' application for developing the 543-acre Peak 6 area of Breckenridge Ski Resort was approved by the U.S. Forest Service. Once complete, Peak 6 will include 400 acres of lift-served terrain and 143 acres of hike-to terrain. The new ski area is expected to be open for the 2013/14 ski season, including adding a new high-speed, six-person chairlift and a new fixed-grip chairlift to access the Peak 6 area. The additional terrain will result in a 23% increase in resort's skiable acres.

- Aside from Breckenridge, ski areas in the region include Keystone, Copper Mountain, and Arapahoe Basin. Keystone Resort encompasses four different mountains and includes 3,148 skiable acres, 20 lifts, two gondolas, and two villages. The Keystone village area includes a variety of boutiques, ski gear stores, restaurants, a Nordic center, and the country's largest outdoor ice skating rink. Keystone also offers the largest night-skiing operation in Colorado, providing an 11.5-hour ski day and a seven-month season. The Keystone Conference Center offers 100,000 square feet of meeting space, and Keystone Resort Golf has been rated among the "Best Golf Resorts in America" by Golf Magazine and Golf Digest. Copper Mountain Resort comprises 2,465 acres of skiable terrain with a total of 22 lifts. Copper Mountain contains three villages with lodging options providing ski-in/ski-out accommodations, as well as a variety of restaurants, bars, shops, spa facilities, a racquet and athletic club, a kids-only base lodge, a tubing hill, a 22-foot Superpipe, and the Copper

Creek Golf Course. Arapahoe Basin, the smallest of the four ski resorts, is located ten miles south of Keystone and comprises 900 skiable acres and seven lifts.

Recessionary influences impacted the skiing industry in Colorado, similar to trends throughout the nation. However, Colorado ski resort areas worked hard to develop creative means to boost skier visitation with added-value packages; at the same time, resorts also sought to attract tourists during the summer months. According to Colorado Ski Country USA (CSCUSA), annual snowfall in the state of Colorado peaked in the 2010/11 ski season, followed by a decrease of over 11% in the 2011/12 season and a continued decline through February of the 2012/13 season. For the 2012/13 season to date, visitation at CSCUSA resorts has fallen 4.2% compared to the same time last season, defined as opening day through February 28. However, according to CSCUSA, skier visitation began to rebound in January and February of 2013, following an early-season snow deficit. In addition, resorts are reporting increased sales at restaurants, shops, and ski school for the season. The breadth of the ski resorts in Summit County, as well as the area's reputation as a top-tier ski destination, should bolster the area economy and buoy its rebound from the recent recession.

Airport Traffic

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

Denver International Airport, commonly referred to as DIA, opened in 1995 at a cost of $4.8 billion. Built on a site larger than the land area of Paris, France, DIA is one of the largest airports in the world. United Airlines and Frontier Airlines utilize the airport as a major hub, and a variety of other major commercial airlines also serve DIA, including a number of international carriers. In 2009, Republic Airways Holdings acquired Frontier Airlines and subsequently relocated the airline's headquarters operations out of Denver to Indianapolis, including approximately 140 administrative positions, 200 maintenance jobs, and a substantial portion of executive management positions. In January of 2012, the company announced that Frontier Airlines' chief executive and a new senior management team would be moved back to Denver; however, most maintenance and administrative positions would remain in Indianapolis and Milwaukee. United Airlines and Continental merged in October of 2010, which has proven beneficial to DIA in terms of increased service to Latin America and Europe. DIA is currently undergoing a major South Terminal redevelopment project, which includes a new 519-room Westin hotel and conference center, a FasTracks train station, and a new rail bridge that will extend above Peña Boulevard. The renovation is planned

to occur in two phases, with the first phase scheduled for completion in 2016 when rail service will begin. The hotel is scheduled to open in July of 2015. The second phase will include the construction of another parking structure and a renovation of the existing terminal.

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

FIGURE 3-5 AIRPORT STATISTICS - DENVER INTERNATIONAL AIRPORT

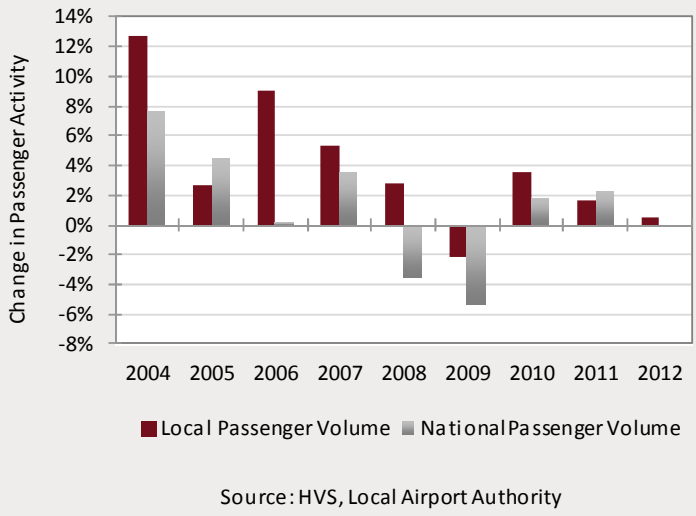
Year	Passenger Traffic	Percent Change*	Percent Change**
2003	37,505,138	—	—
2004	42,275,913	12.7 %	12.7 %
2005	43,387,513	2.6	7.6
2006	47,325,016	9.1	8.1
2007	49,863,352	5.4	7.4
2008	51,245,334	2.8	6.4
2009	50,167,485	(2.1)	5.0
2010	51,985,038	3.6	4.8
2011	52,849,132	1.7	4.4
2012	53,156,278	0.6	4.0
Year-to-date, Feb			
2012	7,664,157	—	—
2013	7,721,880	0.8 %	—

*Annual average compounded percentage change from the previous year

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

Source: Denver International Airport

FIGURE 3-6 LOCAL PASSENGER TRAFFIC VS. NATIONAL TREND



Source: HVS, Local Airport Authority

This facility recorded 53,156,278 passengers in 2012. The change in passenger traffic between 2011 and 2012 was 0.6%. The average annual change during the period shown was 4.0%.

The following table illustrates recent operating statistics for the Eagle County Regional, which is the secondary airport facility serving the proposed subject property's submarket.

FIGURE 3-7 AIRPORT STATISTICS – EAGLE COUNTY REGIONAL

Year	Passenger Traffic	Percent Change*	Percent Change**
2003	343,765	—	—
2004	392,763	14.3 %	14.3 %
2005	431,367	9.8	12.0
2006	433,367	0.5	8.0
2007	438,008	1.1	6.2
2008	430,686	(1.7)	4.6
2009	362,344	(15.9)	0.9
2010	410,572	13.3	2.6
2011	386,036	(6.0)	1.5
2012	337,383	(12.6)	(0.2)
Year-to-date, Feb			
2012	146,704	—	—
2013	138,385	(5.7) %	—

*Annual average compounded percentage change from the previous year

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

Source: Eagle County Regional

Eagle County Regional Airport (EGE) is the primary airport serving Summit County, located just 30 miles west of the world-renowned resorts of Vail and Beaver Creek. The airport is highly seasonal, in that most of its scheduled flights only operate from EGE during the winter. The three airlines serving the airport, American Airlines, United Airlines, and Delta Air Lines, connect the destination with their major hubs. Delta only serves the facility during the winter, while United and American scale back service considerably during the off-season months. It is important to note that the airport was closed from April 15 through August 26, 2009 in order to extend the length of the runway and resurface it. Air traffic registered 337,383 passengers in 2012. The change in passenger traffic between 2011 and 2012 was -12.6%. The decline in passenger traffic shown by recent data can be attributed in large part to a reduction in the number of nonstop flights during the 2010/11 ski season. As of the 2011/12 ski season, this airport facility was served by eleven nonstop flights to ten major cities; when compared with the 2009/10 ski season, the facility was served by 13 nonstop flights to twelve major cities. In addition, the 2011/12 ski season experienced a 50% decline in snowfall compared to the previous year, which resulted in fewer visitors.

Tourist Attractions

As discussed previously, the market is anchored by the tourism industry. The peak seasons for tourism in this area are from July to August and from late November through March. Primary attractions in the area include the following:

- Breckenridge Ski Resort and several other ski resorts are the primary attractions to the local area, as detailed previously. During the winter season, popular activities include skiing, snowboarding, cross-country skiing, snowshoeing, dog-sledding, ice-skating, and snowmobiling. During the summer season, both visitors and residents alike enjoy ample opportunities for hiking, biking, golfing, camping, fishing, sailing, kayaking, wind surfing, rafting, and rock climbing.
- Downtown Breckenridge offers a unique small mountain town experience that is not found in most ski resort towns. Main Street in Downtown Breckenridge features over 200 retail shops and restaurants. The majority of the shops and restaurants are unique to Breckenridge and are locally-owned. Retail outlets include bookstores, antique shops, jewelry stores, home furnishing shops, art galleries, sporting goods outlets, and clothing stores. The Riverwalk Center in Downtown Breckenridge is an amphitheater that hosts various concerts and events throughout the year. The Riverwalk Center seats up to 770 patrons and was updated in 2007 and 2008. The updates included the addition of a roof and walls over the amphitheater.
- The Dillon Reservoir spans 3,300 acres and boasts 25 miles of shoreline surrounded by breathtaking mountain views. Situated at an elevation of 9,017 feet, the reservoir draws droves of visitors interested in aquatic activities from early June to early September. The Frisco Bay Marina provides boat rentals including pontoons, runabouts, and fishing boats, in addition to canoe and kayak rentals. Furthermore, the Dillon Marina offers a wide variety of boat rentals from sailboats to pontoon boats to 22-foot Catalinas, as well as guided sailing tours and sailing lessons.
- The Outlets at Silverthorne, a premier retail outlet mall with over 100 brands, is a popular shopping destination in western Colorado. This retail outlet mall features three distinct villages of shopping areas and dining venues in an open-air environment. Well-known outlet stores include Coach, Polo Ralph Lauren, Calvin Klein, Tommy Hilfiger, J. Crew, and Banana Republic.

BRECKENRIDGE SKI RESORT

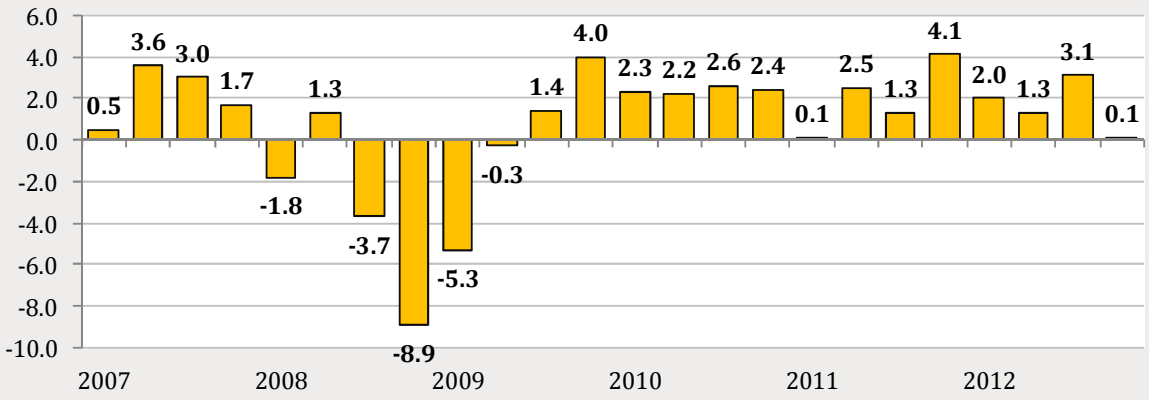
Conclusion

This section discussed a wide variety of economic indicators for the pertinent market area. After a period of economic contraction, the market area has entered into a period of expansion and recovery following the Great Recession. Our market interviews and research revealed that the area was significantly affected by reduced levels of discretionary spending during the downturn; in addition, declining snowfall levels in the 2011/12 and 2012/13 ski seasons impacted visitation to the region. However, market participants indicated that ancillary revenues from retail sales and ski school participation have increased, which is a strong indication that visitor spending is rebounding, boosted by luxury purchases and international tourists. Furthermore, the area's proximity to the Denver metropolitan area, world-class ski facilities, and diversity of outdoor recreational activities bodes well for future growth. As such, the market outlook remains favorable, assuming that broader economic conditions continue to improve.

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy entered a recession in December of 2007, which worsened in the fall of 2008 when the financial crisis shocked the world economy. The U.S. fell into economic decline for most of 2009, but the nation’s gross domestic product (GDP) and corporate profits began to grow again in the third quarter of 2009. In 2010, the economy experienced three

consecutive quarters of annualized economic growth in excess of 3%, reflecting a rebound from the recession. Since that time, the U.S. economy has grown at fluctuating rates, as evidenced in the following table.

FIGURE 3-8 UNITED STATES GDP GROWTH RATE



Source: tradingeconomics.com, Bureau of Economic Analysis

The GDP growth rate rose to a rate of 3.1% in the third quarter of 2012, reflecting a welcome lift in economic activity, followed by a minimal gain of 0.1% in the fourth quarter. The deceleration was attributed to declines in private inventory investment, government spending, and exports. Overall, GDP increased 2.2% in 2012, which was moderately higher than the 1.8% increase realized in 2011. The strengthening trend was attributed to fewer imports, an improving housing market, and increases in private inventory spending. As previously discussed, the national unemployment rate declined to 7.7% in February of 2013, with employers adding 236,000 new jobs. Our forecasts to follow in this report reflect the cautious optimism regarding the U.S. economy that prevails at this time.

4. Overview of the U.S. Ski Industry

Data on the 2011/12 ski season from the National Ski Areas Association (NSAA) and the *Kottke National End of the Season Survey* show skier visits in the U.S. down 15.8% compared with numbers from the winter ski season. The drop reflects the economic stagnation and low snowfall levels that affected skier visits nationwide this past season. The 2011/12 season was also marked by the lowest national average resort snowfall since 1991/92, the second-lowest snowfall in 21 years of available data. According to the survey, 50% of responding ski areas opened late during the season, and 48% closed early. Every region experienced a decrease in overall days of operation, which resulted in an overall decline in skier visits. Significant declines in skier visits occurred in the Pacific Southwest, which was down 25.2%; the Southeast was down 23.9%; the Northeast was down 20.6%; and the Midwest was down 18.3%. More modest declines in total skier visits were experienced in the Rocky Mountain and Pacific Northwest regions, which decreased by 8.5% and 2.0%, respectively.

This recent downturn followed a record-setting year in 2010/11 when skier visits rose roughly 1.3% (to 60.5 million) from levels in 2009/10; this was slightly higher than the previous peak in 2007/08. Again, strong snowfall, reportedly up 29% from the prior season, accounted for the high visitation levels in 2010/11.

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

Other demographic challenges remain a long-term concern as the industry's participant base, largely comprising the baby-boomer generation, ages and hit the slopes less frequently and/or seek alternative leisure and vacation options. Other factors that serve as barriers to growth include "time poverty," a trend toward increasing obesity among youngsters, and the prospect of global climate change.

With the advent of shorter skis and better snowboard design, the industry has embarked on a national effort to encourage trial of snowsports by new participants. The NSAA has developed the "Model for Growth" that shares information about successful introductory and retention programs. Additionally, individual resort companies have undertaken a variety of marketing and pricing initiatives that have encouraged more frequent participation. These include significantly discounted season passes and other types of value pricing, innovative learn-to-ski packages with compelling come-back incentives, and increasingly sophisticated marketing efforts utilizing email databases and "personalized" offers.

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

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

U.S. SKI INDUSTRY SKIER VISITS

Season	Total Number of U.S. Skier Visits (in millions)	Year over Year Change*	Average Annual Compounded Change**	Average Annual Compounded Change***
1981/82	50.718	—	—	—
1982/83	46.861	(7.60) %	(7.60) %	—
1983/84	50.630	8.04	(0.09)	—
1984/85	51.354	1.43	0.42	—
1985/86	51.921	1.10	0.59	—
1986/87	53.749	3.52	1.17	—
1987/88	53.908	0.30	1.02	0.30 %
1988/89	53.335	(1.06)	0.72	(0.39)
1989/90	50.020	(6.22)	(0.17)	(2.37)
1990/91	46.722	(6.59)	(0.91)	(3.44)
1991/92	50.835	8.80	0.02	(1.11)
1992/93	54.032	6.29	0.58	0.09
1993/94	54.637	1.12	0.62	0.23
1994/95	52.677	(3.59)	0.29	(0.25)
1995/96	53.983	2.48	0.45	0.05
1996/97	52.520	(2.71)	0.23	(0.23)
1997/98	54.122	3.05	0.41	0.06
1998/99	51.950	(4.01)	0.14	(0.28)
1999/00	52.198	0.48	0.16	(0.22)
2000/01	57.337	9.85	0.65	0.46
2001/02	54.411	(5.10)	0.35	0.08
2002/03	57.594	5.85	0.61	0.43
2003/04	57.067	(0.92)	0.54	0.35
2004/05	56.882	(0.32)	0.50	0.32
2005/06	58.897	3.21	0.62	0.48
2006/07	55.068	(6.50)	0.33	0.12
2007/08	60.502	9.87	0.68	0.57
2008/09	57.354	(5.20)	0.47	0.31
2009/10	59.787	4.24	0.63	0.51
2010/11	60.540	1.30	0.68	0.57
2011/12	50.966	-15.8	0.02	(0.24)

*From previous season

**From 1981/82 season

***From 1986/87 season

Source: National Ski Areas Association/ Kottke Survey July 2012

Total skier visits have remained relatively flat over the historical period, increasing at an average annual compounded rate of only 0.02% since 1981/82. However, dramatic changes have occurred in skier visits on a year-to-year basis, as illustrated by decreases in skier visits as large as 7.6% in the 1982/83 season to increases as large as 9.87% in the 2007/08 season. Factors influencing skier visitation in any given year include snowfall, the national economy, and international economic and political dynamics. National skier visit counts are likely to remain in the 50-to-60-million range in the near future, in consideration of the factors cited above and the absence of a cohesive and cooperative strategy to increase participation levels on a national basis.

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

U.S. SKIER VISITS BY REGION (IN MILLIONS)

Season	Northeast	Southeast	Midwest	Rocky Mountains	Pacific Southwest	Pacific Northwest	Pacific West (total)*	Total
1981/82	11.467	5.064	7.846	15.337	—	—	11.004	50.718
1982/83	9.523	4.256	6.213	14.808	—	—	12.061	46.861
1983/84	12.087	5.175	6.961	16.801	—	—	9.606	50.630
1984/85	11.083	4.394	6.899	17.626	—	—	11.352	51.354
1985/86	12.836	5.218	7.201	16.869	—	—	9.797	51.921
1986/87	14.745	5.816	6.944	16.680	—	—	9.564	53.749
1987/88	14.421	5.885	6.783	16.564	—	—	10.255	53.908
1988/89	12.741	5.424	7.013	16.601	—	—	11.556	53.335
1989/90	13.299	4.447	6.915	16.048	—	—	9.311	50.020
1990/91	11.157	4.257	6.486	16.706	—	—	8.115	46.722
1991/92	12.252	4.425	6.535	17.687	—	—	9.936	50.835
1992/93	13.216	4.661	6.978	18.602	—	—	10.575	54.032
1993/94	13.718	5.808	7.364	17.503	—	—	10.244	54.637
1994/95	11.265	4.746	6.907	18.412	—	—	11.346	52.677
1995/96	13.825	5.693	7.284	18.148	6.012	3.022	—	53.983
1996/97	12.407	4.231	7.137	18.904	6.359	3.482	—	52.520
1997/98	12.712	4.343	6.707	19.191	7.918	3.251	—	54.122
1998/99	12.229	4.261	6.005	18.305	7.485	3.599	—	51.955
1999/00	12.025	5.919	6.422	18.109	6.651	3.800	—	52.198
2000/01	13.697	5.458	7.580	19.323	7.836	3.442	—	57.337
2001/02	12.188	4.994	6.980	18.123	7.947	4.179	—	54.411
2002/03	13.991	5.833	8.129	18.728	7.885	3.027	—	57.594
2003/04	12.892	5.588	7.773	18.868	8.033	3.912	—	57.067
2004/05	13.661	5.504	7.533	19.606	8.888	1.690	—	56.882
2005/06	12.505	5.839	7.787	20.717	7.916	4.133	—	58.897
2006/07	11.801	4.888	7.200	20.849	6.536	3.794	—	55.068
2007/08	14.261	5.204	8.099	21.324	7.617	3.998	—	60.502
2008/09	13.730	5.664	7.247	17.974	7.091	3.647	—	57.354
2009/10	13.411	6.016	7.718	20.378	8.411	3.853	—	59.787
2010/11	13.887	5.789	7.811	20.900	8.111	4.042	—	60.540
2011/12	11.021	4.405	6.382	19.130	6.066	3.962	—	50.966
% of Total (2011/12)	***21.6%***	***8.6%***	***12.5%***	***37.5%***	***11.9%***	***7.8%***	***0.0%***	***100.0%***

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

Source: National Ski Areas Association

- **Northeast**: The Northeast registered a decrease of 20.6% in 2011/12 when compared to the 2010/11 season, with 11.021 million visits recorded. Its share of the national market was 21.6%, down from 22.9% in 2010/11.
- **Southeast:** At 4.405 million skier visits, the Southeast registered a decrease of 23.9% when compared to the 2010/11 season. Its 8.6% share of the market decreased from the 9.6% recorded level in 2010/11.
- **Midwest:** At 6.382 million visits in 2011/12, the Midwest registered a decrease of 18.3% when compared to the 2010/11 season. Its share of market represented 12.5% in 2011/12, reflecting relative stability when compared to 2009/10 levels.
- **Rocky Mountains:** With 19.130 million visits in 2011/12, the Rockies illustrated the second-lowest level of decline amongst the regions at 8.5%. With 37.5% of the total U.S. market, the Rockies maintained its position as the market-share leader, up from 34.5% in 2010/11.
- **Pacific Southwest:** With 6.066 million visits in 2011/12, the Pacific Southwest was down 25.2% when compared to 2010/11. This was the largest decline in skier visits of all the regions.
- **Pacific Northwest:** With 3.962 million visits in 2011/12, the Pacific Northwest realized the strongest regional performance by registering a 2.0% decrease in visits over those recorded in 2010/11.

The following table illustrates the change in estimated skier visits between the 2010/111 and 2011/12 ski seasons for the various states and regions.

ESTIMATED SKIER VISITS BY STATE – 2010/11 VS. 2011/12

	Estimated Skier Visits			Operating Ski Areas	
Region/State	**2011/12**	**2010/11**	**% Change**	**2011/12**	**2010/11**
Northeast					
Maine	1,240,060	1,329,272	(6.7) %	16	17
New Hampshire	1,844,252	2,332,991	(20.9)	27	28
Vermont	3,499,721	4,278,101	(18.2)	24	25
Massachusetts	1,076,757	1,458,670	(26.2)	13	13
CT & RI	307,405	382,346	(19.6)	6	6
New York	3,052,562	4,105,508	(25.6)	51	52
	11,020,757	13,886,888	(20.6)	137	141
Southeast					
Pennsylvania	2,622,160	3,543,289	(26.0) %	28	30
New Jersey	295,013	386,653	(23.7)	4	3
VA & MD	446,640	634,077	(29.6)	6	6
West Virginia	486,678	528,475	(7.9)	5	5
NC, TN, & AL	554,163	696,784	(20.5)	8	9
	4,404,654	5,789,278	(23.9)	51	53
Midwest					
ND & SD	193,739	307,200	(36.9) %	7	8
Minnesota	1,301,133	1,566,175	(16.9)	18	17
Wisconsin	1,936,420	2,275,122	(14.9)	31	32
Michigan	1,947,797	2,315,639	(15.9)	43	43
Iowa and Missouri	263,625	313,429	(15.9)	6	6
Illinois & Indiana	350,912	507,243	(30.8)	8	8
Ohio	388,550	526,268	(26.2)	6	6
	6,382,176	7,811,076	(18.3)	119	120
Rocky Mountains					
Montana	1,287,893	1,380,728	(6.7) %	16	17
Wyoming	745,464	744,128	0.2	9	10
Colorado	11,031,406	12,322,903	(10.5)	30	29
New Mexico	889,858	708,103	25.7	9	9
Idaho	1,362,796	1,589,638	(14.3)	16	16
Utah	3,813,051	4,154,828	(8.2)	14	15
	19,130,468	20,900,328	(8.5)	94	96
Pacific Southwest					
Nevada	350,902	419,083	(16.3) %	5	5
Arizona	247,207	325,190	(24.0)	4	4
California	5,468,165	7,367,025	(25.8)	28	28
	6,066,274	8,111,298	(25.2)	37	37
Pacific Northwest					
Oregon	1,568,604	1,684,266	(6.9)	12	13
Washington	1,928,520	1,935,915	(0.4)	15	16
Alaska	464,953	421,446	10.3	10	10
	3,962,077	4,041,627	(2.0) %	37	39
U.S. TOTAL	**50,966,406**	**60,540,495**	(15.8) **%**	**475**	**486**

Source: Kottke National End of Season Survey July 2012

Colorado Ski Market

The subject market is located in the Rocky Mountain region in the state of Colorado. Colorado typically ranks as the top state in the nation for total skier visits by a significant margin. According to NSAA data, Colorado's 30 ski resorts captured 11,031,409 skier visits in 2011/12, a 10.5% decline compared with the 12,322,903 skier visits in 2010/11. Overall, Colorado's ski industry generates more than $1.5 billion in revenues per year, with the average ski trip consisting of 4.5 nights at a hotel or other type of lodging facility.

