



October 11, 2010

FINANCIAL FEASIBILITY STUDY:

**Holiday Inn, Georgetown
431 Pflugerville Highway
Georgetown, Texas 78628**

This study has been prepared to determine the financial feasibility of operating the recently constructed 74 unit Holiday Inn along the west side of Pflugerville Highway, in Georgetown, Texas. The 2 acre lot is located adjacent to the Homewood Suites, which is under development, and is a short distance north of the existing La Quinta property. As a multi-story building with good signage the hotel is easily visible and accessible to area traffic. The site is convenient to the nearby businesses, restaurants, and other amenities in the local area.

Project quality is assumed to match the physical and operating standards of the Holiday Inn brand, a product of Intercontinental Hotel Group (Holiday Express, Candlewood Suites, Crowne Plaza, and Indigo Hotels). The level of quality and acceptance for the 'Holiday Inn Express' brand has been assumed in developing this financial feasibility study. Operating expenses are set at the level of similar product in the mid-price, limited service segment.

This study incorporates the current downturn in the Texas hotel market, and the broader national recession. In our Market section, we highlight the historical hotel performance in Texas, noting the effect of past recessions. While every market has its own 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 a continuation of the gradual period of recovery which started in early 2010. See the Market section for more details.

KEY FINDING: Developing and operating a Holiday Inn at this site should generate a strong unleveraged, pre-tax return on total invested capital of approximately 22%, with a return on equity approaching 75%. This return on invested capital assumes a total hotel investment of \$5,600,000, with per unit improvements estimated at \$64,865 as follows:

<u>Total Investment¹</u>	
Est. Land Investment	\$ 800,000 for 2 acres
Improvements	\$ 4,800,000 @ \$64,865 per unit
Total Investment	\$ 5,600,000
Pre-Tax Project Return	22.45%²
Pre-Tax Return on Equity	74.80%³

With a recent August 2010 opening, cash flow market projections for the Holiday, before taxes and after renovation reserves, should be available for debt service, income tax and dividends as follows:

<u>Project Summary</u>					
	<u>Occupancy</u>	<u>Average</u>	<u>\$</u>	<u>Total</u>	
	<u>Percent</u>	<u>\$ Rate</u>	<u>REVPAR</u>	<u>Revenue</u>	<u>Cash Flow**</u>
Year I	60.1%	\$102.51*	\$61.66	\$1,731,959	\$842,875
Year II	69.5%	\$107.38	\$74.65	\$2,096,851	\$1,072,904
Year III	72.7%	\$111.41	\$81.02	\$2,275,787	\$1,174,423
Year IV	72.8%	\$114.74	\$83.53	\$2,346,512	\$1,210,952
Year V	72.8%	\$118.18	\$86.04	\$2,416,851	\$1,201,318
Year VI	71.4%	\$121.74	\$86.94	\$2,442,155	\$1,170,726
Year VII	70.2%	\$125.39	\$88.05	\$2,473,412	\$1,226,208
Year VIII	69.0%	\$129.15	\$89.18	\$2,505,070	\$1,270,376
Year IX	67.9%	\$133.03	\$90.32	\$2,537,132	\$1,211,432
Year X	66.8%	\$137.02	\$91.48	\$2,569,605	\$11,298,799***

*Year I ADR equates to approximately \$75 in current market dollars.**Before Income Tax & Financing expense, but reflecting \$1,132,822 in reserves for capital expenditures / property renovation (\$15,308 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.

The above cash flow, assuming a Year 10 sale, has been discounted at the rate of 22.45% to a present value of \$5,600,893, approximating the total budgeted investment of \$5,600,000.

This 22.45% is the project's unleveraged return, provided capital is kept at this level.

An estimated capital budget of \$64,865 per unit 'turn-key' costs for a hotel of this size and quality are well below average, in our experience. 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.

¹ developer's estimate of investment in improvements and land.

