



CITY OF SURPRISE
Tourism Advisory Commission
16000 N. Civic Center Plaza
Surprise, AZ 85374
 Tuesday, April 16, 2019 @ 4:00 PM
 COMMUNITY ROOM

- A. Call To Order
- B. Roll Call
- C. Pledge of Allegiance
- D. Current Events and Reports
- E. Staff Reports
- F. Tourism Advisory Commission Agenda

CALL TO THE PUBLIC:

INSTRUCTIONS: In order to address the Board\Commission, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the Secretary before the meeting begins.

Note: A.R.S. 38-431.01(H) - During this time members of the public may address the Board\Commission only on issues within the jurisdiction of the Board\Commission which are not an item on the agenda. At the conclusion of the open call, the Board\Commission may respond to criticism, may ask staff to review the matter or may ask that the matter be put on a future agenda. No discussion or action shall take place on any item raised.

CONSENT AGENDA:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

- | | | | |
|----|----------|---|---|
| 1. | Citywide | Approval of Minutes - February 14, 2019 | None |
| | | | Kendra Pettis
Sports and
Tourism |
| 2. | Citywide | Presentation and discussion pertaining to the Resort Feasibility Study. | None |
| | | | Joe Bertoletti
Sports and
Tourism |
| 3. | Citywide | Consideration and action pertaining to Future Agenda Items. | Joe Bertoletti
Sports and Tourism |

- G. Other Business and Future Agenda Items
- H. Executive Session

For information purposes: Upon a public majority vote of a quorum ("Commission"), the Commission may hold an executive session, which will not be open to the public, but for only the following purposes: discussion or consideration of records exempt by law from public inspection (A.R.S. §38-431.03(A)(2));

or discussion or consultation for legal advice with the attorney or attorneys of the public body (A.R.S. §38-431.03(A)(3)).

Confidentiality Requirements: Pursuant to A.R.S. §38-431.03(C)(D), any person receiving executive session information pursuant to A.R.S. §38-431.02 shall not disclose that information except to the Attorney General or County Attorney or by agreement of the Commission, or as otherwise ordered by a court of competent jurisdiction.

The Commission may vote to hold an executive session for the purpose of obtaining legal advice from the Commission's attorney on any matter listed on the agenda pursuant to A.R.S. § 38-431.03(A)(3).

I. Adjournment

SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED: April 15, 2019 at 3:20 PM

SPECIAL NOTE: PERSONS WITH SPECIAL ACCESSIBILITY NEEDS, INCLUDING LARGE PRINT MATERIALS OR INTERPRETER, SHOULD CONTACT THE CITY CLERK'S OFFICE @ 623.222.1200 OR TTY 623.222.1002, BY NO LATER THAN 24 HOURS IN ADVANCE OF THE REGULAR SCHEDULED MEETING TIME.



**CITY OF SURPRISE
Tourism Advisory Commission**

Council Meeting Date: April 16, 2019

Contact Person: Kendra Pettis, DIR -
SPORTS/TOURISM

Submitting Department: Sports and Tourism

District: Citywide

Staff Recommendations: None

Consent: No

Regular: Yes

Public Hearing: No

Report/Discussion: No

Agenda Wording:

Approval of Minutes - February 14, 2019

Motion:

I move to approve the February 14, 2019 Tourism Advisory Commission meeting minutes.

Background:

None.

Objective Analysis:

None.

Policy Compliant:

None.

Financial Impact:

None.

Budget Impact:

None.

FTE Impact:

None.

ATTACHMENTS:

1. 02_14_19 Minutes_Draft

**CITY OF SURPRISE
TOURISM ADVISORY COMMISSION**

Thursday, February 14, 2019 @ 2:00 p.m.

**City Hall – Council Chambers Overflow Room
16000 N. Civic Center Plaza
SURPRISE, ARIZONA 85374**

CALL TO ORDER:

A. Roll Call - 2:04 p.m.

Tourism Advisory Board: Present – Marco Daleo, Gina Narez, Mario Rana, John Williams, Glen Stark, Deangelo Hall

Not present: Chris Hall

Sports and Tourism Department: Kendra Pettis, Tara Combs, Travis Ashby, Cecilia Covarrubio, Joe Bertolotti

B. Pledge of Allegiance

C. Current Events Reports

None.

D. Staff Reports

Kendra Pettis, Sports and Tourism Director provided Members of the Commission with the following updates and upcoming events:

- Upcoming Events, Recaps and Highlights (January – March 2019)
- Tourism website overview – exploresurprise.com; soft launch taking place in February
- Tourism Feasibility Study; draft version provided and presentation will take place.

CALL TO THE PUBLIC:

None.

CONSENT AGENDA

E. Approval of items on the Consent Agenda

No items were identified as consent agenda items.

REGULAR AGENDA ITEMS – NON PUBLIC HEARING

Item 1 – CITYWIDE – Consideration and action to approve the minutes of the December 13, 2018 Tourism Advisory Commission meeting.

Motion to approve the minutes of the December 13, 2018 Tourism Advisory Commission meeting – John Williams, 2nd Glenn Stark. Motion carried.

Item 2 – CITYWIDE – Discussion pertaining to a State of the City Exhibitor Booth.

Kendra Pettis, Director of Sports and Tourism discussed the State of the City on March 28, 6-8 p.m.. Sports and Tourism will have a vendor table for exhibit at the event taking place at City Hall. This year’s event marks the 10th anniversary and celebration of the new City Hall buildings.

Item 3 – CITYWIDE – Consideration and action pertaining to establishing Fiscal Year 2020 Tourism Meeting Schedule.

Motion to establish the Tourism Advisory Commission annual regular meeting schedule as follows (FY2020 - August 8, 2019, October 10, 2019, January 9, 2020 and April 9, 2020 at 2 p.m. in the Council Overflow Room – Mario Rana, 2nd John Williams. Motion carried.

Item 4 – CITYWIDE – Discussion and presentation pertaining to the Southern Arizona Attraction Alliance.

Glenn Stark, Chamber of Commerce Tourism Commission representative provided members of the Commission with an overview of the Southern Arizona Attraction Alliance. The Southern Arizona Attraction Alliance provides a central resource and concept for business members and area attractions of the community to cohesively market and brand the City amongst visitors.

Kendra Pettis, Sports and Tourism Director stated that WestMarc may offer a similar concept and would research what opportunities may be available.

Item 5 – CITYWIDE – Consideration and action pertaining to Future Agenda Items.

OTHER BUSINESS

Joe Bertoletti, Senior Associate Director provided members of the Commission with the new printed City and local attraction map for distribution.

ADJOURNMENT – Motion by John Williams, 2nd Mario Rana. Motion carried. Meeting adjourned at 2:46 p.m.

ATTEST:

Kendra Pettis, Director
Sports and Tourism

CERTIFICATION:

I, Cecilia A. Covarrubio, Supervisor for the City of Surprise Sports and Tourism Department, Maricopa County, Arizona, do hereby verify that these are the true and correct minutes of the Tourism Advisory Commission meeting held on February 14, 2019.

Cecilia A. Covarrubio, Supervisor
Sports and Tourism



**CITY OF SURPRISE
Tourism Advisory Commission**

Council Meeting Date: April 16, 2019

Contact Person: Joe Bertolotti, AD-SPORTS &
TOURISM

Submitting Department: Sports and Tourism

District: Citywide

Staff Recommendations: None

Consent: No

Regular: Yes

Public Hearing: No

Report/Discussion: No

Agenda Wording:

Presentation and discussion pertaining to the Resort Feasibility Study.

Motion:

N/A

Background:

The Council approved Tourism Five Year Strategic Plan identifies the desire for the city to attract a resort to Surprise to increase tourism opportunities and spur additional economic development. The Tourism Advisory Commission recommended and Council approved to utilize up to \$20,000 from the Tourism Fund for professional services to conduct a resort feasibility study (Resolution #2018-73). CBRE was selected through an RFQ process and will be presenting their findings.

Objective Analysis:

The objective of the study was to obtain market research on the feasibility of potential future hotel and resort development opportunities within Surprise. The study included a market demand analysis, site analysis, facility recommendations and market share estimates.

Policy Compliant:

This item is compliant with all city policies and procedures.

Financial Impact:

There is no financial impact for this item.

Budget Impact:

This item does not have an impact on the budget.

FTE Impact:

This item does not have any impact on current staff levels.

ATTACHMENTS:

1. CBRE Presentation_Resort Feasibility_April 16
2. Proposed Hotel Surprise Market Study Feasibility Analysis_Final



CBRE HOTELS - HOTEL MARKET & FEASIBILITY ANALYSIS FOR CITY OF SURPRISE

APRIL 16, 2019

MIKE BAKER

Director

CBRE Hotels Advisory

HOTEL MARKET & FEASIBILITY STUDY FOR CITY OF SURPRISE

KEY OBJECTIVES

- Determined the market demand and economic feasibility for a full service hotel in three planning areas of Surprise.
- The three areas for potential resort or full service hotel development: City Center, Loop 303 Corridor, and White Tank Mountains.
- Developed facilities recommendations, market share estimates, operating cash flow projections and feasibility analysis.

HOTEL MARKET & FEASIBILITY STUDY FOR CITY OF SURPRISE

KEY TERMS

- **Resort Hotel:** A full service lodging facility on a self-contained campus that provides most of a travelers wants such as food/beverage, recreation, meeting and entertainment activities.
- **Full Service Hotel:** A hotel which provides a wide variety of facilities including food & beverage outlets and meeting space.
- **Limited or Select Service Hotel:** A hotel which provides only some of the facilities & amenities of a full service hotel. Offers limited food & beverage outlets and meeting space, if any.

HOTEL MARKET & FEASIBILITY STUDY FOR CITY OF SURPRISE

SUMMARY OF FINDINGS FOR THE THREE PLANNING AREAS:

- **City Center:** There is sufficient demand for a full service hotel given the proximity to key hotel demand drivers: Surprise Baseball Stadium, the Tennis Center, Ottawa University and the Aquatic Center.
- **Loop 303 Corridor:** While poised for significant residential and commercial development in the future, hotel development in this area is more suitable for limited service or select service hotels.
- **White Tank Mountains:** Not enough critical mass to support a resort and distance from demand generators is a challenge.

FACILITIES RECOMMENDATIONS

HOTEL MARKET & FEASIBILITY STUDY FOR CITY OF SURPRISE

SUMMARY OF FACILITIES RECOMMENDATIONS:

- **Guest Rooms:** We found support for an upscale full service hotel in City Center with approximately **225 rooms** with a mix of king rooms, double queen rooms and suites.
- **Food & Beverage Outlets:** 1) a three-meal restaurant offering a high quality dining experience and 2) a lobby bar/lounge catering to hotel guests and residents.
- **Meeting Space:** Approximately 12,000 to 14,000 square feet of indoor meeting space including a ballroom and individual meeting rooms from 500 to 1,500 square feet.

SAMPLING OF FULL SERVICE HOTEL AMENITIES



Full Service Hotels Offer More Amenities and Services

Full Service hotels offer a wider array of amenities for hotel guests including food & beverage outlets, recreational amenities and meeting space. As such, they also require larger staffing levels and are more expensive to build than limited service hotels.

Food and Beverage Outlets

Full Service Hotels feature at least one food & beverage outlet to service hotel guests. Many full service hotels are social gathering places for visitors and residents.



Meeting and Event Space

Meeting and event space are a cornerstone of the full service hotel. Banquet halls, meeting rooms and event spaces attract group demand including corporate and social events. Given the climate in Surprise, meeting space could include an outdoor terrace and dining option for group events.



MARKET DEMAND ANALYSIS

PHOENIX HOTEL MARKET HISTORICAL & PROJECTED PERFORMANCE

YEAR	OCC	Δ OCC	ADR	Δ ADR	REVPAR	Δ REVPAR
2014	63.1%	5.4%	\$112.03	3.6%	\$70.72	9.2%
2015	65.8%	4.2%	\$120.97	8.0%	\$79.58	12.5%
2016	67.2%	2.1%	\$123.12	1.8%	\$82.71	3.9%
2017	67.7%	0.9%	\$127.10	3.2%	\$86.10	4.1%
2018	69.7%	2.9%	\$130.01	2.3%	\$90.65	5.3%
2019F	69.2%	-0.7%	\$134.24	3.3%	\$92.91	2.5%
2020F	67.6%	-2.3%	\$139.11	3.6%	\$94.11	1.3%
2021F	66.0%	-2.5%	\$140.82	1.2%	\$92.88	-1.3%
2022F	66.3%	0.6%	\$142.75	1.4%	\$94.66	1.9%
2023F	67.4%	1.7%	\$148.25	3.9%	\$99.96	5.6%

Source: CBRE Hotels Americas Research, STR, Q4 2018

- RevPAR for the overall Phoenix market increased by 5.3% in 2018 as compared to 2.9% for the nation as a whole. Note: RevPAR = Occupancy times Average Daily Rate (ADR).

Source: CBRE Hotels' Americas Research - Hotel Horizons® March – May 2019; STR, Q4 2018.

WEST VALLEY HOTEL MARKET HISTORICAL PERFORMANCE

West Performance - All Hotels

YEAR	OCC	Δ OCC	ADR	Δ ADR	REVPAR	Δ REVPAR
2014	63.2%	-	\$82.82	-	\$52.37	-
2015	66.7%	5.4%	\$90.47	9.2%	\$60.31	15.2%
2016	69.1%	3.7%	\$94.25	4.2%	\$65.15	8.0%
2017	68.5%	-0.9%	\$101.51	7.7%	\$69.56	6.8%
2018	72.0%	5.1%	\$103.62	2.1%	\$74.64	7.3%

- Note: West Valley includes: Avondale, Buckeye, Glendale, Peoria, Sun City and Surprise.
- In recent years, the West Valley has outperformed the overall Phoenix market in terms of occupancy & underperformed in average daily rate (ADR).

Source: CBRE Hotels' Americas Research - Hotel Horizons® March – May 2019; STR, Q4 2018.

COMPETITIVE HOTEL MARKET ANALYSIS

SELECTION OF THE COMPETITIVE HOTELS

- Analyzed the overall **West Valley** hotel market and selected 17 hotels located in Surprise and surrounding cities.
- **Competitive Hotels:** Selected (I) high quality branded and non-branded full service hotels in the West Valley; (II) the existing hotels in Surprise; and (III) high quality branded limited or select service hotels outside of Surprise but within the West Valley.
- **Selection Criteria:** Selected based on location, size and facilities, market orientation and rate structure.

PROJECTED PERFORMANCE OF THE COMPETITIVE SUPPLY

Projected Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2018	990,245	0.0%	705,500	3.0%	71%	\$133.00	1.1%	\$94.76	4.1%
2019	1,070,180	8.1	740,700	5.0	69	137.00	3.0	94.82	0.1
2020	1,109,235	3.6	768,900	3.8	69	141.00	2.9	97.74	3.1
2021	1,109,235	0.0	792,000	3.0	71	145.00	2.8	103.53	5.9
2022	1,191,360	7.4	825,800	4.3	69	153.00	5.5	106.05	2.4
2023	1,191,360	0.0	850,500	3.0	71	157.00	3.0	112.08	5.7
2024	1,191,360	0.0	845,900	0.0	71	163.00	3.0	115.73	3.3
CAAG	3.1%		3.1%			3.4%		3.4%	

Source: CBRE Hotels; Note: Proposed Full Service Hotel in City Center Projected to Open in 2022

- The additions to supply in 2019/2020 include hotel openings in Surprise, Glendale and Avondale.
- The proposed full service hotel in City Center is projected to open in 2022. The stabilized market occupancy is 71 percent.

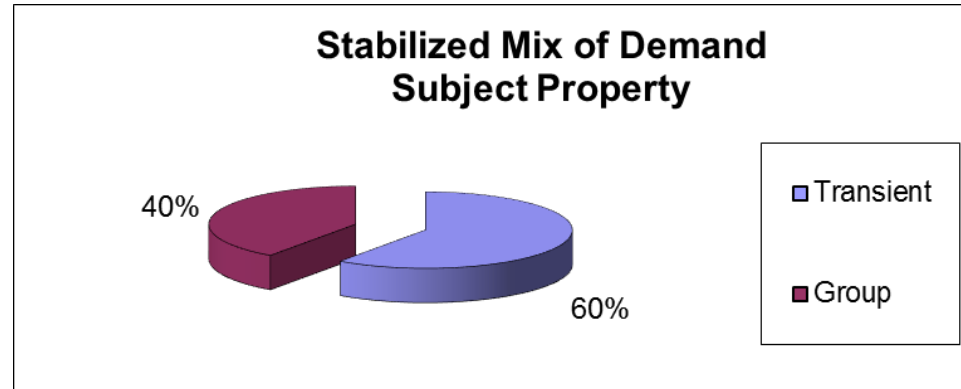
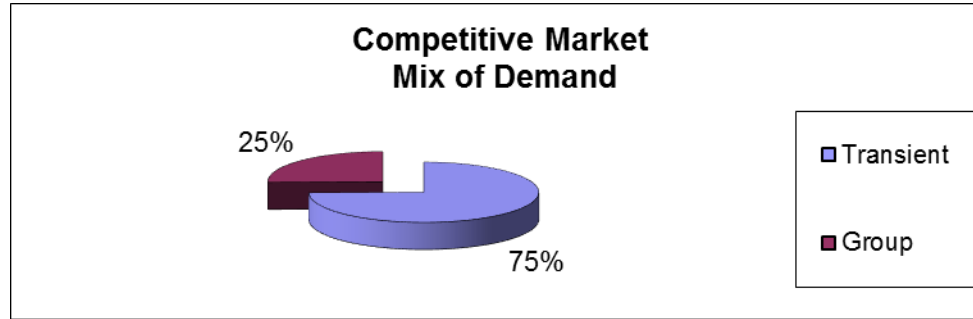
PROJECTED PERFORMANCE OF THE PROPOSED HOTEL

Projected Market Performance of the Proposed Full Service Hotel in City Center											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2022	82,125	N/A	52,400	N/A	64%	\$197.00	N/A	\$125.70	N/A	92%	119%
2023	82,125	0.0%	56,000	6.9%	68	203.00	3.0%	138.42	10.1%	96	124
2024	82,125	0.0	59,500	6.3	72	209.00	3.0	151.42	9.4	102	131
2025	82,125	0.0	59,500	0.0	72	215.00	3.0	155.77	3.0	102	131
2026	82,125	0.0	59,500	0.0	72	222.00	3.0	160.84	3.0	102	131
CAAG	0.0%		3.2%			3.0%		6.4%			

Source: CBRE Hotels

- The proposed hotel in City Center was projected to open in 2022 for purposes of our analysis.
- The proposed hotel in City Center is projected to penetrate slightly above the competitive hotels in occupancy and achieve a revenue yield approximately 31 percent higher than the competitive hotels.

DEMAND MIX FOR THE COMPETITIVE HOTELS & PROPOSED HOTEL





PROJECTED OPERATING RESULTS AND FEASIBILITY ANALYSIS

PROJECTED OPERATING RESULTS OF THE PROPOSED HOTEL

Proposed Full Service Hotel City Center			
Summary of Estimated Annual Operating Results			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2022	\$15,982,000	\$3,309,000	21%
2023	17,497,000	4,003,000	23
2024	19,075,000	4,703,000	25
2025	19,632,000	4,830,000	25
2026	20,254,000	5,004,000	25
2027	20,822,000	5,115,000	25
2028	21,457,000	5,279,000	25
2029	22,097,000	5,436,000	25
2030	22,804,000	5,640,000	25
2031	23,457,000	5,781,000	25

- We projected a ten year operating cash flow for the proposed full service hotel in City Center.
- The projected stabilized operating margin is 25 percent which is similar to other high quality full service hotels in the region as well as in the range nationally based on *CBRE Hotels' 2018 TRENDS* publication.

ECONOMIC FEASIBILITY OF THE PROPOSED HOTEL

- **Feasibility Gap:** Based on our analysis there is a feasibility gap for the proposed hotel. We performed two feasibility tests.
- **Cost vs. Value:** The cost to build the hotel is projected to be greater than the market value of the hotel upon completion of construction.
- **IRR Analysis:** IRR (Internal Rate of Return). The projected IRR of the project does not achieve the market rate returns required to generate developer interest.

HOTEL MARKET & FEASIBILITY STUDY FOR CITY OF SURPRISE

SUMMARY THOUGHTS:

- There is market demand for a full service hotel in the City Center of Surprise. Market participants reported that a lack of F&B and meeting facilities in Surprise translates into hotel demand going to other portions of the metro area.
- Found market support for a full service hotel with approximately 225 rooms, a full service restaurant and meeting facilities.
- The proposed hotel was projected to penetrate slightly above the competitive hotels in occupancy and achieve a revenue yield above the competitive hotels.
- The study revealed a feasibility gap between the cost to build/develop the proposed hotel and its market value upon completion of construction.

CBRE HOTELS

The World's Leading Hotel Experts.

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MARKET DEMAND & ECONOMIC FEASIBILITY ANALYSIS

Proposed Full Service Hotel
Surprise, Arizona

Client # 18-487LA-0150

Ms. Kendra Pettis
Sports and Tourism Director
City of Surprise
16000 North Civic Center Plaza
Surprise, AZ 85374

CBRE



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March 18, 2019

Ms. Kendra Pettis
Sports and Tourism Director
City of Surprise
16000 North Civic Center Plaza
Surprise, Arizona 85374

Dear Ms. Pettis:

In accordance with your request, we have completed our study of the potential market demand, statement of operating results and development feasibility analysis for a proposed full-service hotel (the "subject" or "hotel") to be located in Surprise, Arizona. Pursuant to our engagement, we have prepared a report summarizing our findings.

The conclusions set forth are based on an analysis of the existing and potential future supply and demand for the competitive lodging market as of the completion of our fieldwork in November and December 2018. This report is intended for your internal management use in determining the potential market for full service resort lodging facilities within the City of Surprise. After your review of this report, we will follow up with the final portion of the study which is to analyze the economic feasibility of the proposed hotel.

As in all studies of this type, the estimated results are based upon competent and efficient management and presume no significant change in the competitive market from that set forth in this report. Since our results are based upon estimates and assumptions that are subject to uncertainty and variation, we do not represent them as results that will actually be achieved. It is expressly understood that the scope of our study and the report thereon do not include the possible impact of zoning or environmental regulations, licensing requirements, or other restrictions concerning the project except where such matters have been brought to our attention and are disclosed in the report.

This report was prepared for your use in evaluating the demand for and market feasibility of the proposed project. As is customary in assignments of this type, neither our name nor the material submitted may be included in any prospectus or as part of any printed material, or used in offerings or representations in connection with the sale of securities or participation interests to the public, without written prior consent.

The terms of our engagement are such that we have no obligation to revise this report to reflect events or conditions that occur subsequent to the date of the completion of our fieldwork. However, we are available to discuss the necessity for revision in view of changes in the economic

or market factors affecting the proposed subject. This report is subject to the Terms and Conditions presented in the Addenda.