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

COLORADO HISTORICAL SKIER VISITS

Season	Colorado Skier Visits (in millions)	% Change*	Average Annual Compounded Change**
2002/03	11.6	—	—
2003/04	11.2	(3.4)	(3.45)
2004/05	11.8	5.2	0.77
2005/06	12.5	6.1	2.50
2006/07	12.6	0.5	2.01
2007/08	12.5	(0.3)	1.54
2008/09	11.9	(5.2)	0.37
2009/10	11.9	0.2	0.34
2010/11	12.3	3.7	0.76
2011/12	11.0	(10.5)	(0.56)

*From previous season.
**From 2002/03 season.
Source: National Ski Areas Association/ Kottke Survey

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

International Skier Visits

A significant source of potential skier visits for the U.S. is the international skier market. As reported by RRC, the publisher of the *Kottke National End of Season Survey*, 6.2% of the recorded skier visits in the United States during the 2011/12 season represented international visitors. This figure increased slightly from the 2010/11 level of 5.6%. In general, due to the distance traveled and the length of vacation time, international skiers typically stay longer at a resort, spend an estimated five times more than domestic skiers, and visit more than two resorts on their trip. U.S. residents dominate the visitor base across all locations and size classifications of resorts:

- 93.8% of visitors are from the United States
- 2.3% of visitors are from Canada
- 3.8% of visitors are from other foreign countries

By region, foreign visitation is highest in the Northeast (8.1%), followed by the Rocky Mountains (7.9%), Pacific Southwest (4.3%), Pacific Northwest (3.1%), Southeast (3.0%), and Midwest (2.4%).

U.S. Ski Resorts and Consolidation

There has been a significant amount of ski resort consolidation since the early 1980s. In general, smaller resorts are either dropping out of the market or are being acquired by larger entities in order to be combined with other resorts. The following table illustrates this trend with data through the 2011/12 season, the most recent available.

U.S. SKI RESORTS

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

Source: National Ski Areas Association

The number of ski areas operating in the U.S. has shrunk from over 700 in the early to mid-1980s to 475 during the 2011/12 season. The vast majority of resorts that have closed have been smaller, undercapitalized resorts, often in marginal locations and with limited facilities. Furthermore, some resorts have replaced their skiing operations for snow-tubing. Finally, some new resorts have been opened in recent years, including Tamarack Resort in Idaho and Moonlight Basin and the Yellowstone Club in Montana.

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

FIGURE 5-1 CHANGE IN LIFT CAPACITY AT U.S. SKI AREAS

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

The *Kottke* survey also reported that total expenditures on capital improvements at ski resorts rose from $277million in 2010/11 to $300 million in 2011/12; however, this figure is projected to decline in the following years as resorts cut back on major improvements as a result of the economic conditions and decreases in skier visits. Based on cumulative past and planned spending over a three-year period (2010/11 to 2012/13), the largest share of investment over the period is earmarked for on-mountain facilities and support (58%), new and upgraded lifts (23%), real estate (14%), and summer/fall-specific activities and support (6%).

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

service, and targeted clientele) will be the key to keeping pace with the cost of technology.

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

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

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

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

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

acquire new technology and introduce significant improvements tend to capture a greater share of the market.

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

Ski Industry Environment

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

While the number of resorts operating in the U.S. has experienced a relatively consistent downward trend, very few new resorts have opened over the historical period. This is due particularly to the environmental concerns of the U.S. Forest Service and other special interest groups, as well as the difficulty in securing financing for such a seasonal and volatile business. Additionally, a new resort can take up to twenty years from conception to operation, making return on investment forecasting very difficult. Consequently, the preferred trend has been to expand or to purchase existing resorts rather than to develop entirely new mountain facilities. However, it should be noted that three mid-size resorts have opened in recent years: the Tamarack Resort in Idaho, the Moonlight Basin in Montana, and the Yellowstone Club in Montana. The Yellowstone Club in Montana is a private ski resort in which a membership must be purchased in order to utilize the facility. Tamarack Resort filed for bankruptcy protection in February of 2008. In March of 2008, Credit Suisse sued Tamarack Resort after the resort defaulted on a $300 million loan. In October of 2008, a judge dismissed Tamarack's request for bankruptcy protection and issued an order for an outside firm to manage the ski resort. Yellowstone Club operated under bankruptcy protection between November 2008 and July 2009 until the resort was sold for $115 million to CrossHarbor Capital Partners.

Weather Risks

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

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

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

It is interesting to note that when snow and weather patterns are favorable, business at many regional destination resorts is good but not overwhelming, as business is more widely dispersed within the market region. When weather patterns are more adverse, areas with greater snowmaking capacity—traditionally, larger resorts—often increase their business volume. Resorts in the Rockies generally have more moderate weather fluctuations, with the primary weather concern being adequate quantities of snow at the beginning and (to a lesser extent) end of the season. Also critical is having adequate periodic snowfall during the season to ensure the high-quality snow that skiers expect. In periods of low snow, however, Rocky Mountain resorts lose valuable local participation. Although droughts do occasionally occur in the Rocky Mountain region as evident

this past season, it is rare for these resorts to experience mid-season thaws to such a degree that resort operations are seriously hampered.

Environmental Activism

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

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

Energy Costs

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

Immediate Industry Challenges

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

Lead ticket prices at major destination resorts are typically over $85, with some entering the $100+ range. However, on the average, resorts usually collect 50% to 60% of the lead ticket price from each skier visit given the wide variety of ticket discounts. The 2011/12 NSAA *Kottke National End of Season Survey* reports that lead ticket prices nationwide averaged $82.07, while resorts collected an average of only $41.27 per skier visit, for a ticket yield (amount collected as a proportion of price) of 50.3%. This ratio reflects the discount on the stated top-ticket attributed

to off-peak prices, multi-day tickets, "comp" skiing, the less-expensive children's tickets, and season-pass usage. The ticket-yield ratio in 2011/12 was up slightly from the previous season. The lowest ticket-yield ratio occurred in the Rocky Mountain Region, at 47.9%, against the average ticket yield of $45.05 on an average lead price of $94.12. In the 2011/12 season, the highest ticket-yield ratio occurred in the Southeast (58.2%).

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

Leisure Time Competition

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

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

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

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

Conclusion

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

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

5. Supply and Demand Analysis

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

Definition of Subject Hotel Market

The 214-room Proposed Hotel Breckenridge will be located in Breckenridge, Colorado. The greater market surrounding the subject site offers 43 hotels and motels, spanning 5,070 rooms. The two largest lodging products are the 1,058-unit Keystone Resort and the 798-unit Copper Mountain Resort.

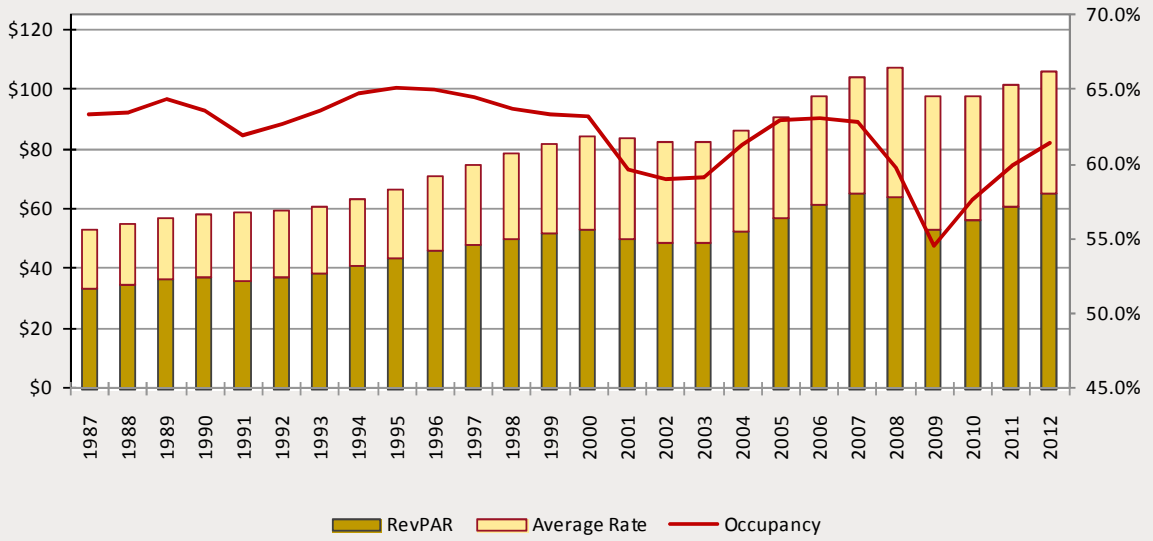
Of this larger supply set, the proposed subject property is expected to compete with a smaller set of hotels based on various factors. These factors may include location, price point, product quality, length of stay (such as an extended-stay focus vs. non-extended-stay focus), room type (all-suite vs.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

National Trends Overview

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

Smith Travel Research (STR) is an independent research firm that compiles data on the lodging industry, and this information is routinely used by typical hotel buyers. Figure 4-1 presents annual hotel occupancy and average rate data since 1987. Figures 4-2 and 4-3 illustrate the more recent trends, categorized by geography, price point, type of location, and chain scale. The statistics include occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

FIGURE 5-1 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS



Source: STR

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

	Occupancy - Thru February			Average Rate - Thru February			RevPAR - Thru February		
	2012	2013	% Change	2012	2013	% Change	2012	2013	% Change
United States	53.1 %	54.5 %	2.7 %	$102.07	$106.88	4.7 %	$54.20	$58.30	7.6 %
Region									
New England	47.6 %	48.9 %	2.7 %	$108.78	$111.75	2.7 %	$51.76	$54.61	5.5 %
Middle Atlantic	52.4	55.6	6.1	126.84	132.73	4.6	66.51	73.84	11.0
South Atlantic	55.5	57.1	2.9	103.56	109.39	5.6	57.47	62.46	8.7
East North Central	46.7	47.2	1.2	84.44	85.32	1.0	39.42	40.29	2.2
East South Central	47.8	48.3	1.2	75.04	77.77	3.6	35.86	37.60	4.8
West North Central	45.0	45.5	1.1	79.55	81.69	2.7	35.77	37.14	3.8
West South Central	55.6	57.3	2.9	87.85	93.38	6.3	48.87	53.47	9.4
Mountain	52.9	53.9	2.0	105.72	108.64	2.8	55.89	58.58	4.8
Pacific	60.0	61.9	3.1	121.73	128.55	5.6	73.04	79.52	8.9
Price									
Luxury	63.4 %	65.0 %	2.6 %	$169.27	$176.04	4.0 %	$107.28	$114.51	6.7 %
Upscale	56.9	58.0	2.1	125.15	130.64	4.4	71.15	75.83	6.6
Midprice	53.0	54.7	3.3	95.49	99.57	4.3	50.62	54.51	7.7
Economy	47.1	48.7	3.4	70.96	74.44	4.9	33.44	36.27	8.5
Budget	48.1	49.0	1.9	54.33	57.54	5.9	26.14	28.21	7.9
Location									
Urban	59.9 %	62.0 %	3.5 %	$134.99	$142.12	5.3 %	$80.85	$88.10	9.0 %
Suburban	53.9	55.3	2.6	86.86	90.19	3.8	46.79	49.87	6.6
Airport	61.4	64.5	5.1	93.26	97.50	4.5	57.23	62.85	9.8
Interstate	45.0	44.9	(0.3)	69.86	71.84	2.8	31.44	32.24	2.5
Resort	58.5	60.8	3.9	152.03	160.60	5.6	88.93	97.57	9.7
Small Metro/Town	43.9	44.7	1.8	79.12	82.09	3.8	34.77	36.72	5.6
Chain Scale									
Luxury	67.8 %	70.5 %	3.9 %	$267.12	$283.80	6.2 %	$181.14	$200.01	10.4 %
Upper Upscale	63.8	65.7	3.0	149.01	155.90	4.6	95.10	102.44	7.7
Upscale	64.0	65.5	2.4	112.35	117.95	5.0	71.88	77.26	7.5
Upper Midscale	53.4	54.7	2.4	91.42	94.81	3.7	48.79	51.82	6.2
Midscale	45.5	46.8	2.9	69.53	71.80	3.3	31.64	33.61	6.2
Economy	46.4	47.0	1.4	47.99	49.83	3.8	22.27	23.44	5.3
Independents	49.5	51.2	3.3	100.67	105.23	4.5	49.85	53.83	8.0

Source: STR - February 2013 Lodging Review

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

	Occupancy			Average Rate			RevPAR		
	2011	2012	% Change	2011	2012	% Change	2011	2012	% Change
United States	59.9 %	61.4 %	2.5 %	$101.85	$106.10	4.2 %	$61.02	$65.17	8.2 %
Region									
New England	61.2 %	61.6 %	0.7 %	$120.66	$126.80	5.1 %	$73.84	$78.13	8.6 %
Middle Atlantic	65.4	66.5	1.8	145.05	150.55	3.8	94.80	100.15	8.1
South Atlantic	59.4	60.9	2.5	100.20	103.28	3.1	59.50	62.86	7.0
East North Central	56.5	58.5	3.6	88.20	92.28	4.6	49.82	53.98	8.4
East South Central	55.5	56.4	1.5	77.22	79.47	2.9	42.89	44.78	5.7
West North Central	56.2	57.4	2.2	80.92	83.82	3.6	45.48	48.13	6.5
West South Central	58.1	60.6	4.4	84.80	88.78	4.7	49.23	53.81	8.5
Mountain	59.1	59.2	0.2	93.39	96.57	3.4	55.20	57.20	8.4
Pacific	65.6	67.9	3.5	119.05	125.98	5.8	78.06	85.49	10.3
Price									
Luxury	68.3 %	69.7 %	2.0 %	$167.35	$173.50	3.7 %	$114.26	$120.86	8.2 %
Upscale	63.9	65.5	2.4	124.88	129.09	3.4	79.80	84.51	7.4
Midprice	60.5	62.1	2.6	96.51	100.30	3.9	58.37	62.27	8.0
Economy	53.9	55.6	3.1	72.78	76.12	4.6	39.24	42.30	7.2
Budget	54.9	56.1	2.1	54.54	57.49	5.4	29.97	32.26	7.2
Location									
Urban	67.5 %	69.5 %	2.9 %	$147.44	$153.94	4.4 %	$99.53	$106.91	8.2 %
Suburban	60.1	61.8	2.7	86.18	89.86	4.3	51.81	55.49	8.4
Airport	66.3	68.1	2.7	91.01	94.70	4.1	60.37	64.49	7.1
Interstate	53.3	54.6	2.4	71.66	74.18	3.5	38.22	40.53	6.7
Resort	61.8	63.3	2.3	135.45	141.60	4.5	83.75	89.60	9.8
Small Metro/Town	53.5	54.5	1.9	84.06	86.72	3.2	44.95	47.26	6.3
Chain Scale									
Luxury	71.0 %	73.2 %	3.1 %	$262.64	$274.51	4.5 %	$186.43	$200.98	11.2 %
Upper Upscale	69.3	70.9	2.3	147.99	154.36	4.3	102.60	109.43	6.6
Upscale	69.5	70.9	2.0	111.70	116.88	4.6	77.64	82.87	8.0
Mid-scale w/ F&B	61.3	63.0	2.8	93.93	97.41	3.7	57.58	61.36	8.6
Mid-scale w/o F&B	53.2	54.8	3.0	72.34	74.45	2.9	38.50	40.79	3.0
Economy	53.4	54.3	1.8	50.47	52.50	4.0	26.94	28.52	6.0
Independents	56.8	58.3	2.6	101.24	105.12	3.8	57.49	61.27	6.5

Source: STR - December 2012 Lodging Review

The onset of the recession in December of 2007 first became evident in lodging trends in the spring of 2008 as demand levels decreased from the peak recorded in the previous year. The pace of decline sped up in the fall of 2008, as both corporate and consumer spending fell dramatically in the wake of the financial crisis and in response to intensifying recessionary pressures. Continued increases in lodging supply, which grew by 2.7% in 2008 and 3.2% in 2009, combined with demand decreases, resulted in a national average occupancy of 55.1% in 2009, a historic low. Aggressive price cuts and discounting that were implemented in the face of falling occupancy levels caused average rate to decrease by 8.8% in that same year. The resulting $53.71 RevPAR recorded in 2009 was on par with the level recorded in 2004.

Demand growth resumed in 2010, led by select markets that had recorded positive growth trends in the fourth quarter of 2009. The pace of demand growth accelerated through the year; in 2010, lodging demand in the U.S. increased by 7.7% over that registered in 2009. A return of business travel and some group activity contributed to these positive trends. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half of 2010. These discounting policies were largely phased out in the latter half of the year, balancing much of the early rate loss. Average rate decreased by only 0.1% in 2010 when compared with 2009. Strong demand growth continued in 2011 and 2012, at 5.0% and 3.0%, respectively, coupled with average rate rebounding by respective rates of 3.7% and 4.2%. By 2012, occupancy surpassed the 61% mark (exceeding the ten-year average), and average rate finished just over $106. Demand should continue to strengthen in the near term. These trends, combined with the low levels of supply growth anticipated through 2014, should boost occupancy to just over 63% by year-end 2014. On a national average, strengthening occupancy levels should also permit hotels to increase room rates beyond the 4.2% achieved in 2012. HVS forecasts U.S. average rate growth of 4.5% for 2013 and 5.0% for 2014.

Historical Supply and Demand Data

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

FIGURE 5-4 HISTORICAL SUPPLY AND DEMAND TRENDS

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2002	2,126	775,815	3.2 %	400,656	1.9 %	51.6	177.27	2.5 %	91.55	1.2 %
2003	2,407	878,555	13.2	430,436	7.4	49.0	188.30	6.2	92.26	0.8
2004	2,407	878,555	0.0	469,508	9.1	53.4	193.16	2.6	103.23	11.9
2005	2,407	878,555	0.0	490,476	4.5	55.8	204.49	5.9	114.16	10.6
2006	2,342	854,662	(2.7)	519,782	6.0	60.8	207.21	1.3	126.02	10.4
2007	2,174	793,505	(7.2)	493,571	(5.0)	62.2	229.68	10.8	142.87	13.4
2008	2,146	783,433	(1.3)	430,436	(12.8)	54.9	249.08	8.4	136.85	(4.2)
2009	2,253	822,345	5.0	374,082	(13.1)	45.5	221.45	(11.1)	100.74	(26.4)
2010	2,225	812,230	(1.2)	404,071	8.0	49.7	215.94	(2.5)	107.43	6.6
2011	2,304	840,960	3.5	417,577	3.3	49.7	222.02	2.8	110.24	2.6
2012	2,304	840,960	0.0	450,852	8.0	53.6	222.93	0.4	119.52	8.4
Average Annual Compounded Change:										
2001-2012			1.0 %		1.3 %			2.3 %		2.6 %
Year-to-Date Through February										
2012	2,304	135,936	—	96,202	—	70.8 %	$299.79	—	$212.16	—
2013	2,304	135,936	0.0 %	106,456	10.7 %	78.3	313.14	4.5 %	245.23	15.6 %

Hotels Included in Sample	Number of Rooms	Year Affiliated	Year Opened
Manor Vail Resort	128	Nov-08	Jun 1966
Keystone Lodge & Spa	152	Jun-74	Jun 1974
Village @ Breckenridge Hotel	60	Dec-10	Jun 1979
Marriott Vail Mountain Resort	344	Oct-94	Nov 1980
Vail Cascade Resort	292	Mar-96	Jun 1982
Doubletree Breckenridge	208	Nov-11	Jun 1985
Beaver Run Resort & Conference Center	550	Jun-86	Jun 1986
The Inn @ Keystone	103	Jan-08	Dec 1989
Park Hyatt Beaver Creek Resort & Spa	190	Dec-89	Dec 1989
Lodge @ Breckenridge	47	Jun-92	Jun 1992
Ritz-Carlton Bachelor Gulch	180	Nov-02	Nov 2002
RockResorts One Ski Hill Place	50	Jun-10	Jun 2010
Total	**2,304**		

Source: STR Global

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

The STR data for the competitive set reflect an overall market occupancy level of 53.6% in 2012, which compares to 49.7% for 2011. The overall average occupancy level for the calendar years presented equates to 52.5%. The major ski resorts located in Summit and Eagle Counties serve as the primary sources of demand in this Breckenridge, Keystone, and Vail Valley market. As such, demand in the market is primarily made up of FIT guests who are visiting the area for outdoor recreational activities, including skiing, snowboarding, biking, camping, hiking, and climbing. As discretionary spending became increasingly restricted during the economic downturn, demand at local hotels decreased significantly in 2008 and through much of 2009. New supply entered the market in mid-year 2010 when the RockResorts' One Ski Hill Place opened near the base of Peak 8 in Breckenridge. Occupancy in the market began to recover in 2010 due to a strong 2009/10 ski season, but remained stagnant in 2011 before beginning to increase again in the summer of 2012. Average rate recovery lagged behind occupancy, with a rebound in 2011 and a minimal increase in 2012. The latest year-to-date data for 2013 show strong occupancy and average rate improvements, attributed to a stronger 2012/13 ski season when compared to 2011/12.

The STR data for the competitive set reflect an overall market average rate level of $222.93 in 2012, which compares to $222.02 for 2011. The average across all calendar years presented for average rate equates to $227.14. Average rate in the local market registered positive growth from 2001 through 2008. The strength of the economy during this time, with little rate-resistance during the ski season, allowed hotel operators to increase rates. The entrance of new high-quality hotels, such as Ritz Carlton Bachelor Gulch and One Ski Hill Place, as well as renovations to existing hotels, also allowed local hotel operators to increase rates. Average rate began to decline in late 2008, and this trend continued in 2009 through much of 2010, along with the contraction of the national economy; however, average rates bottomed out in the mid $210s in 2010. Average rate rebounded in 2011 and stagnated somewhat in 2012 given the weak ski season. The latest year-to-date 2013 data illustrate healthy year-over-year increases for the first two months of the year, indicating that rate recovery is underway as economic conditions strengthen and demand levels continue to rise. These occupancy and average rate trends resulted in a RevPAR level of $119.52 in 2012.