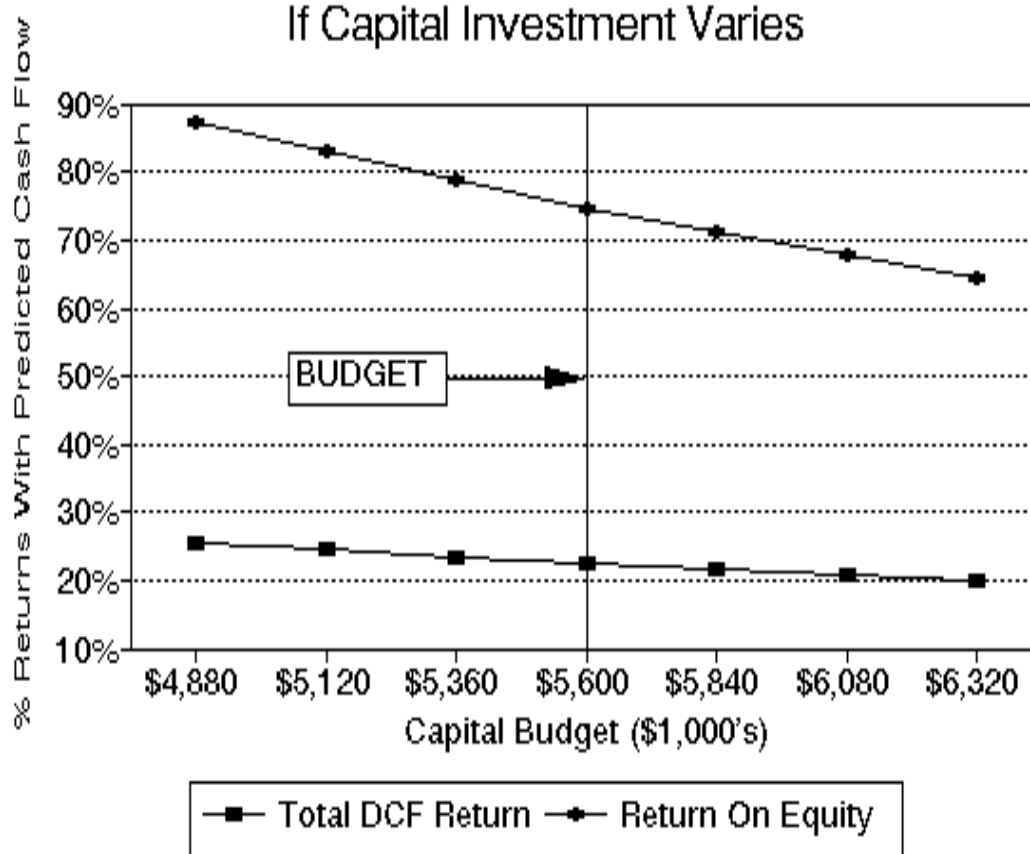
² after reserve for on-going renovations

³ assuming 25% equity and 75% debt at a 5% pre-tax debt cost; calculated weighted average.

Effect on Returns if Capital Investment Changes⁴

Variance	Improvements Budget		Land Cost	Total Investment	Discounted Cash Flow	
	Per Unit	Total			Total Proj	On Equity
(85%)	\$55.1	\$4,080	\$800	\$4,880	25.60%	87.40%
(90%)	\$58.4	\$4,320	\$800	\$5,120	24.47%	82.88%
(95%)	\$61.6	\$4,560	\$800	\$5,360	23.43%	78.72%
BUDGET	\$64.9	\$4,800	\$800	\$5,600	22.45%	74.80%
(105%)	\$68.1	\$5,040	\$800	\$5,840	21.54%	71.16%
(110%)	\$71.4	\$5,280	\$800	\$6,080	20.69%	67.76%
(115%)	\$74.6	\$5,520	\$800	\$6,320	19.88%	64.52%

DCF Project Returns If Capital Investment Varies



⁴ Discounted Cash Flow / Internal Rate of Return.

A detailed look at Year III (2012/2013) shows the following:

<u>Year III - 2012/2013</u>	
Room Revenues	\$2,188,257
Total Revenues	\$2,275,787
Income Before Fixed Costs	\$1,388,347 (61.0%)
Net Income Before Tax & Fin.	\$1,105,965 (48.6%)
Cash Flow Before Financing	\$1,174,423 (51.6%) ⁵
Occupancy %	72.7%
Average Daily Rate	\$111.41
\$ REVPAR	\$ 81.02

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 11) following the Methodology section (page 7).

