



## **Market Study**

## **Proposed Hotel and Conference Center in Victoria, Texas**

### **Prepared For:**

Ms. Charmelle Garrett  
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P.O. Box 1758  
Victoria, Texas 77902

### **Prepared By:**

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### **Date of the Report:**

August 15, 2011

4-0997

**PKF**  
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[www.pkfc.com](http://www.pkfc.com)

August 15, 2011

Ms. Charmelle Garrett  
Deputy City Manager  
City of Victoria  
P.O. Box 1758  
Victoria, Texas 77902

Dear Ms. Garrett:

In accordance with our engagement letter dated December 7, 2010, we have completed a market study with financial projections for the proposed hotel and conference center in Victoria, Texas. The conclusions reached are based upon our present knowledge of the competitive market resulting from our fieldwork completed July 28, 2011.

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 position of the project from that as set forth in this report. 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 project.

Although the proposed property's future performance has been conscientiously prepared using information obtained during the course of this study and our experience in the industry, it is based on estimates and assumptions, which are subject to uncertainty and variation, and we do not represent them as results that will actually be achieved.

We would be pleased to hear from you if we may be of further assistance in the interpretation and application of our findings and conclusions. We express our appreciation to you and your associates for the cooperation extended to us during the course of this assignment.

Respectfully submitted,

**PKF Consulting USA**

A handwritten signature in black ink that reads "G. Randle McCaslin". The signature is written in a cursive, flowing style.

G. Randle McCaslin  
Vice President / Practice Leader

**MARKET STUDY WITH  
PROSPECTIVE FINANCIAL ANALYSIS  
PROPOSED HOTEL AND CONFERENCE CENTER  
VICTORIA, TEXAS**

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**MARKET STUDY WITH  
PROSPECTIVE FINANCIAL ANALYSIS  
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VICTORIA, TEXAS**

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**ADDENDA**

- A. Community Survey Summary
- B. Map of Potential Sites
- C. Map of Competitive Supply
- D. Photographs of Competitive Supply
- E. Statement of Assumptions and Limiting Conditions
- F. Certification

**SECTION I**  
**EXECUTIVE SUMMARY**

## SCOPE AND METHODOLOGY

In preparing this study, we completed the research and analysis listed below:

- Conducted an inspection of eight potential sites in order to determine the best location for the proposed hotel and conference center.
- Evaluated the subject sites and the surrounding areas in order to determine their impact on the proposed hotel and conference center.
- Assembled, reviewed and analyzed economic, demographic and real estate market data pertaining to the Victoria metro area and the City of Victoria in particular to evaluate the present economic climate and to estimate future growth potential, particularly as it relates to lodging demand.
- Interviewed representatives of the greater area government, businesses and the community to gather data on current and future area growth and the demand for lodging and meeting facilities.
- Conducted a community survey to determine the current lodging and meeting needs in the area and determine potential usage for the proposed hotel and conference center in Victoria.
- Interviewed representatives of the competitive hotels regarding their property's historic, current and expected future market conditions.
- Prepared a summary of historic market performance, including available rooms, occupied rooms, market occupancy, average daily room rate and revenue per available room for the period 2006 to 2010 and May 2011 year-to-date.
- Identified other proposed hotels to assess their probability of completion and the degree to which they would compete with the proposed hotel.
- Evaluated the existing supply of meeting venues in the market to determine the degree of competition that they are likely to offer the proposed conference center.
- Evaluated other communities in Texas that are similar in location and size to Victoria and assessed their conference centers and meeting facilities as a comparable for Victoria.
- Evaluated and interviewed four comparable conference centers to understand their facility size, policies, demand, rates and overall performance.

- Recommended the concept, facilities and amenities for the proposed hotel and conference center that would be appropriate for the site and market.
- Estimated the future competitive position and market performance of the subject proposed hotel and conference center for the period 2014 to 2016, the stabilized year.
- Based on industry trends and interviews with the comparable meeting facilities in the area, estimated usage for the proposed conference center.
- Based on the estimated future competitive position of the subject proposed hotel and conference center, prepared a schedule of prospective cash flow before debt service and income taxes for the facility for the period 2014 to 2023.

## CONCLUSIONS

A concise summary of the conclusions of this report follows:

- The goal of the City in developing a conference center is to support the tourism economy by attracting new group meeting demand into the area. In addition, a facility in Victoria would provide an upscale meeting venue for the greater Victoria MSA to host social and community events which are currently displaced outside of the area.
- Comparable MSA's that mirror Victoria in size and proximity from major metro areas (Longview, Wichita Falls, and San Angelo) all have conference facilities that range in size from 20,000 to 57,000 square feet. The CVB's in these communities indicated they host at least 15 association and large group events from outside the area on an annual basis.
- Victoria's premium location in the state of Texas puts the City in the geographic center (and within a two-hour drive) of three of the fastest growing cities in the United States – Austin, Houston and San Antonio. Victoria's excellent highway system includes U.S. 87, U.S. 77, U.S. 59, and easy access to Interstate Highways I-10, I-35 and I-37. This network connects Victoria to neighboring cities and places it in the center of the central coastal area.
- Victoria has a diverse economic base represented by manufacturing, petrochemical, medical and education. The economy has experienced recent advancements owed to renewed energy production and the start of construction of a new Caterpillar production plant. Employment is now at its highest level since the first half of 2009.

- The Eagle Ford Shale play has had a large impact on Victoria in 2011 and is expected to impact the city for several years. Victoria is slightly outside of the heart of the shale and active well drilling. However, Victoria is one of the larger more developed communities within the drilling area and offers a good central location which has several corporations using Victoria as a regional hub.
- Caterpillar selected Victoria for their excavator plant now under construction. It recently announced an expansion which will bring the plant to 1,050,000 square feet at an estimated investment of \$200 million. Excavator production in Victoria is expected to begin in mid-2012. Once fully operational, the new facility will more than triple the capacity of hydraulic excavators produced by the company. The company has also considered the Victoria site for a distribution center.
- The first freshman and sophomore classes at the University of Houston – Victoria campus exceeded expectations with a freshman/sophomore enrollment of 300. Strong growth projections are anticipated for the lower-classmen with over 900 students expected by 2015 to 2016. There is a proposal to transfer the University of Houston - Victoria campus to the larger Texas A&M system, which many believe would help bolster efforts to develop the fledgling campus into a larger destination university.
- Our analysis determined that there are two sites (Site 4 - Mall Property and Site 5 - Houston Highway & Zac Lentz Parkway) out of the eight that exhibit the characteristics most suited for a hotel and conference center development. If development challenges occur on the two recommend sites, Site 7 (Huvar Drive & Dairy Road) also has characteristics that would be well-suited for a hotel and conference center development.
- We have recommended a select-service hotel positioning with enhanced design and services typically associated with a full-service hotel. The hotel would be positioned in the community as a top-quality, meeting-related hotel offering first class service and amenities. The hotel would be connected to a conference center with approximately 19,000 square feet of usable meeting space. The conference center should have flexible meeting space with a high quality finish out positioned to attract meetings, conventions, religious and social groups with multiple day meetings and more formal social events.
- A community survey was conducted of the Chamber of Commerce members in the Golden Crescent area. The survey indicated the need and support for a better quality hotel in addition to meeting space. Many of the supporters believe that this development would be an enhancement to the city and possibly spur future development.



- We have identified eight properties with 474 rooms as the subject's competitive supply. Market occupancy averaged 73.7% during the historical 2006 to 2010 period. The annual supply of rooms during the 2006 to 2010 period increased at a compound annual growth of 10.7%. Average daily rate for this competitive supply has increased at a compound average annual rate of 6.4% since 2006.
- The largest market demand segment for the total competitive set is the Individual Business Traveler (IBT) with 79%, followed Group (16%) and Leisure (5%) segments.
- The strong historical occupancy and ADR trends in the market have created an interest in Victoria and the surrounding area by hotel developers. PKF Consulting has spoken with the major hotel brands to identify the new additions that have solid financing and will likely develop over the next few years. We have projected 428 new rooms into Victoria, including the Subject hotel, during the 2012 to 2014 period.
- There has also been a lot of hotel development interest in smaller communities that are located in the center of the Eagle Ford Shale Play. The areas of Beeville, Kennedy and Cuero historically had a hotel inventory of approximately 452 rooms and an additional 376 rooms are expected to open over the next two years. This will have a secondary effect on the demand surge that Victoria has experienced over the last year as demand that overflowed to Victoria begins to be absorbed within the Eagle Ford Shale Play area.
- The competitive market ended 2010 with an occupancy level of 76%. As the market continues to feel the rebound from the recession and increase in commercial demand related to the Eagle Ford Shale play and Caterpillar, we anticipate strong performance in 2011 of 85%.
- Although demand growth is forecasted to stay strong in 2012 at 10.6%, occupancy will decrease to 80% due to the influx of new hotel supply in both Victoria and the Eagle Ford Shale area. Demand is expected to stay strong in 2013 and 2014 at 12.2% and 14.1%, respectively, due to the new group demand induced by the subject hotel and the opening of the Caterpillar plant. However, occupancies will continue to decline to more normal levels as the large amount of new supply is absorbed in the Victoria market, declining to 72% in 2013 and 64% in 2014. The decline is also caused by the majority of the Eagle Ford Shale demand being absorbed by the large number of hotels being added closer to the drilling sites. With no new additions to supply, the Victoria market will strengthen to 69% by 2016.

- The subject hotel is expected to achieve a strong competitive position within the local market. The proposed hotel is projected to receive more than its fair share of demand in all segments due to its brand, location and adjacent conference facilities. The proposed hotel and conference center is expected to achieve occupancy of 66% in 2014, its opening year, increase to 70% in 2015 and stabilize in its third year (2016) of operation at 74%.
- The market segmentation of the proposed hotel is, as follows:

<b>Hotel and Conference Center Victoria</b>			
<b>2016 Mix of Demand and Market Penetration</b>			
Market Segment	Room Nights	Ratio	Penetration
IBT	20,900	52%	75%
Leisure	1,800	4%	95%
Group	17,600	44%	225%
Total	40,300	100%	107%
Source: PKF Consulting USA			

- We expect the subject hotel will be positioned with a rate index of 127%, yielding an opening rate in 2014 of \$133.
- The proposed conference center is projected to achieve a utilization rate of 47%. According to national benchmarking reports for meeting facilities, utilization for similar sized facilities typically ranges from 46% to 54%. Based on our projections, the center would host approximately 533 events annually.
- The estimated operating performance for the proposed hotel and conference center is, as follows:

<b>Proposed Hotel and Conference Center</b>			
<b>Victoria, Texas</b>			
<b>Estimated Net Operating Income</b>			
Year	Annual Occupancy	Average Daily Rate	NOI
2014	66%	\$133(2)	\$1,689,000
2015	70%	\$136	\$1,882,000
2016	74%	\$139	\$2,073,000
2017	74%	\$142	\$2,098,000
2018	74%	\$145	\$2,122,000
(1) \$121 in 2011 dollars			
Source: PKF Consulting USA			

- Since the City of Victoria would prefer a privately developed and financed project, we have recommended a hotel with an adjacent conference center to be owned and operated by a private developer. We have included the conference center performance in the estimated hotel operating statements. Under this scenario, the owner's equity investment together with debt repayable from the project revenues would be used to finance the construction of the project. In order to obtain equity capital in a transaction of this nature, the project must generate sufficient cash flow to generate appropriate returns to hotel investors. Under current market conditions, a typical hotel investor would expect a leveraged return of approximately 20%.
- Often times these types of projects will fall short of the 20% investor return creating a funding gap. Cities have multiple ways to offer incentives to encourage private hotel development and minimize the gap. Methods include property tax abatements, hotel occupancy tax increases or rebates, creation of TIF or TIRZ districts, infrastructure improvements, parking development improvements and other fee exemptions. Often, some combination of these incentives is used to successfully move a project forward.

**SECTION II**  
**MEETING FACILITY OVERVIEW**

## **CONFERENCE CENTER DEMAND**

### **Social Demand**

Social event demand can be tied to the size of the local residential base of the surrounding area. Social demand is comprised of weddings, anniversaries, sporting tournaments, religious organizations, recreational/school sports banquets, high school proms, graduations and birthday celebrations. These social events tend to be one-day bookings tied to either a lunch or dinner banquet. The social demand may also consider meeting space in area restaurants, community centers and country clubs but is attracted to this type of meeting venue for price, decorating flexibility and catering options.

The local related banquets generate little, if any, economic impact for a community. However, they can be a significant source of rental and/or food and beverage revenue for a given facility. Sporting tournaments and weddings generally attract out-of-town visitors who spend money within the community on lodging, dining and recreational activities during their visit.

### **Local Meetings – City, County, Civic, Chamber**

A variety of civic clubs and non-profit organizations hold weekly and/or monthly meetings at conference centers, local hotels or local restaurants. The local civic clubs are normally associated with a state and regional chapter that hold annual meetings and events. Site selection for the annual event is normally determined on a bidding process with a local member promoting their community.

Cities and counties often have needs for meetings and although some might be held at City Hall or other public venues, others require offsite facilities. The events generated by these organizations may include annual trade shows, ceremonies, small meetings and banquets. Due to the fact that they generally serve local groups, these events generate little, if any, economic impact for a community but are invaluable to the needs of the community.

### **Meetings – Corporate, University and Association**

Most corporations have on-site meeting rooms for routine meetings but occasionally will opt to go off-site to a distraction-free environment to conduct training, planning or board meetings. Corporate meetings are usually held during the day and involve breakfast, lunch and coffee breaks and can range from one to three days. Demand is often generated from within the local community but, depending on drive-times, destination amenities and pricing, corporations will drive and/or fly outside the area for these events.

Trade, professional, educational, government and non-profit organizations have membership associations that meet for a convention and/or tradeshow annually. In addition, these groups also host regional conferences, board meetings and training sessions.

The conferences do not typically require large exhibition space, although some may have trade shows in support of the conference event. They require a general session room, banquet room and meeting rooms for seminars and breakout sessions. Conferences can generate a significant amount of new spending in the area economy if a large percentage of attendees originate from outside the local area. Conference visitors typically stay multiple nights in the host city and spend money on accommodations, food and beverage, retail goods, transportation and entertainment.

### **Consumer Shows**

Consumer shows cover a broad range of events that attract the general public to see the specific products or services on display. Typical shows include: arts and crafts, home and garden, auto, holiday bazaars and jewelry shows. These shows are normally two day events targeting sales and attendance from the residential base in the surrounding communities.

### **Entertainment**

Festivals, concerts and performances are often booked at convention/conference centers. With the exception of large festivals, entertainment events typically target local area residents from the surrounding communities and, therefore, generate only minimal economic impact. However, these events can have great importance with respect to a community's image and the quality of life of its residents.

## **COMPARABLE COMMUNITIES AND MEETING VENUES**

PKF Consulting researched Texas communities and selected MSA's similar in size and distance from major metro areas. Like Victoria, most of the communities selected are in drive-markets with either no airport or limited flight capacities.

**Longview, Texas** – Longview is located between Dallas, Texas and Shreveport, Louisiana and within an hour drive-time to any large metro area. Longview with a population of 78,200 is located within the Longview MSA with a population of 211,300. Two colleges are located in Longview: Kilgore College with an enrollment of 6,600 and Le Tourneau University with an enrollment of 3,100.

The Longview Convention complex is located on a 100-acre site near downtown and convenient to hotels and amenities. The Center includes three complexes including the 40,000-square foot Maude Cobb Convention and Activity Center, 25,000-square foot Exhibit Building and a 27,000-square foot Rodeo Arena with a capacity of 5,000. According to the CVB, the center captures approximately 75% of their demand from within the community, hosting consumer shows, banquets, meetings and festivals. They attribute approximately 25% of their demand to groups from outside the community that attend conferences, meetings, trade shows, livestock shows and rodeos.

