CENTERPOINT AT LOCKHART

Hotel Feasibility Study
Completed March 6, 2012

For More Information Please Contact
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CENTERPOINT AT LOCKHART

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CENTERPOINT AT LOCKHART

I.
Hotel Feasibility Summary

Source Strategies Inc.

12/6/2011

LOCKHART, TEXAS HOTEL PROJECT

SUMMARY FOR THE PROPOSED HOLIDAY INN EXPRESS HOTEL
LOCKHART TEXAS. SH 142 AT SH 130:

-An analysis of the feasibility of a new, strongly branded Holiday Inn Express Hotel has been performed at this location, with the alternative budget brand Motel 6 also analyzed. It was concluded that a new hotel at this location would be a highly attractive investment for a developer.

-The Holiday Express brand was selected as the highest and best use of the site/location because it is the most sought after 'middle of the market' limited service hotel brand (based consumer choice, REVPAR performance, and level of investment).

-Such a hotel would not only take advantage of increasing population growth in the TX 130/Lockhart area, but also provide the best lodging choice for consumers outside of San Marcos.

-Developing a hotel at this site will produce an unleveraged, pretax return on total invested capital of approximately 17%, with a return on equity of over 40%. This is an excellent hotel investment.

-A new strongly branded limited service hotel opening in 2013 would be expected to produce performance results as follows:

Project Summary

	Occupancy Percent	Average $ Rate	$ REVPAR	Total Revenue	CashFlow**
Year I	63.5%	$103.94*	$65.96	$2,275,230	$1,025,553
Year II	72.1%	$108.00	$77.86	$2,685,615	$1,270,937
Year III	72.6%	$115.04	$83.55	$2,882,002	$1,396,809
Year IV	72.3%	$117.92	$85.23	$2,939,643	$1,407,982
Year V	72.6%	$119.68	$86.93	$2,998,436	$1,345,942
Year VI	72.3%	$120.87	$87.39	$3,014,206	$1,316,196
Year VII	72.2%	$122.07	$88.08	$3,037,965	$1,335,163
Year VIII	72.0%	$123.29	$88.77	$3,061,912	$1,347,878
Year IX	71.8%	$124.53	$89.47	$3,086,048	$1,283,170
Year X	71.8%	$125.76	$90.28	$3,113,921	$10,913,267***

-The addition of F1 Racing and Texas Highway 130 and all associated economic impacts to the market make this an exciting time for both the corridor and for all towns / cities in the surrounding area. These developments positively impact the performance of a new hotel in no uncertain terms.

-The selection of 90 units for the hotel reflects a slightly larger than usual hotel for this brand in a highway market. 90 units was selected in order to not only meet demand requirements for overflow from the F1 Racing complex, but also to ensure that demand for this brand was filled at this location. A smaller hotel of the same brand would likely produce a higher REVPAR, but would lack many of the enhanced public spaces (larger outdoor pool with BBQ seating area, larger fitness center, etc.).

-Though we have incorporated a bump upwards in demand for hotel rooms in the 4th quarter of 2012 and thereafter due to the impact of F1 Racing, we have moderated growth levels in demand and in price of rooms in the near future, and we expect new supply to be attracted to the recent high level of performance of hotels in this and other similar areas. Successful hotel markets like the local area inevitably attract new hotel development.

Please call or email or call with any questions.

Todd Walker

Todd Walker,
President
Source Strategies, Inc.