1. Projections of the I-35 Corridor market reflect a mixture of old and newer competitive hotels. The average hotel room in the local market is 15 years old, half way through its probable cycle, and past its peak performing years. The typical hotel building becomes stylistically and structurally obsolete after about 30 years. Of the 52 hotels in the local market, 14 were built before 1986, and 21 were built since 2000. There is typically a wide gap between the performance of new and older properties, with the typical hotel in the area either being relatively new and competitive, or old and on its way to closure.

We are comfortable with market projections. After plummeting in 2009 with the recent recession, occupancy is expected to slowly recover to an equilibrium level of 60%. Further, REVPAR in this market is projected to grow by 3.9% annually over the next nine years, reflecting a slow market recovery and the replacement of obsolete hotel product. Detailed local market history and projections commence on page 15.

⁵ Before deductions of loan principal and interest, before income tax deductions, and before any equity payout.

IH-35 CORRIDOR MARKET

<u>Year</u>	<u>Occupancy %</u>	<u>\$ REVPAR</u>
2009	55.4%	\$ 36.93
2010	57.4%	\$ 37.25 ⁶
<u>Projected</u>		
2012	60.9%	\$ 43.25
2018	60.0%	\$ 51.90

Historical Annual Compound Growth Rates

Past 9 Year Average	-1.2%	-0.4%
Past 4 Year Average	-2.4%	-2.1%
Past 1 Year Average	-2.4%	-10.6%

Future Annual Compound Growth Rates

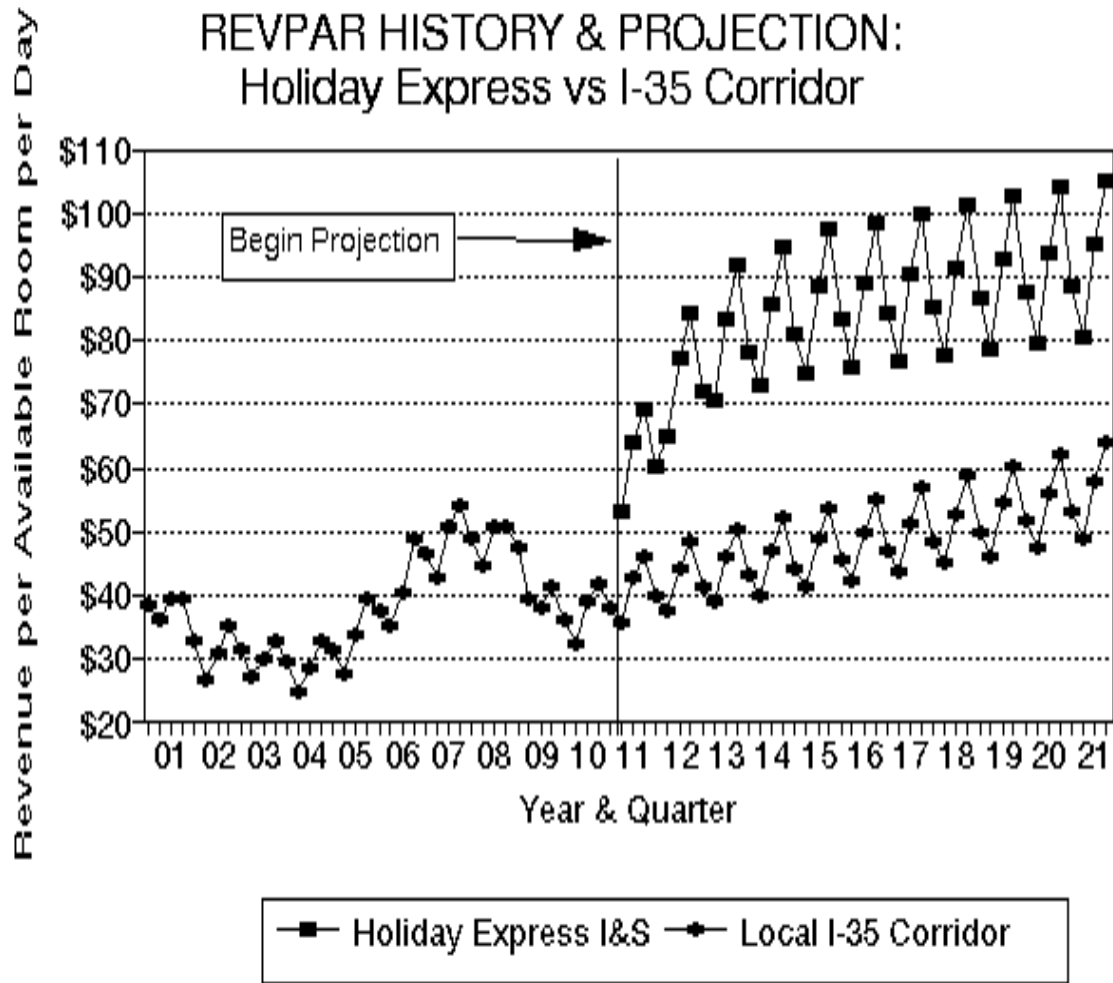
Next 9 Years	0.5%	3.9%
Next 5 Years	1.0%	4.7%