**Wichita Falls, Texas** – Wichita Falls is located in North Texas on Interstate Highway 44 along the Oklahoma border and is situated about two hours from any major metro area. Wichita Falls has a population of 104,500 and falls within the Wichita MSA of 131,500. Wichita Falls is home to Midwestern State University which has an enrollment 6,300 and is part of the Lone Star Athletic Conference.

There is a Multipurpose Events Complex (MPEC) in Wichita Falls which includes the 57,100-square foot MPEC Events Center Exhibit Hall, 30,000-square foot Key Yeager Coliseum with 6,500 permanent seats, and the 50,000-square foot Agricultural Center used as an arena and livestock barn. The Coliseum is home to the NAHL Wildcats and serves the community with concerts, lectures, ceremonies and sporting events. It has been used to attract regional sports competitions including basketball, tennis, soccer, motocross, wrestling and rodeos. The Exhibit Hall is often used to host meetings, banquet and events. The City has been successful in attracting regional and state associations, hosting an average of approximately 20 groups annually.

**San Angelo, Texas** – San Angelo is located in West Central Texas and over four hours from any major metro area. San Angelo has a population of 93,200 and an MSA of 106,000. San Angelo is home to Angelo State University with an enrollment of approximately 6,400.

The San Angelo Convention Center was renovated and expanded in 2009. The facility has a large 12,000-square foot Exhibit Hall that is divisible by three and over 8,500 square feet of additional breakout rooms. According to the CVB, the facility has a high community usage for meetings, tradeshow and banquets. They host approximately 15 associations and meetings annually.

In addition, the city owns the Foster Communication Coliseum. The arena floor is 20,000 square feet and is equipped with permanent seating for 4,900. The multi-purpose arena is home to the San Angelo Rodeo and serves the community with concerts, ice shows, rodeos, circuses, family shows, consumer shows and sporting events.

## COMPARABLE MULTI-PURPOSE ARENAS

There is an interest by several community leaders to develop a multi-purpose arena in Victoria to host sporting events and community entertainment. The expansion and growing enrollment at the University combined with the improving community demographics certainly supports the need for considering this type of venue in the future. As observed in the data regarding comparable cities, arenas and conference facilities are often developed in phases. Part of our site selection was based on a location that has available land to expand facilities in the future. Due to the considerable costs associated with this type of facility, we encourage Victoria to look at the potential of a multi-purpose arena in the future and begin planning financial partnerships. We have provided a table below that summarizes a few comparable arena facilities and how they were funded within their respective communities.

<b>COMPARABLE MULTI-PURPOSE ARENAS</b>					
<b>LOCATION</b>	Allen, Texas	Beaumont, Texas	Katy, Texas	Garland, Texas	Goliad, Texas
<b>FACILITY NAME</b>	Allen Events Center	Ford Arena	Merrell Center	Garland Special Events Center	Goliad Events Center
<b>YEAR BUILT</b>	2009	2003	1995	2005	2011
<b>FACILITY DESCRIPTION</b>					
Facility Size	188,000 square feet	83,000 square feet	145,000 square feet	190,000 square feet	61,000 square feet
Arena Seating	8,600	9,700	7,200	7,500	2,000
Other Meeting Rooms	2,500 square feet of breakout rooms	48,000 sq. ft. exhibit hall	3,000 sq. ft. meeting room divisible by 3	18,000 square foot conference center 120 seat lecture hall Two break-out rooms	Small meeting room
Other adjacent facilities	Community Ice Rink	Ford Midway – includes a 45,000 practice arena and 9-acre paved midway Ford Fields – 12 championship youth softball/baseball fields	Robinson Rodeo Arena		Indoor track, community weight room, basketball gym
<b>DEVELOPMENT COSTS</b>	\$70 M	\$32 M	\$19 M	\$31.5 M	\$10 M
<b>OWNERSHIP FUNDING</b>	Allen Events Center City bonds funded by ½ sales tax	Jefferson County 2% Venue H.O.T.	Partnership between Katy Development Authority and the City of Katy. Funded by TIRZ and paid by property tax revenues generated by the Katy Mills Mall.	Garland I.S.D.	Goliad I.S.D.
<b>TENANTS</b>	Allen Americans (CHL) Allen Wranglers (IFL)	SE TX Mavericks (ABA)	Southern Indoor Football League, Houston Stallions	None	High school Sports Events



**SECTION III**  
**AREA OVERVIEW**

## INTRODUCTION

Historical economic and demographic trends provide part of the explanation for past lodging market performance, as well as a foundation for the future market. The current economic climate of a market area and estimates of likely future trends are an important consideration in estimating future hotel supply and demand.

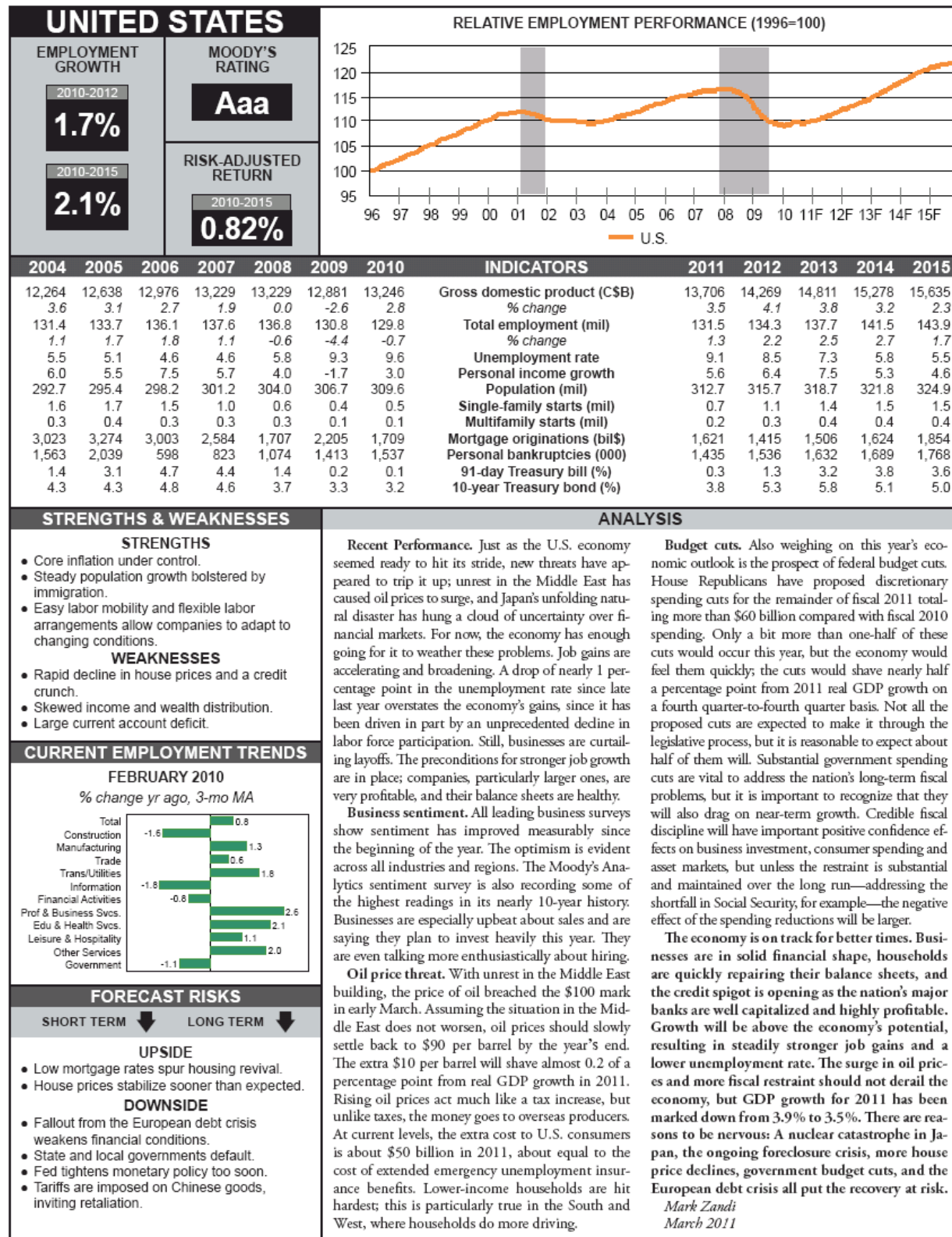
Victoria, centrally located in Victoria County at the convergence of U.S. highways 59, 77 and 87, is the county seat, the largest city in the central coastal region, and the commercial focus of the surrounding counties.

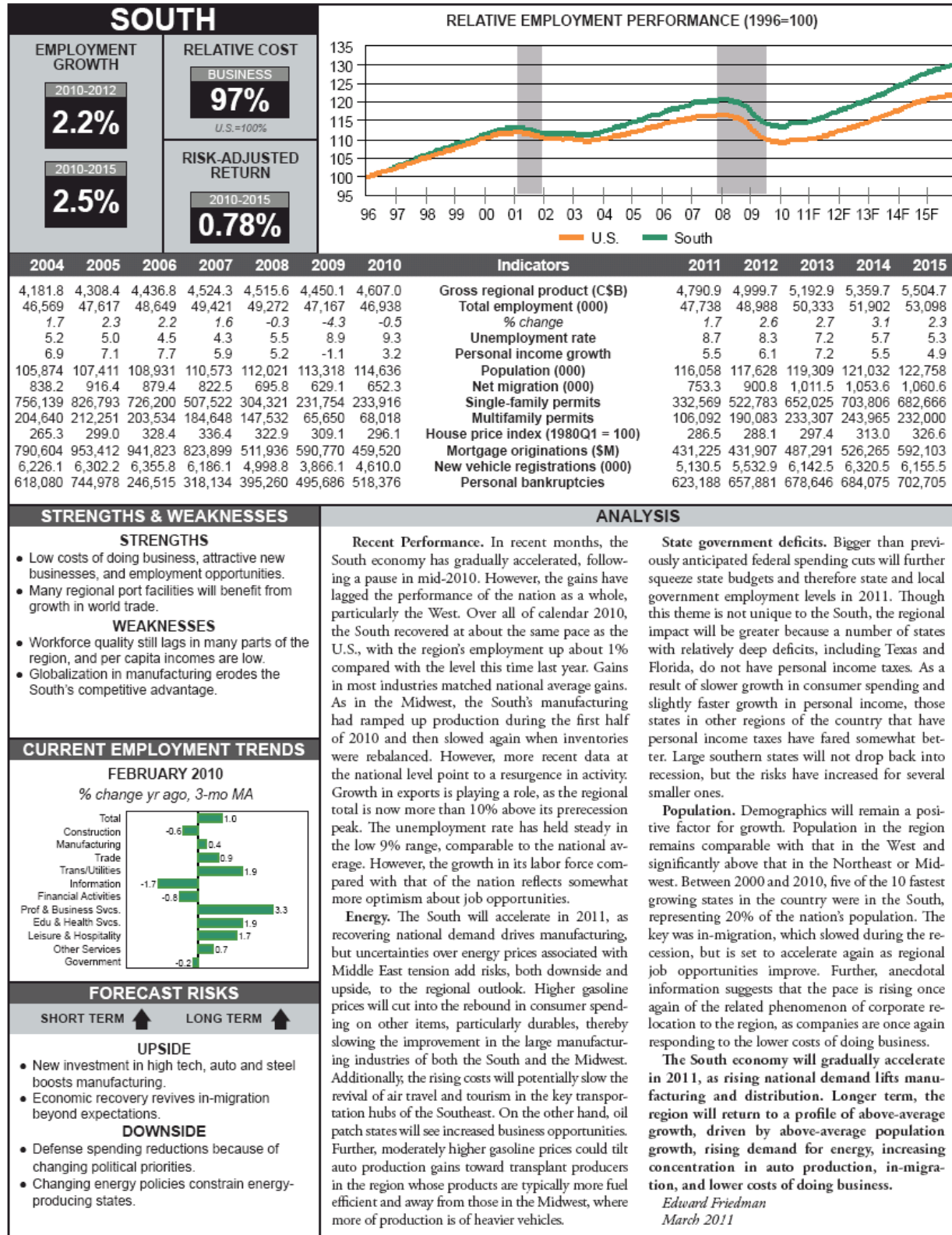
The Victoria Metropolitan Statistical Area consists of three Counties (Victoria, Goliad and Calhoun) in the Coastal Bend region of Texas. This area is also commonly referred to as the Golden Crescent which reaches outside of the Victoria MSA to include the counties of Lavaca, DeWitt, Jackson and Gonzales. The Golden Crescent Regional Planning Commission was formed to spur the development in the region and to assist local governments in carrying out regional plans and recommendations. The Golden Crescent area has a population of 188,626 and more than 4,000 employers.

## ECONOMIC AND DEMOGRAPHIC INDICATORS

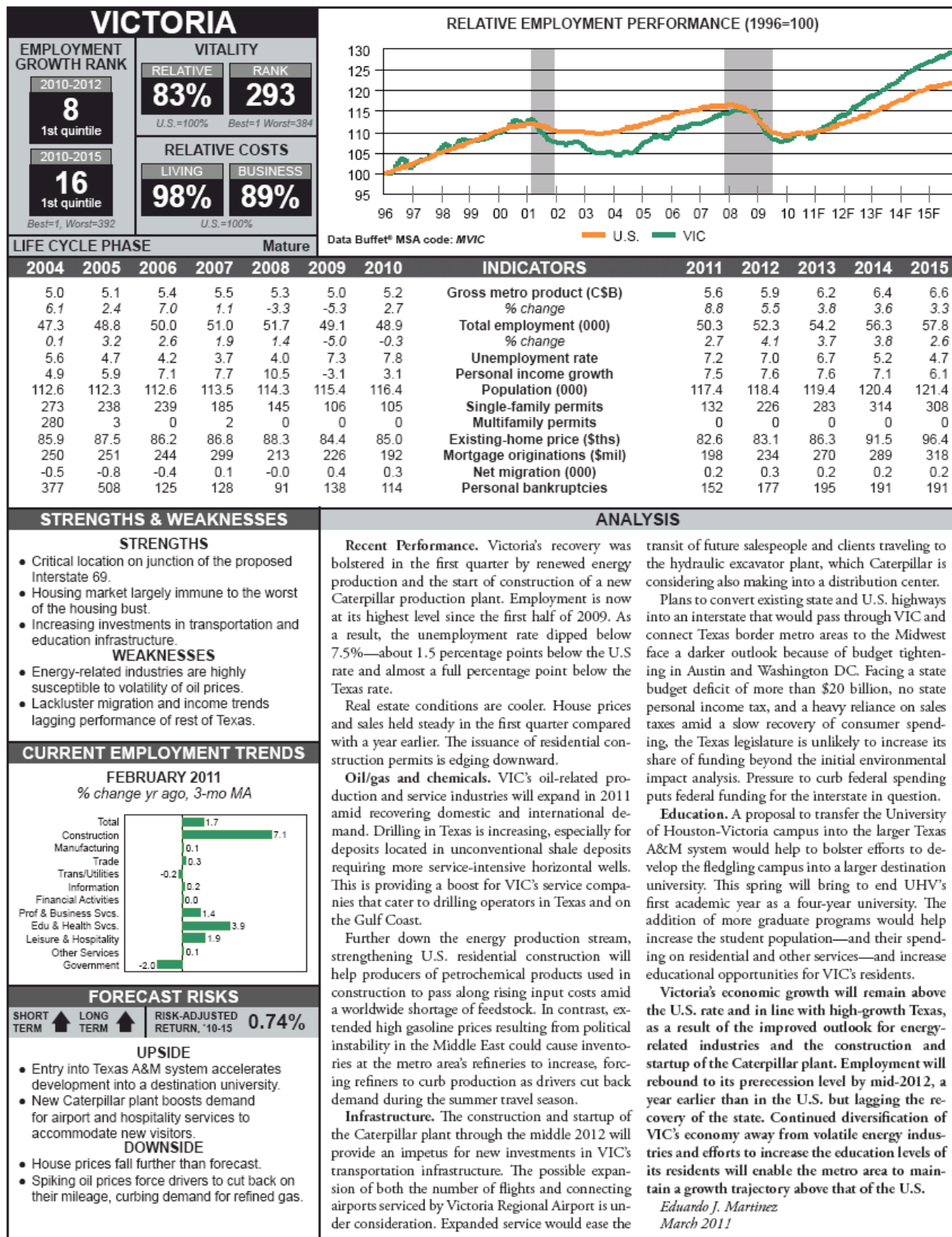
*Note: Economy.com provided the following demographic and economic data. Information relating to other topics has been obtained through a variety of media, including websites, publications, interviews or other sources considered reliable. PKF Consulting has reviewed and analyzed the Economy.com data.*