HOLIDAY EXPRESS INN & SUITES

Land Value: $614,196 Starts: 7/1/2013 #Rooms: 90 CostPerKey: $80,000

QUARTER:	Third	Fourth	First	Second	Year	
Rmnites Sold	5,512	5,125	5,022	5,189	20,848	
Rmnites Avail	8,280	8,280	8,100	8,190	32,850	
Occupancy %	66.6%	61.9%	62.0%	63.4%	63.5%	
Avg Rate	$110.00	$109.99	$90.00	$105.01	$103.94	
REVPAR	$73.23	$68.08	$55.80	$66.53	$65.96	% Revenues
Room Revenues	$606,307	$563,705	$451,980	$544,894	$2,166,886	95.2%
Misc. Sales	30,315	28,185	22,599	27,245	108,344	4.8%
Total Sales	**$636,622**	**$591,890**	**$474,579**	**$572,139**	**$2,275,230**	**100.0%**
Operating Expe-Payroll						
Administration	25,465	23,676	18,983	22,886	91,009	4.0%
Housekeeping	23,426	21,781	21,344	22,053	88,604	3.9%
Laundry	9,646	8,969	8,789	9,081	36,484	1.6%
Front Desk	30,316	28,188	27,621	28,540	114,664	5.0%
Misc.	9,549	8,878	7,119	8,582	34,128	1.5%
Taxes/Benefits	9,840	9,149	8,385	9,114	36,489	1.6%
Total Payroll	**108,242**	**100,641**	**92,240**	**100,255**	**401,379**	**17.6%**
-Room Expense						
S:Linen & Laun	7,717	7,175	7,031	7,265	29,187	1.3%
CompFood&Bev.	15,158	14,094	13,811	14,270	57,332	2.5%
Total Room	**22,875**	**21,269**	**20,841**	**21,534**	**86,519**	**3.8%**
-Other Expense						
Phone/Telecom.	6,776	6,776	6,776	6,776	27,102	1.2%
Elec/Utility	16,536	15,375	15,066	15,567	62,544	2.7%
Maint. & Repai	12,732	11,838	9,492	11,443	45,505	2.0%
Total Other	**36,044**	**33,988**	**31,333**	**33,785**	**135,151**	**5.9%**
-Gen & Admin						
Adver. & Sales	42,441	39,459	31,639	38,143	151,682	6.7%
Royalty	30,315	28,185	22,599	27,245	108,344	4.8%
Credit Card	12,126	11,274	9,040	10,898	43,338	1.9%
Tot Admin & Ge	**84,883**	**78,919**	**63,277**	**76,285**	**303,364**	**13.3%**
-Total Operati Expenses	**252,044**	**234,816**	**207,692**	**231,860**	**926,413**	**40.7%**
Gross Oper. Profit	**384,578**	**357,074**	**266,887**	**340,279**	**1,348,817**	**59.3%**
Management Fee	20,424	18,979	14,829	18,248	72,481	3.2%
Income Bef Fix Charges	**364,154**	**338,095**	**252,058**	**322,030**	**1,276,336**	**56.1%**
-Fixed Charges						
Insurance	19,908	19,908	19,908	19,908	79,633	3.5%
Property Tax	17,191	17,191	17,191	17,191	68,765	3.0%
DeprecSL 39Yrs	46,154	46,154	46,154	46,154	184,615	8.1%
Tot Capital Ex	**83,253**	**83,253**	**83,253**	**83,253**	**333,013**	**14.6%**
Net Income Bef Tax & Financing	**280,901**	**254,841**	**168,804**	**238,777**	**943,323**	**41.5%**
Depreciat. Add	46,154	46,154	46,154	46,154	184,615	8.1%
Renovation Res	(28,648)	(26,635)	(21,356)	(25,746)	(102,385)	-4.5%
Cash Flow Befo Tax & Financing	**298,407**	**274,360**	**193,602**	**259,184**	**1,025,553**	**45.1%**