We appreciate your cooperation extended to us during the course of our engagement and would be pleased to hear from you if we could be of further assistance in the interpretation of our findings and recommendations.

Sincerely,



By Jeff Lugosi
Managing Director
CBRE Hotels Advisory

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Section I
INTRODUCTION

INTRODUCTION

OVERVIEW OF STUDY

CBRE Hotels was formally retained on October 15, 2018 by the City of Surprise to conduct a hotel resort feasibility study. While no specific subject site was identified, there were three areas identified for potential hotel development including the City Center, the Loop 303 corridor and the area near the White Tank Mountains. Specifically, we were engaged to assist the City to determine the market demand for a hospitality project in these three areas and measure any feasibility gap that would be required. We also determined what amenities or attributes would be desired and supported by the market. As such, we evaluated the potential market demand for full service and/or resort hotel development within these planning areas in the City of Surprise.

After physically inspecting the three planning areas and concluding our study of the market, it is our opinion that a hotel consisting of 225 guestrooms and positioned as a high quality, full service hotel property could be supported by the local market within the City Center area. As such, we have evaluated the potential market demand and operating results for a proposed full-service hotel to be located in Surprise, Arizona. As a component of this analysis, we first determined the market potential for a hotel in the City Center area. Next, we provided our projections of the occupancy and average daily room rates (“ADR”) the proposed hotel could reasonably expect to achieve over its first five years of operation. We then provided a forecast of the proposed subject hotel’s income and expenses over a ten-year projection period. This is followed by an analysis of the economic feasibility of the proposed hotel development.

As will be discussed later in this report, we found support for a hotel with 225 rooms that would be positioned as a high-quality, full-service hotel. We have assumed the property would be open and available for occupancy by January 1, 2022.

METHODOLOGY

Specifically, in conducting the study of the potential market demand, we:

- Evaluated the three proposed planning areas and assessed the impact of accessibility, visibility, and location relative to demand generators on the marketability and likely market mix of a proposed Hotel;
- Researched and analyzed current economic and demographic trends to determine their impact on future lodging demand in the market;
- Researched the competitive lodging supply in Surprise and the surrounding area, with a particular focus on the hotels that would compete most directly with the proposed Subject;
- Reviewed the historical performance of the competitive lodging market;
- Estimated the anticipated growth in supply and demand for lodging accommodations in the local market area;
- Prepared a forecast of future performance for the competitive lodging market;

- Developed recommendations for the facilities program for the subject hotel;
- Prepared a forecast of the projected market penetration and the resulting occupancy levels and average daily rates (“ADR”) for the proposed Subject’s first five years of operation, assuming the Subject would be a 225-room full service hotel.
- Prepared operating results for the proposed hotel including estimates of revenues and expenses for its first ten years of operation. These estimates result in a “bottom line” of income before fixed charges of interest, depreciation, amortization and income taxes.
- Development a cost estimate to develop the proposed full service hotel and conducted an IRR (Internal Rate of Return) analysis based on our projected cash flow for the proposed hotel and the costs to develop it.

Several sources were used in compiling the background information and preparing the analyses contained in this report. These sources include CBRE Hotels’ *Trends® in the Hotel Industry*, STR, Inc. (Smith Travel Research), CBRE Hotels’ *Monthly Trends*, data gathered through direct interviews with representatives of local businesses, data provided by sources in the lodging chains with which the competitive properties are affiliated, and data from various local government agencies. In addition, we interviewed the following individuals: staff from the Texas Rangers and Kansas City Royals, the Director of Economic Development for the City of Surprise, the Director of Research for Visit Phoenix, the Vice President of Ottawa University (OUAZ) and hotel management from hotels in the West Valley.

SUMMARY OF CONCLUSIONS

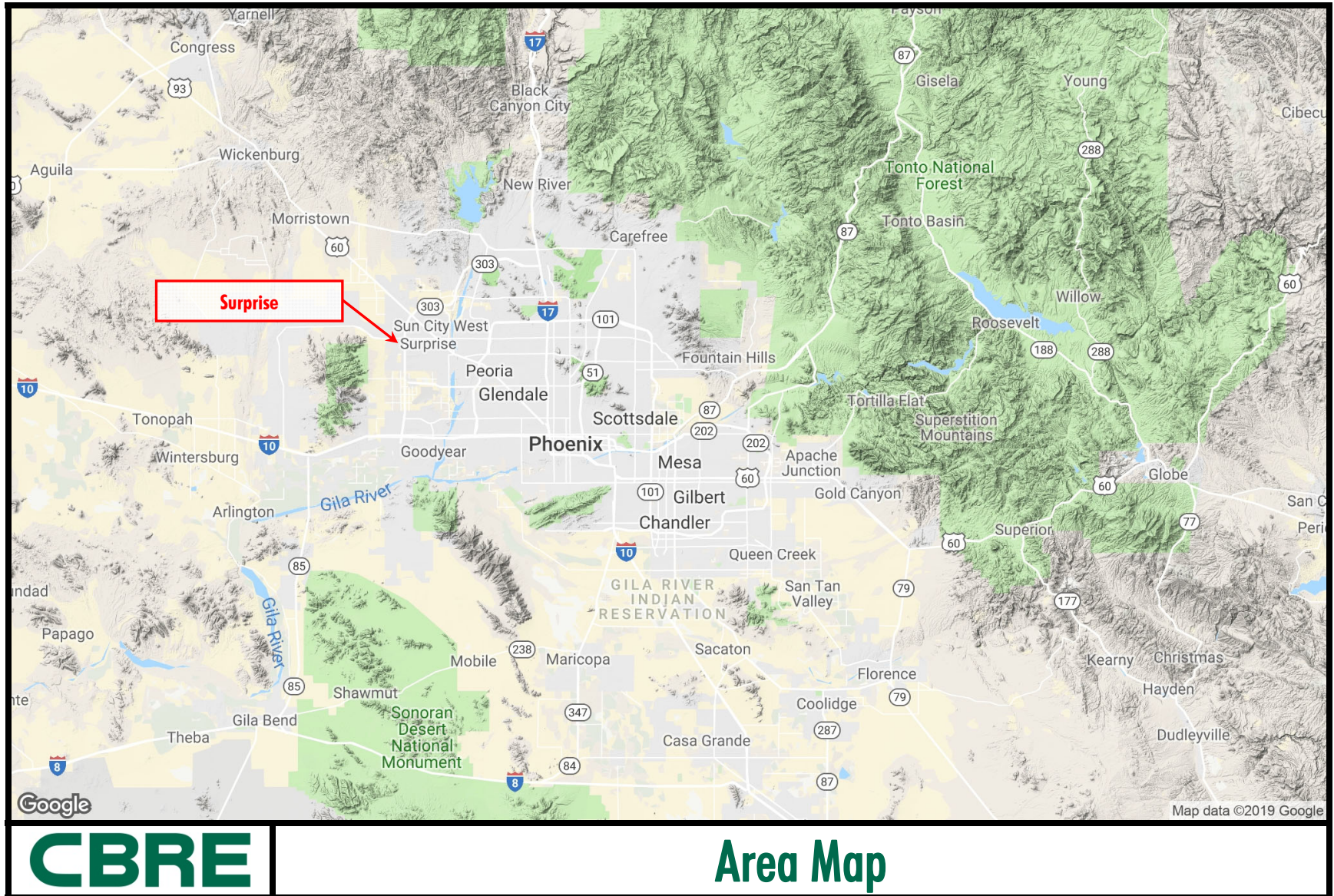
After analyzing the potential for full service hotel development in the various portions of the city, we concluded that the opportunity exists for a full-service hotel in the City Center of Surprise. As such, we believe there is demand for a high quality 225 room full service hotel to be located in the City Center of Surprise. The following presents a summary of projected occupancy, average daily room rate, revenues and net operating income for the proposed subject hotel. Please note that we have assumed an opening date of January 1, 2022.

Projected Market Performance of the Proposed Full-Service Hotel in the City Center of Surprise											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2022	82,125	N/A	52,400	N/A	64%	\$197.00	N/A	\$125.70	N/A	92%	119%
2023	82,125	0.0%	56,000	6.9%	68	203.00	3.0%	138.42	10.1%	96	124
2024	82,125	0.0	59,500	6.3	72	209.00	3.0	151.42	9.4	102	131
2025	82,125	0.0	59,500	0.0	72	215.00	3.0	155.77	3.0	102	131
2026	82,125	0.0	59,500	0.0	72	222.00	3.0	160.84	3.0	102	131
CAAG	0.0%		3.2%			3.0%		6.4%			

Source: CBRE Hotels

Summary of Estimated Annual Operating Results			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2022	\$15,982,000	\$3,309,000	21%
2023	17,497,000	4,003,000	23
2024	19,075,000	4,703,000	25
2025	19,632,000	4,830,000	25
2026	20,254,000	5,004,000	25
2027	20,822,000	5,115,000	25
2028	21,457,000	5,279,000	25
2029	22,097,000	5,436,000	25
2030	22,804,000	5,640,000	25
2031	23,457,000	5,781,000	25

Section II
AREA REVIEW & NEIGHBORHOOD ANALYSIS



AREA REVIEW

INTRODUCTION

The economic climate of the market area encompassing the subject property is an important consideration in forecasting hotel demand and income potential. Historic economic and demographic trends that highlight the amount of visitation or other economic trends provide a basis for hotel demand projections. The purpose of this section is to review available economic and demographic data to determine whether the subject's regional and local market areas might experience future economic growth. The subject site is located in Surprise, Arizona which is part of the Phoenix metropolitan area and within Maricopa County.

ARIZONA AND PHOENIX METRO AREA ECONOMY

More than nine years into the current expansion, Arizona continues to post solid growth in jobs and income. The Phoenix Metropolitan Statistical Area (MSA) remains the engine of state job gains. According to the University of Arizona's Economic and Business Research Center, "All major industries in Arizona added jobs during the past year, with construction employment finally firing on all cylinders. Housing permits are up, but not enough to restrain rapid house price increases. In the long run, Arizona remains well positioned to outpace the nation and most states in job, income, and population growth."

The following table presents the most recent economic forecast from the University of Arizona's Economic and Business Research Center:

PHOENIX METRO AREA ECONOMIC FORECAST						
Phoenix Metro Area Economic Forecast	2017	2018	2019	2020	2021	2022
Personal Income (\$ mil)	205,615	217,418	231,069	246,154	261,317	276,846
% Chg from Year Ago	4.48%	5.74%	6.28%	6.53%	6.16%	5.94%
Retail Sales (\$ mil)	70,942	75,259	78,863	82,743	86,523	90,602
% Chg from Prior	5.50%	6.10%	4.80%	4.90%	4.60%	4.70%
Total Nonfarm Employment (000s)	2,034.10	2,097.10	2,158.70	2,214.30	2,261.30	2,303.60
% Chg from Year Ago	2.80%	3.10%	2.90%	2.60%	2.10%	1.90%
Population (000s), July 1st estimates	4,649	4,733	4,819	4,906	4,993	5,081
% Chg from Year Ago	2.20%	1.80%	1.80%	1.80%	1.80%	1.80%
Residential Building Permits (units)	29,312	32,761	33,475	33,449	33,490	33,560
% Chg from Prior	2.60%	11.80%	2.20%	-0.10%	0.10%	0.20%

Source: University of Arizona, Economic Forecast, as of Sept. 2018

The Phoenix metro area is a hub for corporate expansions and relocations thanks to reasonable business and living costs, favorable taxation of multistate enterprises, and a large labor pool. The share of combined employment in finance and business services is among the highest in the nation, with both industries hosting a wealth of operational/administrative positions. USAA, a Texas-based insurance, banking and investment products firm, chose Phoenix at the end of 2017 to expand its technology and digital office and will add 1,000 workers through 2020. Business services will also grow as Silicon Valley tech companies open sales and support offices in Phoenix.

According to data from CBRE Research, as of 2017 the Phoenix area had a total of 122,500 science, technology, engineering and math (STEM) jobs, with 17,600 of those jobs created between 2011 and 2017. The number of technology focused firms in the metro area has increased from 67 to 281 over the last five years.

Sunny weather, reasonable costs, and an abundance of land make Phoenix a desirable location for aerospace firms such as Honeywell, Bombardier and Boeing. The share of jobs in aerospace manufacturing is more than twice the national average, and many high-paying management jobs are related to aerospace. Defense contractor Boeing, which produces Apache helicopters in Phoenix, will move hundreds of jobs south from Washington state. Aerospace manufacturers pay more than twice the state average, and gains here will lift housing, retail and leisure spending.

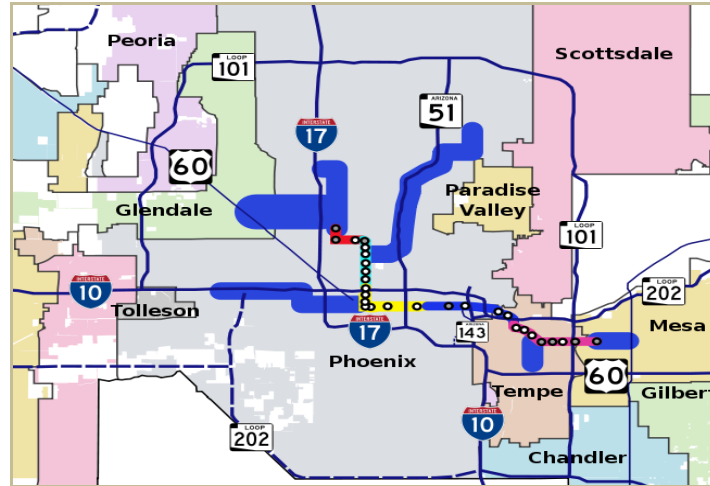
About 60 percent of Arizona's population of over 7.0 million residents resides in Maricopa County. Collectively, 33 diverse communities compose what is known as the Valley of the Sun, or simply - Greater Phoenix. The Phoenix Metropolitan Statistical Area includes; the cities of Phoenix, Scottsdale, Tempe, Mesa, Chandler, Peoria, Glendale, Gilbert and the unincorporated communities of Sun City/Sun City west. The United States Office of Management and Budget designates the area as the Phoenix-Mesa-Glendale Metropolitan Statistical Area (MSA), defining it as Maricopa and Pinal counties. According to the Census Bureau's 2017 population estimates the MSA had approximately 4,700,000 residents, making it the 11th largest Metropolitan Area in the nation by population. It is also one of the fastest growing major metropolitan areas, gaining over 540,000 residents from 2010 to 2017, and nearly 1.5 million residents since 2000.

Transportation

Maricopa County is served by three Interstates: the 10, 17, and 8. Interstate 10 leads into Greater Phoenix from Los Angeles on the west, and continues southeast through the metro area on to Tucson and the eastern United States. Interstate 17 provides a north-south route through the urban area and is a key industrial corridor. Interstate 17 travels north from Maricopa County to Flagstaff, Arizona, and intersects with Interstate 40. Interstate 8, just south of the metro area, connects Casa Grande and Gila Bend to San Diego. Loop 101, which loops around the northern part of the Valley and then heads south terminating in the Southeast Valley, provides additional highway transportation throughout the Phoenix Metro area.

METRO Light Rail Line

The initial 20-mile segment of the Phoenix METRO Light Rail was completed in December 2008 and commenced serving revenue passengers in Phoenix, Tempe, and Mesa in January 2009. The starter line served 11.3 million riders in 2009, exceeding all first-year projections by 45 percent. The rail line is the longest starter line in federal New Starts grant history. The cost was \$1.4 billion, paid for using a \$587 million federal New Starts grant, \$59 million from a Congestion Mitigation and Air Quality grant and local tax dollars. There are 28 stations, primarily located in the center of the roadway, designed using a kit-of-parts, or prefabricated, infrastructure in consideration of the desert heat. METRO has 50 vehicles in its fleet, each with a comfort capacity of 175. According to Valley Metro, the annual ridership for fiscal year 2018 was approximately 15.8 million riders. A map of the METRO Light Rail Line is presented below.



Phoenix Sky Harbor Airport

The Airport is the 13th busiest airport in the United States for passenger traffic, serving over 43.9 million passengers in 2017. Greater Phoenix is a major hub for Southwest Airlines and American Airlines. The airport is also a regional hub for most Mexican and Hawaiian departures. Sky Harbor provides non-stop service to more than 100 domestic and international destinations with approximately 500 daily non-stop flights. The Phoenix Airport System provides the people and products of the dynamic metropolitan Phoenix economy access to the markets of the nation and the world. The airport system also is a major component of the Greater Phoenix economy, creating jobs, income, and revenues both on and off the airport.

Historical passenger traffic data from 2001 through 2017 as well as year-to-date 2017 and 2018 are presented in the table below.

Phoenix Sky Harbor International Airport Total Passenger Traffic		
Year	Total Passengers	Percent Change
2001	35,439,031	N/A
2002	35,547,167	0.3%
2003	37,423,502	5.3
2004	39,504,898	5.6
2005	41,215,342	4.3
2006	41,436,737	0.5
2007	42,184,174	1.8
2008	39,891,193	-5.4
2009	37,824,982	-5.2
2010	38,554,530	1.9
2011	40,591,948	5.3
2012	40,421,611	-0.1
2013	40,341,614	-0.3
2014	42,134,662	4.4
2015	44,003,804	4.2
2016	43,383,528	-1.4
2017	43,921,670	1.2
11/17 YTD	40,200,418	N/A
11/18 YTD	41,104,080	2.2%
CAGR	1.4%	

Source: Sky Harbor International Airport

As indicated above, the total number of passengers per year grew from approximately 35.4 million in 2001 to approximately 43.9 million in 2017, representing a compound annual growth rate (CAGR) of 1.4 percent. The decline experienced in 2008 and 2009 is attributable to the economic slowdown which resulted in a decrease of all travel segments. Year-to-date 2018 through November, total passenger traffic is up 2.2 percent over the same period in 2017. The airport is expanding its international airlift capacity with a new direct flight to Frankfurt, Germany added in May 2018 and American Airlines is planning to add an additional direct flight to London later in 2019.

With the growth in passenger numbers comes the need to ensure that the airport infrastructure can meet passenger demands. Phoenix Sky Harbor International Airport is in the midst of \$2.0 billion worth of capital improvements, including a modernization of terminal three, construction of a 2.5-mile tram to the rental car center, and the construction of a new eight gate concourse at terminal four. These upgrades are expected to be completed by 2020.

Tourism

Metropolitan Phoenix is a seasonal lodging market due to high summer temperatures. The winter and spring are peak seasons for the lodging market, the fall is the shoulder season, and the summer is the low season when temperatures may exceed 110 degrees. Average daily rates mirror the behavior of occupancy, with low-season rates being nearly one-half of those of high-season rates. This decline is driven primarily by the loss of leisure travelers to the area during the hot, summer months. As the area's luxury resort properties discount in order to attract commercial travelers, the more commercially orientated hotels are forced to follow suit.

Overall, Maricopa County has a renowned climate and broad range of recreational opportunities, cultural amenities and professional sports that provide residents and visitors with a multitude of options for sports and leisure activities. Greater Phoenix is one of the few metro areas in the country with all four types of professional sports including Phoenix Suns Basketball, Arizona Diamondbacks Baseball, Arizona Cardinals Football, and Phoenix Coyotes Hockey. Cactus League spring training baseball also attracts thousands of fans to the area each year. In addition to professional sports, the area has more than 150 golf courses and 1,200 tennis courts located throughout the County.

There are seven lakes within an hour of the metro area that offer fishing, boating, water skiing, picnic areas, and camping. In addition, there are many opportunities for hiking, mountain biking and off-road driving in and around the County. Maricopa County also has three very large regional parks. These include the Estrella Mountain Regional Park which has 19,000 acres of recreational space in the south part of the metro area; Lake Pleasant Regional Park with 24,000 acres of open space including a 10,000-acre lake in the northwest region; and White Tanks Regional Park which includes 26,000 acres in western Maricopa County.

The Arts

There are many opportunities for residents and visitors to experience the performing arts, museums, galleries, and other cultural opportunities. The County has a number of unique arts and cultural opportunities including the Heard Museum featuring Native American art, the Desert Botanical Garden, and the Pueblo Grande Museum featuring prehistoric Hohokam Indian ruins. There are over 30 museums and over 150 art galleries offering everything from western and

Native American works to contemporary exhibitions. Maricopa County has a variety of large venues for the performing arts including Phoenix Symphony Hall, which is the home of the Phoenix Symphony and Arizona Opera, Gammage Auditorium at Arizona State University, the newly restored Orpheum Theatre, the Herberger Theatre Center, the Maricopa County Events Center, and the Cricket Pavilion. Performing arts in the County include symphony, opera, Broadway Theater, and many other touring concerts, theater series and dance events.

Golf

With 322 golf courses, golf has become a key contributor to the state's economy and to the exceptional lifestyle Arizona enjoys. As a whole, the golf industry contributes well over \$3.4 billion to Arizona's economy each year, provides nearly 20,000 jobs to local residents, brings thousands of visitors to the state and significantly contributes to the beauty and value of the communities. Skies are usually sunny, and warm winter days ensure that rounds are almost never cancelled. Thirty-one percent of the area's seven million overnight visitors play golf, spending \$68 million a year on golf and nearly \$500 million total while staying in the region.

Professional Sports

Greater Phoenix is one of ten metropolitan areas with all four major professional sports teams. The MLB Arizona Diamondbacks, a 2011 division winning team, play at Chase Field, an enclosed field with a retractable-roof. The NBA Phoenix Suns and the WNBA Phoenix Mercury team currently play in US Airways Center. The US Airways center also hosts the Arena Football League Arizona Rattlers and a professional rodeo. Arizona State University's Sun Devil Stadium in Tempe, currently hosts the Buffalo Wild Wings Bowl, as well as the college football games. State Farm Stadium (formerly the University of Phoenix Stadium) in Glendale hosts the Fiesta Bowl, is home to the NFL Arizona Cardinals, and hosted the Superbowl in 2015. The NFL announced in early 2018 that State Farm Stadium will host the Superbowl again in 2023. Arizona's professional teams and their annual attendance for the most recent year available (2017 or 2018) are provided in the following table.