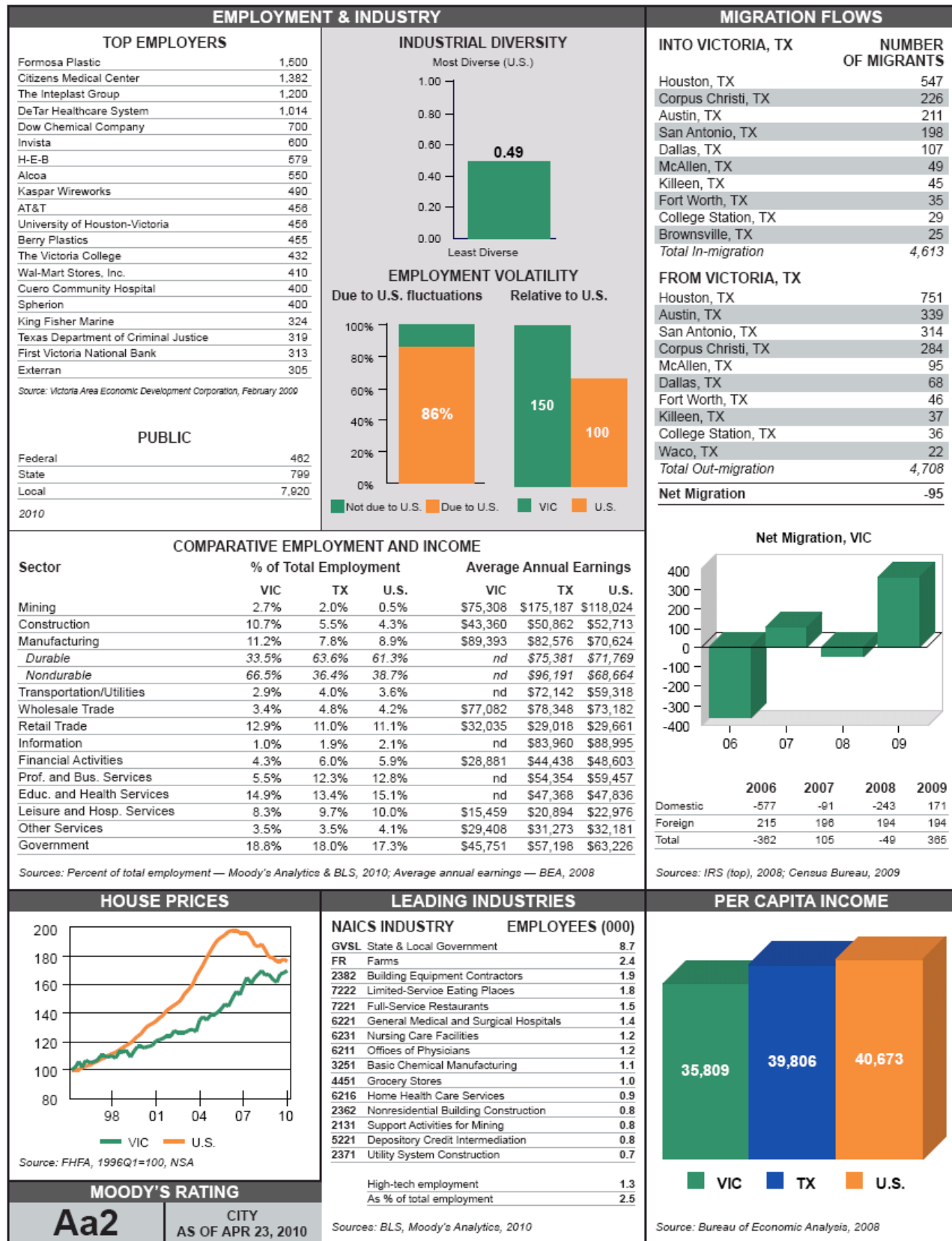
The following pages present an economic snapshot of the United States, South and the Victoria MSA, respectively.







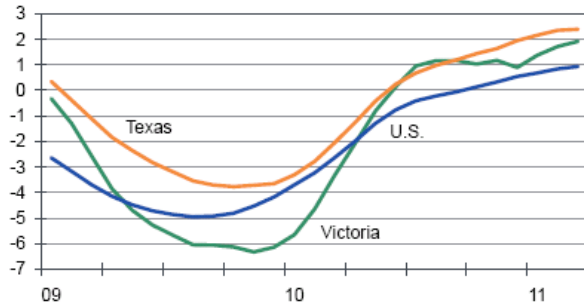




## VICTORIA

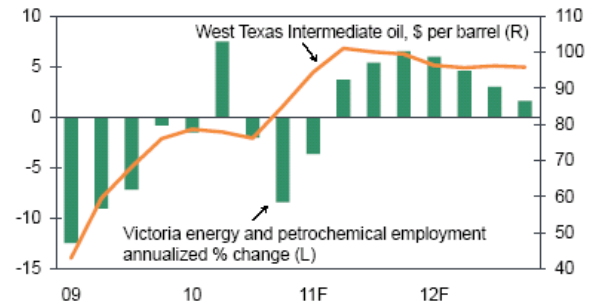
### Job Gains Strengthen Pace of Recovery

Employment, % change yr ago, 3-mo MA



Source: BLS

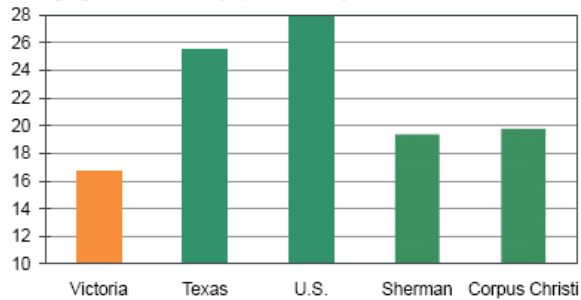
### Increased Demand Boosts Energy Output



Sources: BLS, Moody's Analytics, The Wall Street Journal

### University Expansion Will Lift Education Levels

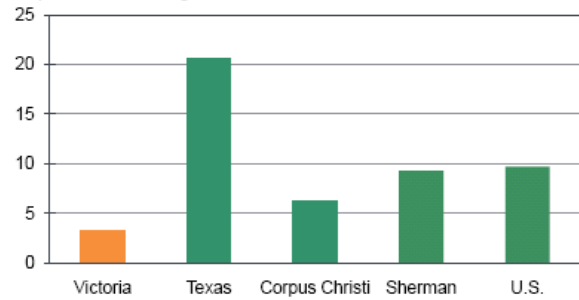
College graduates, % of population 25 yrs or older, 2009



Source: Census Bureau

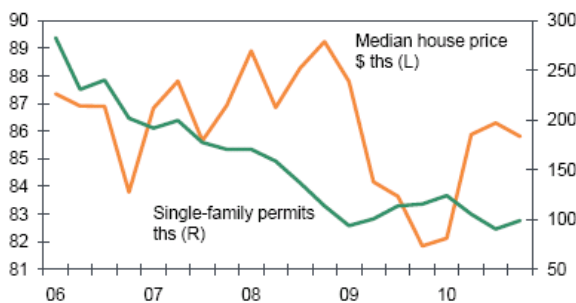
### Weak Population Growth in Most of Past Decade

Population, % change, 2000 to 2010



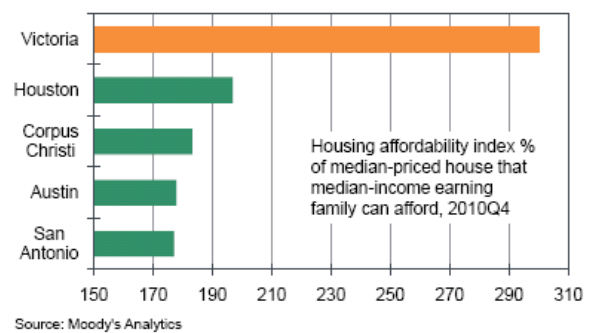
Source: Census Bureau

### Victoria's Housing Market Is Cooling...



Sources: Census Bureau, NAR, Moody's Analytics

### ...But Maintains Its Housing Affordability Edge



Source: Moody's Analytics

## VICTORIA ECONOMY

Victoria has a diverse economic base represented by manufacturing, petrochemical, medical and education. The economy has experienced recent advancements owed to renewed energy production and the start of construction of a new Caterpillar production plant. Employment is now at its highest level since the first half of 2009. As a result, the unemployment rate dipped below 7.5% which is about 1.5 percentage points below the U.S. rate and almost a full percentage point below the Texas rate.

All economic indicators point to a bright future for the Victoria economy. The table below highlights the major employers in the golden Crescent Region.

<b>Major Employers Golden Crescent Region</b>	
<b>Employer</b>	<b>Number of Employees</b>
Victoria ISD	2,178
Formosa Plastic	1,610
The Inteplast Group	1,400
Citizens Medical Center	994
DeTar Healthcare System	926
H.E.B.	646
Calhoun ISD	640
DOW-Seadrift Operations	617
King Fisher Marine	604
INVISTA	600
Victoria County	588
Spherion	585
ALCOA	580
City of Victoria	568
Cuero ISD	479
Victoria College	479
Kasper Wireworks	415
Gonzales ISD	414
Cuero Community Hospital	407
University of Houston Victoria	375
Source: Victoria Economic Development Corporation	

Victoria's oil-related production and service industries will expand in 2011 amid recovering domestic and international demand. Drilling in Texas is increasing, especially for deposits located in unconventional shale deposits requiring more service-intensive horizontal wells. This is providing a boost for Victoria service companies that cater to drilling operators in Texas and on the Gulf Coast. The Eagle Ford Shale play has had a large impact on Victoria in 2011 and is expected to impact the city for several years.

### Eagle Ford Shale Play

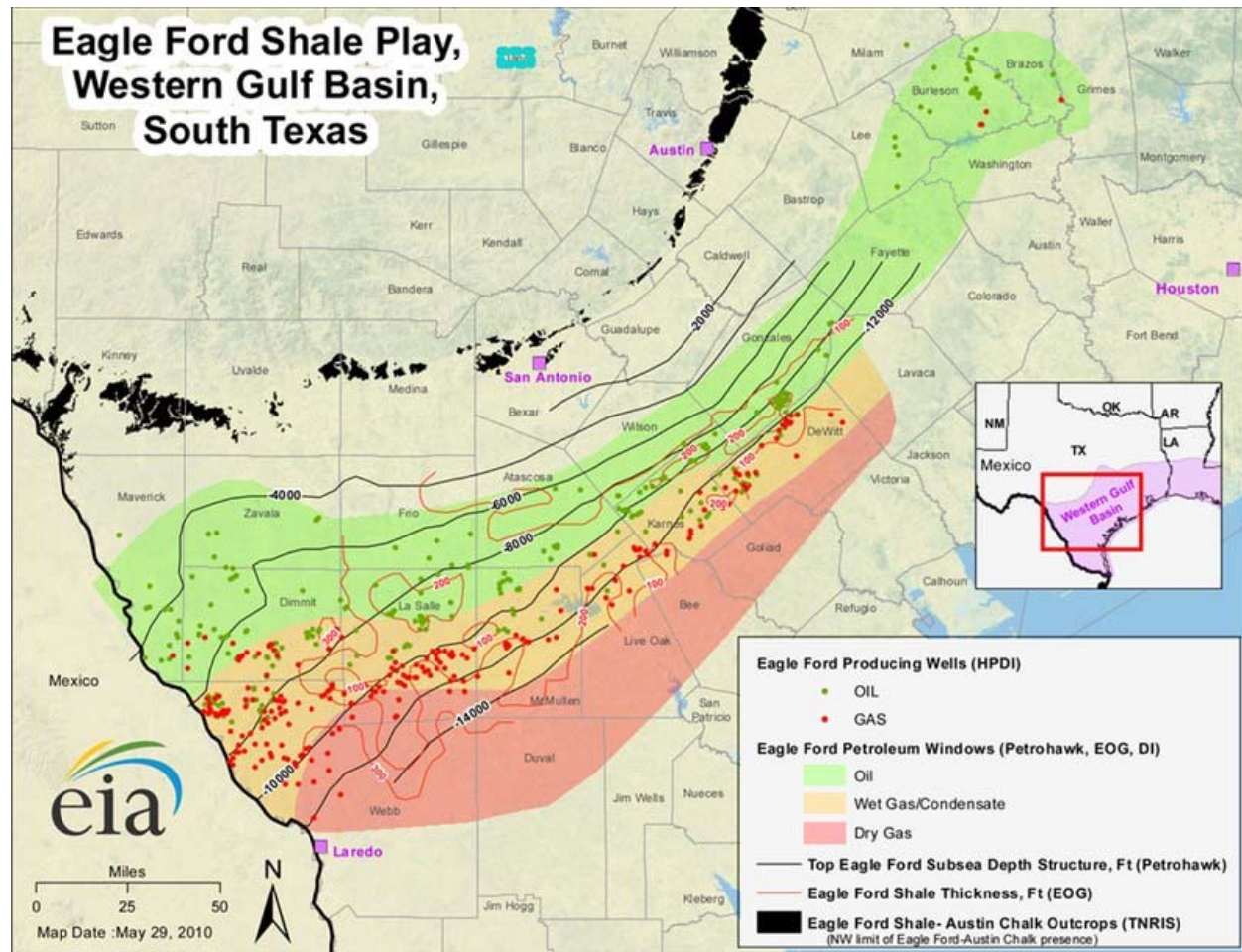
The Eagle Ford Shale takes its name from the town of Eagle Ford, Texas where the shale outcrops at the surface in clay form. The Eagle Ford is a booming shale play and current results indicate that there will be ongoing development activity for a long time to come.



Unlike many other shale plays, it does not exhibit natural fracturing within the formation, making the extraction of oil and gas more controllable. The Eagle Ford Shale Play also benefits from high liquid yields across much of the play. Higher oil prices have helped spur development as oil, condensate and NGLs (ethane, propane, and butane) all command better prices than natural gas.

The Eagle Ford Shale Play is a hydrocarbon producing formation of significant importance due to its capability of producing both gas and more oil than other traditional shale plays. It contains a much higher carbonate shale percentage, upwards to 70% in South Texas, and becomes shallower and the shale content increases as it moves to the northwest. The high percentage of carbonate makes it more brittle and “fracable”.

The formation produces from various depths between 4,000 and 12,000 feet. The shale play trends across Texas from the Mexican border up into East Texas, roughly 50 miles wide and 400 miles long with an average thickness of 250 feet. As indicated on the following map, Victoria is slightly outside of the heart of the shale and active well drilling. However, Victoria is one of the larger more developed communities near the drilling area and offers a good central location proximate to Houston which has several corporations using Victoria as a regional hub.



Over the past two years, some 30 companies have moved into the Eagle Ford Shale Play area. Significant oil and gas producers within the Eagle Ford Shale are listed in the following table.