-see following 2 pages for the next 9 years-

HOLIDAY INN EXPRESS HOTEL & SUITES

#Rooms:	90									Compound Growth
Year	2	3	4	5	6	7	8	9	10	Yr 2-10
Rmnites Sold	23,682	23,859	23,743	23,860	23,751	23,702	23,652	23,602	23,582	1.4%
Rmnites Avail	32,850	32,850	32,850	32,850	32,850	32,850	32,850	32,850	32,850	0.0%
Occupancy %	72.1%	72.6%	72.3%	72.6%	72.3%	72.2%	72.0%	71.8%	71.8%	1.4%
Avg Rate*	$108.00	$115.04	$117.92	$119.68	$120.87	$122.07	$123.29	$124.53	$125.76	2.1%
REVPAR	$77.86	$83.55	$85.23	$86.93	$87.39	$88.08	$88.77	$89.47	$90.28	3.5%
RoomRevenues	2,557,729	2,744,764	2,799,660	2,855,653	2,870,672	2,893,300	2,916,107	2,939,093	2,965,639	3.5%
Misc. Sales	127,886	137,238	139,983	142,783	143,534	144,665	145,805	146,955	148,282	3.5%
Total Sales	**2,685,615**	**2,882,002**	**2,939,643**	**2,998,436**	**3,014,206**	**3,037,965**	**3,061,912**	**3,086,048**	**3,113,921**	**3.5%**
Operating Expense - Payroll										
Administration	106,482	110,496	113,258	117,230	120,196	123,546	126,984	130,517	134,319	4.4%
Housekeeping	103,668	107,576	110,265	114,132	117,019	120,281	123,628	127,068	130,769	4.4%
Laundry	42,687	44,296	45,403	46,996	48,184	49,527	50,906	52,322	53,846	4.4%
Front Desk	134,159	139,216	142,695	147,701	151,437	155,658	159,989	164,441	169,230	4.4%
Miscellaneous	39,931	41,436	42,472	43,961	45,073	46,330	47,619	48,944	50,370	4.4%
Taxes/Benefits	42,693	44,302	45,409	47,002	48,191	49,534	50,913	52,329	53,853	4.4%
Total Payroll	**469,619**	**487,323**	**499,502**	**517,022**	**530,100**	**544,877**	**560,039**	**575,621**	**592,387**	**4.4%**
-Room Expense										
Linen & Laundry	34,149	35,437	36,322	37,596	38,547	39,622	40,725	41,858	43,077	4.4%
CompFood&Bev.	67,079	69,608	71,348	73,850	75,718	77,829	79,995	82,220	84,615	4.4%
Total Room	101,229	105,045	107,670	111,447	114,266	117,451	120,719	124,078	127,692	4.4%
-Other Expense										
Phone Lines	31,710	32,906	33,728	34,911	35,794	36,792	37,816	38,868	40,000	4.4%
Electric/Util.	73,177	75,936	77,834	80,564	82,602	84,904	87,267	89,695	92,307	4.4%
Repairs & Maint	53,712	57,640	58,793	59,969	60,284	60,759	61,238	61,721	62,278	3.5%
Total Other	**158,600**	**166,482**	**170,355**	**175,444**	**178,680**	**182,455**	**186,321**	**190,284**	**194,586**	**4.1%**
-Gen & Admin										
Adver. & Sales	179,041	192,133	195,976	199,896	200,947	202,531	204,127	205,737	207,595	3.5%
Royalty	127,886	137,238	139,983	142,783	143,534	144,665	145,805	146,955	148,282	3.5%
Credit Card	51,155	54,895	55,993	57,113	57,413	57,866	58,322	58,782	59,313	3.5%
Total G & A	**358,082**	**384,267**	**391,952**	**399,791**	**401,894**	**405,062**	**408,255**	**411,473**	**415,189**	**3.5%**
-TotOperExp.	**1,087,529**	**1,143,116**	**1,169,479**	**1,203,704**	**1,224,940**	**1,249,845**	**1,275,334**	**1,301,455**	**1,329,854**	**4.1%**
GrossOpProfit	**1,598,086**	**1,738,886**	**1,770,164**	**1,794,732**	**1,789,266**	**1,788,120**	**1,786,578**	**1,784,592**	**1,784,067**	**3.2%**
Mngmt Fee	85,674	92,418	94,196	95,863	96,069	96,522	96,970	97,413	97,960	3.4%

										Compound Growth
#Rooms:	90									
Year	2	3	4	5	6	7	8	9	10	Yr 2-10
Rmnites Sold	23,682	23,859	23,743	23,860	23,751	23,702	23,652	23,602	23,582	1.4%
Rmnites Avail	32,850	32,850	32,850	32,850	32,850	32,850	32,850	32,850	32,850	0.0%
Occupancy %	72.1%	72.6%	72.3%	72.6%	72.3%	72.2%	72.0%	71.8%	71.8%	1.4%
Avg Rate*	$108.00	$115.04	$117.92	$119.68	$120.87	$122.07	$123.29	$124.53	$125.76	2.1%
REVPAR	$77.86	$83.55	$85.23	$86.93	$87.39	$88.08	$88.77	$89.47	$90.28	3.5%
RoomRevenues	2,557,729	2,744,764	2,799,660	2,855,653	2,870,672	2,893,300	2,916,107	2,939,093	2,965,639	3.5%
Misc. Sales	127,886	137,238	139,983	142,783	143,534	144,665	145,805	146,955	148,282	3.5%
Total Sales	**2,685,615**	**2,882,002**	**2,939,643**	**2,998,436**	**3,014,206**	**3,037,965**	**3,061,912**	**3,086,048**	**3,113,921**	**3.5%**
IncomeBefore Fixed Charges	**1,512,412**	**1,646,468**	**1,675,968**	**1,698,868**	**1,693,196**	**1,691,598**	**1,689,608**	**1,687,179**	**1,686,107**	**2.5%**
-Fixed Charges										
Insurance	82,022	84,483	87,017	89,628	92,317	95,086	97,939	100,877	103,903	3.0%
Property Tax	70,828	72,953	75,141	77,396	79,717	82,109	84,572	87,109	89,723	3.0%
Depr. SL 39 Yrs	184,615	184,615	184,615	184,615	184,615	184,615	184,615	184,615	184,615	0.0%
Total Fixed Ch.	**337,465**	**342,051**	**346,774**	**351,639**	**356,649**	**361,810**	**367,126**	**372,602**	**378,241**	**1.4%**
Income Before Tax & Financing	**1,174,947**	**1,304,418**	**1,329,194**	**1,347,230**	**1,336,547**	**1,329,788**	**1,322,482**	**1,314,578**	**1,307,866**	**3.7%**
Depr. AddBack	184,615	184,615	184,615	184,615	184,615	184,615	184,615	184,615	184,615	0.0%
RenovReserve	(88,625)	(92,224)	(105,827)	(185,903)	(204,966)	(179,240)	(159,219)	(216,023)	(370,557)	15.4%
Cash Before Tax & Financing	**1,270,937**	**1,396,809**	**1,407,982**	**1,345,942**	**1,316,196**	**1,335,163**	**1,347,878**	**1,283,170**	**1,121,925**	**1.0%**