Professional Sports in Greater Phoenix	
Team/League	Annual Attendance
Arizona Diamondbacks Baseball (MLB)	2,424,695
Cactus League Baseball (MLB)	1,770,000
Phoenix Suns Basketball (NBA)	674,655
Arizona Cardinals Football (NFL)	513,741
Waste Management Phoenix Open (PGA)	525,821
Phoenix Coyotes Hockey (NHL)	534,670
Phoenix Mercury Basketball (WNBA)	169,149
Total	6,252,785

Arizona State University (ASU)

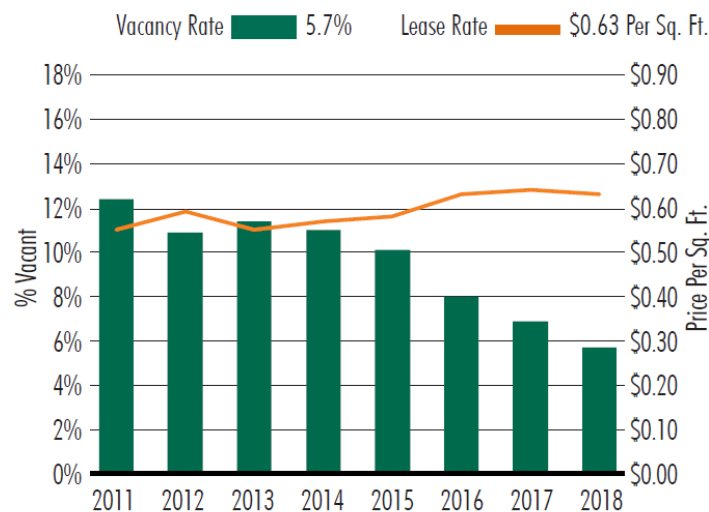
Arizona State University (ASU), located in Tempe approximately 6.0 miles south of the subject, is one of the largest public universities by enrollment in the United States. The university had approximately 109,000 students enrolled in fall 2018. The 2017 university ratings by *U.S. News & World Report* ranked ASU No. 1 among the Most Innovative Schools in America for the second year in a row.

Since 2005, ASU has been ranked among the top research universities in the U.S., public and private, based on research output, innovation, development, research expenditures, number of awarded patents and awarded research grant proposals.

Students currently compete in 24 varsity sports; Sun Devil Athletics fields teams in nine men's and 15 women's sports. Women's lacrosse has been added and will begin play in spring 2018, while men's tennis will return to ASU in 2017-18. The Arizona State Sun Devils are members of the Pac-12 Conference and have won 24 NCAA championships. Along with multiple athletic clubs and recreational facilities, ASU is home to more than 1,000 registered student organizations, reflecting the student body's diversity

Phoenix Metro Industrial Market

The Phoenix metropolitan area’s industrial market showed continued strength through the Third Quarter of 2018. The following tables shows vacancy and lease rates for the metro area’s industrial market from 2011 through Third Quarter 2018.



Source: CBRE Research, Q3 2018.

The metro area’s Third Quarter 2018 vacancy rate was 5.7 percent which is the lowest vacancy rate since 2005. The asking lease rate has been in the \$.060 per square foot per year range since 2016, although rents vary considerably based on location. Strong employment and population growth will continue to support the robust industrial sector in metro Phoenix. Strong net absorption has outpaced new supply though the current pipeline of industrial product is the strongest it’s been in a decade. Data center users have significantly expanded their presence in the Valley, while manufacturing, third party logistics, pharmaceutical and e-commerce firms continue to fuel space for demand. Furthermore, the 22-mile expansion of the Loop 202 in the West Valley will provide industrial users with increased accessibility around the metro. These trends will attract new users to the metro. Growing tenant demand, falling vacancy and a healthy supply pipeline underpins an overall positive outlook.

Travel Sector

Travel is an important contributor to the health of both the state and local economies. According to the Arizona Office of Tourism (the most recent data available), total direct travel spending in

Arizona was \$22.7 billion in 2017. This represented an increase of 6.7 percent over 2016 which was due to the increase in motor fuel prices and strong growth in commercial lodging spending. Non-transportation visitor spending increased by 6.3 percent, following a 3.3 percent increase from 2015 to 2016.

Direct travel-generated employment was 187,100 in 2017. This represents an addition of 2,900 jobs over 2016, an increase of 1.6 percent. Out-of-state travelers generate more than three-fourths of the visitor impacts in Arizona. Visitors from other states are the largest segment (more than 68 percent of spending), while international travel, including day travel from Mexico, comprises approximately 15 percent of visitor impacts. The share has declined slightly in the past three years due to the decreased value of foreign currencies relative to the U.S. dollar.

Travelers to Arizona have a diverse selection of both natural and private attractions to enjoy. Whether attending national/state parks, museums, or sports stadiums/arenas, travelers to the subject have access to many state attractions. The following table highlights Arizona's top 50 natural and private attractions.

Top 25 Private Attractions		Top 25 Natural Attractions	
Attraction	Visitation	Attraction	Visitation
Tempe Town Lake	2.8 million	Grand Canyon NP	4.3 million
London Bridge	2.5 million	South Mountain Park	2.0 million
Chase Field	2.1 million	Glen Canyon NRA	1.6 million
The Phoenix Zoo	1.4 million	Lake Mead NRA	1.6 million
Jobing.com Arena	1.2 million	Canyon de Chelly	826,000
U of Phoenix Stadium	1.2 million	Saguaro NP	664,000
U.S. Airways Center	1.1 million	Petrified Forest NP	632,000
Desert Botanical Garden	640,000	Montezuma Castle NM	580,000
WestWorld of Scottsdale	600,000	Lake Pleasant RP	436,000
Reid Park Zoo	536,000	Lake Havasu SP	368,000
Tombstone	500,000	Organ Pipe Cactus NM	326,000
ASU Sun Devil Stadium	430,000	Grand Canyon West Skywalk	292,000
Rawhide Western Town	428,000	Slide Rock SP	259,000
Wildlife World Zoo & Aquarium	410,000	Wupatki NM	233,000
Arizona Science Center	364,000	Patagonia Lake SP	214,000
Grand Canyon Railway	289,000	Sunset Crater Volcano NM	177,000
Arizona Temple and Visitors' Center	271,000	Catalina SP	175,000
Scottsdale Center for the Performing Arts	236,000	Dead Horse Ranch SP	171,000
Phoenix Art Museum	201,000	Tohono Chul Park	156,000
Arizona Snowbowl	180,000	Kartchner Caverns SP	144,000
Heard Museum	180,000	Walnut Canyon NM	128,000
Tucson Museum of Art & Historic Block	176,000	Tuzigoot NM	106,000
Pima Air & Space Museum	145,000	Hubbell Trading Post NHS	102,000
Verde Canyon Railroad	89,000	Buckskin Mountain SP	100,000
Lowell Observatory	80,000	Coronado National Forest	97,000

Source: Reporting Entities

Hotel Market

The following discussion is taken from CBRE Hotels' Americas Research *Hotel Horizons*[®], December – February 2019 Edition for all hotels in the Phoenix market. The historical data (2013 through 2017) is provided by Smith Travel Research, while the projections were developed by CBRE Hotels' Americas Research.

In 2017, Phoenix hotels finished the year with a revenue per available room (RevPAR) gain of 4.1 percent. This was the result of an increase in occupancy of 0.8 percent and a 3.2 percent gain in average daily room rates (ADR). The 4.1 percent gain in Phoenix RevPAR was better than the national average of 2.9 percent.

At the end of this year, Phoenix RevPAR is expected to grow 4.9 percent. Occupancy is forecast to increase 2.2 percent, while average room rates are projected to increase 2.7 percent.

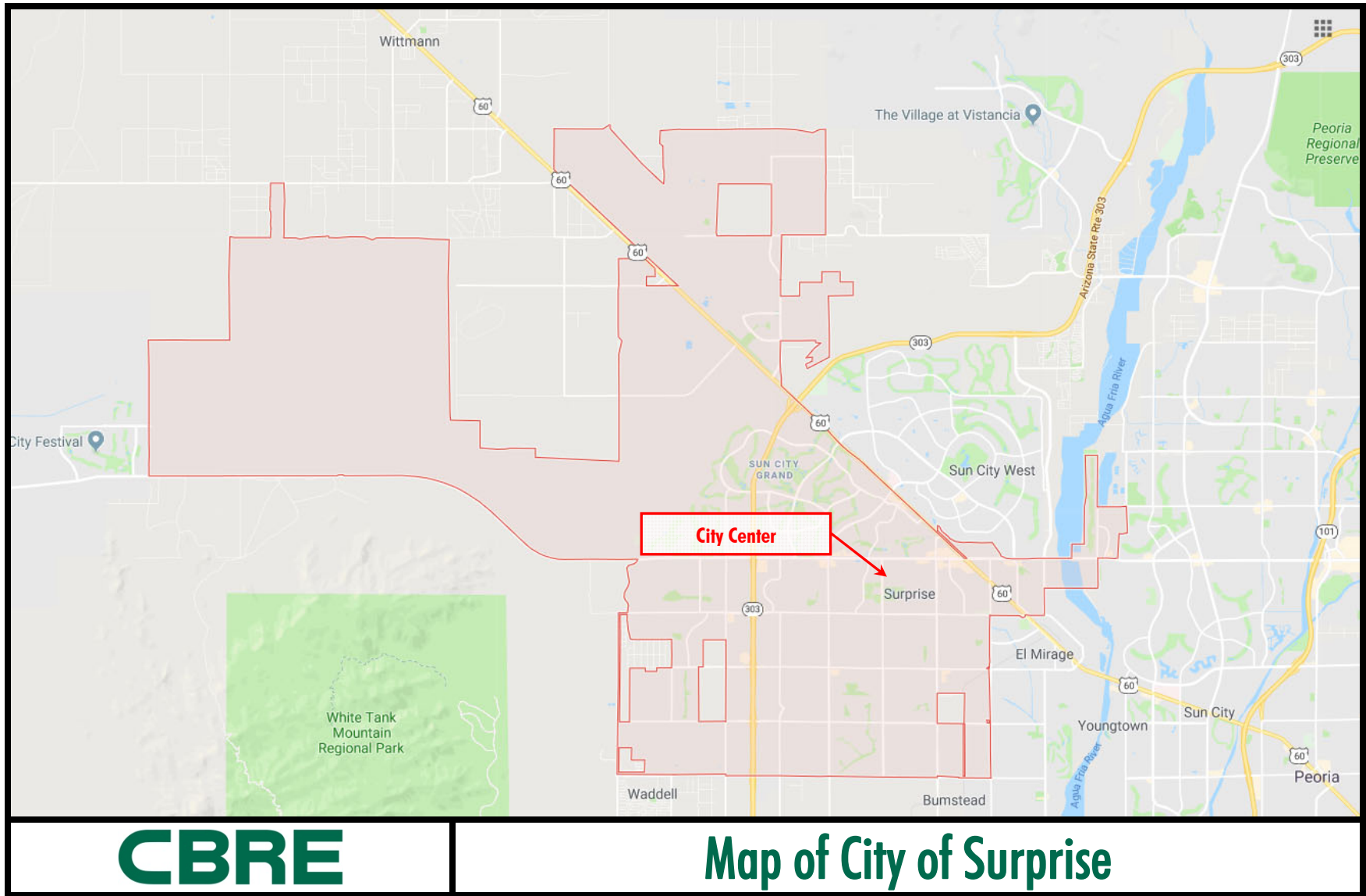
Phoenix Forecast Summary

YEAR	OCC	Δ OCC	ADR	Δ ADR	REVPAR	Δ REVPAR
2013	59.9%	3.4%	\$108.16	2.3%	\$64.77	5.8%
2014	63.1%	5.4%	\$112.03	3.6%	\$70.72	9.2%
2015	65.8%	4.2%	\$120.97	8.0%	\$79.58	12.5%
2016	67.2%	2.1%	\$123.13	1.8%	\$82.72	3.9%
2017	67.8%	0.8%	\$127.10	3.2%	\$86.11	4.1%
2018F	69.2%	2.2%	\$130.52	2.7%	\$90.36	4.9%
2019F	68.7%	-0.7%	\$134.93	3.4%	\$92.74	2.6%
2020F	67.6%	-1.6%	\$138.67	2.8%	\$93.77	1.1%
2021F	65.9%	-2.5%	\$139.82	0.8%	\$92.19	-1.7%
2022F	66.3%	0.6%	\$140.23	0.3%	\$93.00	0.9%

Source: CBRE Hotels Americas Research, STR, Q3 2018

CONCLUSION

The Metropolitan Phoenix area, in large part due to its diversified economic base, has been experiencing growth, both in terms of business and tourism. Today, the Valley of the Sun is recognized as a top tourist destination, and the outlook for the area's business community is positive. The multiple freeways and state highways give easy access to travel different parts of the area and make it possible to explore different parts of the area's attractions and locations. While economic growth may moderate in the next few years, the Phoenix area should remain an attractive destination for corporate expansions and relocations. In addition, the warm climate and relatively low cost of living should continue to attract new residents to the area.



NEIGHBORHOOD ANALYSIS

CITY OF SURPRISE

The City of Surprise is located in Maricopa County approximately 24 miles northwest west of downtown Phoenix along U.S. Route 60 and was founded in 1938. Surprise has experienced tremendous growth in the years since. It incorporated into a city in 1960 and tens of thousands of retirees moved to the city in the 1990s and early 2000s to live in Sun City Grand, an age-restricted resort-like community, with homes built by the property development firm Del Webb. Surprise is about five miles northwest of Del Webb's original Sun City development and adjacent to Sun City West. The former small farming village now encompasses over 100 square miles, including urban and commercial developments, ranches, sports facilities, industrial, and business parks.

The City's location at the edge of the Phoenix Metropolitan Area, and prominence along the US 60/Grand Avenue corridor, make the City a gateway to the greater metropolitan area for travelers coming from Las Vegas and other northwestern places.

The city's historical population growth is summarized in the following table.

Surprise Population Growth		
Year	Population	% Change
1970	2,427	N/A
1980	3,723	53.4%
1990	7,122	91.3
2000	30,848	333.1
2010	117,517	281.0
2017	134,085	14.1

Source: U.S. Census

As indicated above, between 2000 and 2010, Surprise's population grew at a robust 281.0 percent making it the sixth fastest growing city in Arizona over that time frame. The elements contributing to that growth include: affordable housing, an abundance of parks/open space, quality education, low crime and employment opportunities. While the city has historically been known as a community which caters to the active adult population, in recent years the city has attracted a significant number of younger families which has diversified the city's recreation and retail offerings. The city's shifting demographics are reflected in the most recent decennial U.S. Census data as the city's median age was 46.1 in 2000 and had decreased to 36.8 in 2010. According to the City's General Plan 2035, at build out the city could support a residential population of approximately 750,000.

General Plan 2035 and Future Growth

The Surprise General Plan 2035 is a comprehensive update of the city's 2001 General Plan. The goals and policies from the original plan have been refined and updated to reflect the changing needs and demographics of the City. The purpose of the plan is to address important community issues such as new growth, housing needs, and environmental protection. Furthermore, the General Plan is used to project future growth demand services for sewer, water, roadways, parks, and emergency services.

The retail and services in Surprise are generally concentrated along Bell Road and Grand Avenue, while neighborhood type retail and service uses are located at the intersection of many major arterials within the central core of Surprise. The nascent development of Loop 303 is adding additional regional retail and service uses along this regional transportation corridor. The planned Surprise Center District, or downtown, is also located within this core development area and is currently comprised of Surprise’s spring training facilities, community park, aquatics and tennis center, and the City Hall and Public Facility complex. Almost all industrial development currently within the City constitutes light manufacturing, distribution and storage facilities. These uses are generally located along the existing BNSF railroad line in the southeast portion of Surprise as well as at the northeast intersection of Bell Road and Grand Avenue.

Similar to many fast-growing cities, Surprise has its challenges with achieving appropriate jobs to housing balance that ensures a sustainable growth model into the future. Surprise experiences a significant number of daily workers migrating out to jobs in other cities throughout the region. The future growth envisioned in the 2035 General Plan as well the City’s current economic development initiatives seek to move Surprise beyond a “bedroom community” and attract more high-employment industries.

The General Plan identifies several key districts or growth corridors for the City’s future:

City Center

The City’s 2035 General Plan envisions the City Center as a civic, cultural and entertainment oriented district. As a mixed-use and pedestrian friendly district, the City Center will cater to residents, shoppers, students and tourists. As stated in the plan, “Most of this area should integrate a diverse, but compatible, cluster of land uses where residents, employees, shoppers, tourists, and students can gather in a well-designed mixed-use environment. Development should exhibit high architectural and urban design standards where the public realm is inviting and the street network is supportive of alternative modes of transportation.”

303 Corridor

The 303 Corridor is envisioned to be a prestigious corporate center and high-density development area. The strong connections this growth area has to the Loop 303 regional transportation system, as well as the local circulation system, makes this area appropriate for a mix of employment and residential uses.

Railplex

This growth area is already a significant employment center within Surprise. The availability of extensive land resources combined with the placement of existing infrastructure and rail access, positions this area to immediately support a mix of export-oriented base sector activities, such as warehouse distribution, light or heavy manufacturing, research and development uses, and select business services.

Economic Development

The following is a list of major employers in Surprise.

City of Surprise Major Employers 2017	
Employer	Number of Employees
Dysart School District	1,680
City of Surprise	1,060
Wal-Mart	720
Fry's Food Store	520
McDonalds	320
Maricopa County	210
Home Depot	210
Kohl's Department Store	190
Safeway Stores Inc.	170
Sun City Grand Association	160

Source: City of Surprise, CAFR December 2017

The City's Economic Development Department has identified the following six main target industries to shape the economic base of the future: 1) Advanced Manufacturing; 2) Advanced Business Services; 3) Healthcare/Medical Tourism; 4) Energy; 5) Education; and 6) Destination/Signature Retail.

Surprise is geared towards incredible success in the energy sector. The Southwest Railplex is currently home to two solar manufacturing companies, both from Spain. Rioglass Solar manufactures optical CSP and CPV components, and Gestamp Solar manufactures utility-scale photovoltaic plants. The Waste Water Treatment Plant is a unique amenity that allows for Waste-to-Energy developments.

Surprise has become a natural location for companies specializing in the biomedical field. Major projects in the city include MD24 House Call, an AZ TechCelerator graduate that focuses on telemedicine; and Cobalt Rehabilitation, a 40-bed inpatient rehabilitation hospital. Surprise also features healthcare leaders like Banner Health, Dignity Health and the Sun Health Foundation.

The Southwest Railplex, a two-square mile suburban industrial park, has proven to be an incredible asset for manufacturing operations. The fully improved park is bisected by rail and is within ten miles of three major highways. The park is currently home to four corporate headquarters with nearly 1.5 million square feet of development occurring within the last four years.

Existing education assets include the Ottawa University Surprise Campus (OUAZ), West-MEC and an incredible network of both charter schools and a public school district. In 2011, City Council included the need for a four-year residential university in their Strategic Plan. Ottawa announced their residential campus expansion plan at City Center in 2017.

Surprise is superb at start-up assistance, whether it is small business, home-based business, innovation or international start-ups in our market. The AZ TechCelerator, the city-owned business incubator, is a major asset for the community. The four-building campus offers a business center, conference rooms, mentors and coaches to businesses looking to grow and expand in the Surprise market.

Surprise Stadium

Surprise Stadium is the spring training home to Major League Baseball's Kansas City Royals and Texas Rangers. The stadium opened in 2002 and seats 10,714 people. The stadium is owned and managed by the City of Surprise. The stadium is located on a 125-acre site that includes six full practice fields as well as clubhouses and office facilities. In early 2018, a study by Review Trackers released a study which measured each spring training stadium on the following four key metrics: the facility; family friendliness; food; and the fan experience. Surprise Stadium generated the highest overall score of the 10 Cactus League venues, finishing first in family friendliness. The park also topped all 23 spring parks (Arizona and Florida combined) in the facility and fan-experience categories. Surprise has invested \$23 million in upgrades to the complex in the past several years, including renovated clubhouses, playing-surface improvements, new stadium seats and extended netting to protect fans from foul balls.

The stadium generates significant demand for area hotels including leisure guests as well as baseball staff which generates both commercial transient and group business. The peak periods of hotel demand in Surprise due to baseball include: 1) February and March during Cactus League; 2) instructional league in the fall; 3) extended spring training in April and May; and 4) draft/mini-camp which lasts for two weeks in June. During peak periods like spring training the hotels in Surprise are often sold out and visitors must seek accommodations in other areas such as Glendale and Peoria.

Based on data from the W.P. Carey School of Business at Arizona State University (ASU), the attendance at Surprise stadium in 2018 was over 190,000 people for the Cactus League which is held in February and March. The survey data from ASU indicates that over 60.0 percent of attendees are either from another state or an international visitor. In addition, the attendees to Cactus League in Surprise are highly educated and affluent with two-thirds having obtained at least a four-year college degree. Over half of the households surveyed reported annual incomes of more than \$100,000 per year. The majority of out-of-state visitors, 68.7 percent, reported that attendance at the Cactus League was a sole or primary factor in visiting the area. Finally, two-thirds of the out-of-state visitors reporting they pay for lodging. The median length of stay for these visitors is 3.0 nights.

Ottawa University (OUAZ)

Ottawa University (OU) is a private, non-profit, Christian liberal arts university with its main campus in Ottawa, Kansas and a satellite campus in Surprise, Arizona. It was founded in 1865. Ottawa has approximately 650 students on its residential campus in Surprise which is referred to as Ottawa University or OUAZ. The campus in Surprise is currently undergoing an expansion with the following buildings under construction: I) a 100,000 square foot athletic center; II) a four-story residence hall; and III) a student union with approximately 27,000 square feet. The student union is scheduled for completion in August 2019 and the athletic center and residence hall will be completed in fall 2019. The current expansion will increase the Surprise campus enrollment to approximately 800 to 900 students. The university's plan is to expand the Surprise campus to approximately 3,000 students within the next ten years. The student enrollment is approximately 55.0 percent from within Arizona and the remaining 45.0 percent from outside Arizona with many of those from California. The university generates both transient and group hotel demand for area hotels.

Surprise Tennis and Racquet Complex

The Surprise Tennis and Racquet Complex features 25 tennis courts including 17 with lights. The Surprise Tennis & Racquet Complex opened in 2007 and was awarded the 2008 USTA Outstanding Facility. The center also features a 2,500-seat center arena, a 7-day a week operational schedule and two racquetball courts. The center plays host to a variety of U.S Tennis Association (USTA) tournaments throughout the year such as the USTA 65 plus Nationals, the USTA Women’s \$25,000 Pro Circuit and the USTA Campus Championships. In addition, the center hosts collegiate tennis tournaments such as the PacWest Athletic Conference Championships and the NCAA National Championships. The center generates hotel demand but it is less substantial than baseball. Hoteliers in the area report that most of the room nights demanded are from participants in the tournaments as opposed to both participants and spectators as is the case for baseball.

Dreamcatcher Park

Dreamcatcher Park is a multi-use athletic facility designed to serve athletes with special needs. The park is barrier-free and features a urethane based surface making it safe and maneuverable for mobility devices such as wheel chairs and walkers. Gates to the playing surface, front entrance and walkways were also widened to accommodate wheelchairs and walkers and to ensure a level of comfort to everyone. It is the first facility of its kind in the state of Arizona a grandstand, shade cover and stadium seating sets DreamCatcher Park apart from any other in the Nation. DreamCatcher Park is home to Adaptive Recreation programs such as baseball, soccer and track and field as well as mainstream tee-ball and coach-pitch baseball.