Seasonality

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

FIGURE 5-5 MONTHLY OCCUPANCY TRENDS

Month	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
January	68.7 %	64.3 %	73.7 %	76.4 %	81.9 %	81.9 %	74.2 %	62.3 %	68.1 %	69.8 %	65.4 %	73.7 %
February	79.1	75.2	77.8	83.5	85.4	86.4	84.0	73.1	78.1	75.9	76.7	83.4
March	83.2	78.6	81.2	87.5	83.5	86.4	80.7	66.5	74.4	77.1	80.4	—
April	39.2	32.1	41.1	37.9	48.9	47.4	48.5	40.8	37.3	34.7	29.2	—
May	31.2	23.4	23.1	26.7	32.8	32.5	29.9	21.8	18.4	18.9	22.0	—
June	46.5	42.6	54.0	58.4	56.9	61.7	51.9	39.7	43.0	48.2	55.8	—
July	61.3	59.4	64.9	65.7	71.6	63.8	60.6	52.0	57.1	59.0	67.7	—
August	60.1	56.7	56.4	58.3	61.5	65.1	56.5	46.7	51.3	51.6	64.4	—
September	41.4	42.4	47.1	49.4	57.1	61.4	50.7	35.0	44.5	44.1	53.4	—
October	29.5	30.3	30.1	33.5	40.0	42.5	39.2	27.1	31.6	25.6	34.8	—
November	24.3	26.3	27.4	27.7	37.9	40.3	27.8	26.3	29.5	27.6	36.6	—
December	53.8	57.6	65.5	66.1	70.7	72.5	58.3	56.1	63.0	64.6	57.8	—
Annual Occupancy	**51.6 %**	**49.0 %**	**53.4 %**	**55.8 %**	**60.8 %**	**62.2 %**	**54.9 %**	**45.5 %**	**49.7 %**	**49.7 %**	**53.6 %**	**—**
Year-to-Date	**73.7**	**69.5**	**75.7**	**79.8**	**83.6**	**84.1 %**	**78.8 %**	**67.4 %**	**72.8 %**	**72.7 %**	**70.8 %**	**78.3 %**

Source: STR Global

FIGURE 5-6 MONTHLY AVERAGE RATE TRENDS

Month	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
January	$219.03	$230.79	$242.53	$238.92	$248.90	$302.34	$347.36	$296.37	$260.38	$264.95	$274.23	$300.58
February	255.85	273.55	279.76	295.88	292.70	351.38	361.34	331.99	311.95	313.87	323.91	325.43
March	246.75	255.89	267.39	300.36	297.38	351.86	402.93	309.00	302.77	310.52	316.10	—
April	121.45	140.62	136.89	142.62	149.17	174.44	158.32	165.89	174.59	150.44	172.72	—
May	88.20	114.85	107.83	111.72	104.20	107.23	111.26	119.69	111.69	116.73	121.09	—
June	121.86	131.02	126.94	137.74	139.27	142.51	159.55	143.41	139.16	142.58	150.31	—
July	134.50	140.28	147.73	154.10	158.82	161.59	175.95	150.20	157.73	161.64	176.44	—
August	137.33	142.15	146.93	153.75	166.91	157.52	181.52	152.77	152.21	159.80	166.02	—
September	118.86	130.11	131.42	134.41	148.00	138.23	151.56	134.03	137.08	146.57	144.04	—
October	113.61	118.86	118.57	114.51	119.89	123.39	123.80	111.47	120.75	119.04	123.80	—
November	104.95	116.03	123.30	119.06	129.46	126.80	125.78	118.05	117.63	131.02	132.44	—
December	229.48	249.40	260.10	288.13	310.24	319.39	348.09	312.46	306.05	330.93	348.83	—
Annual Average Rate	**$177.27**	**$188.30**	**$193.16**	**$204.49**	**$207.21**	**$229.68**	**$249.08**	**$221.45**	**$215.94**	**$222.02**	**$222.93**	**—**
Year-to-Date	**$237.80**	**$252.75**	**$260.70**	**$267.22**	**$270.15**	**$326.27**	**$354.43**	**$314.71**	**$286.63**	**$289.18**	**$299.79**	**$313.14**

Source: STR Global

The illustrated monthly occupancy and average rates patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate. The market area is highly seasonal, with occupancy levels typically exceeding 70% during the months of January, February, and March. Demand drops significantly in April, as ski resorts close and the mountain areas experience a time period known as "mud season." Demand and occupancy pick up again in July and August, also peak months, before dropping in October and November. Average rate levels follow similar trends to those of occupancy, allowing for average rates over $300 during the ski season. Despite strong occupancy levels during the months of July and August, average rates in the summer remain well below those achieved during the winter months.

Patterns of Demand

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

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

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Mar 10 - Feb 11	43.2 %	42.6 %	43.9 %	47.0 %	51.4 %	58.2 %	62.4 %	49.8 %
Mar 11 - Feb 12	41.6	40.8	42.7	46.8	51.6	58.9	63.2	49.3
Mar 12 - Feb 13	46.6	44.6	46.1	51.1	57.8	66.4	71.1	54.8
Change (Occupancy Points)								
FY 11 - FY 12	-1.5	-1.9	-1.2	-0.3	0.2	0.7	0.7	-0.5
FY 12 - FY 13	5.0	3.8	3.4	4.3	6.3	7.4	8.0	5.5

ADR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Mar 10 - Feb 11	$223.26	$220.33	$212.25	$211.34	$216.57	$218.90	$216.03	$216.91
Mar 11 - Feb 12	229.45	225.21	225.31	224.02	225.42	222.12	219.59	224.05
Mar 12 - Feb 13	234.46	225.63	218.42	221.35	232.52	231.90	227.36	227.72
Change (Dollars)								
FY 11 - FY 12	$6.19	$4.88	$13.06	$12.68	$8.85	$3.22	$3.56	$7.14
FY 12 - FY 13	5.01	0.41	-6.89	-2.67	7.11	9.78	7.77	3.67
Change (Percent)								
FY 11 - FY 12	2.8 %	2.2 %	6.2 %	6.0 %	4.1 %	1.5 %	1.6 %	3.3 %
FY 12 - FY 13	2.2	0.2	-3.1	-1.2	3.2	4.4	3.5	1.6

RevPAR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Mar 10 - Feb 11	$96.40	$93.96	$93.24	$99.38	$111.25	$127.45	$134.90	$108.04
Mar 11 - Feb 12	95.55	91.83	96.32	104.76	116.24	130.90	138.69	110.56
Mar 12 - Feb 13	109.30	100.53	100.78	113.07	134.50	153.93	161.74	124.86
Change (Dollars)								
FY 11 - FY 12	-$0.85	-$2.13	$3.08	$5.38	$4.98	$3.45	$3.79	$2.51
FY 12 - FY 13	13.75	8.70	4.46	8.31	18.26	23.03	23.05	14.31
Change (Percent)								
FY 11 - FY 12	-0.9 %	-2.3 %	3.3 %	5.4 %	4.5 %	2.7 %	2.8 %	2.3 %
FY 12 - FY 13	14.4	9.5	4.6	7.9	15.7	17.6	16.6	12.9

Source: STR Global

SUPPLY

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

We completed a comparison of lodging product type available in the Breckenridge market versus that of the Vail/Beavercreek market. A comparison of quality level utilizing hotel classifications developed by STR as well as the hotels "stat" level based on online travel sites. The following tables details the number of properties available in each market and its percentage of the markets inventory based on its STR rating of Luxury, Upper Upscale, Upscale, Midscale or below.

LODGING INVENTORY COMPARISON - PROPERTIES

Market	# of Properties	Luxury	% of Total	Upper Upscale	% of Total	Upscale	% of Total	Midscale or Below	% of Total
Breckenridge	40	1	3%	10	25%	18	45%	11	28%
Vail/Beavercreek	58	11	19%	18	31%	20	34%	9	16%

Source: Bookings.com, Hotels.Com, STR, HVS

The exact number of lodging properties varies based on source due to some developments having multiple operators within them. As illustrated above, the Vail/Beavercreek market has 58 lodging properties, with the properties equating to about 50% of the inventory in the upper two segments. Breckenridge, by comparison, contains only 28% of its inventory in those two segments. Furthermore, luxury and upper upscale hotels are typically smaller, so additional analysis was completed on available total rooms.

LODGING INVENTORY COMPARION – ROOMS

Market	# of Rooms	Luxury	% of Total	Upper Upscale	% of Total	Upscale	% of Total	Midscale or Below	% of Total
Breckenridge	3516	50	1%	1167	33%	1600	46%	699	20%
Vail/Beavercreek	5204	1326	25%	1945	37%	1257	24%	676	13%

Source: Bookings.com, Hotels.Com, STR, HVS

When comparing rooms, the Breckenridge market lacks luxury and upper upscale product when compared to the Vail/Beavercreek market. While the upper upscale segments are relatively close, the upper tier segment of luxury contains a very large disparity. Overall, almost 65% of Breckenridge's lodging supply is considered upscale or lower compared to 37% in the Vail/Beavercreek market. This disparity may even be wider, considering the overall age of many of the units in the Breckenridge market. During our inspection of properties, a wide inconsistency of the condition of guestrooms were noted in the condominium hotels due to the renovation histories by the individual owners. Even in some of the higher end upper upscale properties, some units appeared dated and thus would not be considered that level if it was not grouped with other more recently renovated units.

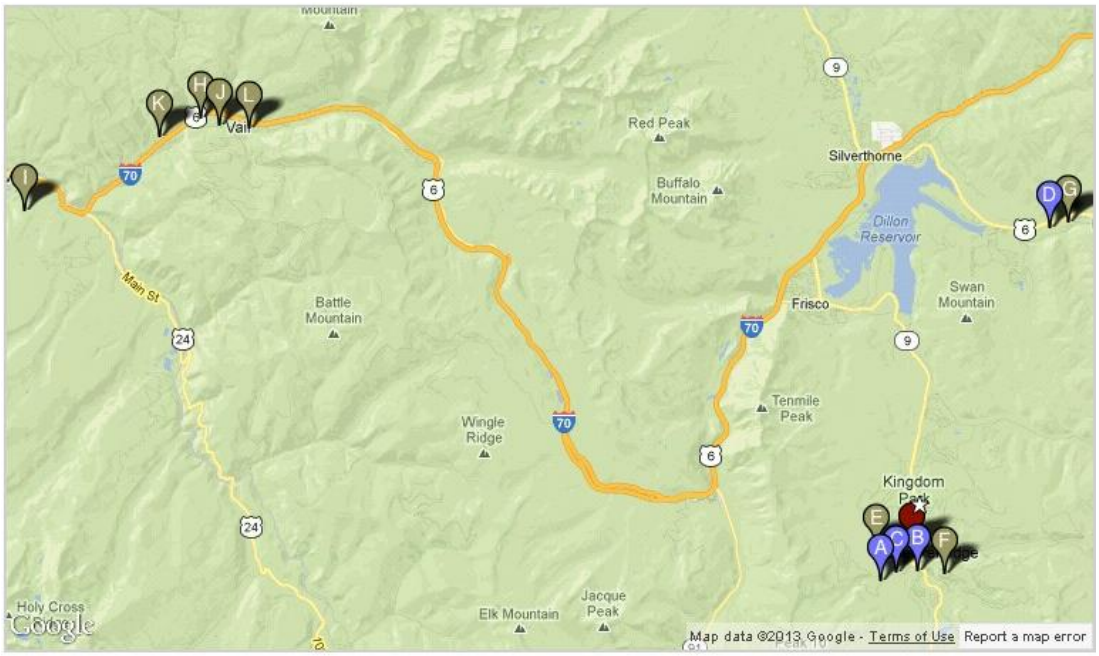
The following table summarizes the important operating characteristics of the future primary competitors and the aggregate secondary competitors (if applicable). This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table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

FIGURE 5-8 PRIMARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation		Estimated 2010				Estimated 2011				Estimated 2012						
Property	Number of Rooms	FIT	Meeting and Group	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	RevPAR Change	Occupancy Penetration	Yield Penetration
Beaver Run Resort	550	55 %	45 %	550	44 %	$164.00	$72.16	550	42 %	$163.00	$68.46	550	42 %	$166.00	$69.72	1.8 %	87.6 %	70.1 %
Village Hotel	60	65	35	60	49	135.00	66.15	60	45	140.00	63.00	60	56	148.00	82.88	31.6	116.8	83.3
DoubleTree by Hilton Breckenridge	208	65	35	208	44	159.00	69.96	208	40	176.00	70.40	208	49	150.00	73.50	4.4	102.2	73.9
Keystone Lodge & Spa	152	60	40	152	49	170.00	83.30	152	42	180.00	75.60	152	55	190.00	104.50	38.2	114.7	105.1
Sub-Totals/Averages	**970**	**59 %**	**41 %**	**970**	**45.1 %**	**$162.03**	**$73.06**	**970**	**41.8 %**	**$166.82**	**$69.66**	**970**	**46.4 %**	**$165.49**	**$76.79**	**10.2 %**	**96.8 %**	**77.2 %**
Secondary Competitors	3,935	69 %	31 %	1,402	45.2 %	$225.80	$102.09	1,416	46.5 %	$230.34	$107.04	1,416	49.0 %	$234.71	$115.01	7.4 %	102.2 %	115.6 %
Totals/Averages	**4,905**	**65 %**	**35 %**	**2,372**	**45.2 %**	**$199.76**	**$90.22**	**2,386**	**44.6 %**	**$206.14**	**$91.84**	**2,386**	**47.9 %**	**$207.48**	**$99.48**	**8.3 %**	**100.0 %**	**100.0 %**

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

MAP OF COMPETITION



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

PRIMARY COMPETITOR #1 - BEAVER RUN RESORT

Beaver Run Resort
620 Village Road
Breckenridge, CO

FIGURE 5-9 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	550	44 %	$164	$72	97.4 %	80.0 %
Estimated 2011	550	42	163	68	94.3	74.5
Estimated 2012	550	42	166	70	87.6	70.1

The Beaver Run Resort is owned by Beaver Run Interim Center Acquisition LLC and is operated by Bridge Hospitality. Beaver Run Resort is a ski in/ski out condominium-hotel facility, and all 550 units are privately-owned. However, the condominium units are property-managed for the majority of the year. Resort facilities include Spencer's Restaurant & Lounge, Base Nine Bar, Coppertop Bar & Cafe (open only during the winter), The Spa at Beaver Run, Skywalk Market, Breckenridge Sports Store, and approximately 40,000 square feet of meeting space. The property also offers an indoor/outdoor pool, an outdoor pool, seven whirlpools, a fitness room, a business center, a tennis court, an arcade room, a childcare center, ski and snowboard rentals, ski lockers, and a parking garage. The hotel, which opened in 1986, underwent a lobby and meeting-space renovation in 2002 and is scheduled to upgrade the entrance in 2013. Upgrades to the condominium units are the responsibility of the individual owners, but management has encouraged owners to renovate in the past five years, as many of the units were showing signs of wear. This hotel benefits from its ski in/ski out offering, ample meeting space, and full complement of amenities; however, the property is somewhat disadvantaged by the inconsistent quality of the units, which can be an issue when accommodating large groups. Overall, the property appeared to be in good condition. Its accessibility is similar to that of the subject site, and its visibility is inferior to the expected visibility of the Proposed Hotel Breckenridge.

PRIMARY COMPETITOR #2 - VILLAGE HOTEL

Village Hotel
535 South Park Avenue
Breckenridge, CO

FIGURE 5-10 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	60	49 %	$135	$66	108.5 %	73.3 %
Estimated 2011	60	45	140	63	101.0	68.6
Estimated 2012	60	56	148	83	116.8	83.3

The Village Hotel is owned by Village at Breckenridge Acquisition Corporation and is operated by Breckenridge Hospitality. The hotel only provides 60 guestrooms, but the hotel is located within the Village at Breckenridge complex, which also includes 129 property-managed condominiums. Facilities include the Park Avenue Pub, The Maggie (open only during the winter), an indoor/outdoor pool, outdoor whirlpools, a fitness room, a business center, a childcare center, a parking garage, Breck Sports equipment rental, Ski & Ride School, and approximately 22,000 square feet of meeting space. The hotel, which opened in 1979, underwent a guestroom renovation in 2007 and a lobby renovation in 2012. This hotel benefits from its location near both the base of Peak 9 and Downtown Breckenridge; however, the hotel is somewhat disadvantaged by its limited number of hotel rooms and continually changing number of available condominium units, which can be an issue when attempting to accommodate large groups. Overall, the property appeared to be in good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Hotel Breckenridge.

PRIMARY COMPETITOR #3 - DOUBLETREE BY HILTON BRECKENRIDGE

DoubleTree by Hilton Breckenridge
550 Village Road
Breckenridge, CO

FIGURE 5-11 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	208	44 %	$159	$70	97.4 %	77.5 %
Estimated 2011	208	40	176	70	89.8	76.7
Estimated 2012	208	49	150	74	102.2	73.9

The DoubleTree by Hilton Breckenridge is owned by Vail Summit Resorts Inc. and is operated by Breckenridge Hospitality. The hotel was formerly operated as the Great Divide Lodge but was converted to a DoubleTree by Hilton in November of 2011. Facilities include 9600 Grill & Restaurant, an indoor pool, an outdoor pool, three outdoor whirlpools, a fitness room, a sauna, a business center, a gift shop and market, a parking garage, Breck Sports equipment rental, and approximately 10,000 square feet of meeting space. The hotel, which opened in 1985, is undergoing a complete renovation of the guestrooms and public areas in 2013 that is expected to be completed in the summer. This hotel benefits from its affiliation with Hilton Worldwide and the Hilton HHonors loyalty program, as well as the ongoing renovation. Overall, the property appeared to be in good condition. Its accessibility is similar to that of the subject site, and its visibility is inferior to the expected visibility of the Proposed Hotel Breckenridge.

PRIMARY COMPETITOR #4 - KEYSTONE LODGE & SPA

Keystone Lodge & Spa
22101 U.S. Highway 6
Keystone, CO

FIGURE 5-12 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	152	49 %	$170	$83	108.5 %	92.3 %
Estimated 2011	152	42	180	76	94.3	82.3
Estimated 2012	152	55	190	105	114.7	105.1

The Keystone Lodge & Spa is owned by Vail Summit Resorts Inc. and is operated by Vail Resorts Lodging Company. Facilities include Bighorn Steakhouse, Lakeside Deli, Edgewater Cafe, an outdoor pool and whirlpool, an indoor whirlpool, a fitness room, a business center, a sauna, an equestrian center, a golf course, and approximately 10,000 square feet of meeting space. In addition to the on-site meeting space, the hotel is proximate to the Keystone Conference Center, which provides 100,000 square feet of meeting space. The hotel, which opened in 1974, reportedly is continually upgraded and has been completely renovated during the last five years. This hotel benefits from its full complement of amenities and high-quality furnishings. Overall, the property appeared to be in very good condition. Its accessibility is similar to that of the subject site, and its visibility is similar to the expected visibility of the Proposed Hotel Breckenridge.

Secondary Competitors

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

FIGURE 5-13 SECONDARY COMPETITOR(S) – OPERATING PERFORMANCE

		Est. Segmentation			Estimated 2010				Estimated 2011				Estimated 2012			
Property	Number of Rooms	FIT	Meeting and Group	Total Competitive Level	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
One Ski Hill Place Breckenridge	50	80 %	20 %	70 %	21	43 %	$160.00	$68.80	35	45 %	$172.00	$77.40	35	60 %	$194.00	$116.40
Lodge & Spa at Breckenridge	47	50	50	40	19	47	92.00	43.24	19	57	112.00	63.84	19	65	111.00	72.15
Ritz-Carlton Residences Vail	180	65	35	50	90	47	415.00	195.05	90	55	384.00	211.20	90	61	385.00	234.85
Park Hyatt Beaver Creek Resort	190	60	40	60	114	59	325.00	191.75	114	62	317.00	196.54	114	61	336.00	204.96
Marriott Vail Resort	344	55	45	70	241	61	213.00	129.93	241	61	219.00	133.59	241	63	229.00	144.27
Vail Cascade Hotel & Club	292	55	45	60	175	51	235.00	119.85	175	54	238.00	128.52	175	54	231.00	124.74
Manor Vail Lodge	128	65	35	40	51	45	225.00	101.25	51	46	257.00	118.22	51	50	253.00	126.50
Inn at Keystone	103	55	45	40	41	48	120.00	57.60	41	46	122.00	56.12	41	58	135.00	78.30
Aggregate Breckenridge Lodging Units	2,601	90	10	25	650	35	183.00	64.05	650	35	190.00	66.50	650	37	194.00	71.78
Totals/Averages	**3,935**	**69 %**	**31 %**	**36 %**	**1,402**	**45.2 %**	**$225.80**	**$102.09**	**1,416**	**46.5 %**	**$230.34**	**$107.04**	**1,416**	**49.0 %**	**$234.71**	**$115.01**

We have identified eight hotels that are expected to compete with the proposed subject property on a secondary level. One Ski Hill Place and the Lodge & Spa at Breckenridge are expected to be competitive on the basis of location in Breckenridge; however, these hotels offer limited meeting space. The Marriott Vail Resort and the Vail Cascade Hotel & Club are anticipated to compete on the basis of regional location and available meeting space; however, these hotels are not likely to be competitive with the proposed subject property for leisure transient business due to their locations in Vail. The Ritz Carlton Vail and Park Hyatt Beaver Creek are anticipated to be competitive on the basis of regional location and available meeting space; however, these hotels operate at a higher price point than that expected for the proposed subject property. The Manor Vail Lodge and Inn at Keystone are also anticipated to be competitive regionally; however, these hotels offer less meeting space than that expected at the proposed subject property.

In addition to the existing larger hotels in the market, the proposed hotel would also compete somewhat with the many small hotels, motels, condominium-hotels, and rentable timeshare units available in Breckenridge. As such, we have included 2,601 additional Breckenridge lodging units in our analysis. These other lodging units will primarily only be competitive with the proposed hotel for higher-rated FIT demand during the shoulder seasons.

Supply Changes

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

NEW SUPPLY MAP

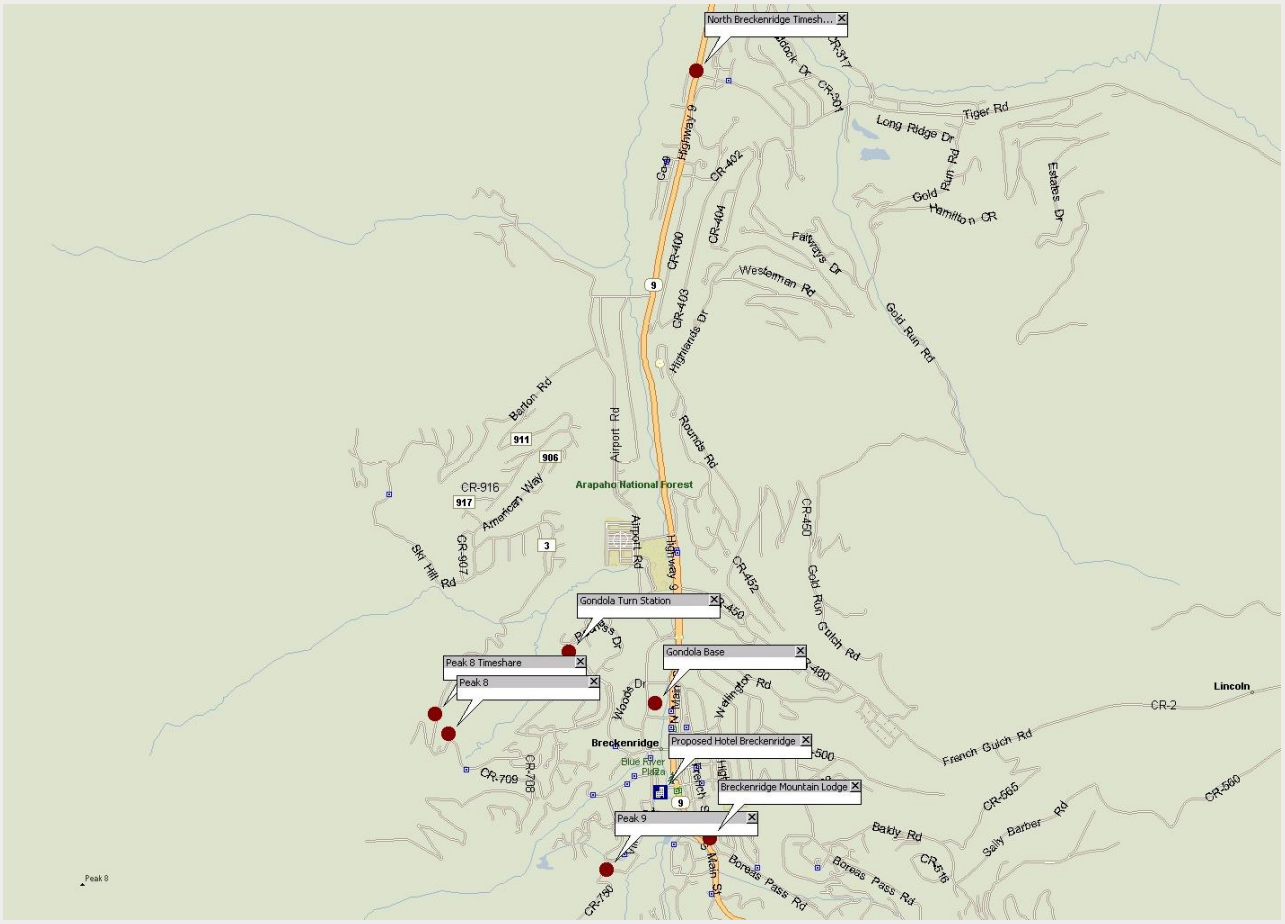


FIGURE 5-14 NEW SUPPLY

Proposed Property	Number of Rooms	Total Competitive Level	Estimated Opening Date	Developer	Development Stage
Proposed Hotel Breckenridge	214	100 %	January 1, 2018	Town of Breckenridge	Early Development
North Breckenridge Timeshare	126	10	January 1, 2016	Welk	Approved
Peak 8 Timeshare	75	10	January 1, 2016	N/A	Seeking Financing
Gondola Turn Station Condo/Timeshare/Hotel	57	20	January 1, 2017	N/A	Seeking Financing
Peak 8 Condo/Hotel/Timeshare	100	35	January 1, 2019	Vail Resorts	Approved
Gondola Condo Hotel	200	40	July 1, 2020	Vail Resorts	Approved
Breckenridge Mountain Lodge	71	10	July 1, 2022	Vail Resorts	Speculative
Peak 9 Condo Hotel	100	0	July 1, 2024	Vail Resorts	Speculative
Totals/Averages	**943**				

Several lodging projects are planned in Breckenridge. All of the projects are very early in the development process, and many have not yet determined the scope of the proposed lodging product. Two timeshare developments are planned for North Breckenridge and the base of Peak 8; these projects will be somewhat competitive with the proposed subject property and have been weighted secondarily competitive. Two more hotel, condominium, or timeshare products will be located near the Gondola Turn Station and the base of Peak 8 and have also been weighted secondarily competitive. A project located near the base of the gondola and another located at the site of the Breckenridge Mountain Lodge are expected to be developed in the future and have been weighted secondarily competitive. Furthermore, we note that a hotel project located near the base of Peak 9 is also planned, but is considered speculative and is not anticipated to open during the projection period. Therefore, this hotel has only been considered qualitatively in our positioning of the proposed subject property's stabilized occupancy level. Additionally, we note that the Lodge & Spa at Breckenridge is likely to be sold in 2013 and the hotel site has excess land and approvals for up to 100 total guestrooms.