CENTERPOINT AT LOCKHART

II.
Centerpoint Hotel Feasibility Report Excerpt

March 6, 2012

<u>FINANCIAL FEASIBILITY STUDY</u>:
Holiday Inn Express Hotel & Suites
At CenterPoint Lockhart
FM 142 at Texas Highway 130
Lockhart, Texas 78644

This study has been prepared to determine the financial feasibility of building and operating a 90 unit Holiday Inn Express Hotel & Suites at FM Road 142 and Texas Highway 130, in the Centerpoint Lockhart development, in Lockhart, Texas. This hotel property is expected to open in July of 2013. The location/site is convenient to nearby San Marcos, Seguin, the Formula One Racing track 15 miles north at Elroy, Austin/Bergstrom Airport, nearby interstate highways (IH-35, and IH-10), the federal penitentiary, government and medical concerns, and to the many businesses, restaurants and other amenities in the immediate area.

Project quality is set to meet the physical and operating standards of the Holiday Express brand, a product of The InterContinental Hotel Group (Holiday Inn, Candlewood, Crowne Plaza, Staybridge Suites, Hotel Indigo). All projections herein are based on operating this hotel as a Holiday Inn Express Hotel & Suites, and retaining the brand in good standing at the time of an assumed sale after 10 years. Actual market acceptance for a Holiday Inn Express has been quantified versus market averages, and has been assumed in developing this study. Operating costs are set above the level of similar limited service hotels in the region.

KEY FINDING: <u>Developing and opening a Holiday Inn Express Hotel & Suites at this site should generate an unleveraged, pre-tax return on total invested capital exceeding 17%, with a return on equity of 44%</u>. This return on invested capital also assumes that improvements are completed at the estimated cost of $80,000 per unit, plus $614,196 for land. **This is a good hotel investment.** Project details follow:

Total Investment

Land Cost	$ 614,196	for 3 acres
Improvements Budget	$ 7,200,000	@ $80,000 per key
Total Investment	$ 7,814,196	

,196

Pre-Tax Project Return 17.39%[1]
Pre-Tax Return on Equity 43.97%[2]

This study incorporates the current downturn in the Texas hotel market, caused by the broader national recession, which began in late 2008. In our Market section, we highlight the historical hotel performance in Texas, noting the effect of past recessions. While every market has its own unique characteristics, our projections for the local area market consider how the lodging industry reacts in times of economic downturn and in normal times. We anticipate that the current upturn will continue to impact subject markets through 2011 and beyond. See the Market section for more details.

With a July 2013 opening, cash flow market projections for the Holiday Inn Express Hotel & Suites Lockhart, before taxes and after renovation reserves, should be available for debt service, income tax and dividends as follows:

Project Summary

	Occupancy Percent	Average $ Rate	$ REVPAR	Total Revenue	CashFlow**
Year I	63.5%	$103.94*	$65.96	$2,275,230	$1,025,553
Year II	72.1%	$108.00	$77.86	$2,685,615	$1,270,937
Year III	72.6%	$115.04	$83.55	$2,882,002	$1,396,809
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Year X	71.8%	$125.76	$90.28	$3,113,921	$10,913,267***

*Year I ADR equates to approximately $100 in current market dollars.**Before Income Tax & Financing expense, but reflecting $1,704,970 in reserves for capital expenditures / property renovation ($18,944 per unit). ***assumes valuing property at Year 10 cash flow at an 11% return-to-buyer, less 4% expense of sale, plus year 10 cash flow.