Tourism Strategic Plan

In 2017, the Surprise City Council created a new city department called the Sports and Tourism Department. The department’s aim is to focus on the city’s baseball and tennis facilities, public/private partnerships for future recreation facilities, business relationships with Ottawa University and work to attract more regional and national events to bolster Surprise’s tourism dollars. In 2018, the City of Surprise adopted a five-year Tourism Strategic Plan to promote increased tourism and awareness about the destination. The plan identified four focus areas: 1) Events and Entertainment; 2) Marketing; 3) Partnership & Facility Development, and 4) Funding. The events and entertainment focus area includes efforts to increase overall attendance to spring training, sports tournaments and events by five percent each year.

Industrial Market

CBRE Econometric Advisors (CBRE EA) is an independent research firm owned by CBRE, which provides best-of-class research, data and analytical tools for office, industrial and retail real estate markets across the nation. The subject is located in the Northwest Valley industrial submarket. The following chart shows industrial market history and forecast for the Northwest Valley industrial market. The historical period covered is from 2007 through 2017 while the forecast period is from 2018 through 2022.

Industrial Market Statistics Northwest Valley				
Year	Total Sq. Ft. (Thousands)	Percent Vacant	Net Abs. (Sq. Ft.)	Rent PSF/Yr
2007	46,908	11.5%	-487	\$7.77
2008	48,654	16.1	-670	6.47
2009	48,896	18.6	-1,046	5.64
2010	48,972	16.4	1,140	5.08
2011	49,514	15.7	836	5.05
2012	50,378	13.2	1,952	4.92
2013	51,118	11.1	1,723	5.04
2014	52,316	11.0	1,143	5.13
2015	52,748	9.5	1,181	5.48
2016	53,353	8.0	1,327	5.95
2017	55,596	8.7	1,660	6.24
2018	57,520	9.8	1,148	6.51
2019	58,715	10.2	817	6.70
2020	60,210	11.5	575	6.80
2021	61,411	13.4	-102	6.68
2022	62,498	13.9	641	6.53

Source: CBRE Econometric Advisors, 3Q 2018

As indicated in the table, the Northwest Valley submarket is comprised of approximately 55.6 million square feet of space as of year-end 2017. During the current economic cycle, the vacancy peaked at 18.6 percent in 2009 during the depths of the Great Recession. With net absorption positive for eight consecutive years, the vacancy rate had declined to 8.7 percent by year-end 2017. Strong employment and population growth will continue to support the robust industrial sector in metro Phoenix and the West Valley. Data center users have significantly expanded their presence in the Valley, while manufacturing, third party logistics, pharmaceutical and e-commerce firms continue to fuel space for demand. Furthermore, the 22-mile expansion of the Loop 202 in the West Valley will provide industrial users with increased accessibility around the metro. Growing tenant demand, falling vacancy and a healthy supply pipeline underpins an overall positive outlook.

Luke Airforce Base

Luke Air Force Base (AFB) is United States Air Force base located in Maricopa County approximately 7.0 miles south of the City Center of Surprise. Luke AFB is a major training base of the Air Education and Training Command (AETC), training pilots in the F-16 Fighting Falcon. The base generates hotel demand for the surrounding areas including Glendale, Litchfield Park and Surprise.

West Valley Lodging Sector – Hotel Horizons

The following discussion is taken from CBRE Hotels' Americas Research *Hotel Horizons*[®], December – February 2019 Edition for all hotels in the West Valley. The historical data (2013 through 2017) is provided by Smith Travel Research. The West Valley submarket comprises 13.0 percent of the overall Phoenix lodging market. The West Valley includes the following cities: Avondale, Buckeye, Glendale, Goodyear, Peoria, Surprise and Tolleson.

West Performance - All Hotels

YEAR	OCC	Δ OCC	ADR	Δ ADR	REVPAR	Δ REVPAR
2013	59.9%	-	\$86.34	-	\$51.72	-
2014	63.2%	5.5%	\$82.82	-4.1%	\$52.37	1.2%
2015	66.7%	5.4%	\$90.47	9.2%	\$60.31	15.2%
2016	69.1%	3.7%	\$94.25	4.2%	\$65.15	8.0%
2017	68.5%	-0.9%	\$101.50	7.7%	\$69.55	6.8%
3Q17 YTD	69.5%	-1.9%	\$102.96	9.3%	\$71.58	7.2%
3Q18 YTD	72.8%	4.7%	\$104.76	1.7%	\$76.26	6.5%

In 2017, the West Valley finished the year with a revenue per available room (RevPAR) gain of 6.8 percent. The 6.8 percent gain in West Valley RevPAR was better than the overall Phoenix average of 4.1 percent.

All Hotels Penetration vs. Market Total

YEAR	OCC	ADR	REVPAR
2013	100.0%	79.8%	79.9%
2014	100.2%	73.9%	74.0%
2015	101.3%	74.8%	75.8%
2016	102.9%	76.5%	78.8%
2017	101.1%	79.9%	80.8%
3Q17 YTD	101.9%	79.7%	81.2%
3Q18 YTD	103.6%	79.7%	82.5%

Source: STR, Q3 2018

As indicated above, the occupancy of the West Valley has exceeded the overall metro Phoenix occupancy. However, the West Valley average daily rate (ADR) is below the overall Phoenix lodging market. The ADR of the West Valley was approximately 80.0 percent of the average ADR for the entire Phoenix market.

CONCLUSION

The proposed subject hotel in City Center of Surprise would be well positioned to capture current and future demand. The subject neighborhood is home to a wide variety of demand generators including sports, leisure and commercial demand. Ottawa University (OUAZ) is currently expanding its campus in the City Center. The medium and long-term outlook for the area is good.

Section III
DESCRIPTION OF PLANNING AREAS

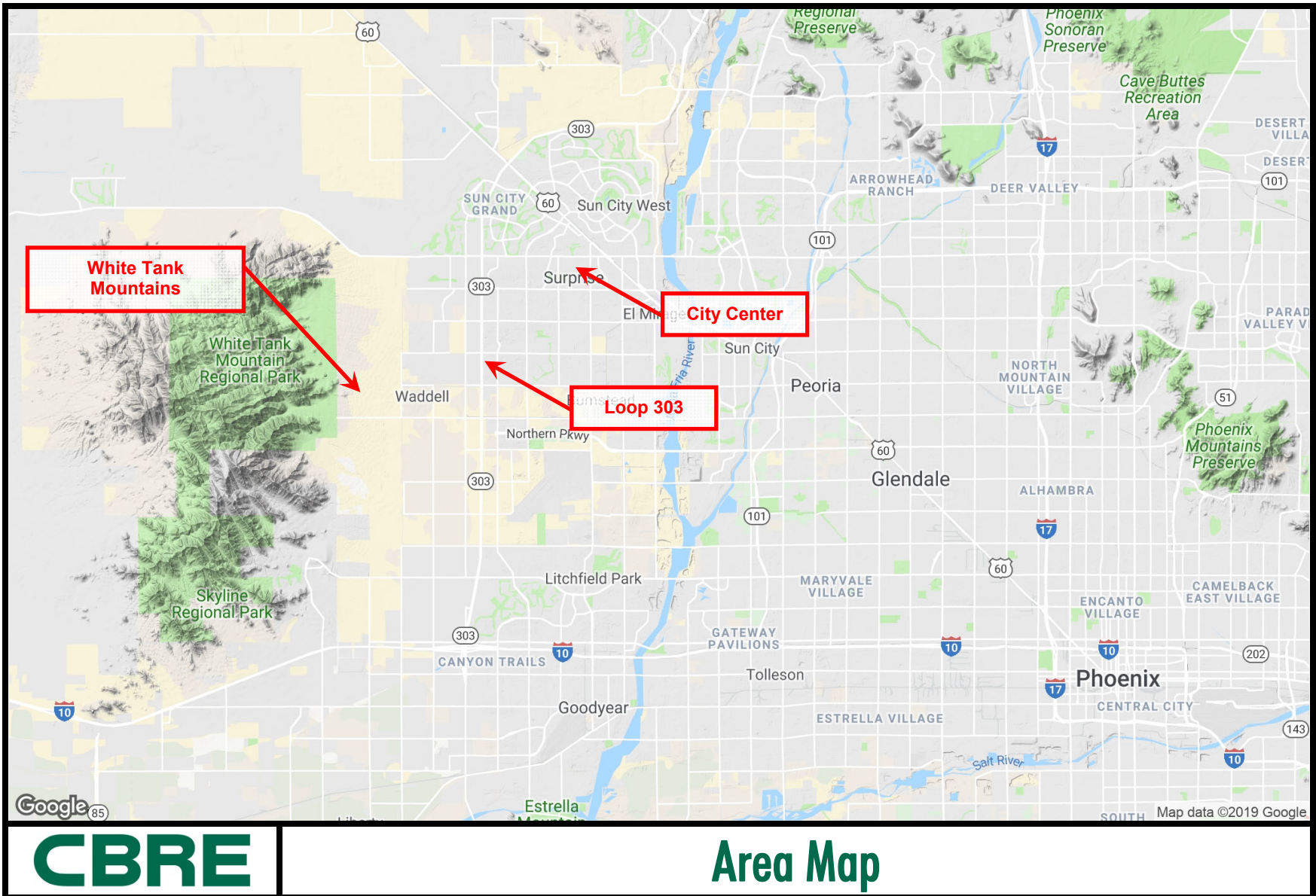
PLANNING AREAS

DESCRIPTION OF THE POTENTIAL HOTEL SITES

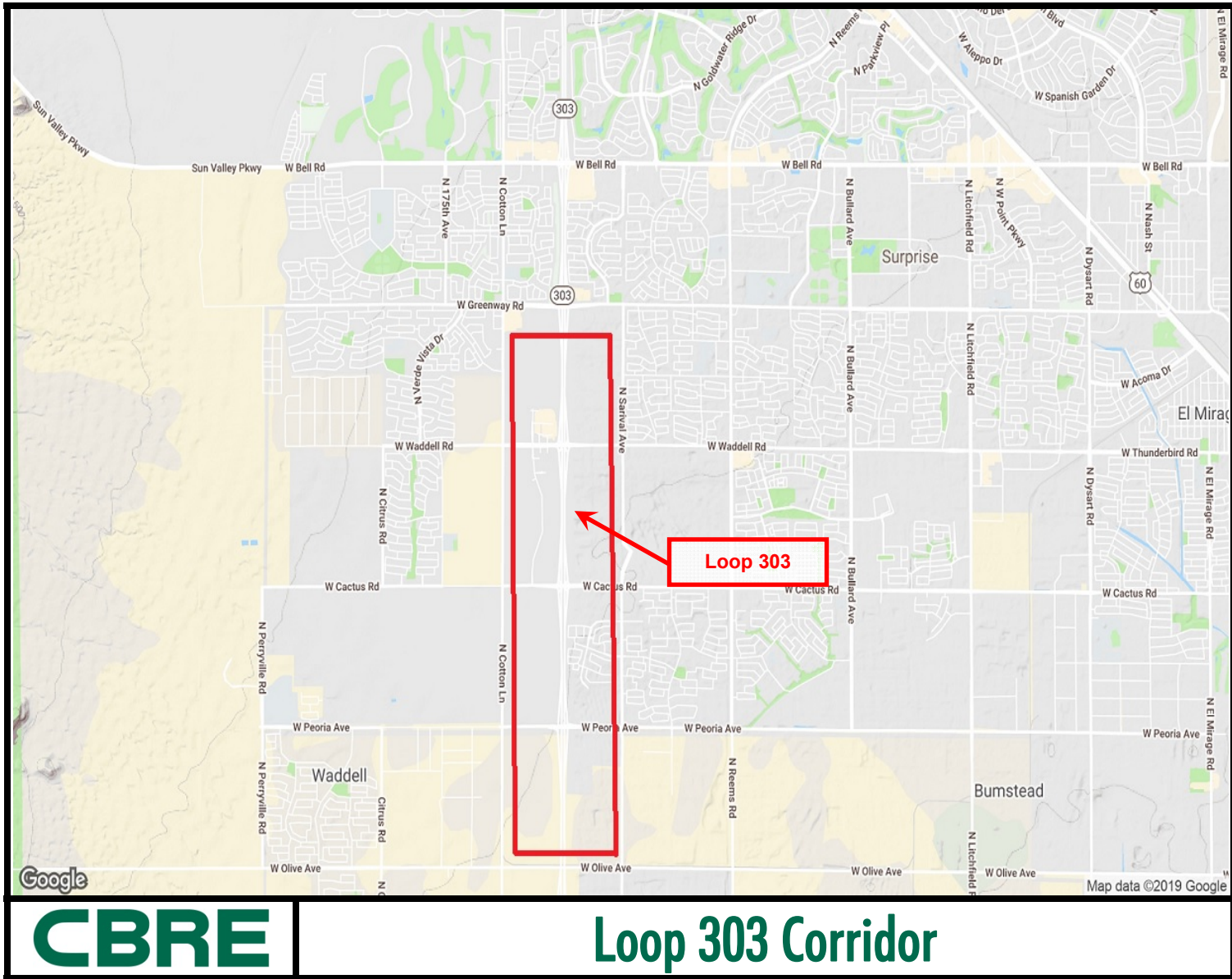
Location and Site Environs

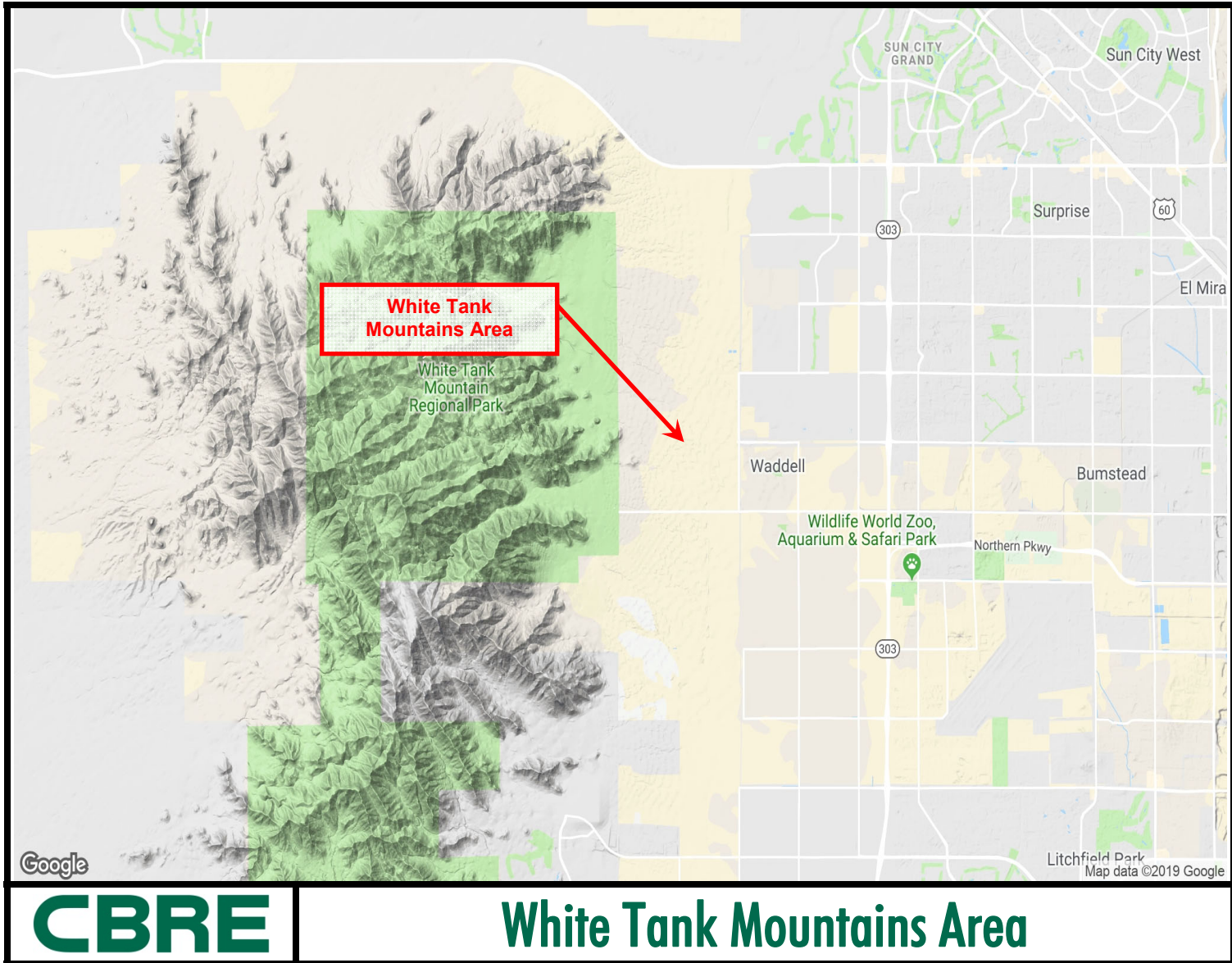
The City of Surprise is in Maricopa County and is part of the Phoenix metropolitan area. The city encompasses an area of approximately 108 square miles. We analyzed the potential for hotel development in the following three areas: 1) City Center; 2) The Loop 303 Corridor; and 3) the White Tank Mountains area. One key concern among stakeholders in Surprise is that the current lodging facilities in Surprise do not meet all the needs of the existing and planned demand generators in the city. While the current lodging inventory in Surprise is comprised of good quality limited service and extended stay hotels, these facilities do not include the amenities which appeal to groups and some higher rated transient business.

The maps on the following pages depict the locations of each of the three planning areas.









The following is a brief description of each of the areas:

City Center:

City Center is roughly bound by Bell Road (north), Greenway Road (south), Litchfield Road (east) and Bullard Avenue (west). This area includes City Hall, the Surprise Tennis and Racquet Center, the Surprise Aquatic Center, the Ottawa University Surprise campus, Dreamcatcher Park and the Surprise Baseball Stadium. The stadium, which opened in 2002 and seats 10,714, is the spring training facility for the Kansas City Royals and the Texas Rangers. Ottawa University (OUAZ) is an accredited four-year university with a satellite campus in Surprise's City Center. The university is currently expanding its campus in the City Center. Bell Road serves as the city's retail and restaurant corridor. In addition to the above uses, the city has identified the vacant land in the City Center area for a variety of uses including: resort/tourism; entertainment; education and medical uses. The City's 2035 General Plan envisions the City Center as a civic, cultural and entertainment oriented district. As a mixed-use and pedestrian friendly district, the City Center will cater to residents, shoppers, students and tourists.

Loop 303 Corridor:

Arizona State Route 303, also known as Loop 303, is a freeway that services the northwestern portion of the Phoenix area. Within the City of Surprise, the Loop 303 runs in a north/south direction. The current land uses within this corridor include car dealerships, commercial, residential and vacant land. This corridor will see significant growth in retail, residential and commercial uses over the medium to long-term. The 303 Corridor is expected to serve as both a corporate and residential base. Toll Brothers has plans to build approximately 2,200 high-end luxury homes in the corridor. These plans include a Jack Nicklaus Golf Course and an Executive Level Club. In addition, there are two fitness centers planned at the northern end of the corridor near Bell Road and the 303.

White Tank Mountains:

The White Tank Mountains are a mountain range located on the western periphery of the Phoenix metropolitan area primarily flanked to the northeast by the City of Surprise and the City of Buckeye to the southwest. The White Tank Mountains Regional Park comprises nearly 30,000 acres and is the largest regional park in Maricopa County. The park is characterized by rugged peaks, serrated ridges and canyons and features peaks at over 4,000 feet. While not located in the Surprise city limits, the city's sphere of influence includes land to the east and north of the White Tank mountains.

ACCESS AND VISIBILITY

Surprise is located approximately 24 miles northwest of downtown Phoenix and 34 miles northwest of Sky Harbor International Airport. Maricopa County is served by three Interstates: the 10, 17 and 8. Interstate 10 leads into Greater Phoenix from Los Angeles on the west, and continues southeast through the metro area on to Tucson and El Paso. Interstate 17 provides a north-south route through the urban area and is a key industrial corridor. Interstate 17 travels north from Maricopa County to Flagstaff, Arizona, and intersects with Interstate 40. Interstate 8, just south of the metro area, connects Casa Grande and Gila Bend to San Diego.

The County has also been developing an extensive urban freeway network. The major components of the system include the Loop 101 that encircles the metro area, and the Loop 202 providing a route from downtown around the perimeter of the southeast part of the metro area. In addition, State Route 51 connects I-10 in downtown Phoenix to the north part of the metro area, and the Loop 101. Downtown Surprise is located approximately 2.0 miles west of U.S. Route 60 which provides access to the Loop 101 approximately 5.0 miles to the southeast.

A hotel's relationship to area demand generators is considered to be vital to its success. The subject's location and positioning in the market will enable to capture overnight demand generated from the following segments.

SOURCES OF DEMAND

Transient

Transient demand is comprised of both leisure and commercial or corporate travelers. For the hotels in Surprise leisure travel is the largest share of the transient segment. Leisure transient travelers generally include vacationers or travelers passing through the area. This category effectively includes all non-commercial related travelers too small to be defined as a group. This segment is typically attracted by a hotel's location relative to area attractions (including friends/relatives). This segment of demand includes individual leisure travelers who come to the area to visit Arizona for its favorable winter climate compared to other areas in the United States. This segment is highly seasonal, in that the busiest months are in the Winter through Spring, whereas the Fall and Summer are not as busy, thus referred to as "shoulder months." Based on our research, leisure demand in Surprise is largely a combination of people visiting family and friends and sports driven leisure including baseball spectators. It should be noted Surprise has a significant number of snowbirds from the northern United States as well as Canada who also attract friends and relatives to the area.

Surprise Stadium, located in the City Center, is the spring training facility for the Kansas City Royals and the Texas Rangers. The stadium generates significant demand for area hotels including leisure guests as well as baseball staff which generates both commercial transient and group business. The peak periods of hotel demand in Surprise due to baseball include: 1) February and March during Cactus League; 2) instructional league in the fall; 3) extended spring training in April and May; and 4) draft/mini-camp which lasts for two weeks in June. As will be noted in the Neighborhood Analysis section of this report, a study by the W.P. Carey Business School at Arizona State University (ASU) indicated that the typical leisure visitor to Surprise who attends baseball spring training games are from highly educated and affluent households.

Commercial or corporate transient travelers are defined as business people attracted by businesses in the area. Most demand from the corporate segment is generated between Sunday and Thursday nights, declines Friday and Saturday nights, and increases somewhat on Sundays. Commercial demand in the area is generated by the following economic sectors: manufacturing, logistics/distribution and medical. This includes business located in Surprise along the Loop 303 corridor as well as the Southwest Railplex which is approximately 3.0 miles west of Loop 303. In addition, commercial transient demand is generated by baseball staff due to the activities at Surprise Stadium as well as the Surprise Tennis Center. Finally, the presence of Ottawa University generates transient hotel demand through a variety of sources including: new student orientation,

commencement, trustee meetings and university employees visiting the Surprise campus from the main campus in Kansas.

