NARRATIVE INVESTMENT VALUE APPRAISAL REPORT

Proposed Hilton Hotel

526 DOYLE AVENUE
KELOWNA, BRITISH COLUMBIA – CANADA

SUBMITTED TO:

Mr. Brenden Dueck
Premier Pacific Group
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PREPARED BY:

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December 2, 2013

Mr. Brenden Dueck
Premier Pacific Group
202 – 43869 Progress Way
Chilliwack, BC V2R 0E6

Re: Proposed Hilton Hotel
Kelowna, British Columbia – Canada
HVS Reference: 2013070135

Dear Mr. Dueck:

Pursuant to your request, we herewith submit our narrative appraisal report pertaining to the above-captioned proposed hotel. We have inspected the real estate and analyzed the market conditions in the area of Kelowna, British Columbia. We have also reviewed the proposed improvements for this site.

Based on our analysis, it is our opinion that the prospective "when complete" investment value of the combined fee simple and leased fee interests in the real and personal property of the Proposed Hilton Hotel, as of January 1, 2016, in Canadian dollars, will be:

$42,600,000

FORTY-TWO MILLION SIX HUNDRED THOUSAND DOLLARS

This value estimate equates to $259,800 per room.

We have also estimated the prospective investment value of the proposed subject property as of its projected date of stabilization. Based on our analysis, it is our opinion that the "when stabilized" prospective investment value of the combined fee simple and leased fee interest in the real and personal property of the Proposed Hilton Hotel, as of January 1, 2019, will be:

$47,900,000

FORTY-SEVEN MILLION NINE HUNDRED THOUSAND DOLLARS

We have assumed no hypothetical conditions in this valuation. The analysis is based on the extraordinary assumption that the described improvements will have been completed as of the prospective "when complete" date of value. The reader should understand that the completed subject property does not yet exist as of the date of the appraisal. Our appraisal does not address unforeseeable events that would alter the proposed project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, will take place between the date of the inspection and the date of the prospective value. We have made no other extraordinary assumptions specific to this appraisal; however, several important general assumptions have been made that apply to this appraisal and our valuations of proposed hotels in general. These aspects are set forth in the "Assumptions and Limiting Conditions" chapter.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Sincerely,
MM&R Valuation Services, Inc.

Jason Wight, Vice President
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Carrie Russell, AACI, MAI, RIBC, Managing Director
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Table of Contents

1. Summary of Salient Data and Conclusions

Project:	Proposed Hilton Hotel
Location:	526 Doyle Avenue Kelowna, British Columbia
Interest Appraised:	Combined fee simple and leased fee
Highest and Best Use (as if vacant):	Mixed-use development with a hotel

LAND DESCRIPTION

Area:	Total Site: 1.07 acres, or 46,717 square feet Hotel Portion: 0.54 acres, or 23,358 square Feet
Zoning:	C7 – Central Business Commercial
Legal Description:	Lot A, District Lot 139 ODYD, Plan KAP87835 and Lot A, District Lot 139, ODYD, Plan EPP9526
Flood Zone:	According to the City of Kelowna, the subject site is not located in an area of flood risk.

PROPOSED IMPROVEMENTS DESCRIPTION

Expected Opening Date:	January 1, 2016
Property Type:	Full-service lodging facility
Building Area:	88,797 square feet
Guestrooms:	164
Number of Storeys:	22
Food and Beverage Facilities:	A restaurant and lounge, and a leased restaurant
Meeting Space:	2,750 square feet
Additional Facilities:	An outdoor pool, an outdoor whirlpool, a fitness centre, a business centre, and a leased spa
Parking Spaces:	295 (total for Monaco development)

SUMMARY OF VALUE PARAMETERS

Number of Years to Stabilize:	Four (after opening)
Stabilized Year:	2019

INVESTMENT VALUATION ASSUMPTIONS

Mortgage Interest Rate:	5.0%
Amortization Period:	25 years
Debt Service Constant:	0.069793
Loan-to-Value Ratio:	60%
Inflation Rate:	2.0%
Equity Yield Rate:	13.0%
Terminal Capitalization Rate:	7.5%
Selling Expenses:	1.0%
Holding Period:	10 years
Calculated Discount Rate:	9.0%
Derived Capitalization Rates:	3.1% (Year 1), 7.7% (Deflated Stabilized)

INVESTMENT VALUE OPINIONS AS OF JANUARY 1, 2016

Income Capitalization Approach:	$42,600,000
Sales Comparison Approach:	$21,500,000 to $55,800,000
Cost Approach:	$42,600,000
Prospective "When Complete" Investment Value:	$42,600,000 ($259,800 per room)

VALUE OPINION AS OF JANUARY 1, 2019

"When Stabilized" Prospective Investment Value:	$47,900,000 ($292,100 per room)

ASSIGNMENT CONDITIONS

Extraordinary Assumptions:	The analysis is based on the extraordinary assumption that the described improvements will have been completed as of the prospective "when complete" date of value. The reader should understand that the completed subject property does not yet exist as of the date of the appraisal. Our appraisal does not address unforeseeable events that would alter the proposed project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, will take place between the date of the inspection and the date of the prospective value. We have made no other extraordinary assumptions specific to this appraisal; however, several important general assumptions have been made that apply to this appraisal and our valuations of proposed hotels in general. These aspects are set forth in the "Assumptions and Limiting Conditions" chapter.
Hypothetical Conditions:	We have assumed no hypothetical conditions in this valuation.

2. Nature of the Assignment

Subject of the Appraisal

The subject of this appraisal is the combined fee simple and leased fee interests of a proposed hotel that will occupy approximately 23,358 square feet, or 0.54 acres of the 46,717-square-foot (1.07-acre) subject site. The proposed subject hotel will be a full-service lodging facility that will be associated with the Hilton Hotels brand. The proposed Hilton is expected to open on January 1, 2016, and feature 164 guestrooms, a restaurant and lounge, and a leased restaurant, 2,750 square feet of meeting space, an outdoor pool, an outdoor whirlpool, a fitness centre, a business centre, and a leased spa, as well as all the necessary back-of-the-house space.

The proposed subject hotel will be a part of the Monaco mixed-use development. In addition to the 22-storey hotel tower that forms the subject of this valuation, the project will feature 161 condo units in a separate 30-storey tower that will be located at the north end of the site, as well as a 4-storey podium that will have retail and commercial units. Only the hotel component is appraised in this report.

The site currently has two single-storey buildings on the north and southwest portions of the site. These building will be demolished once construction of the proposed subject property commences. The remainder of the site is vacant and currently serves as surface parking. The subject site is located at 526 Doyle Avenue in Kelowna, British Columbia.

Property Rights Appraised

The property rights appraised include both a fee simple estate and a leased fee interest. Fee simple estate is defined as "absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat." Leased fee interest is defined as "a freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease)."[1]

The proposed subject property is expected to receive rental income from the leased restaurant and leased spa. Tenants for the leased were not confirmed at the time of the study. Our projection of lease income is based on market supported rental rates. We have assumed that the restaurant space and spa space will be leased at the time of the proposed subject property's opening.

[1] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).

The Proposed Hilton Hotel is appraised as an open and operating facility.

Pertinent Dates

The effective date of the prospective "when complete" investment value opinion is January 1, 2016. The effective date of the prospective "stabilized" investment value opinion is January 1, 2019. All projections are expressed in inflated dollars. Jason Wight inspected the subject site on November 15, 2013. Carrie Russell, AACI, MAI, RIBC, participated in the analysis and reviewed the findings but did not personally inspect the property.

Ownership, Franchise, and Management Assumptions

The developer of the proposed subject property is Premier Pacific Group. The registered ownership entity of the site is 0754028 B.C. Ltd. The total site was purchased in three phases between 2006 and 2013. The total purchase price of the three components was $5,960,000. We have allocated $2,980,000 (50%) of the total purchase price to the hotel component. No other transfers of the property have reportedly occurred within the past three years.

Hilton Worldwide is expected to manage the proposed subject property. According to Hilton, a typical corporately managed Hilton hotel management fee is 6.0% of total revenue, plus a marketing fee. For this valuation, we have assumed a management fee of 6.0% of total revenue and a marketing fee of 4.0% of rooms revenue. It should be noted that a confirmed agreement was not in place at the time of this assignment. Reservations fees will also be due and are included in the rooms expense line item of our forecast.

The proposed subject property is expected to be branded as a Hilton. Since the brand will manage the proposed subject hotel, the franchise royalty fee has been included as a part of the management fee. This valuation assumes that the proposed subject hotel will operate as a Hilton Hotel throughout the projection period.

Objective of the Appraisal

The objective of this feasibility study is to develop an opinion of the proposed subject property's "when complete" prospective investment value and "when stabilized" prospective investment value. The Appraisal Institute provides the following definition of investment value:

> The specific value of an investment to a particular investor or class of investors based on individual investment requirements; distinguished from market value, which is impersonal and detached.

Prospective value is defined by the Appraisal Institute as follows:

> A value opinion effective as of a specified future date.[2]

The prospective investment value opinion upon stabilization estimates the investment value of a property upon reaching a stabilized level of operation. Operations are stabilized at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property.

Intended Use of the Appraisal

This narrative report has been prepared for use in the asset evaluation of the proposed subject property.

Identification of the Client and Intended User(s)

The client for this engagement is Premier Pacific Group. This report is intended for the addressee firm, and it may not be distributed to or relied upon by other persons or entities.

Assignment Conditions

“Extraordinary assumption” is defined in CUSPAP as follows:

> Extraordinary assumptions refer to a hypothesis, either supposed or unconfirmed, which, if not true, could alter the appraiser’s opinions and conclusions.
>
> Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conclusions external to the property, such as market conditions, trends or the integrity of the data used in an analysis.[3]

The analysis is based on the extraordinary assumption that the described improvements will have been completed as of the prospective "when complete" date of value. The reader should understand that the completed subject property does not yet exist as of the date of the appraisal. Our appraisal does not address unforeseeable events that would alter the proposed project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, will take place between the date of the inspection and the date of the prospective value. We have made no other extraordinary assumptions specific to this appraisal; however, several important general assumptions have been made that apply to this appraisal and our valuations of proposed hotels in general. These aspects are set forth in the "Assumptions and Limiting Conditions" chapter.

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[2] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).

[3] Appraisal Institute of Canada, Canadian Uniform Standards of Professional Appraisal Practice, 2012, pg. 60.

“Hypothetical condition” is defined in CUSPAP as follows:

> That which is contrary to what exists but is supposed for the purpose of analysis.
>
> Comment: Hypothetical conditions presume as fact simulated but untrue information about physical, legal, or economic characteristics of the subject property; or external conditions.[4]

We have assumed no hypothetical conditions in this valuation.

Marketing and Exposure Periods

The concepts of marketing period and exposure period are similar and simply reflect different perspectives in time. Exposure period is defined as the estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at its market value, as of the date of value. The exposure period reflects a retrospective opinion based on an analysis of past events and assumes a competitive and open market. Marketing period refers to the amount of time necessary to market the hotel subsequent to our date of value for it to sell for the appraised value, and thus is a prospective opinion.

The exposure period for the proposed subject property, prior to our date of value, is estimated to be less than or equal to twelve months, while the marketing period for the proposed subject property, subsequent to our date of value, is less than or equal to twelve months. The marketing and sales process for hotels is extremely efficient. Brokers specializing in hotel transactions actively solicit potential buyers on an ongoing basis and maintain databases on hotel investor criteria. According to the brokers interviewed, the current period from when a property is listed to when the sale closes is typically six to nine months. Brokers are able to electronically produce marketing materials, elicit interest, schedule property tours, accept offers, and select a buyer in approximately 90 to 120 days. Following the execution of a purchase and sale agreement, the due diligence and closing period is typically 90 days.

Hotel properties are being actively sought after by investors. Since the economic downturn, funds have been established to pursue hotel acquisitions. Quality assets often solicit numerous bids, and for willing buyers and sellers, the marketing process has resulted in the timely closing of transactions. We are also aware that some potential sellers are not actively marketing their hotels at this time. Although

[4] Appraisal Institute of Canada, Canadian Uniform Standards of Professional Appraisal Practice, 2012, pg. 60.

these sellers may bring their assets to market during a more robust financing period, their current lack of participation in the process does not influence our opinion concerning the exposure period.

Competency

Our qualifications are included as an addendum to this report. These qualifications reflect that we have the competence required to complete this engagement. Our knowledge and experience is appropriate for the complexity of this assignment.

Scope of Work

The methodology used to develop this appraisal is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute: *The Valuation of Hotels and Motels,*[5] *Hotels, Motels and Restaurants: Valuations and Market Studies,*[6] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[7] *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations,*[8] and *Hotels and Motels – Valuations and Market Studies.*[9]

1. All information was collected and analyzed by the staff of MM&R Valuation Services, Inc. Information was supplied by the client and/or the property's development team.

2. The subject site has been evaluated from the viewpoint of its physical utility for the future operation of a hotel, as well as access, visibility, and other relevant factors.

3. The proposed improvements have been reviewed for their expected quality of construction, design, and layout efficiency.

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[5] Stephen Rushmore, *The Valuation of Hotels and Motels* (Chicago: American Institute of Real Estate Appraisers, 1978).

[6] Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies* (Chicago: American Institute of Real Estate Appraisers, 1983).

[7] Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations* (Chicago: American Institute of Real Estate Appraisers, 1990).

[8] Stephen Rushmore, Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations (Chicago: Appraisal Institute, 1992).

[9] Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies* (Chicago: Appraisal Institute, 2001).

4. The surrounding economic environment, on both an area and neighbourhood level, has been reviewed to identify specific hostelry-related economic and demographic trends that may have an impact on future demand for hotels.

5. Dividing the market for hotel accommodations into individual segments defines specific market characteristics for the types of travellers expected to utilize the area's hotels. The factors investigated include purpose of visit, average length of stay, facilities and amenities required, seasonality, daily demand fluctuations, and price sensitivity.

6. An analysis of existing and proposed competition provides an indication of the current accommodated demand, along with market penetration and the degree of competitiveness. Unless noted otherwise, we have inspected the competitive lodging facilities summarized in this report.

7. Documentation for an occupancy and average rate projection is derived utilizing the build-up approach based on an analysis of lodging activity.

8. A detailed projection of income and expense made in accordance with the Uniform System of Accounts for the Lodging Industry sets forth the anticipated economic benefits of the proposed subject property.

9. The appraisal considers the following three approaches to value: cost, sales comparison, and income capitalization. We have investigated numerous improved sales in the market area, and we have spoken with buyers, sellers, brokers, property developers, and public officials. Because lodging facilities are income-producing properties that are normally bought and sold on the basis of capitalization of their anticipated stabilized earning power, the greatest weight is given to the value indicated by the income capitalization approach. We find that most hotel investors employ a similar procedure in formulating their purchase decisions; thus, the income capitalization approach most closely reflects the rationale of typical buyers.

The value conclusion conveyed in this narrative report is based on this investigation and analysis.

3. Description of the Site and Neighbourhood

The suitability of the land for the operation of a lodging facility is an important consideration that affects a property's economic viability and overall value. Size, topography, access, visibility, and the availability of utilities are factors that have a direct impact on the desirability of a particular site.

The subject site is located in downtown Kelowna, British Columbia, in the northwest quadrant of the intersection formed by Doyle Avenue and St. Paul Street.

Physical Characteristics

The subject site measures approximately 1.07 acres, or 46,717 square feet. The parcel's adjacent uses are set forth in the following table.

FIGURE 3-1 SUBJECT PARCEL'S ADJACENT USES

Direction	Adjacent Use
North	Commercial Building
South	Doyle Avenue
East	St. Paul Street
West	Condo Building

VIEW OF SUBJECT SITE

AERIAL PHOTOGRAPH

VIEW FROM SITE TO THE NORTH

VIEW FROM SITE TO THE SOUTH

VIEW FROM SITE TO THE EAST

VIEW FROM SITE TO THE WEST

Vehicular access to the proposed subject property will be provided by Doyle Avenue. The topography of the rectangular parcel is generally flat.

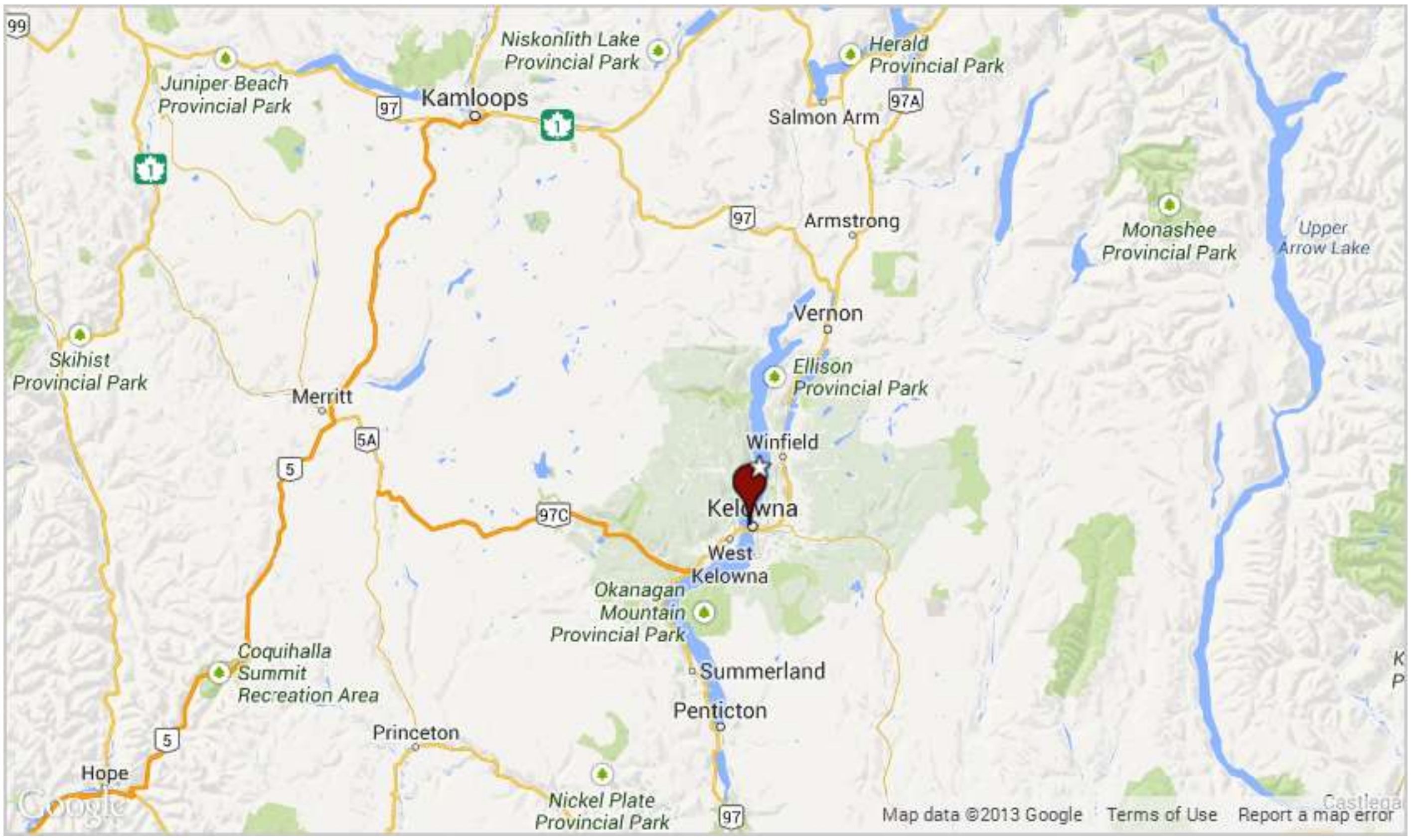
Site Utility

Upon completion of construction of the mixed-use development, the subject site will not contain any significant portion of undeveloped land that could be sold, entitled, or developed for an alternative use.

Access and Visibility

It is important to analyze the site in regard to ease of access with respect to regional and local transportation routes and demand generators. The subject site is readily accessible from a variety of roads and highways.

MAP OF REGIONAL ACCESS ROUTES



Kelowna is in British Columbia's southern interior, 400 kilometres from Vancouver, 600 kilometres from Calgary, 500 kilometres from Seattle, and 400 kilometres from Spokane. Highway 97 runs north/south through the Central Okanagan and provides a direct route to the United States via Wenatchee, Washington. Highway 97 connects to the Trans-Canada Highway (Highway 1) at Monte Creek, Salmon Arm, and Sicamous. The Okanagan Connector (Highway 97C) provides a convenient link between the Central Okanagan and the Coquihalla Highway (Highway 5).

The subject property is accessible from Highway 97. To reach the subject site from westbound Highway 97, motorists turn right onto Ellis Street, proceed 600 metres to Doyle Avenue, turn right, and proceed to St. Paul Street. The subject site is then on the left-hand side. Once the proposed subject hotel is constructed, it will benefit from great visibility throughout the neighbourhood, as the hotel and condo towers on the site will stand 22 storeys and 30 storeys, respectively, making them the tallest structures in downtown Kelowna. The subject site has good accessibility via Doyle Avenue, which runs east/west along the south side of the subject site.

Airport Access

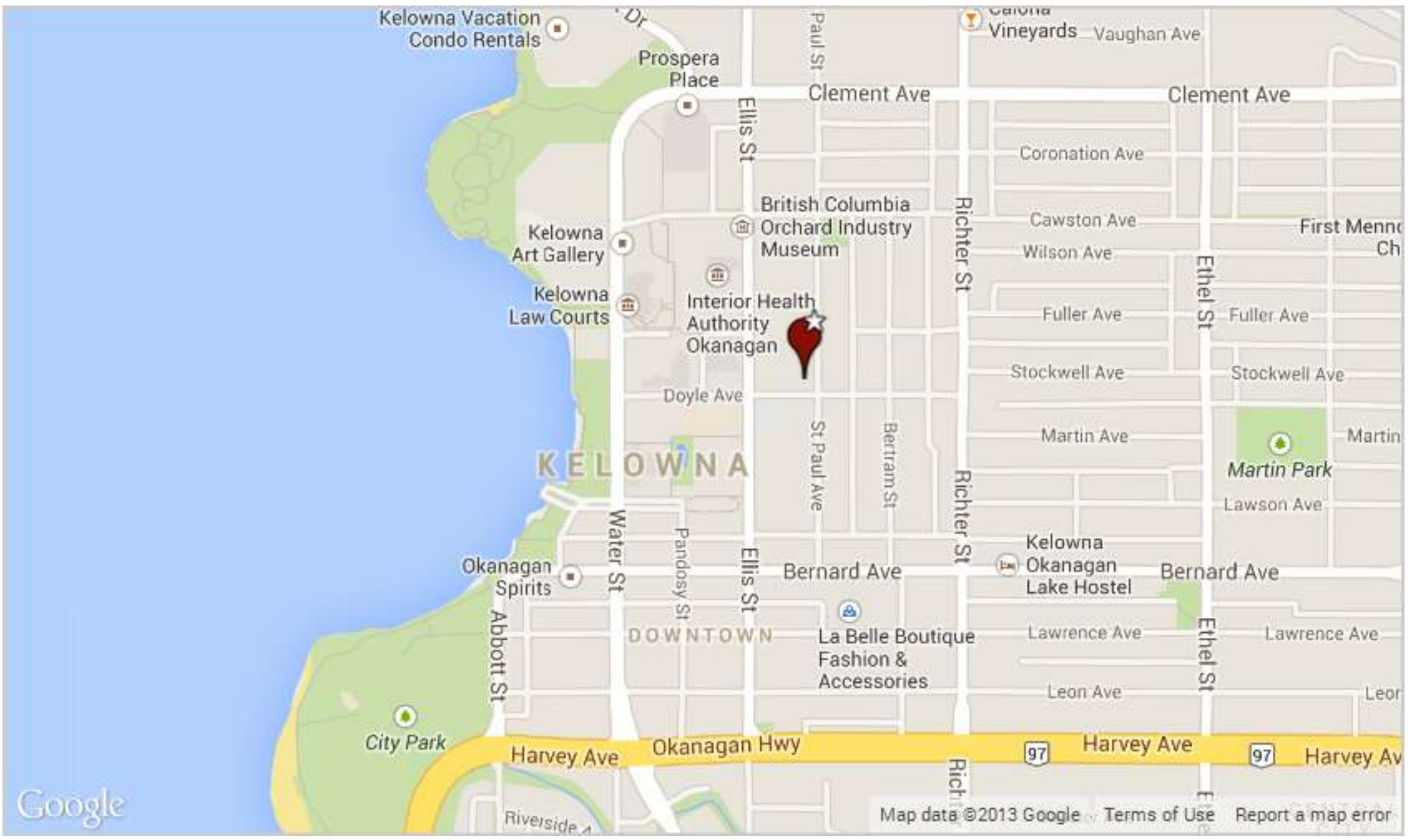
Kelowna International Airport is located approximately 25 kilometres north of the subject site via Highway 97. To reach the subject site from the airport, motorists follow signage and turn left onto the Okanagan Highway (Highway 97) southbound. After driving for approximately 13 kilometres, they turn right onto Ellis Street and proceed northbound. Motorists will then turn right onto Doyle Avenue and drive to St. Paul Street; the subject site is then on the left-hand side.

Neighbourhood

The neighbourhood surrounding a lodging facility often has an impact on a hotel's status, image, class, and style of operation, and it sometimes affects a hotel's ability to attract and properly serve a particular market segment. This section of the report investigates the neighbourhood and evaluates any pertinent location factors that could affect the proposed subject hotel's future occupancy, average rate, and overall profitability.

The subject site is situated in downtown Kelowna, which is bounded by Highway 97 to the south, Okanagan Lake to the west, Brandt's Creek/Recreation Avenue to the north, and Richter Street to the east. The City of Kelowna has initiated a downtown redevelopment plan that is expected to change the appearance and density of the downtown core in the long term. The further development of the area will enhance the desirability of the proposed subject property's location.

MAP OF NEIGHBOURHOOD



Overall, the supportive nature of the development in the immediate area is considered appropriate for and conducive to the operation of a hotel, as part of a mixed-use development.

Utilities

The subject site will reportedly be served by all the necessary utilities.

Soil and Subsoil Conditions

Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by a visual inspection of the surface; no extraordinary conditions were apparent.

Nuisances and Hazards

We were not informed of any site-specific nuisances or hazards, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste. We urge the reader to obtain an independent analysis of these factors.

Flood Zone

According to the City of Kelowna, the subject site is not located in an area of flood risk.

Zoning

According to the local planning office, the subject property is zoned as follows: C7 – Central Business Commercial. This zoning designation allows for most commercial uses, including financial services, commercial schools, business support services, health services, multiple dwelling housing, apartment hotels, and hotels. We assume that all the necessary permits and approvals will be secured (including the appropriate liquor licence if applicable) and that the proposed subject property will be constructed in accordance with local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

Easements and Encroachments

We are not aware of any easements attached to the property that would significantly affect the utility of the site or the marketability of this project.