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 property may be positively or negatively affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and average rate is intended to reflect such risk.

Supply Conclusion

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

DEMAND

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

FIGURE 5-15 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2010	391,011	—	865,769	—	45.2 %	$199.76	—	$90.22	—
Est. 2011	388,095	(0.7) %	871,054	0.6 %	44.6	206.14	3.2 %	91.84	1.8 %
Est. 2012	417,626	7.6	871,054	0.0	47.9	207.48	0.7	99.48	8.3

Avg. Annual Compounded

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the 2012 distribution of accommodated-room-night demand as follows.

FIGURE 5-16 ACCOMMODATED ROOM NIGHT DEMAND

Market Segment	Marketwide Accommodated Demand	Marketwide Percentage of Total
FIT	272,803	65 %
Meeting and Group	144,823	35
Total	**417,626**	**100 %**

The market's demand mix comprises FIT demand, with this segment representing roughly 65% of the accommodated room nights in this Breckenridge submarket. The remaining portion comprises meeting and group at 35%.

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

Fit Segment

Free Independent Traveler (FIT) demand consists of individuals and families spending time in an area or passing through as a tourist; this segment represents all travelers that are not associated with a group, contract, or wholesale program. Their travel purposes may include sightseeing, recreation, or visiting friends and relatives. FIT demand also includes room nights booked through Internet sites such as Expedia, hotels.com, and Priceline; however, this demand may include group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. FIT demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. Future FIT demand is tied to the overall economic health of the primary source cities for visitation.

In the local market area, free independent traveler (FIT) demand is driven primarily by destination ski areas such as Breckenridge, Keystone, and Copper Mountain. Visitors from the Front Range, population centers located along the eastern slope of the Rocky Mountains spanning from Fort Collins in the north to Colorado Springs in the south, also make up a large portion of this demand segment. While visitors from the Front Range typically have shorter stays than other FIT travelers, these visitors are likely to visit the Colorado Rocky Mountain region several times during one season. Travelers from Texas, Illinois, Florida, and California also comprise a considerable portion of this segment; these visitors tend to stay for longer periods than local travelers. Moderate growth is anticipated in this segment in the near term as ski visitor levels continue to increase and as Peak 6 at Breckenridge Ski Resort opens. Market representatives report that both local and national demand has returned to the area. In addition, the widespread popularity of the area as both a local and national ski destination should enable the FIT segment to achieve moderate growth over the long term. Considering both current and historical trends, we project demand change rates of 5.0% in 2013, 3.0% in 2014, and 1.0% in 2015. After these first three projection years, we have forecast demand change rates of 0.5% in 2016 and 0.5% in 2017.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week, most commonly in the spring and fall months. These groups tend to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food and beverage and/or banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and during the summer months or holiday season, when greater discounts are usually available; these groups generate limited ancillary revenues. Association demand is generally divided on a geographical basis, with national, regional, and state associations representing the most common sources. Professional associations and/or those supported by members' employers often meet on weekdays, while other associations prefer to hold events on weekends. The profile and revenue potential of associations varies depending on the group and the purpose of their meeting or event.

In the local market, the corporate, government, and association sub-segments are the strongest contributors to meeting and group demand. Corporate groups are generally less rate-sensitive than other types of groups and, therefore, are more amenable to the higher peak-season rate structure. Due to the resort nature of the region, group demand is not typically generated by local corporations. Recreational groups, such as bicycle clubs, and social groups, such as wedding parties, typically stay in the market during the summer months of July and August when the weather is best suited for outdoor functions and activities. Meeting and group demand is anticipated to improve in the foreseeable future due to the entrance of the proposed subject property, which is expected to be a large meeting-and-group-oriented hotel. The area's accessibility, natural beauty, and diversity of appealing activities bode well for future growth within this segment. Considering both current and historical trends, we project demand change rates of 2.0% in 2013, 1.0% in 2014, and 1.0% in 2015. After these first three projection years, we have forecast demand change rates of 0.5% in 2016 and 0.5% in 2017.

Conclusion

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, two segments were defined as representing the subject property's lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect

changes in hotel demand. Based on this procedure, we forecast the following average annual compounded market-segment growth rates.

FIGURE 5-17 AVERAGE ANNUAL COMPOUNDED MARKET SEGMENT GROWTH RATES

	Annual Growth Rate									
Market Segment	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
FIT	5.0 %	3.0 %	1.0 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
Meeting and Group	2.0	1.0	1.0	0.5	0.5	4.0	3.0	2.0	0.5	0.5
Base Demand Growth	**4.0 %**	**2.3 %**	**1.0 %**	**0.5 %**	**0.5 %**	**1.7 %**	**1.4 %**	**1.0 %**	**0.5 %**	**0.5 %**

Latent Demand

A table presented earlier in this section illustrated the accommodated-room-night demand in the subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects potential room-night demand that has not been realized by the existing competitive supply; this type of demand can be divided into unaccommodated demand and induced demand.

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 sells out many nights during the year.

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

FIGURE 5-18 UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Accommodated Room Night Demand	Unaccommodated Demand Percentage	Unaccommodated Room Night Demand
FIT	272,803	6.5 %	17,772
Meeting and Group	144,823	6.0	8,685
Total	**417,626**	**6.3 %**	**26,457**

Our interviews with market participants found that the market generally sells out every night during the winter peak travel season, as well as on weekends during the months of July through September. A portion of this demand, which is currently turned away, should return to the market concurrent with the supply increase. Accordingly, we have forecast 6.3% of the base-year demand to be classified as unaccommodated based upon an analysis of monthly and weekly peak demand and sell-out trends.

Induced Demand

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

Accommodated Demand and Market-wide Occupancy

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

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

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

Market Impact Conclusion

The numerous additions of supply, including the proposed subject property, is expected to impact the market. Marketwide occupancy is currently around 50% and would grow into the mid-50% range if not new supply was entering the market. However, the impact of the proposed subject property on the market is

being limited as a result of the program being suggested. The 214-room count along with meeting space, product level, brand affiliation, and integration of the Riverwalk Center is being recommended since this product is not sufficiently offered in the market and would capture demand more directly from Vail versus the smaller independent properties currently in Breckenridge. An exact impact is not achievable due to the volume of the other supply additions.

FIGURE 5-19 FORECAST OF MARKET OCCUPANCY

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
FIT											
Base Demand	272,803	286,443	295,036	297,986	299,476	300,974	302,479	303,991	305,511	307,039	308,574
Unaccommodated Demand		18,661	19,221	19,413	19,510	19,607	19,705	19,804	19,903	20,003	20,103
Total Demand		305,104	314,257	317,399	318,986	320,581	322,184	323,795	325,414	327,041	328,676
Growth Rate		11.8 %	3.0 %	1.0 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %	0.5 %
Meeting and Group											
Base Demand	144,823	147,720	149,197	150,689	151,442	152,199	158,287	163,036	166,297	167,128	167,964
Unaccommodated Demand		8,859	8,947	9,037	9,082	9,127	9,492	9,777	9,973	10,022	10,073
Total Demand		156,578	158,144	159,725	160,524	161,327	167,780	172,813	176,269	177,151	178,036
Growth Rate		8.1 %	1.0 %	1.0 %	0.5 %	0.5 %	4.0 %	3.0 %	2.0 %	0.5 %	0.5 %
Totals											
Base Demand	417,626	434,162	444,233	448,675	450,919	453,173	460,766	467,027	471,808	474,167	476,538
Unaccommodated Demand		27,519	28,168	28,449	28,592	28,735	29,198	29,581	29,876	30,025	30,175
Total Demand		461,682	472,401	477,125	479,510	481,908	489,964	496,608	501,683	504,192	506,713
less: Residual Demand		28,784	30,763	31,974	30,577	30,042	11,191	9,450	8,006	3,993	4,650
Total Accommodated Demand		432,898	441,638	445,150	448,934	451,866	478,773	487,158	493,677	500,199	502,063
Overall Demand Growth		3.7 %	2.0 %	0.8 %	0.8 %	0.7 %	6.0 %	1.8 %	1.3 %	1.3 %	0.4 %
Market Mix											
FIT	65.3 %	66.1 %	66.5 %	66.5 %	66.5 %	66.5 %	65.8 %	65.2 %	64.9 %	64.9 %	64.9 %
Meeting and Group	34.7	33.9	33.5	33.5	33.5	33.5	34.2	34.8	35.1	35.1	35.1
Existing Hotel Supply	2,386	2,386	2,386	2,386	2,386	2,386	2,386	2,386	2,387	2,386	2,386
Proposed Hotels											
Proposed Hotel Breckenridge [1]							214	214	214	214	214
North Breckenridge Timeshare [2]					13	13	13	13	13	13	13
Peak 8 Timeshare [3]					7	8	8	8	8	8	8
Gondola Turn Station Condo/Timeshare/Hotel [4]						11	11	11	11	11	11
Peak 8 Condo/Hotel/Timeshare [5]								35	35	35	35
Gondola Condo Hotel [6]									40	80	80
Breckenridge Mountain Lodge [7]											4
Peak 9 Condo Hotel [8]											
Available Rooms per Night	871,054	871,054	871,054	871,054	878,391	882,552	960,662	973,437	988,157	1,002,637	1,003,943
Nights per Year	365	365	365	365	365	365	365	365	365	365	365
Total Supply	2,386	2,386	2,386	2,386	2,407	2,418	2,632	2,667	2,707	2,747	2,751
Rooms Supply Growth	—	0.0 %	0.0 %	0.0 %	0.8 %	0.5 %	8.9 %	1.3 %	1.5 %	1.5 %	0.1 %
Marketwide Occupancy	**47.9 %**	**49.7 %**	**50.7 %**	**51.1 %**	**51.1 %**	**51.2 %**	**49.8 %**	**50.0 %**	**50.0 %**	**49.9 %**	**50.0 %**

[1] Opening in January 2018 of the 100% competitive, 214-room Proposed Hotel Breckenridge

[2] Opening in January 2016 of the 10% competitive, 126-room North Breckenridge Timeshare

[3] Opening in January 2016 of the 10% competitive, 75-room Peak 8 Timeshare

[4] Opening in January 2017 of the 20% competitive, 57-room Gondola Turn Station Condo/Timeshare/Hotel

[5] Opening in January 2019 of the 35% competitive, 100-room Peak 8 Condo/Hotel/Timeshare

[6] Opening in July 2020 of the 40% competitive, 200-room Gondola Condo Hotel

[7] Opening in July 2022 of the 10% competitive, 71-room Breckenridge Mountain Lodge

[8] Opening in July 2024 of the 0% competitive, 100-room Peak 9 Condo Hotel

6. Description of the Proposed Project

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 Hotel Breckenridge will be a full service, conference and lodging facility containing 214 rentable units. The four-story property will open on January 1, 2018. The proposed hotel in Downtown Breckenridge is expected to provide the town with a high-quality conference center that can better accommodate large groups who have not chosen Breckenridge in the past. In addition, the hotel's proposed location in Downtown Breckenridge will bring guests closer to Main Street, which offers a multitude of locally-owned restaurants and retailers. Local officials and industry professionals reported that groups of between 150 to 250 represent the greatest opportunity for the town of Breckenridge, while larger groups of 500 plus are currently not easily accommodated. As such, we believe the ideal scope for the proposed subject property is a 214-room, upper-upscale, full-service hotel with approximately 22,135 square feet of meeting space. Moreover, in order to attract large groups that have not chosen Breckenridge in the past, we recommend obtaining a nationally-recognized four-star brand that will attract new visitors to Breckenridge. A prestigious brand will allow local marketing officials to better sell Breckenridge as a premier mountain resort destination. The brands we consider to be the best fit for an upper-upscale, conference hotel in Breckenridge are Westin, Hyatt Regency, JW Marriott, Renaissance, and conference hotel specialists such as Destination Hotels & Resorts, Dolce Hotels & Resorts, and RockResorts.

This project has a unique set of issues that were considered in our recommendations for the proposed hotel. Parking in Downtown Breckenridge is already an issue during the peak season and this hotel would be built on the largest parking lot near downtown. As such, a large parking structure is a necessity of the project, with as much parking as is currently available plus additional parking for hotel and conference center guests. The large parking structure limits the number of guestrooms and meeting space that can be built on the remaining portion of the 7.25 acre site. Another constraint of the project is the buildable height of the new hotel and parking structure. The subject site is located one block west of Main Street and a large structure would obstruct views from

downtown. In consideration of this, we have developed preliminary designs for the hotel that include two four-story structures and a parking structure. The hotel structures would provide a viewing corridor between the two buildings along Adams Avenue. Another consideration of the project is the opportunity for synergies between a new hotel and conference facility and the adjacent Riverwalk Center. The Riverwalk Center is a unique venue for concerts, weddings, and other events but also has its limitations. Upon review of the purposed reconfiguration of the center and our conversations with local officials and industry professionals, we were told the back-of-house space was inefficient and that the venue was under-utilized. As such, in our preliminary design of the conference center, we recommend that the conference center be built adjacent to the Riverwalk Center, eliminating the existing back-of-house, and utilizing the newly designed back-of-house of the proposed conference center. In addition, we recommend that the two facilities be managed together by the hotel or a third-party manager in order to take advantage of the synergies of both facilities.

The Design team analyzed several development scenarios for the F-Lot and Tiger Dredge development parcels that are identified as District #23 in the Breckenridge Land Use Guidelines. In our opinion, the highest and best use design scenario comprises of a 214 key, 4-star hotel potentially linked directly to the existing Riverwalk Center. The hotel will include additional conferencing facilities, a spa and fitness center, an upscale riverside restaurant and a subterranean parking structure.

A separate, day-skier/Riverwalk Center parking structure, with a minimum capacity of 434 cars, is proposed at the south end of the development parcel. The structure could be potentially wrapped with retail along South Park and Park Avenues and include a sky bridge across South Park safely linking skiers to the Breckenridge base area development. We summarize the recommended best use plan in the details below:

USE AND SIZE

	Gross Square Feet
Hotel & Parking Structure	285,677
Retail & Skier Parking Structure	174,700

RESIDENTIAL DENSITY - ALLOWED

Units per Acre	Site Acreage	Allowed Units
20	7.25	145

RESIDENTIAL DENSITY - PROPOSED:

Gross Building Area (SF)	Unit Conversion Factor*	Units Per FTE
130,820	1,380	95

*9-1-19-3A: POLICY 3 (ABSOLUTE) DENSITY/INTENSITY, table B, outside conservation are

COMMERCIAL DENSITY – ALLOWED

FAR	Site Square Footage	Allowed Retail SF
1:3	315,810	105,270

COMMERCIAL DENSITY – PROPOSED

Type	Gross Square Footage	Unit Conversion Factor	Unit Per FTE
Hotel	69,685	1,000	70
Retail/Garage	13,960	1,000	14
TOTALS	**83,645**		**84**

We should note that the available SFE for this site is a bit unclear because it appears that there were some transfers of SFE with the Town in the past. Our best knowledge for the whole site is somewhere between 193 and 199 SFE's.

TOTAL DENSITY – EXISTING

Allowed SFE	River Walk Center	River Walk Center Credits*	Remaing SFE
199	22.44	4.2	180.76

*Assumes demolition of roughly 4,218 SF (divided by 1,000 unit conversion factor)

TOTAL DENSITY – PROPOSED

Residential	Hotel	Parking/Retail	TOTAL SFE
95	70	14	179

DENSITY SUMMARY

Allowed SFE	Proposed SFE	Conforms (Y/N)
180.76	179	Yes

Allowed SF	Proposed SF	Conforms (Y/N)
105,270	83,645	Yes

PARKING CODE AND ANALYSIS

Lot F is not included in the Service Area Boundary. Table B, in Section 9-3-8 of the Town Code was utilized to determine the off-street parking requirements. The following categories from Table B were utilized to determine the hotel parking load:

- Hotel – 1 Space per guestroom
- Retail – 1 space per 400 GFA
- Restaurant – Sit Down – 1 per 4 person capacity
- Convention Center - Special Review

PARKING SPACES - REQUIRED

Use	Parking Ratio	Units	Parking Spaces Required
Hotel	1:1	214	214
Retail/Office	1:400	5,500	14
Restaurant - Sit Down	1:4	210	53
Replacement of Existing Parking	1:1	378	378
		TOTAL PARKING SPACES:	658

There are approximately 378 existing parking stalls on the subject site, 179 stalls at F-Lot and 199 stalls at the Tiger Dredge lot. The proposed parking for the hotel and meeting facility is 281 stalls and 434 stalls for the day-skier/Riverwalk Center garage which will provide a combined total of approximately 715 parking spaces. The surplus spaces (approximately 57) are earmarked for the additional retail that is proposed to wrap the parking garage along South Park Avenue.

PARKING SPACES – PROPOSED 2 GARAGES

Structure	Existing Parking Spaces	Proposed Parking Spaces
Tiger Dredge Lot - Hotel Garage	199	281
F Lot - Skier/Riverwalk Garage	179	434
Total Spaces	378	715
Total Required Spaces	378	658
Surplus	0	57

Due to the costs of the garage improvements, one option is to keep the existing surface parking at F-Lot until the parking structure can be financed. This will render an approximate total of 179 existing parking stalls. When combined with the hotel, it would yield 460 stalls for the subject site and development of the hotel and conference facility. This option would provide 82 parking stalls over what exists currently.

PARKING SPACES – ALTERNATIVE SCENARIO –GARAGE AND SURFACE LOT

Structure	Existing Parking Spaces	Proposed Parking Spaces
Tiger Dredge Lot - Hotel Garage	199	281
F Lot - Remain Surface	179	179
Total Spaces	378	460
	Difference	82

Further Study

In the event the project were to go forward, we recommend that the Town or the prospective developer engage a parking engineering specialist. Do to the nature of the various businesses e.g., the hotel, conference facility, restaurant, Riverwalk Center and day skier parking, there may be opportunities to lessen the parking and still accommodate the demand. We also suggest that they take in account providing additional parking to enhance the parking for Main Street.

Event Tent

To address the need for larger event space, we studied an option of locating this temporary tent event facility on top of the proposed day-skier/Riverwalk Center Garage (see architectural plan, page 9). If the event tent were installed, this would reduce the number of combined parking by approximately 135 stalls. The event tent can be sized to accommodate anywhere from 800 to 1,600 people. The garage would need to be deigned to incorporate additional stairways for exiting with the addition of one passenger elevator for convenient access.

Parking and Riverwalk Center Linkage

The plan assumes that the 434 car garage will support the Riverwalk Center and can be designed to feature the elevator access and stairway at the northeast corner of the building. This will allow for convenient access to and from the garage and the Riverwalk Center with its linkage being down the river walkway. The hotel parking can also be an option for direct access to the Riverwalk Center including an option for valet parking for upscale events.

Along with the proposed hotel and in the theme of the Town's Community Driver Design Guidelines, there remains the opportunity to link the new hotel and Riverwalk Center with the Arts District. Creating a seamless flow of pedestrian

pathways to and from the subject site, along the Blue River corridor, including potentially making Adams Avenue a pedestrian street will greatly enhance the overall guest experience. Providing park benches, public artwork, flower gardens and meandering walkways will help to shape the overall Blue River corridor experience.

BUILDING HEIGHT

Hotel/Parking

- Varying heights stepping up to four stories maximum along Park Avenue. The lobby massing is proposed to be a single story on the west side and two stories on the east side. The intent of the lower lobby mass is to preserve the view corridor along Adams Avenue. The height will need to be looked at in closer detail using the Breckenridge Planning Point Assessment system. We believe we can achieve the points needed for four stories.

Parking/Retail

- The proposed height along the street is two stories and the proposed height along the east is four stories.

BUILDING SETBACKS

Front

- Along Park Avenue and South Park Avenue the setback from the property line is fifteen feet. The setback requirement from the proposed round-about at Village Road and Park Avenue is unknown at this time. The assumed setback is ten feet from the proposed back of sidewalk.

Side

- Permitted setback is five feet. The proposed designs side setback is greater than five feet.

Rear

- Permitted setback is fifteen feet'. The proposed designs rear setback is greater than fifteen feet.

PEDESTRIAN CIRCULATION

The proposed design maintains pedestrian circulation along Park and South Park Avenues. Circulation laterally along the river is also maintained and is enhanced and activated by the inclusion of the riverside restaurant operated by the hotel plus informal, outdoor gathering spaces between the hotel and the existing Riverwalk Center facility. Pedestrian access from South Park Avenue north, to the river will need to be considered as the pedestrian path may conflict with the proposed vehicular access between The Lofts and the skier parking garage. Pedestrian access from Adams Avenue will ascend upwards; through the hotel lobby to Park Avenue. The proposed design also suggests including a "sky bridge" from the 2nd level of the skier parking garage over South Park Avenue. The intent is to provide a safe pedestrian connection to the Village base area and to eliminate a significant portion of "j walking" across South Park Avenue.

VEHICULAR CIRCULATION

Lot F is currently served by Park Avenue, South Park Avenue, Village Road, Four O'clock Road and W. Washington Avenue. Access from these roadways will not change. CDOT is proposing round-abouts at Village Road and 4 O'clock Road. The hotel guest porte-cochere will be accessed from a single curb cut along Park Avenue. Valet access to the lower level parking garage will be accessed from the porte-cochere area. The primary access point to hotel parking and hotel loading and service areas will be via 4 O'clock Road, which works well with the existing road grade.

The skier-parking garage will be accessed by two at-grade locations. The mid level of the garage will be accessed via extending the existing access road serving The Loft development. The second at-grade access point will be off Park Avenue and will utilize the existing bus stop curb cut.

The bus stop is proposed to be relocated along South Park Avenue between the hotel and skier-parking garage.

UTILITIES

All necessary utilities are available. The proposed design would require the existing main sewer line on the east side of the site to be relocated.

MARKET

The property is targeted for hotel use only, not market rate units or condo-hotel.

EMPLOYEE HOUSING

We recommend to at least achieve zero points in the Breckenridge Planning Point Assessment by providing 4.51-5% of project density in employee housing (calculation used includes conference, F&B, suites but not back-of-house or service areas). This would equate to approximately 7,107 SF as deed restricted. We understand this can also be a payment in lieu.