Group

Meeting and Group travelers are defined as any group occupying five or more rooms on a given night. This segment includes corporate groups, associations, SMERF (social, military, educational, religious, and fraternal) groups. Group business in Surprise is generated from baseball activities at Surprise Stadium, events at the Surprise Tennis Center and sports teams visiting the area to compete with Ottawa University. The teams which compete with Ottawa University (OUAZ) primarily come from California, Oklahoma and Texas and include football, track, volleyball, tennis and golf among others. The larger full-service hotels in the West Valley in areas like Glendale and Litchfield Park cater to associations, corporate groups as well as SMERF groups. Given their larger meeting facilities and amenities, these hotels are able to capture self-contained corporate or association group business. As noted previously, the lodging facilities in Surprise have very limited meeting space. Nevertheless, some of these hotels still serve a relatively large amount of group business given their proximity to the sports facilities in the City Center of Surprise.

SUMMARY OF SITE CONCLUSIONS

Loop 303 Corridor

As noted previously, the Loop 303 corridor is poised for significant commercial and residential development in the coming years. While we believe there will be hotel development opportunities within the corridor in the medium to long-term, there is still a significant amount of vacant land to develop. In addition, we believe the most probable hotel development in the corridor in the future will be limited or select service hotels which is compatible to the existing and future demand generators along the corridor. It should be noted that the vast majority of hotel development in the Phoenix metropolitan area and the West Valley in particular is limited or select service hotels.

White Tank Mountains Area

The White Tank Mountains are physically beautiful and represent an enormous asset to the West Valley community. However, from a resort development standpoint, at the present time there is not enough critical mass in the West Valley to support a resort as guests prefer to be near amenities like retail and restaurants which exist in the more established group destinations such as Scottsdale. In addition, in order to be viable, the typical resort must attract a significant amount of group demand. The challenge for the area adjacent to the White Tank Mountains is the distance from the existing group demand generators in the market located which are located in the City Center.

City Center

Based on our research and analysis, we believe the City Center area would support the addition of a full-service lodging facility. We believe the City Center area is an excellent location for a full-service lodging facility given the plethora of demand generators including the Surprise Baseball Stadium, the Tennis and Racquet Center, the Aquatic Center and Ottawa University. In addition, the area benefits from proximity to Bell Road corridor with its variety of retail and restaurants. As such, the properly positioned full service hotel will be well situated to capture all segments of demand within the market, including business and leisure transient guests as well as group

business. In summary, we are of the opinion that the City Center area is well positioned to serve as a basis for the development of a full-service hotel which will fill a gap in the current hotel inventory in Surprise.

Section IV
FACILITIES PROGRAMMING

FACILITIES RECOMMENDATIONS

In order to develop facility recommendations for the proposed hotel, we have analyzed the overall competitive lodging market. Given our recommended location in City Center and positioning within the competitive market, we are of the opinion that the construction of a high-quality, full-service hotel with 225 rooms will achieve very good efficiency and operational profitability. Our comments concerning facility programming are based on our analysis of the competitive hotels and the intended positioning of the subject within the competitive market. The following provides a general scope of facilities that should be considered for the subject property.

BRANDED FULL-SERVICE HOTEL

While there is no official definition of what constitutes a full-service hotel, from a general perspective the term refers to lodging facilities with a wide variety of onsite amenities, such as restaurants, meeting space or spas. Full-service hotels often need a larger staff and larger facilities to accommodate guests who require more luxurious amenities. Full-service hotels may offer more lavishly decorated, comfortable suites with high-speed wireless Internet and premium cable TV with movies and other entertainment options. One of the biggest differences between a limited-service hotel and a full-service hotel is the limited-service hotel's lack of in-house drinking and dining options; full-service hotels often have at least one cocktail lounge and restaurant.

Full-service hotels typically play a significant role in servicing the meeting and events needs in their market area. Therefore, on-site restaurants, lounges, and group meeting spaces with banquet facilities are the cornerstones of the full-service offering. Furthermore, selective amenities such as elaborate banquet rooms, doormen, valet parking, concierge services, and three meal restaurants distinguish many full-service properties. Examples of full-service hotels include Hilton Hotels and Resorts; Marriott International brands such as Marriott and Westin; Intercontinental Hotel Group brands such as Intercontinental and Crowne Plaza; and Hyatt Hotels Corporation brands such as Hyatt and Grand Hyatt, among various other brands. Based on the market in which the property will operate, it is recommended that the hotel align itself with a brand that will offer competitive assets such as a reservation system and international sales in order to compete in the West Valley lodging market.

Guest Rooms

Based on our market research, we found support for a full-service hotel consisting of 225 guestrooms. The guest rooms should be constructed in various configurations, including king bedrooms, double queen bedrooms, and suites. With a count of 225 rooms, the proposed hotel will be well-positioned to capture a balanced mix of commercial, leisure, and group demand in the market. The following table includes our recommended room type mix based on other full-service properties.

Mix of Guestrooms		
Room Types	Number of Rooms	Percent
King Rooms	123	55%
Double Queen Rooms	80	35
Suites	22	10
Total	225	100%

Given the intended positioning of the subject hotel, we recommend that the rooms and accompanying bathrooms be stylishly designed, feature a modern design theme and a clean, attractive aesthetic. We suggest that the rooms include a 42" or larger flat-screen television with premium cable channels and an on-command movie system, wireless high-speed internet access, an ample-sized work desk and ergonomic chair, two or three telephones with dual lines and voicemail options, coffee maker, hair dryer, iron and ironing board, modern bathrooms, contemporary furnishings, and other amenities consistent with a high quality full-service hotel. Standard rooms should be approximately 350 to 400 square feet in size. The suites should be larger in size, approximately 450 to 600 square feet and offer separate living and sleeping areas.

Food and Beverage

The proposed subject hotel should include an attractive food and beverage program. A majority of hotels in the competitive market offer limited food and beverage outlets. Further, there are currently very limited number of food and beverage options in the City Center area. The recommended food and beverage outlets are below:

- *Three-Meal Restaurant:* This restaurant should offer hotel guests and locals a quality dining experience for breakfast, lunch, and dinner. This outlet should be designed to be an attractive gathering space for visitors and residents.
- *Bar/Lounge:* The bar should cater to hotel guests as well as local residents and offer light bar snacks from the main kitchen.

Depending upon the configuration and layout of the proposed hotel, the bar/lounge could be incorporated into a larger restaurant space, or alternatively, be operated as a separate entity. Back of the house production areas should service all food and beverage outlets, including meeting space. These food and beverage facilities will allow the subject to capture additional revenue, as well as provide additional amenities to its guests.

Meeting Space

We recommend the subject provide adequate meeting space to accommodate group functions for sports groups as well as SMERF groups. Given the subject's proposed location in the City Center proximate to Surprise Stadium, the Tennis Center and Ottawa University, we recommend the hotel offer a total of approximately 12,000 to 14,000 square feet of meeting space or approximately 55 to 60 square feet per guestroom. We recommend a combination of individual meeting rooms ranging from 500 to 1,500 square feet each, in addition to a ballroom, in order to host larger commercial and social groups. All available meeting space should be equipped with wireless internet access, independently controlled lighting, and a good quality sound system. In addition to the interior meeting space, based on our research and input from market participants the proposed subject hotel should include an outdoor terrace and dining option for groups. Many groups visiting Arizona desire an outdoor experience and an outdoor feature provides a welcome respite from continuous indoor meetings.

Other Facilities and Amenities

Other guest services and amenities should include an outdoor swimming pool, pantry/sundry shop, fitness facility, complimentary high-speed wireless internet access in public areas, and

business services. The fitness facility in the hotel should provide treadmills, elliptical, bikes, and free weights. In addition, we suggest a hotel developer consider the inclusion of an outdoor water feature which could be both physically appealing as well as used for recreational purposes.

FACILITY CONCLUSIONS

The aforementioned facilities and amenities will optimize the market position and performance of the proposed hotel in City Center. The type, size, and positioning of the proposed full-service hotel will fill a void in the Surprise market as all of the existing hotels are limited service, select service or extended stay hotels lacking the amenity base of a full-service hotel. As such, the proposed hotel will capture an appropriate mix of business. With its newer facilities and amenities including food and beverage and meeting space, the proposed hotel will be positioned to capture a solid mix of group and transient business. Our market projections for the proposed subject assume these facilities, amenities, and services.

Section V
MARKET DEMAND ANALYSIS

HOTEL MARKET ANALYSIS

INTRODUCTION

As a hotel includes a going-concern business as well as real property, the future market performance of a lodging facility is a direct function of the supply and demand for the hotel rooms within its market area. Accordingly, an analysis of the local area's hotel market is a key component of our projections of future performance. The proposed subject hotel will compete with other hotels located in the West Valley. The following is a discussion of the subject's competitive hotel market.

THE COMPETITIVE HOTEL MARKET

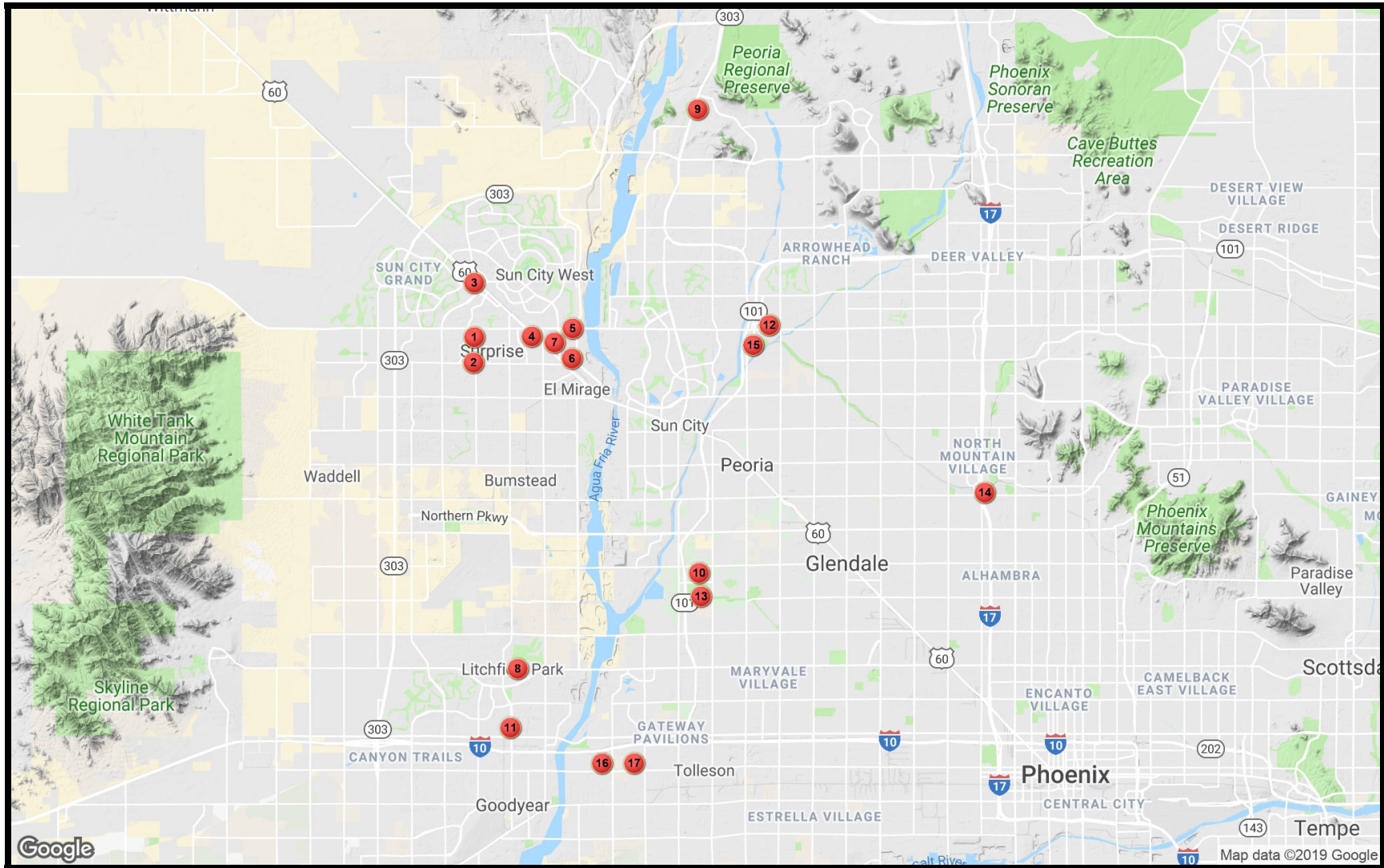
As was mentioned previously, there are currently no full-service lodging facilities in Surprise. In order to identify the competitive market of the proposed full-service subject hotel, we have analyzed the overall West Valley hotel market and have selected 17 properties located in Surprise and surrounding cities that represent the overall competitive market. These properties can be divided into the following: 1) the existing hotels in Surprise which include limited service and extended stay hotels; 2) good quality branded and non-branded full-service hotels located in the West Valley; and 3) good quality branded limited or select service hotels located outside of Surprise but within the West Valley. Based on these criteria, we have identified seventeen properties, representing 2,713 rooms, that we believe will offer competition to the subject hotel.

The hotels that are considered competitive have been selected based on their size and facilities, location, market orientation and rate structure. There are various lodging facilities located in the area that were excluded from the subject's competitive market due to rate structure, facilities, and/or market orientation.

The following table presents the competitive supply for the subject. A map indicating their locations, a summary of each of the competitive hotels and a discussion of the potential additions to the competitive supply follow.

Proposed Full Service Hotel Surprise Current Representative Supply		
Map Code	Property	Number of Rooms
<i>SUBJECT</i>	<i>Proposed Full Service Hotel Surprise</i>	<i>225</i>
1	Holiday Inn Express Surprise	115
2	Residence Inn Surprise	116
3	Hampton Inn Surprise	100
4	Comfort Inn & Suites Surprise	86
5	Days Inn & Suites Surprise	60
6	Quality Inn & Suites Surprise	69
7	Windmill Suites Surprise	126
8	The Wigwam Hotel	331
9	Cibola Vista Resort Peoria	343
10	Renaissance Glendale	320
11	Hampton Inn Goodyear	110
12	SpringHill Suites Glendale	88
13	Hampton Inn Glendale	149
14	Sheraton Crescent	342
15	Hampton Inn Peoria	112
16	Hilton Garden Inn Avondale	123
17	Homewood Suites Avondale	123
Competitive Market (Excluding Subject)		2,713
Source: CBRE Hotels		

It should be noted that while other hotels in the regional market may be deemed competitive to the proposed Hotel, the selected properties were useful in illustrating the general performance of the local hotel market.



Proposed Hotel, Surprise, Arizona

Summary of the Hotel Competitive Market			
Property	Holiday Inn Express Surprise	Residence Inn Surprise	Hampton Inn Surprise
Picture			
Address	16540 N. Bullard Avenue Surprise, AZ 85374	16418 N. Bullard Avenue Surprise, AZ 85374	14783 N. Grand Avenue Surprise, AZ 85374
Year Opened	2008	2010	2005
Number of Rooms	115	116	100
Type of Hotel	Limited Service	Extended Stay	Limited Service
Amenities/Services			
Restaurant/Bistro	No	No	No
Pool/Whirlpool	Yes	Yes	Yes
Business Services	Yes	Yes	Yes
Exercise Room	Yes	Yes	Yes
Meeting Space (SF)	600	432	0
RevPAR Penetration (2017 Year-end)	Above	Above	Above
Renovation History	The hotel commenced a comprehensive renovation in June 2018 which is expected to be complete in First Quarter 2019. The renovation includes major upgrades to all the guestrooms and public areas of the hotel.	The hotel commenced a comprehensive renovation in June 2018 which is expected to be complete in February 2019. The renovation will include new flooring, furniture and wall paper in the guestrooms and public areas.	The property replaced the carpets in the guestrooms and painted the interior walls in 2018. The property is planning to replace most of the furniture in the guestrooms in 2019.




Source: CBRE Hotels

Summary of the Hotel Competitive Market			
Property	Comfort Inn & Suites Surprise	Days Inn & Suites Surprise	Quality Inn & Suites Surprise
Picture			
Address	13337 N. Grand Avenue Surprise, AZ 85374	12477 W. Bell Road Surprise, AZ 85374	16741 N. Greasewood Street Surprise, AZ 85374
Year Opened	2008	1998	1997
Number of Rooms	86	60	69
Configuration	Limited Service	Limited Service	Limited Service
Amenities/Services			
Restaurant/Bistro	No	No	No
Pool/Whirlpool	Yes	Yes	Yes
Business Services	Yes	Yes	Yes
Exercise Room	Yes	Yes	Yes
Meeting Space (SF)	400	0	300
RevPAR Penetration (2017 Year-end)	Below	Below	Below
Renovation History	The property made minor upgrades to the guestrooms in 2017 which included new bedding, lighting and carpets.	The property added new flooring and furniture to the lobby in 2018. In 2019, the hotel is replacing the carpeting in the guestrooms.	The property began a renovation of its guestrooms in January 2019 which is scheduled for completion in March 2019. The renovation will include all new FF&E in the guestrooms.

Source: CBRE Hotels



Summary of the Hotel Competitive Market			
Property	Windmill Suites Surprise	The Wigwam Resort	Cibola Vista Resort, an Ascend Collection
Picture			
Address	12545 W. Bell Road Surprise, AZ 85378	300 E. Wigwam Boulevard Litchfield Park, AZ 85340	27501 N. Lake Pleasant Parkway Peoria, AZ 82383
Year Opened	1988	1929	2005
Number of Rooms	126	331	343
Type of Hotel	Limited Service	Full Service Resort	Full Service
Amenities/Services			
Restaurant/Bistro	No	Yes	No
Pool/Whirlpool	Yes	Yes	Yes
Business Services	Yes	Yes	Yes
Exercise Room	Yes	Yes	Yes
Meeting Space (SF)	2,100	45,000	1,300
RevPAR Penetration (2017 Year-end)	Below	Above	Below
Renovation History	The property began a comprehensive renovation in late 2018 which is expected to be completed in spring 2019. The renovation includes new flooring and FF&E in the guestrooms and lobby.	The Wigwam Resort completed a \$7.0 million renovation in early 2011 which included the unveiling of a new pool area with both adult and family areas and a new restaurant concept with al fresco dining. The property is in very good condition.	The hotel is part of a larger time share development which includes a café, spa, two pools and tennis court.

Source: CBRE Hotels

Summary of the Hotel Competitive Market			
Property	Renaissance Glendale	Hampton Inn Goodyear	SpringHill Suites Glendale
Picture			
Address	9495 W. Coyotes Blvd. Glendale, AZ 82383	2000 N. Litchfield Road Goodyear, AZ 83395	7810 Bell Road Glendale, AZ 85305
Year Opened	2007	2000	1998
Number of Rooms	320	110	88
Type of Hotel	Full Service	Limited Service	Select Service
Amenities/Services			
Restaurant/Bistro	Yes	No	No
Pool/Whirlpool	Yes	Yes	Yes
Business Services	Yes	Yes	Yes
Exercise Room	Yes	Yes	Yes
Meeting Space (SF)	46,482	3,324	0
RevPAR Penetration (2017 Year-end)	Above	Above	Above
Renovation History	The hotel opened in 2007 and has an ongoing capital maintenance program.	The hotel is planning a guestrooms renovation for summer 2019.	The hotel is planning an extensive renovation of its guestrooms in summer 2019.
Source: CBRE Hotels			

Summary of the Hotel Competitive Market			
Property	Hampton Inn Westgate Glendale	Sheraton Crescent Hotel	Hampton Inn Peoria
Picture			
Address	6630 N. 95 th Avenue Glendale, AZ85305	2620 W. Dunlap Avenue Phoenix, AZ 85021	8408 W. Paradise Lane Peoria AZ, 85382
Year Opened	2007	1986	1998
Number of Rooms	149	342	112
Type of Hotel	Limited Service	Full Service	Limited Service
Amenities/Services			
Restaurant/Bistro	No	Yes	No
Pool/Whirlpool	Yes	Yes	Yes
Business Services	Yes	Yes	Yes
Exercise Room	Yes	Yes	Yes
Meeting Space (SF)	575	26,000	625
RevPAR Penetration (2017 Year-end)	Below	Below	Below
Renovation History	The hotel's last renovation was completed in summary 2017. The renovation included new flooring, bedding and soft goods in the guestrooms.	The property completed its last renovation in December 2014 which included upgrades to the guestrooms and public areas of the hotel.	The property completed a comprehensive renovation in March 2018 which included new FF&E in the guestrooms, lobby and other public areas of the hotel.

Source: CBRE Hotels

Summary of the Hotel Competitive Market		
Property	Hilton Garden Inn Avondale	Homewood Suites Avondale
Picture		
Address	11460 W. Hilton Way Avondale, AZ 85323	11450 W. Hilton Way Avondale, AZ 85323
Year Opened	2007	2007
Number of Rooms	123	123
Type of Hotel	Select Service	Extended Stay
Amenities/Services		
Restaurant/Bistro	Yes	No
Pool/Whirlpool	Yes	Yes
Business Services	Yes	Yes
Exercise Room	Yes	Yes
Meeting Space (SF)	4,408	840
RevPAR Penetration (2017 Year-end)	Above	Above
Renovation History	In 2015, the Hilton Garden Inn Avondale completed a soft goods renovation in the guestrooms.	The Homewood Suites Avondale completed a comprehensive renovation to its guest rooms and common areas in mid-2015. The guestrooms were upgraded with brand new case goods, soft goods and flooring. Upgrades were also made to the lobby and other common areas.
Source: CBRE Hotels		

ADDITIONS TO SUPPLY

In conducting our investigations regarding the potential for additions to supply in the competitive market, we interviewed various developers, general managers from other properties in the area, and planning officials. In doing so, we have identified three additions to the hotel supply which are currently under construction and are anticipated to be part of the competitive market based upon location and market orientation. These projects are summarized as follows:

- **Hilton Garden Inn Surprise** There is a 124-room Hilton Garden Inn under construction at 16601 North Stadium Way in the City Center portion of Surprise. The select service hotel will feature a restaurant, bar, outdoor pool, fitness center and approximately 1,200 square feet of meeting space. The hotel is projected to open in March 2019. Based on location and market positioning we have included this project as an addition to supply.
- **Aloft Glendale** There is a 100-room Aloft under construction in Glendale. The hotel is projected to open in April 2019. Based on location and market positioning we have included this project as an addition to supply.
- **Residence Inn Avondale** There is a 102-room Residence Inn under construction in Avondale. According to plans submitted to the City of Avondale, the four-story hotel will include an outdoor swimming pool, outdoor patio/terrace and 529 square feet of meeting space. The hotel is projected to open in July 2019. Based on location and positioning we have included this project as an addition to supply.