2. Versus the local market's REVPAR dollar projections, the REVPAR index of the proposed Holiday Inn starts at 150% of the market average REVPAR in Year I, climbs to 174% in Year II, and peaks at 182% in Years III-V. Thereafter, the REVPAR Index declines due to the normal aging cycle. Detailed REVPAR derivation and subsequent projections commence on page 32.

	<u>Holiday Inn</u>		
<u>Data in 2010 \$</u>	<u>Year I</u>	<u>Year II</u>	<u>Year III</u>
Base: Name & Quality	1.45	1.45	1.45
x Brand Age Adjustment	0.91	0.91	0.91
x Site Value Adjustment	1.15	1.15	1.15
x Size Adjustment	1.02	1.02	1.02
x Other Adjustments	1.05	1.05	1.05
x Newness Adjustment	0.92	1.07	1.12
= Performance Factor	150%	174%	182%
x Market REVPAR	\$37.25	\$37.25	\$37.25
= Projected Performance	\$55.69	\$64.77	\$67.80

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 level starts at a level well above the market average in Year I, peaks in Years III-V, then slowly loses ground versus the local market's inflationary growth:

⁶ 12 months ending June 30, 2010.



3. Expenses are set at the level of similar, limited service hotel products from Smith Travel Research Host Reports operating statistics, inflated at 3% per annum. See page 45 for details.

open Oct 1, 2010		Holiday Inn Express Georgetown				Land Value: 800,000
	# Rooms: 74	Investment per room excluding land: \$64,865				
QUARTER:	Fourth	First	Second	Third	Year	
Rm nites Sold	4,043	4,052	4,061	4,090	16,246	
Rm nites Avail	6,808	6,660	6,734	6,808	27,010	
Occupancy %	59.4%	60.8%	60.3%	60.1%	60.1%	
Avg Rate	\$90.00	\$105.00	\$115.00	\$100.00	\$102.51	
REVPAR	\$53.45	\$63.88	\$69.35	\$60.74	\$61.66	%
Room Revenues	\$363,870	\$425,460	\$467,015	\$409,000	1,665,345	96.2%
Other	14,555	17,018	18,681	16,360	66,614	3.8%
Total Sales	\$378,425	\$442,478	\$485,696	\$425,360	\$1,731,959	100.0%
<u>Operating Expense</u>						
Administration	15,137	17,699	19,428	17,014	69,278	4.0%
Housekeeping	15,161	15,195	15,229	15,338	60,923	3.5%
Laundry	6,065	6,078	6,092	6,135	24,369	1.4%
Front Desk	16,172	16,208	16,244	16,360	64,984	3.8%
Miscellaneous	7,568	8,850	9,714	8,507	34,639	2.0%
Taxes/Benefits	7,212	7,684	8,005	7,602	30,503	1.8%
Total Payroll	67,316	71,713	74,711	70,957	284,696	16.4%
<u>-Room Expense</u>						
S:Linen & Laundry	6,065	6,078	6,092	6,135	24,369	1.4%
Comp. F & B	8,086	8,104	8,122	8,180	32,492	1.9%
Total Room	14,151	14,182	14,214	14,315	56,861	3.3%
<u>-Other Expense</u>						
Phone Lines	2,031	2,031	2,031	2,031	8,123	0.5%
Elec/Utility	18,194	18,234	18,275	18,405	73,107	4.2%
Maint. & Repair	5,676	6,637	7,285	6,380	25,979	1.5%
Total Other	25,901	26,902	27,591	26,816	107,209	6.2%
<u>-Gen & Admin</u>						
Marketing & Adver	25,471	29,782	32,691	28,630	116,574	6.7%
Franchise Fee	21,832	25,528	28,021	24,540	99,921	5.8%
Credit Card	7,277	8,509	9,340	8,180	33,307	1.9%
Tot Admin & Gen	54,581	63,819	70,052	61,350	249,802	14.4%
-Total Op Expense	161,947	176,616	186,567	173,438	698,568	40.3%
Gross Op Profit	216,478	265,862	299,128	251,922	1,033,390	59.7%
<u>-Fixed Charges</u>						
Insurance	12,990	12,990	12,990	12,990	51,959	3.0%
Property Tax	15,137	17,699	19,428	17,014	69,278	4.0%
Deprec SL 39 Yrs.	30,769	30,769	30,769	30,769	123,077	7.1%
Tot Capital Expen	58,896	61,458	63,187	60,773	244,314	14.1%
Net Income Before Tax & Financing	157,582	204,404	235,942	191,149	789,076	45.6%
Depreciat. AddBac	30,769	30,769	30,769	30,769	123,077	7.1%
Renovation Reserv	(15,137)	(17,699)	(19,428)	(17,014)	(69,278)	-4.0%
Cash Flow Before Tax & Financing	173,214	217,474	247,283	204,904	842,875	48.7%