Conclusion

We have analyzed the issues of size, topography, access, visibility, and the availability of utilities. In general, the subject site is well suited for a mixed-use development that includes a hotel component.. The access, the visibility, and the topography are conducive to the effective operation of a lodging facility.

4. Description of the Proposed Project

The quality of a lodging facility's physical improvements has a direct influence on marketability, attainable occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability. This section investigates the proposed physical improvements and personal property in an effort to determine how they are expected to contribute to attainable cash flows.

Project Overview

The Proposed Hilton Hotel will be a full-service lodging facility containing 164 rentable units. The 22-storey hotel will open on January 1, 2016. The site currently has two single-storey buildings on the north and southwest portions of the site. These building will be demolished once construction of the proposed subject property commences. The remainder of the site is vacant and currently serves as surface parking.

Hilton is the signature brand of Hilton Worldwide (formerly Hilton Hotels Corporation), which is recognized internationally as a preeminent hospitality company. Other brands in the company's portfolio include Conrad, DoubleTree, Embassy Suites, Hampton Inn, Hilton Garden Inn, and Homewood Suites. Hilton hotels target business, group, and leisure travellers. Most properties feature swimming pools and whirlpools, fitness centres, business centres, restaurant facilities, and meeting space. In addition, guests benefit from Hilton's worldwide reservations system and highly acclaimed guest loyalty program, Hilton HHonors.

Summary of the Facilities

Based on the information provided by the proposed subject property's development representatives, the following table summarizes the facilities that will be available at the proposed subject property.

FIGURE 4-1 PROPOSED FACILITIES SUMMARY

Guestroom Configuration		Number of Units
Guestrooms		164
Food & Beverage Facilities		
Restaurant and Lounge		
Leased Restaurant		
Indoor Meeting & Banquet Facilities		**Square Footage**
Meeting room		2,750
Amenities & Services		
Outdoor Swimming Pool	Fitness Centre	
Outdoor Whirlpool	Business Centre	
Vending Areas		
Leased Spa		
Infrastructure		
Parking Spaces		295
Elevators		2 Tower, 2 Podium
Life-Safety Systems		Sprinklers, Smoke Detectors
Construction Details		Reinforced Concrete

Site Improvements and Hotel Structure

Once guests approach the front of the hotel on Doyle Avenue, a parking lane will be available for arriving guests to unload their bags and check into the hotel. Valet parking service will be available to guests, or they will be able to self-park in the 4-level above-grade parking garage. We assume that the signage will adequately identify the property and meet brand standards. The landscaping is expected to be minimal, as the proposed subject hotel will be built close to the property line. Sidewalks will be present along the south and east sides of the subject site. Overall, the planned site improvements appear adequate for the property.

The Monaco development will comprise a 22-storey hotel tower and a 30-storey residential tower connected by a 4-storey podium that will include parking, retail units, and office units. The structure will be made of poured concrete. It should be noted that this study considers only the hotel component of the overall Monaco development. The exterior of the hotel will comprise coloured concrete and glass window panels. The 22-storey tower will be serviced by one stairway and two elevators. An additional two elevators and two stairwells will provide vertical transportation to the podium levels within the hotel building. Heating and cooling will be provided by centralized systems. The building components are expected to be appropriate for a hotel of this type and should meet the standards for this market. We assume that all structural components will meet local building codes and that no significant defaults will occur during construction that would impact the future operating potential of the hotel or delay the assumed opening date.

Lobby

Guests are expected to enter the hotel through a single set of automatic doors that will open to the lobby area. The 2-storey lobby should be appropriate for a Hilton-branded hotel. The lobby walls should be attractively finished with an upscale material that is in line with brand standards. The front desk should feature a granite countertop and is expected to be installed with appropriate property management and telephone systems. The furnishings and finishes in this space should offer an appropriate first impression. The specific design concept should be finalized with input from Hilton. We assume that all property management and guestroom technology will be appropriately installed for the effective management of hotel operations.

Food and Beverage Facilities

The proposed subject hotel is expected to offer one hotel-operated restaurant and one leased-out restaurant. The first restaurant will occupy a 2-storey space on the second and third floor in the south portion of the hotel building. The second restaurant will be located on the fifth floor and will feature a covered patio on the roof of the 4-storey podium. At the time of this study, it was not confirmed which of the two allocated restaurant spaces would be leased out and which would be operated by the hotel. The furnishings of the restaurant and lounge are expected to be similar in and style and finish to the lobby and guestroom furnishings.

Overall, the proposed subject hotel is expected to provide a competitive offering of food and beverage facilities for an upper-upscale full-service property.

Meeting and Banquet Space

The proposed subject property will have a 2,750-square-foot meeting room. This amount of meeting space is considered low for an upper-upscale hotel. According to Hilton Worldwide, a typical Hilton features 50 to 75 square feet of meeting space per guestroom, which indicates a range of 8,200 to 12,300 square feet for the proposed subject property. Nevertheless, Hilton Worldwide indicated that the low meeting space square footage would likely be approved because Kelowna is considered a resort market.

Recreational Amenities

The proposed subject hotel will offer a fitness centre, an outdoor pool, an outdoor whirlpool, and a leased-out spa operation. The outdoor pool and outdoor whirlpool will be located on the fifth level, which is the roof-top of the podium structure. The fitness centre will be a 2-storey facility on the fifth and sixth floors, and the leased-out spa will be located on the sixth level. It is assumed that both the fitness centre and the spa facilities will be in compliance with Hilton brand standards.

Additional Amenities

It is recommended that the proposed subject property offer a full-service business centre with various computer workstations and printing services. Vending areas featuring ice machines should be located on multiple hotel floors. Overall, these supporting facilities would be appropriate for a hotel of this type, and we assume that brand standards will be met.

Guestrooms

The proposed hotel will feature one-bedroom and studio suite-style guestroom configurations. There will also be some "lock-off" style floor plans that will allow for a guestroom to be expanded to a larger two-bedroom configuration. The guestroom suites will be present on floors 7 through 22. The suites will measure approximately 486 square feet, and they will all have full kitchens, a living area, and a sleeping area. The guestrooms are expected to offer typical amenities for this upper-upscale product type. In addition to the standard furnishings, the guestrooms are expected to feature an iron and an ironing board, a coffee maker, and high-speed Internet access. Overall, the guestrooms should offer a competitive product for this neighbourhood.

The guestroom bathrooms are expected to be the standard size with a shower-in-tub, a commode, and a single sink with a vanity area featuring a stone countertop. The floors should be finished with tile, and the walls should be finished with an upscale material that is in line with brand standards. The bathroom amenities are expected to include a hairdryer and complimentary toiletries. Overall, the bathroom design should be appropriate for a product of this type.

The interior guestroom corridors should be wide and functional, permitting the easy passage of housekeeping carts. The corridor carpet, the vinyl wall-covering, the signage, and the lighting are expected to be in keeping with the overall look and design of the rest of the property.

Back-of-the-House

The proposed subject hotel will be served by all the necessary back-of-the-house space, including an in-house laundry facility, administrative offices, and two full-service kitchens to serve the needs of the hotel-operated restaurant and meeting space and the leased-out restaurant. These spaces should be adequate for a hotel of this type and allow for the efficient operation of the property under competent management.

Environmental

We assume that the proposed subject property will be built according to all pertinent codes and brand standards and that no environmental hazards will be created during construction.

Capital Expenditures

Our analysis assumes that, after opening, the proposed subject hotel will require ongoing upgrades and periodic renovations in order to maintain its competitive level in this market and remain compliant with brand standards. These costs should be adequately funded by the forecasted reserve for replacement, assuming the hotel staff successfully implements an ongoing preventive-maintenance program.

Conclusion

Overall, the layout of support areas and guestrooms at the proposed subject property should be well designed and functional. All typical and market-appropriate features and amenities are assumed to be included in the hotel's design. We assume that the building will be fully open and operational on the stipulated opening date, that all local building codes and brand standards will be met, that the hotel staff will be adequately trained to allow for a successful opening, and that pre-marketing efforts will have introduced the product to major local accounts at least six months in advance of the opening date.

5. Market Area Analysis

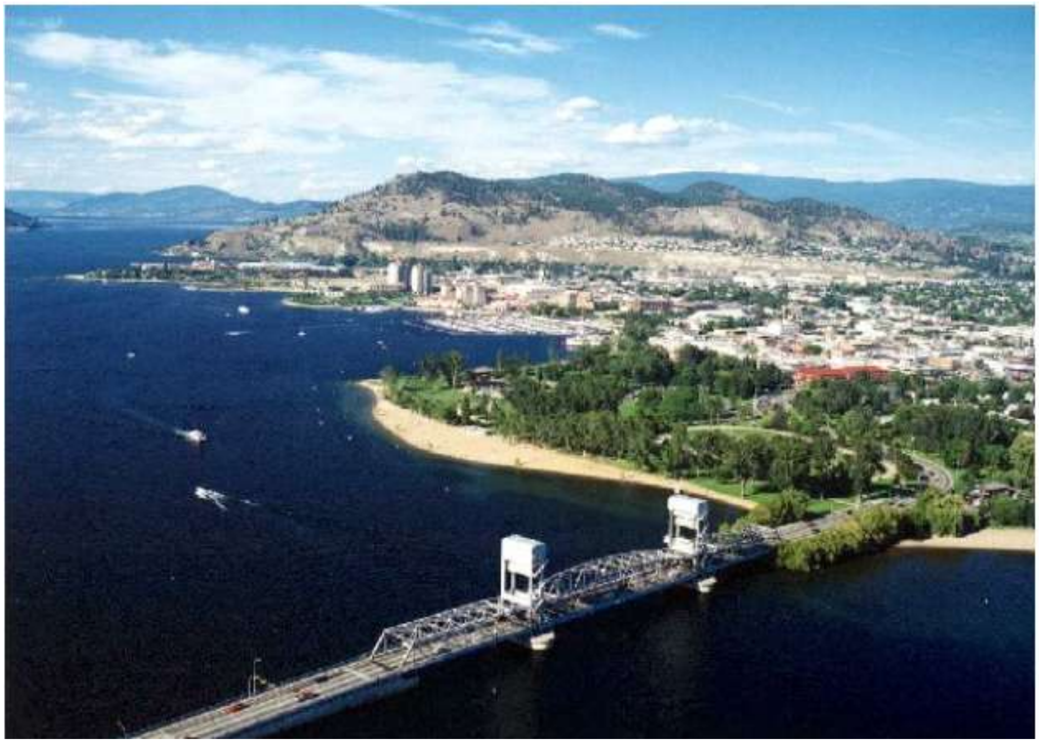
The economic vitality of the market area and the neighbourhood surrounding the subject site is an important consideration in forecasting lodging demand and future income potential. Economic and demographic trends that reflect the amount of visitation provide a basis from which to project lodging demand. The purpose of the market area analysis is to review available economic and demographic data to determine whether the local market will undergo economic growth, stabilize, or decline. In addition to predicting the direction of the economy, the rate of change must be quantified. These trends are then correlated based on their propensity to reflect variations in lodging demand, with the objective of forecasting the amount of growth or decline in visitation by individual market segment (e.g., commercial, meeting and group, and leisure).

Market Area Definition

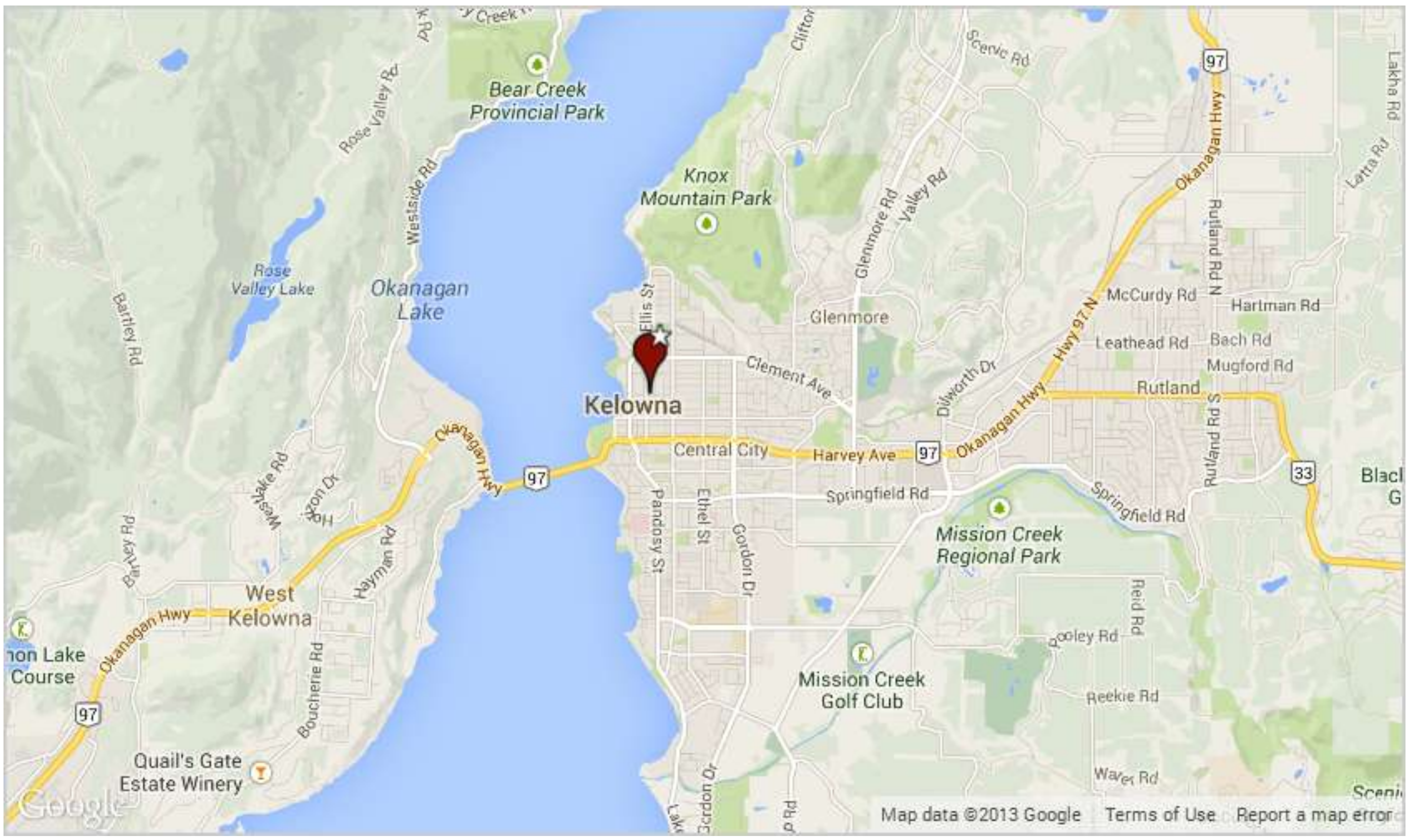
The market area for a lodging facility is the geographical region where the sources of demand and the competitive supply are located. The subject site is located in the city of Kelowna and the province of British Columbia.

Kelowna, one of the fastest growing cities in British Columbia, is located approximately 400 kilometres east of Vancouver and 130 kilometres north of the United States border. Manufacturing, high technology, health care, tourism, and post-secondary education are attracting new businesses and residents to the area. The city's vibrant retail and commercial base serves a trading area of approximately 450,000 residents, making Kelowna the largest centre for urban development, business, commerce, retailing, and healthcare services between the Lower Mainland and Calgary.

KELOWNA



MAP OF MARKET AREA



Provincial and National Overview

British Columbia is Canada's third most populous province with 4.6 million people. As the westernmost province of Canada, BC marks the end of the transcontinental highway and railways, and it is also home to several international sea ports. The province's economy is dominated by the resource sector, particularly the forestry and mining industries. Since the upsurge in 2010, the growth in British Columbia's GDP has simmered down. In 2012, the province's GDP grew 1.7%, well below the growth of 2.8% recorded in 2011, and the same level of growth is projected for 2013. Several factors are contributing to the cooling down of the provincial economy, including weaker Asian exports, a softening housing market, and the still modest growth that is being seen in the United States. The new home market took a hit in 2012 with the transition from HST back to GST/PST; however, this year's budget instated a grant to first-time buyers of new primary residences, which may buffer the impact of the new tax structure on house sales. In addition, the Chinese property market slowed down in 2012, which in turn put a damper on British Columbia's forestry exports. The Province of British Columbia is looking to eliminate its deficit by FY13/14 through prudent fiscal management.

Relative to the rest of the world, Canada is currently seen as a picture of economic health. Despite this global perception, Canada's economy continues to grow at a somewhat sluggish pace. A slowing housing market, a climate of fiscal restraint, soft US demand, and Canadians becoming more cautious borrowers are contributing to this trend. Reduced prices for a number of key commodity exports, as well as the lack of adequate oil pipeline infrastructure between Canada and key export markets, continue to pressure export earnings. Economic performance continues to vary widely by region, but the gaping divide between the growth rates in Western Canada and the rest of Canada appears to be on a narrowing trajectory. Nevertheless, the prospects for the long term are quite favourable as a result of ongoing investments to further develop the country's large and varied resource base. Internationally competitive business tax rates, ongoing capital and immigration inflows, and a lower government debt burden relative to the recent past are all helping to provide a more supportive economic environment.

The following table summarizes historical and forecasted economic indicators for British Columbia and Canada.

FIGURE 5-1 ECONOMIC INDICATORS – BRITISH COLUMBIA VS. CANADA

Real GDP Growth (% Change)	2010	2011	2012	2013f	2014f
Canada	3.4 %	2.5 %	1.7 %	1.6 %	2.2 %
British Columbia	3.2	2.8	1.7	1.7	2.2
Employment Growth (% Change)	**2010**	**2011**	**2012**	**2013f**	**2014f**
Canada	1.4 %	1.5 %	1.2 %	1.2 %	1.3 %
British Columbia	1.8	0.8	1.6	0.0	1.2
Consumer Price Index (% Change)	**2010**	**2011**	**2012**	**2013f**	**2014f**
Canada	1.8 %	2.9 %	1.5 %	1.0 %	1.5 %
British Columbia	1.4	2.4	1.1	0.2	1.4
Housing Starts (Thousands)	**2010**	**2011**	**2012**	**2013f**	**2014f**
Canada	191.0	193.0	215.0	185.0	180.0
British Columbia	26.7	26.3	27.5	26.5	22.0
Unemployment Rate (%)	**2010**	**2011**	**2012**	**2013f**	**2014f**
Canada	8.0 %	7.5 %	7.3 %	7.1 %	6.8 %
British Columbia	7.6	7.5	6.8	6.6	6.4

Source: BMO Capital Market Economics, November 1, 2013

Economic and Demographic Review

Relying on the fieldwork that we conducted in the area and our in-house sources, we have evaluated various economic and demographic statistics to determine trends in lodging demand. *FP Markets – Canadian Demographics 2012* is the primary source for the economic and demographic statistics used in this analysis.

Population

Population changes are an economic trend that often reflects business activity and lodging demand, although there is no direct correlation between an area's population size and specific level of transient visitation. A review of an area's historical and projected population trends and composition is an important step in evaluating the local economic climate and projecting growth in demand for lodging facilities. An expanding area population suggests both an increasing commercial base and growth in room night demand attributable to relocations. In addition, an increase in the local resident base indicates a rise in the number of leisure travellers arriving in the area, as the motivation behind many trips is to visit friends and relatives. The rate of population growth will generally establish a minimum rate of increase in the lodging demand of an area.

The population of Kelowna was 185,280 in 2012. The population grew at a compound annual rate of 1.0% from 2008 to 2012. The population is expected to reach 202,805 in 2017, representing compound annual growth of 1.8%.

Total Retail Sales

Retail sales levels reflect both population trends and the propensity to spend money on retail goods. There is no direct correlation between retail sales and hotel demand, but retail sales trends tend to reflect the economic health and vitality of a market. Retail sales growth should cause local businesses to prosper and make it more likely for new firms to enter the market, thereby causing an increase in demand for lodging facilities. In areas where tourism is a significant economic factor, retail sales also reflect the amount of visitation.

Retail sales in Kelowna amounted to $2.9-billion in 2012 and are projected to reach $3.7-billion by 2017, representing compound annual growth of 5.0%.

Average Household Income

According to the procedures outlined in National Income and Product Accounts, average household income is calculated by summing earned income (wages, salaries, other labour income, and proprietor's income), non-earned income, and residence adjustments for each income earner in a household. Personal contributions to social insurance are then subtracted. Trends in household income reflect the spending ability of local residents.

The average household income in Kelowna was $77,418 in 2012, which is lower than the estimated provincial average of $80,929 per household for the same year.

Workforce Characteristics

The characteristics of an area's workforce provide an indication of the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate (FIRE); wholesale trade; and services produce a considerable number of visitors who are not particularly rate sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selected to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities (TCPU) employers can also be important, depending on the company type.

The following table sets forth the workforce distribution by business sector for Kelowna.

FIGURE 5-2 WORKFORCE DISTRIBUTION BY BUSINESS SECTOR – KELOWNA

Sectors of Employment	2012 Employment	Percentage of Workforce	2008 Employment	Percentage of Workforce
Sales & Service	25,853	26.0 %	24,337	27.6 %
Trades, Transport, & Equipment Operation	17,191	17.3	12,534	14.2
Business, Finance, & Administration	16,678	16.8	15,469	17.5
Management	11,483	11.6	10,129	11.5
Health	5,920	6.0	5,283	6.0
Natural & Applied Science & Related	4,560	4.6	4,288	4.9
Primary Industries	4,416	4.4	3,678	4.2
Processing, Manufacturing, & Utilities	3,757	3.8	4,221	4.8
Social Science, Government Services, & Religion	3,643	3.7	3,352	3.8
Education	3,042	3.1	2,749	3.1
Arts, Culture, Recreation, & Sport	2,754	2.8	2,147	2.4
Total	**99,297**	**100.0 %**	**88,187**	**100.0 %**

Source: FP Markets – Canadian Demographics 2012

The sales and service sector is the largest source of employment in Kelowna, representing just over a quarter of regional employment. The second largest sector, the trades, transport, and equipment operations sector, showed the most growth from 2008 through 2012 with an increase in employment of 37.2%.

Major Business and Industry

To provide an additional context for understanding the nature of the regional economy, the following table presents a list of the major employers in the proposed subject property's market.

FIGURE 5-3 MAJOR EMPLOYERS IN KELOWNA

	Firm	Number of Employees
1	Interior Health Authority	3,459
2	School District 23	2,090
3	City of Kelowna	764
4	UBC Okanagan	714
5	Wal-Mart	573
6	Kelowna Flightcraft Air Charter	550
7	Shaw Cablesystems	380
8	Sun-Rype Products Ltd.	372
9	HBC Group of Companies	358
10	Overwaitea Food Group	356

Source: Central Okanagan Economic Development Commission

The following bullet points highlight the major demand generators for this market:

- The Central Okanagan boasts a diverse manufacturing sector that includes large firms representing traditional industries such as agriculture, forestry, and mining, as well as a growing number of companies developing and producing products. The major employers in the manufacturing sector include Kelowna Flightcraft, Tolko Industries, and Sun-Rype Products Ltd. Local manufacturers are involved in producing fabricated metal products, high-end food, wine, systems for the aerospace industry, recreational products, and personal care products, and there are also businesses involved in composites and the wireless sector.
- The Kelowna area features seven shopping centres and is the largest retail and business centre in the interior of BC. The Orchard Park Shopping Centre is the largest shopping centre between Calgary and Vancouver; it has six anchor stores and over 170 other stores and services. The major chain stores represented locally include Wal-Mart, Costco, The Brick, The Bay, Sears, Zellers, London Drugs, Superstore, Home Depot, Rona, and Chapters.
- Tourism is an important sector in the Central Okanagan economy. In the Kelowna area, tourism generates over $350-million annually. The Okanagan Valley is known for its various tourist attractions, including sports facilities, cultural heritage sites, wineries, orchards, and attractive scenery. Visitors have an array of cultural and outdoor activities from which to choose, making the Okanagan Valley a popular tourist destination. The Coquihalla Highway expansion and improvements to the Kelowna airport have also been instrumental in attracting more visitors to the region.
- Known as the "Silicon Vineyard" for its proximity to British Columbia's famous wine-growing region, the technology sector in the Okanagan Valley has been home to a number of success stories in recent years. Since the late 1990s, the Central Okanagan Economic Development Commission has focussed on diversifying the regional economy. This diversification has been centered on the development of a sustainable technology sector with well-established relationships to other technology centres around the world in order to support the growth of the local technology community. As a result of this initiative, the city of Kelowna has emerged as a credible technology hub and has attracted interest from large technology company buyers. Kelowna was put on the map when Club Penguin, a subscription-based social networking site for kids that started in 2005, was purchased by the Walt Disney Company for $700-million in August 2007. Since then, other technology companies in the region have been acquired by major US firms, including Firebird Technologies Inc., a semiconductor company that was acquired in 2009; and Vineyard Networks Inc., a leader in network intelligence technology that was acquired for $28-million in January 2013.

- Two notable post-secondary educational institutions are located in Kelowna: The University of British Colombia (UBC) and Okanagan College. UBC, whose main campus is located in Vancouver and is one of North America's largest public research and teaching institutions, opened its Okanagan campus in Kelowna in 2005. The campus is home to more than 8,300 students enrolled in undergraduate and graduate programs across eight faculties and schools. The UBC Okanagan campus continues to build a reputation as a respected centre of learning and research; it has $11.7-million in annual research funding and more than 480 research projects underway. Okanagan College offers over 120 certificates, diplomas, degrees, and programs, including apprenticeship and pre-apprenticeship trades programs. The college has over 5,000 students.
- Kelowna, which is located in the Okanagan Health Service Area, plays a vital role in providing healthcare services throughout the Central Okanagan region. The city is home to a number of Interior Health Authority facilities, including the Kelowna Health Centre, the Kelowna Research Centre, the Cottonwoods Care Centre, and most notably the Kelowna General Hospital. The Kelowna General Hospital is one of two Interior Health tertiary referral hospitals in the Okanagan Health Service Area. The hospital offers high-level specialty medical care, including 24-hour emergency and trauma services, ambulatory and outpatient clinics, and diagnostic services.

Overall, Kelowna enjoys a diverse economic base that has provided stability for the area. With the established manufacturing and tourism sectors, as well as emerging sectors like high-technology, the Kelowna area is expected to sustain continued economic growth.

Unemployment Statistics

The following table presents historical unemployment rates for the proposed subject property's market area.

FIGURE 5-4 UNEMPLOYMENT STATISTICS

Year	British Columbia	Canada
2008	4.6 %	6.1 %
2009	7.7	8.3
2010	7.6	8.0
2011	7.5	7.4
2012	6.7	7.2
YTD October 2013	6.5 %	6.9 %

As the province and the country entered an economic slowdown in late 2008, unemployment began to rise, and this trend continued into 2009. Minor improvements were experienced in 2010 after the global recession reached bottom. A drop in unemployment was seen in 2011 and 2012, and this trend is expected to continue in 2013, as indicated by the province's unemployment rate for through October of 6.5%.