In addition to the above hotel projects, it should be noted that the Texas Rangers are planning to build a 25-sutie residential facility in Surprise. The groundbreaking for the facility is expected to be at some point in 2019. The facility would have the capacity to sleep up to 100 players at any given time. However, the facility is expected to serve minor league players within the Texas Rangers organization. Both major league players and baseball management staff will continue to stay in the higher rated hotels in Surprise and surrounding areas.

It is important to note that we have identified additional hotel projects in the local area but have not specifically included these properties in our analysis due to the stage of development, financing issues, market positioning, location, and/or rate structure.

While CBRE Hotels has made several attempts to determine the level of new hotel supply entering the marketplace, it is impossible to determine every hotel that will be developed in the future, when they will be completed, or their potential impact to the subject. The inherent risk of any future new hotel supply has been implicitly considered in the selection of a stabilized occupancy level for the subject property and the competitive market.

HOTEL ROOMS DEMAND

Demand for hotel rooms is categorized in three ways:

- **Demonstrated Demand**: the demand already captured at competitive hotels;
- **Induced Demand**: the demand that does not presently seek accommodations in the competitive market, but could be persuaded to do so through marketing efforts, room rates, facilities, services and amenities.

- **Unsatisfied Demand:** the demand that seeks accommodations in the market but is not satisfied due to one of a number of factors: sell-outs during peak season; lack of a particular type of accommodation; lack of meeting space; or high room rates.

Historical Performance of the Competitive Supply

The aggregate average annual available and occupied rooms, resulting occupancy levels, average daily rate (ADR), and RevPAR (revenue per available room) for the competitive supply from 2013 to 2017 and year-to-date November 2017 and 2018 are presented in the following table.

Historical Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2013	990,245	N/A	578,858	N/A	58.5%	\$118.59	N/A	\$69.32	N/A
2014	990,245	0.0%	613,687	6.0%	62.0	123.92	4.5%	76.79	10.8%
2015	990,245	0.0	651,688	6.2	65.8	127.26	2.7	83.75	9.1
2016	990,245	0.0	678,700	4.1	68.5	130.68	2.7	89.57	6.9
2017	990,245	0.0	685,004	0.9	69.2	131.54	0.7	90.99	1.6
CAAG*	0.0%		4.3%			2.6%		7.0%	
11/17 ytd	907,755	N/A	631,849	N/A	69.6%	\$132.12	N/A	\$91.96	N/A
11/18 ytd	907,755	0.0%	648,553	2.6%	71.4%	134.18	1.6%	95.87	4.3%

*CAAG is Compound Annual Average Growth or CAGR Compound Average Growth Rate
Source: CBRE Hotels

As noted in the preceding table, the supply within the competitive set during the preceding five years has remained constant. During the same five-year period, demand, as measured in occupied room nights, increased at a compound annual growth rate (CAGR) of 4.3 percent. The market occupancy has ranged from a period low of 58.5 percent in 2013 to a high of 69.2 percent in 2017.

Year-to-date through November the competitive supply has remained steady. Demand, as measured by occupied rooms, has increased by 2.6 percent as compared to the same period one year ago. This has resulted in a November 2018 year-to-date occupancy of 71.4 percent as compared to 69.9 percent during the same period in 2017.

Over the historical period, ADR grew at a compound average annual rate of 2.6 percent. The ADR increase in 2017 was 0.7 percent to end the historical period with an ADR of \$131.54. Year-to-date through November 2018 the ADR in the competitive market increased by 1.6 percent to \$134.18 as compared to the same period in 2017.

Revenue per available room (RevPAR), a combination of occupancy and average daily room rate, increased at an average of 7.0 percent annually over the five-year period. Year-to-date through November 2018 RevPAR has increased by 4.3 percent as compared to the same period last year.

Mix of Demand

The demand captured by the market is derived from the transient and group meeting segments. The 2017 market segmentation is displayed in the following table.

Competitive Market 2017 Mix of Demand		
Market Segment	Room Nights	Ratio
Transient	511,400	75%
Group	173,600	25
Total	685,000	100%

Source: CBRE Hotels

Using the historical growth in the market as a base and taking into account the current demonstrated and future projected economic conditions, we have estimated future growth in overall market demand. Each market segment is discussed in the following paragraphs, followed by a discussion and summary table setting forth our estimated growth in supply and demand.

Transient Market Segment

In 2017, the transient segment accounted for 75 percent or approximately 511,400 room nights of captured demand in the competitive set. The properties in the competitive set capture transient demand from both leisure and business travelers. The transient commercial segment consists of individual business travelers who stay at hotels during the course of their business engagements. The demand is derived from local companies who need to conduct business with those from out of the area and from businesspeople outside the area that are pursuing business in the local market.

The transient leisure segment consists of individual leisure travelers who stay at area hotels for recreational or relaxation purposes. Leisure demand in Surprise includes a combination of people visiting family and friends as well as baseball driven leisure travel. As noted previously, Surprise Stadium is the spring training facility for the Kansas City Royals and the Texas Rangers. The stadium generates significant demand for area hotels including leisure guests. Other major leisure attractions in the market area include other college and professional sporting events as well as year-round golf. Most demand from the corporate segment is generated between Sunday and Thursday nights, declines Friday and Saturday nights, and increases somewhat on Sundays. Commercial demand in the area is generated by the manufacturing, logistics/distribution and medical fields. In addition, commercial transient demand is generated by baseball staff due to the activities at Surprise Stadium as well as events at the Surprise Tennis Center. Finally, the presence of Ottawa University generates transient hotel demand.

We project the transient segment will increase 3.0 percent in 2018 and for each year throughout the remainder of the projection period. We have induced 10,000 transient room nights in 2019, 4,000 in 2020 and 6,000 transient room nights in 2022 to account for the additional demand that will be accommodated due to previously mentioned additions to supply (including the subject). We anticipate that with their newer facilities and amenities, the new hotels will satisfy previously unsatisfied demand and attract additional demand that does not currently seek accommodations in the area.

Group Market Segment

In 2017, the group segment accounted for approximately 173,600 room nights, or 25 percent of total demand. The group market segment consists of room nights associated with corporate and social meetings. Group demand is generated from businesses in the area and associated groups holding meetings at the hotels in the competitive set. Association or SMERF (Social, Military, Educational, Religious, and Fraternal) group functions also contribute to this market segment.

Group business in Surprise is generated from baseball activities at Surprise Stadium, events at the Surprise Tennis Center and sports teams visiting the area to compete with Ottawa University. The larger full-service hotels in the West Valley cater to associations, corporate groups as well as SMERF groups.

We forecast the group segment to increase 3.0 percent in 2018 and for the remainder of the projection period. We estimate that approximately 4,000 room nights of group demand will be induced in 2019, 2,000 room nights in 2020 and 4,000 room nights in 2022 due to the opening of the previously mentioned new supply.

Supply and Demand Growth and Market Occupancy

Based on our analysis of the economic conditions, we have estimated growth in market supply and rooms demand. Using the historical growth in the market as a base, we have estimated future growth in overall market demand.

We have estimated that market occupancy will increase to 71.0 percent by year end 2018 which is in line with the year-to-date trend. In 2019 we estimate the market occupancy will decrease to 69.0 percent due to the opening of the 124-room Hilton Garden Inn Surprise in April, the 100-room Aloft Glendale in April and the 102-room Residence Inn Avondale in July. As the market absorbs the new supply, we estimate market occupancy will increase to 71.0 percent in 2021. With the opening of the 225-room subject in January 2022, we project the market occupancy will decrease to 69.0 percent. We then forecast the market occupancy to increase to 71.0 percent in 2023 and remain at that level throughout the projection period. Though it is likely that the market will fluctuate above and below this level, we find 71.0 percent a reasonable level of stabilization given the past and present demand growth trends in the local market. The projected future growth in supply and demand is presented in the following table.

Proposed Full Service Hotel Surprise								
Competitive Market								
Estimated Future Growth in Lodging Supply and Demand								
2017 - 2024								
	2017	2018	2019	2020	2021	2022	2023	2024
ROOMS SUPPLY	2,713							
Additions/(Deletions) to Supply								
Proposed Full Service Hotel Surprise						225		
Hilton Garden Inn Surprise - March 2019			93	31				
Aloft Glendale - April 2019			75	25				
Residence Inn Avondale - July 2019			51	51				
Cumulative Rooms Supply	2,713	2,713	2,932	3,039	3,039	3,264	3,264	3,264
Total Annual Rooms Supply	990,245	990,245	1,070,180	1,109,235	1,109,235	1,191,360	1,191,360	1,191,360
Growth Over the Prior Year	0.0%	0.0%	8.1%	3.6%	0.0%	7.4%	0.0%	0.0%
DEMONSTRATED DEMAND IN BASE YR								
Transient	511,396	75%						
Group	173,608	25%						
TOTAL DEMONSTRATED DEMAND	685,004	100%						
INDUCED/(UNSATISFIED) DEMAND								
Transient		0	10,000	4,000	0	6,000	0	0
Group		0	4,000	2,000	0	4,000	0	0
TOTAL INDUCED/(UNSATISFIED) DEMAND		0	14,000	6,000	0	10,000	0	0
GROWTH RATES								
Transient		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Group		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
PROJECTED DEMAND								
Transient								
Demonstrated	511,396	526,738	542,540	569,116	590,309	608,019	632,439	651,412
Induced/(Unsatisfied)	0	0	10,000	4,000	0	6,000	0	(22,452)
Total	511,400	526,700	552,500	573,100	590,300	614,000	632,400	629,000
Growth Over Prior Year	N/A	3.0%	4.9%	3.7%	3.0%	4.0%	3.0%	-0.5%
Group								
Demonstrated	173,608	178,817	184,181	193,827	201,701	207,753	218,105	224,648
Induced/(Unsatisfied)	0	0	4,000	2,000	0	4,000	0	(7,743)
Total	173,600	178,800	188,200	195,800	201,700	211,800	218,100	216,900
Growth Over Prior Year	N/A	3.0%	5.3%	4.0%	3.0%	5.0%	3.0%	-0.6%
Total Market Demand	685,000	705,500	740,700	768,900	792,000	825,800	850,500	845,900
Growth Over Prior Year	N/A	3.0%	5.0%	3.8%	3.0%	4.3%	3.0%	-0.5%
Market Occupancy	69%	71%	69%	69%	71%	69%	71%	71%
Source: CBRE Hotels								

Projected Market Performance of the Proposed Subject Hotel

Penetration Analysis

Our estimates of occupancy are based on our survey of competitive hotels, an analysis of the segmentation of demand in the market area, and our assessment of the subject property's market position. The "penetration rate" of a hotel is the percentage of room nights captured relative to the property's "fair share." The hotel's "fair share" is determined by dividing the subject property's number of guest rooms by the total number of guest rooms in the competitive market (including the subject property). Factors indicating a hotel would possess competitive advantages suggest a market penetration in excess of 100 percent of fair market share, while competitive weaknesses are reflected in penetration rates of less than 100 percent. However, other factors besides competitive weaknesses could result in penetrations of less than 100 percent. The actual penetration of each market segment by the subject property may deviate from fair market share for the following reasons:

- The competitive advantages or disadvantages of the subject hotel versus the competition taking into consideration such factors as location, room rate structure, room size, quality and extent of amenities offered, chain affiliation, quality of management, marketing efforts and image;
- The characteristics, composition and needs of each market segment;
- The restraint on demand captured due to capacity constraints during certain periods of the week or season, or due to the accommodation of certain market segments; and,
- Management decisions concerning target markets.

Estimated occupancy levels for the subject hotel have been projected on the basis of a penetration analysis. Our projections are based on our knowledge of the market as of the completion of this study as well as interviews with hotel managers from the competitive properties and several large employers in the area.

Penetration of Subject

Our estimates of subject penetration by each segment of demand are presented in the paragraphs below. We have assumed a January 1, 2022 opening date. The following favorable factors have been considered to project the subject's penetration of the market:

- The subject's location in the City Center of Surprise proximate to Surprise Stadium;
- The proposed subject's positioning as a good quality full service hotel; and,
- The proposed subject's newer facilities and full-service amenities relative to the competitive set.

Based on our analysis, the subject's stabilized market mix is presented below.

Proposed Subject Hotel Stabilized Mix of Demand			
Market Segment	Room Nights	Ratio	Penetration
Transient	35,600	60%	82%
Group	23,900	40	160
Total	59,500	100%	100%

Transient Demand

Commercial transient travelers in this market select hotel accommodations based on room and overall hotel amenities, location relative to their destination and area amenities. The leisure demand segment in Surprise and the West Valley tends to have strong weekend (Friday through Monday) travel patterns. Leisure travel can be volatile given the traveler's price sensitivity in response to the area's seasonality. As noted previously, winter and spring are the peak seasons for the Phoenix metro's lodging market while the summer is the low season due to high summer temperatures. The leisure segment in the competitive market emanates primarily from travelers visiting the Phoenix metro area and its many leisure amenities as well as people visiting friends and family. Leisure travelers are concerned with the hotel's proximity to area leisure attractions.

While the proposed subject's location in the City Center of Surprise is very favorable with regards to demand generators such as Surprise Stadium as well as the restaurant amenities along Bell Road, we anticipate that the subject will achieve below its fair share of transient demand on a stabilized basis. We find this reasonable given that we forecast the subject to over penetrate its fair share of the group segment. Therefore, we anticipate the subject to obtain a 84 percent penetration of the transient segment upon opening in 2022. The subject's penetration of this segment is estimated to decrease to 82 percent in 2023 and remain at the level for the remainder of the projection period. The decline in penetration in 2023 reflects the subject ramping up its group penetration.

Group Demand

Group demand consists of travelers who book blocks of rooms exceeding ten rooms per night. The purpose of the group traveler's visit is to meet with other members of a corporate, leisure, or association group to further the group's goals. These travelers often require meeting space at the hotel in which they are staying. In addition, the proposed subject's location in the City Center of Surprise, will give it access to group demand from Surprise Stadium, the Surprise Tennis Center and Ottawa University. As noted previously, the existing hotels in Surprise are limited service or extended stay hotels with minimal meeting space and food and beverage amenities. We have assumed the proposed subject hotel will include approximately 12,000 to 14,000 square feet of indoor meeting space as well as a three-meal restaurant/bar which is also appealing to groups. Based on the subject's facilities and positioning within the competitive market, we anticipate that the subject hotel will achieve well above its fair share of the group segment on a stabilized basis. We have estimated a group penetration of 115 percent in 2022 during the first year of operation. As the proposed subject ramps up its group business, we estimate the subject's group penetration will increase to 135 percent in 2023. Finally, we estimate the group penetration rate to increase to 160 percent in 2024 and to stabilize at this level of penetration for the remainder of the projection period.

Overall Mix, Penetration, and Occupancy

The estimated stabilized market mix and penetration for the subject hotel are presented in the following table.

Proposed Full Service Hotel Surprise					
Market Penetration and Projected Occupancy					
	2022	2023	2024	2025	2026
TOTAL ROOMS AVAILABLE					
Proposed Full Service Hotel Surprise	82,125	82,125	82,125	82,125	82,125
Competitive Market	1,191,360	1,191,360	1,191,360	1,191,360	1,191,360
	=====	=====	=====	=====	=====
Fair Share of Supply	6.9%	6.9%	6.9%	6.9%	6.9%
	=====	=====	=====	=====	=====
ESTIMATED TOTAL MARKET DEMAND					
Transient	614,000	632,400	629,000	629,000	629,000
Group	211,800	218,100	216,900	216,900	216,900
	-----	-----	-----	-----	-----
TOTAL	825,800	850,500	845,900	845,900	845,900
	-----	-----	-----	-----	-----
FAIR SHARE OF DEMAND					
Transient	42,300	43,600	43,400	43,400	43,400
Group	14,600	15,000	15,000	15,000	15,000
	-----	-----	-----	-----	-----
TOTAL	56,900	58,600	58,400	58,400	58,400
	-----	-----	-----	-----	-----
SUBJECT PENETRATION					
Transient	84%	82%	82%	82%	82%
Group	115%	135%	160%	160%	160%
	-----	-----	-----	-----	-----
ROOM NIGHTS CAPTURED					
Transient	35,600	35,700	35,600	35,600	35,600
Group	16,800	20,300	23,900	23,900	23,900
	-----	-----	-----	-----	-----
TOTAL CAPTURED DEMAND	52,400	56,000	59,500	59,500	59,500
	=====	=====	=====	=====	=====
MARKET SHARE CAPTURED	6.3%	6.6%	7.0%	7.0%	7.0%
OVERALL MARKET PENETRATION	92%	96%	102%	102%	102%
	-----	-----	-----	-----	-----
SUBJECT OCCUPANCY	64%	68%	72%	72%	72%
	-----	-----	-----	-----	-----
MARKET MIX					
Transient	68%	64%	60%	60%	60%
Group	32%	36%	40%	40%	40%
	-----	-----	-----	-----	-----
TOTAL	100%	100%	100%	100%	100%
	=====	=====	=====	=====	=====

Source: CBRE Hotels

AVERAGE DAILY RATE

Average daily rate (ADR) in the competitive market is estimated to grow by 1.1 percent in 2018 based on the year-to-date trend. We anticipate the competitive market ADR to increase by 3.0 percent in 2019. Furthermore, we project the competitive market ADR to increase by 5.5 percent in 2022 which reflects the opening of the higher rated subject hotel. Finally, we project the competitive market ADR to increase by 3.0 percent in 2023 and each year thereafter.

Projected Market Performance of the Competitive Supply									
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	REVPAR	Percent Change
2018	990,245	0.0%	705,500	3.0%	71%	\$133.00	1.1%	\$94.76	4.1%
2019	1,070,180	8.1	740,700	5.0	69	137.00	3.0	94.82	0.1
2020	1,109,235	3.6	768,900	3.8	69	141.00	2.9	97.74	3.1
2021	1,109,235	0.0	792,000	3.0	71	145.00	2.8	103.53	5.9
2022	1,191,360	7.4	825,800	4.3	69	153.00	5.5	106.05	2.4
2023	1,191,360	0.0	850,500	3.0	71	157.00	3.0	112.08	5.7
2024	1,191,360	0.0	845,900	0.0	71	163.00	3.0	115.73	3.3
CAAG	3.1%		3.1%			3.4%		3.4%	

Source: CBRE Hotels

Average Daily Rate and Yield for the Subject

Our derivation of the average daily rate for the subject property in a stabilized year of operation is based on information concerning the other hotel properties in the competitive supply and the competitive position of the proposed subject.

The following table outlines our estimates of average daily rate and the resulting revenue yield for the subject. In the subject's first year of operation in 2022, we estimate that the hotel's average daily rate will be \$197. It is our estimation that the subject will be able to increase its average daily rate by 3.0 percent annually throughout the projection period. This equates to a representative year ADR of \$175.00 in 2018 calendar year dollars. While this rate is approximately 31.0 percent above that of the overall competitive market, it is reasonable given the location of the subject as well as its intended positioning as a high-quality, full service hotel property. Our ADR projection for the subject is also consistent with the rates achieved by other full-service hotels in the West Valley. As the table below indicates, the proposed subject's revenue yield is projected to ramp up during the first two years of operation and is anticipated to achieve a stabilized revenue yield of 131 percent by 2024.

Projected Market Performance of the Subject Hotel											
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Average Daily Rate	Percent Change	REVPAR	Percent Change	Market Penetration	Revenue Yield
2022	82,125	N/A	52,400	N/A	64%	\$197.00	N/A	\$125.70	N/A	92%	119%
2023	82,125	0.0%	56,000	6.9%	68	203.00	3.0%	138.42	10.1%	96	124
2024	82,125	0.0	59,500	6.3	72	209.00	3.0	151.42	9.4	102	131
2025	82,125	0.0	59,500	0.0	72	215.00	3.0	155.77	3.0	102	131
2026	82,125	0.0	59,500	0.0	72	222.00	3.0	160.84	3.0	102	131
CAAG	0.0%		3.2%			3.0%		6.4%			

Source: CBRE Hotels

Section VI

STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS

STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS

BASIS OF PROJECTIONS

For the proposed hotel, we have prepared statements of estimated operating results. To prepare estimates of future operating results for the proposed hotel, the starting point or basis is the best estimate of results that could be achieved with good management in a representative year or stabilized market, calculated in 2019 dollars.

We estimate that during a representative year, the subject property could achieve a stabilized occupancy of 72.0 percent at an average daily room rate of \$180, stated in 2019 dollars. From this base, we considered the effects of inflation, and occupancy levels for the projection period for a ten-year operating period, from calendar year beginning January 1, 2022 through December 31, 2031. The underlying rationale and assumptions used in preparing these estimates are presented in this section.

Comparable Hotels

We have used information on the operating performance of five comparable facilities. This information is primarily obtained from confidential statistics compiled as a basis for the CBRE Hotel's publication *Trends in the Hospitality Industry*. Our comparable hotels consist of five nationally branded full-service hotels all located in the Phoenix metropolitan area. All are considered comparable to the subject due to their size, facilities, location and rate. The hotels range in room count from 235 to 320 rooms with an average of 268 rooms. The occupancy rates for the comparable hotels ranged from 62.5 percent to 80.0 percent with an average of 70.2 percent. The average daily rate for the comparable hotels ranged from \$170.70 to \$201.67 with an average of \$187.93. Given that the information is provided to us on a confidential basis, we cannot disclose the identity of the comparable hotels.

Summary data pertaining to the comparable hotels is provided on the following pages.