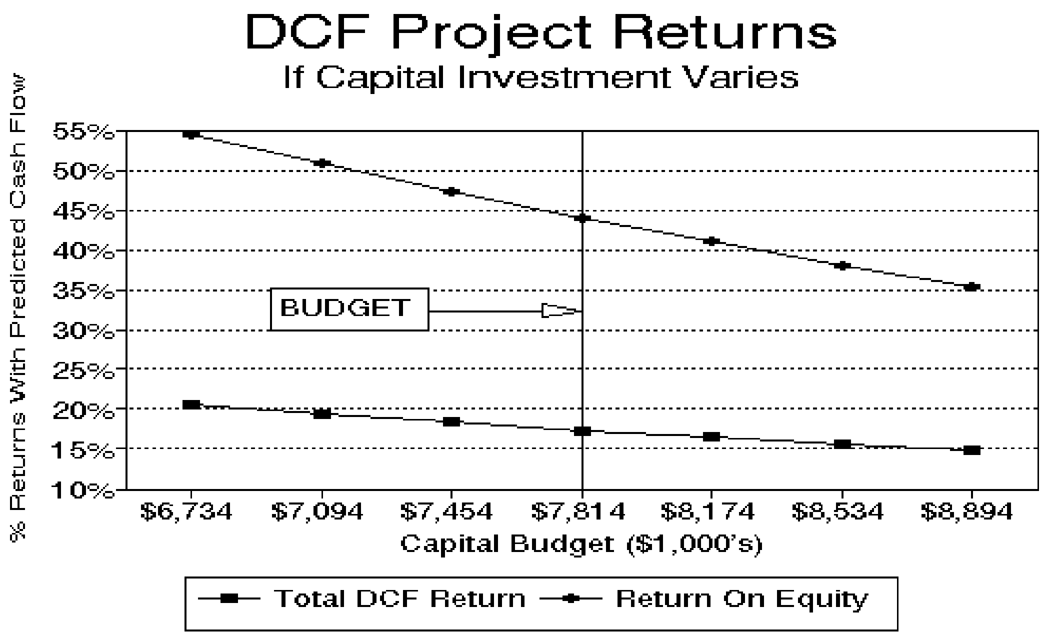
1. After reserve for on-going renovations, and incorporating a management fee for the hotel.
2. Assuming 30% equity and 70% debt at a 6% pre-tax debt cost; calculated weighted average.

The above cash flow, assuming a Year 10 sale, has been discounted at the rate of 17.39% to a present value of $7,815,099, equaling the total budgeted investment of $7,814,196. This 17.39% is the project's unleveraged return, provided capital is kept at this level.

An estimated capital budget for construction and FF&E of $80,000 per unit 'turn-key' costs for a hotel of this size and quality is above average for this brand and quality of product, in our experience, but reflects enhanced public spaces around the hotel. If capital outlays vary from budget for this project, returns will vary accordingly. The following table illustrates the linear nature of financial returns as capital requirements escalate or decline and revenue streams remain stable.

Effect on Returns if Capital Investment Changes[3]

	Improvements Budget		Land	Total	Discounted Cash Flow	
Variance	Per Unit	Total	Cost	Investment	Total Proj	On Equity
(85%)	$68.0	$6,120	$614	$6,734	20.55%	54.50%
(90%)	$72.0	$6,480	$614	$7,094	19.41%	50.70%
(95%)	$76.0	$6,840	$614	$7,454	18.37%	47.23%
BUDGET	**$80.0**	**$7,200**	**$614**	**$7,814**	**17.39%**	**43.97%**
(105%)	$84.0	$7,560	$614	$8,174	16.49%	40.97%
(110%)	$88.0	$7,920	$614	$8,534	15.64%	38.13%
(115%)	$92.0	$8,280	$614	$8,894	14.84%	35.47%



3. Discounted Cash Flow / Internal Rate of Return.

Year III 2015/2016

Room Revenues	$2,744,764
Total Revenues	$2,882,002
Income Before Fixed Costs	$1,646,468 (57.1%)
Net Income Before Tax & Fin.	$1,304,418 (45.3%)
Cash Flow Before Financing	$1,396,809 (48.5%)[4]
Occupancy %	72.6%
Average Daily Rate	$115.04
$ REVPAR	$ 83.55
Per Occupied Room Cost	$ 47.91

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

SUMMARY OF CRITICAL ASSUMPTIONS: **Critical assumptions are summarized as follows, with the Market History and Projection study (page 12) following the Methodology section (page 8).**

1. Projections of the local Lockhart Area Market[5] reflect a mixture of old and some new hotels. The average hotel room in the local market is 19 years old, more than half of the way through the life cycle of the typical hotel building, and past its peak performing years. The typical hotel building becomes stylistically and structurally obsolete after 30 years, though this figure is larger for high-rise/concrete structures. Most tellingly, the local market has 1,021 hotel rooms built before 1990 (and 1,189 rooms built since 2000), with these older, too large properties pulling down the overall market performance. There is typically a wide and dramatic gap between the performance of new and older properties, with the typical hotel in the area either being relatively new and competitive or older and on its way to closure.

We are comfortable with market projections, and expect market demand in the area to continue to rise. After strong results in the past 12 months, occupancy is expected to continue to rise in the short term, before responding to new supply additions, towards an

4. Before deductions of loan principal and interest, before income tax deductions, and before any equity payout.
5. Bastrop, Lockhart, Luling, Seguin, San Marcos.

equilibrium level of 60% by 2018. Further, REVPAR in this market is projected to grow by 2.5% annually over the next nine years, reflecting a continuing market recovery and the replacement of obsolete hotel product. Detailed local market history and projections commence on page 17.