Airport Traffic

Airport passenger counts are important indicators of lodging demand. Depending on the type of service provided by a particular airfield, a sizable percentage of arriving passengers may require hotel accommodations. Trends showing changes in passenger counts also reflect local business activity and the overall economic health of the area.

The Kelowna International Airport is the largest municipally owned and operated airport in Canada. With air passenger traffic volume of 1,440,952 in 2012, the Kelowna International Airport was one of Canada's 15 busiest airports. In 2012, total air passenger traffic grew by 3.7% when compared with 2011. The passenger volume has continued to increase in 2013, having reached record highs in every month year-to-date through October. This represents a 3.5% increase in passenger volume when compared with the same period in 2012.

To accommodate the continued growth at the airport, the Kelowna International Airport began a $50-million multi-phase, multi-year expansion project in 2011. Paid for through the Airport Improvement Fee (now $15 per departing passenger), the focal point of the project was an expansion to the existing International Arrivals area, which was completed in late 2012. The expansion saw the deplaning capacity of the arrival area increase from 135 to 250 passengers and included the creation of a new Canadian Border Services Agency primary inspection area to screen passengers arriving on international flights. The project also included upgrades to the airport's emergency generators, fire alarms, safety equipment, storm infrastructure, landscaping, bus shelters, and streetlights, as well as the re-paving of the taxiways and 7,300 feet of the 8,900-foot runway.

The Kelowna International Airport offers daily non-stop, same-plane service to Vancouver, Victoria, Prince George, Calgary, Edmonton, Red Deer, Fort McMurray, Winnipeg, Regina, Saskatoon, and Toronto. Direct flights are also available to Seattle and Los Angeles. In addition, the airport offers seasonal service to Las Vegas and Phoenix, as well as Los Cabos, Puerto Vallarta, and Cancun in Mexico.

The following table illustrates recent operating statistics for the primary airport facility serving the proposed subject property's market.

HVS

FIGURE 5-5 PASSENGER TRAFFIC – KELOWNA INTERNATIONAL AIRPORT

Year	Passenger Traffic	Percent Change*	Percent Change**
2003	1,226,442	—	—
2004	1,363,391	11.2 %	11.2 %
2005	1,389,883	1.9	6.5
2006	1,367,631	(1.6)	3.7
2007	1,391,725	1.8	3.2
2008	1,390,187	(0.1)	2.5
2012	1,440,952	3.7	1.8
Year-to-Date through October			
2012	1,202,566	—	—
2013	1,244,454	3.5 %	—

*Percentage change from the previous year
**Compound annual change from first year of data

Source: YLW

Travel Market Intentions

Travel market intentions are a strong indicator of lodging demand in Canada. The trend data compiled by the Conference Board of Canada and the Canadian Tourism Research Council show the changes in overnight travel within both provincial and metropolitan markets. The data are then segmented according to traveller type and origin. The changes that occur in overnight travel have a direct relationship with specific types of lodging demand in the proposed subject property's market.

Along with total travel expenditures, the following table summarizes the overnight travel forecasts for the province compared to national expectations.

FIGURE 5-6 OVERNIGHT VISIT FORECASTS – NATIONAL & PROVINCIAL

Overnight Travel Forecasts (% Change)	2013f	2014f	2015f	2016f	2017f	Avg Annual % Change
Canada						
Domestic	1.8 %	2.2 %	2.6 %	2.2 %	2.4 %	2.2 %
Business	2.0	2.8	2.6	2.5	2.4	2.5
Pleasure	1.9	2.3	2.8	2.1	2.6	2.3
United States	1.8	1.3	2.0	2.0	1.4	1.7
Overseas	2.1	3.2	3.7	3.9	4.3	3.4
Total	**1.9**	**2.2**	**2.5**	**2.2**	**2.4**	**2.2**
Total Expenditures (millions)	$43,395	$45,494	$47,896	$50,218	$52,662	5.0
British Columbia						
Domestic	2.1 %	2.7 %	2.7 %	2.4 %	2.1 %	2.4 %
Business	1.0	3.1	3.6	2.6	2.4	2.5
Pleasure	2.3	2.8	2.7	2.5	2.1	2.5
United States	3.9	1.1	1.8	2.2	1.1	2.0
Overseas	2.8	3.7	4.0	4.2	4.3	3.8
Total	**2.4**	**2.5**	**2.7**	**2.5**	**2.1**	**2.4**
Total Expenditures (millions)	$9,284	$9,754	$10,293	$10,823	$11,337	5.1

Source: Conference Board of Canada Travel Market Outlook, Spring 2013: National Focus

For Canada as a whole, domestic overnight visitation is projected to increase a modest 1.8% in 2013, supported by solid growth in both business and pleasure travel. The outlook for 2014 is more positive with domestic overnight visitation projected to be up 2.2% combined with a 3.2% projected increase in the number of overseas overnight visits. The growth in overseas visitation will be fuelled largely by visitors from emerging market economies such as China, India, and Brazil. The increase in visitation from these markets will likely exceed the decline in visitation from key European markets, which are mired in a debt crisis. Over the medium term, economic conditions are expected to improve. Accordingly, the Conference Board of Canada expects growth in tourism spending to pick up and projects average annual growth of 5.0% between 2013 and 2017.

Tourism activity in British Columbia normalized in 2011 following the year of the Olympics in 2010, when there was a surge in overnight visitation. Overall tourism activity improved at a modest rate in 2012. Looking forward, the total number of overnight visits is forecasted to grow by healthy rates in the long term. The most significant growth is expected to be seen in overseas travellers over the next three years, with expected increases in visitors from Asia, South America, and Mexico offsetting weakened travel from Europe. US visitation is expected to make a comeback, aided by strong projected increases in cruise ship activity. Domestic tourism should also get a boost from the strong economic growth in Alberta and Saskatchewan over the near term.

Tourist Attractions

Kelowna attracts tourists with its temperate climate, natural scenery, and recreational opportunities. Summer is the busiest time of year for tourists, who are drawn by the warm temperatures, the beautiful lakes, and the hiking and sightseeing opportunities. The winter months, from December through March, continue to increase in popularity with leisure travellers looking to ski or visit friends and relatives.

- Sporting activities in the area include summer activities like sailing and freshwater fishing, as well as winter activities like skiing at Big White Mountain, the APEX Resort, and Silver Star Mountain. Okanagan Lake, which boasts Kelowna's largest beach, offers swimming, water rafting, boating, and jet skiing. A major summer attraction is the Kelowna Regatta.
- The Okanagan Valley is one of Canada's premier viticulture regions. The diverse terrain features many different microclimates and vineyard soil types. There are over 120 wineries in the region, and several have won various awards at international competitions. Festivals, wine tours, and wine tastings draw in large numbers of tourists from all over the world.
- Prospera Place is a state-of-the-art arena and multi-purpose centre. The 6,000-seat facility has the latest amenities, including luxury suites, club seats, a restaurant, a bar, and a high-tech sound system. The arena is home to Kelowna's Western Hockey League team, the Kelowna Rockets, and it is also used for concerts, wrestling, and trade shows.
- There are eight major golf courses in the region and dozens of others within driving distance. Gallagher's Canyon Golf & Country Club, an 18-hole championship course that is located minutes away from downtown Kelowna, has been ranked as one of the 50 best courses in Canada.

Conclusion

The market continues to experience consistent economic growth. The market is heavily reliant on the tourism sector, so the increase in travel resulting from the continued economic growth across the country bodes well for the local market.

6. Supply and Demand Analysis

In the lodging industry, price varies directly, but not proportionately, with demand and inversely, but not proportionately, with supply. Supply is measured by the number of guestrooms available, and demand is measured by the number of rooms occupied. The net effect of supply and demand toward equilibrium results in a prevailing price, or average rate. The purpose of this section is to investigate current supply and demand trends, as indicated by the current competitive market, and to set forth a basis for the projection of future supply and demand growth.

Definition of Subject Hotel Market

The proposed subject property is expected to compete with a set of hotels based on various factors, which may include location, price point, product quality, length of stay (such as an extended-stay focus vs. non-extended-stay focus), room type (all-suite vs. standard), hotel age, or brand, among other factors. We have reviewed these pertinent attributes and established an expected competitive set based upon this review. Our review of the proposed subject property's specific competitive set within the Kelowna area begins after our review of national occupancy, average rate, and RevPAR trends.

National and Provincial Trends Overview

The proposed subject property's local lodging market is most directly affected by the supply and demand trends within the immediate area. However, individual markets are also influenced by conditions in the national lodging market. We have reviewed national lodging trends to provide a context for the forecast of the supply and demand for the proposed subject property's competitive set.

Smith Travel Research (STR) is an independent research firm that compiles and publishes data on the lodging industry. Hotel buyers routinely use this information. The following diagram presents annual hotel occupancy and average rate data for Canada since 2005, and the subsequent figure shows the percentage change in national supply and demand.

FIGURE 6-1 NATIONAL OCCUPANCY AND AVERAGE RATE TRENDS

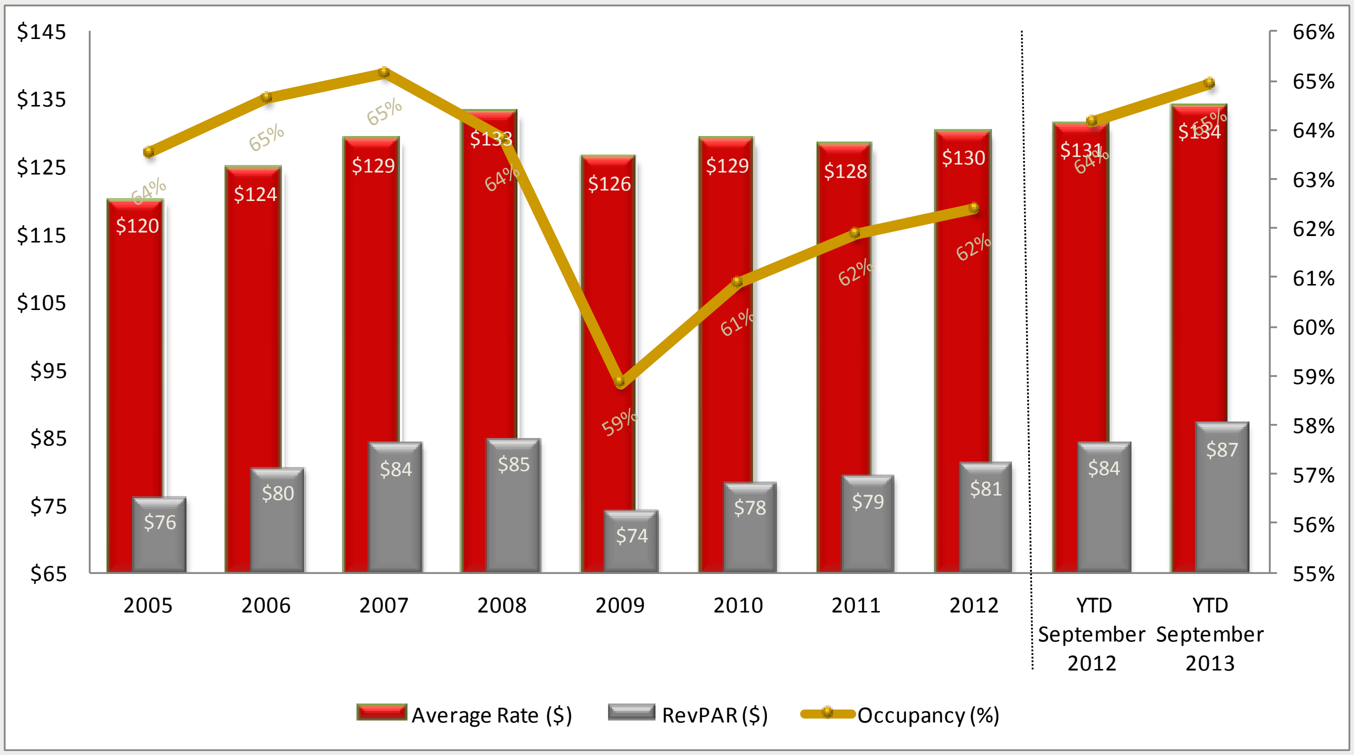
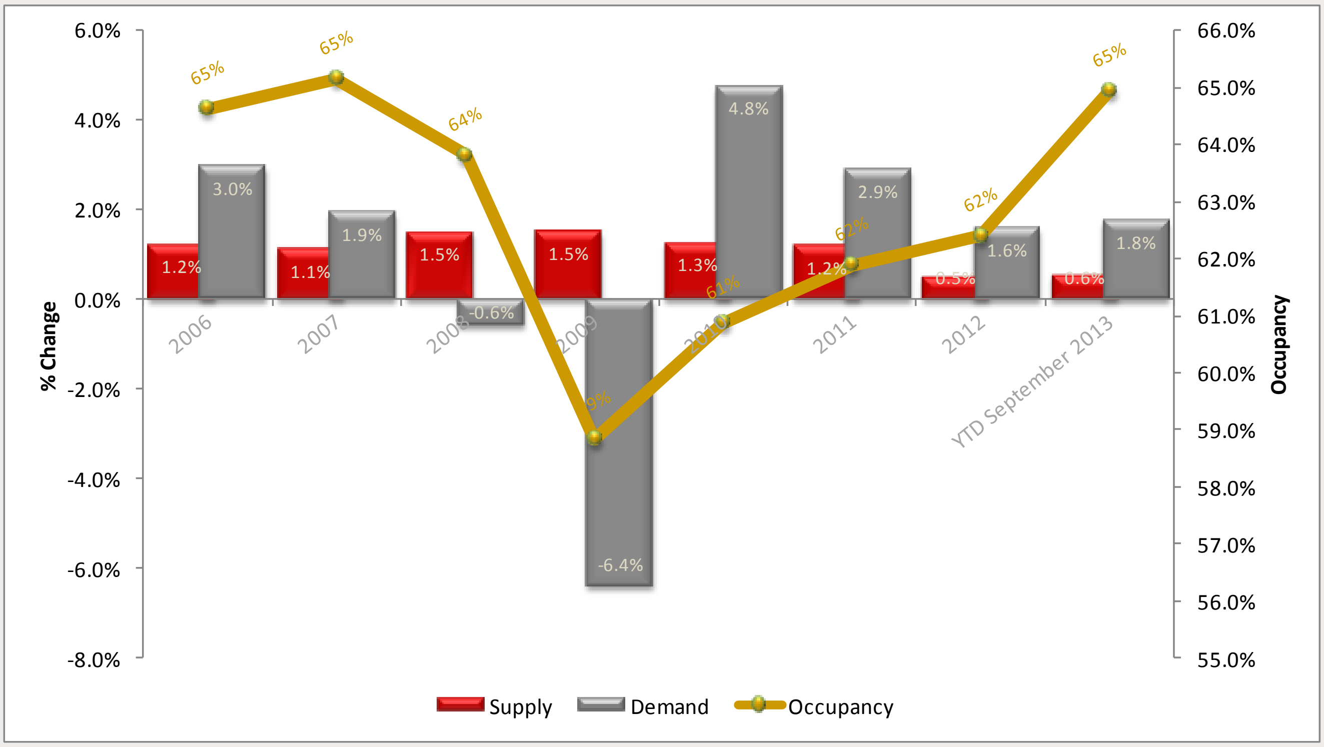


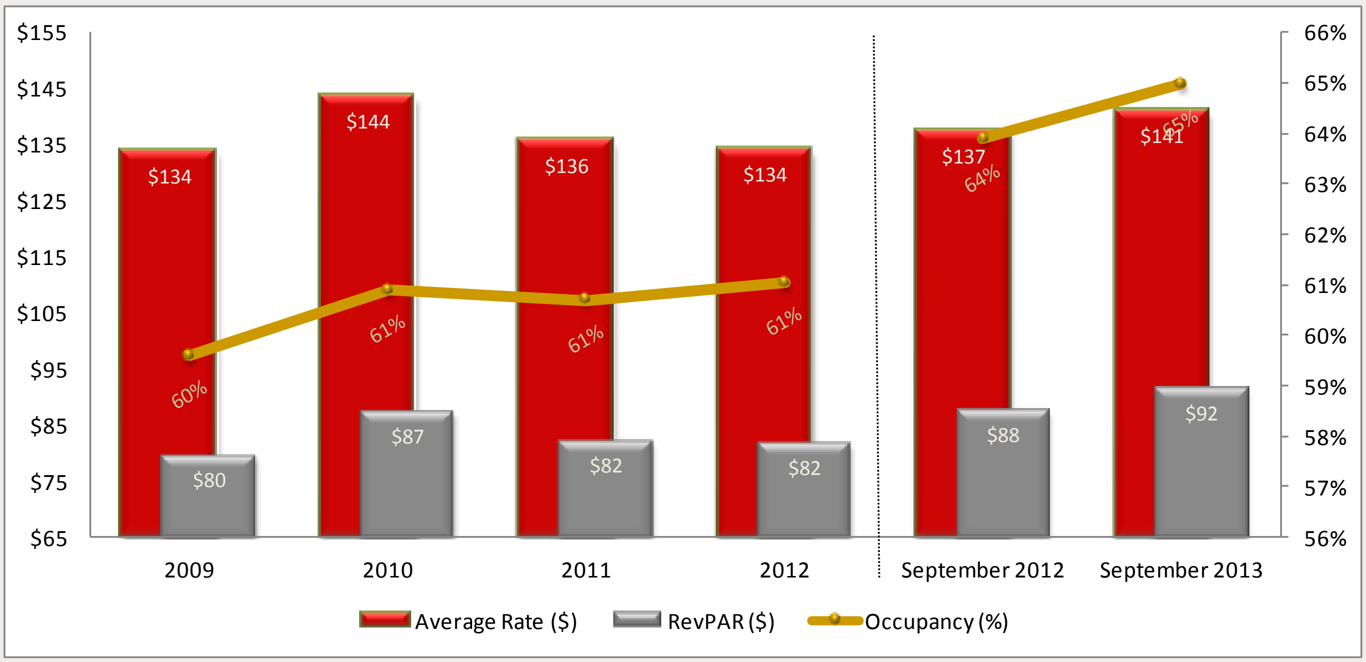
FIGURE 6-2 CHANGE IN NATIONAL SUPPLY AND DEMAND OF ROOMS



The national lodging market is steadily emerging from the economic recession that first became evident in the fall of 2008. After two years of declines in demand, the country noted strong demand growth in 2010 followed by more modest gains in 2011 and 2012. Increases in the transient market are mainly responsible for this positive trend, as the pace of group bookings continues to be soft. The Conference Board of Canada forecasts continued demand growth for the medium term with overnight visits projected to grow by 1.9% in 2013 and 2.2% in 2014.

The conservatism of Canada's banking sector has kept supply growth in check over the past eight years. In 2012, the supply increased only 0.5%, well below the historical average of 1.2%. The positive demand trends coupled with the limited amount of new supply have allowed the national occupancy level to rebound, although it has yet to return to the peak of 65.2% noted in 2007. The national average room rate grew only 1.5% in 2012 and still remains below the prior peak recorded in 2008. Although the RevPAR for the country as a whole decreased in only one of the last eight years, the magnitude of that decline was so substantial that the RevPAR has yet to recover to pre-recessionary levels. Nevertheless, the trends established in the last few years indicate that the market continues to move in a positive direction.

FIGURE 6-3 BRITISH COLUMBIA OCCUPANCY AND AVERAGE RATE TRENDS



British Columbia showed strong RevPAR growth in 2010, largely as a result of the strong rate increases achieved during the Winter Olympic and Paralympic Games in Vancouver. A decline in RevPAR was expected in 2011 as the province normalized after such a global event. The average rate declined back to 2009 levels, but the occupancy remained relative unscathed. RevPAR remained stable through 2012, due to a diverse BC economy. Through the first nine month of 2013, RevPAR increased by 4.4% compared to the same period in 2012, driven primarily by ADR growth.British Columbia showed strong RevPAR growth in 2010, largely as a result of the strong rate increases achieved during the Winter Olympic and Paralympic Games in Vancouver. A decline in RevPAR was expected in 2011 as the province normalized after such a global event. The average rate declined back to 2009 levels, but the occupancy remained relative unscathed. RevPAR remained stable through 2012, due to a diverse BC economy. Through the first nine month of 2013, RevPAR increased by 4.4% compared to the same period in 2012, driven primarily by ADR growth.

Historical Supply and Demand Data

STR has compiled historical supply and demand data for a group of hotels considered applicable to the proposed subject property's competitive market. This information is presented in the following table, along with the market-wide occupancy, average rate, and rooms revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate and provides an indication of how well rooms revenue is being maximized.

FIGURE 6-4 HISTORICAL SUPPLY AND DEMAND TRENDS

Year	Average Daily Room Count	Available Room Nights	Change	Occupied Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
2007	1,002	365,680	—	250,175	—	68.4 %	$126.56	—	$86.58	—
2008	1,011	368,940	0.9 %	254,491	1.7 %	69.0	127.73	0.9 %	88.10	1.8 %
2009	970	354,050	(4.0)	212,573	(16.5)	60.0	121.36	(5.0)	72.86	(17.3)
2010	1,060	386,980	9.3	218,197	2.6	56.4	132.23	9.0	74.55	2.3
2011	1,103	402,456	4.0	226,441	3.8	56.3	138.38	4.7	77.86	4.4
2012	1,108	404,420	0.5	219,898	(2.9)	54.4	140.15	1.3	76.20	(2.1)
Average Annual Compounded Change:										
2007-2012			2.0 %		(2.5) %			2.1 %		(2.5) %
<u>Year-to-Date Through October</u>										
2012	1,108	336,832	—	195,090	—	57.9 %	$143.98	—	$83.39	—
2013	1,168	355,192	5.5 %	210,033	7.7 %	59.1	141.03	(2.0) %	83.40	0.0 %

Hotels Included in Sample	Number of Rooms	Year Opened
Coast Capri Hotel	185	Jul 1960
Best Western Plus Kelowna Hotel & Suites	176	Nov 1966
Ramada Kelowna Hotel & Conference Centre	135	Jun 1981
Delta Hotel Grand Okanagan Resort & Conference Centre	262	Jun 1992
Holiday Inn Express Kelowna Conference Centre	190	May 1993
Fairfield Inn & Suites Kelowna	160	May 2007
Four Points Kelowna Airport	120	Jun 2013
Total	**1,228**	

Source: STR Global

It is important to note some limitations of the STR data. Hotels are occasionally added to or removed from the sample, and not every property reports data in a consistent and timely manner; these factors can influence the overall quality of the information by skewing the results. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, these trends have been considered in our analysis. Opening dates, as available, are presented for each reporting hotel in the previous table.

The market experienced a strong year for demand growth in 2007, when there was healthy economic growth in the Kelowna area and across the country, and the market continued to prosper in 2008. Demand suffered a sharp decline in 2009 with the global recession, but positive growth returned in 2010 and 2011. The occupancy was highest in 2008 at 69.0%, but it fell nine points in 2009 owing to the decline in demand. The occupancy declined further in 2010 because a number of hotels in the market opened guestroom expansions. The occupancy in 2011 was nearly the same as in the preceding year, but in 2012 demand declined because poor weather during the summer months resulted in fewer travellers from the Lower Mainland and Alberta. Year-to-date through October 2013, the market sustained strong demand growth relative to the comparable period in 2012 as a result of increased tour business and more visitors from the Lower Mainland, and the market-wide occupancy was also higher, as the demand growth outpaced the supply growth resulting from the opening of the Four Points Kelowna Airport in June 2013.

After a year of minimal ADR growth in 2008, the marketwide average rate declined in 2009, as hotel operators were discounting rates in order to maintain marketshare because of the decline in demand resulting from the global economic recession. The strongest growth in ADR was recorded in 2010 with an increase of 9.0%, which more than compensated for what was lost the previous year. Year-to-date through October 2013, the market-wide ADR was 2.0% lower than what the market achieved in the first ten months of 2012, as the hotels in the competitive set have cut rates to maintain occupancy levels while market absorbs the new supply that has entered the market this year.

Seasonality

Monthly occupancy and average rate trends are presented in the following tables.

FIGURE 6-5 MONTHLY OCCUPANCY TRENDS

Month	2007	2008	2009	2010	2011	2012	2013
January	46.5 %	45.1 %	45.0 %	44.0 %	39.0 %	36.3 %	35.3 %
February	57.5	53.8	54.3	45.3	45.7	44.9	44.4
March	70.7	59.7	54.3	51.3	47.3	45.5	49.1
April	73.4	69.5	66.0	62.8	61.3	49.0	55.8
May	70.3	76.2	68.2	59.9	64.2	64.6	61.8
June	85.1	89.0	72.9	61.2	65.1	64.8	63.4
July	83.1	85.7	79.1	76.0	77.4	71.6	71.0
August	84.5	94.5	78.5	76.8	74.6	82.2	84.6
September	84.7	81.0	69.8	66.4	67.6	66.6	64.6
October	66.7	72.4	58.5	58.4	56.5	52.8	55.5
November	55.7	58.7	42.3	41.3	43.1	43.4	—
December	39.8	40.2	31.4	30.5	32.6	30.2	—
Annual Occupancy	**68.4 %**	**69.0 %**	**60.0 %**	**56.4 %**	**56.3 %**	**54.4 %**	—
Year-to-Date	**72.8 %**	**72.7 %**	**64.7 %**	**60.7 %**	**60.0 %**	**57.9 %**	**59.1 %**

Source: STR Global

FIGURE 6-6 MONTHLY ADR TRENDS

Month	2007	2008	2009	2010	2011	2012	2013
January	$79.82	$99.38	$85.31	$99.12	$107.65	$107.15	$105.97
February	87.87	104.35	86.13	103.93	112.41	111.61	106.16
March	91.11	106.16	92.10	111.81	112.80	112.96	110.85
April	102.66	119.34	102.00	120.82	126.46	122.84	121.96
May	127.17	146.13	132.81	137.15	149.66	144.13	142.65
June	138.08	152.39	138.54	149.43	152.74	153.15	154.35
July	154.30	149.14	147.23	163.68	179.95	166.99	163.78
August	167.65	148.39	148.98	151.08	168.35	176.58	172.01
September	154.16	147.67	141.57	146.02	142.06	158.56	150.53
October	132.63	112.19	122.05	127.17	127.33	129.12	121.34
November	107.05	91.59	103.63	109.86	106.08	111.60	—
December	102.98	87.84	98.76	105.39	101.96	107.78	—
Annual Average Rate	**$126.56**	**$127.73**	**$121.36**	**$132.23**	**$138.38**	**$140.15**	—
Year-to-Date	**$129.47**	**$132.61**	**$123.62**	**$135.21**	**$142.70**	**$143.98**	**$141.03**

Source: STR Global

The illustrated monthly occupancy and average rate patterns reflect important seasonal characteristics. We have reviewed these trends in developing our forthcoming forecast of market-wide demand and average rate.

Patterns of Demand

A review of the trends in occupancy, average rate, and RevPAR per day of the week over the past three years provides some insight into the impact that economic conditions have had on the competitive lodging market. The data, as provided by Smith Travel Research, are illustrated in the following table.