<b>Eagle Ford Shale Play Significant Oil &amp; Gas Producers</b>	
<b>Company</b>	
Anadarko	
Apache Corp.	
BP	
Cabot Oil & Gas	
Chesapeake Energy	
ConocoPhillips	
El Paso	
EOG Resources	
Exxon-XTO	
Forest Oil	
Goodrich Petroleum	
Hilcorp Resources (Acquired by Marathon)	
Lewis Energy Group (BP Partner)	
Magnum Hunter Resources	
Marathon Oil	
Murphy Oil	
PetroHawk	
Pioneer Natural Resources	
Reliance	
Rosetta Resources	
Shell	
SM Energy (St. Mary Land & Exploration)	
Swift Energy	
Talisman	
Source: PKF Consulting USA, <a href="http://eaglefordshale.com">eaglefordshale.com</a>	

The first phase of this latest boom has accelerated over the past year. To relieve a bottleneck that producers say has begun to choke growth, pipeline companies in recent weeks committed more than \$1 billion to add 940,000-bpd of pipeline capacity by the end of 2012, according to Reuters estimates.

The latest project, announced in May, is an 80-mile extension of Enterprise Product's planned 350,000-bpd crude pipeline that will now stretch from Eagle Ford's heartland to a terminal in Houston. For now, truck drivers are working overtime to ferry oil from the region, which stretches across 22 counties in south Texas. Transport companies are retrofitting rigs, but often cannot find lodging for drivers as hotels and motels are booked a year in advance.

ConocoPhillips, which aims to triple its current output of 20,000 barrels of oil equivalent per day in the next few years, expects pipeline problems to be solved by 2013, the company said in its first-quarter 2011 earnings report.

### Caterpillar Plant

Caterpillar selected Victoria for their excavator plant now under construction. It recently announced an expansion which will bring the plant to 1,050,000 square feet at an estimated investment of \$200 million. Excavator production in Victoria is expected to begin in mid-2012. Once fully operational, the new facility will more than triple the capacity of hydraulic excavators produced by the company. The company has also considered the Victoria site for a distribution center.

Caterpillar has worked with the City of Victoria and has committed to a 320-acre development. It is likely that several suppliers and distributors will consider the Caterpillar campus in Victoria for operations and relocation of regional offices. Caterpillar's corporate office and plant facility in Aurora, Illinois estimates that they have approximately 15,000 visitors annually. According to local Caterpillar executives, they expect that the Victoria facility will attract visitors, distributors and employees. Based on the visitation at their Aurora, Illinois facility, it is likely the Caterpillar will attract between 3,000 to 5,000 visitors annually to Victoria.

### Education

The education system in Victoria and the Golden Crescent Region is also experiencing growth. Victoria ISD has an employment base of 2,178 and is an active part of Region 3.

Two colleges/universities are located in Victoria. Victoria College is an open admission two-year community college offering freshman and sophomore academic transfer courses, and a variety of one- and two-year technical training programs. The College also offers continuing education opportunities in a variety of subjects. In recent years, the College has responded to the needs of business and industry by offering a number of contract courses taught on the main campus and on-site.

The University of Houston-Victoria offers students an opportunity to obtain bachelor's degrees, master's degrees and professional certification programs in the fields of arts, sciences, business administration, education, human development and nursing. The University has athletic programs in baseball, softball, soccer and golf. In the 2010/2011 year, the University started an expansion program to add freshman and sophomore classes in order to become a four year University campus.

The first freshman and sophomore class exceeded expectations with a freshman/sophomore enrollment of 300. Strong growth projections are anticipated for the lower-classmen with over 900 students expected by 2015 to 2016. There is a proposal to transfer the University of Houston - Victoria campus to the larger Texas A&M system, which many believe would help bolster efforts to develop the fledgling campus into a larger destination university.

## **TRANSPORTATION**

### **Highways**

Victoria's premium location in the state of Texas puts the City in the geographic center (and within a two-hour drive) of three of the fastest growing cities in the United States – Austin, Houston and San Antonio. Victoria's excellent highway system includes U.S. 87, U.S. 77, U.S. 59 and easy access to Interstate Highways I-10, I-35, and I-37. This network connects Victoria to neighboring cities and places it in the center of the central coastal area.

### **Victoria Regional Airport**

Located on U.S. 59, five miles northeast of Victoria, Victoria Regional Airport offers daily commercial flights to Houston's George Bush Intercontinental Airport via Continental Airlines. However ticket costs, limited flights and connection times often force travelers to fly into San Antonio, Austin, Houston and Corpus Christi and make the 1.5 hour drive to Victoria. The increased activity in Victoria driven by drilling and Caterpillar may provide an impetus for new investments into Victoria's transportation infrastructure. The possible expansion of both the number of flights and connecting airports serviced by Victoria Regional Airport is under consideration.

### **Port of Victoria**

The Port turning basin area is situated on over 400 acres and is served by rail and four-lane divided highways. Major products transferred are liquid and dry bulk and general and project cargos. The Port recently formed an industrial park with multi-modal access. The park is located within a Free Trade Zone and a Texas Enterprise Zone.

## **TOURISM ACTIVITY**

Tourism to Victoria is driven by outdoor recreation offerings, historical attractions, performing arts and festivals. The downtown area of Victoria has undergone a transformation and new restaurants and retail tenants are moving into the historic downtown. Due to their location as a central hub for many rural communities, Victoria accommodates visitors that come into shop, dine and use the medical facilities. The City has invested the hotel occupancy tax dollars into promoting the city for weekend packages, golf, history and entertainment.

The central location as well as the variety of fields and sports complexes makes Victoria an appealing market for hosting tournaments. However, limited hotel supply makes it challenging to commit to group room blocks for out of town guests. There is existing demand at the Community Center and Victoria College for meetings and training. The Community Center estimates approximately 2,000 room nights are generated annually from events at their facility.

## **CONCLUSION**

According to Moody's Economy.com, Victoria's economic growth will remain above the U.S. rate and in line with high-growth Texas, as a result of the improved outlook for energy-related industries and the construction and startup of the Caterpillar plant. Employment is expected to rebound to its precession level by mid-2012. Continued diversification of Victoria's economy away from volatile energy industries and efforts to increase the educational level of its residents will enable the metro area to maintain a growth trajectory above that of the U.S.

**SECTION IV**  
**PROPERTY DESCRIPTION**

## SITE ANALYSIS

Potential sites were identified by the City of Victoria. With the revitalization occurring in downtown Victoria, a location in this district was considered but at the current time there are no suitably-sized sites available. The table below provides a brief summary of the eight sites that were evaluated. The location of each of the eight sites is identified on the map in Addendum B.

Site Summary			
Site Number	Location	Owner	Approximate Acreage
1	Zac Lentz Parkway & Spring Creek	Rosenquest Estate	173 Acres
2	Zac Lentz Parkway & Mallette	Good Earth Joint Venture	9.6 Acres
3	8505 North Navarro	City of Victoria	6 Acres
4	Mall Property	Hull-Storey Gibson Companies	100+ Acres
5	Houston Hwy. & Zac Lentz Parkway	Buhler	56 Acres
6	2905 North Street(Community Center)	City of Victoria	31 Acres
7	Huvar Drive & Dairy Road	City of Victoria	5 Acres
8	North Navarro & Broadmoor Street	Mac Haik	8 Acres
Source: City of Victoria, PKF Consulting USA			

Site Analysis Matrix								
	Site 1	Site 2	Site 3	Site 4	Site 5	Site 6	Site 7	Site 8
Accessibility (20 pts.)	13	13	12	15	15	10	13	14
Proximity to Demand (20 pts.)	8	8	12	12	15	8	13	12
Proximity to Amenities (15 pts.)	7	7	10	15	7	4	12	10
Visibility (15 pts.)	12	12	8	10	12	3	8	8
Surrounding Land Use (10 pts.)	6	6	5	9	7	4	7	7
Ability to Spur Additional Growth (10 pts.)	6	6	5	6	8	5	6	6
Site Flexibility, Size and Shape (5 pts.)	4	4	2	5	5	4	4	4
Land Ownership and Costs (5 pts.)	2	2	5	4	3	5	5	2
Total	58	58	59	76	72	43	68	63
Source: PKF Consulting USA								

As indicated in the matrix above, accessibility, proximity to demand sources, location relative to support amenities and visibility are key selection criteria for a hotel and conference center site. Most of the sites are on the north side of Victoria along Loop 463 (Zac Lentz Parkway). All had fairly equal access but highway visibility did vary. In addition, the sites that are within walking distance to the mall, restaurants and existing lodging supply achieve ranking premiums as most meeting planners look for convenience and “walkability” as key factors in selecting meeting venues.

Our analysis determined that there are two sites (Site 4 and Site 5) out of the eight that exhibit the characteristics most suited for a hotel and conference center development. If development challenges occur on the two recommend sites, Site 7 also has characteristics that would be well-suited for a hotel and conference center development.

The sites are in contrasting stages of development as Site 4 is located in an established and growing area of Victoria and Site 5 is located in a more speculative area that is still in the planning stages of development. Therefore, Site 4 provides less uncertainty but also has less impact on new ancillary development, while Site 5 has some development unknowns but has the ability to stimulate new ancillary development and economic growth. In finalizing a decision on the hotel and conference center site, the city will need to evaluate the strengths of each of the developer's plans, land costs and partnership opportunities. Site 4 is owned by a private developer that has indicated an interest in partnering with the city to make their site an affordable option for the hotel and conference center. Similarly, the real-estate group that is considering the purchase of Site 5 would like to partner with the city on the project and line up development partners. However, the land has not yet been acquired.

Site 4 ranked the highest due to its mall location in the center of the current development growth in the city. The site location is within an existing and growing mixed-used development along the potential John Stockbauer Drive extension between the Zac Lentz Parkway access road and East Larkspur Street. The potential new access road would enhance accessibility to the site, but a delay in its completion would not have a significant effect on the proposed hotel and conference center. Access to the site would be available via North Navarro Street, East Larkspur Street or Zac Lentz Parkway. Although not directly on the highway, a vertical hotel and elevated signage would likely be visible from the highway.

Site 4 is located within an established mixed-use shopping center that offers restaurants, retail and entertainment within walking distance. The recommended site also has acreage available for future expansion and does not limit growth. This area along the intersection of Spur 463 and North Navarro Street has been the most active area in Victoria for lodging, retail and restaurant growth over the last decade.

Site 5, the second highest ranked site, is located along Spur 463 (Zac Lentz Parkway) and Houston Highway (U.S. 59). It is located in a potential growth area that is being driven by the new Caterpillar plant. There has also been some preliminary discussion that the land adjacent to this intersection could be selected for future expansions by the University. The site is an undeveloped parcel that is planned as a mixed-use development including restaurants, multi-family housing, retail and lodging. The site has an attractive landscape which will likely be enhanced with a pond and water elements. The site is bordered to the north by Colony Creek County Club golf course and usage privileges have already been established.

Located along the Spur 463 and the Business 59 interchange, the site has easy on and off highway access to oilfield companies, the airport, downtown, the mall, area Colleges and hospitals. The disadvantages of this site are its early phase of development and its location within an emerging area that today offers limited amenities. However, if this site was selected for the hotel and conference center, it would likely spur ancillary development and be a key stimulant to expanded economic growth at this intersection.



## RECOMMENDED FACILITIES

Based on our fieldwork summarized in this report including the community survey responses, we recommend the following for a hotel and conference center.

### Proposed Hotel

We have recommended a select-service hotel positioning with enhanced design and services typically associated with a full-service hotel. The hotel would be positioned in the community as the only top-quality, meeting-related hotel offering first class service and amenities. We have projected a 2014 opening date for the hotel.

Recommended Hotel Facilities	
Type of Hotel	<ul style="list-style-type: none"> <li>Upscale, select-service hotel</li> <li>Recommended brands include Hilton Garden Inn, Hyatt Place, Marriott Courtyard and Sheraton Four Points</li> </ul>
Number of Guestrooms	<ul style="list-style-type: none"> <li>150</li> </ul>
Opening Date	<ul style="list-style-type: none"> <li>2014</li> </ul>
Meeting Space	<ul style="list-style-type: none"> <li>Board Room in hotel</li> <li>Conference Center attached to the hotel</li> </ul>
Food & Beverage	<ul style="list-style-type: none"> <li>Small lobby restaurant and lounge as dictated by the brand</li> </ul>
Recreational Amenities	<ul style="list-style-type: none"> <li>Outdoor pool</li> <li>Fitness center</li> <li>Business center</li> </ul>
Parking	<ul style="list-style-type: none"> <li>Surface parking</li> </ul>
Source: PKF Consulting USA	

### Proposed Conference Center

The proposed conference center will have a high quality finish out and be suited to attract meetings, conferences/conventions, religious and social groups with multiple day meetings and formal social events. The conference center should be managed by the hotel management company for consistent operations.

Recommended Victoria Conference Center		
Conference Center Space	Approximate Size	
Ballroom	12,000 sq ft	Divisible by five
Pre-function space	4,000 sq ft	
Meeting Rooms (5)	500 to 750 sq ft	
Total Net Usable Space	19,000 sq ft	
Total Gross Space	25,000 sq ft	
Amenities	Full Catering Kitchen	
	Multiple Restrooms	
	A/V Compatible	
	Storage	
Source: PKF Consulting USA		

The Victoria Community Center will continue to serve the needs of the community hosting consumer shows and price-sensitive social events. The Dome and Annex averaged 175 bookings with close to 50% utilization in 2010. Both the Dome and Annex averaged over 60% utilization on Friday and over 70% on Saturday. Although no formal system is in place to track lost business, the staff believes there is a lot of weekend displacement due to lack of availability. The 12,300-square foot Dome is currently rented for tradeshow, wrestling matches, festivals, dances, weddings and car shows. It also hosts a few regional association and religious groups that bring in attendees from outside the area.

## COMPARABLE FACILITIES

PKF Consulting has provided three comparable facilities that are similar to the type of development that we have recommended. Each of the hotels are connected to a conference center. These facilities have a dual purpose in supporting the needs of the community and economic vibrancy for the local lodging community by inducing group demand into the market.

### Hilton Garden Inn Duncanville Convention Center



The Duncanville facility was built in 2001 through a partnership between Second Century Investments and the City of Duncanville. To provide an incentive to develop a full-service hotel with convention space, the city donated 10-acres of land, provided a 20 year tax abatement of the city property tax, and approved a hotel occupancy tax rebate for the first five years of operation. The 14,000 square feet of conference space is attached to the hotel and all management, including food and beverage services, is provided by the hotel.

The facility was bought by Apple REIT in 2009 and is operated by Gateway Hospitality. According to hotel management, approximately 40% of the demand for the hotel is group related. The community and conference facility is competitively positioned to capture the social, military, family reunions, educational, religious and non-professional association groups.

### Hilton Garden Inn Lewisville Convention Center



The Lewisville facility was built in 2007 through a partnership between Second Century Investments and the City of Lewisville. Lewisville provided the 18-acre site as well as a \$3.7 million dollar interest free loan that would not come due until the eighth year of operation. In addition, the hotel occupancy tax was rebated to the property for 15 years and some property tax abatements were also offered.

The conference center consists of 17,000 square feet of meeting space that is connected to the Hilton Garden Inn hotel. The ballroom is 9,100 square feet which can accommodate an 800 person banquet or a theater style event for 1,100 people. The facility offers three board rooms and four additional breakout rooms ranging from 500 to 1,700 square feet. Lewisville has a strong commercial base which generates a lot of meetings and mid-week conference demand. On the weekends, the facility is marketed to social, educational, sports banquets and religious groups for conferences.

## **Hilton Garden Inn Texarkana**

The Texarkana Convention Center and adjoining Hilton Garden Inn broke ground in March of 2011 and is expected to open by June 2012. The site is located next to the Central Mall in Texarkana. The 20,000-square foot Texarkana Convention Center will have a 12,000- square foot ballroom that can be divided into four sections. In addition, there are six small break-out rooms and a large foyer for exhibits. The hotel will be attached to a 150-room Hilton Garden Inn.

The Convention Center is being funded through hotel occupancy tax funds which have been set aside solely for this purpose since 2005. No local taxpayer dollars will be used to fund the Convention Center project which will cost approximately \$7 million. The City of Texarkana will own the Convention Center and have entered into a 20 year management agreement with the hotel developers to manage and maintain the facility. A private developer will own the hotel and the land on which it is located. The hotel development is estimated at \$15 million.