ACCESS & EASEMENTS -

Per the existing surveys of the property, existing access and easements will need to be modified. Additional easements will need to be added to accommodate the round-about traffic circles being developed by the Town.

OPEN SPACE

We recommend that we strive to accommodate 15% kept natural adjacent to public areas and not just strips. This is a significant enhancement along the river and along the main roads surrounding the property.

COMMUNITY NEED

The recommended layout contributes to several main community needs:

- Accommodates space and right-of-ways for the traffic circles (round-abouts)
- Links the public parking to the Base Area via pedestrian bridge, creating a safer environment for skiers walking to the Village.
- Proposed asset attaches to the existing River Walk Center and expands the center's back-of-house area solving a need assessed by the Town's consultant team working on that project.
- The plan isolates public parking from the hotel so that one can be managed by a private entity and the other can be managed by the Town. This helps create a revenue source for the Town.

RENDERING OF PROJECT

Summary of the Facilities

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

FIGURE 6-1 PROPOSED FACILITIES SUMMARY

Guestroom Configuration	Number of Units
King	106
Queen/Queen	96
Suite	11
Presidential Suite	1
Total	214

Food & Beverage Facilities	Seating Capacity
Restaurant and Lounge	Minimal 150

Indoor Meeting & Banquet Facilities	Square Footage
Ballroom	10,000
Jr. Ballroom	4,635
Meeting Room 1	2,000
Meeting Room 2	2,000
Meeting Room 3	2,000
Boardroom 1	750
Boardroom 2	750
Total	22,135
Riverwalk Center Amphitheater	770 seats

Amenities & Services	
Spa Facility	Exercise Room
Coffee Shop	Business Center
Outdoor Swimming Pool	Gift Shop
Retail/Skier Valet	Vending Areas
Outdoor Whirlpools	

Infrastructure	
Hotel Garage Parking Spaces	281
Skier/ Riverwalk Parking Spaces	434
Life-Safety Systems	Sprinklers, Smoke Detectors, etc.

Site Improvements and Hotel Structure

Once guests enter the site, parking is expected to be available in a parking garage situated south of the hotel. Site improvements should include adequate signage, and signage should be placed on the exterior of the building. We assume that all signage will adequately identify the property and meet brand standards. Ample landscaping should allow for a positive guest impression and competitive exterior appearance. Sidewalks are expected to be present along the front entrance and around the perimeter of the hotel. Overall, we expect the site improvements to be in character with an upper-upscale, full-service hotel.

The hotel structure is expected to comprise two buildings linked by a central lobby and entryway, with a viewing corridor along Adams Avenue. The exterior of the hotel should be finished with appropriate upscale materials and the design should be in character with the ambiance of the surrounding mountain ski town. The hotel should be served by adequate internal vertical transportation within the main structure, including multiple elevators and stairways. Double-paned windows should reduce noise transmission into the rooms. Heating and cooling should be provided by individual units for the guestrooms and several large units for the public areas. Overall, the building components are expected to be normal for a hotel of this type and should meet the standards for this market. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that may impact the future operating potential of the hotel or delay its assumed opening date.

Lobby

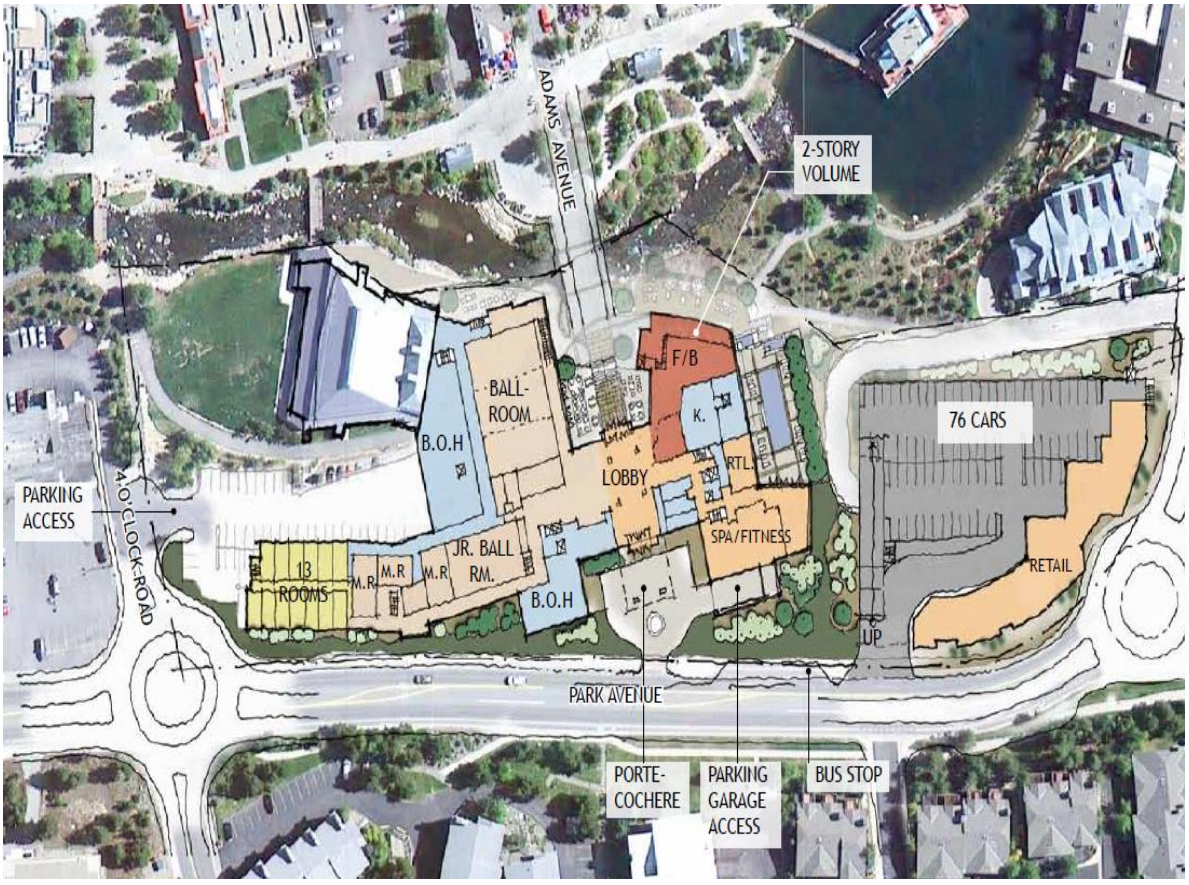
Guests are expected to enter the hotel through automatic doors, which will open to a vestibule, and then through a second set of automatic doors. The lobby should be spacious, appropriate for an upper-upscale, full-service hotel. The lobby walls should be attractively finished with an upscale material that is in line with brand standards. The front desk should feature a stone countertop and is expected to be installed with appropriate property management and telephone systems. The furnishings and finishes in this space should offer an appropriate first impression, and the design of the space should lend itself to adequate efficiency. The specific design concept will be finalized with input from the pursued future brand for the proposed subject property. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

Food and Beverage Facilities

The hotel is expected to offer an upscale restaurant and destination bar/lounge, which will be located on the first floor, offering curbside appeal. The size and layout of the facility is expected to be appropriate for the hotel and surrounding marketplace. The furnishings of these spaces are anticipated to be of a similar style and finish as lobby and guestroom furnishings.

Overall, the hotel is expected to provide a competitive offering of food and beverage facilities and banquet and receptions at the meeting facility for an upper-upscale, full-service property.

FIRST FLOOR PLAN



Meeting and Banquet Space

Under a full-service, upper-upscale scope, the proposed hotel should offer a significant amount of modern and technologically advanced meeting space. We would expect the integration of a fully divisible grand ballroom and primary meeting space along with additional smaller breakout rooms, secondary meeting rooms, and boardroom-type spaces. Large windows with views of the mountains and downtown and the ability to be covered should be incorporated into the design of the facility and meeting rooms. We anticipate that public restrooms and a business center, as well as additional reception and hallway areas, will be incorporated into this space and be designed to accommodate the Riverwalk

Center. It should be noted, due to the expected connection to the Riverwalk Center and assumed shared management, the hotel would have access and ability to host events within the 770-seat amphitheater within the Riverwalk Center.

Recreational Amenities

The hotel should offer a small spa facility with additional in-room spa services, an exercise room, an outdoor swimming pool, and outdoor whirlpool.

Additional Amenities

Other amenities are expected to include a full-service business center with various workstations, a gift shop, and wireless Internet access in the public areas. Vending areas featuring ice machines are anticipated to be located on all hotel floors. Overall, the supporting facilities should be appropriate for a hotel of this type, and we assume that they will meet brand standards.

Guestrooms

The hotel should feature standard and suite-style guestroom configurations. The guestrooms should be sufficiently sized, offering adequate space and typical amenities for the upper-upscale product type. In addition to the standard furnishings, rooms are expected to feature an iron and ironing board, a coffeemaker, and high-speed Internet access. Suites, which are expected to be available for a premium rate, should provide a larger living area with additional furnishings and other upgraded amenities. Overall, the guestrooms should offer a competitive product for this market.

Guestroom bathrooms should be of a size appropriate for the upper-upscale market, with a shower-in-tub, a commode, and a sink with vanity area, featuring a granite countertop. The floors should be finished with tile, and the walls should be finished with vinyl wall-covering. Bathrooms should feature a hairdryer, a robe, and high-quality toiletries. Overall, the bathroom design is expected to be appropriate for a product of this type.

The interior guestroom corridors should be sufficiently sized and functional, permitting the easy passage of housekeeping carts. Corridor carpet, vinyl wall-covering, signage, and lighting should be in keeping with the overall look and design of the rest of the property.

Back-of-the-House

The hotel will be served by the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and two full-service kitchens to serve the needs of the restaurant and banquet operations. These spaces should be adequate for a hotel of this type and should allow for the efficient operation of the property under competent management.

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. 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 Estimate

The construction estimate for the 214-room subject hotel is illustrated in the following table.

FIGURE 6-2 SUBJECT PROPERTY CONSTRUCTION ESTIMATE

Component		Cost	Cost per Room
Site Work		$4,010,100	$18,739
Design		3,609,090	16,865
Permit Licening		1,002,525	4,685
Hard Construction		37,093,425	173,334
FFE		5,012,625	23,423
OSE/IT		2,005,050	9,369
Cost Inflation		6,115,403	28,577
Insurance		1,002,525	4,685
Pre Opening		1,403,535	6,559
Project Management		1,002,525	4,685
G&A		401,010	1,874
Finance, Tax, Legal		802,020	3,748
Devlopers Profit/Fee		3,208,080	14,991
Contingency		3,408,585	15,928
Hotel Parking Garage		2,981,020	13,930
Total, Without Land		$73,057,518	$341,390
	(say)	**$73,100,000**	**$341,000**

Conclusion

Overall, the subject property should offer a well-designed, functional layout of support areas and guestrooms. All typical and market-appropriate features and amenities are expected to be included in the hotel's design. We assume that the building will be fully open and operational on the assumed 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 the major markets of tourism at least six months in advance of the opening date.

7. Projection of Occupancy and Average Rate

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

Penetration Rate Analysis

The subject property's forecasted market share and occupancy levels are based upon its anticipated competitive position within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share. A complete discussion of the concept of penetration is presented in the addenda.

Historical Penetration Rates by Market Segment

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

FIGURE 7-1 HISTORICAL PENETRATION RATES

Property	FIT	Meeting and Group	Overall
Beaver Run Resort	74 %	114 %	88 %
Village Hotel	116	118	117
DoubleTree by Hilton Breckenridge	102	103	102
Keystone Lodge & Spa	105	132	115
Secondary Competition	109	90	102

The Village Hotel achieved the highest penetration rate within the FIT segment. The highest penetration rate in the meeting and group segment was achieved by the Keystone Lodge & Spa.

Forecast of Subject Property's Occupancy

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

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

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

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

FIGURE 7-2 FIT SEGMENT ADJUSTED PENETRATION RATES

Hotel	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Beaver Run Resort	74 %	74 %	73 %	73 %	74 %	74 %	75 %	75 %	74 %	74 %	74 %
Village Hotel	116	114	112	111	112	113	113	113	113	113	113
DoubleTree by Hilton Breckenridge	102	105	108	110	111	111	112	112	112	111	111
Keystone Lodge & Spa	105	105	105	105	105	106	107	106	106	106	106
Secondary Competition	109	108	108	108	108	107	108	107	107	106	106
Proposed Hotel Breckenridge	—	—	—	—	—	—	**93**	**100**	**103**	**105**	**105**
North Breckenridge Timeshare	—	—	—	—	80	96	106	111	111	111	111
Peak 8 Timeshare	—	—	—	—	80	96	106	111	111	111	111
Gondola Turn Station Condo/Timeshare/Hotel	—	—	—	—	—	86	94	99	102	102	102
Peak 8 Condo/Hotel/Timeshare	—	—	—	—	—	—	—	96	104	107	107
Gondola Condo Hotel	—	—	—	—	—	—	—	—	91	96	96
Breckenridge Mountain Lodge	—	—	—	—	—	—	—	—	—	—	96
Peak 9 Condo Hotel	—	—	—	—	—	—	—	—	—	—	—

FIGURE 7-3 MEETING AND GROUP SEGMENT ADJUSTED PENETRATION RATES

Hotel	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Beaver Run Resort	114 %	113 %	113 %	113 %	113 %	113 %	110 %	109 %	108 %	108 %	108 %
Village Hotel	118	115	112	112	113	113	109	108	108	107	107
DoubleTree by Hilton Breckenridge	103	107	110	111	112	112	110	110	109	108	108
Keystone Lodge & Spa	132	132	132	131	132	132	126	124	121	120	120
Secondary Competition	90	90	90	89	90	90	89	88	87	87	87
Proposed Hotel Breckenridge	—	—	—	—	—	—	**123**	**134**	**143**	**145**	**145**
North Breckenridge Timeshare	—	—	—	—	55	58	59	61	60	60	60
Peak 8 Timeshare	—	—	—	—	50	53	54	56	55	55	55
Gondola Turn Station Condo/Timeshare/Hotel	—	—	—	—	—	80	85	88	89	91	91
Peak 8 Condo/Hotel/Timeshare	—	—	—	—	—	—	—	82	89	94	94
Gondola Condo Hotel	—	—	—	—	—	—	—	—	97	103	103
Breckenridge Mountain Lodge	—	—	—	—	—	—	—	—	—	—	97
Peak 9 Condo Hotel	—	—	—	—	—	—	—	—	—	—	—

The proposed subject property's FIT penetration rate is supported by its expected upper-upscale amenities and services. Furthermore, the property should benefit from its Downtown Breckenridge location, particularly during the summer and shoulder seasons. The proposed subject property is anticipated to realize a FIT penetration level equal to its fair share by the stabilized year. The proposed subject property's location farther from the ski slopes than many of its competitors will put it at a slight disadvantage in capturing winter-related demand; nevertheless, this factor will be somewhat offset by the property's strong locational attributes in regard to summer recreational activities as well as its branding.

The proposed subject property's penetration rate in the meeting and group segment is positioned well above its existing competitors. The property is expected to offer a considerable amount of meeting space, which should increase its ability to capture demand related to meetings and events. Furthermore, the proposed subject property's Downtown Breckenridge location should allow it to become a popular destination for incentive groups, executive-level meetings, and social events such as weddings. The proposed subject property's ability to capture this demand should be supported by the anticipated experience and sophistication of the sales and marketing operation.

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

FIGURE 7-4 MARKET SEGMENTATION FORECAST – SUBJECT PROPERTY

	2018	2019	2020	2021	2022
FIT	59 %	58 %	57 %	57 %	57 %
Meeting and Group	41	42	43	43	43
Total	100 %	100 %	100 %	100 %	100 %

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

FIGURE 7-5 FORECAST OF SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2018	2019	2020	2021	2022
FIT					
Demand	314,674	317,531	320,153	324,458	325,667
Market Share	7.6 %	8.0 %	8.1 %	8.2 %	8.1 %
Capture	23,800	25,495	26,031	26,455	26,521
Penetration	93 %	100 %	103 %	105 %	105 %
Meeting and Group					
Demand	164,098	169,627	173,524	175,741	176,395
Market Share	10.0 %	10.8 %	11.3 %	11.3 %	11.3 %
Capture	16,423	18,245	19,583	19,861	19,910
Penetration	123 %	134 %	143 %	145 %	145 %
Total Room Nights Captured	**40,223**	**43,740**	**45,615**	**46,316**	**46,431**
Available Room Nights	78,110	78,110	78,110	78,110	78,110
Subject Occupancy	**51 %**	**56 %**	**58 %**	**59 %**	**59 %**
Marketwide Available Room Nights	960,662	973,437	988,157	1,002,637	1,003,943
Fair Share	**8 %**	**8 %**	**8 %**	**8 %**	**8 %**
Marketwide Occupied Room Nights	478,773	487,158	493,677	500,199	502,063
Market Share	**8 %**	**9 %**	**9 %**	**9 %**	**9 %**
Marketwide Occupancy	**50 %**	**50 %**	**50 %**	**50 %**	**50 %**
Total Penetration	**103 %**	**112 %**	**117 %**	**119 %**	**119 %**

Based on our analysis of the proposed subject property and market area, we have selected a stabilized occupancy level of 59%. The stabilized occupancy is intended to reflect the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the subject property may operate at occupancies above this stabilized level, we believe it equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

Average Rate Analysis

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

Competitive Position

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

FIGURE 7-6 BASE-YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS

Property	Estimated 2012 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Beaver Run Resort	$166.00	80.0 %	$69.72	70.1 %
Village Hotel	148.00	71.3	82.88	83.3
DoubleTree by Hilton Breckenridge	150.00	72.3	73.50	73.9
Keystone Lodge & Spa	190.00	91.6	104.50	105.1
Average - Primary Competitors	$165.49	79.8 %	$76.79	77.2 %
Average - Secondary Competitors	234.71	113.1	115.01	115.6
Overall Average	**$207.48**		**$99.48**	

The defined primarily competitive market realized an overall average rate of $165.49 in the 2012 base year, declining from the 2011 level of $166.82. The Keystone Lodge & Spa achieved the highest estimated average rate in the local primarily competitive market, by a modest margin, because of its AAA Four Diamond-quality product. An important rate aspect of this market is the rate premium achieved for the hotels located in the Vail Valley compared to those located in Breckenridge and Keystone. This rate premium is related to the popularity of Vail both nationally and internationally, as well as the strong brand affiliations of the hotels located in Vail. The selected rate position for the proposed subject property, in base-year dollars, takes into consideration factors such as its

location in Breckenridge and its anticipated high-quality, branded product. We have selected the rate position of $218.00, in base-year dollars, for the proposed subject hotel.

As illustrated previously, the average rate for the primarily competitive market averaged $166.82 in 2011, before reaching $165.49 in 2012. Market-wide rates began to trend upward in 2011 and illustrated strong growth in the 2013 year-to-date period. We expect average rates to continue to improve because of ongoing and planned renovations of the hotels in the market, the entrance of new high-quality hotels and other lodging units, and the increasing demand levels.

Based on these considerations, the following table illustrates the projected average rate and the growth rates assumed. As a context for the average rate growth factors, note that we have applied a base underlying inflation rate of 3.0% annually throughout our projection period.

FIGURE 7-7 MARKET AND SUBJECT PROPERTY AVERAGE RATE FORECAST

	Area-wide Market (Calendar Year)			Subject Property (Calendar Year)			
Year	Occupancy	Average Rate Growth	Average Rate	Occupancy	Average Rate Growth	Average Rate	Average Rate Penetration
Base Year	47.9 %	—	$207.48	—	—	$218.00	105.1 %
2013	49.7	4.0 %	215.78	—	4.0 %	226.72	105.1
2014	50.7	6.0	228.73	—	6.0	240.32	105.1
2015	51.1	6.0	242.45	—	6.0	254.74	105.1
2016	51.1	4.0	252.15	—	4.0	264.93	105.1
2017	51.2	3.0	259.71	—	3.0	272.88	105.1
2018	49.8	3.0	267.50	51.0 %	4.5	285.16	106.6
2019	50.0	3.0	275.53	56.0	4.5	297.99	108.2
2020	50.0	3.0	283.80	58.0	3.0	306.93	108.2
2021	49.9	3.0	292.31	59.0	3.0	316.14	108.2

As illustrated above, a 4.0% rate of change is expected for the subject property's positioned 2012 room rate in 2013. This is followed by growth rates of 6.0% and 6.0% in 2014 and 2015, respectively. This Colorado Rocky Mountain market should enjoy positive rate growth through the near term. The proposed subject property's rate position should reflect growth superior to market trends because of the proposed hotel's new facility, strong brand affiliation, and high-quality furnishings. The proposed subject property's penetration rate is forecast to reach 106.6% by the stabilized period.

The North American lodging market bottomed out in late 2009, at which time demand rebounded and the supply pipeline diminished. In 2010, occupancy rebounded strongly, and by 2011, average rates in most U.S. markets showed increases. In many urban markets, strong occupancy levels are allowing hotel operators to continue to make aggressive average rate gains in 2013, while in some less-robust markets, average rate growth is still constrained by weak demand levels. With demand largely recovered from the correction in 2009, and new supply remaining muted in 2013 and 2014, markets should be able to support healthy average rate gains in the near term.

A new property must establish its reputation and a client base in the market during its ramp-up period; as such, the proposed subject property's average rates in the initial operating period have been discounted to reflect this likelihood. We forecast 2.0% and 1.0% discounts to the proposed subject property's forecast room rates in the first two operating years, which would be typical for a new operation of this type. Moreover, a room rate discount of 1.0% has been forecast for the third projection year.

The following occupancies and average rates will be used to project the subject property's rooms revenue; this forecast reflects years beginning on January 1, 2018, which correspond with our financial projections.