FIGURE 6-7 OCCUPANCY, AVERAGE RATE, AND REVPAR BY DAY OF THE WEEK

Occupancy (%)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Nov 10 - Oct 11	40.7 %	48.0 %	56.3 %	58.3 %	58.1 %	65.5 %	65.2 %	56.0 %
Nov 11 - Oct 12	39.9	47.6	54.5	58.2	56.4	62.2	62.8	54.5
Nov 12 - Oct 13	42.2	47.9	54.9	57.3	57.6	63.8	65.1	55.5
Change (Occupancy Points)								
FY 11 - FY 12	(0.8)	(0.4)	(1.7)	(0.0)	(1.7)	(3.3)	(2.4)	(1.4)
FY 12 - FY 13	2.2	0.2	0.4	(0.9)	1.2	1.6	2.4	1.0

ADR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Nov 10 - Oct 11	$138.56	$132.52	$133.31	$134.99	$136.82	$138.43	$140.49	$136.57
Nov 11 - Oct 12	142.88	137.21	137.18	137.03	139.42	142.18	143.41	139.91
Nov 12 - Oct 13	146.59	139.10	137.92	137.85	141.33	145.30	146.64	142.17
Change (Dollars)								
FY 11 - FY 12	$4.32	$4.70	$3.87	$2.04	$2.60	$3.75	$2.93	$3.34
FY 12 - FY 13	3.7	1.9	0.7	0.8	1.9	3.1	3.2	2.3
Change (Percent)								
FY 11 - FY 12	3.1 %	3.5 %	2.9 %	1.5 %	1.9 %	2.7 %	2.1 %	2.4 %
FY 12 - FY 13	2.6	1.4	0.5	0.6	1.4	2.2	2.2	1.6

RevPAR ($)	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total Year
Nov 10 - Oct 11	$56.38	$63.66	$75.00	$78.64	$79.50	$90.66	$91.55	$76.45
Nov 11 - Oct 12	57.05	65.38	74.82	79.80	78.68	88.46	90.03	76.32
Nov 12 - Oct 13	61.79	66.61	75.73	78.97	81.43	92.74	95.50	78.97
Change (Dollars)								
FY 11 - FY 12	$0.66	$1.71	($0.18)	$1.16	($0.82)	($2.20)	($1.52)	($0.13)
FY 12 - FY 13	4.75	1.23	0.91	(0.83)	2.75	4.28	5.47	2.65
Change (Percent)								
FY 11 - FY 12	1.2 %	2.7 %	(0.2) %	1.5 %	(1.0) %	(2.4) %	(1.7) %	(0.2) %
FY 12 - FY 13	8.3	1.9	1.2	(1.0)	3.5	4.8	6.1	3.5

Source: STR Global

In most markets, business travel, including individual commercial travellers and corporate groups, is the predominant source of demand on Monday through Thursday nights. Leisure travellers and non-business-related groups generate the majority of demand on Friday and Saturday nights.

SUPPLY

Based on our evaluation of the occupancy, rate structure, market orientation, chain affiliation, location, facilities, amenities, reputation, and quality of each area hotel, as well as the comments of management representatives, we have identified several properties that are expected to be primarily competitive with the proposed subject property. Additional lodging facilities may be judged only secondarily competitive. Although the facilities, rate structures, or market orientations of these hotels prevent their inclusion among the primary competitive supply, they are expected to compete with the proposed subject property to some extent.

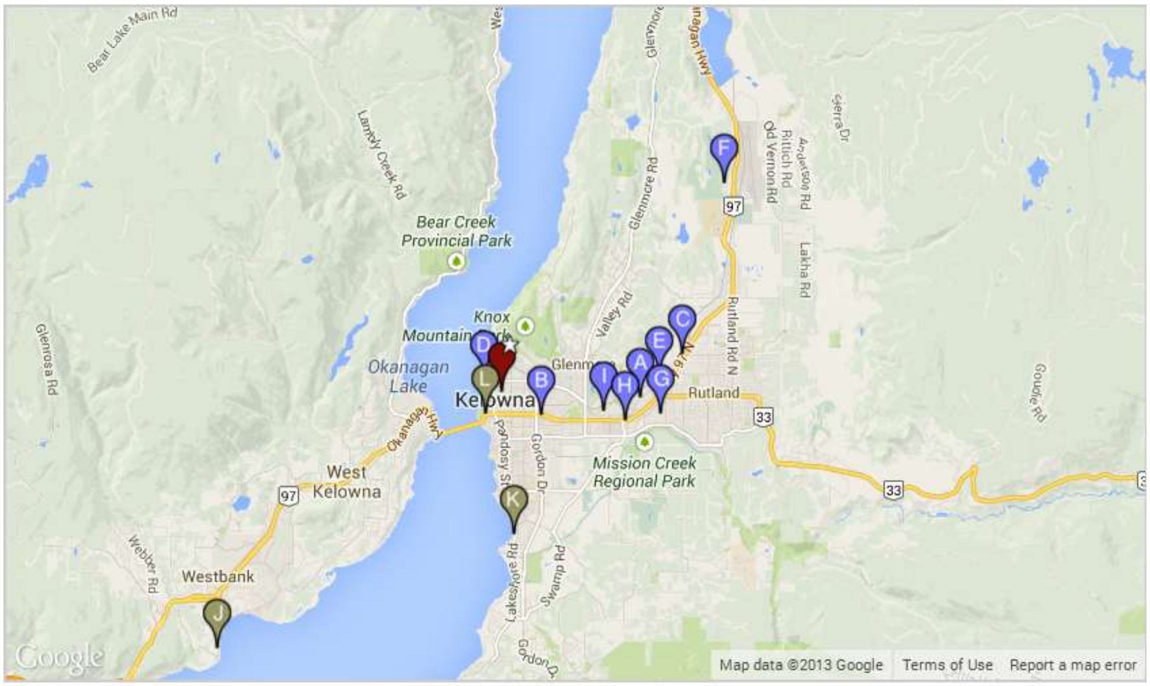
The following table summarizes the important operating characteristics of the future primary competitors and the aggregate of the weighted secondary competitors. This information was compiled from personal interviews, inspections, lodging directories, and our in-house library of operating data. The table also sets forth each property's penetration factors. Penetration is the ratio between a specific hotel's operating results and the corresponding data for the market. If the penetration factor is greater than 100%, the property is performing better than the market as a whole. Conversely, if the penetration is less than 100%, the hotel is performing at a level below the market-wide average.

FIGURE 6-8 PRIMARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation				Estimated 2010				Estimated 2011				Estimated 2012						
Property	**Number of Rooms**	**Commercial**	**Meeting and Group**	**Leisure**	**Tour**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**Weighted Annual Room Count**	**Occ.**	**Average Rate**	**RevPAR**	**RevPAR Change**	**Occupancy Penetration**	**Yield Penetration**
Best Western Plus Kelowna Hotel & Suites	176	33 %	10 %	54 %	3 %	146	54 %	$131.00	$70.74	176	58 %	$132.00	$76.56	176	60 %	$133.00	$79.80	4.2 %	110.1 %	103.0 %
Coast Capri Hotel	185	30	30	32	8	185	56	124.00	69.44	185	57	124.00	70.68	185	54	120.00	64.80	(8.3)	99.1	83.6
Comfort Suites Kelowna	83	30	20	40	10	42	40	120.00	48.00	83	45	123.00	55.35	83	55	125.00	68.75	24.2	100.9	88.7
Delta Grand Okanagan Resort & Conference Centre	262	13	40	41	6	262	66	175.00	115.50	262	66	174.00	114.84	262	59	188.00	110.92	(3.4)	108.3	143.2
Fairfield Inn & Suites by Marriott Kelowna	160	40	5	45	10	110	54	123.00	66.42	160	53	125.00	66.25	160	52	123.00	63.96	(3.5)	95.4	82.6
Holiday Inn Express	190	40	10	45	5	190	58	136.00	78.88	190	52	130.00	67.60	190	53	132.00	69.96	3.5	97.2	90.3
Ramada Lodge Hotel	135	60	5	30	5	135	45	114.00	51.30	135	44	117.00	51.48	135	45	110.00	49.50	(3.8)	82.6	63.9
Sandman Hotel Kelowna	220	15	25	35	25	110	55	110.00	60.50	220	51	109.00	55.59	220	50	109.00	54.50	(2.0)	91.7	70.3
Sub-Totals/Averages	**1,411**	**30 %**	**21 %**	**41 %**	**9 %**	**1,180**	**56.2 %**	**$137.74**	**$77.40**	**1,411**	**54.8 %**	**$134.35**	**$73.60**	**1,411**	**53.9 %**	**$135.46**	**$73.00**	**(0.8) %**	**98.9 %**	**94.2 %**
Secondary Competitors	260	21 %	29 %	45 %	6 %	195	57.7 %	$184.74	$106.58	195	58.4 %	$186.07	$108.74	195	58.9 %	$186.47	$109.91	1.1 %	108.2 %	141.9 %
Totals/Averages	**1,671**	**28 %**	**22 %**	**41 %**	**9 %**	**1,375**	**56.4 %**	**$144.56**	**$81.53**	**1,606**	**55.2 %**	**$141.00**	**$77.87**	**1,606**	**54.5 %**	**$142.16**	**$77.48**	**(0.5) %**	**100.0 %**	**100.0 %**

The following map illustrates the location of the proposed subject property and its future competitors.

MAP OF COMPETITION



- Proposed Hilton Hotel
- A – Best Western Plus Kelowna Hotel & Suites (Primary)
- B – Coast Capri Hotel (Primary)
- C – Comfort Suites Kelowna (Primary)
- D – Delta Grand Okanagan Resort & Conference Centre (Primary)
- E – Fairfield Inn & Suites by Marriott Kelowna (Primary)
- F – Four Points by Sheraton Kelowna Airport (Primary)
- G – Holiday Inn Express (Primary)
- H – Ramada Lodge Hotel (Primary)
- I – Sandman Hotel Kelowna (Primary)
- J – Cove Lakeside Resort (Secondary)
- K – Manteo Beach Club (Secondary)
- L – Prestige Inn Kelowna (Secondary)

Our survey of the primarily competitive hotels in the local market shows a range of lodging types and facilities. Each primary competitor was inspected and evaluated. Descriptions of our findings are presented below.

PRIMARY COMPETITOR #1 - BEST WESTERN PLUS KELOWNA HOTEL & SUITES

Best Western Plus Kelowna Hotel & Suites
2402 Highway 97 North
Kelowna, BC

FIGURE 6-9 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	146	54 %	$131	$71	95.7 %	86.8 %
Estimated 2011	176	58	132	77	105.0	98.3
Estimated 2012	176	60	133	80	110.1	103.0

The Best Western Inn Kelowna is owned and operated by Salco Management. The hotel has been named the "#1 Green Hotel" in Kelowna. The facilities include a fitness centre, an indoor and outdoor pool, two hot tubs, a spa, a business centre, and 4,847 square feet of meeting space. The hotel offers free hot breakfast in the morning and has the 97 Street Pub on site. The hotel was built in 1966 and last renovated in 2010; the upgrades included new guestroom soft goods, flat-screen televisions, and granite countertops in the bathrooms. This hotel benefits from its Best Western brand affiliation, and location along the highway.

PRIMARY COMPETITOR #2 - COAST CAPRI HOTEL

Coast Capri Hotel
1171 Harvey Avenue
Kelowna, BC

FIGURE 6-10 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	185	56 %	$124	$69	99.3 %	85.2 %
Estimated 2011	185	57	124	71	103.2	90.8
Estimated 2012	185	54	120	65	99.1	83.6

The Coast Capri Hotel is owned by RG Properties and operated by Coast Hotels. The facilities include a business centre, a spa, a coffee shop, the Vintage Room restaurant, and Vintner's Poolside Grill. The hotel also has approximately 15,000 square feet of meeting space in nine rooms. The recreational amenities include an outdoor swimming pool and a whirlpool. After experiencing a fire in 2012, the guestrooms in the tower were renovated.

PRIMARY COMPETITOR #3 - COMFORT SUITES KELOWNA

Comfort Suites Kelowna
2656 Highway 97 North
Kelowna, BC

FIGURE 6-11 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	42	40 %	$120	$48	70.9 %	58.9 %
Estimated 2011	83	45	123	55	81.5	71.1
Estimated 2012	83	55	125	69	100.9	88.7

The Comfort Suites Kelowna is one of the newest properties in the market, having opened in 2009. The facilities include a breakfast dining area (where complimentary breakfast is served), an indoor pool, an indoor whirlpool, an indoor waterslide, an exercise room, a business centre, a guest laundry facility, and approximately 1,000 square feet of meeting space. This hotel benefits from its new guestroom product and very good accessibility and visibility from Highway 97.

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PRIMARY COMPETITOR #4 - DELTA GRAND OKANAGAN RESORT & CONFERENCE CENTRE

Delta Grand Okanagan Resort & Conference Centre
1310 Water Street
Kelowna, BC

FIGURE 6-12 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	262	66 %	$175	$116	117.0 %	141.7 %
Estimated 2011	262	66	174	115	119.5	147.5
Estimated 2012	262	59	188	111	108.3	143.2

The Delta Grand Okanagan Resort & Conference Centre is owned by bcIMC and operated by Delta Hotels Limited. The facilities include a restaurant, a lounge, an indoor pool, an outdoor pool, an exercise room, a business centre, a spa, a casino, leased retail shops, and approximately 25,603 square feet of meeting space. The hotel was built in 1992. A full guestroom renovation was recently completed, and the food and beverage outlets and the common areas will be renovated in 2014. This hotel benefits from its waterfront location along Lake Okanagan and large amount of meeting space and from being proximate to local demand generators.

PRIMARY COMPETITOR #5 - FAIRFIELD INN & SUITES BY MARRIOTT KELOWNA

Fairfield Inn & Suites by Marriott Kelowna
1655 Powick Road
Kelowna, BC

FIGURE 6-13 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	110	54 %	$123	$66	95.7 %	81.5 %
Estimated 2011	160	53	125	66	96.0	85.1
Estimated 2012	160	52	123	64	95.4	82.6

The Fairfield Inn & Suites is a limited-service property that has a breakfast dining area, an exercise room, a business kiosk, a year-round outdoor pool with a 4-storey waterslide, and two meeting rooms totalling 3,660 square feet. The hotel offers both standard guestrooms and suites. In May 2010, a 40-guestroom expansion opened. The hotel benefits from its location along the highway and from its strong brand affiliation with Marriott and the Marriott Rewards loyalty program.

PRIMARY COMPETITOR #6 - HOLIDAY INN EXPRESS

Holiday Inn Express
2429 Highway 97 North
Kelowna, BC

FIGURE 6-14 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	190	58 %	$136	$79	102.8 %	96.7 %
Estimated 2011	190	52	130	68	94.2	86.8
Estimated 2012	190	53	132	70	97.2	90.3

The Holiday Inn Express is owned and operated by Fortis Properties, which bought the hotel from the Remple Family in 2006 for $13.6-million. The facilities include a breakfast dining area with the Holiday Inn Express signature Express Start breakfast, a business centre, a fitness centre, an indoor pool and whirlpool, and six meeting rooms totalling 4,283 square feet. A 70-room expansion to the hotel opened in 2010. The hotel benefits from its brand affiliation with Holiday Inn Express and the Priority Rewards loyalty program.

PRIMARY COMPETITOR #7 - RAMADA LODGE HOTEL

Ramada Lodge Hotel
2170 Harvey Avenue
Kelowna, BC

FIGURE 6-15 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	135	45 %	$114	$51	79.8 %	62.9 %
Estimated 2011	135	44	117	51	79.7	66.1
Estimated 2012	135	45	110	50	82.6	63.9

The Ramada Lodge Hotel is owned and operated by RPB Hotels Ltd. The facilities include Mickie's Pub, Perkins Restaurant, an indoor swimming pool and whirlpool, and a fitness centre. The hotel has six meeting rooms measuring a total of 8,655 square feet. The Ramada Lodge was built in 1981. In 2010, the sink areas of the bathrooms were upgraded, and the guestroom carpets were replaced. According to the management, all the guestrooms have been renovated over the past four years.

PRIMARY COMPETITOR #8 - SANDMAN HOTEL KELOWNA

Sandman Hotel Kelowna
2170 Harvey Avenue
Kelowna, BC

FIGURE 6-16 ESTIMATED HISTORICAL OPERATING STATISTICS

Year	Wtd. Annual Room Count	Occupancy	Average Rate	RevPAR	Occupancy Penetration	Yield Penetration
Estimated 2010	110	55 %	$110	$61	97.5 %	74.2 %
Estimated 2011	220	51	109	56	92.3	71.4
Estimated 2012	220	50	109	55	91.7	70.3

The Sandman Hotel Kelowna is owned by Northland Properties and operated by Sandman Hotels & Resorts. The facilities include a Denny's Restaurant, Chop Steakhouse & Bar, an indoor pool and hot tub, a business centre, and three meeting rooms measuring 4,238 square feet. In May 2010, 100 new rooms opened at the hotel. The new rooms are modelled after the upscale Sandman Signature Hotel concept.

Secondary Competitors

We have also reviewed other area lodging facilities to determine whether any may compete with the proposed subject property on a secondary basis. The room count of each secondary competitor is weighted based on the hotel's assumed degree of competitiveness in the future with the proposed subject property. By assigning degrees of competitiveness, we can assess how the proposed subject property and its future competitors may react to various changes in the market, including new supply, changes to demand generators, and renovations or franchise changes among the existing supply. The following table sets forth the pertinent operating characteristics of the secondary competitors.

FIGURE 6-17 SECONDARY COMPETITORS – OPERATING PERFORMANCE

		Est. Segmentation					Estimated 2010				Estimated 2011				Estimated 2012			
Property	Number of Rooms	Commercial	Meeting and Group	Leisure	Tour	Total Competitive Level	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR	Weighted Annual Room Count	Occ.	Average Rate	RevPAR
Cove Lakeside Resort	92	10 %	25 %	50 %	15 %	75 %	69	54 %	$203.00	$109.62	69	55 %	$211.00	$116.05	69	52 %	$211.00	$109.72
Manteo Beach Club	102	15	35	50	0	75	77	66	203.00	133.98	77	67	200.00	134.00	77	71	201.00	142.71
Prestige Inn Kelowna	66	50	20	25	5	75	50	50	120.00	60.00	50	50	119.00	59.50	50	50	119.00	59.50
Totals/Averages	**260**	**21 %**	**29 %**	**45 %**	**6 %**	**75 %**	**195**	**57.7 %**	**$184.74**	**$106.58**	**195**	**58.4 %**	**$186.07**	**$108.74**	**195**	**58.9 %**	**$186.47**	**$109.91**

We have identified three hotels that are expected to compete with the proposed subject property on a secondary level. The Cove Lakeside Resort and the Manteo Beach Club are anticipated to be competitive on the basis of product quality, the availability of suites with kitchens, and the good-quality product offering; however, both of these hotels are independent resort-type properties and are located outside of the downtown core and away from the main highway. The Prestige Inn Kelowna is expected to compete with the proposed subject property based on its location within downtown Kelowna, but the hotel is inferior in quality and independent. These hotels are weighted as 75% competitive with the proposed subject hotel.

Supply Changes

It is important to consider any new hotels that may have an impact on the proposed subject property's operating performance. The new supply that is considered in our analysis is presented in the following table.

FIGURE 6-18 NEW SUPPLY

Proposed Property	Number of Rooms	Total Competitive Level	Estimated Opening Date	Development Stage
Proposed Hilton	164	100 %	January 1, 2016	Early Development
Four Points Kelowna Airport	120	100	June 1, 2013	Recently Opened
Total	**284**			

The Four Points Kelowna Airport recently opened in June 2013. The hotel features 120 guestrooms, a Ric's Grill Restaurant, an indoor pool with a waterslide, a fitness centre, a business centre, and 7,917 square feet of meeting space. Based on the strong brand affiliation with Four Points by Sheraton and the new product quality, we expect the Four Points Kelowna Airport to compete directly with the proposed subject property.

Although we have taken reasonable steps to investigate proposed hotel projects and their status, it is impossible to determine with certainty every hotel that will be opened in the future or what their marketing strategies and effect on the market will be. This is the nature of real estate development. Depending on the outcome of current and future projects, the future operating potential of the proposed subject property may be positively or negatively affected. Future improvement in market conditions will raise the risk of increased competition. Our forthcoming forecast of stabilized occupancy and average rate is intended to reflect this risk.

Supply Conclusion

We have identified various properties that are expected to be competitive to some degree with the proposed subject property. We have also investigated potential increases in the competitive supply in this submarket of Kelowna. The Proposed Hilton Hotel should enter a dynamic market of varying product types and price points. Next, we present our forecast for demand change, using the historical supply data as a starting point.

DEMAND

The following table presents the most recent trends for the subject hotel market as tracked by HVS. These data pertain to the competitors discussed previously in this section. The performance results are estimated, rounded for the competition, and, for the secondary competitors, weighted. In this respect, the information in the table differs from the previously presented STR data, but it is consistent with the supply and demand analysis developed for this report.

FIGURE 6-19 HISTORICAL MARKET TRENDS

Year	Accommodated Room Nights	% Change	Room Nights Available	% Change	Market Occupancy	Market ADR	% Change	Market RevPAR	% Change
Est. 2010	283,089	—	501,911	—	56.4 %	$144.56	—	$81.53	—
Est. 2011	323,739	14.4 %	586,190	16.8 %	55.2	141.00	(2.5) %	77.87	(4.5) %
Est. 2012	319,494	(1.3)	586,190	0.0	54.5	142.16	0.8	77.48	(0.5)
Avg. Annual Compounded Chg., Est. 2010-Est. 2012:		6.2 %		8.1 %			(0.8) %		(2.5) %

Demand Analysis Using Market Segmentation

For the purpose of demand analysis, the overall market is divided into individual segments based on the nature of travel. Based on our fieldwork, area analysis, and knowledge of the local lodging market, we estimate the distribution of accommodated-room-night demand in 2012 as follows.

FIGURE 6-20 ACCOMMODATED ROOM NIGHT DEMAND (2012)

	Marketwide	
Market Segment	Accommodated Demand	Percentage of Total
Commercial	90,968	28 %
Meeting and Group	69,054	22
Leisure	131,909	41
Tour	27,562	9
Total	**319,494**	**100 %**

Using the distribution of accommodated hotel demand as a starting point, we will analyze the characteristics of each market segment in an effort to determine future trends in room-night demand.

Commercial Segment

Commercial demand consists mainly of individual businesspeople passing through the subject market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent-traveller programs), as well as location and convenience with respect to businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as "preferred" accommodations in return for more favourable rates, which are discounted in proportion to the number of room nights produced by a commercial client. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

In the subject market, commercial demand comes from a variety of businesses in the Kelowna area. All the economic and demographic data presented earlier have some influence on commercial lodging demand. Commercial demand is expected to experience strong growth in 2013 and then more moderate growth throughout the remainder of the projection period. Considering the historical trends, we project demand change rates of 5.0% in 2013, 3.0% in both 2014 and 2015, and 2.0% per year thereafter.

Meeting and Group Segment

The meeting and group market includes meetings, seminars, conventions, trade association shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, ethnic, religious, fraternal, and educational) groups. Corporate groups typically meet during the business week, most commonly in the spring and fall months. These groups tend to be the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues, including food and beverage and/or banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends and during the summer months or holiday season, when greater discounts are usually available; these groups generate limited ancillary revenues. Association demand is generally divided on a geographical basis, with national, regional, and provincial associations representing the most common sources. Professional associations and/or those supported by members' employers often meet on weekdays, whereas other associations prefer to hold events on weekends. The profile and revenue potential of associations varies depending on the group and the purpose of the meeting or event.

Future meeting and group demand is closely related to growth in the commercial segment. Because most meetings have either a direct or an indirect business purpose, the economic considerations that have an impact on commercial travel also affect meeting and group demand. The exception is non-commercial meetings, which are tied to the economic factors that influence leisure travel. In projecting meeting and group demand in the proposed subject property's market, we have considered all the data sources applicable to the commercial segment as well as trends in leisure travel. Considering the historical trends, we project demand change rates of 5.0% in 2013, 3.0% in both 2014 and 2015, and 2.0% per year thereafter.

Leisure Segment

Leisure demand consists of individuals and families spending time in an area or passing through en route to other destinations. The travel purposes include sightseeing, recreation, and visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites like Expedia, Hotels.com, and Priceline even though leisure may not be the purpose of the stay. This demand may also include business travellers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest Friday and Saturday nights and all week during holiday periods and the summer months. These peak periods represent the inverse of commercial visitation trends, underscoring the stabilizing effect of capturing weekend and summer tourist travel. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in provincial and regional unemployment and disposable personal income correlate strongly with leisure travel levels.

Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in provincial and regional unemployment and disposable personal income often have a strong correlation with non-commercial visitation. Of the economic and demographic data presented earlier in this report, trends in retail sales, total employment, and air traffic counts tend to have the strongest influence on leisure demand. Leisure demand is expected to experience strong growth in 2013 because of increased travel from the Lower Mainland, and positive growth in each year thereafter as the country continues to recover from the recession. Considering the historical trends, we project demand change rates of 5.0% in 2013, 3.0% in both 2014 and 2015, and 2.0% per year thereafter.

Tour Segment

The tour group segment consists of tour groups that spend time in the area. The purposes of tour group travel may include sightseeing, recreation, visiting friends and relatives, and numerous other non-business activities. Tour group demand is strongest in the summer months. The typical length of stay ranges from two to four days, and the rate of double occupancy typically ranges from 1.8 to 2.5 people per room. Future tour group demand is related to the overall economic health of

Canada, United States, Asia, and Europe. With Kelowna's international reputation as a tourist destination and its world-class amenities, we project continued growth in the tour group segment. Considering the historical trends, we project demand change rates of 5.0% in 2013, 3.0% in both 2014 and 2015, and 2.0% per year thereafter.

Conclusion

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. Starting with an analysis of the local area, four segments were defined as representing the proposed subject property's lodging market. Various types of economic and demographic data were then evaluated to determine their propensity to reflect changes in hotel demand. Based on this procedure, we forecast the following base annual growth rates for each demand segment.

FIGURE 6-21 BASE ANNUAL DEMAND GROWTH PROJECTION

	Annual Growth Rate						
Market Segment	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Commercial	5.0 %	3.0 %	3.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Meeting and Group	5.0	3.0	3.0	2.0	2.0	2.0	2.0
Leisure	5.0	3.0	3.0	2.0	2.0	2.0	2.0
Tour	5.0	3.0	3.0	2.0	2.0	2.0	2.0
Base Demand Growth	**5.0 %**	**3.0 %**	**3.0 %**	**2.0 %**	**2.0 %**	**2.0 %**	**2.0 %**

Latent Demand

A table presented earlier in this section illustrated the accommodated room night demand in the proposed subject property's competitive market. Because this estimate is based on historical occupancy levels, it includes only those hotel rooms that were used by guests. Latent demand reflects the potential room-night demand that has not been realized by the existing competitive supply. This type can be divided into unaccommodated demand and induced demand. In this case, only induced demand is applicable.

Induced Demand

Induced demand represents the additional room nights that are expected to be attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the expansion of a convention centre, or the addition of a new hotel with a distinctive chain affiliation or unique facilities. The following table summarizes our estimate of induced demand.

FIGURE 6-22 INDUCED DEMAND ESTIMATE

	Induced Room Nights					
Market Segment	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Commercial	2,843	5,256	5,694	8,837	9,465	9,779
Meeting and Group	569	1,051	1,139	2,486	2,755	2,890
Leisure	2,274	4,205	4,555	8,596	9,404	9,808
Tour	0	0	0	449	539	584
Total	**5,685**	**10,512**	**11,388**	**20,367**	**22,163**	**23,061**

The new Four Points Kelowna Airport and the proposed subject hotel are expected to induce demand into the market. Accordingly, we have incorporated 23,000 room nights (rounded) into our analysis, phased in over a 6-year ramp-up period.

Accommodated Demand and Market-wide Occupancy

Based on our review of the market dynamics in the proposed subject property's competitive environment, we projected growth rates for each market segment. Using the calculated potential demand for the market, we have determined the market-wide accommodated demand based on the inherent limitations of demand fluctuations and other factors in the market area.

The following table details our projection of lodging demand growth for the subject market, including the total number of occupied room nights and any residual unaccommodated demand in the market.

FIGURE 6-23 FORECAST OF MARKET OCCUPANCY

	2012	2013	2014	2015	2016	2017	2018	2019
Commercial								
Base Demand	90,968	95,517	98,382	101,334	103,361	105,428	107,536	109,687
Induced Demand		2,843	5,256	5,694	8,837	9,465	9,779	9,779
Total Demand		98,360	103,638	107,028	112,197	114,893	117,316	119,466
Growth Rate		8.1 %	5.4 %	3.3 %	4.8 %	2.4 %	2.1 %	1.8 %
Meeting and Group								
Base Demand	69,054	72,507	74,682	76,923	78,461	80,030	81,631	83,264
Induced Demand		569	1,051	1,139	2,486	2,755	2,890	2,890
Total Demand		73,075	75,733	78,061	80,947	82,785	84,521	86,153
Growth Rate		5.8 %	3.6 %	3.1 %	3.7 %	2.3 %	2.1 %	1.9 %
Leisure								
Base Demand	131,909	138,505	142,660	146,939	149,878	152,876	155,933	159,052
Induced Demand		2,274	4,205	4,555	8,596	9,404	9,808	9,808
Total Demand		140,779	146,864	151,495	158,474	162,280	165,741	168,860
Growth Rate		6.7 %	4.3 %	3.2 %	4.6 %	2.4 %	2.1 %	1.9 %
Tour								
Base Demand	27,562	28,940	29,808	30,702	31,316	31,943	32,582	33,233
Induced Demand		0	0	0	449	539	584	584
Total Demand		28,940	29,808	30,702	31,765	32,481	33,165	33,817
Growth Rate		5.0 %	3.0 %	3.0 %	3.5 %	2.3 %	2.1 %	2.0 %
Totals								
Base Demand	319,494	335,468	345,532	355,898	363,016	370,277	377,682	385,236
Induced Demand		5,685	10,512	11,388	20,367	22,163	23,061	23,061
Total Demand		341,154	356,044	367,286	383,383	392,439	400,743	408,296
Overall Demand Growth		6.8 %	4.4 %	3.2 %	4.4 %	2.4 %	2.1 %	1.9 %
Market Mix								
Commercial	28.5 %	28.8 %	29.1 %	29.1 %	29.3 %	29.3 %	29.3 %	29.3 %
Meeting and Group	21.6	21.4	21.3	21.3	21.1	21.1	21.1	21.1
Leisure	41.3	41.3	41.2	41.2	41.3	41.4	41.4	41.4
Tour	8.6	8.5	8.4	8.4	8.3	8.3	8.3	8.3
Existing Hotel Supply	1,606	1,606	1,606	1,606	1,606	1,606	1,606	1,606
Proposed Hotels								
Proposed Hilton [1]					164	164	164	164
Four Points Kelowna Airport [2]		70	120	120	120	120	120	120
Available Rooms per Night	586,190	611,870	629,990	629,990	689,850	689,850	689,850	689,850
Nights per Year	365	365	365	365	365	365	365	365
Total Supply	1,606	1,676	1,726	1,726	1,890	1,890	1,890	1,890
Rooms Supply Growth	—	4.4 %	3.0 %	0.0 %	9.5 %	0.0 %	0.0 %	0.0 %
Market-wide Occupancy	**54.5 %**	**55.8 %**	**56.5 %**	**58.3 %**	**55.6 %**	**56.9 %**	**58.1 %**	**59.2 %**

[1] Opening in January 2016 of the 100%-competitive, 164-room Proposed Hilton

[2] Opening in June 2013 of the 100%-competitive, 120-room Four Points Kelowna Airport

These room-night projections for the market area are used in forecasting the proposed subject property's occupancy and average rate in the following chapter.

7. Projection of Occupancy and Average Rate

Along with average rate results, the occupancy levels achieved by a hotel are the
Along with average rate results, the occupancy levels achieved by a hotel are the
foundation of the property's financial performance and value. Most of a lodging facility's other revenue sources (such as food, beverages, and telephone income) are driven by the number of guests, and many expense levels also vary with occupancy. To a certain degree, occupancy attainment can be manipulated by management. For example, hotel operators may choose to lower rates in an effort to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical professional hotel management team to achieve an optimal mix of occupancy and average rate.

Penetration Rate Analysis

The proposed subject property's forecasted market share and occupancy levels are based upon the hotel's anticipated competitive position within the market as quantified in the penetration rate. The penetration rate is the ratio of a property's market share to its fair share. A complete discussion of the concept of penetration is presented in the addenda.

Historical Penetration Rates by Market Segment

In the following table, the penetration rates attained by the primary competitors and the aggregate of the weighted secondary competitors are set forth for each segment for the base year, 2012.

FIGURE 7-1 BASE-YEAR PENETRATION RATES (2012)

Property	Commercial	Meeting and Group	Leisure	Tour	Overall
Best Western Plus Kelowna Hotel & Suites	128 %	51 %	144 %	38 %	110 %
Coast Capri Hotel	104	138	77	92	99
Comfort Suites Kelowna	106	93	98	117	101
Delta Grand Okanagan Resort & Conference Centre	49	200	107	75	108
Holiday Inn Express	137	45	106	56	97
Ramada Lodge Hotel	174	19	60	48	83
Sandman Hotel Kelowna	48	106	78	266	92
Secondary Competition	80	143	117	72	108

Forecast of Proposed Subject Property's Occupancy

Because the supply and demand balance for the competitive market is dynamic, there is a circular relationship among the penetration factors of each hotel in the market. The performance of individual new hotels has a direct effect upon the aggregate performance of the market and consequently upon the calculated penetration factor for each hotel in each market segment. The same is true when the performance of existing hotels changes, either positively (following a refurbishment, for example) or negatively (as when a poorly maintained or marketed hotel loses market share).

A hotel's penetration factor is calculated as its achieved market share of demand divided by its fair share of demand. Thus, if one hotel's penetration performance increases, thereby increasing its achieved market share, this leaves less demand available in the market for the other hotels to capture, and the penetration performance of one or more of those other hotels consequently declines (other things remaining equal). This type of market share adjustment takes place every time there is a change in supply or a change in the relative penetration performance of one or more hotels in the competitive market.

Our projections of penetration, demand capture, and occupancy performance for the proposed subject property account for these types of adjustments to market share within the defined competitive market.

The following tables set forth, by market segment, the projected adjusted penetration rates for the proposed subject property and each hotel in the competitive set.

FIGURE 7-2 COMMERCIAL SEGMENT ADJUSTED PENETRATION RATES

Hotel	2012	2013	2014	2015	2016	2017	2018	2019
Best Western Plus Kelowna Hotel & Suites	128 %	125 %	121 %	120 %	119 %	117 %	117 %	117 %
Coast Capri Hotel	104	102	99	98	98	96	95	95
Comfort Suites Kelowna	106	104	101	100	99	98	97	97
Delta Grand Okanagan Resort & Conference Centre	49	63	71	70	70	69	68	68
Fairfield Inn & Suites by Marriott Kelowna	134	131	127	126	125	123	122	122
Holiday Inn Express	137	133	130	128	128	126	125	125
Ramada Lodge Hotel	174	170	165	163	163	160	159	159
Sandman Hotel Kelowna	48	47	46	45	45	44	44	44
Secondary Competition	80	78	76	75	75	73	73	73
Proposed Hilton	—	—	—	—	**103**	**120**	**128**	**128**
Four Points Kelowna Airport	—	98	114	131	131	129	128	128

Given the location in downtown Kelowna proximate to many commercial demand generators, the expected upper-upscale quality of the product and level of service, and the anticipated affiliation with Hilton, the proposed subject hotel is projected to stabilize capturing more than its fair share of commercial demand. The new business-oriented product will be the highest quality in the competitive set.

FIGURE 7-3 MEETING AND GROUP SEGMENT ADJUSTED PENETRATION RATES

Hotel	2012	2013	2014	2015	2016	2017	2018	2019
Best Western Plus Kelowna Hotel & Suites	51 %	51 %	51 %	51 %	52 %	51 %	51 %	51 %
Coast Capri Hotel	138	137	137	137	140	138	138	138
Comfort Suites Kelowna	93	93	93	93	95	94	94	94
Delta Grand Okanagan Resort & Conference Centre	200	214	215	215	219	217	217	217
Fairfield Inn & Suites by Marriott Kelowna	22	22	22	22	22	22	22	22
Holiday Inn Express	45	45	45	45	46	45	45	45
Ramada Lodge Hotel	19	19	19	19	19	19	19	19
Sandman Hotel Kelowna	106	105	106	106	108	107	107	107
Secondary Competition	143	142	143	143	146	144	144	144
Proposed Hilton	—	—	—	—	**81**	**91**	**91**	**91**
Four Points Kelowna Airport	—	60	70	70	71	70	70	70

The proposed subject property is projected to capture some meeting and group demand with its 2,750 square feet of meeting space, but the amount of meeting space is not large enough to accommodate large groups. As such, the proposed subject property is projected to stabilize capturing slightly less than its fair share of this demand segment.

FIGURE 7-4 LEISURE SEGMENT ADJUSTED PENETRATION RATES

Hotel	2012	2013	2014	2015	2016	2017	2018	2019
Best Western Plus Kelowna Hotel & Suites	144 %	144 %	143 %	142 %	142 %	140 %	139 %	139 %
Coast Capri Hotel	77	77	76	76	76	75	74	74
Comfort Suites Kelowna	98	98	97	96	97	95	94	94
Delta Grand Okanagan Resort & Conference Centre	107	107	107	106	106	104	103	103
Fairfield Inn & Suites by Marriott Kelowna	104	104	103	103	103	101	100	100
Holiday Inn Express	106	106	105	105	105	103	102	102
Ramada Lodge Hotel	60	60	60	59	59	58	58	58
Sandman Hotel Kelowna	78	78	77	77	77	75	75	75
Secondary Competition	117	117	116	115	115	113	113	113
Proposed Hilton	—	—	—	—	**99**	**116**	**125**	**125**
Four Points Kelowna Airport	—	100	109	118	118	116	116	116

The proposed subject property is projected to stabilize capturing more than its fair share of leisure demand. The strong brand affiliation with Hilton, the location in downtown Kelowna, the expected food and beverage offerings, spa, and recreational amenities, the inclusion of kitchens in all the guestrooms, and the all-suite product offering will contribute to the proposed subject property's strong performance in this segment.

FIGURE 7-1 TOUR SEGMENT ADJUSTED PENETRATION RATES

Hotel	2012	2013	2014	2015	2016	2017	2018	2019
Best Western Plus Kelowna Hotel & Suites	38 %	44 %	45 %	45 %	47 %	47 %	47 %	47 %
Coast Capri Hotel	92	93	95	95	101	100	100	100
Comfort Suites Kelowna	117	119	121	121	128	127	127	127
Delta Grand Okanagan Resort & Conference Centre	75	76	78	78	83	82	82	82
Fairfield Inn & Suites by Marriott Kelowna	111	112	114	114	121	120	120	120
Holiday Inn Express	56	57	58	58	62	61	61	61
Ramada Lodge Hotel	48	49	49	49	52	52	52	52
Sandman Hotel Kelowna	266	270	274	274	291	289	289	289
Secondary Competition	72	73	74	74	79	78	78	78
Proposed Hilton	**—**	**—**	**—**	**—**	**33**	**43**	**43**	**43**
Four Points Kelowna Airport	—	51	52	52	55	54	54	54

The proposed subject property is projected to stabilize capturing less than its fair share of tour demand. The Proposed Hilton is expected to focus on the commercial and leisure segments, which pay higher rates and are less rate sensitive.

These positioned segment penetration rates result in the following market segmentation forecast.

FIGURE 7-5 MARKET SEGMENTATION – PROPOSED SUBJECT PROPERTY

	2016	2017	2018	2019
Commercial	33 %	33 %	33 %	33 %
Meeting and Group	19	18	17	17
Leisure	45	45	46	46
Tour	3	3	3	3
Total	100 %	100 %	100 %	100 %

The proposed subject property's occupancy forecast is set forth as follows. The projected penetration rates are used as a basis for calculating the amount of captured market demand.

FIGURE 7-6 FORECAST OF PROPOSED SUBJECT PROPERTY'S OCCUPANCY

Market Segment	2016	2017	2018	2019
Commercial				
Demand	112,197	114,893	117,316	119,466
Market Share	8.9 %	10.4 %	11.1 %	11.1 %
Capture	10,020	11,933	13,018	13,257
Penetration	103 %	120 %	128 %	128 %
Meeting and Group				
Demand	80,947	82,785	84,521	86,153
Market Share	7.1 %	7.9 %	7.9 %	7.9 %
Capture	5,708	6,510	6,647	6,775
Penetration	81 %	91 %	91 %	91 %
Leisure				
Demand	158,474	162,280	165,741	168,860
Market Share	8.6 %	10.1 %	10.9 %	10.9 %
Capture	13,579	16,405	17,999	18,338
Penetration	99 %	116 %	125 %	125 %
Tour				
Demand	31,765	32,481	33,165	33,817
Market Share	2.9 %	3.8 %	3.8 %	3.8 %
Capture	907	1,224	1,250	1,275
Penetration	33 %	43 %	43 %	43 %
Total Room Nights Captured	**30,214**	**36,072**	**38,914**	**39,644**
Available Room Nights	59,860	59,860	59,860	59,860
Subject Occupancy	**50 %**	**60 %**	**65 %**	**66 %**
Market-wide Available Room Nights	689,850	689,850	689,850	689,850
Fair Share	**9 %**	**9 %**	**9 %**	**9 %**
Market-wide Occupied Room Nights	383,383	392,439	400,743	408,296
Market Share	**8 %**	**9 %**	**10 %**	**10 %**
Market-wide Occupancy	**56 %**	**57 %**	**58 %**	**59 %**
Total Penetration	**91 %**	**106 %**	**112 %**	**112 %**

Based on our analysis of the proposed subject property and the market area, we have selected a stabilized occupancy level of 66% for the proposed subject hotel. The stabilized occupancy is intended to reflect the anticipated results of the property over the hotel's remaining economic life, given any and every change in the lifecycle of the hotel. The stabilized occupancy thus excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that would result in unusually high or low occupancies. Although the proposed subject property may operate at occupancies above this stabilized level, we believe that it is equally possible for new competition and temporary economic downturns to force the occupancy below this selected point of stability.

Average Rate Analysis

One of the most important considerations in estimating the value of a lodging facility is a supportable forecast of the attainable average rate, which is more formally defined as the average rate per occupied room. Average rate can be calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

Competitive Position

Although the average rate analysis presented here follows the occupancy projection, these two statistics are highly correlated. In actuality, one cannot project occupancy without making specific assumptions regarding average rate. This relationship is best illustrated by revenue per available room (RevPAR), which reflects a property's ability to maximize rooms revenue. The following table summarizes the base-year average rate and RevPAR of the proposed subject property's future primary competitors.

FIGURE 7-7 BASE-YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS

Property	Estimated 2012 Average Room Rate	Average Room Rate Penetration	Rooms Revenue Per Available Room (RevPAR)	RevPAR Penetration
Best Western Plus Kelowna Hotel & Suites	$133.00	93.6 %	$79.80	103.0 %
Coast Capri Hotel	120.00	84.4	64.80	83.6
Comfort Suites Kelowna	125.00	87.9	68.75	88.7
Delta Grand Okanagan Resort & Conference Centre	188.00	132.2	110.92	143.2
Fairfield Inn & Suites by Marriott Kelowna	123.00	86.5	63.96	82.6
Holiday Inn Express	132.00	92.9	69.96	90.3
Ramada Lodge Hotel	110.00	77.4	49.50	63.9
Sandman Hotel Kelowna	109.00	76.7	54.50	70.3
Average - Primary Competitors	$135.46	95.3 %	$73.00	94.2 %
Average - Secondary Competitors	186.47	131.2	109.91	141.9
Overall Average	**$142.16**		**$77.48**	

The defined primarily competitive market realized an overall average rate of $135.46 in the 2012 base year, up from the 2011 level of $134.35. The Delta Grand Okanagan Resort and Conference Centre achieved the highest ADR in the primary competitive market because of the quality of its guestrooms and its waterfront location and resort amenities.

As illustrated previously, the average rate for the primarily competitive market averaged $134.35 in 2011 before reaching $135.46 in 2012. As the recession had a negative impact on both corporate and leisure travel, ADR growth in the Kelowna market has been minimal over the past few years. In addition, the significant increase in supply has caused hotels to offer discounted rates, which has put downward pressure on the average room rate. The market-wide ADR is projected to erode further in 2013 because the competitive hotels have cut rates to maintain market share in the face of the new supply that has entered the market.

Market Segmentation Method

In the market segmentation method, average room rate is projected by individual market segment. This is the preferred method for forecasting average rate, as it is based on the operational and marketing practices of hotel operators. Consistent with how hotel managers track historical average rates by market segment and their own budgeting methods, the segmentation of demand and average rate allows for yield management resulting in the maximization of rooms revenue.

The average rates positioned for the proposed subject hotel in each segment in 2012 serve as the basis for our average rate projection. Each market segment's average rate is projected out through the stabilized year based upon the annual rate of change anticipated for that market segment. For each forecast year, the segmented average rate is multiplied by the number of occupied rooms previously projected to be captured in that segment; this results in a forecast of total rooms revenue for each market segment. The segmented rooms revenue is summed, resulting in a forecast of the total rooms revenue. Dividing the total rooms revenue by the total number of occupied rooms results in the overall weighted average room rate.

To position the proposed subject hotel's ADR in base year dollars, we took into consideration the brand affiliation, the location, and the product type. The proposed subject hotel will be branded a Hilton, which is an upper-upscale full-service hotel brand, and it will be the only hotel with an internationally recognized upper-upscale full-service brand in Kelowna. The proposed hotel will be located in downtown Kelowna, conveniently proximate to the waterfront, restaurants, retail shopping, recreational facilities, and commercial demand generators, and it will also feature an all-suite product type with kitchens in all the guestrooms. Based on these expected attributes, the Proposed Hilton Hotel has been positioned with an ADR that is above all the competitive hotels at $213.78 in base-year dollars.

The following table identifies the segmented average rates that are positioned for the base year and the growth rates that are applied to each rate through the stabilized year. As a context for the average rate growth factors, note that we have applied a base underlying inflation rate of 2.0% per year throughout our projection.

FIGURE 7-8 PROPOSED SUBJECT PROPERTY'S AVERAGE RATE FORECAST

	2012	2013	2014	2015	2016	2017	2018	2019
Commercial								
Average Rate Growth	—	0.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Captured Room Nights					10,020	11,933	13,018	13,257
Rooms Revenue					$2,020,420	$2,454,196	$2,730,871	$2,836,554
Average Rate	$190.00	$190.00	$193.80	$197.68	$201.63	$205.66	$209.78	$213.97
Meeting and Group								
Average Rate Growth	—	0.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Captured Room Nights					5,708	6,510	6,647	6,775
Rooms Revenue					$1,120,662	$1,303,680	$1,357,627	$1,411,529
Average Rate	$185.00	$185.00	$188.70	$192.47	$196.32	$200.25	$204.25	$208.34
Leisure								
Average Rate Growth	—	0.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Captured Room Nights					13,579	16,405	17,999	18,338
Rooms Revenue					$3,530,412	$4,350,455	$4,868,781	$5,059,602
Average Rate	$245.00	$245.00	$249.90	$254.90	$260.00	$265.20	$270.50	$275.91
Tour								
Average Rate Growth	—	0.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Captured Room Nights					907	1,224	1,250	1,275
Rooms Revenue					$158,732	$218,663	$227,731	$236,850
Average Rate	$165.00	$165.00	$168.30	$171.67	$175.10	$178.60	$182.17	$185.82
Total								
Average Rate Growth	—	0.0 %	2.0 %	2.0 %	1.6 %	2.1 %	2.2 %	2.0 %
Captured Room Nights					30,214	36,072	38,914	39,644
Rooms Revenue					$6,830,225	$8,326,995	$9,185,010	$9,544,535
Average Rate	**$213.78**	**$213.78**	**$218.06**	**$222.42**	**$226.06**	**$230.84**	**$236.03**	**$240.75**
Average Rate Penetration	150.4 %	150.4 %	150.4 %	150.4 %	149.9 %	150.0 %	150.4 %	150.4 %
Market-wide Average Rate Growth	—	0.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Market-wide Average Rate	$142.16	$142.16	$145.00	$147.90	$150.86	$153.87	$156.95	$160.09

8. Highest and Best Use

The concept of highest and best use is a fundamental element in the determination of value of real property, either as if vacant or as improved. Highest and best use is defined as follows:

> The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. Alternatively, the probable use of land or improved property—specific with respect to the user and timing of the use—that is adequately supported and results in the highest present value.[10]

The concept of highest and best use is the premise upon which value is based and is a product of competitive forces in the marketplace. The principle of balance holds that real property value is created and sustained when contrasting, opposing, or interacting elements are in a state of equilibrium. This principle applies to relationships among various property components as well as the relationship between the costs of production and the property's productivity. The point of economic balance is achieved when the combination of land and building is optimal (i.e., when no marginal benefit or utility is achieved by adding another unit of capital). The law of increasing returns holds that larger amounts of the agents of production produce greater net income up to a certain point, after which the law of diminishing returns is applied.

As if Vacant

Land value is derived from potential use rather than actual use. The highest and best use is that which generates the greatest return to the land. An analysis as to the highest and best use of the land should be made first and may be influenced by many factors. In estimating highest and best use, there are four stages of analysis:

1. Legally permissible use. What uses are permitted by zoning, deed restrictions, lease encumbrances, or any other legally binding codes, restrictions, or interests?

   As detailed in the zoning section of this report, the subject site is located in a commercially zoned district that allows for hotel, office, condo, and retail uses, among other uses.

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[10] The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).

2. Physically possible use. What uses of the site are physically possible?

   The subject site is large enough to support most commercial and high-density residential developments, certainly a hotel, office, condo, or mixed-use development, as defined under the permitted legal uses. The topography is appropriate and the access is adequate for these types of developments.

3. Financially feasible use. Which possible and permissible uses will produce a net return to the owner of the site?

   Based on the investment parameters provided by the client, the development of a hotel as a component of the mixed-use development is considered to be feasible; however, based on market investment parametres, the hotel component is not the highest and best use at this time.

4. Maximally productive use. Among the feasible uses, which use will produce the highest net return or the highest present worth?

   Based on the investment parametres specified by the client, the maximally productive use would be a full-service hotel; however, based on market value parametres, the site would be held for future development. Hotel development on this site is likely to be feasible once market conditions strengthen with the anticipated improvement in both the Canadian and US economies. This will stimulate increased leisure travel to the region resulting in increases in both occupancy and average room rate levels.

As if Vacant Conclusion

In consideration of the foregoing factors influencing development in the immediate area and the investment parameters provided by the client, it is our opinion that the highest and best use of the subject site, as if vacant, would be for the development of a full-service lodging facility that shares parking facilities with a mixed-use complex. It should be noted that based on market parametres the highest and best use would be to hold for future development.

Ideal Improvement

Based on the parameters indicated by the client, the ideal improvement for the subject site is a hotel.

As Improved

After determining the highest and best use of the land and the ideal improvement, an analysis should be made regarding the differences between the current improvements and the ideal improvement.

Based on the client's investment parametres, the proposed improvements should be constructed so as to allow the subject site to conform to its ideal improvement.

9. Approaches to Value

In appraising real estate for value, three approaches to value are considered: income capitalization, cost, and sales comparison. Basic summaries of each approach are provided as follows; please refer to the introduction of each respective chapter for additional description.

Income Capitalization Approach

The income capitalization approach analyzes a property's ability to generate financial returns as an investment. The appraisal estimates a property's operating cash flow, and the result is utilized in a direct capitalization technique and a discounted cash flow analysis. The income capitalization approach is often selected as the preferred valuation method for operating properties because it most closely reflects the investment rationale of knowledgeable buyers.

Sales Comparison Approach

The sales comparison approach estimates the value of a property by comparing it to similar properties sold on the open market. To obtain a supportable estimate of value, the sale price of a comparable property must be adjusted to reflect any dissimilarity between the comparable hotel and the property being appraised. The sales comparison approach is most useful in the case of simple forms of real estate such as vacant land and single-family homes, where the properties are homogeneous and the adjustments are few and relatively simple to compute. In the case of complex investments such as hotels, where the adjustments are numerous and more difficult to quantify, the sales comparison approach loses much of its reliability.

Cost Approach

The cost approach is most reliable for estimating the value of new properties. The cost approach estimates market value by estimating the cost of the land and computing the current cost of developing the property.

Reconciliation

The final step in the valuation process is the reconciliation and correlation of the value indications. The factors that are considered in assessing the reliability of each approach include the purpose of the appraisal, the nature of the proposed subject property, and the reliability of the data used. In the reconciliation, the applicability and supportability of each approach are considered and the range of value indications is examined. The most significant weight is given to the approach that produces the most reliable solution and most closely reflects the criteria used by typical investors. Given the proposed nature of this project, the cost approach is also highly applicable.

10. Income Capitalization Approach

The income capitalization approach is based on the principle that the value of a property is indicated by its net return, or what is known as the present worth of future benefits. The future benefits of income-producing properties, such as hotels, are net income before debt service and depreciation (as estimated by a forecast of income and expense) and any anticipated reversionary proceeds from a sale. These future benefits can be converted into an indication of value through a capitalization process and discounted cash flow analysis.

Methodology

Using the income capitalization approach, the proposed subject property is valued by analyzing the local market for transient accommodations, examining future competition, and developing a forecast of income and expense that reflects anticipated income trends and cost components through a stabilized year of operation.

The forecast of income and expense is expressed in current dollars for each year. The stabilized year is intended to reflect the anticipated operating results of the property over the hotel's remaining economic life, given any or every applicable stage of build-up, plateau, and decline in the lifecycle of the hotel. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses. The stabilized year's net income is then extended into an 11-year forecast of income and expense by applying the assumed underlying inflation rate to each revenue and expense item from the stabilized year forward, unless otherwise noted.

The 11-year forecast of net income forms the basis of a mortgage-equity and discounted cash flow analysis, in which ten years of net income and a reversion derived from the capitalized eleventh year's net income are discounted back to the date of value and summed to derive an estimate of value. The 10-year period reflects the typical holding period of large real estate assets like hotels. In addition, the 10-year time frame provides for the stabilization of income streams and the comparison of yields with alternative types of real estate. The forecasted income streams reflect the future benefits of owning specific rights in income-producing real estate.

Because the value is unknown but the loan-to-value ratio and the market rates of return can be estimated, the value is computed by way of a linear algebraic equation. The algebraic equation that solves for the total property value using a 10-year mortgage-equity technique was developed by Suzanne R. Mellen, CRE, MAI, FRICS, ISHC, Managing Director of the San Francisco office of HVS. A complete discussion of the technique is presented in her article, "Simultaneous Valuation: A New Technique."[11]

Comparable Operating Statements

In order to project future income and expense for the proposed subject property, we have included a sample of individual comparable operating statements from our database of hotel statistics. The financial data are presented according to the three most common measures of industry performance: ratio to sales (RTS), amounts per available room (PAR), and amounts per occupied room night (POR). These historical income and expense statements are used as benchmarks in our forthcoming forecast of income and expense. For comparison, the proposed subject hotel's stabilized income and expense, in 2012 dollars, is also presented in these tables.

[11] Suzanne Mellen, "Simultaneous Valuation: A New Technique," *Appraisal Journal* (April 1983).

FIGURE 10-1 COMPARABLE OPERATING STATEMENTS: RATIO TO SALES

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2012/13**	**2012/13**	**2012/13**	**2012/13**	**2012/13**	**2012**
Number of Rooms:	**90 to 120**	**200 to 250**	**150 to 200**	**210 to 270**	**210 to 270**	**164**
Occupied Rooms:	**30,956**	**53,641**	**47,936**	**59,903**	**58,507**	**39,508**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**81%**	**65%**	**74%**	**68%**	**68%**	**66%**
Average Rate:	**$150**	**$177**	**$134**	**$153**	**$133**	**$210**
RevPAR:	**$121**	**$116**	**$100**	**$105**	**$90**	**$138**
REVENUE						
Rooms	52.0 %	57.4 %	75.3 %	61.1 %	48.7 %	65.5 %
Food & Beverage	42.6	39.3	19.7	30.4	49.1	29.7
Other Operated Departments	1.9	2.8	4.7	7.5	0.7	2.2
Rentals & Other Income	3.6	0.5	0.2	1.1	1.5	2.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
DEPARTMENTAL EXPENSES*						
Rooms	36.8	24.8	20.7	34.2	32.7	23.9
Food & Beverage	68.2	72.4	77.6	92.5	63.8	80.0
Other Operated Departments	122.2	28.0	59.3	76.1	88.0	75.0
Total	50.4	43.5	33.7	54.7	47.9	41.0
DEPARTMENTAL INCOME	49.6	56.5	66.3	45.3	52.1	59.0
OPERATING EXPENSES						
Administrative & General	7.6	8.8	6.3	10.0	9.5	7.9
Marketing	3.7	5.4	3.9	6.9	4.9	4.2
Franchise Fee	0.0	0.0	5.3	0.0	0.0	2.6
Property Operations & Maintenance	2.9	4.4	3.4	3.6	4.6	3.9
Utilities	2.4	3.6	4.3	3.5	3.8	2.9
Total	16.6	22.2	23.2	23.9	22.8	21.5
HOUSE PROFIT	33.0	34.3	43.1	21.4	29.3	37.5
Management Fee	3.0	3.0	3.0	3.0	3.0	6.0
INCOME BEFORE FIXED CHARGES	30.0	31.3	40.1	18.4	26.3	31.5
FIXED EXPENSES						
Property Taxes	2.0	3.0	4.3	3.3	2.8	3.0
Insurance	0.3	0.5	0.4	0.7	0.6	0.5
Miscellaneous Fixed Expenses	0.0	0.1	0.3	0.8	0.2	0.0
Reserve for Replacement	4.0	4.0	4.0	4.0	4.0	4.0
Total	6.3	7.6	9.0	8.8	7.6	7.4
NET INCOME	23.7 %	23.7 %	31.1 %	9.6 %	18.7 %	24.1 %

* Departmental expense ratios are expressed as a percentage of departmental revenues

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FIGURE 10-2 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER AVAILABLE ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2012/13**	**2012/13**	**2012/13**	**2012/13**	**2012/13**	**2012**
Number of Rooms:	**90 to 120**	**200 to 250**	**150 to 200**	**210 to 270**	**210 to 270**	**164**
Occupied Rooms:	**30,956**	**53,641**	**47,936**	**59,903**	**58,507**	**39,508**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**81%**	**65%**	**74%**	**68%**	**68%**	**66%**
Average Rate:	**$150**	**$177**	**$134**	**$153**	**$133**	**$210**
RevPAR:	**$121**	**$116**	**$100**	**$105**	**$90**	**$138**
REVENUE						
Rooms	$44,194	$42,303	$36,328	$38,264	$32,718	$50,490
Food & Beverage	36,254	28,953	9,522	19,025	32,965	22,886
Other Operated Departments	1,584	2,044	2,280	4,690	489	1,686
Rentals & Other Income	3,028	337	95	660	1,032	2,054
Total	85,060	73,637	48,226	62,639	67,204	77,116
DEPARTMENTAL EXPENSES						
Rooms	16,245	10,487	7,517	13,099	10,707	12,045
Food & Beverage	24,710	20,952	7,384	17,599	21,046	18,308
Other Operated Departments	1,936	572	1,352	3,571	430	1,265
Total	42,891	32,011	16,253	34,269	32,184	31,618
DEPARTMENTAL INCOME	42,169	41,626	31,972	28,370	35,021	45,498
OPERATING EXPENSES						
Administrative & General	6,456	6,501	3,061	6,261	6,417	6,117
Marketing	3,148	3,976	1,875	4,297	3,261	3,209
Franchise Fee	0	0	2,543	0	0	2,020
Property Operations & Maintenance	2,444	3,229	1,660	2,245	3,078	3,008
Utilities	2,059	2,627	2,051	2,176	2,562	2,206
Total	14,106	16,332	11,190	14,979	15,318	16,560
HOUSE PROFIT	28,063	25,294	20,782	13,391	19,703	28,938
Management Fee	2,552	2,209	1,447	1,879	2,016	4,627
INCOME BEFORE FIXED CHARGES	25,511	23,085	19,335	11,511	17,687	24,311
FIXED EXPENSES						
Property Taxes	1,710	2,201	2,065	2,090	1,873	2,284
Insurance	242	347	175	446	394	350
Miscellaneous Fixed Expenses	0	82	153	475	110	0
Reserve for Replacement	3,402	2,945	1,929	2,506	2,688	3,085
Total	5,355	5,576	4,323	5,516	5,066	5,718
NET INCOME	$20,156	$17,509	$15,012	$5,995	$12,621	$18,593

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FIGURE 10-3 COMPARABLE OPERATING STATEMENTS: AMOUNTS PER OCCUPIED ROOM

	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Subject Stabilized $
Year:	**2012/13**	**2012/13**	**2012/13**	**2012/13**	**2012/13**	**2012**
Number of Rooms:	**90 to 120**	**200 to 250**	**150 to 200**	**210 to 270**	**210 to 270**	**164**
Occupied Rooms:	**30,956**	**53,641**	**47,936**	**59,903**	**58,507**	**39,508**
Days Open:	**365**	**365**	**365**	**365**	**365**	**365**
Occupancy:	**81%**	**65%**	**74%**	**68%**	**68%**	**66%**
Average Rate:	**$150**	**$177**	**$134**	**$153**	**$133**	**$210**
RevPAR:	**$121**	**$116**	**$100**	**$105**	**$90**	**$138**
REVENUE						
Rooms	$149.90	$177.44	$134.14	$153.30	$132.53	$209.59
Food & Beverage	122.97	121.45	35.16	76.22	133.54	95.00
Other Operated Departments	5.37	8.57	8.42	18.79	1.98	7.00
Rentals & Other Income	10.27	1.42	0.35	2.65	4.18	8.53
Total	288.52	308.88	178.07	250.96	272.23	320.12
DEPARTMENTAL EXPENSES						
Rooms	55.10	43.99	27.76	52.48	43.37	50.00
Food & Beverage	83.82	87.89	27.27	70.51	85.25	76.00
Other Operated Departments	6.57	2.40	4.99	14.31	1.74	5.25
Total	145.48	134.27	60.01	137.30	130.37	131.25
DEPARTMENTAL INCOME	143.03	174.60	118.05	113.66	141.86	188.87
OPERATING EXPENSES						
Administrative & General	21.90	27.27	11.30	25.08	26.00	25.39
Marketing	10.68	16.68	6.93	17.21	13.21	13.32
Franchise Fee	0.00	0.00	9.39	0.00	0.00	8.38
Property Operations & Maintenance	8.29	13.54	6.13	9.00	12.47	12.49
Utilities	6.98	11.02	7.57	8.72	10.38	9.16
Total	47.85	68.51	41.32	60.01	62.05	68.74
HOUSE PROFIT	95.19	106.10	76.74	53.65	79.81	120.12
Management Fee	8.66	9.27	5.34	7.53	8.17	19.21
INCOME BEFORE FIXED CHARGES	86.53	96.83	71.39	46.12	71.65	100.92
FIXED EXPENSES						
Property Taxes	5.80	9.23	7.63	8.37	7.59	9.48
Insurance	0.82	1.45	0.65	1.79	1.59	1.45
Miscellaneous Fixed Expenses	0.00	0.35	0.57	1.90	0.45	0.00
Reserve for Replacement	11.54	12.36	7.12	10.04	10.89	12.81
Total	18.16	23.39	15.96	22.10	20.52	23.74
NET INCOME	$68.37	$73.44	$55.43	$24.02	$51.13	$77.18

Fixed and Variable Component Analysis

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. This model is based on the premise that hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation while the variable component is adjusted for a specific measure of volume, such as total revenue.

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation.

Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a systematic approach, following the format of the *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined at the end in the final statement of income and expense.

Inflation Assumption

A general rate of inflation must be established that will be applied to most revenue and expense categories. The following table shows the historical consumer price index (CPI) for British Columbia and Canada.

FIGURE 10-4 CONSUMER PRICE INDEX – BRITISH COLUMBIA AND CANADA

Year	Provincial Consumer Price Index	Percent Change From Previous Year	National Consumer Price Index	Percent Change From Previous Year
2005	106.3	—	107.0	—
2006	108.1	1.7 %	109.1	2.0 %
2007	110.0	1.8	111.5	2.2
2008	112.3	2.1	114.1	2.3
2009	112.3	0.0	114.4	0.3
2010	113.8	1.3	116.5	1.8
2011	116.5	2.4	119.9	2.9
2012	117.8	1.1	121.7	1.5
YTD September 2012	118.1	—	122.0	—
YTD September 2013	118.1	0.0 %	123.3	1.1 %
Avg. Annual Comp. Change, 2005 - 2012		1.5 %		1.9 %

Source: Statistics Canada

FIGURE 10-5 NATIONAL INFLATION FORECASTS

	2013f	2014f
Scotiabank Group	1.3 %	1.7 %
BMO Capital Markets	1.1	1.7
RBC	1.4	1.8
TD Canada Trust	1.1	1.6
CIBC	1.5	1.8

Updated: September 2013

Considering these historical trends, the projections set forth above, and our assessment of probable property appreciation levels, an underlying inflation rate of 2.0% per year is applied to all appropriate revenue and expense items throughout the projection period. This stabilized inflation rate takes into account normal, recurring inflation cycles. Inflation is likely to fluctuate above and below this level during the projection period. Any exceptions to the application of the assumed underlying inflation rate are noted in the discussion of the individual income and expense items that follows.

Summary of Projections

Based on analyses that will be detailed throughout this section, we have formulated a forecast of income and expense. The following table presents a detailed forecast through the fourth projection year, including amounts per available room and per occupied room. The second table illustrates our 10-year forecast of income and expense, presented with a lesser degree of detail. The forecast pertains to calendar years beginning January 1, 2016, and it is expressed in inflated dollars for each year.

FIGURE 10-6 DETAILED FORECAST OF INCOME AND EXPENSE

	2016	**(Calendar Year)**			**2017**				**2018**				**Stabilized**			
Number of Rooms:	**164**				**164**				**164**				**164**			
Occupancy:	**50%**				**60%**				**65%**				**66%**			
Average Rate:	**$226.06**				**$230.84**				**$236.03**				**$240.75**			
RevPAR:	**$113.03**				**$138.50**				**$153.42**				**$158.90**			
Days Open:	**365**				**365**				**365**				**365**			
Occupied Rooms:	**29,930**	**%Gross**	**PAR**	**POR**	**35,916**	**%Gross**	**PAR**	**POR**	**38,909**	**%Gross**	**PAR**	**POR**	**39,508**	**%Gross**	**PAR**	**POR**
REVENUE																
Rooms	$6,766	63.1 %	$41,256	$226.06	$8,291	64.7 %	$50,555	$230.84	$9,184	65.3 %	$56,000	$236.04	$9,512	65.5 %	$58,000	$240.76
Food & Beverage	3,324	31.0	20,268	111.06	3,861	30.1	23,545	107.51	4,179	29.7	25,480	107.40	4,311	29.7	26,288	109.13
Other Operated Departments	278	2.6	1,693	9.27	297	2.3	1,811	8.27	310	2.2	1,890	7.97	318	2.2	1,937	8.04
Rental Income	160	1.5	976	5.35	160	1.2	976	4.46	160	1.1	976	4.11	160	1.1	976	4.05
Other Income	198	1.8	1,209	6.62	212	1.7	1,294	5.91	221	1.6	1,350	5.69	227	1.6	1,384	5.74
Total Revenues	10,726	100.0	65,402	358.37	12,822	100.0	78,180	356.99	14,054	100.0	85,697	361.21	14,528	100.0	88,585	367.72
DEPARTMENTAL EXPENSES *																
Rooms	1,931	28.5	11,774	64.51	2,102	25.3	12,815	58.52	2,211	24.1	13,482	56.83	2,269	23.9	13,836	57.43
Food & Beverage	2,984	89.8	18,196	99.70	3,213	83.2	19,594	89.47	3,364	80.5	20,513	86.46	3,449	80.0	21,031	87.30
Other Operated Departments	220	79.1	1,339	7.34	227	76.5	1,385	6.32	233	75.2	1,422	6.00	238	75.0	1,453	6.03
Total	5,135	47.9	31,309	171.56	5,542	43.2	33,794	154.31	5,808	41.3	35,418	149.28	5,956	41.0	36,319	150.76
DEPARTMENTAL INCOME	5,591	52.1	34,093	186.81	7,279	56.8	44,386	202.68	8,246	58.7	50,279	211.92	8,572	59.0	52,266	216.96
UNDISTRIBUTED OPERATING EXPENSES																
Administrative & General	1,027	9.6	6,260	34.30	1,085	8.5	6,614	30.20	1,126	8.0	6,866	28.94	1,152	7.9	7,027	29.17
Marketing	539	5.0	3,284	17.99	569	4.4	3,470	15.84	591	4.2	3,602	15.18	605	4.2	3,686	15.30
Marketing Fee	271	2.5	1,650	9.04	332	2.6	2,022	9.23	367	2.6	2,240	9.44	380	2.6	2,320	9.63
Prop. Operations & Maint.	505	4.7	3,079	16.87	533	4.2	3,253	14.85	554	3.9	3,377	14.23	567	3.9	3,456	14.34
Utilities	370	3.5	2,258	12.37	391	3.1	2,386	10.89	406	2.9	2,476	10.44	416	2.9	2,534	10.52
Total	2,711	25.3	16,530	90.58	2,910	22.8	17,745	81.03	3,044	21.6	18,560	78.23	3,120	21.5	19,022	78.96
HOUSE PROFIT	2,880	26.8	17,563	96.23	4,369	34.0	26,641	121.65	5,202	37.1	31,719	133.69	5,452	37.5	33,243	138.00
Management Fee	644	6.0	3,924	21.50	769	6.0	4,691	21.42	843	6.0	5,142	21.67	872	6.0	5,315	22.06
INCOME BEFORE FIXED CHARGES	2,237	20.8	13,638	74.73	3,600	28.0	21,951	100.23	4,359	31.1	26,577	112.02	4,580	31.5	27,928	115.93
FIXED EXPENSES																
Property Taxes	405	3.8	2,472	13.54	413	3.2	2,521	11.51	422	3.0	2,572	10.84	430	3.0	2,623	10.89
Insurance	62	0.6	379	2.08	63	0.5	386	1.76	65	0.5	394	1.66	66	0.5	402	1.67
Reserve for Replacement	429	4.0	2,616	14.33	513	4.0	3,127	14.28	562	4.0	3,428	14.45	581	4.0	3,543	14.71
Total	897	8.4	5,467	29.95	990	7.7	6,035	27.56	1,049	7.5	6,394	26.95	1,077	7.5	6,569	27.27
NET INCOME	$1,340	12.4 %	$8,172	$44.78	$2,610	20.3 %	$15,916	$72.67	$3,310	23.6 %	$20,183	$85.07	$3,503	24.0 %	$21,360	$88.67

*Departmental expenses are expressed as a percentage of departmental revenues.

FIGURE 10-7 TEN-YEAR FORECAST OF INCOME AND EXPENSE

	2016		2017		2018		2019		2020	
Number of Rooms:	**164**		**164**		**164**		**164**		**164**	
Occupied Rooms:	**29,930**		**35,916**		**38,909**		**39,508**		**39,508**	
Occupancy:	**50%**		**60%**		**65%**		**66%**		**66%**	
Average Rate:	**$226.06**	**% of**	**$230.84**	**% of**	**$236.03**	**% of**	**$240.75**	**% of**	**$245.57**	**% of**
RevPAR:	**$113.03**	**Gross**	**$138.50**	**Gross**	**$153.42**	**Gross**	**$158.90**	**Gross**	**$162.08**	**Gross**
REVENUE										
Rooms	$6,766	63.1 %	$8,291	64.7 %	$9,184	65.3 %	$9,512	65.5 %	$9,702	65.5 %
Food & Beverage	3,324	31.0	3,861	30.1	4,179	29.7	4,311	29.7	4,397	29.7
Other Operated Departments	278	2.6	297	2.3	310	2.2	318	2.2	324	2.2
Rental Income	160	1.5	160	1.2	160	1.1	160	1.1	160	1.1
Other Income	198	1.8	212	1.7	221	1.6	227	1.6	231	1.6
Total	10,726	100.0	12,822	100.0	14,054	100.0	14,528	100.0	14,815	100.0
DEPARTMENTAL EXPENSES*										
Rooms	1,931	28.5	2,102	25.3	2,211	24.1	2,269	23.9	2,314	23.9
Food & Beverage	2,984	89.8	3,213	83.2	3,364	80.5	3,449	80.0	3,518	80.0
Other Operated Departments	220	79.1	227	76.5	233	75.2	238	75.0	243	75.0
Total	5,135	47.9	5,542	43.2	5,808	41.3	5,956	41.0	6,075	41.0
DEPARTMENTAL INCOME	5,591	52.1	7,279	56.8	8,246	58.7	8,572	59.0	8,740	59.0
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	1,027	9.6	1,085	8.5	1,126	8.0	1,152	7.9	1,175	7.9
Marketing	539	5.0	569	4.4	591	4.2	605	4.2	617	4.2
Marketing Fee	271	2.5	332	2.6	367	2.6	380	2.6	388	2.6
Prop. Operations & Maint.	505	4.7	533	4.2	554	3.9	567	3.9	578	3.9
Utilities	370	3.5	391	3.1	406	2.9	416	2.9	424	2.9
Total	2,711	25.3	2,910	22.8	3,044	21.6	3,120	21.5	3,182	21.5
HOUSE PROFIT	2,880	26.8	4,369	34.0	5,202	37.1	5,452	37.5	5,558	37.5
Management Fee	644	6.0	769	6.0	843	6.0	872	6.0	889	6.0
INCOME BEFORE FIXED CHARGES	2,237	20.8	3,600	28.0	4,359	31.1	4,580	31.5	4,669	31.5
FIXED EXPENSES										
Property Taxes	405	3.8	413	3.2	422	3.0	430	3.0	439	3.0
Insurance	62	0.6	63	0.5	65	0.5	66	0.5	67	0.5
Reserve for Replacement	429	4.0	513	4.0	562	4.0	581	4.0	593	4.0
Total	897	8.4	990	7.7	1,049	7.5	1,077	7.5	1,099	7.5
NET INCOME	$1,340	12.4 %	$2,610	20.3 %	$3,310	23.6 %	$3,503	24.0 %	$3,570	24.0 %

	2021		2022		2023		2024		2025	
Number of Rooms:	**164**		**164**		**164**		**164**		**164**	
Occupied Rooms:	**39,508**		**39,508**		**39,508**		**39,508**		**39,508**	
Occupancy:	**66%**		**66%**		**66%**		**66%**		**66%**	
Average Rate:	**$250.48**	**% of**	**$255.49**	**% of**	**$260.60**	**% of**	**$265.81**	**% of**	**$271.13**	**% of**
RevPAR:	**$165.32**	**Gross**	**$168.62**	**Gross**	**$172.00**	**Gross**	**$175.44**	**Gross**	**$178.94**	**Gross**
REVENUE										
Rooms	$9,896	65.5 %	$10,094	65.5 %	$10,296	65.5 %	$10,502	65.5 %	$10,712	65.6 %
Food & Beverage	4,485	29.7	4,575	29.7	4,667	29.7	4,760	29.7	4,855	29.7
Other Operated Departments	331	2.2	337	2.2	344	2.2	351	2.2	358	2.2
Rental Income	160	1.1	160	1.0	160	1.0	160	1.0	160	1.0
Other Income	236	1.6	241	1.6	246	1.6	251	1.6	256	1.6
Total	15,108	100.0	15,407	100.0	15,712	100.0	16,023	100.0	16,341	100.0
DEPARTMENTAL EXPENSES*										
Rooms	2,361	23.9	2,408	23.9	2,456	23.9	2,505	23.9	2,555	23.9
Food & Beverage	3,588	80.0	3,660	80.0	3,733	80.0	3,808	80.0	3,884	80.0
Other Operated Departments	248	75.0	253	75.0	258	75.0	263	75.0	268	75.0
Total	6,197	41.0	6,321	41.0	6,447	41.0	6,576	41.0	6,708	41.1
DEPARTMENTAL INCOME	8,911	59.0	9,086	59.0	9,265	59.0	9,447	59.0	9,633	58.9
UNDISTRIBUTED OPERATING EXPENSES										
Administrative & General	1,199	7.9	1,223	7.9	1,247	7.9	1,272	7.9	1,297	7.9
Marketing	629	4.2	641	4.2	654	4.2	667	4.2	681	4.2
Marketing Fee	396	2.6	404	2.6	412	2.6	420	2.6	428	2.6
Prop. Operations & Maint.	590	3.9	601	3.9	613	3.9	626	3.9	638	3.9
Utilities	432	2.9	441	2.9	450	2.9	459	2.9	468	2.9
Total	3,245	21.5	3,310	21.5	3,376	21.5	3,444	21.5	3,512	21.5
HOUSE PROFIT	5,666	37.5	5,776	37.5	5,889	37.5	6,003	37.5	6,120	37.4
Management Fee	906	6.0	924	6.0	943	6.0	961	6.0	980	6.0
INCOME BEFORE FIXED CHARGES	4,759	31.5	4,852	31.5	4,946	31.5	5,042	31.5	5,140	31.4
FIXED EXPENSES										
Property Taxes	448	3.0	457	3.0	466	3.0	475	3.0	484	3.0
Insurance	69	0.5	70	0.5	71	0.5	73	0.5	74	0.5
Reserve for Replacement	604	4.0	616	4.0	628	4.0	641	4.0	654	4.0
Total	1,120	7.5	1,143	7.5	1,166	7.5	1,189	7.5	1,212	7.5
NET INCOME	$3,639	24.0 %	$3,709	24.0 %	$3,780	24.0 %	$3,853	24.0 %	$3,928	23.9 %

*Departmental expenses are expressed as a percentage of departmental revenues.

Forecast of Income and Expense

The following description sets forth the basis for the forecast of income and expense. We anticipate that it will take four years for the proposed subject property to reach a stabilized level of operation. Each revenue and expense item has been forecast based upon our review of the comparable income and expense statements. Our forecast is based upon calendar years beginning January 1, 2016, and it is expressed in inflated dollars for each year.

Rooms Revenue

Rooms revenue is determined by two variables: occupancy and average rate. We projected occupancy and average rate in a previous section of this report. The proposed subject property is projected to stabilize with an occupancy level of 66% and an average rate of $240.75 in 2019. Following the stabilized year, the proposed subject property's average rate is projected to increase along with the underlying rate of inflation.

Food and Beverage Revenue

Food and beverage revenue is generated by a hotel's restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. With the exception of properties with active lounges or banquet facilities that draw local residents, in-house guests generally represent a substantial percentage of a hotel's food and beverage patrons.

In the case of the Proposed Hilton Hotel, the food and beverage department will comprise a restaurant and banquet space that is expected to span 2,750 square feet. The property will have a second restaurant, but it will be operated by an outside third party and so will earn lease income rather than food and beverage revenue for the proposed subject hotel.

Although food and beverage revenue varies directly with changes in occupancy, the small portion generated by banquet sales and outside capture is relatively fixed. For the comparable hotels, the food and beverage revenue ranges between 19.7 % and 49.1 % of total revenue, or between $35.16 and $133.54 per occupied room.

The proposed subject property's food and beverage operation is expected to be an important component of the hotel. We reviewed operating statements from comparable hotels to position an appropriate revenue level, taking into account the planned facility and price point. The subject hotel's food and beverage revenue is forecast at $111.06 per occupied room or 31.0% of total revenue in the first projection year, and it is projected to stabilize at $109.13 per occupied room or 29.7% total revenue in 2019.

Other Operated Departments Revenue

According to the Uniform System of Accounts, other operated departments include any major or minor operated department other than rooms and food and beverage. The proposed subject property will earn other operated departments revenue from telephone charges and valet parking. We reviewed operations with a similar complement of offerings to position the appropriate revenue level for the proposed subject property. In the comparable operating statements, the other operated departments revenue ranges from 1.5% to 12.3% of rooms revenue, or from $1.98 to $18.79 per occupied room. The proposed subject property's other operated departments revenue is projected to stabilize at 3.3% of rooms revenue or $8.04 per occupied room in 2019.

Rental Income

The proposed subject hotel is expected to receive rent from leasing out the restaurant and the spa. Based on our review of market rent rates for retail space in downtown Kelowna, we have positioned the rent for the leased restaurant and the leased spa at $30 and $25 per square foot, respectively. We assume that these lease rates will remain constant throughout the projection period. Taking into account the assumed square footage for these leased-out venues, the proposed subject hotel's rental income is projected at $160,000 per year throughout the projection.

Other Income

The proposed subject property will earn other income primarily from guest laundry fees, business centre services, in-room movie and game charges, and the vending areas. We reviewed operations with a similar complement of offerings to position the appropriate revenue level for the proposed subject property. For the comparable hotels, other income ranges from 0.2 % to 3.6 % of total revenue, or from $0.35 to $10.27 per occupied room basis. Changes in this revenue item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. The proposed subject property's other income is projected to stabilize at $5.74 per occupied room in 2019.

Rooms Expense

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy and managers can generally scale the level of service staff on hand to meet an expected occupancy level, much of a hotel's payroll is fixed. A base level of front desk personnel, housekeepers, and supervisors must be maintained at all times. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy.

Commissions and reservations are usually based on room sales, and thus are highly sensitive to changes in occupancy and average rate. While guest supplies vary 100% with occupancy, linens and other operating expenses are only slightly affected by volume.

The proposed subject property's rooms expense has been positioned based upon our review of the comparable operating data and our understanding of the hotel's future service level and price point. For the comparable hotels, the rooms expense ranges between 20.7% and 36.8% of rooms revenue, or between $27.76 and $55.10 per occupied room. The proposed subject property's rooms expense is forecast at 28.5% of rooms revenue (or $64.51 per occupied room) in the first year, and it is projected to stabilize at 23.9% of rooms revenue (or $57.43 per occupied room) in 2019.

Food and Beverage Expense

Food expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. The costs associated with food sales and payroll are moderately to highly correlated to food revenues. Items such as china, linen and uniforms are less dependent on volume. Although the other expense items are basically fixed, they represent a relatively insignificant factor. Beverage expenses consist of items necessary for the operation of a hotel's lounge and bar areas. The costs associated with beverage sales and payroll are moderately to highly correlated to beverage revenues.

The proposed subject property's food and beverage operation is expected to be efficiently managed and operate at an expense level that is in line with other comparable operations. For the comparable hotels, the food and beverage expense ranges between 63.8% and 92.5% of food and beverage revenue. The proposed subject hotel is projected to stabilize with an expense ratio of 80.0% in 2019, which is within the comparable range.

Other Operated Departments Expense

Other operated departments expense includes all expenses reflected in the summary statements for the divisions associated in these categories. This was previously discussed in this chapter. For the comparable hotels, the other operated departments expense ranges between $1.74 and $14.31 per occupied room. The proposed subject hotel is projected to stabilize with an expense ratio of 75.0% in 2019.

Administrative and General Expense

Administrative and general expense includes the salaries and wages of all administrative personnel who are not directly associated with a particular department. Expense items related to the management and operation of the property are also allocated to this category.

Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages; commissions on credit card charges; provision for doubtful accounts, which are moderately affected by the number of transactions or total revenue; and salaries, wages, and benefits, which are very slightly influenced by volume.

We reviewed the comparable operating data and took into consideration the expected scope of the facility to position the proposed subject property's administrative and general expense at a market- and property-supported level. For the comparable operations, the administrative and general expense ranges from 6.3% to 10.0% of total revenue, or from $3,061 to $6,501 per available room. In the first projection year, the proposed subject hotel's administrative and general expense is forecast at $6,260 per available room, or 9.6% of total revenue. By the 2019 stabilized year, these amounts change to $7,027 per available room and 7.9% of total revenue.

Marketing Expense

Marketing expense consists of all costs associated with advertising, sales, and promotion; these activities are intended to attract and retain customers. Marketing can be used to create an image, develop customer awareness, and stimulate patronage of a property's various facilities.

The marketing category is unique in that all expense items, with the exception of fees and commissions, are totally controlled by management. Most hotel operators establish an annual marketing budget that sets forth all planned expenditures. If the budget is followed, total marketing expenses can be projected accurately.

Marketing expenditures are unusual because although there is a lag period before results are realized, the benefits are often extended over a long period. Depending on the type and scope of the advertising and promotion program implemented, the lag time can be as short as a few weeks or as long as several years. However, the favorable results of an effective marketing campaign tend to linger, and a property often enjoys the benefits of concentrated sales efforts for many months.

We reviewed the comparable operating data and took into consideration the expected scope of the facility to position the proposed subject property's marketing expense at a market- and property-supported level. For the comparable operations, the marketing expense ranges from 3.7% to 6.9% of total revenue, or from $1,875 to $4,297 per available room. In the first projection year, the proposed subject property's marketing expense is forecast at $3,284 per available room, or 5.0% of total revenue. By the 2019 stabilized year, these amounts change to $3,686 per available room and 4.2% of total revenue.

Marketing Fee

In addition to the management fee to be paid to Hilton, the proposed subject property will pay a marketing fee. This marketing fee is projected at 4.0% of rooms revenue.

Property Operations and Maintenance

Property operations and maintenance expense is another expense category that is largely controlled by management. Except for repairs that are necessary to keep the facility open and prevent damage (e.g., plumbing, heating, and electrical items), most maintenance can be deferred for varying lengths of time.

Maintenance is an accumulating expense. If management elects to postpone performing a required repair, they have not eliminated or saved the expenditure; they have only deferred payment until a later date. A lodging facility that operates with a lower-than-normal maintenance budget is likely to accumulate a considerable amount of deferred maintenance.

The age of a lodging facility has a strong influence on the required level of maintenance. A new or thoroughly renovated property is protected for several years by modern equipment and manufacturers' warranties. However, as a hostelry grows older, maintenance expenses escalate. A well-organized preventive maintenance system often helps delay deterioration, but most facilities face higher property operations and maintenance costs each year, regardless of the occupancy trend. The quality of initial construction can also have a direct impact on future maintenance requirements. The use of high-quality building materials and construction methods generally reduces the need for maintenance expenditures over the long term.

We expect the proposed subject property's maintenance operation to be well managed and the associated expense levels to stabilize at a typical level for a property of this type. For the comparable operations, the property operations and maintenance expense ranges from 2.9% to 4.6% of total revenue, or from $1,660 to $3,229 per available room. Changes in this expense item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, the proposed subject hotel's property operations and maintenance expense is forecast at $3,079 per available room, or 4.7% of total revenue. By the 2019 stabilized year, these amounts change to $3,456 per available room and 3.9% of total revenue.

Utilities Expense

The utilities consumption of a lodging facility takes several forms, including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel utilities are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service.

Total energy cost depends on the source and quantity of fuel used. Electricity tends to be the most expensive source, followed by oil and gas. Although all hotels consume a sizable amount of electricity, many properties supplement their utility requirements with less expensive sources, such as gas and oil, for heating and cooking.

For the comparable operations, the utilities expense ranges from 2.4% to 4.3% of total revenue, or from $2,051 to $2,627 per available room. The changes in the utilities line item through the projection period result from the application of the underlying inflation rate and projected changes in occupancy. In the first projection year, the proposed subject hotel's utilities expense is forecast at $2,258 per available room, or 3.5% of total revenue. By the 2019 stabilized year, these amounts change to $2,534 per available room and 2.9% of total revenue.

Management Fee

Management expense consists of the fees paid to the managing agent contracted to operate the property. Some companies provide management services and a brand-name affiliation (first-tier management company), while others provide management services alone (second-tier management company). Some management contracts specify only a base fee (usually a percentage of total revenue), while others call for both a base fee and an incentive fee (usually a percentage of defined profit). Basic hotel management fees are almost always based on a percentage of total revenue, which means they have no fixed component. While base fees typically range from 2% to 4% of total revenue, incentive fees are deal specific and often are calculated as a percentage of income available after debt service and, in some cases, after a preferred return on equity.

Hilton Worldwide is expected to manage the proposed subject property. According to Hilton, a typical corporately managed Hilton hotel management fee is 6.0% of total revenue, plus a marketing fee. For this valuation, we have assumed a management fee of 6.0% of total revenue and a marketing fee of 4.0% of rooms revenue. It should be noted that a confirmed agreement was not in place at the time of this assignment.

Property Taxes

Property (or ad valorem) tax is one of the primary revenue sources of municipalities. Based on the concept that the tax burden should be distributed in proportion to the value of all properties within a taxing jurisdiction, a system of assessments is established. Theoretically, the assessed value placed on each parcel bears a definite relationship to market value, so properties with equal market values will have similar assessments and properties with higher and lower values will have proportionately larger and smaller assessments.

Depending on the taxing policy of the municipality, property taxes can be based on the value of the real property or the value of the personal property and the real property. We have based our estimate of the proposed subject property's market value (for tax purposes) on the assessments of comparable hotel properties in the local municipality.

FIGURE 10-8 ASSESSED VALUE OF COMPARABLE HOTELS

Hotel	Number of Rooms	Assessment	Improvements Exemption	Total
Fairfield Inn & Suites by Marriott Kelowna	160	$10,986,000	$10,000	$10,976,000
Holiday Inn Express	190	16,341,000	10,000	16,331,000
Ramada Lodge Hotel	135	12,970,000	10,000	12,960,000
Sandman Hotel Kelowna	220	15,088,000	10,000	15,078,000
Assessments per Room				
Fairfield Inn & Suites by Marriott Kelowna		$68,663	$63	$68,600
Holiday Inn Express		86,005	53	$85,953
Ramada Lodge Hotel		96,074	74	$96,000
Sandman Hotel Kelowna		68,582	45	$68,536
Positioned Subject - Per Room	**164**	**$190,000**	**$61**	**$189,939**
Positioned Subject - Total		**$31,160,000**	**$10,000**	**$31,150,000**

Source: City of Kelowna

We have positioned the proposed subject property with a per-room assessment that is higher than the comparable assessments based on the location in downtown Kelowna and the upper-upscale full-service product offering. Commercial properties in Kelowna receive a $10,000 improvements exemption, which has been reflected in the positioning of the proposed subject property's property assessment.

The tax rate is based on the City's budget, which changes annually. The following table shows changes in the tax rate over the past several years.

FIGURE 10-9 TAX RATES

Year	Mill Rate
2011	16.65420
2012	16.22980
2013	16.11790

Source: City of Kelowna

The proposed subject property will be eligible for a Revitalization Tax Exemption from the City of Kelowna. The tax exemption is for 50% of the municipal share of the property tax and is applicable for a maximum of ten years. Our projection of property taxes for the proposed subject property assumes that the property will receive the tax exemption throughout the projection period.

Based on the assessment and tax rate information, the proposed subject property's projected property tax expense levels are calculated as follows.

FIGURE 10-10 PROJECTED PROPERTY TAX EXPENSE

Year	Assessment	Improvements Exemption	Total	Property Mill Rate	Tax Forecast	Municipal Revitalization Tax Exemption	Total Tax Payable
Positioned	$31,160,000	$10,000	$31,150,000	16.12	$502,234	$120,192	$382,041
2016	$31,160,000	$10,000	$31,150,000	17.10	$532,974	$127,599	$405,376
2017	31,160,000	10,000	31,150,000	17.45	543,634	130,151	413,483
2018	31,160,000	10,000	31,150,000	17.80	554,507	132,754	421,753
2019	31,160,000	10,000	31,150,000	18.15	565,597	135,409	430,188

Insurance Expense

The insurance expense category consists of the cost of insuring the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage. Insurance rates are based on many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance expenses do not vary with occupancy.

Based upon the comparable data and the structural attributes of the proposed subject hotel, we project the proposed subject property's insurance expense at $402 per available room by the stabilized year (positioned at $350 per available room in base-year dollars). This forecast equates to 0.5% of total revenue on a stabilized basis. In subsequent years, this amount is assumed to increase in tandem with inflation.

Reserve for Replacement

Furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. This category includes all non-real estate items that are capitalized, rather than expensed. The furniture, fixtures, and equipment of a hotel are exposed to heavy use and must be replaced at regular intervals. The useful life of these items is determined by their quality, durability, and the amount of guest traffic and use.

Periodic replacement of furniture, fixtures, and equipment is essential to maintain the quality, image, and income-producing potential of a lodging facility. Because capitalized expenditures are not included in the operating statement but affect an owner's cash flow, a forecast of income and expense should reflect these expenses in the form of an appropriate reserve for replacement.

The International Society of Hospitality Consultants (ISHC) undertook a major industry-sponsored study of the capital expenditure requirements for full-service/luxury, select-service, and extended-stay hotels. The most recent findings of the study were published in a report in 2007.[12] Historical capital expenditures of well-maintained hotels were investigated through the compilation of data provided by most of the major hotel companies in the United States. A prospective analysis of future capital expenditure requirements was also performed based upon the cost to replace short- and long-lived building components over a hotel's economic life. The study showed that the capital expenditure requirements for hotels vary significantly from year to year and depend upon both the actual and effective ages of a property. The results of this study showed that hotel lenders and investors are requiring reserves for replacement ranging from 4% to 5% of total revenue.

Based on the results of this study, our review of the subject asset and comparable lodging facilities, and our industry expertise, we estimate that a reserve for replacement of 4% of total revenue is sufficient to provide for the timely and periodic replacement of the proposed subject property's furniture, fixtures, and equipment.

INCOME CAPITALIZATION

The proposed subject property is valued via the income approach through the application of a 10-year mortgage-equity technique and a discounted cash flow analysis. The conversion of the proposed subject property's forecasted net income into an estimate of value is based on the premise that investors typically purchase real estate with a modest to significant amount of equity cash (20% to 50%) and a moderate amount of mortgage financing (50% to 80%). The amounts and terms of available mortgage financing and the rates of return that are required to attract sufficient equity capital form the basis for allocating the net income between the mortgage and equity components and deriving a value estimate.

To determine what the terms of a hotel loan would be as of the date of value, we interviewed brokers as well as lending officers. At present, lenders who are active in the Canadian market are using loan-to-value ratios of 50% to 70% and amortization periods of 15 to 25 years. The exact terms offered depend on specific factors such as the property's location, the age and quality of the physical facility,

[12] The International Society of Hotel Consultants, *CapEx 2007, A Study of Capital Expenditure in the U.S. Hotel Industry*.

local hostelry market conditions, and (perhaps more significantly) the profile of the borrower. The strongest projects typically command the highest loan-to-value ratios. Interest rates currently range from 4.5% to 6.5%, compounded semi-annually.

Based on the proposed subject property's quality, location, market setting, and borrower profile, the appropriate loan-to-value ratio for this valuation is 60%. A direct correlation exists between the interest rate and the loan-to-value ratio; at a lower interest rate, a lower loan-to-value ratio is applied.

Based on the preceding analysis of the current lodging industry mortgage market and considering specific factors such as the property's location and local market conditions, it is our opinion that a mortgage with a 5.0% interest rate, a 25-year amortization, and a 0.069793 constant is appropriate for the proposed subject property. A mortgage constant is the capitalization rate for debt, the ratio of the annual debt service to the principal amount of the mortgage loan. In simple terms, the mortgage constant is the percentage by which one multiplies the loan to determine the payment.

Equity Component & Equity Yield Rate

The remaining capital required for a hotel investment generally comes from the equity investor. The rate of return that an equity investor expects over a 10-year holding period is known as the equity yield. Unlike the equity dividend, which is a short-term rate of return, the equity yield specifically considers a long-term holding period (generally ten years), annual inflation-adjusted cash flows, property appreciation, mortgage amortization, and proceeds from a sale at the end of the holding period. For the purpose of this investment value analysis the client has specified an equity yield rate of 13%. This is based on investment specific return expectations and not supported by market evidence.

Terminal Capitalization Rate

Inherent in this valuation process is the assumption of a sale at the end of the 10-year holding period. The estimated reversionary sale price as of that date is calculated by capitalizing the projected eleventh-year net income by an overall terminal capitalization rate. An allocation for the selling expenses is deducted from this sale price, and the net proceeds to the equity interest (also known as the equity residual) is calculated by deducting the outstanding mortgage balance from the reversion.

For the purposes of this investment value analysis, we have applied a terminal capitalization rate of 7.5%, as specified by the client’s return expectation.

Mortgage-Equity Method – Value Opinion

The valuation of the mortgage and equity components is accomplished using an algebraic equation that calculates the exact amount of debt and equity that the hotel will be able to support based on the anticipated cash flow (as estimated by the forecast of income and expense) and the specific return requirements demanded by the mortgage lender (interest) and the equity investor (equity yield). Thus, the anticipated net income (before debt service and depreciation) is allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. The total of the mortgage component and the equity component equals the value of the property.

Using this method of the income capitalization approach with the variables set forth, we estimate the investment value of the combined fee simple and leased fee interests in the proposed subject property, as of January 1, 2016, to be $42,600,000.

Mathematical Proof of Value

The value is mathematically proven by confirming that the market-derived yields are met for the lender and the equity participant during the projection period. Using the assumed financial structure set forth in the previous calculations, the investment value can be allocated between debt and equity as follows.

Mortgage Component (60%)	$25,585,000
Equity Component (40%)	17,057,000
Total	$42,642,000

The annual debt service is calculated by multiplying the mortgage component by the mortgage constant.

Mortgage Component	$25,585,000
Mortgage Constant	0.069793
Annual Debt Service	$1,785,644

The 11-year forecast of net income and the 10-year forecast of net income to equity are presented in the following table.

FIGURE 10-11 11-YEAR FORECAST OF NET INCOME AND 10-YEAR FORECAST OF NET INCOME TO EQUITY

Year	Net Income Before Debt Service	Less: Debt Service	Net Income to Equity	Debt Coverage Ratio	Cash-on-Cash Return
2016	$1,340,000	1,786,000	($446,000)	0.75	(2.6) %
2017	2,610,000	1,786,000	824,000	1.46	4.8
2018	3,310,000	1,786,000	1,524,000	1.85	8.9
2019	3,503,000	1,786,000	1,717,000	1.96	10.1
2020	3,570,000	1,786,000	1,784,000	2.00	10.5
2021	3,639,000	1,786,000	1,853,000	2.04	10.9
2022	3,709,000	1,786,000	1,923,000	2.08	11.3
2023	3,780,000	1,786,000	1,994,000	2.12	11.7
2024	3,853,000	1,786,000	2,067,000	2.16	12.1
2025	3,928,000	1,786,000	2,142,000	2.20	12.6
2026	4,007,000				

* The eleventh year's net income is projected prior to the deduction of real estate taxes. The overall going-out rate used to capitalize the eleventh year's net income is loaded with the applicable real estate tax rate to derive a reversionary value estimate, as of the end of year ten, which takes into account the reassessment of the property upon sale.

The net proceeds to equity upon sale of the property is determined by deducting sale expenses (brokerage and legal fees) and the outstanding mortgage balance.

The equity residual at the end of the tenth year is calculated by deducting brokerage and legal fees and the mortgage balance from the reversionary value. The reversionary value is calculated as the eleventh year's net income capitalized by the terminal capitalization rate. The calculation is shown as follows.

Reversionary Value ($ 4,007,000/0.075)	$53,427,000
Less:	
Brokerage and Legal Fees	534,000
Mortgage Balance	19,117,000
Net Sale Proceeds to Equity	$33,776,000

The discount rate (before debt service), the yield to the lender, and the yield to the equity position have been calculated by computer with the following results.

FIGURE 10-12 TOTAL PROPERTY VALUE AND INTERNAL RATES OF RETURN

Position	Value	Projected Yield (Internal Rate of Return) Over Holding Period
Total Property	$42,641,000	9.0 %
Mortgage	25,585,000	5.0
Equity	17,057,000	13.0

Note: Whereas the mortgage constant and value are calculated on the basis of monthly mortgage payments, the mortgage yield in this proof assumes single annual payments. As a result, the proof's derived yield may be slightly less than that actually input.

The following tables demonstrate that the property receives its anticipated yields, proving that the value is correct based on the assumptions used in this approach.

FIGURE 10-13 VALUE OF THE MORTGAGE COMPONENT

Year	Total Annual Debt Service		Present Worth of $1 Factor at 5.0%		Discounted Cash Flow
2016	$1,786,000	x	0.952673	=	$1,701,000
2017	1,786,000	x	0.907586	=	1,621,000
2018	1,786,000	x	0.864633	=	1,544,000
2019	1,786,000	x	0.823713	=	1,471,000
2020	1,786,000	x	0.784729	=	1,402,000
2021	1,786,000	x	0.747590	=	1,335,000
2022	1,786,000	x	0.712209	=	1,272,000
2023	1,786,000	x	0.678502	=	1,212,000
2024	1,786,000	x	0.646391	=	1,154,000
2025	20,903,000 *	x	0.615799	=	12,872,000
			Value of Mortgage Component		$25,584,000

*10th year debt service of $1,786,000 plus outstanding mortgage balance of $19,117,000

FIGURE 10-14 VALUE OF THE EQUITY COMPONENT

Year	Net Income to Equity		Present Worth of $1 Factor at 13.0%		Discounted Cash Flow
2016	($446,000)	x	0.884968	=	($395,000)
2017	824,000	x	0.783168	=	645,000
2018	1,524,000	x	0.693079	=	1,056,000
2019	1,717,000	x	0.613353	=	1,053,000
2020	1,784,000	x	0.542798	=	968,000
2021	1,853,000	x	0.480359	=	890,000
2022	1,923,000	x	0.425102	=	817,000
2023	1,994,000	x	0.376202	=	750,000
2024	2,067,000	x	0.332926	=	688,000
2025	35,917,000 *	x	0.294629	=	10,582,000
			Value of Equity Component		$17,054,000

*10th year net income to equity of $2,142,000 plus sales proceeds of $33,775,000

Direct Capitalization

The following table shows the capitalization rates for the proposed subject property that have been derived based on our estimate of investment value via the discounted cash flow analysis. Note that the stabilized year's net income is deflated to first-year dollars.

FIGURE 10-15 DERIVED CAPITALIZATION RATES

Year	Net Operating Income	Derived Capitalization Rate
Forecast 2016	$1,340,000	3.1 %
Deflated Stabilized (2016) Dollars	3,301,000	7.7

The derived capitalization rates are based on the investment value parameters specified by the client.

Discounted Cash Flow Analysis – Prospective "When Complete"

The process of converting the projected income stream into an estimate of value via the discounted cash flow method is described as follows.

1. The discount rate is specified by the client, based on return expectations and is applied to the projected net income before debt service. This rate reflects the "free and clear" internal rate of return to an all-cash purchaser or a blended rate of debt and equity return requirements.

2. A reversionary value reflecting the sale price of the property at the end of the 10-year holding period is calculated by capitalizing the eleventh-year net income by the terminal capitalization rate and deducting typical brokerage and legal fees.

3. Each year's forecasted net income before debt service and depreciation and the reversionary sale proceeds at the end of the 10-year holding period are converted to a present value by multiplying the cash flow by the chosen discount rate for that year in the forecast. The sum of the discounted cash flows equates to the value of the proposed subject property.

Using the client specified discount rate set forth, the discounted cash flow procedure is summarized as follows.

FIGURE 10-16 DISCOUNTED CASH FLOW ANALYSIS – "WHEN COMPLETE" INVESTMENT VALUE

Year	Net Income		Discount Factor @ 9.0%	Discounted Cash Flow
2016	$1,340,000		0.91739	$1,229,306
2017	2,610,000		0.84161	2,196,601
2018	3,310,000		0.77209	2,555,607
2019	3,503,000		0.70831	2,481,198
2020	3,570,000		0.64980	2,319,770
2021	3,639,000		0.59612	2,169,272
2022	3,709,000		0.54687	2,028,356
2023	3,780,000		0.50170	1,896,420
2024	3,853,000		0.46025	1,773,361
2025	56,820,000	*	0.42223	23,991,516
			Estimated Value	$42,641,408
			(SAY)	$42,600,000

Reversion Analysis

11th Year's Net Income	$4,007,000
Capitalization Rate	7.5%
Total Sales Proceeds	$53,426,667
Less: Transaction Costs @ 1.0%	534,267
Net Sales Proceeds	$52,892,400

*10th year net income of $3,928,000 plus sales proceeds of $52,892,000

Discounted Cash Flow Analysis – "When Stabilized"

The preceding valuation process was repeated using the projected cash flows beginning as of the stabilized year. The discounted cash flow procedure is summarized as follows.

FIGURE 10-17 DISCOUNTED CASH FLOW ANALYSIS—STABILIZED INVESTMENT VALUE

Stabilized Year	4
Discount Rate	9.00 %
Terminal Cap	7.5
Transaction Costs	1.0

Year	Net Income	Discount Factor @ 9.00%	Discounted Cash Flow
2019	$3,503,000	0.91743	$3,214,000
2020	3,570,000	0.84168	3,005,000
2021	3,639,000	0.77218	2,810,000
2022	3,709,000	0.70843	2,628,000
2023	3,780,000	0.64993	2,457,000
2024	3,853,000	0.59627	2,297,000
2025	3,928,000	0.54703	2,149,000
2026	4,007,000	0.50187	2,011,000
2027	4,087,000	0.46043	1,882,000
2028	60,295,000 *	0.42241	25,469,000
		Estimated Value	$47,922,000
		(SAY)	$47,900,000

Reversion Analysis

11th Year's Net Income	$4,252,000
Capitalization Rate	7.5%
Total Sales Proceeds	$56,693,000
Less: Transaction Costs @ 1.0%	567,000
Net Sales Proceeds (Say)	$56,126,000

*10th year net income of $4,169,000 plus sales proceeds of $56,126,000

Based on this procedure, it is our opinion that the prospective investment value, as of January 1, 2019, is $47,900,000.

Conclusion

Using the income capitalization approach, the proposed subject property was valued by a mortgage-equity analysis and a straightforward discounted cash flow analysis. Based on our review of each method and their inherent strengths and weaknesses, as well as investor attitudes and methodologies, we have reconciled the prospective "when complete" value indication via the income capitalization approach to $42,600,000.

Furthermore, it is our opinion that the "when stabilized" value is $47,900,000.

11. Sales Comparison Approach

The sales comparison approach is based on the principle of substitution, which defines a property's value as the cost of acquiring an equally desirable substitute (assuming that no costly delay is incurred in making the substitution). Thus, the sales comparison approach can be used to form an opinion of a property's investment value from the price at which equally desirable properties have sold, or for which they can be purchased, on the open market.

Hotel Investment Market Overview

The following overview of the hotel investment market during recent industry investment cycles provides a context for the sales comparison approach.

The volume of hotel transactions and the price paid for individual assets are influenced by two principal factors: the availability of capital and the performance of the lodging sector as a whole. When high levels of leverage are available on favourable terms and the industry is performing well, investors are attracted to the market, and both prices and the number of transactions increase. These market conditions often induce sellers to put their properties on the market, further fuelling the pace of transaction activity. Conversely, when the availability of capital declines and interest rates increase, the pace of activity and pricing levels both decrease. When these capital conditions coincide with a downturn in industry performance, the transaction market drops off significantly. In these market conditions, with hospitality investments less appealing to buyers, sellers are typically unwilling to put their properties on the market, electing to wait until market conditions improve. The impact of these influences results in a cyclical investment market, in which peaks and valleys are recorded in response to changes in capital markets and the economy.