## **CONCLUSION**

Our analysis determined that there are two sites that exhibit the characteristics most suited for a hotel and conference center development. Both sites are located on the north side of Victoria along Spur 463. One site is located in the center of the current growth area of Victoria while the other is in a new emerging area of Victoria stimulated by the Caterpillar plant. It is likely that the four miles between these two sites will develop over the next few years and more closely integrate the two areas. The city will need to work with both developers to further evaluate the sites and determine the strengths of each of the developer's plans, land costs and partnership opportunities.

We have recommended a select-service hotel positioning with enhanced design and services typically associated with a full-service hotel. The hotel will be positioned in the community as the only top quality meetings hotel offering first class service and amenities. The hotel will be connected to a conference center with approximately 19,000 square feet of usable meeting space. The conference center will have flexible meeting space with a high quality finish out positioned to attract meetings, conferences/conventions, religious and social groups with multiple day meetings and more formal social events.

**SECTION V**  
**MARKET ANALYSIS**

## **MARKET INTERVIEWS**

In order to understand the needs of the City of Victoria and the surrounding area, as well as the facilities needed in the market, PKF Consulting USA conducted a series of interviews.

### **Victoria Community Interviews**

City Manager  
Mayor Will Armstrong  
Council Members - Denise Rangel and Gabriel Soliz  
Victoria Community Center  
Chamber of Commerce  
Victoria County Commissioner  
Victoria Economic Development  
University of Houston – Victoria  
Victoria College  
Victoria Independent School District  
Hull-Storey Gibson Companies (Mall Ownership)  
Caterpillar

### **Hotel Interviews**

La Quinta Inn – Victoria  
Best Western – Victoria  
Fairfield Inn – Victoria  
Hampton Inn – Victoria  
Holiday Inn Express – Victoria  
Candlewood Suites - Victoria

### **Hotel Brand Interviews**

Intercontinental Hotels Group (IHG)  
Marriott International  
Hilton Hotels  
Hyatt Hotel Corporation

### **Interview Summary**

The community interviews all indicated the need for and support of a better quality hotel in addition to meeting space. Many of the supporters believe that this development would be an enhancement to the city and possibly spur future development.

The hotel operators expressed the strength of the lodging market and attributed the high demand levels to the Eagle Ford Shale activities. The hotel community expressed the need for developments that increase weekend tourism including activities, attractions and additional sports facilities.

## **COMMUNITY SURVEY**

To better understand the City of Victoria and the demand sources located nearby, PKF conducted a survey of local businesses and organizations with the help of the Victoria Chamber of Commerce and Victoria Economic Development Corporation. PKF received 200 responses (10%) of the approximately 2,000 individuals who received the online survey. Typically, response rates vary from five to 10 percent of individuals who receive an online survey. A full detailed copy of the survey results can be found in Addendum A of this report.

### **Survey Summary**

There are a sizeable number of gala/banquet events and meeting/training needs in the market. Almost 50% of those surveyed indicated that they hold one to three of these types of events on an annual basis. Approximately 30% of those surveyed indicated that trade shows, conferences and other events are held annually by their organizations. Most of the events are currently being held at local restaurants, country clubs, Victoria College and the Victoria Community Center. Approximately 27% of those surveyed indicated that they hold their events outside of the Victoria area, indicating a loss of demand that could be captured by the proposed hotel and conference center.

Most of the meeting events have an average attendance of 50 to 200 people, while banquets range between 200 to 400. The survey indicated that a ballroom would need to accommodate larger groups up to 600 but provide flexibility to be divided into smaller sections for groups between 50 and 200.

The majority of the current events indicate a local attendance with fewer than 25 hotel rooms required. However, some meetings and conferences have more of a regional attendance with a need for a block of 25 to 75 hotel rooms. Most of those surveyed have a hotel room rate budget of \$100 to \$125 while almost 25% indicated they would be willing to pay \$125 to \$150 for their events.

New induced demand would be generated if a new facility was developed. Respondents (53%) indicated that they are involved in an organization that would consider bringing events to Victoria. Small meeting demand for groups of 100 or less was the most noted potential need followed by conferences/conventions ranging in size from 200 to 400. In addition, several indicated that they could attract 100 to 200 for social, banquet and sporting events to the area to support a new facility.

## **COMPETITIVE LODGING SUPPLY**

Victoria has 17 lodging facilities that are all classified as budget and limited-service hotels. Based upon our review of the area, we have identified six hotels containing 474 rooms as the subject hotel's primary competitive set. All of the competitive hotels are located on the north side of Victoria and are chain-affiliated properties with quality national brands. The location of the competitive hotels is shown on the map in Addendum C.

These properties were included in the competitive supply based upon their location, facilities, brand affiliation, markets served and/or average daily rates (ADR). Although the degree of competition offered by each hotel varies by property and market segment will vary, it does provide a historical perspective of lodging performance trends within Victoria. The following table lists the competitive properties.

<b>Primary Competitive Hotels</b>			
<b>Property</b>	<b>Year Built</b>	<b>Number of Rooms</b>	<b>Total SF Meeting Space</b>
La Quinta Inn & Suites	1984	130	0
Fairfield Inn Victoria	1995	64	0
Best Western Victoria Inn & Suites	2005	54	0
Hampton Inn Victoria	2005	68	500
Holiday Inn Express	2008	76	800
Candlewood Suites Victoria	2009	82	0
<b>TOTAL/AVERAGE</b>		<b>474</b>	<b>233</b>

## HISTORICAL MARKET PERFORMANCE

### Historical Performance of the Competitive Supply

The following table highlights the historical performance for the competitive set for the period 2006 through 2010 and May 2011 year-to-date.

<b>Historical Market Performance of the Competitive Supply</b>									
<b>Year</b>	<b>Annual Supply</b>	<b>Percent Change</b>	<b>Occupied Rooms</b>	<b>Percent Change</b>	<b>Market Occupancy</b>	<b>Average Daily Rate</b>	<b>Percent Change</b>	<b>REVPAR</b>	<b>Percent Change</b>
2006	115,340	N/A	84,140	N/A	72.9%	\$73.64	N/A	\$53.72	N/A
2007	115,340	0.0%	91,768	9.1%	79.6%	77.65	5.5%	61.78	15.0%
2008	140,890	22.2%	109,910	19.8%	78.0%	91.88	18.3%	71.68	16.0%
2009	165,710	17.6%	103,262	-6.0%	62.3%	92.94	1.2%	57.91	-19.2%
2010	173,010	4.4%	131,239	27.1%	75.9%	94.21	1.4%	71.46	23.4%
CAAG	10.7%		11.8%			6.4%		7.4%	
10' YTD May	71,574	N/A	50,696	N/A	70.8%	\$92.44	N/A	\$65.48	N/A
11' YTD May	71,574	0.0%	61,144	20.6%	85.4%	105.17	13.8%	89.84	37.2%

Source: PKF Consulting USA, Smith Travel Research

Market occupancy averaged 73.7% during the 2006 to 2010 period. Demand, as measured by occupied rooms, has been positive in all years with the exception of 2009 which was impacted by the national recession and decreased corporate travel. The market showed recovery in 2010, increasing occupied rooms by 27.1%. This surge in demand is reflective of the recovery from the economic recession and the activity associated with the Eagle Ford Shale exploration. Further indication of the impact on demand related to the Eagle Ford Shale is indicated by the year-to-date through May 2011 demand growth of 20.6% and 85.4% occupancy.

Average daily rate for the competitive supply has increased at a compound average annual rate of 6.4% since 2005. Different than the majority of the U.S. lodging markets, ADR was not impacted by the national recession and positive ADR growth has occurred since 2006. The current level of demand in the market related to the oil and gas industry has placed a rate premium on rooms with ADR as of May 2010 up 13.8%.



The competitive market has experienced strong supply growth, averaging 10.7% compound annual growth over the 2006 to 2010 period. We note that 158 rooms or 33% of the competitive supply entered the competitive market in 2008 and 2009.

## **FUTURE ADDITIONS TO SUPPLY**

The strong historical occupancy and ADR trends in the market have created an interest in Victoria and the surrounding area by hotel developers. PKF Consulting has spoken with the major hotel brands to identify the new additions that have solid financing and will likely develop over the next few years. These projects will double the competitive room supply on the north side of Victoria during the projection period.

We have summarized the properties below but have not listed their exact locations due to current land negotiations and confidentiality.

- 88-room Studio 6 – June 2012
- 80-room Hilton Home2 Suites – June 2012
- 110-room Marriott Courtyard – June 2013
- 150-room Subject Hotel – January 2014

There has also been a lot of development interest in smaller communities that are located in the center of the Eagle Ford Shale play. The areas of Beeville, Kennedy and Cuero historically had a hotel inventory of approximately 452 rooms which contained mostly low-end independent hotels or brand-affiliated economy lodging. Several small extended stay, non-branded hotels and some limited-service developments are being planned as a response to the lodging demand needs related to the Eagle Ford Shale. We have spoken with these communities as well as with the major hotel brands and determined that an additional 376 rooms are expected to be delivered over the next few years. This will have a secondary effect on the demand surge that Victoria has experienced over the last year as demand that overflowed to Victoria begins to be absorbed within the Eagle Ford Shale Play area.

We have provided a summary of the projects located in the region that will provide lodging alternatives to corporations and workers related to the drilling.

- Goliad – 40-room Best Western
- Beeville - 80-room Hampton Inn, 70-room Fairfield Inn
- Kennedy – 30-room Royal Inn, 80-room independent extended stay hotel
- Cuero – 56-room Best Western

## MARKET DEMAND

### Mix of Demand

The following table summarizes the competitive market's mix of demand in 2010.

<b>Competitive Set</b>		
<b>2010 Mix of Demand</b>		
Market Segment	Room Nights	Ratio
IBT	103,200	79%
Leisure	6,600	5%
Group	21,500	16%
Total	131,000	100%

Source: PKF Consulting

The largest market demand segment for the total competitive set is the Individual Business Traveler (IBT) with 79%, followed by Group (16%) and Leisure (5%).

### IBT Demand

The IBT segment has historically been the largest source of lodging business in the market representing 79% of the demand. IBT demand is related to the economic base of the Golden Crescent area which is heavily concentrated in medical, petro chemical and education. The Eagle Ford Shale activity and drilling has impacted IBT demand levels and is expected to continue over the next several years. Construction activity related to Caterpillar's infrastructure has occurred in 2011 but visitor activity including salespeople, customers and employees is likely to begin in mid-2012 and into 2013.

We anticipate the IBT growth experienced in the first five-months of 2011 will stay strong with a growth rate of 15% projected for the year. Demand is expected to grow by 4% from 2012 through 2014, as Caterpillar enters the market. Slightly downward adjustments have been applied to 2015 (2%) and 2016 (1%) to account for a slowdown in the Eagle Ford Shale demand. We have considered the impact of the lodging supply in the rural communities listed above and altered our growth rates to reflect their impact.

Historical lodging trends indicate strong mid-week occupancies and unaccommodated market demand during weekdays. In addition, when new hotels are added to a market with new brand affiliations, they usually attract new business demand to the market through their national marketing and reservation systems and frequent traveler programs. We have projected 27,000 room nights of induced demand relating to the new supply additions during the 2010 to 2016 projection period.

### Leisure Demand

Leisure hotel demand currently represents 5% of the lodging market in Victoria. It is typically made up of families and couples visiting the Victoria area for a weekend, an extended weekend or during festivals and special events. Residential relocations are improving in Victoria related to company relocations with the Eagle Ford Shale play and Caterpillar. In addition, leisure demand will be positively impacted by the student population growth related to the expansion at the University. As the University grows, sporting events and special events will likely draw additional families and visitors.

Moderate but steady leisure demand growth of 3% is projected for 2010 and throughout the forecast period. We have estimated 3,000 room nights of induced demand owed to the new additions to hotel supply.

### **Group Demand**

Group demand represents 16% of the lodging market in Victoria. Group demand is mostly associated with weddings, sports activity and social events. The group market has previously been underserved in the Victoria area due to the lack of a full-service hotel with adequate meeting space.

The Community Center tracks some of the lodging demand associated with events held at their facility and estimate that they generate approximately 2,000 room nights annually. There is some training demand in the market as several corporations and organizations utilize Victoria College for certification and continuing education programs. According to the College, the central location within the region is very attractive to organizations that conduct training activity and they currently receive more requests than can be accommodated within their facility. The hospitals and Regency Nursing & Rehabilitation Center also have regular training and educational programming for groups. Additionally, the survey indicated a strong presence of meeting and training activities.

We have projected Group demand to grow at 3% in 2011 and 2012, 4% in 2013 and 5% thereafter with the opening of the proposed hotel and conference center. The supply additions will alleviate the demand pressures and hotel management will again be willing to work on attracting sporting groups into the market. In addition, the proposed hotel and conference center will add a new dimension to the group market by offering meeting facilities. We have projected 12,000 group room nights of induced demand in the first year that the hotel opens, 4,000 room nights in the second year and 2,000 room nights in the third year to account for the ramping up of new group demand. The induced demand is supported by our market interviews and survey results summarized in this report.

### **Key Assumptions**

The key assumptions related to future market growth are, as follows:

- Economic stability and recovery continues in the Texas market in general and the Victoria MSA in particular.
- The Oil and Gas exploration in the Eagle Ford Shale Play continues for the foreseeable future.
- Caterpillar plant remains a growing force in the economy with an opening mid-year 2012.
- No major terrorist events or wars occur that have a material adverse impact on local travel volume.

- No natural disasters, such as major hurricanes, disrupt the local economy during the projection period.
- There are no new additions to the competitive supply other than noted previously.

## **FUTURE GROWTH IN LODGING DEMAND**

Based upon our understanding of the local hotel market, we have projected future occupancy for the competitive set of hotels. The competitive market ended 2010 with an occupancy level of 76%. As the market continues to feel the rebound from the recession and increase in commercial demand related to the Eagle Ford Shale play and Caterpillar, we anticipate strong performance in 2011 of 85%.

Although demand growth is forecasted to stay strong in 2012 at 10.6%, occupancy will decrease to 80% due to the influx of new hotel supply in both Victoria and the Eagle Ford Shale area. Demand is expected to stay strong in 2013 and 2014 at 12.2% and 14.1%, respectively, due to the new group demand induced by the subject hotel and the opening of the Caterpillar plant. However, occupancies will continue to decline to more normal levels as the large amount of new supply is absorbed in the Victoria market, declining to 72% in 2013 and 64% in 2014. The decline is also caused by the majority of the Eagle Ford Shale demand being absorbed by the large number of hotels being added closer to the drilling sites. With no new additions to supply, the Victoria market will strengthen to 69% by 2016.

The following table reflects the market performance projections for 2011 to 2016.