Proposed Hotel									
Operating Results of Comparable Hotels									
	Hotel A			Hotel B			Hotel C		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	54.8%	\$38,968	\$170.70	59.8%	\$47,596	\$188.70	66.0%	\$47,422	\$186.88
Food & Beverage	42.1%	29,918	131.06	35.0%	27,829	110.33	31.5%	22,625	89.16
Other Operated Departments	3.1%	2,200	9.64	5.2%	4,106	16.28	2.5%	1,825	7.19
Total Revenues	100.0%	71,087	311.40	100.0%	79,532	315.31	100.0%	71,871	283.24
Departmental Expenses									
Rooms	18.2%	7,103	31.12	20.1%	9,548	37.85	18.5%	8,792	34.65
Food & Beverage	47.0%	14,047	61.53	73.6%	20,472	81.16	61.2%	13,838	54.53
Other Operated Departments	57.9%	1,273	5.58	48.5%	1,992	7.90	13.2%	241	0.95
Total Departmental Expenses	31.5%	22,423	98.23	40.2%	32,011	126.91	31.8%	22,871	90.13
Departmental Profit	68.5%	48,664	213.18	59.8%	47,521	188.40	68.2%	49,001	193.11
Undistributed Expenses									
Administrative & General	6.9%	4,893	21.43	9.1%	7,241	28.71	7.9%	5,701	22.47
Information and Telecommunication Systems	0.0%	0	0.00	2.3%	1,811	7.18	2.8%	1,979	7.80
Marketing	14.0%	9,982	43.73	12.0%	9,515	37.72	7.8%	5,600	22.07
Property Operations and Maintenance	4.0%	2,852	12.49	3.3%	2,593	10.28	3.9%	2,779	10.95
Energy and Utility	4.1%	2,903	12.72	2.2%	1,757	6.97	2.7%	1,947	7.67
Total Undistributed Operating Expenses	29.0%	20,630	90.37	28.8%	22,918	90.86	25.1%	18,007	70.96
Gross Operating Profit	39.4%	28,034	122.81	30.9%	24,602	97.54	43.1%	30,994	122.14
Base Management Fee	1.9%	1,330	5.82	2.0%	1,590	6.30	2.9%	2,107	8.30
Fixed Expenses									
Property Taxes	4.1%	2,903	12.72	4.2%	3,336	13.23	3.0%	2,156	8.50
Insurance	0.9%	611	2.68	0.5%	371	1.47	0.5%	339	1.33
Total Fixed Expenses	4.9%	3,514	15.39	4.7%	3,708	14.70	3.5%	2,494	9.83
Net Operating Income Before Reserve	32.6%	23,191	101.59	24.3%	19,305	76.53	36.7%	26,393	104.01
FF&E Reserve	0.0%	0	0.00	0.0%	0	0.00	4.0%	2,875	11.33
Net Operating Income After Reserve	32.6%	\$23,191	\$101.59	24.3%	\$19,305	\$76.53	32.7%	\$23,518	\$92.68
Source: CBRE Hotels									

Proposed Hotel									
Operating Results of Comparable Hotels									
	Hotel D			Hotel E			Weighted Average		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	69.5%	\$56,499	\$193.58	72.0%	\$53,766	\$201.67	63.9%	\$48,177	\$187.93
Food & Beverage	28.3%	23,048	78.97	23.0%	17,180	64.44	32.5%	24,533	95.70
Other Operated Departments	2.2%	1,760	6.03	5.1%	3,779	14.17	3.6%	2,728	10.64
Total Revenues	100.0%	81,306	278.58	100.0%	74,725	280.29	100.0%	75,437	294.26
Departmental Expenses									
Rooms	21.8%	12,301	42.15	25.7%	13,830	51.87	20.9%	10,070	39.28
Food & Beverage	60.1%	13,862	47.50	79.3%	13,615	51.07	62.1%	15,223	59.38
Other Operated Departments	3.0%	54	0.18	44.5%	1,680	6.30	39.5%	1,076	4.20
Total Departmental Expenses	32.2%	26,217	89.83	39.0%	29,125	109.25	35.0%	26,370	102.86
Departmental Profit	67.8%	55,089	188.75	61.0%	45,600	171.04	65.0%	49,068	191.40
Undistributed Expenses									
Administrative & General	7.0%	5,696	19.52	11.0%	8,200	30.76	8.3%	6,277	24.49
Information and Telecommunication Systems	1.4%	1,141	3.91	2.5%	1,891	7.09	1.7%	1,719	6.48
Marketing	14.8%	12,011	41.15	9.0%	6,740	25.28	11.6%	8,786	34.27
Property Operations and Maintenance	4.8%	3,920	13.43	3.1%	2,326	8.72	3.8%	2,876	11.22
Energy and Utility	4.0%	3,237	11.09	3.4%	2,557	9.59	3.3%	2,473	9.64
Total Undistributed Operating Expenses	32.0%	26,006	89.10	29.1%	21,713	81.44	28.8%	21,721	84.73
Gross Operating Profit	35.8%	29,083	99.65	32.0%	23,886	89.60	36.3%	27,347	106.68
Base Management Fee	3.0%	2,436	8.35	3.0%	2,242	8.41	2.5%	1,897	7.40
Fixed Expenses									
Property Taxes	2.0%	1,663	5.70	0.0%	0	0.00	2.8%	2,566	10.10
Insurance	0.7%	560	1.92	0.5%	386	1.45	0.6%	458	1.79
Total Fixed Expenses	2.7%	2,223	7.62	0.5%	386	1.45	3.4%	2,560	9.99
Net Operating Income Before Reserve	30.0%	24,424	83.68	28.4%	21,258	79.74	30.3%	22,890	89.29
FF&E Reserve	0.0%	0	0.00	0.0%	0	0.00	0.8%	2,875	11.33
Net Operating Income After Reserve	30.0%	\$24,424	\$83.68	28.4%	\$21,258	\$79.74	29.6%	\$22,320	\$87.06
Source: CBRE Hotels									

STABILIZED YEAR ESTIMATE

As indicated previously, we have estimated the performance of the subject for a stabilized year of operation. This estimate is primarily based on our review of the performance of other comparable hotels. The support for our stabilized year estimate is detailed in the following paragraphs, and is stated in 2019 dollars.

Departmental Revenues and Expenses

In the *Uniform System of Accounts for the Lodging Industry*, revenues to the facility are categorized by the department from which they are derived. In the case of the subject, these include income from rooms, food and beverage, and other operated departments. In the *Uniform System of Accounts for the Lodging Industry*, only direct operating expenses associated with each department are charged to the operating departments. General overhead items, which are applicable to the overall operation of the facility, are classified as undistributed operating expenses.

Direct or departmental revenues and expenses, which typically vary with occupancy, are generally analyzed on a per occupied room (POR) or ratio basis, while undistributed expenses, which are more fixed in nature, are typically analyzed on a per available room (PAR) basis.

Room Revenue and Expense

Room revenue is based on the number of occupied rooms multiplied by the ADR for each respective year as presented in this report. As indicated in our previous analyses, we estimated that the stabilized occupancy rate of the subject would be 72.0 percent, with an ADR of \$180.00 (expressed in 2019 dollars).

$$\boxed{225 \text{ Rooms} \times 365 \text{ Days} \times 72.0\% \text{ Occupancy} \times \$180.00 = \$10,643,000 \text{ (rounded)}}$$

The following is a table illustrating average daily rate, annual occupancy and annual room's revenue commencing January 1, 2022 (the anticipated date of opening).

Year	Estimated Rooms Revenue		
	Average Daily Rate	Annual Occupancy	Rooms Revenue
2022	\$197.00	64.0%	\$10,354,000
2023	203.00	68.0	11,337,000
2024	209.00	72.0	12,358,000
2025	215.00	72.0	12,713,000
2026	222.00	72.0	13,127,000
2027	228.00	72.0	13,482,000
2028	235.00	72.0	13,896,000
2029	242.00	72.0	14,309,000
2030	250.00	72.0	14,783,000
2031	257.00	72.0	15,196,000

Rooms expense consists of salaries and wages, employee benefits, commissions, contract cleaning, guest transportation, laundry and dry cleaning, linen, operating supplies, reservation costs, uniforms, complimentary benefits, and other items related to the rooms department.

The operating results for the comparable hotels have a range of 18.2 percent to 25.7 percent of room sales, or a range of \$31.12 to \$51.87 per occupied room (POR) for a weighted average of \$39.28 POR. Based on our analysis of comparable properties, we estimate that for a stabilized year of operation the rooms department expense for the subject will be \$36.00 POR or 20.0 percent of rooms revenue. We find this reasonable as it is within the range of the comparable hotels on a POR and ratio to rooms revenue basis.

Comparables	Rooms Expense	
	Per Occupied Room	Ratio to Rms Revenue
A	\$31.12	18.2%
B	37.85	20.1%
C	34.65	18.5%
D	42.15	21.8%
E	51.87	25.7%
Weighted Average	39.28	20.9%
Subject Stabilized Year	\$36.00	20.0%

Food and Beverage Revenue and Expense

Food and beverage revenue is generated by the sale of meals to both hotel guests and also outside patrons in the food and beverage outlets, the sale of soft drinks, liquor, and wine in the lounge, and other associated revenues. Food and beverage revenue will vary depending on the number of food and beverage outlets, and the amount of meeting space. We have assumed the proposed subject will include a three-meal restaurant and approximately 12,000 to 14,000 square feet of meeting space. Please note that our projections for the proposed subject hotel assume that the hotel's food and beverage outlets will be operated by the hotel.

The comparable hotels reflected food and beverage revenue ranging from \$64.44 POR to \$131.06 POR. Based on the proposed subject's food and beverage offerings we have estimated food and beverage revenues of approximately \$90.00 per occupied room. This results in food and beverage revenues of approximately \$5,322,000 in a representative year. We find our estimate reasonable as it is within the range of the comparable hotels on a POR basis.

Comparables	Food and Beverage Revenue	
	Total Amount	Per Occupied Room
A	\$9,573,814	\$131.06
B	7,708,768	110.33
C	6,018,220	89.16
D	5,416,175	78.97
E	4,157,544	64.44
Weighted Average	N/A	95.70
Subject Stabilized Year	\$5,322,000	\$90.00

Food and beverage expense includes the cost of food and beverage, payroll and related expenses, and other items such as laundry, linen, china, glassware, silverware, uniform costs, supplies, as well as other miscellaneous items. Food and beverage expense percentage to total food and beverage revenue for the comparable hotels ranged from 47.0 percent to 79.3 percent, with a weighted average of 62.1 percent. Considering the type of food and beverage operations proposed for the subject property, we believe a food and beverage expense percentage of 68.0 percent of total food and beverage revenues is appropriate for the proposed subject property.

Food and Beverage Expense	
Comparables	Ratio to F&B Rev.
A	47.0%
B	73.6
C	61.2
D	60.1
E	79.3
Weighted Average	62.1%
Subject Stabilized Year	68.0%

Other Operated Departments Revenue and Expense

Other Operated Departments can vary significantly among the comparable properties and the subject depending on the nature of the additional revenue generators. Other expected operated departments at the subject property will include revenue from telephone and internet, business services, in-room entertainment, and other on-site amenities. This line item also includes any miscellaneous income. The comparable hotels had a range of other operated department revenue from \$6.03 to \$16.28 per occupied room. Based upon the various components of this line item, we have estimated the income for the subject to be approximately \$8.00 per occupied room in a representative year of operations.

Other Operated Departments Revenue	
Comparables	Per Occupied Room
A	\$9.64
B	16.28
C	7.19
D	6.03
E	14.17
Weighted Average	10.64
Subject Stabilized Year	\$8.00

Other Operated Department Expenses include payroll costs, employee benefits, and other operating supplies of such other operated departments. The comparables' other operating expenses ranged from 3.0 percent to a 57.9 percent expense ratio, with a weighted average of 39.5 percent. For a representative year of operations, we have estimated expenses at approximately 40.0 percent of revenues for the subject, which is within the range of comparable hotels and in line with industry standards.

Other Operated Departments Expense	
Comparables	Ratio to O.O.D. Rev.
A	57.9%
B	48.5
C	13.2
D	3.0
E	44.5
Weighted Average	39.5%
Subject Stabilized Year	40.0%

Undistributed Operating Expenses

Undistributed Operating Expenses are operating expenses that are not chargeable to a particular operating department and are presented as undistributed operating expenses, in accordance with the *Uniform System of Accounts for the Lodging Industry*. These expenses include administrative and general, marketing, property operations and maintenance, Information and Telecommunications Systems and energy and utilities. These expenses are relatively unaffected by fluctuations in occupancies and ADR. Excluding management fees, which are a fixed percentage based on a contract agreement and market parameters, these expenses are analyzed primarily on a dollar amount per available room (PAR) basis.

Administrative and General

This category includes the salary and wages of the general manager and administrative staff; cash overages and shortages, credit card commissions, bad debt expense, security, data processing costs, accounting payroll expense, and professional fees. Administrative and general expenses at the comparables range from \$4,893 to \$8,200 per available room with ratios to total revenue ranging from 6.9 percent to 11.0 percent of total revenues. We have estimated an administrative and general expense for the subject property of \$5,800 per available room, which is 7.9 percent of revenues. This is within the range of comparables on a PAR and ratio basis.

Administrative and General		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$4,893	6.9%
B	7,241	9.1%
C	5,701	7.9%
D	5,696	7.0%
E	8,200	11.0%
Weighted Average	6,277	8.3%
Subject Stabilized Year	\$5,800	7.9%

Information and Telecommunication Systems

This department was created to consolidate all system-related technology expenses and became part of the USALI in the 11th Edition adopted in 2015. This category includes the cost of cell phones, administrative call and internet services, and complimentary call and internet services. The table below outlines the information and telecommunication system expenses for the comparable properties. For a representative year of operation, we have estimated IT costs for the proposed subject at \$1,600 PAR, or 2.2 percent of total revenue which is within the range of the comparable hotels on a PAR and Ratio to Revenue basis.

Information and Telecommunication Systems		
	Per Available Room	Ratio to Total Rev.
<u>Comparables</u>		
A	\$0	0.0%
B	1,811	2.3%
C	1,979	2.8%
D	1,141	1.4%
E	1,891	2.5%
Weighted Average	1,719	1.7%
Subject Stabilized Year	\$1,600	2.2%

Marketing

This expense includes the cost of advertising, printing of brochures, salary associated with sales and marketing personnel, franchise fees and other costs associated with an ongoing sales and promotion program. Marketing expenses for the comparables ranged from \$5,600 to \$12,011 per available room. The amount spent on marketing depends on the location, reputation, and brand association of the property. As noted in Section II of the report, our projections assume the subject hotel will be a nationally branded hotel. Therefore, our projections of marketing expense for the subject include franchise fees. As such, we have estimated an expense of approximately \$9,400 per available room, which equates to 12.9 percent of total revenues. This estimate is within the range of the comparables on a ratio basis and assumes that the property will be franchised and managed by a third-party operator.

Marketing		
Comparables	Per Available Room	Ratio to Total Rev.
A	\$9,982	14.0%
B	9,515	12.0%
C	5,600	7.8%
D	12,011	14.8%
E	6,740	9.0%
Weighted Average	8,786	11.6%
Subject Stabilized Year	\$9,400	12.9%

Property Operations and Maintenance

Property operations and maintenance expenses are a function of building age and usage. This category includes the engineering salaries, wages and benefits, maintenance of the building, grounds and landscape, electrical and mechanical equipment, engineering, refrigeration, operating supplies, cleaning, waste removal, and uniforms. The comparable hotels posted expenses ranging from \$2,326 to \$3,920 per available room. Property operations and maintenance expenditures for the proposed subject are estimated at approximately \$2,700 per available room in a representative year, which is 3.7 percent of revenues.

Property Operation and Maintenance		
Comparables	Per Available Room	Ratio to Total Rev.
A	\$2,852	4.0%
B	2,593	3.3%
C	2,779	3.9%
D	3,920	4.8%
E	2,326	3.1%
Weighted Average	2,876	3.8%
Subject Stabilized Year	\$2,700	3.7%

Utility Costs

Energy and utility costs include electric, fuel, steam, water, and sewer charges. The cost of utilities at the comparable hotels ranged from \$1,757 to \$3,237 per available room. We have estimated energy and utility costs of \$2,100 PAR in a representative year of operation, equal to 2.9 percent of total revenues.

Comparables	Utility Costs	
	Per Available Room	Ratio to Total Rev.
A	\$2,903	4.1%
B	1,757	2.2%
C	1,947	2.7%
D	3,237	4.0%
E	2,557	3.4%
Weighted Average	2,473	3.3%
Subject Stabilized Year	\$2,100	2.9%

Fixed Charges

Management Fees

A management fee is an expense item representing the value of the management services. It is a variable operating expense normally expressed as a percentage of total revenues. Management fees for properties of this type typically range from 3.0 to 5.0 percent. We have assumed a management fee of 3.0 percent for the subject hotel. This equates to approximately \$493,000 in a representative year.

Property Taxes

The subject property is in the real estate taxing jurisdiction of Maricopa County. For the estimation of the proposed subject hotel's property tax expense, we have focused on five hotels in the West Valley including three which are in Surprise. This data was obtained from the Maricopa County Assessor's Office. The following table presents these tax comparables which are based on the 2018 tax year:

Property Taxes (2018)	
Comparables	Per Available Room
A	\$1,306
B	849
C	951
D	2,903
E	1,115
Weighted Average	\$1,855
Subject Stabilized Year	\$1,500

Source: Maricopa County Treasurer's Office

Based on the property taxes paid by the comparables, we estimate the property taxes at the subject to be \$1,500 on a PAR basis or approximately \$338,000 in a representative year of operation.

Insurance

Included in this category are insurance premiums relating to general and building and contents insurance. This expense at the subject property is estimated to be \$500 per available room in a representative year of operation. This is within the range of the comparables.

Insurance	
<u>Comparables</u>	<u>Per Available Room</u>
A	\$611
B	371
C	339
D	560
E	386
Weighted Average	458
Subject Stabilized Year	\$500

Reserves for Replacement

An additional item not typically listed on an owner's income statement is the amount required for the periodic replacement of certain short-lived items such as carpeting, draperies, and other furniture, fixtures and equipment. For a new hotel, reserves are often lower in the first few years, because very little capital improvements will be necessary. We have increased the reserves gradually over the first three full years of the projection period to build up reserves as the building ages. We have projected reserve for replacement of two percent for the first year of operation (2022), three percent for the second year of operation, and four percent for the third year and thereafter.

STABILIZED YEAR OPERATING RESULTS

Presented on the following page is an estimate of the subject hotel's stabilized year operating results expressed in current value 2019 dollars. This estimate is based on the foregoing analysis. For this twelve-month period, revenues are projected to total approximately \$16,438,000. Gross operating profit, which does not include management fees, property taxes, insurance, or reserves for replacement, totals approximately \$5,640,000, or 34.3 percent of total revenues. Net operating income for the subject in a stabilized year, after the deduction of a management fee, property taxes, insurance, and a reserve for capital replacement, is projected to be \$4,038,000 or 24.6 percent of total revenue.

Proposed Full-Service Hotel Surprise		2019 Dollars			
Representative Year of Operation					
Number of Units:		225			
Number of Annual Rooms Available:		82,125			
Number of Rooms Occupied:		59,130			
Annual Occupancy:		72.0%			
Average Daily Rate:		\$180.00			
Revenue Per Available Room:		\$129.60			
Revenues		Amount	Ratio	Per Room	P.O.R.
Rooms		\$10,643,000	64.7%	\$47,302	\$179.99
Food & Beverage		5,322,000	32.4%	23,653	90.01
Other Operated Departments		473,000	2.9%	2,102	8.00
Total Revenues		16,438,000	100.0%	73,058	278.00
Departmental Expenses					
Rooms		2,129,000	20.0%	9,462	36.01
Food & Beverage		3,619,000	68.0%	16,084	61.20
Other Operated Departments		189,000	40.0%	840	3.20
Total Departmental Expenses		5,937,000	36.1%	26,387	100.41
Departmental Profit		10,501,000	63.9%	46,671	177.59
Undistributed Expenses					
Administrative & General		1,305,000	7.9%	5,800	22.07
Information and Telecommunication Systems		360,000	2.2%	1,600	6.09
Marketing		2,115,000	12.9%	9,400	35.77
Property Operations and Maintenance		608,000	3.7%	2,702	10.28
Total Undistributed Operating Expenses		4,861,000	29.6%	21,604	82.21
Gross Operating Profit		5,640,000	34.3%	25,067	95.38
Base Management Fee		493,000	3.0%	2,191	8.34
Fixed Expenses					
Property Taxes		338,000	2.1%	1,502	5.72
Insurance		113,000	0.7%	502	1.91
Total Fixed Expenses		451,000	2.7%	2,004	7.63
Net Operating Income Before Reserve		4,696,000	28.6%	20,871	79.42
FF&E Reserve		658,000	4.0%	2,924	11.13
Net Operating Income After Reserve		\$4,038,000	24.6%	\$17,947	\$68.29
Source: <i>CBRE Hotels</i>					

ESTIMATED ANNUAL OPERATING RESULTS

The previous analysis provided for the income and expenses incurred in the operation of the subject in a stabilized year. In the following analysis, we provide estimated income and expenses for the subject during each year of the ten-year holding period anticipated for a typical investor. Our estimate of the performance for the subject in the stabilized year is used as a basis for our analysis, considering the effects of inflation, business development, and varying occupancy.

Inflation

To portray price level changes during the holding period, we have assumed an inflation rate of 3.0 percent annually throughout the projection period. This rate reflects the consensus of several well-recognized economists for the current long-term outlook for the future movement of prices and is consistent with the inflation rates of the 1990s and early 2000s. All expenses are projected to increase at 3.0 percent per year throughout the holding period.

It should be noted that inflation is caused by many factors and unanticipated events and circumstances can affect the forecasted rate. Therefore, the estimated operating results computed over the projection period can vary from the actual operating results, and the variations may be material.

Statement of Estimated Annual Operating Results

The estimated annual operating results for the proposed hotel from January 1, 2022 to December 31, 2031 are presented on the following pages.