-see following 2 pages for the next 9 years-

Holiday Inn Express Georgetown										Compound Growth
# Rooms:	74									
Year	2	3	4	5	6	7	8	9	10	Yr 2-10
RmNites Sold	18,777	19,641	19,664	19,664	19,289	18,967	18,650	18,338	18,032	1.2%
RmNites Avail	27,010	27,010	27,010	27,010	27,010	27,010	27,010	27,010	27,010	0.0%
Occupancy %	69.5%	72.7%	72.8%	72.8%	71.4%	70.2%	69.0%	67.9%	66.8%	1.2%
Avg Rate*	\$107.38	\$111.41	\$114.74	\$118.18	\$121.74	\$125.39	\$129.15	\$133.03	\$137.02	3.3%
REVPAR	\$74.65	\$81.02	\$83.53	\$86.04	\$86.94	\$88.05	\$89.18	\$90.32	\$91.48	4.5%
RoomRevenues	2,016,203	2,188,257	2,256,262	2,323,895	2,348,226	2,378,281	2,408,721	2,439,550	2,470,774	4.5%
Other	80,648	87,530	90,250	92,956	93,929	95,131	96,349	97,582	98,831	4.5%
Total Revenues	2,096,851	2,275,787	2,346,512	2,416,851	2,442,155	2,473,412	2,505,070	2,537,132	2,569,605	4.5%
<u>Operating Expense - Payroll</u>										
Administration	71,357	73,497	75,702	77,973	80,313	82,722	85,204	87,760	90,393	3.0%
Housekeeping	72,526	78,139	80,578	82,995	83,855	84,928	86,014	87,113	88,229	4.2%
Laundry	29,010	31,256	32,231	33,198	33,542	33,971	34,406	34,845	35,292	4.2%
Front Desk	77,361	83,349	85,950	88,528	89,445	90,590	91,749	92,920	94,111	4.2%
Miscellaneous	41,237	44,428	45,815	47,189	47,678	48,288	48,906	49,530	50,165	4.2%
Taxes/Benefits	34,979	37,280	38,433	39,586	40,180	40,860	41,553	42,260	42,983	3.9%
Total Payroll	326,470	347,949	358,708	369,470	375,012	381,361	387,831	394,428	401,171	3.9%
<u>-Room Expense</u>										
Linen & Laundry	29,010	31,256	32,231	33,198	33,542	33,971	34,406	34,845	35,292	4.2%
Comp. F & B	38,681	41,674	42,975	44,264	44,722	45,295	45,874	46,460	47,055	4.2%
Total Room	67,691	72,930	75,206	77,462	78,264	79,267	80,280	81,305	82,347	4.2%
<u>-Other Expense</u>										
Phone Lines	9,670	10,419	10,744	11,066	11,181	11,324	11,469	11,615	11,764	4.2%
Electric	87,031	93,767	96,693	99,594	100,626	101,914	103,217	104,535	105,875	4.2%
Repairs & Maint	31,453	34,137	35,198	36,253	36,632	37,101	37,576	38,057	38,544	4.5%
Total Other	128,154	138,322	142,635	146,913	148,439	150,339	152,262	154,207	156,182	4.3%
<u>-Gen & Admin</u>										
Marketing & Adv	141,134	153,178	157,938	162,673	164,376	166,480	168,610	170,769	172,954	4.5%
Franchise Fee	120,972	131,295	135,376	139,434	140,894	142,697	144,523	146,373	148,246	4.5%
Credit Card	40,324	43,765	45,125	46,478	46,965	47,566	48,174	48,791	49,415	4.5%
Total G & A	302,430	328,239	338,439	348,584	352,234	356,742	361,308	365,933	370,616	4.5%
-TotOperExp.	824,746	887,440	914,988	942,429	953,949	967,709	981,681	995,873	1,010,316	4.2%
GrossOpProfit	1,272,105	1,388,347	1,431,524	1,474,422	1,488,207	1,505,704	1,523,388	1,541,259	1,559,289	4.7%