<b>Victoria Hotel &amp; Conference Center</b> <b>Competitive Market</b> <b>Estimated Future Growth in Lodging Supply and Demand</b> <b>2010 - 2016</b>							
	2010	2011	2012	2013	2014	2015	2016
<b>ROOMS SUPPLY</b>	454						
<b>Additions/(Deletions) to Supply</b>							
Victoria Hotel & Conference Center					150		
Primary Competition	20						
Studio 6			44	44			
Home2 Suites			40	40			
Marriott Courtyard				50	55		
Cumulative Rooms Supply	474	474	558	692	897	897	897
Total Annual Rooms Supply	173,010	173,010	203,670	252,580	327,405	327,405	327,405
Growth Over the Prior Year	4.4%	0.0%	17.7%	24.0%	29.6%	0.0%	0.0%
<b>DEMONSTRATED DEMAND IN BASE YR</b>	<u>2010</u>						
IBT	103,152	79%					
Leisure	6,562	5%					
Group	21,526	16%					
TOTAL DEMONSTRATED DEMAND	131,239	100%					
<b>INDUCED/(UNSATISFIED) DEMAND</b>							
IBT		0	10,000	12,000	5,000	0	0
Leisure		0	0	1,500	1,500	0	0
Group		0	0	0	12,000	4,000	2,000
TOTAL INDUCED/(UNSATISFIED) DEMAND		0	10,000	13,500	18,500	4,000	2,000
<b>GROWTH RATES</b>							
IBT		15.0%	4.0%	4.0%	4.0%	2.0%	1.0%
Leisure		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Group		3.0%	3.0%	4.0%	5.0%	5.0%	5.0%
<b>PROJECTED DEMAND</b>							
IBT							
Demonstrated	103,152	118,625	123,370	138,704	156,733	164,967	166,617
Induced/(Unsatisfied)	0	0	10,000	12,000	5,000	0	0
Total	103,200	118,600	133,400	150,700	161,700	165,000	166,600
Growth Over Prior Year	N/A	14.9%	12.5%	13.0%	7.3%	2.0%	1.0%
Leisure							
Demonstrated	6,562	6,759	6,962	7,170	8,931	10,743	11,066
Induced/(Unsatisfied)	0	0	0	1,500	1,500	0	0
Total	6,600	6,800	7,000	8,700	10,400	10,700	11,100
Growth Over Prior Year	N/A	3.0%	2.9%	24.3%	19.5%	2.9%	3.7%
Group							
Demonstrated	21,526	22,171	22,836	23,750	24,937	38,784	44,923
Induced/(Unsatisfied)	0	0	0	0	12,000	4,000	2,000
Total	21,500	22,200	22,800	23,700	36,900	42,800	46,900
Growth Over Prior Year	N/A	3.3%	2.7%	3.9%	55.7%	16.0%	9.6%
Total Market Demand	131,300	147,600	163,200	183,100	209,000	218,500	224,600
Growth Over Prior Year	N/A	12.4%	10.6%	12.2%	14.1%	4.5%	2.8%
<b>Market Occupancy</b>	<b>76%</b>	<b>85%</b>	<b>80%</b>	<b>72%</b>	<b>64%</b>	<b>67%</b>	<b>69%</b>
Source: PKF Consulting USA							

**SECTION VI**  
**ESTIMATED SUBJECT HOTEL PERFORMANCE**

## **HOTEL PERFORMANCE METHODOLOGY**

In formulating our estimates of the subject property's position in the competitive market, we considered its fair market share and potential ability to penetrate the market. Fair market share is defined as the percentage of demand allocated to a given property based on its ratio of available guestrooms to the total number of rooms in the competitive market. For example, the proposed hotel has 150 rooms of the competitive market's 897 available rooms (in 2014), equating to a fair market share of 16.7% (150 divided by 897).

Market penetration is based on the attributes of a hotel relative to the competitive market. It is defined as the percentage of fair market share demand allocated to a property on the basis of such competitive characteristics as location, appearance, and management expertise, physical condition, marketing orientation, rate structure, age, brand affiliation, reputation, size, facilities and amenities. Factors indicating that a property will possess competitive advantages suggest a market penetration in excess of 100% of fair market share, while competitive disadvantages are reflected in penetration rates of less than 100%.

## **EXPECTED HOTEL COMPETITIVE POSITION**

Estimated future occupancy rates at the proposed subject property are based upon an evaluation of its expected future advantages and/or disadvantages relative to the competitive hotels within the context of estimated levels of future supply and demand. The proposed subject hotel is expected to achieve a strong competitive position in the future competitive lodging market, as follows:

- The project will be the only select-service hotel upgraded with full-service amenities including food and beverage and meeting facilities in the Victoria MSA.
- The hotel will be the only property within the competitive set offering significant meeting space to accommodate groups in Victoria.
- The proposed hotel and conference center will be located in a planned, mixed-use development with supporting amenities including restaurants, entertainment and retail.
- The hotel will maintain a franchise affiliation with one of the major brands: Hilton, Hyatt, Marriott or Starwood.
- The property will be operated by a professional management firm with experience operating group hotels.

## ESTIMATED HOTEL PENETRATION

The subject hotel is expected to achieve a strong competitive position within the local market. The proposed hotel is projected to receive more than its fair share of demand in all segments due to its brand, location and adjacent conference facilities. The proposed hotel and conference center is expected to achieve occupancy of 66% in 2014, its opening year, increase to 70% in 2015 and stabilize in its third year (2016) of operation at 74%. Upon stabilization, the subject hotel is estimated to penetrate the market at 107% of its fair share.

A large portion of the IBT demand in the market is related to Eagle Ford Shale and is more aligned to the highway location and lower-priced, economy and limited-service hotels. We anticipate the hotel will induce some IBT demand from outside the area as well as capture the top-tier corporations and travelers in the market, resulting in an IBT penetration of 75% in the stabilized year. An affiliation with a major franchise affiliation is important for the hotel to attract a base of mid-week corporate demand.

The group segment will represent 44% of the hotel's demand, a result of induced demand created by the hotel. Group room nights in the market are expected to almost double as a result of the hotel. The proposed hotel will have a group segment penetration of 225% in the stabilized year since it will penetrate most of the pre-existing group demand and capture almost all of the projected induced demand.

The hotel will be well-positioned to capture the leisure demand associated with festivals, weddings, medical and college and university events. Some of the highway leisure demand staying in Victoria as an intermediate point is more price-sensitive and not a large source of demand for the proposed hotel. We have projected the hotel to achieve a 95% leisure penetration in the stabilized year.

Our estimates of penetration by market segment for the proposed 150-room Hotel and Conference Center in Victoria is presented in the following table.



<b>Victoria Hotel &amp; Conference Center</b>			
<b>Market Penetration and Projected Occupancy</b>			
	2014	2015	2016
TOTAL ROOM NIGHTS AVAILABLE			
<b>Victoria Hotel &amp; Conference Center</b>	<b>54,750</b>	<b>54,750</b>	<b>54,750</b>
Competitive Market	327,405	327,405	327,405
	=====	=====	=====
Fair Share of Supply	16.7%	16.7%	16.7%
	=====	=====	=====
ESTIMATED TOTAL MARKET DEMAND			
IBT	161,700	165,000	166,600
Leisure	10,400	10,700	11,100
Group	36,900	42,800	46,900
	-----	-----	-----
TOTAL	209,000	218,500	224,600
	-----	-----	-----
FAIR SHARE OF DEMAND			
IBT	27,000	27,600	27,900
Leisure	1,700	1,800	1,900
Group	6,200	7,200	7,800
	-----	-----	-----
TOTAL	34,900	36,600	37,600
	-----	-----	-----
SUBJECT PENETRATION			
IBT	80%	75%	75%
Leisure	90%	95%	95%
Group	210%	220%	225%
	-----	-----	-----
ROOM NIGHTS CAPTURED			
IBT	21,600	20,700	20,900
Leisure	1,600	1,700	1,800
Group	13,000	15,700	17,600
	-----	-----	-----
TOTAL CAPTURED DEMAND	36,200	38,100	40,300
	=====	=====	=====
MARKET SHARE CAPTURED	17.3%	17.4%	17.9%
<b>OVERALL MARKET PENETRATION</b>	<b>104%</b>	<b>104%</b>	<b>107%</b>
	-----	-----	-----
<b>SUBJECT OCCUPANCY</b>	<b>66%</b>	<b>70%</b>	<b>74%</b>
	-----	-----	-----
MARKET MIX			
IBT	60%	54%	52%
Leisure	4%	4%	4%
Group	36%	41%	44%
	-----	-----	-----
TOTAL	100%	100%	100%
	=====	=====	=====
Source: PKF Consulting USA			

## ESTIMATED HOTEL MARKET SEGMENTATION

The subject hotel is expected to capture the following mix of demand.

Hotel and Conference Center Victoria			
2016 Mix of Demand and Market Penetration			
Market Segment	Room Nights	Ratio	Penetration
IBT	20,900	52%	75%
Leisure	1,800	4%	95%
Group	17,600	44%	225%
Total	40,300	100%	107%
Source: PKF Consulting USA			

## ESTIMATED HOTEL AVERAGE DAILY RATE

The local ADR of the competitive set is expected to be \$105 in 2010 with the better hotels yielding ADR levels close to \$120. Rates have been artificially inflated due to the current imbalance in supply and demand. Once new supply is delivered into the market in 2012 to 2014, we expect rates will have a slightly downward revision and revert back to normal levels for limited-service hotels. We are forecasting the market ADR in 2014 will adjust to approximately \$100. We expect the subject hotel will be positioned with a rate index of 127%, yielding an opening rate in 2014 of \$133. We have applied an inflationary growth rate of two percent for each year thereafter. The table below reflects the ADR and performance projections for the proposed subject hotel.

Victoria Hotel and Conference Center			
Estimated Performance			
Year	Occupancy	ADR <sup>(1)</sup>	RevPar <sup>(1)</sup>
2014	66%	\$133 <sup>(2)</sup>	\$88
2015	70%	\$136	\$95
2016	74%	\$139	\$103
2017	74%	\$142	\$105
2018	74%	\$145	\$107
(1) Rounded: Stated year dollars			
(2) \$121 in 2011 dollars			
Source: PKF Consulting USA			

## ESTIMATED CONFERENCE CENTER PERFORMANCE

Based on the survey responses and typical utilization for similar sized facilities according to industry publications, we have projected the utilization of the proposed conference center. The tables below estimate the usage and number of annual events for the proposed conference center for the first year of operation. Future year projections are based on a 3% increase.

Victoria Conference Center Projected Utilization - 2014								
	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Weekly
Ballroom (Sections I-IV)	30%	40%	40%	40%	65%	75%	30%	46%
Junior Ballroom (Sections I & II)	40%	40%	40%	40%	65%	75%	40%	49%
Break-out Room (1-5)	45%	60%	60%	60%	50%	45%	45%	52%
<b>Total (15,000 sq ft)</b>	<b>34%</b>	<b>44%</b>	<b>44%</b>	<b>44%</b>	<b>62%</b>	<b>69%</b>	<b>34%</b>	<b>47%</b>
Source: PKF Consulting USA								

Victoria Conference Center Projected Number of Annual Events - 2014								
	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Annual
Ballroom (Sections I-IV)	16	21	21	21	34	39	16	166
Junior Ballroom (Sections I & II)	21	21	21	21	34	39	21	177
Break-out Room (1-5)	23	31	31	31	26	23	23	190
<b>Total (15,000 sq ft)</b>	<b>60</b>	<b>73</b>	<b>73</b>	<b>73</b>	<b>94</b>	<b>101</b>	<b>60</b>	<b>533</b>
Source: PKF Consulting USA								

The proposed conference center is projected to achieve a utilization rate of 47%. According to national benchmarking reports for meeting facilities, utilization for similar sized facilities typically ranges from 46% to 54%. Based on our projections, the center would host approximately 533 events annually.

**SECTION VII**  
**PROSPECTIVE FINANCIAL ANALYSIS**

## **HOTEL AND CONFERENCE CENTER FUNDING**

Since the City of Victoria would prefer a privately developed and financed project, we have recommended a hotel with an adjacent conference center to be owned and operated by a private developer. We have included the conference center performance in the estimated hotel operating statements. Under this scenario, the owner's equity investment together with debt repayable from the project revenues would be used to finance the construction of the project. In order to obtain equity capital in a transaction of this nature, the project must generate sufficient cash flow to generate appropriate returns to hotel investors. Under current market conditions, a typical hotel investor would expect a leveraged return of approximately 20%.

Often times these types of projects will fall short of the 20% investor return creating a funding gap. Cities have multiple ways to offer incentives to encourage private hotel development and minimize the gap. Methods include property tax abatements, hotel occupancy tax increase or rebates, creation of TIFF or TIRZ districts, infrastructure improvements, parking development improvements and other fee exemptions. Often, some combination of these incentives is used to successfully move a project forward.

## **BASES OF ESTIMATIONS**

On the basis of our evaluation of market findings relative to the proposed hotel and conference center in Victoria, Texas, we have prepared schedules of estimated operating results, which we believe could be generated by the operation of a facility of the type, size and caliber as described in the preceding sections of the report. The subject hotel is scheduled to open in 2014.

In estimating the future operating results, we analyzed historical 2010 operating statements of five comparable hotels. We have not identified them by location in order to protect the confidentiality of our sample. These properties were all select-service hotels ranging in size from 103 to 166 rooms with an average of 144 rooms. Since most select-service hotels generally do not have an associated conference center, we attempted to select hotels with larger meeting capacities ranging from 3,500 to 8,500 square feet. Occupancy rates ranged from 57% to 79% with an average of 66%. The five properties used in the analysis had an ADR range of \$95 to \$104 with an average of \$101 in 2010 dollars.

We estimated revenues and expenses based on the market analysis described herein, the performance of comparable properties, typical industry parameters, and premiums and efficiencies related to a select-service hotel. In evaluating comparables, we considered expenses as a percent of revenue, as well as per occupied room (POR) and per available room (PAR). We then incorporated such estimates into the assumptions that we have made, regarding inflation (3% per year), start-up period and market penetration rates, in order to generate the estimated annual operating results, presented at the end of this section. Our estimates are for the period 2014 through 2023. All dollar financial POR and PAR are expressed in 2010 dollars.

The classification of income and expenses in the statements presented in this report generally follows the *Uniform System of Accounts for Hotels*, recommended by the American Hotel & Lodging Association.

## DEPARTMENTAL REVENUES

Revenue from guestroom rentals is a result of two factors: occupancy level, or occupied room nights, and average daily room rate (ADR). Based on data presented in the Hotel Market Analysis section of this report, estimated occupancy levels, ADR and resulting rooms revenue for the subject hotel are summarized in the following table.

<b>Proposed Hotel and Conference Center – Victoria, Texas</b>			
<b>Estimated Rooms Revenue</b>			
<b>Year</b>	<b>Annual Occupancy</b>	<b>Average Daily Rate</b>	<b>Rooms Revenue</b>
2014	66%	\$133 <sup>(2)</sup>	\$4,807,000
2015	70%	\$136	\$5,213,000
2016	74%	\$139	\$5,632,000
2017	74%	\$142	\$5,754,000
2018	74%	\$145	\$5,875,000
(1) \$121 in 2011 dollars			
Source: PKF Consulting USA			

Additional sources of revenue include Food and Beverage, Other Operated Departments and Rentals and Other Income. Our stabilized year projections for additional revenue items are summarized below.

<b>Departmental Revenues</b>				
<b>Dollars Per Occupied Room</b>				
<b>Items</b>	<b>Comparable Hotels</b>			<b>Subject Hotel Projections</b>
	<b>Range</b>	<b>Average</b>	<b>Median</b>	<b>Stabilized Year</b>
Food & Beverage (1)	\$20.40 - \$35.99	\$26.67	\$26.24	\$36.50
Other Operated Departments	\$1.01 - \$2.40	\$1.75	\$1.90	\$2.00
Rentals & Other Income	\$0.00 - \$5.26	\$1.67	\$1.00	\$1.00
(1) The event center food and beverage include banquet sales and room rental revenue projections and are supported by the methodologies described in the previous section of this report.				
Source: PKF Consulting USA				

## DEPARTMENTAL EXPENSES

Departmental Expenses are chargeable to a specific revenue-producing department, in this case Rooms, Food and Beverage and Other Operated Departments.

Departmental Expenses Percent of Departmental Revenue				
Items	Comparable Hotels			Subject Hotel Projections
	Range	Average	Median	Stabilized Year
Rooms (Per Occupied Room)	\$23.50 - \$25.55	\$24.00	\$25.21	\$25.00
Food & Beverage (1)	60.1% - 80.7%	72.4%	76.6%	63.0%
Other Operated Departments	64.4% - 124.4%	86.4%	86.1%	85%
(1) High percentage of banquet revenue versus restaurant revenue lower expenses				
Source: PKF Consulting USA				

## UNDISTRIBUTED OPERATING EXPENSES

Undistributed operating expenses are necessary to the operation of the property though not directly chargeable to a revenue-producing department and include Administrative and General, Marketing, Franchise Fees, Property Operations and Maintenance (POM) and Utilities. Our expense estimates shown below are based on the comparable hotels with adjustments made for the conference center operation.