FIGURE 7-8 FORECAST OF OCCUPANCY, AVERAGE RATE, AND REVPAR

Year	Occupancy	Average Rate Before Discount	Discount	Average Rate After Discount	RevPAR
2018	51 %	$285.16	2.0 %	$279.46	$142.52
2019	56	297.99	1.0	295.01	165.21
2020	58	306.93	0.0	306.93	178.02
2021	59	316.14	0.0	316.14	186.52

8. Projection of Income and Expense

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

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

Comparable Operating Statements

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

FIGURE 8-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2008**	**2009**	**2009**	**2011/12**	**2008**	**2012**
Number of Rooms:	**470 to 590**	**180 to 230**	**330 to 420**	**80 to 100**	**270 to 340**	**214**
Days Open:	**366**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**62%**	**65%**	**46%**	**59%**	**64%**	**59%**
Average Rate:	**$191**	**$217**	**$219**	**$298**	**$177**	**$242**
RevPAR:	**$119**	**$141**	**$101**	**$176**	**$113**	**$143**
REVENUE						
Rooms	55.6 %	50.7 %	40.3 %	70.5 %	50.6 %	58.3 %
Food & Beverage	32.8	44.3	17.2	29.2	45.7	33.4
Other Operated Departments	8.3	3.6	40.1	0.0	0.0	5.5
Rentals & Other Income	3.4	1.5	2.4	0.3	3.7	2.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	32.1	30.5	23.9	28.4	24.3	26.0
Food & Beverage	82.0	88.0	89.7	69.8	66.4	72.0
Other Operated Departments	76.5	77.1	21.5	0.0	0.0	76.7
Total	52.2	57.2	35.8	40.4	44.0	43.4
DEPARTMENTAL INCOME	47.8	42.8	64.2	59.6	56.0	56.6
OPERATING EXPENSES						
Administrative & General	9.8	11.9	9.2	14.3	6.5	8.0
Marketing	7.7	7.9	5.7	8.3	6.9	5.5
Franchise Fee	0.0	0.0	0.0	0.0	0.0	6.2
Property Operations & Maintenance	7.0	3.9	4.9	4.7	4.3	4.0
Utilities	5.7	3.4	7.0	2.0	3.6	3.5
Total	30.2	27.1	26.8	29.3	21.4	27.3
HOUSE PROFIT	17.6	15.7	37.4	30.3	34.6	29.3
Management Fee	2.4	3.0	0.2	3.4	5.0	3.0
INCOME BEFORE FIXED CHARGES	15.2	12.8	37.2	26.9	29.6	26.3

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

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

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized $
Year:	2008	2009	2009	2011/12	2008	2012
Number of Rooms:	470 to 590	180 to 230	330 to 420	80 to 100	270 to 340	214
Days Open:	366	365	365	365	365	365
Occupancy:	62%	65%	46%	59%	64%	59%
Average Rate:	$191	$217	$219	$298	$177	$242
RevPAR:	$119	$141	$101	$176	$113	$143
REVENUE						
Rooms	$43,666	$51,376	$37,016	$64,067	$41,298	$52,178
Food & Beverage	25,757	44,876	15,815	26,589	37,334	29,857
Other Operated Departments	6,526	3,649	36,898	0	0	4,905
Rentals & Other Income	2,634	1,505	2,231	267	3,043	2,559
Total	78,583	101,406	91,960	90,922	81,675	89,499
DEPARTMENTAL EXPENSES						
Rooms	14,023	15,683	8,845	18,200	10,031	13,566
Food & Beverage	21,115	39,475	14,182	18,567	24,795	21,497
Other Operated Departments	4,994	2,812	7,925	0	1,150	3,764
Total	41,058	57,970	32,962	36,767	35,976	38,827
DEPARTMENTAL INCOME	37,525	43,436	58,997	54,156	45,699	50,672
OPERATING EXPENSES						
Administrative & General	7,692	12,045	8,461	13,011	5,310	7,130
Marketing	6,062	7,975	5,273	7,533	5,647	4,952
Franchise Fee	0	0	0	0	0	5,592
Property Operations & Maintenance	5,496	3,955	4,491	4,267	3,547	3,565
Utilities	4,451	3,470	6,450	1,811	2,977	3,169
Total	23,702	27,446	24,676	26,622	17,481	24,408
HOUSE PROFIT	13,823	15,990	34,321	27,534	28,218	26,264
Management Fee	1,889	3,045	155	3,056	4,050	2,685
INCOME BEFORE FIXED CHARGES	11,934	12,946	34,166	24,478	24,168	23,579

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

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject
						Stabilized $
Year:	**2008**	**2009**	**2009**	**2011/12**	**2008**	**2012**
Number of Rooms:	**470 to 590**	**180 to 230**	**330 to 420**	**80 to 100**	**270 to 340**	**214**
Days Open:	**366**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**62%**	**65%**	**46%**	**59%**	**64%**	**59%**
Average Rate:	**$191**	**$217**	**$219**	**$298**	**$177**	**$242**
RevPAR:	**$119**	**$141**	**$101**	**$176**	**$113**	**$143**
REVENUE						
Rooms	$190.89	$216.89	$219.01	$297.82	$177.34	$242.29
Food & Beverage	112.60	189.45	93.57	123.60	160.32	138.64
Other Operated Departments	28.53	15.40	218.31	0.00	0.00	22.78
Rentals & Other Income	11.51	6.35	13.20	1.24	13.07	11.88
Total	343.53	428.09	544.09	422.65	350.73	415.60
DEPARTMENTAL EXPENSES						
Rooms	61.30	66.21	52.33	84.60	43.08	63.00
Food & Beverage	92.31	166.65	83.91	86.31	106.48	99.82
Other Operated Departments	21.83	11.87	46.89	0.00	4.94	17.48
Total	179.49	244.72	195.03	170.91	154.49	180.30
DEPARTMENTAL INCOME	164.04	183.36	349.06	251.74	196.24	235.30
OPERATING EXPENSES						
Administrative & General	33.63	50.85	50.06	60.48	22.80	33.11
Marketing	26.50	33.67	31.20	35.02	24.25	22.99
Franchise Fee	0.00	0.00	0.00	0.00	0.00	25.97
Property Operations & Maintenance	24.03	16.70	26.57	19.83	15.23	16.56
Utilities	19.46	14.65	38.16	8.42	12.78	14.72
Total	103.62	115.86	146.00	123.75	75.07	113.34
HOUSE PROFIT	60.43	67.50	203.07	127.99	121.18	121.96
Management Fee	8.26	12.85	0.92	14.20	17.39	12.47
INCOME BEFORE FIXED CHARGES	52.17	54.65	202.15	113.79	103.78	109.49

The comparables' departmental income ranged from 42.8% to 64.2% of total revenue. The comparable properties achieved a house profit ranging from 15.7% to 37.4% of total revenue. We will refer to the comparable operating data in our discussion of each line item, which follows later in this section of the report.

Fixed and Variable Component Analysis

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

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

Inflation Assumption

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

FIGURE 8-4 INFLATION ESTIMATES

Name	Firm	Previous Projections for December 2012 in June 2012	Projected Increase in Consumer Price Index (Annualized Rate Versus 12 Months Earlier) December 2013	June 2014	December 2014	June 2015
Paul Ashworth	Capital Economics	1.5 %	1.8 %	2.0 %	2.0 %	2.0 %
Nariman Behravesh	IHS Global Insight	1.2	1.6	1.9	1.6	1.5
Richard Berner/ David Greenlaw	Morgan Stanley	—	1.3	1.5	1.6	—
Ram Bhagavatula	Combinatorics Capital	2.8	2.8	3.0	2.8	2.8
Jay Brinkmann	Mortgage Bankers Association	2.3	2.1	2.1	2.2	2.4
Michael Carey	Credit Agricole CIB	1.6	1.7	1.5	1.9	—
Joseph Carson	AllianceBernstein	2.5	2.5	2.7	3.0	3.0
Julia Coronado	BNP Paribas	2.0	2.1	2.1	2.3	2.2
Mike Cosgrove	Econoclast	2.0	2.3	2.5	2.5	2.5
Lou Crandall	Wrightson ICAP	2.1	2.3	2.1	2.2	2.3
J. Dewey Daane	Vanderbilt University	2.5	2.0	2.5	2.5	2.5
Douglas Duncan	Fannie Mae	1.7	1.5	1.9	2.0	2.0
Robert Dye	Comerica Bank	1.3	1.7	2.3	2.3	2.3
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	1.5	1.6	1.6	1.8	—
Ethan Harris	Bank of America Securities- Merrill Lynch	1.4	1.8	1.9	1.5	—
Maury Harris	UBS	1.6	1.9	2.5	2.5	—
Jan Hatzius	Goldman, Sachs & Co.	1.8	2.0	1.6	1.8	2.0
Tracy Herrick	Avidbank	2.6	3.6	3.8	4.9	5.5
Stuart Hoffman	PNC Financial Services Group	1.9	2.4	2.5	2.5	2.4
Gene Huang	FedEx Corp.	1.8	2.2	2.3	2.3	2.4
William B. Hummer	Wintrust Wealth Management	2.0	2.0	1.9	2.1	2.1
Bruce Kasman	JP Morgan Chase & Co.	1.4	1.4	1.7	1.7	—
Joseph LaVorgna	Deutsche Bank Securities, Inc.	2.2	2.5	2.5	2.5	2.8
Edward Leamer/David Shulman	UCLA Anderson Forecast	1.7	1.5	2.0	2.4	—
Don Leavens/Tim Gill	NEMA Business Information Services	1.4	1.3	1.9	1.8	1.7
John Lonski	Moody's Investors Service	1.7	1.9	2.1	2.2	2.0
Dean Maki	Barclays Capital	2.0	2.6	2.5	2.5	—
Aneta Markowska	Societe Generale	1.4	1.8	1.8	1.9	2.0
Jim Meil/Arun Raha	Eaton Corp.	1.7	1.9	2.2	2.0	1.9
Michael P. Niemira	International Council of Shopping Centers	2.0	3.2	3.2	3.2	3.0
Jim O'Sullivan	High Frequency Economics	—	2.5	2.6	2.7	2.7
Nicholas S. Perna	Perna Associates	1.8	2.0	2.1	2.1	2.2
Dr. Joel Prakken/ Chris Varvares	Macroeconomic Advisers	2.0	1.5	1.8	1.8	—
John Ryding/Conrad DeQuadros	RDQ Economics	1.9	2.5	—	—	—
Ian Shepherdson	Pantheon Macroeconomic Advisors	2.4	2.2	2.5	2.5	2.5
John Silvia	Wells Fargo & Co.	1.6	2.0	2.1	2.2	2.4
Allen Sinai	Decision Economics, Inc.	2.2	2.6	2.5	2.8	3.0
James F. Smith	Parsec Financial Management	1.0	1.0	0.8	1.0	1.1
Sean M. Snaith	University of Central Florida	0.9	1.6	1.9	1.8	1.7
Sung Won Sohn	California State University	1.4	1.8	1.9	2.2	2.1
Neal Soss	CSFB	1.2	1.7	2.1	2.2	—
Stephen Stanley	Pierpont Securities	1.7	2.5	2.7	2.9	3.2
Susan M. Sterne	Economic Analysis Associates Inc.	3.0	2.7	2.5	2.4	2.6
Diane Swonk	Mesirow Financial	1.7	1.4	1.8	1.9	2.0
Carl Tannenbaum	The Northern Trust	—	1.7	1.8	1.8	—
Bart van Ark	The Conference Board	1.6	2.1	2.2	2.3	2.4
Brian S. Wesbury/ Robert Stein	First Trust Advisors, L.P.	2.5	2.8	3.0	3.3	3.5
William T. Wilson	Skolkovo Institute for Emerging Market Studies	1.2	1.5	1.8	2.0	2.0
Lawrence Yun	National Association of Realtors	—	2.9	3.6	4.1	3.3
Ellen Zentner	Nomura Securities International	1.4	1.6	1.6	1.6	—
		1.8 %	2.0 %	2.2 %	2.3 %	2.4 %
	Actual Inflation for 2012:	1.7 %				

Source: wsj.com, January 21, 2013

As the preceding table indicates, the financial analysts who were surveyed in January of 2013 anticipated inflation rates ranging from 1.0% to 3.6% (on an annualized basis) for December 2013; the average of these data points was 2.0%. The same group expects a slightly higher annualized 2.2% inflation rate for June 2014. These rates are lower than the inflation rate averages for December 2014 and June 2015, shown at 2.3% and 2.4%, respectively.

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

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

Year	National Consumer Price Index	Percent Change from Previous Year
2002	179.9	—
2003	184.0	2.3 %
2004	188.9	2.7
2005	195.3	3.4
2006	201.6	3.2
2007	207.3	2.8
2008	215.3	3.8
2009	214.5	-0.4
2010	218.1	1.6
2011	224.9	3.1
2012	229.6	2.1
Average Annual Compounded Change		
2002 - 2012:		2.5 %
2007 - 2012:		2.1

Source: Bureau of Labor Statistics

Between 2002 and 2012, the national CPI increased at an average annual compounded rate of 2.5%; from 2007 to 2012, the CPI rose by a slightly lower average annual compounded rate of 2.1%. In 2012, the CPI rose by 2.1%, a decrease from the level of 3.1% recorded in 2011.

In consideration of the most recent trends, the projections set forth previously, and our assessment of probable property appreciation levels, we have applied underlying inflation rates of 2.5%, 2.5%, and 3.0% thereafter for each respective year following the base year of 2012. 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 January 1, 2018, expressed in inflated dollars for each year.

FIGURE 8-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2018 (Calendar Year)				2019				2020				Stabilized				2022			
Number of Rooms:	**214**				**214**				**214**				**214**				**214**			
Occupancy:	**51%**				**56%**				**58%**				**59%**				**59%**			
Average Rate:	**$279.46**				**$295.01**				**$306.93**				**$316.14**				**$325.62**			
RevPAR:	**$142.52**				**$165.21**				**$178.02**				**$186.52**				**$192.12**			
Days Open:	**365**				**365**				**365**				**365**				**365**			
Occupied Rooms:	**39,836**	**%Gross**	**PAR**	**POR**	**43,742**	**%Gross**	**PAR**	**POR**	**45,304**	**%Gross**	**PAR**	**POR**	**46,085**	**%Gross**	**PAR**	**POR**	**46,085**	**%Gross**	**PAR**	**POR**
REVENUE																				
Rooms	$11,132	56.1 %	$52,019	$279.45	$12,904	57.6 %	$60,299	$295.01	$13,905	58.1 %	$64,977	$306.93	$14,569	58.3 %	$68,079	$316.13	$15,006	58.3 %	$70,121	$325.62
Food	5,385	27.1	25,163	135.17	5,939	26.5	27,751	135.77	6,279	26.3	29,339	138.59	6,550	26.2	30,609	142.13	6,747	26.2	31,527	146.40
Beverage	1,510	7.6	7,057	37.91	1,636	7.3	7,644	37.40	1,718	7.2	8,027	37.92	1,786	7.1	8,348	38.76	1,840	7.1	8,598	39.93
Other Operated Departments	941	4.7	4,397	23.62	995	4.4	4,649	22.75	1,035	4.3	4,838	22.85	1,072	4.3	5,009	23.26	1,104	4.3	5,159	23.96
Garage/Parking	254	1.3	1,187	6.38	274	1.2	1,278	6.25	287	1.2	1,339	6.33	298	1.2	1,391	6.46	307	1.2	1,433	6.65
Rentals & Other Income	627	3.2	2,931	15.75	663	3.0	3,099	15.16	690	2.9	3,225	15.24	715	2.9	3,339	15.51	736	2.9	3,439	15.97
Total Revenues	19,849	100.0	92,754	498.27	22,410	100.0	104,721	512.33	23,914	100.0	111,746	527.85	24,990	100.0	116,775	542.26	25,740	100.0	120,278	558.52
DEPARTMENTAL EXPENSES *																				
Rooms	3,279	29.5	15,320	82.30	3,498	27.1	16,346	79.97	3,653	26.3	17,069	80.63	3,788	26.0	17,701	82.20	3,902	26.0	18,232	84.66
Food & Beverage	5,255	76.2	24,557	131.92	5,566	73.5	26,009	127.25	5,796	72.5	27,084	127.94	6,002	72.0	28,049	130.25	6,183	72.0	28,890	134.15
Other Operated Departments	775	82.4	3,622	19.46	805	80.9	3,760	18.39	831	80.3	3,884	18.35	857	80.0	4,007	18.61	883	80.0	4,127	19.16
Garage/Parking	174	68.3	811	4.36	181	66.2	846	4.14	187	65.4	876	4.14	194	65.0	904	4.20	199	65.0	931	4.33
Total	9,482	47.8	44,310	238.03	10,050	44.8	46,960	229.75	10,467	43.8	48,913	231.05	10,841	43.4	50,661	235.25	11,167	43.4	52,181	242.31
DEPARTMENTAL INCOME	10,367	52.2	48,444	260.24	12,361	55.2	57,760	282.59	13,446	56.2	62,833	296.80	14,148	56.6	66,114	307.01	14,573	56.6	68,097	316.22
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,762	8.9	8,233	44.23	1,854	8.3	8,663	42.38	1,926	8.1	9,000	42.51	1,991	8.0	9,303	43.20	2,051	8.0	9,582	44.50
Marketing	1,223	6.2	5,717	30.71	1,287	5.7	6,016	29.43	1,337	5.6	6,250	29.52	1,383	5.5	6,461	30.00	1,424	5.5	6,654	30.90
Franchise Fee	1,209	6.1	5,648	30.34	1,389	6.2	6,489	31.75	1,491	6.2	6,969	32.92	1,561	6.2	7,296	33.88	1,608	6.2	7,515	34.90
Prop. Operations & Maint.	881	4.4	4,116	22.11	927	4.1	4,331	21.19	963	4.0	4,500	21.26	995	4.0	4,652	21.60	1,025	4.0	4,791	22.25
Utilities	783	3.9	3,659	19.66	824	3.7	3,850	18.84	856	3.6	4,000	18.89	885	3.5	4,135	19.20	911	3.5	4,259	19.78
Total	5,858	29.5	27,374	147.05	6,281	28.0	29,349	143.58	6,574	27.5	30,719	145.11	6,815	27.2	31,846	147.88	7,020	27.2	32,802	152.32
HOUSE PROFIT	4,509	22.7	21,070	113.19	6,080	27.2	28,412	139.00	6,872	28.7	32,114	151.70	7,333	29.4	34,268	159.13	7,553	29.4	35,296	163.90
Management Fee	595	3.0	2,783	14.95	672	3.0	3,142	15.37	717	3.0	3,352	15.84	750	3.0	3,503	16.27	772	3.0	3,608	16.76
INCOME BEFORE FIXED CHARGES	3,913	19.7	18,287	98.24	5,408	24.2	25,270	123.63	6,155	25.7	28,762	135.86	6,584	26.4	30,765	142.86	6,781	26.4	31,687	147.14
FIXED EXPENSES																				
Property Taxes	592	3.0	2,767	14.86	601	2.7	2,808	13.74	613	2.6	2,865	13.53	631	2.5	2,950	13.70	650	2.5	3,039	14.11
Insurance	164	0.8	769	4.13	169	0.8	792	3.87	175	0.7	815	3.85	180	0.7	840	3.90	185	0.7	865	4.02
Reserve for Replacement	397	2.0	1,855	9.97	672	3.0	3,142	15.37	957	4.0	4,470	21.11	1,000	4.0	4,671	21.69	1,030	4.0	4,811	22.34
Total	1,154	5.8	5,391	28.96	1,443	6.5	6,742	32.98	1,744	7.3	8,150	38.50	1,811	7.2	8,461	39.29	1,865	7.2	8,715	40.47
NET INCOME	$2,760	13.9 %	$12,897	$69.28	$3,965	17.7 %	$18,528	$90.65	$4,411	18.4 %	$20,612	$97.36	$4,773	19.2 %	$22,303	$103.57	$4,916	19.2 %	$22,972	$106.67

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

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

	2018		2019		2020		2021		2022		2023		2024		2025		2026		2027	
Number of Rooms:	**214**		**214**		**214**		**214**		**214**		**214**		**214**		**214**		**214**		**214**	
Occupied Rooms:	**39,836**		**43,742**		**45,304**		**46,085**		**46,085**		**46,085**		**46,085**		**46,085**		**46,085**		**46,085**	
Occupancy:	**51%**		**56%**		**58%**		**59%**		**59%**		**59%**		**59%**		**59%**		**59%**		**59%**	
Average Rate:	**$279.46**	**% of**	**$295.01**	**% of**	**$306.93**	**% of**	**$316.14**	**% of**	**$325.62**	**% of**	**$335.39**	**% of**	**$345.45**	**% of**	**$355.82**	**% of**	**$366.49**	**% of**	**$377.49**	**% of**
RevPAR:	**$142.52**	**Gross**	**$165.21**	**Gross**	**$178.02**	**Gross**	**$186.52**	**Gross**	**$192.12**	**Gross**	**$197.88**	**Gross**	**$203.82**	**Gross**	**$209.93**	**Gross**	**$216.23**	**Gross**	**$222.72**	**Gross**
REVENUE																				
Rooms	$11,132	56.1 %	$12,904	57.6 %	$13,905	58.1 %	$14,569	58.3 %	$15,006	58.3 %	$15,457	58.3 %	$15,920	58.3 %	$16,398	58.3 %	$16,890	58.3 %	$17,396	58.3 %
Food	5,385	27.1	5,939	26.5	6,279	26.3	6,550	26.2	6,747	26.2	6,949	26.2	7,158	26.2	7,372	26.2	7,594	26.2	7,821	26.2
Beverage	1,510	7.6	1,636	7.3	1,718	7.2	1,786	7.1	1,840	7.1	1,895	7.1	1,952	7.1	2,011	7.1	2,071	7.1	2,133	7.1
Other Operated Departments	941	4.7	995	4.4	1,035	4.3	1,072	4.3	1,104	4.3	1,137	4.3	1,171	4.3	1,206	4.3	1,243	4.3	1,280	4.3
Garage/Parking	254	1.3	274	1.2	287	1.2	298	1.2	307	1.2	316	1.2	325	1.2	335	1.2	345	1.2	356	1.2
Rentals & Other Income	627	3.2	663	3.0	690	2.9	715	2.9	736	2.9	758	2.9	781	2.9	804	2.9	828	2.9	853	2.9
Total	19,849	100.0	22,410	100.0	23,914	100.0	24,990	100.0	25,740	100.0	26,513	100.0	27,307	100.0	28,127	100.0	28,971	100.0	29,839	100.0
DEPARTMENTAL EXPENSES*																				
Rooms	3,279	29.5	3,498	27.1	3,653	26.3	3,788	26.0	3,902	26.0	4,019	26.0	4,139	26.0	4,263	26.0	4,391	26.0	4,523	26.0
Food & Beverage	5,255	76.2	5,566	73.5	5,796	72.5	6,002	72.0	6,183	72.0	6,368	72.0	6,559	72.0	6,756	72.0	6,958	72.0	7,167	72.0
Other Operated Departments	775	82.4	805	80.9	831	80.3	857	80.0	883	80.0	910	80.0	937	80.0	965	80.0	994	80.0	1,024	80.0
Garage/Parking	174	68.3	181	66.2	187	65.4	194	65.0	199	65.0	205	65.0	211	65.0	218	65.0	224	65.0	231	65.0
Total	9,482	47.8	10,050	44.8	10,467	43.8	10,841	43.4	11,167	43.4	11,502	43.4	11,847	43.4	12,202	43.4	12,568	43.4	12,945	43.4
DEPARTMENTAL INCOME	10,367	52.2	12,361	55.2	13,446	56.2	14,148	56.6	14,573	56.6	15,011	56.6	15,460	56.6	15,925	56.6	16,402	56.6	16,894	56.6
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,762	8.9	1,854	8.3	1,926	8.1	1,991	8.0	2,051	8.0	2,112	8.0	2,176	8.0	2,241	8.0	2,308	8.0	2,377	8.0
Marketing	1,223	6.2	1,287	5.7	1,337	5.6	1,383	5.5	1,424	5.5	1,467	5.5	1,511	5.5	1,556	5.5	1,603	5.5	1,651	5.5
Franchise Fee	1,209	6.1	1,389	6.2	1,491	6.2	1,561	6.2	1,608	6.2	1,656	6.2	1,706	6.2	1,757	6.2	1,810	6.2	1,864	6.2
Prop. Operations & Maint.	881	4.4	927	4.1	963	4.0	995	4.0	1,025	4.0	1,056	4.0	1,088	4.0	1,120	4.0	1,154	4.0	1,189	4.0
Utilities	783	3.9	824	3.7	856	3.6	885	3.5	911	3.5	939	3.5	967	3.5	996	3.5	1,026	3.5	1,057	3.5
Total	5,858	29.5	6,281	28.0	6,574	27.5	6,815	27.2	7,020	27.2	7,230	27.2	7,447	27.2	7,671	27.2	7,901	27.2	8,138	27.2
HOUSE PROFIT	4,509	22.7	6,080	27.2	6,872	28.7	7,333	29.4	7,553	29.4	7,781	29.4	8,013	29.4	8,254	29.4	8,502	29.4	8,756	29.4
Management Fee	595	3.0	672	3.0	717	3.0	750	3.0	772	3.0	795	3.0	819	3.0	844	3.0	869	3.0	895	3.0
INCOME BEFORE FIXED CHARGES	3,913	19.7	5,408	24.2	6,155	25.7	6,584	26.4	6,781	26.4	6,985	26.4	7,194	26.4	7,410	26.4	7,633	26.4	7,861	26.4
FIXED EXPENSES																				
Property Taxes	592	3.0	601	2.7	613	2.6	631	2.5	650	2.5	670	2.5	690	2.5	711	2.5	732	2.5	754	2.5
Insurance	164	0.8	169	0.8	175	0.7	180	0.7	185	0.7	191	0.7	196	0.7	202	0.7	208	0.7	215	0.7
Reserve for Replacement	397	2.0	672	3.0	957	4.0	1,000	4.0	1,030	4.0	1,061	4.0	1,092	4.0	1,125	4.0	1,159	4.0	1,194	4.0
Total	1,154	5.8	1,443	6.5	1,744	7.3	1,811	7.2	1,865	7.2	1,921	7.2	1,979	7.2	2,038	7.2	2,099	7.2	2,162	7.2
NET INCOME	$2,760	13.9 %	$3,965	17.7 %	$4,411	18.4 %	$4,773	19.2 %	$4,916	19.2 %	$5,064	19.2 %	$5,216	19.2 %	$5,372	19.2 %	$5,533	19.2 %	$5,699	19.2 %

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

Forecast of Income and Expense

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

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. The proposed subject property is expected to stabilize at an occupancy level of 59% with an average rate of $316.14 in 2021. Following the stabilized year, the subject property's average rate is projected to increase along with the underlying rate of inflation.