Holiday Inn Express Georgetown										Compound Growth
# Rooms:										
Year	2	3	4	5	6	7	8	9	10	Yr 2-10
RmNites Sold	18,777	19,641	19,664	19,664	19,289	18,967	18,650	18,338	18,032	1.2%
RmNites Avail	27,010	27,010	27,010	27,010	27,010	27,010	27,010	27,010	27,010	0.0%
Occupancy %	69.5%	72.7%	72.8%	72.8%	71.4%	70.2%	69.0%	67.9%	66.8%	1.2%
Avg Rate*	\$107.38	\$111.41	\$114.74	\$118.18	\$121.74	\$125.39	\$129.15	\$133.03	\$137.02	3.3%
REVPAR	\$74.65	\$81.02	\$83.53	\$86.04	\$86.94	\$88.05	\$89.18	\$90.32	\$91.48	4.5%
RoomRevenues	2,016,203	2,188,257	2,256,262	2,323,895	2,348,226	2,378,281	2,408,721	2,439,550	2,470,774	4.5%
Other	80,648	87,530	90,250	92,956	93,929	95,131	96,349	97,582	98,831	4.5%
Total Revenues	2,096,851	2,275,787	2,346,512	2,416,851	2,442,155	2,473,412	2,505,070	2,537,132	2,569,605	4.5%
Income BefFixe	1,272,105	1,388,347	1,431,524	1,474,422	1,488,207	1,505,704	1,523,388	1,541,259	1,559,289	4.7%
-Fixed Charges										
Insurance	62,906	68,274	70,395	72,506	73,265	74,202	75,152	76,114	77,088	4.5%
Land Lease										ERR
Property Tax	83,874	91,031	93,860	96,674	97,686	98,936	100,203	101,485	102,784	4.5%
Depr. SL 39 Yrs	123,077	123,077	123,077	123,077	123,077	123,077	123,077	123,077	123,077	0.0%
Total Fixed Ch.	269,857	282,382	287,333	292,256	294,028	296,216	298,432	300,676	302,949	2.4%
Income Before Tax & Financing	1,002,248	1,105,965	1,144,192	1,182,166	1,194,179	1,209,488	1,224,957	1,240,583	1,256,339	5.3%
Depr. AddBack	123,077	123,077	123,077	123,077	123,077	123,077	123,077	123,077	123,077	0.0%
RenovReserve	(52,421)	(54,619)	(56,316)	(103,925)	(146,529)	(106,357)	(77,657)	(152,228)	(313,492)	18.3%
Cash Before Tax & Financing	1,072,904	1,174,423	1,210,952	1,201,318	1,170,726	1,226,208	1,270,376	1,211,432	1,065,924	2.6%