Proposed Full-Service Hotel Surprise										
Projected Operating Results										
Calendar Years										
	2022		2023		2024		2025		2026	
Number of Units:	225		225		225		225		225	
Number of Annual Rooms Available:	82,125		82,125		82,125		82,125		82,125	
Number of Rooms Occupied:	52,560		55,845		59,130		59,130		59,130	
Annual Occupancy:	64.0%		68.0%		72.0%		72.0%		72.0%	
Average Daily Rate:	\$197.00		\$203.00		\$209.00		\$215.00		\$222.00	
Revenue Per Available Room:	\$126.08		\$138.04		\$150.48		\$154.80		\$159.84	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues										
Rooms	\$10,354,000	64.8%	\$11,337,000	64.8%	\$12,358,000	64.8%	\$12,713,000	64.8%	\$13,127,000	64.8%
Food & Beverage	5,169,000	32.3%	5,657,000	32.3%	6,169,000	32.3%	6,354,000	32.4%	6,545,000	32.3%
Other Operated Departments	459,000	2.9%	503,000	2.9%	548,000	2.9%	565,000	2.9%	582,000	2.9%
Total Revenues	15,982,000	100.0%	17,497,000	100.0%	19,075,000	100.0%	19,632,000	100.0%	20,254,000	100.0%
Departmental Expenses										
Rooms	2,197,000	21.2%	2,329,000	20.5%	2,468,000	20.0%	2,542,000	20.0%	2,618,000	19.9%
Food & Beverage	3,691,000	71.4%	3,937,000	69.6%	4,195,000	68.0%	4,321,000	68.0%	4,451,000	68.0%
Other Operated Departments	184,000	40.1%	201,000	40.0%	219,000	40.0%	226,000	40.0%	233,000	40.0%
Total Departmental Expenses	6,072,000	38.0%	6,467,000	37.0%	6,882,000	36.1%	7,089,000	36.1%	7,302,000	36.1%
Departmental Profit	9,910,000	62.0%	11,030,000	63.0%	12,193,000	63.9%	12,543,000	63.9%	12,952,000	63.9%
Undistributed Expenses										
Administrative & General	1,426,000	8.9%	1,469,000	8.4%	1,513,000	7.9%	1,558,000	7.9%	1,605,000	7.9%
Information and Telecommunication Systems	393,000	2.5%	405,000	2.3%	417,000	2.2%	430,000	2.2%	443,000	2.2%
Marketing	2,311,000	14.5%	2,380,000	13.6%	2,452,000	12.9%	2,525,000	12.9%	2,601,000	12.8%
Property Operations and Maintenance	664,000	4.2%	684,000	3.9%	704,000	3.7%	725,000	3.7%	747,000	3.7%
Total Undistributed Operating Expenses	5,310,000	33.2%	5,470,000	31.3%	5,634,000	29.5%	5,802,000	29.6%	5,977,000	29.5%
Gross Operating Profit	4,600,000	28.8%	5,560,000	31.8%	6,559,000	34.4%	6,741,000	34.3%	6,975,000	34.4%
Base Management Fee	479,000	3.0%	525,000	3.0%	572,000	3.0%	589,000	3.0%	608,000	3.0%
Fixed Expenses										
Property Taxes	369,000	2.3%	380,000	2.2%	391,000	2.0%	403,000	2.1%	415,000	2.0%
Insurance	123,000	0.8%	127,000	0.7%	130,000	0.7%	134,000	0.7%	138,000	0.7%
Total Fixed Expenses	492,000	3.1%	507,000	2.9%	521,000	2.7%	537,000	2.7%	553,000	2.7%
Net Operating Income Before Reserve	3,629,000	22.7%	4,528,000	25.9%	5,466,000	28.7%	5,615,000	28.6%	5,814,000	28.7%
FF&E Reserve	320,000	2.0%	525,000	3.0%	763,000	4.0%	785,000	4.0%	810,000	4.0%
Net Operating Income After Reserve	\$3,309,000	20.7%	\$4,003,000	22.9%	\$4,703,000	24.7%	\$4,830,000	24.6%	\$5,004,000	24.7%
Source: CBRE Hotels	Full Year of Operation									

Proposed Full-Service Hotel Surprise Projected Operating Results Calendar Years		2027		2028		2029		2030		2031	
Number of Units:		225		225		225		225		225	
Number of Annual Rooms Available:		82,125		82,125		82,125		82,125		82,125	
Number of Rooms Occupied:		59,130		59,130		59,130		59,130		59,130	
Annual Occupancy:		72.0%		72.0%		72.0%		72.0%		72.0%	
Average Daily Rate:		\$228.00		\$235.00		\$242.00		\$250.00		\$257.00	
Revenue Per Available Room:		\$164.16		\$169.20		\$174.24		\$180.00		\$185.04	
		Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues											
Rooms		\$13,482,000	64.7%	\$13,896,000	64.8%	\$14,309,000	64.8%	\$14,783,000	64.8%	\$15,196,000	64.8%
Food & Beverage		6,741,000	32.4%	6,944,000	32.4%	7,152,000	32.4%	7,366,000	32.3%	7,587,000	32.3%
Other Operated Departments		599,000	2.9%	617,000	2.9%	636,000	2.9%	655,000	2.9%	674,000	2.9%
Total Revenues		20,822,000	100.0%	21,457,000	100.0%	22,097,000	100.0%	22,804,000	100.0%	23,457,000	100.0%
Departmental Expenses											
Rooms		2,697,000	20.0%	2,777,000	20.0%	2,861,000	20.0%	2,947,000	19.9%	3,035,000	20.0%
Food & Beverage		4,584,000	68.0%	4,722,000	68.0%	4,863,000	68.0%	5,009,000	68.0%	5,159,000	68.0%
Other Operated Departments		240,000	40.1%	247,000	40.0%	254,000	39.9%	262,000	40.0%	270,000	40.1%
Total Departmental Expenses		7,521,000	36.1%	7,746,000	36.1%	7,978,000	36.1%	8,218,000	36.0%	8,464,000	36.1%
Departmental Profit		13,301,000	63.9%	13,711,000	63.9%	14,119,000	63.9%	14,586,000	64.0%	14,993,000	63.9%
Undistributed Expenses											
Administrative & General		1,653,000	7.9%	1,703,000	7.9%	1,754,000	7.9%	1,806,000	7.9%	1,861,000	7.9%
Information and Telecommunication Systems		456,000	2.2%	470,000	2.2%	484,000	2.2%	498,000	2.2%	513,000	2.2%
Marketing		2,679,000	12.9%	2,760,000	12.9%	2,842,000	12.9%	2,928,000	12.8%	3,015,000	12.9%
Property Operations and Maintenance		770,000	3.7%	793,000	3.7%	816,000	3.7%	841,000	3.7%	866,000	3.7%
Total Undistributed Operating Expenses		6,157,000	29.6%	6,343,000	29.6%	6,531,000	29.6%	6,727,000	29.5%	6,929,000	29.5%
Gross Operating Profit		7,144,000	34.3%	7,368,000	34.3%	7,588,000	34.3%	7,859,000	34.5%	8,064,000	34.4%
Base Management Fee		625,000	3.0%	644,000	3.0%	663,000	3.0%	684,000	3.0%	704,000	3.0%
Fixed Expenses											
Property Taxes		428,000	2.1%	440,000	2.1%	454,000	2.1%	467,000	2.0%	481,000	2.1%
Insurance		143,000	0.7%	147,000	0.7%	151,000	0.7%	156,000	0.7%	160,000	0.7%
Total Fixed Expenses		571,000	2.7%	587,000	2.7%	605,000	2.7%	623,000	2.7%	641,000	2.7%
Net Operating Income Before Reserve		5,948,000	28.6%	6,137,000	28.6%	6,320,000	28.6%	6,552,000	28.7%	6,719,000	28.6%
FF&E Reserve		833,000	4.0%	858,000	4.0%	884,000	4.0%	912,000	4.0%	938,000	4.0%
Net Operating Income After Reserve		\$5,115,000	24.6%	\$5,279,000	24.6%	\$5,436,000	24.6%	\$5,640,000	24.7%	\$5,781,000	24.6%
Source: CBRE Hotels											

ESTIMATED MARKET VALUE

We then developed an estimate of the prospective market value of the proposed Hotel upon opening using a yield capitalization or a discounted cash flow analysis. In yield capitalization, the value of the property is the present value of the net operating income in each year of the holding period (here projected to be ten years) and the value of the property when sold at the end of the holding period (the reversion). The present value of these elements is obtained by applying a market derived discount rate. The value of the reversion is obtained through the capitalization of the adjusted income at the end of the holding period, which assumes the sale of the hotel.

The following tables show the present value of the projected net operating income for the proposed Hotel for the ten-year holding period, along with the present value of the reversion, deriving a value estimate. As can be noted, we are of the opinion that a reversionary capitalization rate of 8.5 percent and a discount rate of 10.50 percent are appropriate to value the proposed Hotel using this approach. Our selection of these rates is based on recent comparable hotel sales in Maricopa County coupled with our review of current investor surveys that report on investment rates for hotels.

Our estimates of the annual operating results of the subject property for the representative year and the projection period commencing January 1, 2022, the projected opening date, are presented on the following pages.

Discounted Cash Flow Analysis			
Year	Cash Flow From Operations	Present Value Factor	Present Value 10.50%
2022	\$3,309,000	0.904977	\$2,994,570
2023	4,003,000	0.818984	3,278,393
2024	4,703,000	0.741162	3,485,685
2025	4,830,000	0.670735	3,239,649
2026	5,004,000	0.607000	3,037,427
2027	5,115,000	0.549321	2,809,778
2028	5,279,000	0.497123	2,624,314
2029	5,436,000	0.449885	2,445,576
2030	5,640,000	0.407136	2,296,247
2031	5,781,000	0.368449	2,130,003
Reversion	\$69,193,059	0.368449	\$25,494,104
Total Present Value			\$53,835,746
Value (Rounded)			\$53,800,000

Note: Present value figures may not foot due to rounding.

Source: *CBRE Hotels*

As shown, our conclusion to the estimated market value of the proposed 225-room full-service hotel using the yield capitalization (discounted cash flow) method, as of January 1, 2022, is \$53,800,000, or \$239,111 per room. Said a different way, we are of the opinion that the developer could sell the property for this amount after the completion of construction.

ESTIMATED DEVELOPMENT COST

We have summarized the cost to develop the proposed Hotel based on a variety of sources including in-house data and national cost survey data such as Marshall Valuation Service (MVS). It should be noted that the MVS cost estimates are based on national surveys in concert with local multipliers. Based our research of full service hotel developments we have assumed the proposed

225-room full service hotel would have approximately 725 gross square feet per guestroom including all guestrooms and common areas including lobby and meeting space. In addition, we have assumed the hotel would be a concrete framed structure.

Presented in the following table are the estimated development costs based on MVS as well as in-house data:

Proposed Full Service Hotel Surprise			
Line Item	Notes	Amount	Per Room
Land ^[2]	-	\$4,500,000	\$20,000
Hard Building Costs ^[1]	\$190,000 per room	\$42,750,000	\$190,000
FF&E (Furniture, Fixtures & Equipment)	\$30,000 per room	\$6,750,000	\$30,000
Pre-Opening Expenses & Working Capital	\$5,000 per room	\$1,125,000	\$5,000
Legal, Taxes, Insurance & Fees	\$6,500 per room	\$1,462,500	\$6,500
Architect and Engineering Fees	3.0% of Hard Costs	\$1,283,000	\$5,702
Financing Points ^[3]	1.0% bps on 1 LTV	\$350,000	\$1,556
Construction Period Interest ^[4]	6.0% Interest Rate	\$1,574,000	\$6,996
Contingency	3.0% of Costs	\$1,659,000	\$7,373
Total	-	\$61,500,000	\$273,333
Sources of Capital:			
Equity	-	\$26,530,000	\$117,911
Debt ^[5]	65.0% LTV	\$34,970,000	\$155,422
Total		\$61,500,000	\$273,333

[1] Based on total size of building and improvements (163,125 sq. ft.)

[2] 225-room hotel

[3] Assumes 65.0% or \$34,970,000 loan

[4] Assumes 65% LTV, 18-Month Construction Period at 50% Utilization

Source: CBRE Hotels

Total development costs, exclusive of land, total approximately \$57,000,000, or \$253,000 per room. Added to this is the estimated market value of the land of \$4,500,000, thereby resulting in a total construction cost of approximately \$61,500,000, or \$273,000 per guestroom.

ECONOMIC FEASIBILITY OF THE PROPOSED HOTEL

We have performed two tests to determine the feasibility of the project. In the first test, we compared the Hotel's estimated market value upon opening to the cost of development. Generally speaking, if a project's market value is equal to or exceeds the cost of development, it is deemed feasible, as it meets the return on investment requirements of the market. If the market value of the hotel is less than the cost of development, the project is considered infeasible.

As previously discussed, the development cost of the proposed 225-room full-service hotel is estimated to be \$61.5 million and the market value upon opening is estimated to be \$53.8 million. Based on this test, the project would **not** be cost feasible as the completed project would be worth more than the cost to develop it.

In the second test, we calculated the internal rate of return ("IRR") on an assumed equity investment required to develop the project based on our development budget, projected income stream, and the following financing assumptions.

- The total development costs for the proposed 225-room full service hotel would be approximately \$61,500,000, inclusive of land value.

- We have assumed financing for the project would be in line with current market terms. Specifically, we have assumed that developer could obtain a construction loan and a takeout loan of 65 percent of the lower of market value or the development cost estimate. Utilizing our estimate of market value (the lower of the two), this results in a loan amount of approximately \$34,970,000 ($53,800,000 \times 65.0\% = \$34,970,000$) at an interest rate of 6.0 percent with a 25-year amortization period. The balance of the project cost, or \$26,530,000 (\$61,500,000 less \$34,970,000), would be funded through an equity investment or alternative financing.
- We have further assumed that the developer of the hotel would sell the property after a ten-year holding period. As mentioned, the hotel's sale price was estimated based on an 8.5 percent reversionary capitalization rate.

Based on our ten year forecast of potential operating income for the proposed hotel and the above financing structure, the IRR (Internal Rate of Return) on the assumed equity investment of \$26,530,000 is 10.3 percent.

As a point of reference, investors in hotel projects typically demand an IRR on equity invested from the mid-teens to the high teens. The leveraged IRR estimate falls below this range, indicating that the project would not achieve market rate returns sufficient to generate investor interest. Therefore, there is a gap in the proposed project's feasibility which would be required to be filled in order to attract developer interest in the project. A summary of our IRR calculation is presented on the following page.

Leveraged IRR Calculation

Assumed Financing Structure

Total Construction Costs	\$61,500,000
Total Value	\$53,800,000
LTV	65.0%
Loan Amount	\$34,970,000
Interest Rate	6.0%
Term	25

Equity Required

Total Construction Costs	\$61,500,000
Less: Loan Amount	\$34,970,000
Equity Required	\$26,530,000

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Equity	(\$13,265,000)	(\$13,265,000)										
NOI - Operation			\$3,309,000	\$4,003,000	\$4,703,000	\$4,830,000	\$5,004,000	\$5,115,000	\$5,279,000	\$5,436,000	\$5,640,000	\$5,781,000
Annual Debt Service			(\$2,735,588)	(\$2,735,588)	(\$2,735,588)	(\$2,735,588)	(\$2,735,588)	(\$2,735,588)	(\$2,735,588)	(\$2,735,588)	(\$2,735,588)	(\$2,735,588)
Net Reversion												\$69,193,059
Less: Loan Principal												(\$26,568,715)
Net Cash Flow	(\$13,265,000)	(\$13,265,000)	\$573,412	\$1,267,412	\$1,967,412	\$2,094,412	\$2,268,412	\$2,379,412	\$2,543,412	\$2,700,412	\$2,904,412	\$45,669,755
Cash on Cash Return			4.3%	9.6%	14.8%	15.8%	17.1%	17.9%	19.2%	20.4%	21.9%	344.3%
Debt Service Coverage Ratio			1.21	1.46	1.72	1.77	1.83	1.87	1.93	1.99	2.06	2.11

IRR 10.3%

Addendum
Terms and Conditions

TERMS AND CONDITIONS

1. CBRE, Inc. through its advisor (collectively, "CBRE") has inspected through reasonable observation the subject property. However, it is not possible or reasonably practicable to personally inspect conditions beneath the soil.
2. The report, including its conclusions and any portion of such report (the "Report"), is as of the date set forth in the letter of transmittal and based upon the information, market, economic, and property conditions and projected levels of operation existing as of such date. The dollar amount of any conclusion as to value in the Report is based upon the purchasing power of the U.S. Dollar on such date. The Report is subject to change as a result of fluctuations in any of the foregoing. CBRE has no obligation to revise the Report to reflect any such fluctuations or other events or conditions which occur subsequent to such date.
3. Unless otherwise expressly noted in the Report, CBRE has assumed that:
 - (i) Title to the subject property is clear and marketable and that there are no recorded or unrecorded matters or exceptions to title that would adversely affect marketability or value. CBRE has not examined title records (including without limitation liens, encumbrances, easements, deed restrictions, and other conditions that may affect the title or use of the subject property) and makes no representations regarding title or its limitations on the use of the subject property. Insurance against financial loss that may arise out of defects in title should be sought from a qualified title insurance company.
 - (ii) If any, existing improvements on the subject property conform to applicable local, state, and federal building codes and ordinances, are structurally sound and seismically safe, and have been built and repaired in a workmanlike manner according to standard practices; all building systems (mechanical/electrical, HVAC, elevator, plumbing, etc.) are in good working order with no major deferred maintenance or repair required; and the roof and exterior are in good condition and free from intrusion by the elements. CBRE has not retained independent structural, mechanical, electrical, or civil engineers in connection with this report and, therefore, makes no representations relative to the condition of improvements. CBRE advisors are not engineers and are not qualified to judge matters of an engineering nature, and furthermore structural problems or building system problems may not be visible. It is expressly assumed that any purchaser would, as a precondition to closing a sale, obtain a satisfactory engineering report relative to the structural integrity of the property and the integrity of building systems.
 - (iii) Any proposed improvements, on or off-site, as well as any alterations or repairs considered will be completed in a workmanlike manner according to standard practices.
 - (iv) Hazardous materials are not present on the subject property. CBRE is not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, contaminated groundwater, mold, or other potentially hazardous materials may affect the value of the property.
 - (v) No mineral deposit or subsurface rights of value exist with respect to the subject property, whether gas, liquid, or solid, and no air or development rights of value may be transferred. CBRE has not considered any rights associated with extraction or exploration of any resources, unless otherwise expressly noted in the Report.
 - (vi) There are no contemplated public initiatives, governmental development controls, rent controls, or changes in the present zoning ordinances or regulations governing use, density, or shape that would significantly affect the value of the subject property.
 - (vii) All required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, nor national government or private entity or organization have been or can be readily obtained or renewed for any use on which the Report is based.
 - (viii) The subject property is managed and operated in a prudent and competent manner, neither inefficiently or super-efficiently.
 - (ix) The subject property and its use, management, and operation are in full compliance with all applicable federal, state, and local regulations, laws, and restrictions, including without limitation environmental laws, seismic hazards, flight patterns, decibel levels/noise envelopes, fire hazards, hillside ordinances, density, allowable uses, building codes, permits, and licenses.
 - (x) The subject property is in full compliance with the Americans with Disabilities Act (ADA). CBRE is not qualified to assess the subject property's compliance with the ADA, notwithstanding any discussion of possible readily achievable barrier removal construction items in the Report.
 - (xi) All information regarding the areas and dimensions of the subject property furnished to CBRE are correct, and no encroachments exist. CBRE has neither undertaken any survey of the boundaries of the subject property nor reviewed or confirmed the accuracy of any legal description of the subject property.

Unless otherwise expressly noted in the Report, no issues regarding the foregoing were brought to CBRE's attention, and CBRE has no knowledge of any such facts affecting the subject property. If any information inconsistent with any of the foregoing assumptions is discovered, such information could have a substantial negative impact on the Report. Accordingly, if any such information is subsequently made known to CBRE,

TERMS AND CONDITIONS

(continued)

CBRE reserves the right to amend the Report, which may include the conclusions of the Report. CBRE assumes no responsibility for any conditions regarding the foregoing, or for any expertise or knowledge required to discover them. Any user of the Report is urged to retain an expert in the applicable field(s) for information regarding such conditions.

4. CBRE has assumed that all documents, data and information furnished by or behalf of the client, property owner, or owner's representative are accurate and correct, unless otherwise expressly noted in the Report. Such data and information include, without limitation, numerical street addresses, lot and block numbers, Assessor's Parcel Numbers, land dimensions, square footage area of the land, dimensions of the improvements, gross building areas, net rentable areas, usable areas, unit count, room count, rent schedules, income data, historical operating expenses, budgets, and related data. Any error in any of the above could have a substantial impact on the Report. Accordingly, if any such errors are subsequently made known to CBRE, CBRE reserves the right to amend the Report, which may include the conclusions of the Report. The client and intended user should carefully review all assumptions, data, relevant calculations, and conclusions of the Report and should immediately notify CBRE of any questions or errors within 30 days after the date of delivery of the Report.
5. CBRE assumes no responsibility (including any obligation to procure the same) for any documents, data or information not provided to CBRE, including without limitation any termite inspection, survey or occupancy permit.
6. Any cash flows included in the analysis are forecasts of estimated future operating characteristics based upon the information and assumptions contained within the Report. Any projections of income, expenses and economic conditions utilized in the Report, including such cash flows, should be considered as only estimates of the expectations of future income and expenses as of the date of the Report and not predictions of the future. Actual results are affected by a number of factors outside the control of CBRE, including without limitation fluctuating economic, market, and property conditions. Actual results may ultimately differ from these projections, and CBRE does not warrant any such projections.
7. The Report contains professional opinions and is expressly not intended to serve as any warranty, assurance or guarantee of the performance of the subject property. Accordingly, CBRE shall not be liable for any losses that arise from any investment or lending decisions based upon the Report that the client, intended user, or any buyer, seller, investor, or lending institution may undertake related to the subject property, and CBRE has not been compensated to assume any of these risks. Nothing contained in the Report shall be construed as any direct or indirect recommendation of CBRE to buy, sell, hold, or finance the subject property.
8. No opinion is expressed on matters which may require legal expertise or specialized investigation or knowledge beyond that customarily employed by the advisors. Any user of the Report is advised to retain experts in areas that fall outside the scope of the advisor for such matters.
9. CBRE assumes no responsibility for any costs or consequences arising due to the need, or the lack of need, for flood hazard insurance. An agent for the Federal Flood Insurance Program should be contacted to determine the actual need for Flood Hazard Insurance.
10. Acceptance or use of the Report constitutes full acceptance of these Assumptions and Limiting Conditions and any special assumptions set forth in the Report. It is the responsibility of the user of the Report to read in full, comprehend and thus become aware of all such assumptions and limiting conditions. CBRE assumes no responsibility for any situation arising out of the user's failure to become familiar with and understand the same.
11. The Report applies to the property as a whole only, and any pro ration or division of the title into fractional interests will invalidate such conclusions, unless the Report expressly assumes such pro ration or division of interests.
12. The maps, plats, sketches, graphs, photographs, and exhibits included in this Report are for illustration purposes only and shall be utilized only to assist in visualizing matters discussed in the Report. No such items shall be removed, reproduced, or used apart from the Report.

The Report shall not be duplicated or provided to any unintended users in whole or in part without the written consent of CBRE, which consent CBRE may withhold in its sole discretion. Exempt from this restriction is duplication for the internal use of the intended user and its attorneys, accountants, or advisors for the sole benefit of the intended user. Also exempt from this restriction is transmission of the Report pursuant to any requirement of any court, governmental authority, or regulatory agency having jurisdiction over the intended user, provided that the Report and its contents shall not be published, in whole or in part, in any public document without the written consent of CBRE, which consent CBRE may withhold in its sole discretion. Finally, the Report shall not be made available to the public or otherwise used in any offering of the property or any security, as defined by applicable law. Any unintended user who may possess the Report is advised that it shall not rely upon the Report or its conclusions and that it should rely on its own consultants and advisors for any decision in connection with the subject property. CBRE shall have no liability or responsibility to any such unintended user.



**CITY OF SURPRISE
Tourism Advisory Commission**

Council Meeting Date: April 16, 2019

Contact Person: Joe Bertolotti, AD-SPORTS &
TOURISM

Submitting Department: Sports and Tourism

District: Citywide

Staff Recommendations:

Consent: No

Regular: Yes

Public Hearing: No

Report/Discussion: No

Agenda Wording:

Consideration and action pertaining to Future Agenda Items.

Motion:

Items may be placed on a future agenda upon the consensus of the Commission, no formal motion is required.

Background:

This item provides the opportunity for the commission to suggest items to be placed on future agenda. Items are also added by staff based on Citizen, Commission, Council and administrative requests.

Objective Analysis:

Policy Compliant:

Financial Impact:

Unknown at this time.

Budget Impact:

FTE Impact:

ATTACHMENTS:
