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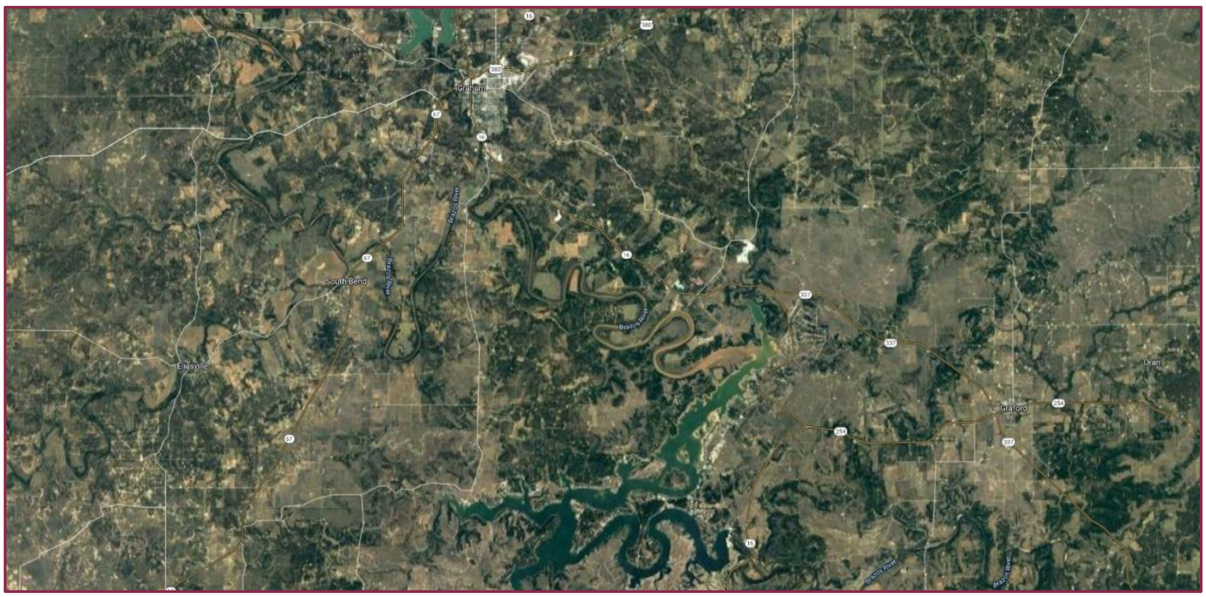
FINANCIAL FEASIBILITY STUDY



Home2 Suites

Graham, Texas 76450

(Excerpt)

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May 2, 2022

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Home2 Suites
Graham, Texas 76450

This study has been prepared to determine the financial feasibility of building and operating a 90 unit limited or select service hotel in Graham, Texas. For the purposes of our analysis, we have selected the available brand of Home2 Suites. Two locations within the city of Graham were examined, with the main thoroughfare of south Texas Highway 16 being deemed the most desirable site due to higher visibility and the likelihood of new development in the immediate area. The hotel is expected to open in January of 2024 on a site that is visible and is easily accessible from nearby traffic corridors. The hotel will be convenient to the many businesses, restaurants and other amenities in this growing area on the northern edge of the Possum Kingdom lake destination. A new hotel of this type would be the first new quality branded hotel for roughly 50 miles in any direction.

Project quality is set to meet the physical and operating standards of a high quality limited select service brand, such as the Home2 Suites. A specific brand was chosen so that we may provide an expected 10 year projected cash flow and a full ROIC for the hotel project (or a similar product), to be built in Graham. The actual level of consumer acceptance for this brand has been quantified versus market averages and has been assumed in developing this financial feasibility study. Product specification, revenues, and operating costs are set at the level of similar limited service segment hotel products.

KEY FINDING: Building and operating a Home2 Suites hotel generates an unleveraged, pre-tax return on total invested capital approaching 20%, with a return on equity exceeding 60% (DCF). This return on invested capital also assumes that improvements are completed at the estimated cost of $140,000 per unit, plus a land value of $500,000. This is a good hotel investment. Project details follow:

Total Investment

Land Value	$ 500,000	
Improvements Budget	$ 12,600,000	@ $140,000 per key[1]
Total Investment	$ 13,100,000	
Pre-Tax Project Return	**19.93%[2]**	
Pre-Tax Return on Equity	**60.30%[3]**	

This study incorporates historical fluctuations in the local hotel market, the current pandemic, the rebound from past national recessions, and the continued impact of local demand generators. In our Market section, we highlight historical hotel performance, noting the effect of past recessions. Consequently, our market projections consider how the lodging industry reacts in times of economic downturn and in normal times. See the Market section for further details and expectations for the future, both short and longer term.

With projections starting January 2024, cash flow market projections for the subject Home2 Suites, before taxes and after renovation reserves, should be available for debt service, income tax and dividends as follows. These results reflect operation by professional management:

Project Summary

	Occupancy Percent	Average $ Rate*	$ REVPAR	Total Revenue	Cash Flow**	
Year I	71.2%	$139.52	$99.31	$3,686,361	$1,676,830	
Year II	73.5%	$159.05	$116.90	$4,339,373	$2,088,142	
Year III	74.0%	$168.59	$124.71	$4,629,182	$2,259,987	
Year IV	72.5%	$171.96	$124.71	$4,629,219	$2,244,552	
Year V	72.5%	$175.40	$127.20	$4,721,803	$2,282,314	
Year VI	71.8%	$177.16	$127.20	$4,721,841	$2,260,840	
Year VII	71.1%	$178.93	$127.20	$4,721,879	$2,238,867	
Year VIII	70.7%	$179.82	$127.21	$4,721,916	$2,213,624	
Year IX	70.4%	$180.72	$127.21	$4,721,954	$2,187,748	
Year X	70.6%	$181.63	$128.14	$4,756,712	$28,351,719	***

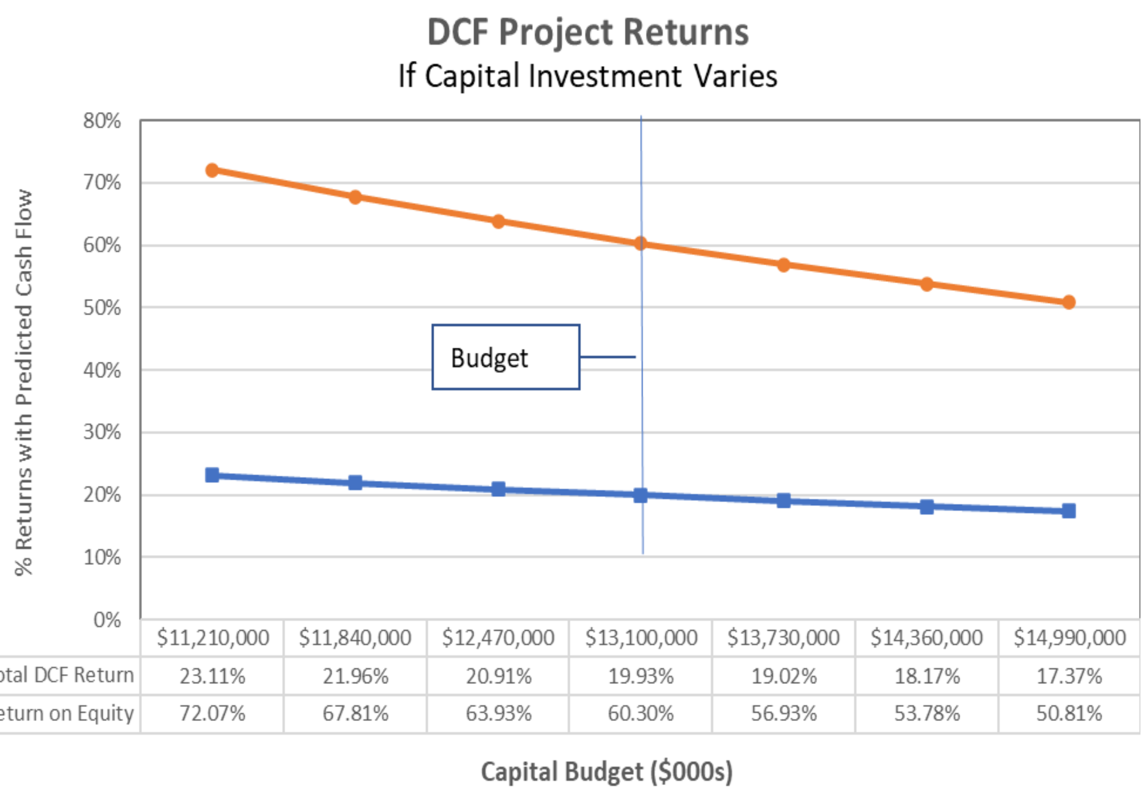
*Year I ADR equates to approximately $133 in current market dollars. **Before Income Tax & Financing expense, but reflecting $2,221,914 in reserves for capital expenditures/property renovation ($24,688 per unit). ***Assumes valuing property at Year 10 cash flow at an 8% return-to-buyer, less 4% expense of sale, plus year 10 cash flow.

1. Developer estimate of land and development costs.
2. After reserve for on-going renovations.
3. Assuming 27% equity and 73% debt at a 5% pre-tax debt cost; calculated weighted average.

The above cash flow, assuming a Year 10 sale, has been discounted at the rate of 19.93% to a present value of $13,101,389, essentially equaling the total budgeted investment of $13,100,000. This 19.93% is the project's unleveraged return, provided capital costs are kept at the current estimated level. An estimated capital budget for the construction of a Home2 Suites of $140,000 per unit 'turn-key' costs is above average, in our experience, but still reasonable for a lodging product of this size and quality, which is expected to include a significant food and beverage component. If capital outlays vary from the current budget for this project, returns will vary accordingly. The following table and graph 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

	Improvements Budget				Discounted Cash Flow	
Variance	Per Unit	Total	Land Cost	Total Investment	Total Project	On Equity
(85%)	119,000	$10,710,000	$500,000	$11,210,000	23.11%	72.07%
(90%)	126,000	$11,340,000	$500,000	$11,840,000	21.96%	67.81%
(95%)	133,000	$11,970,000	$500,000	$12,470,000	20.91%	63.93%
BUDGET	**140,000**	**$12,600,000**	**$500,000**	**$13,100,000**	**19.93%**	**60.30%**
(105%)	147,000	$13,230,000	$500,000	$13,730,000	19.02%	56.93%
(110%)	154,000	$13,860,000	$500,000	$14,360,000	18.17%	53.78%
(115%)	161,000	$14,490,000	$500,000	$14,990,000	17.37%	50.81%



	$11,210,000	$11,840,000	$12,470,000	$13,100,000	$13,730,000	$14,360,000	$14,990,000
Total DCF Return	23.11%	21.96%	20.91%	19.93%	19.02%	18.17%	17.37%
Return on Equity	72.07%	67.81%	63.93%	60.30%	56.93%	53.78%	50.81%

Year III of operation (2026) after opening for the Home2 Suites shows the following results:

Year III 2026

Room Revenues	$4,096,621		
Total Revenues	$4,629,182		
Income Before Fixed Costs	$2,757,734	59.6%	
Net Income Before Tax & Fin.	$2,162,224	46.7%	
Cash Flow Before Financing	$2,259,987	48.8%	*
Occupancy %	74.0%		
Average Daily Rate	$168.59		
$ REVPAR	$124.71		
Per Occupied Room Cost	$57.77		

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

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: Assumptions are summarized as follows (see page 18 for full Market History and Projection study, and page 7 for Methodology):

1. An examination of the local Graham Area[4] market reflects a mixture of a number of older and middle-aged properties, along with a growing percentage of newer hotels. Typically, a new hotel will have an inordinate advantage over older products. ***The average hotel room in the local market is 15 years old***, past the peak performing first ten years of the life cycle of the typical hotel building, which becomes stylistically and structurally obsolete after 30+ years. This 30 year life cycle is significantly longer for high-rise/concrete structures. Out of 1,843 total rooms in the local market, 669, or 36% have been built since 2009, while only 27%, or 500 rooms were opened before 1999 (at least 20 years old). There is usually a wide and dramatic gap between the performance of new and

4. Graham Area; Graham, Jacksboro, Olney, Archer, Bowie, Bridgeport, Breckenridge, Mineral Wells, & Weatherford.

older properties, with newer hotel inventory easily outperforming older hotels that are well past their peak performing years.

We are comfortable with market projections, and expect market demand growth levels in the area to continue at a moderate pace over the next nine years. The expectation is for the current high level of amount of recovering demand in the market will cause occupancy to return to an equilibrium level of 60%, by 2025. REVPAR is projected to increase at a 4.7% annual rate ***in the next five years*** (versus an annual 5.8% increase in the past nine years). Detailed local market history and projections commence on page 22.

City of Graham & Area Market

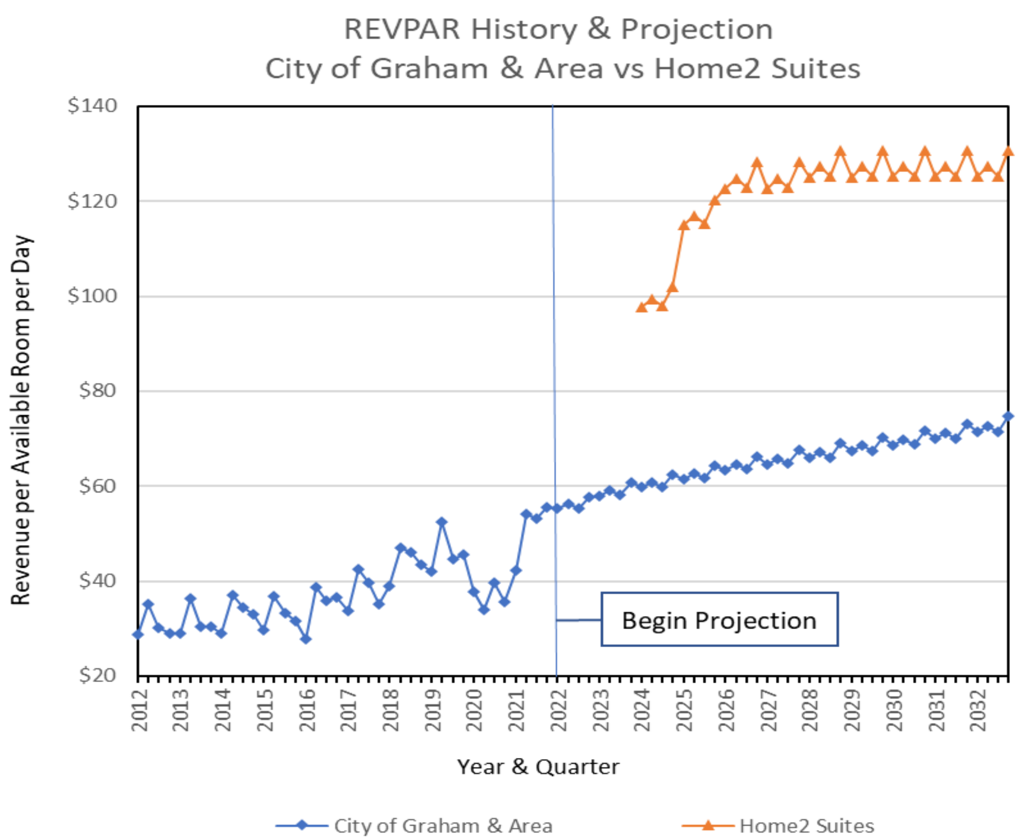
Year	Occupancy %	$ REVPAR
2012	54.3%	$30.76
2014	55.4%	$33.37
2016	58.5%	$34.71
2018	62.8%	$43.85
2020	48.1%	$36.77
Last 12 Months	58.3%	$51.26
Projected		
2022	59.0%	$56.16
2025	59.5%	$62.55
2030	59.5%	$69.74
Historical Annual Compound Growth Rates		
Past 9 Year Average	0.8%	5.8%
Past 4 Year Average	-0.8%	7.9%
Past 1 Year Average	-3.9%	5.4%
Future Annual Compound Growth Rates		
Next 9 Years	0.2%	3.5%
Next 5 Years	0.4%	4.7%

*Calendar Year basis.

2. Versus the local market's REVPAR dollar projections, the REVPAR index of the proposed hotel ramps upwards, peaking at 194% of the market average REVPAR in Year III. After Year III, the REVPAR Index for the hotel declines due to the normal aging cycle. Detailed REVPAR derivation and subsequent projections commence on page 32. Please note the below table REVPAR averages reflects the current pandemic hotel market (12 months ending December 31, 2021), and therefore reflects a performance at a lower level than what might be typically expected:

Home2 Suites Derivation			
Data in 2021 $'s	**Year I**	**Year II**	**Year III**
Base: Name & Quality	1.61	1.61	1.61
x Brand Age Adjustment	0.88	0.88	0.88
x Site Value Adjustment	1.05	1.05	1.05
x Size Adjustment	1.07	1.07	1.07
x Other Adjustments	1.05	1.05	1.05
x Newness Adjustment	0.98	1.12	1.16
= Performance Factor	**164%**	**187%**	**194%**
x Market REVPAR	$49.66	$49.66	$49.66
= Projected Performance	**$81.20**	**$92.80**	**$96.11**

The projected REVPAR performance of the subject hotel, versus the local area market average REVPAR reflects the fact that the subject is expected to perform at a level well above the market average:



3. Expenses are set at the level of similar select and limited service lodging products from the *Host Almanac* by ***STR*** operating statistics, inflated at 3% per annum. See page 43 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 of the forecast, an index that is used to adjust the overall market performance to the specific project.**

MARKET REVPAR FORECAST

A large 10 County market area is examined historically and projected. The key in the market projections is to stabilize the wider area market in the future at a sustainable, average equilibrium for occupancy, a level which we have determined to be approximately 59% for markets of this type. This occupancy level is highly relevant as a long-term, equilibrium occupancy, a level where investors are more 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, the performance of the Graham Area[5] is examined historically and projected. The key in the market projection is to stabilize this large market in the future at a sustainable, average equilibrium for occupancy, a level which we have determined to be approximately 60% in this market, about average for this type of smaller town and rural market. Over the 20 years from 1987 through 2007, according to the Source Strategies, database, hotel occupancy in Texas has averaged 60%, and 62% in larger Texas metros. The REVPAR projection of the local market is then the pro forma market environment of the project. This project will vary from the norm for only project-specific differences, and then only relatively.

5. Graham Area; Graham, Jacksboro, Olney, Archer, Bowie, Bridgeport, Breckenridge, Mineral Wells, & Weatherford.