LOCKHART AREA MARKET

Year	Occupancy %	$ REVPAR
2002	52.4%	$ 28.30
2004	53.4%	$ 29.34
2006	58.9%	$ 37.10
2008	58.9%	$ 42.07
2011	63.3%	$ 48.82[6]
Projected		
2013	63.1%	$ 53.13
2019	60.0%	$ 59.20
Historical Annual Compound Growth Rates		
Past 9 Year Average	2.1%	6.2%
Past 4 Year Average	1.7%	5.4%
Past Year Average	14.3%	20.9%
Future Annual Compound Growth Rates		
Next 9 Years	-0.6%	2.5%
Next 5 Years	-0.9%	2.6%

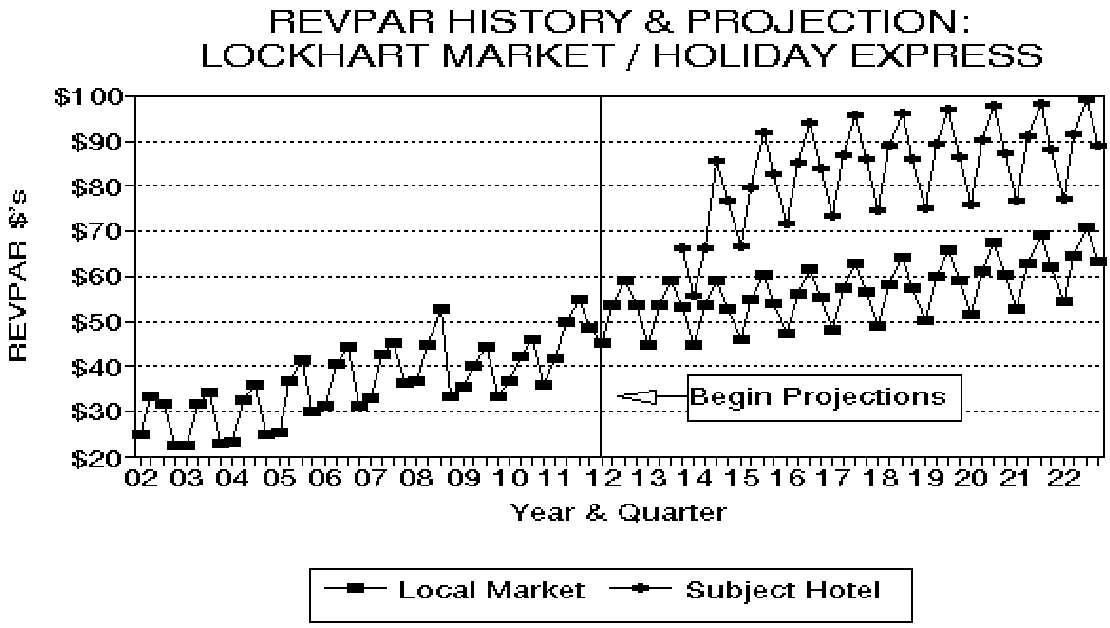
2. Versus the local market's REVPAR dollar projections, the REVPAR index of the proposed Holiday Inn Express Hotel & Suites ramps upwards, peaking at 152% of the market average REVPAR in Years III-V. Thereafter, the REVPAR Index declines due to the normal aging cycle. Detailed REVPAR derivation and subsequent projections commence on page 33.

HOLIDAY INN EXPRESS HOTEL & SUITES DERIVATION

Data in 2011 $'s	Year I	Year II	Year III
Base: Name & Quality	1.24	1.24	1.24
x Brand Age Adjustment	0.94	0.94	0.94
x Site Value Adjustment	1.10	1.10	1.10
x Size Adjustment	0.96	0.96	0.96
x Other Adjustments	1.10	1.10	1.10
x Newness Adjustment	0.92	1.07	1.12
= Performance Factor	124%	145%	152%
x Market REVPAR	$48.82	$48.82	$48.82
= Projected Performance	$60.77	$70.67	$73.98

6. 12 months ending December, 2011.

The projected REVPAR performance of the subject hotel, versus the local area market average REVPAR reflects the fact that this hotel is expected to perform at a level well above the market average. The hotel's REVPAR index starts in Year I at 124% of the market, rises to it's peak of 152% of the market in Years III-V, then slowly loses ground versus the local area's inflationary growth:



3. Expenses are set at the level of similar, high-quality mini-suite hotel products from Smith Travel Research Host Reports operating statistics, inflated at 3% per annum. See page 48 for details.