Food and Beverage Revenue

Food and beverage revenue is generated by a hotel's restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. With the exception of properties with active lounges or banquet facilities that draw local residents, in-house guests generally represent a substantial percentage of a hotel's food and beverage patrons. In the case of the Proposed Hotel Breckenridge, the food and beverage department will include a three-meal upscale restaurant, bar and lounge; moreover, banquet space is expected to span 22,135 square feet.

Although food and beverage revenue varies directly with changes in occupancy, the small portion generated by banquet sales and outside capture is relatively fixed. The comparable statements illustrated collections for food and beverage revenue between $93.57 and $189.45 per occupied room, or 41.5% to 90.4% of rooms revenue.

The proposed subject property's food and beverage operation is expected to be an important component of the hotel. Therefore, based upon our review of comparable operating statements, we have positioned an appropriate revenue level given the hotel's planned facility and price point. We would expect future moderate growth to occur within this category after the hotel's opening. We project food and beverage revenue to be $135.17 and $37.91 per occupied room, respectively, in the first projection year, or respectively 48.4% and 13.6% of rooms revenue. These per-occupied-room amounts increase to $142.13 and $38.76 for respective food and beverage revenue categories by the stabilized year, or respectively 45.0% and 12.3% of rooms revenue. On a percentage of food revenue, beverage revenue is forecast at 28.0% in the first projection year, stabilizing at 27.3%.

Garage/Parking Income

The proposed subject property's garage operation is expected to be a featured component of the hotel's operation. Based upon our assessment of comparable operations, we have positioned this revenue at an appropriate level given its anticipated price point. We would expect future moderate growth to occur within this category after the hotel's opening, as the garage should generate income from both guests and drive-up business related to events in the downtown market. We forecast the subject property's garage/parking income to stabilize at $6.46 per occupied room by the stabilized year, 2021.

Other Operated Departments Revenue

According to the Uniform System of Accounts, other operated departments include any major or minor operated department other than rooms and food and beverage. These departmental revenues and expenses are presented in the other operated departments revenue and expense line items on a summary operating statement; sub-schedules set forth the individual departmental revenues and expenses in more detail. Any other operated departments revenue and expense may be presented in the summary statement if it is considered a significant factor in the hotel's operation. Telephone revenue and expense is now considered a component of other operated departments and is being reported as a separate line item more infrequently now that telephone revenue has become so inconsequential.

The proposed subject property's other operated departments revenue sources are expected to include the hotel's spa services, telephone charges, and gift shop revenue. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject property. The comparable operating statements illustrate other operated departments revenue ranging from 7.1% to 99.6% of rooms revenue and $15.40 to $218.31 per occupied room. We forecast the proposed subject property's other operated departments revenue to stabilize at 7.4% of rooms revenue or $23.26 per occupied room by the stabilized year, 2021.

Rentals & Other Income

The rentals and other income sources comprise those other than guestrooms, food and beverage, and the other operated departments. The proposed subject property's rentals and other income revenues are expected to be generated primarily by the hotel's business center services, in-room movie and game charges, and vending areas. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject property. Rentals and other income revenue for the comparables ranged 0.4% to 7.4% of rooms revenue or $1.24 to $13.20 on a per-occupied-room basis. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. We forecast the proposed subject property's rentals and other income to stabilize at $15.51 per occupied room by the stabilized year, 2021.

Rooms Expense

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

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

The comparables illustrated rooms expense ranging between 23.9% and 32.1% of rooms revenue; on a per-occupied-room basis, the range was between $43.08 and $84.60. We have projected rooms expense for the proposed subject property at 29.5% in the first year (or $82.30 per occupied room), stabilizing at 26.0% in 2021 (or $82.20 per occupied room). The proposed subject property's rooms department expense has been positioned based upon our review of the comparable operating data and our understanding of the hotel's future service level and price point.

Food and Beverage Expense

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

The comparables illustrate food and beverage expense ranging between 66.4% and 89.7% of food and beverage revenue. We have projected a stabilized expense ratio of 72.0% in 2021. The proposed subject property's food and beverage operation is expected to be efficiently managed and operate at an expense level that is in line with other comparable operations.

Garage/Parking Expense

The proposed subject property's garage operation is expected to be efficiently managed and operate at an expense level that is in line with other comparable operations. We have projected a stabilized expense ratio of 65.0% in 2021.

Other Operated Departments Expense

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories. This was previously discussed in this chapter. The comparables illustrated other operated departments expense ranging between $0.00 and $46.89 per occupied room. We have projected a stabilized expense ratio of 80.0% in 2021. The proposed subject property's other operated departments revenue sources are expected to include the hotel's spa services, telephone charges, and gift shop revenue. Based on our review of operations with a similar extent of offerings, we have positioned an appropriate revenue level for the proposed subject property.

Administrative and General Expense

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

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

As a percentage of total revenue, the comparable operations indicate an administrative and general expense range from 6.5% to 14.3%, or $5,310 to $13,011 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject property, we have positioned the administrative and general expense level at a market- and property-supported level. In the first projection year, we have projected administrative and general expense for the proposed subject property to be $8,233 per available room, or 8.9% of total revenue. By the 2021 stabilized year, these amounts change to $9,303 per available room and 8.0% of total revenue.

Marketing Expense

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

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

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending

on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

As a percentage of total revenue, the comparable operations indicate a marketing expense range from 5.7% to 8.3%, or $5,273 to $7,975 per available room. Based upon our review of the comparable operating data and the expected scope of facility for the proposed subject property, we have positioned the marketing expense level at a market- and property-supported level. In the first projection year, we have projected marketing expense for the proposed subject property to be $5,717 per available room, or 6.2% of total revenue. By the 2021 stabilized year, these amounts change to $6,461 per available room and 5.5% of total revenue.

Franchise Fee

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

Property Operations and Maintenance

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

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

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

As a percentage of total revenue, the comparable operations indicate a property operations and maintenance expense range from 3.9% to 7.0%, or $3,547 to

$5,496 per available room. We expect the proposed subject property's maintenance operation to be well managed, and expense levels should stabilize at a typical level for a property of this type. Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, we have projected property operations and maintenance expense for the proposed subject property to be $4,116 per available room, or 4.4% of total revenue. By the 2021 stabilized year, these amounts change to $4,652 per available room and 4.0% of total revenue.

Utilities Expense

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

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their utility requirements with less expensive sources, such as gas and oil, for heating and cooking.

As a percentage of total revenue, the comparable operations indicate a utilities expense range from 2.0% to 7.0%, or $1,811 to $6,450 per available room. The changes in this utilities line item through the projection period are a result of the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, we have projected utilities expense for the proposed subject property to be $3,659 per available room, or 3.9% of total revenue. By the 2021 stabilized year, these amounts change to $4,135 per available room and 3.5% of total revenue.

Management Fee

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

Property Taxes

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

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

FIGURE 8-8 COUNTY-ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Number of Rooms	Total Assessment			
		Land	Improvements	Personal	Total
DoubleTree by Hilton Breckenridge	208	$968,910	$1,737,431	N/A	$2,706,341
Village Hotel	60	232,209	348,313	N/A	580,521
Lodge & Spa at Breckenridge	47	272,991	529,207	N/A	802,199
Assessments per Room					
DoubleTree by Hilton Breckenridge		$4,658	$8,353	-	$13,011
Village Hotel		3,870	5,805	-	9,675
Lodge & Spa at Breckenridge		5,808	11,260	-	17,068
Positioned Subject - Per Room	**214**	**$5,000**	**$40,000**	**$6,500**	**$51,500**
Positioned Subject - Total		**$1,070,000**	**$8,560,000**	**$1,391,000**	**$11,021,000**

Source: Summit County Assessor

We have positioned the proposed subject property's future assessment levels based upon the illustrated comparable data. We have positioned the assessment closest to the Lodge & Spa at Breckenridge because of its hotel-only product type; overall, the positioned assessment is well supported by the market data.

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

FIGURE 8-9 COUNTY TAX RATES

Year	Property Tax Rate
2011	53.22400
2012	53.19300

Source: Summit County Assessor

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

FIGURE 8-10 PROJECTED PROPERTY TAX EXPENSE

Year	Assessed Value			Total	Pers. Prop. Tax Rate	Property Tax Rate	Tax Forecast
	Land	Improvements	Personal				
Positioned	$1,070,000	$8,560,000	$1,391,000	$11,021,000	53.19	53.19	$586,240
2018	$1,070,000	$8,560,000	$1,391,000	$11,021,000	53.72	53.72	$592,102
2019	1,070,000	8,560,000	1,391,000	11,021,000	54.53	54.53	600,984
2020	1,070,000	8,560,000	1,391,000	11,021,000	55.62	55.62	613,004

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage. Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

Based on comparable data and the structural attributes of the proposed project, we have forecast the proposed subject property's insurance expense at $840 per available room by the stabilized year (positioned at $650 on a per-available-room basis in base-year dollars). This forecast equates to 0.7% of total revenue on a stabilized basis. In subsequent years, this amount is assumed to increase in tandem with inflation.

Reserve for Replacement

Furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced

at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but affect an owner's cash flow, a forecast of income and expense should reflect these expenses in the form of an appropriate reserve for replacement.

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent findings of the study were published in a report in 2007.[8] Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year to year and depend upon both the actual and effective ages of a property. The results of this study showed that hotel lenders and investors are requiring reserves for replacement ranging from 4% to 5% of total revenue.

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

Conclusion

In conclusion, our analysis reflects a profitable operation, with net income expected to total 19.2% of total revenue by the stabilized year. The stabilized total revenue comprises primarily rooms and food and beverage revenue, with a secondary portion derived from other income sources. On the cost side, departmental expenses total 43.4% of revenue by the stabilized year, while undistributed operating expenses total 27.2% of total revenues; this assumes that

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

the property will be operated competently by a competent hotel operator. After a 3.0% of total revenues management fee, and 7.2% of total revenues in fixed expenses, a net income ratio of 19.2% is forecast by the stabilized year.

9. Feasibility Analysis

Return on investment can be defined as the future benefits of an income-producing property relative to its acquisition or construction cost. The first step in performing a return on investment analysis is to determine the amount to be initially invested. For a proposed property, this amount is most likely to be the development cost of the hotel. Based on the total development cost, the individual investor will utilize a return on investment analysis to determine if the future cash flow from a current cash outlay meets his or her own investment criteria and at what level above or below this amount such an outlay exceeds or fails to meet these criteria.

As an individual or company considering investment in hotel real estate, the decision to use one's own cash, an equity partner's capital, or lender financing will be an internal one. Because hotels typically require a substantial investment, only the largest investors and hotel companies generally have the means to purchase properties with all cash. We would anticipate the involvement of some financing by a third party for the typical investor or for those who may be entering the market for hotel acquisitions at this time. In leveraged acquisitions and developments where investors typically purchase or build upon real estate with a small amount of equity cash (20% to 50%) and a large amount of mortgage financing (50% to 80%), it is important for the equity investor to acknowledge the return requirements of the debt participant (mortgagee), as well as his or her own return requirements. Therefore, we will begin our rate of return analysis by reviewing the debt requirements of typical hotel mortgagees.

Construction Cost Estimate

We have estimated the construction cost based on HVS Development Cost Survey, review of similar proposed hotels, as well as basic cost estimates on the subject property provided by GE Johnson and Lowe Enterprises. Because the subject property is a proposed hotel, we have relied upon the actual development budget for the proposed subject property in performing a cost analysis. As this budget takes into consideration all of the physical, structural, and design elements specific to the property, it is believed to be the most accurate assessment of the actual cost of developing a hotel facility of this type. The details of this budget, prepared by the developers of the Proposed Hotel Breckenridge, are presented in the following table.

FIGURE 9-1 SUBJECT PROPERTY CONSTRUCTION ESTIMATE

Component	Cost	Cost per Room
Site Work	$4,010,100	$18,739
Design	3,609,090	16,865
Permit Licening	1,002,525	4,685
Hard Construction	37,093,425	173,334
FFE	5,012,625	23,423
OSE/IT	2,005,050	9,369
Cost Inflation	6,115,403	28,577
Insurance	1,002,525	4,685
Pre Opening	1,403,535	6,559
Project Management	1,002,525	4,685
G&A	401,010	1,874
Finance, Tax, Legal	802,020	3,748
Devlopers Profit/Fee	3,208,080	14,991
Contingency	3,408,585	15,928
Hotel Parking Garage	2,981,020	13,930
Total, Without Land	$73,057,518	$341,390

Due to the economic challenges of the feasibility of the hotel, we have assumed a zero cost basis for the ground lease. A value or cost of the land was not included in the estimate of construction cost since the hotel is expected to operate on a 99-year ground lease thus the ground lease terms would need to be adjusted if the project was to become feasible.

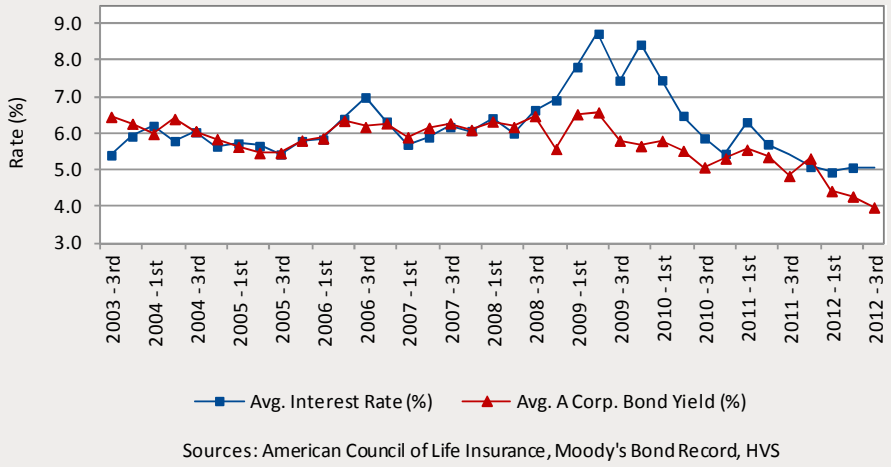
Mortgage Component

Data for the mortgage component may be developed from statistics of actual hotel mortgages made by long-term lenders. The American Council of Life Insurance, which represents 20 large life-insurance companies, publishes quarterly information pertaining to the hotel mortgages issued by its member companies.

Because of the six- to nine-month lag time in reporting and publishing hotel mortgage statistics, it was necessary to update this information to reflect current lending practices. Our research indicates that the greatest degree of correlation exists between the average interest rate of a hotel mortgage and the concurrent yield on an average-A corporate bond.

The following chart summarizes the average mortgage interest rates of the hotel loans made by these lenders. For the purpose of comparison, the average-A corporate bond yield (as reported by *Moody's Bond Record*) is also shown.

FIGURE 9-2 AVERAGE MORTGAGE INTEREST RATES AND AVERAGE-A CORPORATE BOND YIELDS



Sources: American Council of Life Insurance, Moody's Bond Record, HVS

The relationship between hotel interest rates and the yields from the average-A corporate bond can be detailed through a regression analysis, which is expressed as follows.

$$Y = 0.92339900\ X + 1.11049900$$

Where: Y = Estimated Hotel/Motel Mortgage Interest Rate
X = Current Average-A Corporate Bond Yield
(Coefficient of correlation is 93%)

The April 3, 2013, average yield on average-A corporate bonds, as reported by Moody's Investors Service, was 4.16%. When used in the previously presented equation, a factor of 4.16 produces an estimated hotel/motel interest rate of 4.95% (rounded).

During 2008 and 2009, financing for hotel investments was scarce and difficult to obtain. Lenders began to return to the market in the second quarter of 2010 once it was apparent that the hotel market had bottomed out and was in recovery. Commercial banks and insurance companies began to re-enter the market, and commercial mortgage-backed securities reemerged. From the second quarter of 2010 through the first half of 2011, lenders began to compete aggressively for the financing of quality, strongly performing hotel assets. The U.S. debt-ceiling turmoil,

stock market volatility, and the European Union debt crisis all had a sobering effect on the lending environment in the second half of 2011 and, once again, many lenders retrenched. As hotel performance continues to improve, and with the U.S. economy and stock market evidencing positive trends, lenders are aggressively pursuing hotel financing. Yields on U.S. treasuries and average-A corporate bonds remain at record low levels, providing a very favorable financing environment. Interest rates for single hotel assets are currently ranging from 4.0% to 6.5%, depending on the type of debt, loan-to-value ratio, and the quality of the asset and its market.

In addition to the mortgage interest rate estimate derived from this regression analysis, HVS constantly monitors the terms of hotel mortgage loans made by our institutional lending clients. Fixed-rate debt is being priced at roughly 300 to 500 basis points over the corresponding yield on treasury notes. As of April 3, 2013, the yield on the ten-year T-bill was 1.9%, indicating an interest rate range from 4.9% to 6.9%. The pricing of hotel mortgages has returned to the normal historical spread over the T-bill yield that existed prior to both the financial crisis and the more aggressive lending environment of 2005 through 2007. While spreads rose because of the sovereign debt crisis and stock market volatility in the latter half of 2011, they have returned to their historic norm. Hotel mortgages are currently being offered at record low rates due to the low interest rate environment being maintained by the Federal Reserve.

At present, we find that lenders who are active in the market are using loan-to-value ratios of 40% to 70% and amortization periods of 20 to 30 years. The overall lending environment is becoming increasingly more active, with commercial banks, mortgage REITs, insurance companies, and CMBS starting to return to the market. While debt is becoming more available, underwriting standards have become stricter and loan-to-value ratios continue to be conservative.

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 Breckenridge hotel market, it is our opinion that a 5.50% interest, 30-year amortization mortgage with a 0.068135 constant is appropriate for the proposed subject property. In the mortgage-equity analysis, we have applied a loan-to-value ratio of 65%, which is reasonable to expect based on this interest rate and the current parameters.

Equity Component & Equity Yield Rate

The remaining capital required for a hotel investment generally comes from the equity investor. The rate of return that an equity investor expects over a ten-year holding period is known as the equity yield. Unlike the equity dividend, which is a short-term rate of return, the equity yield specifically considers a long-term holding period (generally ten years), annual inflation- adjusted cash flows, property appreciation, mortgage amortization, and proceeds from a sale at the end of the holding period. In order to establish an appropriate equity yield rate, we have used two sources of data: past appraisals and investor interviews.

Hotel Sales – Each appraisal performed by HVS uses a mortgage-equity approach in which income is projected and then discounted to a current value at rates reflecting the cost of debt and equity capital. In the case of hotels that were sold near the date of our valuation, we were able to determine an appropriate equity yield rate and total investment discount rate by inserting the projection into a valuation model and adjusting the appraised value to reflect the total investment (purchase price and estimated capital expenditure and/or PIP) by modifying the return assumptions. The overall capitalization rates for the historical income and projected first-year income are based on the sales price "as is." The following table shows a representative sample of hotels that were sold shortly after we appraised them, along with the imputed equity return and discount rates based on our valuation approach.

FIGURE 9-3 SAMPLE OF HOTELS SOLD – FULL-SERVICE & LUXURY

Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Overall Rate Based on Sales Price: Historical Year	Overall Rate Based on Sales Price: Projected Year One
Westin Atlanta Perimeter	Atlanta, GA	372	Oct-12	11.0 %	17.3 %	6.1 %	8.2 %
Hyatt Regency Mission Bay	San Diego, CA	429	Sep-12	11.1	17.8	5.7	7.4
Marriott St. Louis Airport	St. Louis, MO	601	Jul-12	11.1	17.4	3.7	6.9
Hilton Hotel	Burlington, VT	258	Jul-12	10.6	17.3	7.8	8.5
Westin San Diego	San Diego, CA	436	Jul-12	10.2	16.1	5.7	6.1
Hilton Boston Financial District	Boston, MA	362	Jul-12	10.0	15.8	5.3	6.8
Doubletree Denver Southwest	Aurora, CO	248	Jul-12	12.2	17.8	7.4	7.7
Gaige House	Glen Ellen, CA	23	Jun-12	11.8	15.8	1.5	5.1
Colony Palms Hotel	Palm Springs, CA	57	Jun-12	12.3	19.1	11.7	10.7
Embassy Suites Valencia	Valencia, CA	156	May-12	10.8	16.4	6.5	7.9
Fairmont San Francisco	San Francisco, CA	591	Mar-12	10.8	15.7	4.1	6.4
Sonoma Mission Inn	Sonoma, CA	226	Mar-12	10.1	14.2	4.0	5.5
Hotel Abri	San Francisco, CA	91	Jan-12	9.2	13.4	6.2	8.2
Ritz-Carlton Cleveland	Cleveland, OH	205	Dec-11	11.0	16.6	—	7.0
Hilton Crystal City	Arlington, VA	386	Dec-11	10.4	15.9	6.6	6.0
Park Central Hotel	New York, NY	934	Nov-11	10.3	15.4	5.4	5.7
Fairmont Dallas	Fairmont, TX	545	Aug-11	11.9	21.1	6.3	7.3
Hotel Adagio	San Francisco, CA	171	Jul-11	10.0	14.1	4.7	6.2
Wyndham Princeton Forrestal	Plainsboro, NJ	364	Jun-11	13.7	18.8	7.5	—
Hilton Suites Lexington	Lexington, KY	174	May-11	10.9	17.9	10.0	8.0
Red Lion Fifth Avenue	Seattle, WA	297	May-11	9.0	12.0	6.0	5.6
Embassy Suites Phoenix	Tempe, AZ	224	May-11	11.8	18.7	6.3	8.8
Xona Suites	Scottsdale, AZ	431	Apr-11	13.2	17.4	—	3.6
Inn at Morro Bay	Morro Bay, CA	98	Apr-11	12.0	15.4	3.6	6.2
Sheraton Bay Keauhou Resort	Kailua-Kona, HI	521	Apr-11	12.2	14.9	—	—
Capitol Hill Suites	Washington, DC	152	Apr-11	10.7	15.2	5.9	6.4
Crowne Plaza Hotel	Romulus, MI	364	Mar-11	13.3	17.9	6.6	11.3
Hilton Mark Center	Alexandria, VA	496	Jan-11	12.1	18.0	4.9	6.2
Sheraton Minneapolis South	Bloomington, MN	564	Jan-11	13.8	18.4	7.9	8.4
Skamania Lodge	Stevenson, WA	254	Dec-10	11.7	17.7	6.2	7.2
Sheraton Framingham	Framingham, CT	375	Oct-10	13.5	18.2	4.0	6.9
St Regis Hotel	Aspen, CO	179	Sep-10	10.0	11.7	3.0	3.3
Fairmont Copley Plaza	Boston, MA	383	Aug-10	8.8	9.6	3.4	3.3
Intercontinental Buckhead	Atlanta, GA	422	Jul-10	11.9	17.2	7.0	6.7
Doubletree Hotel Bethesda	Bethesda, MD	269	Jun-10	11.8	17.3	9.0	9.0
Sir Francis Drake	San Francisco, CA	416	Jun-10	10.1	12.9	1.8	3.8
Marriott Downtown	Los Angeles, CA	469	Mar-10	12.2	17.6	1.7	4.2
Casa Madrona Hotel & Spa	Sausalito, CA	61	Feb-10	11.0	14.8	1.9	2.7