Undistributed Operating Expenses Dollars Per Available Room				
Items	Comparable Hotels			Subject Hotel Projections
	Range	Average	Median	Stabilized Year
Administrative and General	\$2,208 - \$2,897	\$2,615	\$2,733	\$3,004
Marketing	\$1,590 - \$2,441	\$2,198	\$2,431	\$2,400
Franchise Fees	7.6% - 9.8%	8.3%	8.2%	8.5%
POM	\$1,341 - \$2,027	\$1,584	\$1,463	\$1,900
Utilities	\$1,361 - \$2,324	\$1,883	\$1,751	\$2,000
Source: PKF Consulting USA				

## FIXED EXPENSES

Fixed expenses are necessary to maintain the property's availability to guests and, except for management fees, do not necessarily vary with performance.

Fixed Expenses Dollars Per Available Room				
Items	Comparable Hotels			Subject Hotel Projections
	Range	Average	Median	Stabilized Year
Management Fee (% of Total Rev)	2.5% - 4.2%	3.4%	3.5%	3.5%
Property Taxes	946 - \$1,598	\$1,147	\$1,127	\$1,000
Insurance	\$98 - \$1,488	\$508	\$322	\$400
Source: PKF Consulting USA				

**RESERVE FOR REPLACEMENT**

The reserve for replacement provides for the replacement of furniture, fixtures and equipment, as well as certain building finishes and systems. This reserve has been projected at 2% in 2014, 3% in 2015 and 4% per year thereafter.

**SCHEDULE OF PROSPECTIVE CASH FLOW BEFORE DEBT SERVICE**

The following schedules reflect the estimate of future operating performance of the subject hotel. The schedules are presented in stated year (inflated) dollars.



<b>Hotel and Conference Center Victoria</b> Projected Operating Results Calendar Years														
Number of Units: Number of Annual Rooms Available: Number of Rooms Occupied: Annual Occupancy: Average Daily Rate: Revenue Per Available Room:	<b>2014</b>		<b>2015</b>		<b>2016</b>		<b>2017</b>		<b>2018</b>					
	150		150		150		150		150					
	54,750		54,750		54,750		54,750		54,750					
	36,140		38,330		40,520		40,520		40,520					
	66.0%		70.0%		74.0%		74.0%		74.0%					
	\$133.00		\$136.00		\$139.00		\$142.00		\$145.00					
Revenue Per Available Room:	\$87.78		\$95.20		\$102.86		\$105.08		\$107.30					
			Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio		
Revenues														
Rooms	\$4,807,000	78.4%	\$5,213,000	78.8%	\$5,632,000	79.2%	\$5,754,000	79.1%	\$5,875,000	78.9%				
Food & Beverage	1,206,000	19.7%	1,267,000	19.2%	1,332,000	18.7%	1,372,000	18.9%	1,413,000	19.0%				
Other Operated Departments	81,000	1.3%	89,000	1.3%	97,000	1.4%	100,000	1.4%	103,000	1.4%				
Rentals and Other Income	41,000	0.7%	44,000	0.7%	48,000	0.7%	50,000	0.7%	51,000	0.7%				
Total Revenues	6,135,000	100.0%	6,613,000	100.0%	7,109,000	100.0%	7,276,000	100.0%	7,442,000	100.0%				
Departmental Expenses														
Rooms	1,078,000	22.4%	1,143,000	21.9%	1,210,000	21.5%	1,246,000	21.7%	1,283,000	21.8%				
Food & Beverage	772,000	64.0%	805,000	63.5%	839,000	63.0%	864,000	63.0%	890,000	63.0%				
Other Operated Departments	69,000	85.2%	76,000	85.4%	82,000	84.5%	85,000	85.0%	87,000	84.5%				
Total Departmental Expenses	1,919,000	31.3%	2,024,000	30.6%	2,131,000	30.0%	2,195,000	30.2%	2,260,000	30.4%				
Departmental Profit	4,216,000	68.7%	4,589,000	69.4%	4,978,000	70.0%	5,081,000	69.8%	5,182,000	69.6%				
Undistributed Expenses														
Administrative & General	503,000	8.2%	524,000	7.9%	545,000	7.7%	561,000	7.7%	576,000	7.7%				
Marketing	405,000	6.6%	417,000	6.3%	430,000	6.0%	443,000	6.1%	456,000	6.1%				
Franchise Fees	385,000	6.3%	417,000	6.3%	451,000	6.3%	460,000	6.3%	470,000	6.3%				
Property Operation & Maintenance	321,000	5.2%	330,000	5.0%	340,000	4.8%	351,000	4.8%	361,000	4.9%				
Utility Costs	338,000	5.5%	348,000	5.3%	358,000	5.0%	369,000	5.1%	380,000	5.1%				
Total Undistributed Operating Expenses	1,952,000	31.8%	2,036,000	30.8%	2,124,000	29.9%	2,184,000	30.0%	2,243,000	30.1%				
Gross Operating Profit	2,264,000	36.9%	2,553,000	38.6%	2,854,000	40.1%	2,897,000	39.8%	2,939,000	39.5%				
Base Management Fee	215,000	3.5%	231,000	3.5%	249,000	3.5%	255,000	3.5%	260,000	3.5%				
Fixed Expenses														
Property Taxes	169,000	2.8%	172,000	2.6%	176,000	2.5%	179,000	2.5%	183,000	2.5%				
Insurance	68,000	1.1%	70,000	1.1%	72,000	1.0%	74,000	1.0%	76,000	1.0%				
Total Fixed Expenses	237,000	3.9%	242,000	3.7%	248,000	3.5%	253,000	3.5%	259,000	3.5%				
Net Operating Income	1,812,000	29.5%	2,080,000	31.5%	2,357,000	33.2%	2,389,000	32.8%	2,420,000	32.5%				
FF&E Reserve	123,000	2.0%	198,000	3.0%	284,000	4.0%	291,000	4.0%	298,000	4.0%				
Net Operating Income After Reserve	\$1,689,000	27.5%	\$1,882,000	28.5%	\$2,073,000	29.2%	\$2,098,000	28.8%	\$2,122,000	28.5%				
Source: <b>PKF Consulting</b>	Full Year of Operation													









<b>Hotel and Conference Center Victoria</b>								
Projected Operating Results								
Calendar Years								
	2019		2020		2021		2022	
Number of Units:	150		150		150		150	
Number of Annual Rooms Available:	54,750		54,750		54,750		54,750	
Number of Rooms Occupied:	40,520		40,520		40,520		40,520	
Annual Occupancy:	74.0%		74.0%		74.0%		74.0%	
Average Daily Rate:	\$148.00		\$151.00		\$155.00		\$158.00	
Revenue Per Available Room:	\$109.52		\$111.74		\$114.70		\$116.92	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Revenues</b>								
Rooms	\$5,997,000	78.8%	\$6,119,000	78.6%	\$6,281,000	78.6%	\$6,402,000	78.4%
Food & Beverage	1,455,000	19.1%	1,499,000	19.3%	1,544,000	19.3%	1,590,000	19.5%
Other Operated Departments	106,000	1.4%	109,000	1.4%	112,000	1.4%	116,000	1.4%
Rentals and Other Income	53,000	0.7%	54,000	0.7%	56,000	0.7%	58,000	0.7%
<b>Total Revenues</b>	<b>7,611,000</b>	<b>100.0%</b>	<b>7,781,000</b>	<b>100.0%</b>	<b>7,993,000</b>	<b>100.0%</b>	<b>8,166,000</b>	<b>100.0%</b>
<b>Departmental Expenses</b>								
Rooms	1,322,000	22.0%	1,361,000	22.2%	1,402,000	22.3%	1,444,000	22.6%
Food & Beverage	917,000	63.0%	944,000	63.0%	973,000	63.0%	1,002,000	63.0%
Other Operated Departments	90,000	84.9%	93,000	85.3%	95,000	84.8%	98,000	84.5%
<b>Total Departmental Expenses</b>	<b>2,329,000</b>	<b>30.6%</b>	<b>2,398,000</b>	<b>30.8%</b>	<b>2,470,000</b>	<b>30.9%</b>	<b>2,544,000</b>	<b>31.2%</b>
<b>Departmental Profit</b>	<b>5,282,000</b>	<b>69.4%</b>	<b>5,383,000</b>	<b>69.2%</b>	<b>5,523,000</b>	<b>69.1%</b>	<b>5,622,000</b>	<b>68.8%</b>
<b>Undistributed Expenses</b>								
Administrative & General	593,000	7.8%	609,000	7.8%	627,000	7.8%	645,000	7.9%
Marketing	470,000	6.2%	484,000	6.2%	498,000	6.2%	513,000	6.3%
Franchise Fees	480,000	6.3%	490,000	6.3%	502,000	6.3%	512,000	6.3%
Property Operation & Maintenance	372,000	4.9%	383,000	4.9%	395,000	4.9%	406,000	5.0%
Utility Costs	391,000	5.1%	403,000	5.2%	415,000	5.2%	428,000	5.2%
<b>Total Undistributed Operating Expenses</b>	<b>2,306,000</b>	<b>30.3%</b>	<b>2,369,000</b>	<b>30.4%</b>	<b>2,437,000</b>	<b>30.5%</b>	<b>2,504,000</b>	<b>30.7%</b>
<b>Gross Operating Profit</b>	<b>2,976,000</b>	<b>39.1%</b>	<b>3,014,000</b>	<b>38.7%</b>	<b>3,086,000</b>	<b>38.6%</b>	<b>3,118,000</b>	<b>38.2%</b>
<b>Base Management Fee</b>	<b>266,000</b>	<b>3.5%</b>	<b>272,000</b>	<b>3.5%</b>	<b>280,000</b>	<b>3.5%</b>	<b>286,000</b>	<b>3.5%</b>
<b>Fixed Expenses</b>								
Property Taxes	186,000	2.4%	190,000	2.4%	194,000	2.4%	198,000	2.4%
Insurance	78,000	1.0%	81,000	1.0%	83,000	1.0%	86,000	1.1%
<b>Total Fixed Expenses</b>	<b>264,000</b>	<b>3.5%</b>	<b>271,000</b>	<b>3.5%</b>	<b>277,000</b>	<b>3.5%</b>	<b>284,000</b>	<b>3.5%</b>
<b>Net Operating Income</b>	<b>2,446,000</b>	<b>32.1%</b>	<b>2,471,000</b>	<b>31.8%</b>	<b>2,529,000</b>	<b>31.6%</b>	<b>2,548,000</b>	<b>31.2%</b>
<b>FF&amp;E Reserve</b>	<b>304,000</b>	<b>4.0%</b>	<b>311,000</b>	<b>4.0%</b>	<b>320,000</b>	<b>4.0%</b>	<b>327,000</b>	<b>4.0%</b>
<b>Net Operating Income After Reserve</b>	<b>\$2,142,000</b>	<b>28.1%</b>	<b>\$2,160,000</b>	<b>27.8%</b>	<b>\$2,209,000</b>	<b>27.6%</b>	<b>\$2,221,000</b>	<b>27.2%</b>
Source: PKF Consulting								

**ADDENDUM A**  
**COMMUNITY SURVEY SUMMARY**

### 1. What is the name of your organization/company? (Optional)

	Response Count
	117
answered question	117
skipped question	82

### 2. Which term best describes your organization/company?

		Response Percent	Response Count
Visitor Attraction		3.7%	7
Service Industry - Retail, Restaurant, Hotel		6.3%	12
<b>Business/Corporation</b>		<b>45.5%</b>	<b>86</b>
Medical Related		12.2%	23
Club/Community Organization		6.3%	12
Government		4.2%	8
University Related		2.1%	4
Other		19.6%	37
Other (please specify)			46
answered question			189
skipped question			10

**3. What type of event(s) does your organization/company hold? (Check all that apply according to frequency).**

	Never	Weekly	Monthly	Annually (1-3)	Annually (More than 3)	Response Count
A. Gala/Banquet Events	38.1% (56)	0.0% (0)	0.7% (1)	<b>58.5% (86)</b>	2.7% (4)	147
B. Social Event/Wedding	<b>58.8% (67)</b>	0.0% (0)	5.3% (6)	30.7% (35)	6.1% (7)	114
C. Meeting/Training	15.1% (27)	12.8% (23)	22.3% (40)	<b>36.9% (66)</b>	14.5% (26)	179
D. Trade/Consumer Show	<b>70.1% (82)</b>	0.0% (0)	0.0% (0)	27.4% (32)	2.6% (3)	117
E. Convention/Conference	<b>53.0% (70)</b>	0.8% (1)	3.8% (5)	38.6% (51)	3.8% (5)	132
F. Sports Events	<b>82.6% (90)</b>	4.6% (5)	0.9% (1)	10.1% (11)	2.8% (3)	109
G. Other Events	<b>54.6% (65)</b>	2.5% (3)	5.0% (6)	29.4% (35)	8.4% (10)	119
<b>answered question</b>						<b>195</b>
<b>skipped question</b>						<b>4</b>

**4. What is the typical size of the events that your organization/company holds? (Check all that apply).**

	Less Than 50	50 - 100	100 - 200	200 - 400	400 - 600	600 - 800	More than 800	Response Count
A. Gala/Banquet Events	23.2% (23)	13.1% (13)	23.2% (23)	<b>26.3% (26)</b>	14.1% (14)	4.0% (4)	2.0% (2)	99
B. Social Event/Wedding	<b>33.3% (17)</b>	21.6% (11)	23.5% (12)	17.6% (9)	2.0% (1)	0.0% (0)	2.0% (1)	51
C. Meeting/Training	<b>55.2% (85)</b>	33.8% (52)	11.0% (17)	4.5% (7)	0.0% (0)	0.6% (1)	0.0% (0)	154
D. Trade/Consumer Show	<b>34.8% (16)</b>	8.7% (4)	19.6% (9)	17.4% (8)	8.7% (4)	4.3% (2)	6.5% (3)	46
E. Convention/Conference	19.4% (13)	10.4% (7)	<b>32.8% (22)</b>	23.9% (16)	9.0% (6)	1.5% (1)	3.0% (2)	67
F. Sports Events	<b>50.0% (15)</b>	16.7% (5)	3.3% (1)	13.3% (4)	3.3% (1)	0.0% (0)	13.3% (4)	30
G. Other Events	<b>33.3% (19)</b>	17.5% (10)	17.5% (10)	12.3% (7)	5.3% (3)	1.8% (1)	12.3% (7)	57
<b>answered question</b>								<b>179</b>
<b>skipped question</b>								<b>20</b>

**5. How many break out rooms would your organization/company require for your events? (Check all that apply).**

	None	1 - 5	5 - 10	More than 10	Response Count
A. Gala/Banquet Events	60.0% (63)	40.0% (42)	0.0% (0)	0.0% (0)	105
B. Social Event/Wedding	66.7% (48)	31.9% (23)	1.4% (1)	0.0% (0)	72
C. Meeting/Training	32.3% (51)	63.9% (101)	4.4% (7)	0.0% (0)	158
D. Trade/Consumer Show	54.8% (40)	30.1% (22)	12.3% (9)	2.7% (2)	73
E. Convention/Conference	42.4% (39)	37.0% (34)	14.1% (13)	6.5% (6)	92
F. Sports Events	83.6% (46)	12.7% (7)	1.8% (1)	1.8% (1)	55
G. Other Events	70.8% (51)	26.4% (19)	1.4% (1)	1.4% (1)	72
answered question					182
skipped question					17








**6. What is the typical number of hotel rooms you would need for your organization/company events? (Check all that apply).**