4. Much has been made of the potential impact of Formula One racing on the Austin/Texas 130/Lockhart area, and Source Strategies has analyzed other major entertainment / amusement parks in the state in order to appropriately address the impact of these facilities on a given hotel market area. In our opinion, while F1 racing will indeed be an economic boon to the area, the fact that the races and events at the track will only be occurring during several weeks/weekends of the year will limit the impact on area hotels. They will be full at highly inflated rates on race weeks, but will not receive highly significant impact during the rest of the year. Therefore, we have incorporated a significant rise in demand in the 4th quarter of each year, beginning in 2012.

Having examined the performance of hotel markets located within 15 miles of the installation and operation of a major entertainment venue (in this case, Fiesta Texas), we found that the REVPAR of the local market increased, versus the overall state of Texas average REVPAR, by 12% above the level that the market had historically been performing. This is the level of impact that these large venues make on their respective markets. We have moderated this increase due to the fact F1 racing and related activities are currently only expected to be occurring during several weekends of the year.

The City of Lockhart is expected to receive demand for hotels and services from F1 Racing, but the most important aspect of hotel project(s) in Lockhart is the brand of hotel selected for the Lockhart / TX 130 exits. Having the best available franchise (we have selected Holiday Inn Express) ensures that the hotel will continue to receive business during racing events and more importantly for the remainder of the year.[7]

5. For the purposes of this study we have assumed that there will be no other hotels built before the subject at any of the TX 130 and Lockhart exits, though given the probable high level of success of the subject we believe that other hotels will likely be built at different potential locations around Lockhart. If a strong new limited service hotel were to enter the immediate area (Lockhart), we would expect to see an impact on the performance of the subject Holiday Express. However, the addition of a new budget level hotel (Super 8 etc.) would likely not have a very strong impact on this project. Impact will depend on the brand and location of the new competition. We have, however, added 856 new rooms through the year 2019 (net new rooms), or almost 10 projects the size of the subject.

7 We have also examined the hotel as a Motel 6 project – see Addendum I for details.

METHODOLOGY

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

MARKET REVPAR FORECAST

The large San Antonio & Austin Metros market is examined historically and projected. The key in the market projections is to stabilize the metro market in the future at a sustainable, average equilibrium for occupancy, a level which we have determined to be approximately 60% in markets of this type, and lower for non-metro and highway areas. Over the 20 years from 1987 through 2007, according to the Source Strategies, Inc. database, hotel occupancy in Texas has averaged 59%, and 60% in overall Texas metros. This occupancy level is highly relevant as a long-term, equilibrium occupancy, a level where investors are neutral about adding new hotel rooms to the market and an average that will reoccur over long periods of time (e.g. 20 years).

After the wider market area is forecast, we forecast the performance of the local Lockhart Area Market on a similar basis. Market projections are based on growth rates in real demand (room-nights sold), prices (average daily rates), and supply (rooms available). The key in this projection is to stabilize the local market in the future at a sustainable, average equilibrium for occupancy, a level which we have determined to be approximately 60% in markets of this type. The REVPAR projection of the local market is then the pro forma market environment of the proposed subject development; the project will vary from the norm for only project-specific differences, and then only relatively.

PROJECT SPECIFIC VARIABLES:
DEVELOPMENT OF PROJECT REVPAR INDICES

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

The second adjustment used on the dollar value of the local area's REVPAR is the Brand Age Adjustment. This is made to reflect the average age of similarly branded hotels on the subject property's performance versus the market average. The opening dates of Holiday Inn Express Hotel & Suitess in similar areas were examined in order to quantify this factor.

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

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

A further, 'Other,' segment adjustment may be made if the proposed product type is under- or over- supplied in the local market, or for other factors. For example, a product type commanding 10% of the Texas market - but zero locally - would command a higher daily rate or occupancy locally because it is a relatively scarce commodity. Further, a subject product far exceeds the product quality of the brand average, then a positive adjustment should be made to

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[8] Study detailed in size factor derivation in analysis section.

reflect a better product than normal. While there is usually a reasonably consistent pattern of site factors for the nearby local chain properties selected, these factors often vary because of unique situations, including: 1) visibility and access differences between nearby sites; 2) any large variation from the norm in the usual number of rooms for a local chain property at a site; 3) a nearby property's quality, the quality of management, last renovation, etc.; and 4) any major new commercial development nearby (e.g. shopping, office complex, hospital). Adjustments can be made for these differences within forecast site factor, based on industry experience. This is the Segment, or Other adjustment.

Then the REVPAR potential of the subject Site, regardless of brand, is developed in two ways. First, all other property factors except site are calculated for nearby competitors, the site factor then being used to bring the calculated REVPAR into a match with actual REVPAR performance. In other words, combining all factors including a 'plugged' site factor results in the theoretical REVPAR projection equaling actual REVPAR for each property studied, revealing the mathematical value of individual hotel sites.