Source: HVS

FIGURE 9-4 SAMPLE OF HOTELS SOLD – SELECT UPSCALE & UPPER MIDSCALE

Hotel	Location	Number of Rooms	Date of Sale	Total Property Yield	Equity Yield	Overall Rate Based on Sales Price: Historical Year	Overall Rate Based on Sales Price: Projected Year One
Hilton Garden Inn	Clarksville, TN	111	Sep-12	11.1 %	18.4 %	9.5 %	10.0 %
Courtyard Ventura	Oxnard, CA	166	Aug-12	12.1	19.1	5.6	8.2
Hilton Garden Inn	Odessa, TX	100	Aug-12	14.1	24.1	9.6	10.9
Homewood Suites	Egg Harbor Twnshp, NJ	120	May-12	12.1	19.9	—	8.7
Hilton Garden Inn	Dowell, MD	100	May-12	11.2	18.4	8.4	8.7
Hampton Inn & Suites	Smyrna, TN	83	May-12	12.0	19.5	9.1	9.1
Residence Inn Dallas Arlington	Arlington, TX	96	May-12	10.1	16.5	7.9	7.3
Courtyard Dallas Arlington	Arlington, TX	103	May-12	10.8	17.1	6.5	7.1
Hilton Garden Inn	Smyrna, TN	112	May-12	11.2	17.9	7.4	8.5
Courtyard Upper East Side	New York, NY	226	May-12	10.3	14.3	4.4	5.7
Courtyard	Atlanta, GA	150	Mar-12	10.6	17.7	4.0	7.5
Springhill Suites	Boise, ID	119	Feb-12	12.4	19.4	6.3	8.3
Hilton Garden Inn Lakeshore	Birmingham, AL	95	Feb-12	11.2	17.4	9.0	8.2
Hilton Garden Inn SE Liberty	Birmingham, AL	130	Feb-12	12.1	19.3	7.4	8.7
Holiday Inn Express Burlingame	Burlingame, CA	146	Dec-11	12.5	19.1	8.7	8.5
Springhill Suites	Lincolnshire, IL	161	Nov-11	13.1	20.3	8.8	10.5
Hampton Inn	Orlando, FL	147	Nov-11	10.8	17.0	9.6	9.1
Holiday Inn Express	Temecula, CA	90	Aug-11	11.9	18.1	2.0	7.4
Residence Inn Midtown	Atlanta, GA	160	Jul-11	10.2	15.2	6.5	7.0
Four Points Times Square	New York, NY	244	Jun-11	10.5	15.5	6.3	6.4
Hilton Garden Inn Gwinnett	Duluth, GA	122	May-11	12.2	18.6	6.9	8.2
Homewood Suites	Ridgeland, MS	91	May-11	12.8	20.2	8.7	10.2
Marriott Courtyard Westside	Culver City, CA	260	Apr-11	10.6	13.0	6.5	6.7
Holiday Inn Atlanta Gwinnett Pl	Duluth, GA	143	Apr-11	12.0	18.7	6.8	7.6
Holiday Inn Express San Diego	San Diego, CA	125	Apr-11	10.6	17.3	7.6	8.0
Staybridge Suites	Glendale, CO	121	Apr-11	12.7	20.7	13.0	12.5
Clarion Hotel	West Covina, CA	131	Mar-11	11.2	14.4	8.7	5.7
Holiday Inn Daytona LPA Blvd	Daytona Beach, FL	96	Jan-11	11.9	18.0	3.2	5.6
Courtyard Wall at Monmouth Pk	Wall Township, NJ	113	Dec-10	11.9	18.0	7.3	7.1
Springhill Suites	Bellport, NY	128	Dec-10	12.9	20.6	1.0	8.1
Homewood Suites	Carlsbad, CA	145	Nov-10	11.8	17.5	7.7	8.7
Residence Inn White Plains	White Plains, NY	133	Oct-10	12.8	18.5	6.8	7.1
Residence Inn New Rochelle	New Rochelle, NY	124	Oct-10	11.5	16.4	6.8	6.4
Springhill Suites	Washington, DC	86	Oct-10	11.3	14.5	9.5	9.7
Courtyard by Marriott	Altoona, IA	105	Aug-10	11.4	14.8	9.1	9.1
Residence Inn	Holtsville, NY	124	Aug-10	10.9	15.4	7.4	7.2
Hampton Inn & Suites	Houston, TX	120	Jul-10	11.2	16.1	7.0	7.1
Holiday Inn West	Phoenix, AZ	144	Jul-10	16.6	23.8	4.2	6.4

Source: HVS

Investor Interviews - During the course of our work, we continuously monitor investor equity-yield requirements through discussions with hotel investors and brokers. While equity still looks to yield high returns for the risk of hotel investment, the low yield environment, coupled with increased competition for quality assets, has placed downward pressure on equity yield returns. We find that equity yield rates currently range from a low in the low to mid-teens for high-quality, institutional-grade assets in markets with high barriers to entry to the upper teens for quality assets in more typical markets; equity yield rates tend to near or exceed 20% for aging assets with functional obsolescence and/or other challenging property- or market-related issues.

The following table summarizes the range of equity yields indicated by hotel sales and investor interviews. We note that there tends to be a 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 8-5 SUMMARY OF EQUITY YIELD OR INTERNAL RATE OF RETURN REQUIREMENTS

Source	Data Point Range	Average
HVS Hotel Sales - Full-Service & Luxury	9.6% - 21.1%	16.30%
HVS Hotel Sales - Select Upscale and Upper Midscale	13% - 24.1%	17.90%
HVS Hotel Sales - Budget/Economy	16.7% - 26.2%	21.15%
HVS Investor Interviews	12% - 22%	

Based on the assumed 65% 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 7.3%. The lack of attainable yields on alternate investments has continued to put downward pressure on equity yield rates, despite the desire of investors to yield higher returns. Competition for quality assets is increasing amongst all hotel asset types. These influences are keeping equity yields from increasing significantly. Equity return requirements remain elevated for the more challenged hotel assets.

Terminal Capitalization Rate

Inherent in this valuation process is the assumption of a sale at the end of the ten-year holding period. The estimated reversionary sale price as of that date is calculated by capitalizing the projected eleventh-year net income by an overall terminal capitalization rate. An allocation for the selling expenses is deducted from this sale price, and the net proceeds to the equity interest (also known as the equity residual) are calculated by deducting the outstanding mortgage balance from the reversion.

We have reviewed several recent investor surveys. The following chart summarizes the averages presented for terminal capitalization rates in various investor surveys during the past decade. Note that survey data lag the market and do not necessarily reflect the most current market conditions.

FIGURE 9-6 HISTORICAL TRENDS OF TERMINAL CAPITALIZATION RATES

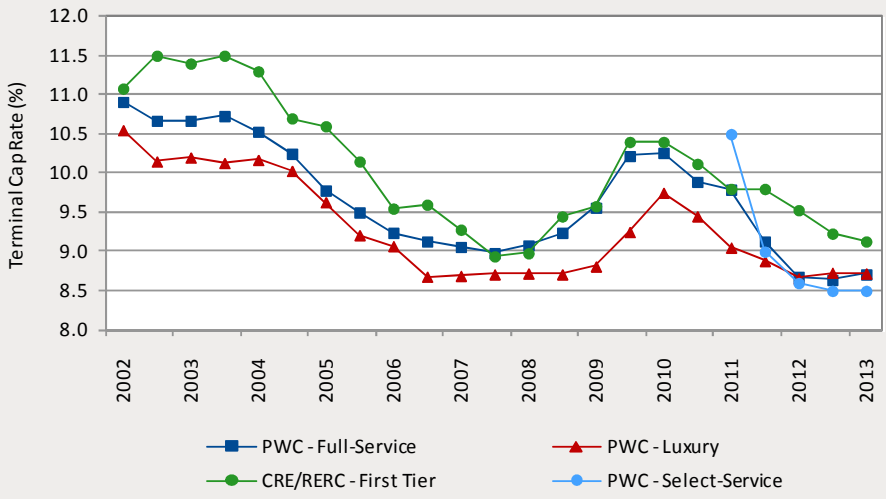


FIGURE 8-7 TERMINAL CAPITALIZATION RATES DERIVED FROM INVESTOR SURVEYS

Source	Data Point Range	Average
PWC Real Estate Investor Survey - 1st Quarter 2013		
Select-Service Hotels	5.0% - 12.0%	8.50%
Full-Service Hotels	6.0% - 12.0%	8.71%
Luxury Hotels	6.0% - 12.0%	8.72%
CRE/RERC Real Estate Report - Winter 2013		
First Tier Hotels	6.0% - 13.0%	9.13%

For purposes of this analysis, we have applied a terminal capitalization rate of 8.0%. 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 returned to their 2005 to 2007 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 – Opinion of Net Present Value

As the two participants in a real estate investment, investors and lenders must evaluate their equity and debt contributions based on their particular return requirements. After carefully weighing the risk associated with the projected economic benefits of a lodging investment, the participants will typically make their decision whether or not to invest in a hotel or resort by determining if their investment will provide an adequate yield over an established period. For the lender, this yield will typically reflect the interest rate required for a hotel mortgage over a period of what can range from seven to ten years. The yield to the equity participant may consider not only the requirements of a particular investor, but also the potential payments to cooperative or ancillary entities such as limited partner payouts, stockholder dividends, and management company incentive fees.

The return on investment analysis in a hotel acquisition would not be complete without recognizing and reflecting the yield requirements of both the equity and debt participants. The analysis will now calculate the yields to the mortgage and equity participants during a ten-year projection period.

The annual debt service is calculated by multiplying the mortgage component by the mortgage constant.

Mortgage Component	$47,533,000
Mortgage Constant	0.068135
Annual Debt Service	$3,238,646

The yield to the lender based on a 65% debt contribution equates to an interest rate of 5.50%, which is calculated as follows.

FIGURE 9-8 RETURN TO THE LENDER

Year	Total Annual Debt Service		Present Worth of $1 Factor at 5.5%		Discounted Cash Flow
2018	$3,239,000	x	0.948269	=	$3,071,000
2019	3,239,000	x	0.899214	=	2,913,000
2020	3,239,000	x	0.852696	=	2,762,000
2021	3,239,000	x	0.808585	=	2,619,000
2022	3,239,000	x	0.766756	=	2,484,000
2023	3,239,000	x	0.727091	=	2,355,000
2024	3,239,000	x	0.689478	=	2,233,000
2025	3,239,000	x	0.653810	=	2,118,000
2026	3,239,000	x	0.619988	=	2,008,000
2027	42,473,000 *	x	0.587915	=	24,971,000
			Value of Mortgage Component		$47,534,000

*10th year debt service of $3,239,000 plus outstanding mortgage balance of $39,234,000

The following table illustrates the cash flow available to the equity position, after deducting the debt service from the projected net income.

FIGURE 9-9 NET INCOME TO EQUITY

Year	Net Income Available for Debt Service		Total Annual Debt Service		Net Income to Equity
2018	$2,760,000	-	$3,239,000	=	-$479,000
2019	3,965,000	-	3,239,000	=	726,000
2020	4,411,000	-	3,239,000	=	1,172,000
2021	4,773,000	-	3,239,000	=	1,534,000
2022	4,916,000	-	3,239,000	=	1,677,000
2023	5,064,000	-	3,239,000	=	1,825,000
2024	5,216,000	-	3,239,000	=	1,977,000
2025	5,372,000	-	3,239,000	=	2,133,000
2026	5,533,000	-	3,239,000	=	2,294,000
2027	5,699,000	-	3,239,000	=	2,460,000

In order for the present value of the equity investment to equate to the $25,593,000 capital outlay, the investor must accept a 7.3% return, as shown in the following table.

FIGURE 9-10 EQUITY COMPONENT YIELD

Year	Net Income to Equity		Present Worth of $1 Factor at 7.2%		Discounted Cash Flow
2018	-$479,000	x	0.932411	=	-$447,000
2019	726,000	x	0.869390	=	631,000
2020	1,172,000	x	0.810628	=	950,000
2021	1,534,000	x	0.755838	=	1,159,000
2022	1,677,000	x	0.704751	=	1,182,000
2023	1,825,000	x	0.657118	=	1,199,000
2024	1,977,000	x	0.612704	=	1,211,000
2025	2,133,000	x	0.571291	=	1,219,000
2026	2,294,000	x	0.532678	=	1,222,000
2027	34,766,000 *	x	0.496675	=	17,267,000
			Value of Equity Component		$25,593,000

*10th year net income to equity of $2,460,000 plus sales proceeds of $32,306,000

Conclusion

In determining the potential feasibility of the Proposed Hotel Breckenridge, we analyzed the lodging market, researched the area's economics, reviewed the estimated development cost, and prepared a ten-year forecast of income and expense, which was based on our review of the current and historical market conditions, as well as comparable income and expense statements.

The conclusion of this analysis indicates that an equity investor contributing $25,593,000 (roughly 35% of the $73,100,000 development cost) could expect to receive a 7.3% internal rate of return over a ten-year holding period. Based on these parameters, the proposed subject property is not feasible. Based on the current projection of net income, utilizing standard financing and investing parameters for this type of asset, a gap of about $28,000,000 exists. In order for the hotel to eliminate the gap that currently exists, the property would need to perform with a stabilized RevPAR between $250 to $255 in 2021. This RevPAR would be the equivalent of a hotel operating at 61% occupancy with an average rate around $320 in 2013 dollars. This would provide acceptable return parameters for development of the hotel and its parking garage. To provide acceptable returns for the hotel and both parking structures (an additional $15 million in cost) a stabilized RevPAR would need to be in the $265 to $270 range. This higher stabilized RevPAR is the equivalent of a hotel operating at 61% occupancy with an average daily rate around $340 in today's dollars.

We have made no assumptions of hypothetical conditions in our report. The analysis is based on the extraordinary assumption that the described improvements have been completed as of the stated date of opening. The reader should understand that the completed subject property does not yet, in fact, exist as of the date of this report. Our feasibility study 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, will take place between the date of inspection and stated date of opening. We have made no other extraordinary assumptions specific to this feasibility study. However, several important general assumptions have been made that apply to this feasibility study and our studies of proposed hotels in general. These aspects are set forth in the Assumptions and Limiting Conditions chapter of this report. We have not made any jurisdictional exceptions to the Uniform Standards of Professional Appraisal Practice in our analysis or report.

10. Statement of Assumptions and Limiting Conditions

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

licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.

11. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.

12. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.

13. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.

14. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.

15. We take no responsibility for any events or circumstances that take place subsequent to the date of our field inspection.

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

17. The financial analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease because of market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed based upon information obtained during the course of our market research and are intended to reflect the expectations of a typical hotel investor as of the stated date of the report.

18. This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.

19. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity,

most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.

20. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.

21. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.

22. This study was prepared by TS Worldwide, LLC. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of TS Worldwide, LLC as employees, rather than as individuals.

11. Certification

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

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined result or direction in performance that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this study;
7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
8. Joseph Rael, Michael S. Tande, and Brett E. Russell participated in the analysis and reviewed the findings, and inspected the property described in this report;
9. Michael S. Tande, and Joseph Rael provided significant assistance to Brett E. Russell, and that no one other than those listed above and the undersigned prepared the analyses, conclusions, and opinions concerning the real estate that are set forth in this report; Brett E. Russell has not performed appraisal or consulting work on this property within the past three years;
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, Brett E. Russell has completed the requirements of the continuing education program of the Appraisal Institute.

DRAFT REPORT

Brett E. Russell
Senior Vice President
TS Worldwide, LLC
State Appraiser License (CO) CG100013757

DRAFT REPORT

Michael S. Tande
Managing Director
Lowe Real Estate Services, Inc.

DRAFT REPORT

Rebecca Stone, AIA, LEED AP
Principle
Oz Architecture

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

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

BASE-YEAR OCCUPANCY AND PENETRATION LEVELS

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

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

MARKET-WIDE ROOM NIGHT DEMAND

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

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

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

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

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

COMMERCIAL SEGMENT PENETRATION FACTORS

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

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

COMMERCIAL SEGMENT FAIR SHARE

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

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

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

COMMERCIAL SEGMENT PROJECTIONS (YEAR 1)

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

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

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

COMMERCIAL SEGMENT PROJECTIONS (YEAR 2)

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

Explanation of the Simultaneous Valuation Formula

The algebraic equation known as the simultaneous valuation formula, which solves for the total property value using a ten-year mortgage and equity technique, was developed by Suzanne R. Mellen, CRE, MAI, FRICS, ISHC, Managing Director of the San Francisco office of HVS. A complete discussion of the technique is presented in her article entitled "Simultaneous Valuation: A New Technique."[9]

The process of solving for the value of the mortgage and equity components begins by deducting the annual debt service from the projected income before debt service, leaving the net income to equity for each year. The net income as of the eleventh year is capitalized into a reversionary value using the terminal capitalization rate. The equity residual, which is the total reversionary value less the mortgage balance at that point in time and less any brokerage and legal costs associated with the sale, is discounted to the date of value at the equity yield rate. The net income to equity for each projection year is also discounted back to the date of value. The sum of these discounted values equals the value of the equity component. Because the equity component comprises a specific percentage of the total value, the value of the mortgage and the total property can be computed easily. This process can be expressed in two algebraic equations that set forth the mathematical relationships between the known and unknown variables using the following symbols.

[9]Suzanne R. Mellen. "Simultaneous Valuation: A New Technique," *Appraisal Journal*, April, 1983.

NI	=	Net income available for debt service
V	=	Value
M	=	Loan-to-value ratio
f	=	Annual debt service constant
n	=	Number of years in the projection period
d_e	=	Annual cash available to equity
d_r	=	Residual equity value
b	=	Brokerage and legal cost percentage
P	=	Fraction of the loan paid off during the projection period
f_p	=	Annual constant required to amortize the entire loan during the projection period
R_r	=	Overall terminal capitalization rate that is applied to net income to calculate the total property reversion (sales price at the end of the projection period)
$1/S^n$	=	Present worth of $1 factor (discount factor) at the equity yield rate

Using these symbols, the following formulas can be used to express some of the components of this mortgage and equity valuation process.

Debt Service – A property's debt service is calculated by first determining the mortgage amount that equals the total value (V) multiplied by the loan-to-value ratio (M). Debt service is derived by multiplying the mortgage amount by the annual debt service constant (f). The following formula represents debt service.

$$f \times M \times V = \text{Debt Service}$$

Net Income to Equity (Equity Dividend) – The net income to equity (d_e) is the property's net income before debt service (NI) less debt service. The following formula represents the net income to equity.

$$NI - (f \times M \times V) = d_e$$

Reversionary Value – The value of the hotel at the end of the tenth year is calculated by dividing the eleventh-year net income before debt service (NI^{11}) by the terminal capitalization rate (R_r). The following formula represents the property's tenth-year reversionary value.

$$(NI^{11}/R_r) = \text{Reversionary Value}$$

Brokerage and Legal Costs – When a hotel is sold, certain costs are associated with the transaction. Normally, the broker is paid a commission and the attorney collects legal fees. In the case of hotel transactions, brokerage and legal costs typically range from 1% to 4% of the sales price. Because these expenses reduce the proceeds to the seller, they are usually deducted from the reversionary value in the mortgage and equity valuation process. Brokerage and legal costs (b), expressed as a percentage of reversionary value (NI^{11}/R_r), are calculated by application of the following formula.

$$b\ (NI^{11}/R_r) = \text{Brokerage and Legal Costs}$$

Ending Mortgage Balance – The mortgage balance at the end of the tenth year must be deducted from the total reversionary value (debt and equity) in order to determine the equity residual. The formula used to determine the fraction of the loan remaining (expressed as a percentage of the original loan balance) at any point in time (P) takes the annual debt service constant of the loan over the entire amortization period (f) less the mortgage interest rate (i), and divides it by the annual constant required to amortize the entire loan during the ten-year projection period (f_p) less the mortgage interest rate. The following formula represents the fraction of the loan paid off (P).

$$(f - i)/(f_p - i) = P$$

If the fraction of the loan paid off (expressed as a percentage of the initial loan balance) is P, then the remaining loan percentage is expressed as 1 - P. The ending mortgage balance is the fraction of the remaining loan (1 - P) multiplied by the initial loan amount (M x V). The following formula represents the ending mortgage balance.

$$(1 - P) \times M \times V$$

Equity Residual Value – The value of the equity upon the sale at the end of the projection period (d_r) is the reversionary value less the brokerage and legal costs and the ending mortgage balance. The following formula represents the equity residual value.

$$(NI^{11}/R_r) - (b\ (NI^{11}/R_r) - ((1 - P) \times M \times V) = d_r$$

Annual Cash Flow to Equity – The annual cash flow to equity consists of the equity dividend for each projection year plus the equity residual at the end of the tenth year. The following formula represents the annual cash flow to equity.

$$NI^1 - (f \times M \times V) = d_e^1$$

$$NI^2 - (f \times M \times V) = d_e^2$$

$$NI^{10} - (f \times M \times V) = d_e^{10}$$

$$(NI^{11}/R_r) - (b\ (NI^{11}/R_r) - ((1 - P) \times M \times V) = d_r$$

Value of the Equity – If the initial mortgage amount is calculated by multiplying the loan-to-value ratio (M) by the property value (V), then the equity value is one minus the loan-to-value ratio multiplied by the property value. The following formula represents the value of the equity.

$$(1 - M)\ V$$

Discounting the Cash Flow to Equity to the Present Value – The cash flow to equity in each projection year is discounted to the present value at the equity yield rate ($1/S^n$). The sum of these cash flows is the value of the equity (1 - M) V. The following formula represents the calculation of equity as the sum of the discounted cash flows.

$$(d_e^1 \times 1/S^1) + (d_e^2 \times 1/S^2) + \ldots + (d_e^{10} \times 1/S^{10}) + (d_r \times 1/S^{10}) = (1 - M)\ V$$

Combining the Equations: Annual Cash Flow to Equity and Discounting the Cash Flow to Equity to the Present Value – The last step is to arrive at one overall equation that shows that the annual cash flow to equity plus the yearly discounting to the present value equals the value of the equity.

$$((NI^1 - (f \times M \times V))\ 1/S^1) + ((NI^2 - (f \times M \times V))\ 1/S^2) + \ldots$$

$$((NI^{10} - (f \times M \times V))\ 1/S^{10}) +$$

$$(((NI^{11}/R_r) - (b\ (NI^{11}/R_r)) - ((1 - P) \times M \times V))\ 1/S^{10}) = (1 - M)\ V$$

Because the only unknown in this equation is the property's value (V), it can be solved readily.

Ten-Year Projection of Income and Expense – Because the fixed and variable forecast of income and expense is carried out only to the stabilized year, it is necessary to continue the projection to the eleventh year. In most cases, net income before debt service beyond the stabilized year is projected at an assumed inflation rate. By increasing a property's revenue and expenses at the same rate of inflation, net income remains constant as a percentage of total revenue, and the dollar amount escalates at the annual inflation rate. The ten-year forecast of

income and expense illustrates the subject property's net income, which is assumed to increase by 3.0% annually subsequent to the hotel's stabilized year of operation.

The following values are assigned to the variable components for the purposes of this valuation.

SUMMARY OF KNOWN VARIABLES

Annual Net Income	NI	See Ten-Year Forecast
Loan-To-Value Ratio	M	65 %
Interest Rate	*i*	5.50 %
Debt Service Constant	f	0.068135
Equity Yield	Ye	7.3 %
Transaction Costs	b	2.5 %
Annual Constant Required to Amortize the Loan in Ten Years	fp	0.130232
Terminal Capitalization Rate	Rr	8.0 %

The following table illustrates the present worth of a $1 factor at the 7.3% equity yield rate.

PRESENT WORTH OF $1 FACTOR AT THE EQUITY YIELD RATE

Year Ending	Present Worth of $1 Factor at 7.2%
2018	0.932411
2019	0.869390
2020	0.810628
2021	0.755838
2022	0.704751
2023	0.657118
2024	0.612704
2025	0.571291
2026	0.532678
2027	0.496675

Using these known variables, the following intermediary calculations must be made before applying the simultaneous valuation formula. The fraction of the loan paid off during the projection period is calculated as follows.

P = (0.06813 - 0.0550) / (0.13023 - 0.0550) = 0.174590

The annual debt service is calculated as f x M x V.

(f x M x V)= 0.06813 x 0.65 x V = (0.04429)V

Inserting the known variables into the hotel valuation formula produces the following.

(	2,760,000	- 0.04429 V)	x	0.9324	+
(	3,965,000	- 0.04429 V)	x	0.86937	+
(	4,411,000	- 0.04429 V)	x	0.8106	+
(	4,773,000	- 0.04429 V)	x	0.75581	+
(	4,916,000	- 0.04429 V)	x	0.70471	+
(	5,064,000	- 0.04429 V)	x	0.65708	+
(	5,216,000	- 0.04429 V)	x	0.61266	+
(	5,372,000	- 0.04429 V)	x	0.57124	+
(	5,533,000	- 0.04429 V)	x	0.53263	+
(	5,699,000	- 0.04429 V)	x	0.49662	+

(((5,870,000 / 0.080) - (0.025 x (5,870,000 / 0.080)) -

((1 - 0.174590) x 0.7 x V)) x 0.496623)= (1 - 0.65)V

Like terms are combined as follows.

$67,565,709 -	0.573941V	=	(1 - 0.65)V
	$67,565,709	=	0.92394V
	V	=	$67,565,709 / 0.92394
	V	=	$73,127,763

Total Property Value as Indicated by the Income Capitalization Approach (Say)	=	$73,100,000