	None	<25 Rooms	25-75	75-150	150-250	>250 Rooms	Response Count
A. Gala/Banquet Events	51.4% (56)	32.1% (35)	9.2% (10)	3.7% (4)	4.6% (5)	0.0% (0)	109
B. Social Event/Wedding	62.2% (46)	25.7% (19)	8.1% (6)	1.4% (1)	2.7% (2)	0.0% (0)	74
C. Meeting/Training	34.7% (52)	52.0% (78)	12.7% (19)	1.3% (2)	0.7% (1)	0.0% (0)	150
D. Trade/Consumer Show	51.4% (38)	18.9% (14)	20.3% (15)	4.1% (3)	1.4% (1)	5.4% (4)	74
E. Convention/Conference	41.3% (38)	20.7% (19)	14.1% (13)	12.0% (11)	9.8% (9)	2.2% (2)	92
F. Sports Events	75.4% (43)	10.5% (6)	8.8% (5)	1.8% (1)	3.5% (2)	0.0% (0)	57
G. Other Events	58.1% (43)	29.7% (22)	8.1% (6)	2.7% (2)	2.7% (2)	0.0% (0)	74
answered question							183
skipped question							16

**7. What are your organization/company's hotel rate requirements per night? (Check all that apply).**

	Under \$100	\$100-\$125	\$125-\$150	\$150-\$200	Above \$200	Response Count
A. Gala/Banquet Events	38.8% (26)	<b>49.3% (33)</b>	17.9% (12)	6.0% (4)	3.0% (2)	67
B. Social Event/Wedding	39.5% (15)	<b>42.1% (16)</b>	23.7% (9)	10.5% (4)	5.3% (2)	38
C. Meeting/Training	36.2% (42)	<b>52.6% (61)</b>	16.4% (19)	3.4% (4)	0.9% (1)	116
D. Trade/Consumer Show	30.0% (12)	<b>50.0% (20)</b>	25.0% (10)	7.5% (3)	2.5% (1)	40
E. Convention/Conference	25.4% (15)	<b>59.3% (35)</b>	18.6% (11)	10.2% (6)	1.7% (1)	59
F. Sports Events	<b>70.8% (17)</b>	25.0% (6)	8.3% (2)	8.3% (2)	4.2% (1)	24
G. Other Events	<b>48.8% (20)</b>	43.9% (18)	17.1% (7)	7.3% (3)	4.9% (2)	41
answered question						147
skipped question						52

**8. Where do you normally hold your events? (List the location of all that apply.)**

		Response Percent	Response Count
Victoria Community Center		29.7%	49
University of Houston/Victoria College		29.7%	49
Local Hotel		18.8%	31
<b>Local Country Club or Restaurant</b>		<b>46.7%</b>	<b>77</b>
Other Local Facility		38.8%	64
Outside of the Victoria Area		27.3%	45
Other		26.1%	43
answered question			165
skipped question			34



**9. If there was a new hotel and conference center located in Victoria that could accommodate your group, would your business/organization consider relocating your events there?**



	Yes	No	Response Count
A. Gala/Banquet Events	74.0% (77)	26.0% (27)	104
B. Social Event/Wedding	50.0% (31)	50.0% (31)	62
C. Meeting/Training	74.5% (108)	25.5% (37)	145
D. Trade/Consumer Show	50.8% (31)	49.2% (30)	61
E. Convention/Conference	66.7% (56)	33.3% (28)	84
F. Sports Events	22.0% (9)	78.0% (32)	41
G. Other Events	50.8% (30)	49.2% (29)	59

If yes, please indicate which events.

55

answered question	179
skipped question	20

**10. Are you involved with any other organizations/associations/clubs that could hold events there?**

		Response Percent	Response Count
Yes		53.0%	97
No		47.0%	86
answered question			183
skipped question			16



**11. If you answered yes to the previous question, please indicate the type and size of the events (check all that apply).**

	<50	50-100	100-200	200-400	400-600	600-800	>800	Response Count
A. Gala/Banquet Events	5.0% (3)	23.3% (14)	<b>46.7%</b> <b>(28)</b>	23.3% (14)	10.0% (6)	1.7% (1)	1.7% (1)	60
B. Social Event/Wedding	17.1% (6)	22.9% (8)	<b>31.4%</b> <b>(11)</b>	20.0% (7)	5.7% (2)	2.9% (1)	5.7% (2)	35
C. Meeting/Training	36.2% (17)	<b>42.6%</b> <b>(20)</b>	23.4% (11)	8.5% (4)	0.0% (0)	2.1% (1)	2.1% (1)	47
D. Trade/Consumer Show	13.6% (3)	13.6% (3)	<b>27.3%</b> <b>(6)</b>	13.6% (3)	9.1% (2)	13.6% (3)	18.2% (4)	22
E. Convention/Conference	7.7% (3)	17.9% (7)	28.2% (11)	<b>30.8%</b> <b>(12)</b>	20.5% (8)	10.3% (4)	12.8% (5)	39
F. Sports Events	13.3% (2)	0.0% (0)	<b>53.3%</b> <b>(8)</b>	13.3% (2)	0.0% (0)	6.7% (1)	13.3% (2)	15
G. Other Events	24.0% (6)	12.0% (3)	<b>32.0%</b> <b>(8)</b>	16.0% (4)	16.0% (4)	8.0% (2)	20.0% (5)	25
<b>answered question</b>								<b>103</b>
<b>skipped question</b>								<b>96</b>

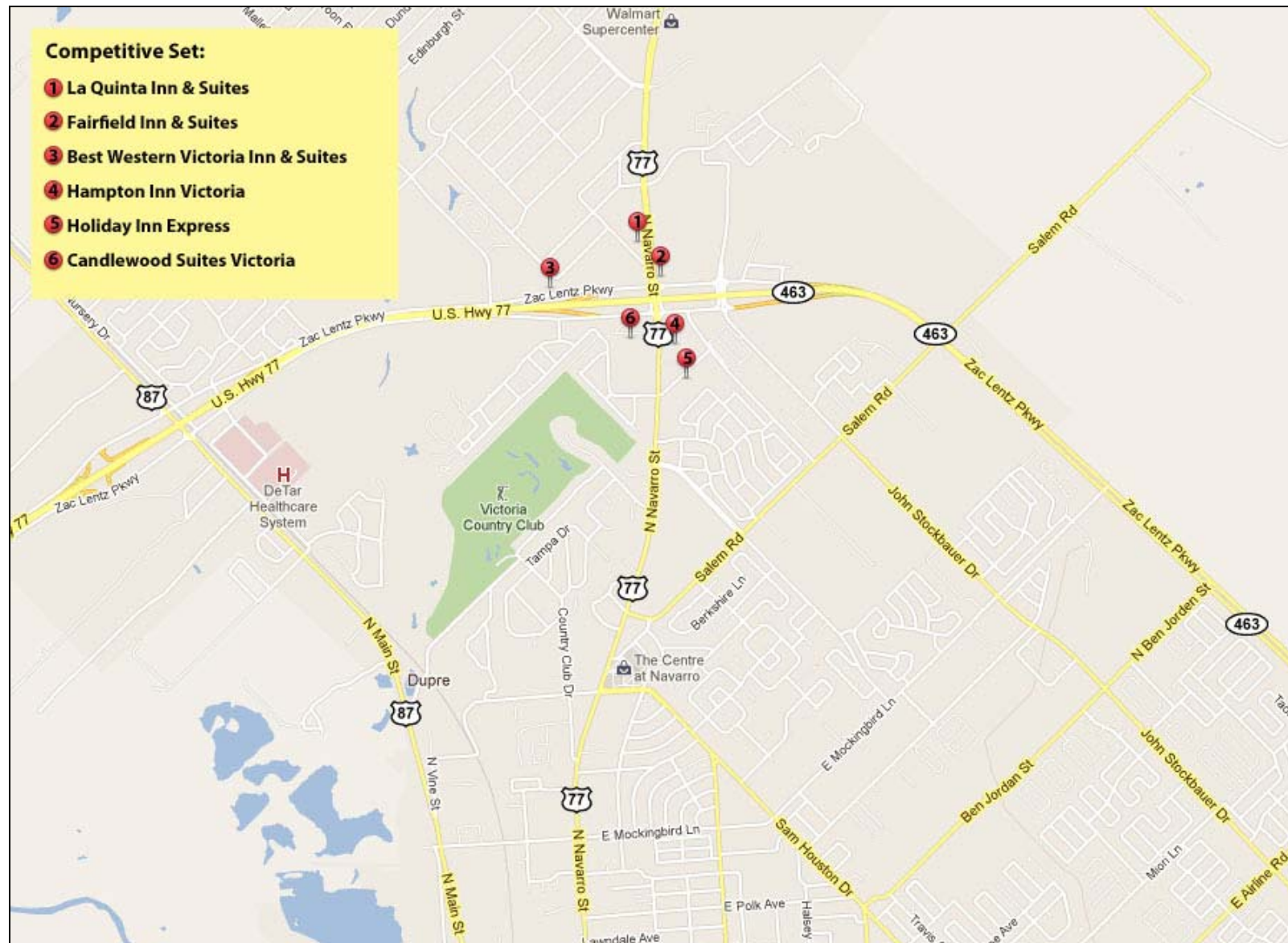
**12. How many hotel rooms are associated with the events listed above? (check all that apply)**

	None	<25 rooms	25 to 75	75 to 150	150-250	>250 rooms	Response Count
A. Gala/Banquet Events	32.7% (18)	<b>45.5%</b> <b>(25)</b>	9.1% (5)	5.5% (3)	3.6% (2)	7.3% (4)	55
B. Social Event/Wedding	32.5% (13)	<b>42.5%</b> <b>(17)</b>	10.0% (4)	5.0% (2)	5.0% (2)	5.0% (2)	40
C. Meeting/Training	33.3% (16)	<b>43.8%</b> <b>(21)</b>	16.7% (8)	4.2% (2)	0.0% (0)	4.2% (2)	48
D. Trade/Consumer Show	<b>30.4% (7)</b>	26.1% (6)	17.4% (4)	8.7% (2)	4.3% (1)	13.0% (3)	23
E. Convention/Conference	<b>22.0% (9)</b>	17.1% (7)	14.6% (6)	14.6% (6)	17.1% (7)	14.6% (6)	41
F. Sports Events	<b>40.9% (9)</b>	18.2% (4)	22.7% (5)	9.1% (2)	0.0% (0)	9.1% (2)	22
G. Other Events	34.6% (9)	<b>42.3%</b> <b>(11)</b>	11.5% (3)	7.7% (2)	0.0% (0)	3.8% (1)	26
<b>answered question</b>							<b>98</b>
<b>skipped question</b>							<b>101</b>

**ADDENDUM B**  
**MAP OF POTENTIAL SITES**



**ADDENDUM C**  
**MAP OF COMPETITIVE SUPPLY**



**ADDENDUM D**  
**PHOTOGRAPHS OF COMPETITIVE SUPPLY**





**La Quinta Inn & Suites**



**Fairfield Inn Victoria**



**Best Western Victoria Inn & Suites**



**Hampton Inn Victoria**





**Holiday Inn Express**



**Candlewood Suites Victoria**

**ADDENDUM E**  
**STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

## STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

*The following Standard Conditions apply to real estate consulting assignments by PKF Consulting USA and will be attached to the report:*

***Achievability of Projections*** - Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore actual results achieved during the period under study will vary from our estimates and the variations may be material.

***Archaeological Significance*** - No investigation has been made by the consultant and no information has been provided to the consultant regarding potential archaeological significance of the subject property or any portion thereof. This report assumes no portion of the subject property has archaeological significance.

***Definitions and Assumptions*** - The definitions and assumptions upon which our analyses, opinions and conclusions are based are set forth in appropriate sections of this report and are to be part of these general assumptions as if included here in their entirety.

***Dissemination of Material*** - Neither all nor any part of the contents of this report (including the identity of the consultant or PKF Consulting USA) shall be disseminated to the general public through advertising or sales media, public relations media, news media or other public means of communication without the prior written consent and approval of PKF Consulting USA.

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***Economic and Social Trends*** - The consultant assumes no responsibility for economic, physical or demographic factors which may affect or alter the opinions in this report if said economic, physical, or demographic factors were not present as of the date of the letter of transmittal accompanying this report. The consultant is not obligated to predict future political, economic or social trends.

***Engineering Survey*** - No engineering survey has been made by the consultant. Except as specifically stated, data relative to size and area of the subject property was taken from sources considered reliable and no encroachment of the subject property is considered to exist.

***Hazardous Materials*** - The consultant has not been provided any information regarding the presence of any material or substance on or in any portion of the subject property or improvements thereon, which material or substance possesses or may possess toxic, hazardous and/or other harmful and/or dangerous characteristics. Unless otherwise stated in the report, the consultant did not become aware of the presence of any such material or substance during the consultant's inspection of the subject property. However, the consultant is not qualified to investigate or test for the presence of such materials or substances. Unless otherwise stated, this report assumes the subject property is in compliance with all federal, state and local environmental laws, regulations and rules.

***Hidden Conditions*** - The consultant assumes no responsibility for hidden or unapparent conditions of the property, subsoil, ground water or structures that render the subject more or less valuable. No responsibility is assumed for arranging for engineering, geologic or environmental studies that may be required to discover such hidden or unapparent conditions.

***Income Data Provided by Third Party*** - Income and expense data related to the property being appraised was provided by the client and is assumed, but not warranted, to be accurate.

## **STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS**

(Continued)

**Information Furnished by Others** - In preparing the report, the consultant was required to rely on information furnished by other individuals or found in previously existing records and/or documents. Unless otherwise indicated, such information is presumed to be reliable. However, no warranty, either express or implied, is given by the consultant for the accuracy of such information and the consultant assumes no responsibility for information relied upon later found to have been inaccurate. The consultant reserves the right to make such adjustments to the analyses, opinions and conclusions set forth in this report as may be required by consideration of additional data or more reliable data that may become available.

**Legal Expenses** – Any legal expenses incurred in defending or representing ourselves concerning this assignment will be the responsibility of the client.

**Legal Matters** - No opinion is intended to be expressed for matters that require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate consultants.

**Licenses and Permits** - Unless otherwise stated, the property is evaluated assuming that all required licenses, permits, certificates, consents or other legislative and/or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the analysis contained in this report is based.

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**Obligation to Update Report** - The report will be dated to coincide with our last day of fieldwork. The terms of this engagement are such that we have no obligation to update our estimates to reflect events or conditions which occur subsequent to the last day of our fieldwork. However, we will be available to discuss the necessity for revision in view of changes in the economic or market factors affecting the project.

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**Testimony in Court** - Testimony or attendance in court or at any other hearing is not required by reason of rendering this report, unless such arrangements are made a reasonable time in advance of said hearing. Further, unless otherwise indicated, separate arrangements shall be made concerning compensation for the consultant's time to prepare for and attend any such hearing.

**Use in Offering Materials** - This report, including all cash flow forecasts, market surveys and related data, conclusions, exhibits and supporting documentation may not be reproduced or references made to the report or to PKF Consulting USA in any sales offering, prospectus, public or private placement memorandum, proxy statement or other document ("Offering Material") in connection with a merger, liquidation or other corporate transaction unless PKF Consulting USA has approved in writing the text of any such reference or reproduction prior to the distribution and filing thereof.

**Zoning and Land Use** - Unless otherwise stated, the subject property is evaluated assuming it to be in full compliance with all applicable zoning and land use regulations and restrictions.

**ADDENDUM F**  
**CERTIFICATION**

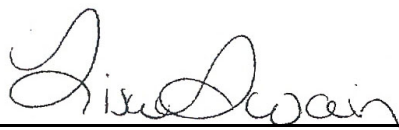
## CERTIFICATION

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions and conclusions.
- We have no present or prospective interest in the project that is the subject of this report and we have no personal interest or bias with respect to the parties involved.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon the developing or reporting of predetermined results.
- Our compensation is not contingent upon the development or reporting of predetermined results that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
- We have made a personal inspection of the proposed site that is the subject of this report.
- No one provided significant professional assistance to the persons signing below except as sourced within the body of this report.



G. Randle McCaslin  
Vice President / Practice Leader



Lisa Swain  
Associate