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

Then, the physical Age of the individual project impacts this REVPAR index. A +12% increase factor is applied to the combined REVPAR index in the operating Years III-V. A first-year start-up adjustment of -8% and a second year adjustment of +7%, followed by a +12% adjustment for years III-V. This factor reflects the major revenue-generating power of new versus old properties. In the sixth year and thereafter, the REVPAR index is then diminished at a rate of 1.67% per annum in order to reflect aging and the normal life-cycle of a hotel. As a renovated property, this factor is slightly different.

This pattern of declining performance with property aging is based on major studies of economic life-cycle patterns. The first study was conducted on a census of all 25,000 Texas rooms built between 1980 and 1982 (study published in September 1994 issues of *MarketShare*[9] and the October 1994 issue of *Hotel & Motel Management*); the second investigation was conducted on all 17,231 rooms built in Texas from 1990 through 1995. These Source Strategies, Inc. studies confirm a similar, major study conducted in 1982 at the Holiday corporation on 160 company-owned and company-operated Holiday hotels.

Combining all of these factors - Product Type, Brand Age, Site, Size, Segment (other), and Newness (Age) - results in the REVPAR stream for the project. A REVPAR stream from which room revenues, estimated rate, occupancy and roomnights sold are derived. At this point, the investment and operational costs can be laid against the revenue line to generate pro forma financial performance and discounted cash flow analysis. The calculation of the statistic of Operating Costs Per Occupied Room (before fixed/capital costs are deducted) is typically the important cost to examine carefully because it is highly stable and predictable, regardless of occupancy and rate. The Smith Travel Research Host Report of Hotel Operating Statistics, 2011 edition (2010 data) with dollar costs inflated, and Source Strategies, Inc. financial models are the source of operating cost statistics.

From national average occupancies, costs are categorized as fixed, semi-variable or variable, resulting in the highly-leveraged profit performance characteristic of lodging products, depending on occupancy and REVPAR performance (i.e. variable costs increase proportionately with higher occupancy levels while fixed costs do not). Furthermore, with a capital expenditures profile provided by the International Society of Hospitality Consultants' CapEx, A Study of Capital Expenditures in the U.S. Hotel Industry, a method has been applied to determine an appropriate amount of renovation reserves to ensure that the property is maintained at the franchisor's required level.

All study-area individual hotel/motel five year histories are included in the study, using the Source Strategies, Inc. database of all Texas hotels and motels (includes each hotel's brand, room count, room revenue, occupancy, rate and REVPAR). The methodology of this database is attached as an exhibit.

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[9] Now ***Hotel Brand Report.***

MARKET REVPAR HISTORY: TEXAS

1. Since 1980, the State of Texas (and the wider U.S. market) has experienced other instances of economic turmoil such as the current recession. In 1982-1983 the Texas market suffered through six consecutive quarters of major demand declines, with a sharp plummet of 24% in the first quarter of 1983.

Two years later, every quarter in 1986 posted significant demand decreases of 19% or more.

Before the recent recession, the most recent period of decline was in 2001, during which the onset of a recession was coupled, and accelerated by, the terrorist attacks of 9/11. Beginning in the Third quarter of 2001, seven of the next eight quarters showed declining room demand, and it was not until the first quarter of 2004 that healthy levels of growth resumed.

We have considered the historical market patterns in formulating our projections for all market projections. Though there are differences in each economic downturn, and areas across the state are impacted differently depending on factors driving demand, there is much that can be discerned from historical negative trending performances and the patterns of subsequent periods of recovery.

Historical quarterly periods of economic decline and recession are highlighted in the Texas market data that follows overleaf:

CENTERPOINT AT LOCKHART

III.
Centerpoint at Lockhart
Site Plan


West Bound
to San Marcos
FM 2720
SH 142
LAND USE & ZONING
RHD RESIDENTIAL
CHB RETAIL
RHD MULTI-FAMILY
HEAVY INDUSTRIAL
CHB
Retail
10.73 acres
CHB
Retail
27.28 acres
Boggy Creek
RHD
Residential
56.77 acres
Heavy Industrial
75.02 acres
RHD
Residential
30.53 acres
Frontage Road
Frontage Road
Frontage Road
CHB
Retail
5.2 acres
130
TOLL
CHB
Retail
15.59 acres
Heavy Industrial
19.13 acres
Union Pacific Railroad
North Bound
to Austin
RHD
Residential
8.43 acres
130
TOLL
South Bound
to IH 10
Frontage Road
RHD
Residential
25.80 acres
CR 108
CR 219