FIGURE 11-1 CANADIAN HOTEL SALES SUMMARY

Year	Number of Properties	Number of Rooms	Total Investment	Price Per Room
1993	27	5,937	$221,356,000	$37,284
1994	28	4,056	118,802,260	29,290
1995	49	8,455	443,801,820	52,490
1996	77	15,638	825,674,006	52,799
1997	122	25,947	1,981,851,306	76,381
1998	172	24,090	1,361,322,026	56,510
1999	36	4,411	406,284,400	92,107
2000	48	5,760	487,537,000	84,642
2001	40	6,405	650,815,000	101,610
2002	56	6,297	±500,000,000	±80,000
2003	55	7,159	447,216,100	62,469
2004	76	8,221	535,323,675	65,117
2005	111	15,713	1,598,651,075	101,741
2006	120	16,932	2,712,589,484	160,205
2007	165	28,255	4,564,522,690	161,547
2008	100	9,558	1,106,530,564	115,770
2009	62	5,330	±375,000,000	±70,000
2010	96	8,191	694,371,376	85,171
2011	100	10,058	1,106,872,889	112,304
2012	97	10,710	1,073,036,555	104,307

Source: HVS

In Canada, the market for transactions is healthy. Conditions appear to be neither overheated by the availability of capital nor frozen by a lack of debt or equity. The low interest rate environment combined with the positive operational fundamentals is renewing interest in hotels for buyers and persuading sellers that now might be a good time to dispose of assets that they had been holding on to through the trough in the cycle.

The transaction record for 2012 reflects the relative stability in the hotel investment market in Canada. The market noted a peak in 2006 and 2007, when two major REITs were purchased in large portfolio transactions. That was followed by a sharp drop 2009 in the face of the global recession. The $1.1-billion in sales recorded in both 2011 and 2012 is comparable to the average historical sales volume for the last 20 years.

The outlook for 2013 remains positive. The fundamentals of the industry are sound, and debt and equity sources continue to be available to finance transaction activity. As of mid year, the sales volume has almost doubled, with healthy increases in the pricing per room. The activity is heavily weighted to Eastern Canada and driven by real estate investment companies, hotel investment companies, and REITs. The number of large transactions of over $10-million has increased substantially, driven by the availability of quality hotel product and portfolios on the market. A substantial increase in the volume was generated by the portfolio sale of five Westin hotels for $765-million.

Sale History of Subject

The developer of the proposed subject property is Premier Pacific Group. The registered ownership entity of the site is 0754028 B.C. Ltd. The total site was purchased in three phases between 2006 and 2013. The total purchase price of the three components was $5,960,000. We have allocated $2,980,000 (50%) of the total purchase price to the hotel component. No other transfers of the property have reportedly occurred within the past three years.

Comparable Sales

To present our selection of comparable sales, we conducted a comprehensive search for transactions of hotels that bear comparison to the proposed subject property in one or more key areas. When possible, we gave priority to transactions occurring in the same province or region as the proposed subject property. We also considered factors such as operational and physical similarities to the proposed subject property, including brand affiliation and revenue-generating potential. We have primarily focussed on transactions that occurred within the last two years because of changes in market conditions since that time.

We have chosen several primary transactions for further review and consideration in the development of an indication of value via this approach. These are illustrated in the following table.

FIGURE 11-2 SUMMARY OF SELECTED COMPARABLE SALES

Property	Location	Sale Date	Price	Rooms	Price/Rm	Overall Cap	Year Opened
Westin Bayshore Vancouver	Vancouver, British Columbia	Sep-13	$138,800,000	511	$271,624	4.9%	1961
Westin Calgary	Calgary, Alberta	Sep-13	192,100,000	525	366,000	8.2%	1964
Harrison Hot Springs Hotel	Harrison Hot Springs, British Columbia	Apr-13	32,300,000	337	95,845	8.9%	1926
Inn at Westminster Quay	New Westminster, British Columbia	May-12	17,325,000	126	137,500	7.6%	1988
Hilton Garden Inn West Edmonton	Edmonton, Alberta	Aug-12	31,000,000	160	193,750	6.6%	2004
Hilton Suites Winnipeg Airport	Winnipeg, Manitoba	Oct-11	25,000,000	160	156,250	9.1%	1991

MAP OF PRIMARY COMPARABLE SALES

	Property	Location	Sale Date	Price	Rooms	Price/Rm
	Proposed Subject Property					
1	Westin Bayshore Vancouver	Vancouver, BC	Sep-2013	150,800,000	511	295,000
2	Westin Calgary	Calgary, AB	Sep-2013	192,100,000	525	366,000
3	Harrison Hot Springs Hotel	Harrison Hot Springs, BC	Apr-2013	32,300,000	337	95,845
4	Inn at Westminster Quay	New Westminster, BC	May-2012	17,325,000	126	137,500
5	Hilton Garden Inn West Edmonton	Edmonton, AB	Aug-2012	31,000,000	160	193,750
6	Hilton Suites Winnipeg Airport	Winnipeg, MB	Oct-2011	25,000,000	160	156,250

These sales are further detailed on the following pages.

HVS

Sale#1
Westin Bayshore Vancouver
Vancouver, British Columbia
511 Rooms

TRANSACTION DATA

Date of Sale:	September-13
Interest Conveyed:	Fee Simple, Leased Fee, Leasehold
Buyer:	SCG 2013-CWP
Seller:	PSP Investments
Sales Price:	$150,800,000
Price per Room:	$295,000
Adjustments to the Sales Price:	$12,000,000
Adjusted Sales Price:	$138,800,000
Adjusted Price per Room:	$271,624
Occupancy (May 1, 2012 - Apr 30, 2013):	76.0%
Average Rate (May 1, 2012 - Apr 30, 2013):	$172
RevPAR (May 1, 2012 - Apr 30, 2013):	$131
Rooms Revenue Multiplier:	6.2
Reported Capitalization Rate:	4.9%
Confirmation:	CMLS Financial, Colliers

PROPERTY DATA

Year Opened:	1961
Property Class:	First Class
Facilities:	# Storeys: 9, # F&B Outlets: 3, Total SF Meeting Space: 71,337
Amenities:	Conference/Convention Services, Business Centre, Airport Shuttle, Laundry/Valet, Concierge, Garage/Parking, Retail, Room Service, Gift Shop, Health/Spa, Indoor Pool, Outdoor Pool, Fitness Centre, Whirlpool, Game Room, Sauna
Condition at Sale:	Good
Type of Location:	Urban

The property has surplus density. A residential tower comprising 69,970 buildable square feet could be added to the existing property, along with 26,802 square feet of office and retail development and 87,748 square feet of additional hotel development. The property was sold as part of a portfolio transaction that included the Westin Calgary, the Westin Edmonton, the Westin Ottawa, and the Westin Harbour Castle in Toronto. It should be noted that the adjusted sale price reflects the removal of the value attributed to the surplus density.

Sale#2
Westin Calgary
Calgary, Alberta
525 Rooms

TRANSACTION DATA

Date of Sale:	September-13
Interest Conveyed:	Fee Simple, Leased Fee
Buyer:	SCG 2013-CWP
Seller:	PSP Investments
Sales Price:	$192,100,000
Price per Room:	$366,000
Occupancy (May 1, 2012 - Apr 30, 2013):	74.6%
Average Rate (May 1, 2012 - Apr 30, 2013):	$228
RevPAR (May 1, 2012 - Apr 30, 2013):	$170
Rooms Revenue Multiplier:	5.9
Reported Capitalization Rate:	8.2%
Confirmation:	CMLS Financial, Colliers

PROPERTY DATA

Year Opened:	1964
Property Class:	First Class
Facilities:	# Storeys: 21, # F&B Outlets: 3, Total SF Meeting Space: 26,042
Amenities:	Business Centre, Airport Shuttle, Laundry/Valet, Concierge, Garage/Parking, Room Service, Gift Shop, Indoor Pool, Fitness Centre, Whirlpool, Sauna
Condition at Sale:	Good
Type of Location:	Urban

The purchase was part of a portfolio transaction that included the Westin Bayshore in Vancouver, the Westin Edmonton, the Westin Ottawa, and the Westin Harbour Castle in Toronto.

Sale#3
Harrison Hot Springs Hotel
Harrison Hot Springs, British Columbia
337 Rooms

TRANSACTION DATA

Date of Sale:	April-13
Interest Conveyed:	Fee Simple, Leased Fee, Leasehold
Buyer:	Aldesta Hotels Group
Seller:	Delaware North Companies Parks & Resorts
Sales Price:	$32,300,000
Price per Room:	$95,845
Occupancy (Jun 1, 2011 - May 31, 2012):	71.2%
Average Rate (Jun 1, 2011 - May 31, 2012):	$154
RevPAR (Jun 1, 2011 - May 31, 2012):	$109
Rooms Revenue Multiplier:	2.4
Reported Capitalization Rate:	8.9%
Confirmation:	CBRE

PROPERTY DATA

Year Opened:	1926
Property Class:	First Class
Facilities:	# Storeys: 8, # F&B Outlets: 4, Total SF Meeting Space: 24,000
Amenities:	Business Centre, Laundry/Valet, Beach, Golf, Health/Spa, Indoor Pool, Marina, Outdoor Pool, Fitness Centre, Whirlpool, Game Room, Waterpark, Sauna
Condition at Sale:	Good
Type of Location:	Resort

Delaware North Companies Parks & Resorts will continue to manage the property.

Sale#4
Inn at Westminster Quay
New Westminster, British Columbia
126 Rooms

TRANSACTION DATA	
Date of Sale:	May-12
Interest Conveyed:	Fee Simple, Leasehold Ground, Leased Fee
Buyer:	Temple REIT
Seller:	Narland Properties (Quayside) Ltd.
Sales Price:	$17,325,000
Price per Room:	$137,500
Occupancy (Mar 1, 2011 - Feb 29, 2012):	70.7%
Average Rate (Mar 1, 2011 - Feb 29, 2012):	$123
RevPAR (Mar 1, 2011 - Feb 29, 2012):	$87
Rooms Revenue Multiplier:	4.3
Reported Capitalization Rate:	7.6%
Confirmation:	Temple REIT press release

PROPERTY DATA	
Year Opened:	1988
Property Class:	Mid-Scale
Facilities:	# Storeys: 10, # F&B Outlets: 1, Total SF Meeting Space: 4,008
Amenities:	Business Centre, Laundry/Valet, Room Service, Outdoor Pool, Fitness Centre, Whirlpool
Condition at Sale:	Good
Type of Location:	Urban

Prior to the purchase, the property had been renovated at a total cost of $2.2-million in 2010 and 2011. The property currently leases out its food and beverage operations to the Boathouse Restaurant for a 10-year term ending November 2018. The lease income is approximately $230,000 per year. The hotel also generates $22,000 annually from a wireless tower. This lease income is offset by a lease expense of $28,000 for office/meeting space that the hotel rents from an adjacent office tower. The acquisition will be financed with a first mortgage loan in the amount of $12.1-million and the balance in cash. The first mortgage loan will bear interest at a rate of 5.0% for a 5-year term, and it has a 20-year amortization. Following the purchase, the hotel will be managed by Atlific Hotels & Resorts.

Sale #5
Hilton Garden Inn West Edmonton
Edmonton, Alberta
160 Rooms

TRANSACTION DATA	
Date of Sale:	August-12
Interest Conveyed:	Fee Simple
Buyer:	Temple REIT
Seller:	Platinum Investments Ltd.
Sales Price:	$31,000,000
Price per Room:	$193,750
Occupancy:	82.0%
Average Rate:	$143
RevPAR:	$117
Rooms Revenue Multiplier:	4.5
Reported Capitalization Rate:	6.6%
Confirmation:	Temple REIT press release

PROPERTY DATA	
Year Opened:	2004
Property Class:	First Class
Facilities:	# Storeys: 6, # F&B Outlets: 2, Total SF Meeting Space: 4,049
Amenities:	Business Centre, Laundry/Valet, Room Service, Gift Shop, Indoor Pool, Fitness Centre, Whirlpool
Condition at Sale:	Very Good
Type of Location:	Suburban

The hotel will undergo a $2-million refurbishment over 18 months that will include the guestrooms, the lobby, and the public areas. Following the sale, the property will be managed by Atlific Hotels & Resorts. The transaction was financed with a $22-million first mortgage at 5.3% for a 3-year term with a 25-year amortization.

Sale #6
Hilton Suites Winnipeg Airport
Winnipeg, Manitoba
160 Rooms

TRANSACTION DATA

Date of Sale:	October-11
Interest Conveyed:	Fee Simple
Buyer:	INST - Fortis Properties Corporation
Seller:	WBP Wellington Trust
Sales Price:	$25,000,000
Price per Room:	$156,250
Occupancy:	87.0%
Average Rate:	$131
RevPAR:	$114
Rooms Revenue Multiplier:	3.8
Reported Capitalization Rate:	9.1%
Confirmation:	Colliers

PROPERTY DATA

Year Opened:	1991
Property Class:	First Class
Facilities:	# F&B Outlets: 1
Amenities:	Business Centre, Room Service, Gift Shop, Indoor Pool, Fitness Centre
Condition at Sale:	Good
Type of Location:	Airport

Review of Comparable Sales

The following table sets forth the adjustment grid used to account for differences between the properties that transacted and the proposed subject property.

FIGURE 11-3 COMPARABLE SALES ADJUSTMENT GRID

Elements of Comparison	Proposed Subject Property	Sale #1 Westin Bayshore Vancouver, Vancouver, British Columbia	Sale #2 Westin Calgary, Calgary, Alberta	Sale #3 Harrison Hot Springs Hotel, Harrison Hot Springs, British Columbia	Sale #4 Inn at Westminster Quay, New Westminster, British Columbia	Sale #5 Hilton Garden Inn West Edmonton, Edmonton, Alberta	Sale #6 Hilton Suites Winnipeg Airport, Winnipeg, Manitoba
Sale Price		$138,800,000	$192,100,000	$32,300,000	$17,325,000	$31,000,000	$25,000,000
Number of Rooms	164	511	525	337	126	160	160
Price per Room		$271,624	$365,905	$95,846	$137,500	$193,750	$156,250
Date of Sale	Jan-16	September-13	September-13	April-13	May-12	August-12	October-11
Adjustments for Transaction Characteristics (Per Room)							
Property Rights Conveyed	Combined Fee Simple And Leased Fee	Fee Simple, Leased Fee, Leasehold	Fee Simple, Leased Fee	Fee Simple, Leased Fee, Leasehold	Fee Simple, Leasehold Ground, Leased Fee	Fee Simple	Fee Simple
Adjustment		8.0 %	5.5 %	0.0 %	(12.0) %	8.0 %	8.0 %
Adjusted Sales Price		293,354	386,030	95,846	121,000	209,250	168,750
Financing Terms		Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent	Cash Equivalent
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		293,354	386,030	95,846	121,000	209,250	168,750
Conditions of Sale		Normal	Normal	Normal	Normal	Normal	Normal
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		293,354	386,030	95,846	121,000	209,250	168,750
Market Conditions		Similar	Similar	Similar	Similar	Similar	Similar
Adjustment		0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Adjusted Sales Price		293,354	386,030	95,846	121,000	209,250	168,750
Adjusted Price		$293,354	$386,030	$95,846	$121,000	$209,250	$168,750
Adjustments for Property Characteristics							
Market Orientation (RevPAR)	$149.73	$130.87	$170.00	$109.31	$86.67	$117.26	$113.97
Adjustment		14.4 %	(11.9) %	37.0 %	72.8 %	27.7 %	31.4 %
Net Adjust. for Property Characteristics		42,277	(46,019)	35,448	88,039	57,947	52,952
Final Adjusted Price Per Room		**$335,631**	**$340,010**	**$131,294**	**$209,039**	**$267,197**	**$221,702**

Property Rights Conveyed

The purpose of this assignment is the valuation of the combined fee simple and leased fee interests in the proposed subject property. This adjustment accounts for differences between the interests that transferred in each comparable sale and those which form the subject of the appraisal. In Sale #1, fee simple, leased fee, and leasehold interests were conveyed. This transaction requires an upward adjustment to the sale price to reflect the value of a property that is unencumbered by a leasehold interest. Sale #2 also requires an upward adjustment because the leased fee interest that was conveyed in the transaction represents a lower proportion of the overall value than the leased fee interest in the proposed subject property. Sale #4 requires a downward adjustment because the property earns greater lease income than what the proposed subject will receive. Lastly, Sales #5 and #6 both require upward adjustments because only a fee simple interest is conveyed in each transaction and the income earning potential of lease income is absent.

Financing Terms

The transaction price of a sale may be affected by the financing structure. When necessary, this adjustment converts extraordinary financing to market terms. All the comparable sales represent cash transactions. Therefore, no adjustments were made for financing terms.

Conditions of Sale

The buyer's and/or seller's motivations may affect the price paid for a property. This adjustment reconciles any atypical aspects of the transaction in conformance with the definition of market value. All the transactions are considered to have had normal conditions of sale.

Market Conditions

The purpose of this adjustment is to account for significant changes in external economic conditions between the date of sale and the date of value, including changes in tax laws, investor requirements, mortgage terms, and other factors that might affect real estate value. No adjustments for market conditions are necessary in this instance.

RevPAR Adjustments

Hotels are purchased and sold for their ability to generate revenue and net income. We thus find that a reliable way to adjust hotel sales is by comparing revenue per available room (RevPAR), which inherently reflects the relative revenue-producing ability of each comparable sale and differences in physical condition and the passage of time. As such, we have adjusted the per-room sale price for each sale by the percentage differential between the proposed subject hotel's stabilized-year RevPAR deflated to the first projection year and the RevPAR of each property at the time of sale.

Conclusion

Prior to the adjustments, the comparable sales transacted for amounts ranging from $96,000 to $366,000 per room. Following all the adjustments, we have positioned the appropriate value range at $131,294 to $340,010 per room, which equates to $21,500,000 to $55,800,000 for the 164-room proposed subject property.

12. Cost Approach

The cost approach has significant applicability for new and proposed hotels. In this report section, we will estimate the development cost of the improvements, estimate the market value of the site, and add an entrepreneurial profit incentive to arrive at the total cost new to develop the proposed subject property. The total cost new to build the facility is often used by hotel buyers as a benchmark against the income and sales indications, particularly for new hotels.

Land Valuation

Land value may be estimated in a variety of ways, including the sales comparison approach and the allocation, extraction, or ground rent capitalization methods. For the majority of hostelry properties, the two primary methods used are the sales comparison approach and the ground lease capitalization approach. **For the purpose of this valuation, we have allocated one half of the total site area to the hotel component of the development.**

Ground Lease Approach to Land Value

Hotels and resorts are routinely constructed on leased land. Although the lease terms differ somewhat from property to property, the basis for the rental calculation is often tied to a percentage of revenue formula. Using the forecasted revenues for the proposed subject property and applying a typical hotel ground lease rental formula, the appraiser can determine the hotel's economic rental, or what can be termed the income attributed to the land. The land value can then be estimated by capitalizing the hypothetical ground rent. The self-adjusting aspect of this approach is the key to its reliability.

We have researched actual long-term ground leases encumbering hotels. Our analysis of these ground lease rental formulas indicates that economic ground rents for hotels like the proposed subject property typically range from approximately 2.0% to 5.0% of rooms revenue. Hotels with significant land relative to room count, hotels in resort areas, and hotels in land-sparse downtown markets may command higher ground rent.

Based on the revenue projections set forth for the proposed subject property as part of this appraisal, the following table shows how the economic ground rent has been calculated. We have utilized a ground rent percentage of 2.5% in our analysis. Note that the stabilized revenue level has been deflated back to first-projection-year dollars.

Discounted Stabilized Rooms Revenue	$8,963,370
Rental Percentage	2.5%
Economic Ground Rent	**$224,084**

Rent generated from an unsubordinated ground lease represents a low-risk flow of income. Because the tenant improvements typically amount to more than five times the value of the land, the risk of default is almost nonexistent. For hotel ground leases where rent is tied to revenue, the landlord is also protected from the adverse effects of inflation. Based on these minimal risk factors, the current cost of long-term capital, and our analysis of the proposed subject property, we have selected a capitalization rate of 7.5%.

Applying this capitalization rate to the proposed subject property's economic ground rent results in the following estimate of land value.

$$\frac{\text{Economic Ground Rent}}{\text{Capitalization Rate}} = \frac{\$224{,}084}{7.5\%} = \mathbf{\$3{,}000{,}000}$$

Land Value Conclusion

Our opinion of land value, at $3,000,000 , is roughly 7.1% of the proposed subject property's total development cost. The estimated land value thus appears to be reasonable.

Development Cost

For the purposes of estimating the cost of developing the proposed improvements, the proposed subject hotel is assumed to be a standalone structure with no relationship to a mixed-use complex. The proposed subject property will feature 164 guestrooms, 2,750 square feet of meeting and banquet space, a restaurant and lounge, and a leased restaurant, an outdoor pool, an outdoor whirlpool, a fitness centre, a business centre, and a leased spa, as well as all the necessary back-of-the-house space.

One of the nationally recognized authorities on cost information is Marshall & Swift. HVS uses Marshall & Swift's Commercial Estimator software, which employs the square-foot method in cost estimating. This approach approximates the development cost of a building's major components in terms of dollars per unit of area or volume based on the known costs of similar structures adjusted for time and physical differences. The estimate of development cost by this method includes all direct costs plus a portion of indirect costs, such as construction financing, temporary utilities, and general conditions.

For the purpose of developing a cost estimate using the Marshall & Swift Commercial Estimator program, the total building area is approximately 88,797 square feet. Based on this expanse as well as location and time adjustment factors and other criteria related to building systems, the Commercial Estimator program estimates the construction cost of the building to be $22,942,481.

In addition to the cost of the building, we estimated the costs of additional site improvements: the parking, the signage, the pool, and the landscaping.

We have also considered indirect costs such as lender fees, taxes, development fees, and other costs associated with development. We estimate these indirect costs to be 15% of the total building cost (including the cost of the site improvements).

The calculation of the total development cost is shown in the following table.

FIGURE 12-2 BUILDING COST

Improvement	Cost
Building Cost Per Marshall & Swift	$22,942,481
Parking	3,840,000
Signage	100,000
Swimming Pool	300,000
Landscaping	46,717
Total Building Costs	$27,229,198
Indirect Costs (at 15%)	4,084,380
Total Development Costs	**$31,313,577**

Opening Costs

Opening costs must also be considered. Opening costs include the pre-opening marketing and administrative expenditures of the hotel and a working capital reserve to maintain an adequate cash flow until the operation achieves a break-even point. HVS has estimated ranges for these expenses. The proposed subject hotel's pre-opening costs and working capital are estimated at $4,000 per room, or $656,000 for the entire property.

Personal Property

To estimate the cost of furniture, fixtures, and equipment, we surveyed the personal property of typical full-service hotels of this calibre. Following this survey, we estimate the cost of the proposed subject property's furniture, fixtures, and equipment to be roughly $20,000 per room, or $3,280,000 in total.

Development Cost Summary

Based on the preceding analyses, we estimate the development cost of the proposed subject property as follows, prior to the inclusion of the land value and the developer's profit.

FIGURE 12-3 DEVELOPMENT COST SUMMARY

Item	Cost per Room	Cost
Building	$190,936	$31,313,577
Furniture, Fixtures, & Equipment	20,000	3,280,000
Pre-Opening Costs & Working Capital	4,000	656,000
Total Development Cost	**$214,936**	**$35,249,577**

Allocation of Developer's Profit

Developer's profit represents the entrepreneurial incentive that hotel developers anticipate to induce the construction of a new hotel project. As a result of economic conditions in the hotel industry, developer's profit has not always been in evidence. If the economic value of a new hotel does not exceed the development cost, indicating that developers will not earn any profit from their effort, the project is unlikely to be completed because the financial incentive is not present.

It is our opinion that a 10% developer's profit is reasonable to reflect the financial incentive for a new hotel development in the subject market. Developer's profit is applied as follows to the cost of the building, the furniture, fixtures, and equipment, and the land.

FIGURE 12-4 ALLOCATION OF DEVELOPER'S PROFIT

Item	Profit Percentage	Cost	Developer's Profit
Building, Pre-Opening, Soft Costs	10.0 %	$31,969,577	$3,196,958
Furniture, Fixtures, & Equipment	10.0	3,280,000	328,000
Land Value	10.0	3,000,000	300,000
Total Developer's Incentive			**$3,824,958**

Conclusion

To estimate the development cost for the proposed subject property, the costs of several components of the total property were quantified. The land value was estimated using the ground lease approach. The development cost of the building improvements was estimated based on building costs provided by Marshall & Swift Commercial Cost Estimator Software, and a developer's incentive was considered. The following table summarizes our estimate of the total cost new to build the proposed subject property.

HVS

FIGURE 12-5 RECAP OF TOTAL DEVELOPMENT COST ESTIMATE

Item	Cost
Building	$31,313,577
Furniture, Fixtures, & Equipment	3,280,000
Pre-Opening Costs & Working Capital	656,000
Land	3,000,000
Developer's Incentive	3,824,958
Total Development Cost	**$42,100,000**

Knowledgeable hotel buyers generally base their purchase decisions on economic factors such as projected net income and return on investment. The cost approach is generally of limited use because it does not reflect these income-related considerations, and it also requires a number of highly subjective estimates. For proposed hotels, however, the cost approach is important for determining the feasibility of the project. To determine feasibility, the development cost is compared to the prospective investment value as of the date of completion, as determined via the income approach. If the income value is equal to or exceeds the development cost, including a reasonable developer's profit, the feasibility of the project is confirmed.

Although the data used to compile this estimate is generally reliable, it should be noted that only a rough indication of what the development cost may be is provided here. Individuals who require an accurate cost estimate should retain the services of a professional construction cost estimator.

13. Reconciliation of Value Indications

The reconciliation, which is the last step in the appraisal process, involves summarizing and correlating the data and procedures employed throughout the analysis. The final value conclusion is arrived at after reviewing the estimates indicated by the income capitalization, sales comparison, and cost approaches. The relative significance, applicability, and defensibility of each indicated value are considered, and the greatest weight is given to that approach deemed most appropriate for the property being appraised.

The purpose of this report is to estimate the investment value of the combined fee simple and leased fee interests in the proposed subject property. Our appraisal involves a careful analysis of the property itself and the economic, demographic, political, physical, and environmental factors that influence real estate values.

Income Capitalization Approach

To estimate the proposed subject property's value via the income capitalization approach, we have analyzed the local market for transient accommodations, examined the competitive environment, projected occupancy and average rate levels, and developed a forecast of income and expense that reflects anticipated income trends and cost components through a stabilized year of operation. The proposed subject property's projected net income before debt service was allocated to the mortgage and equity components based on market rates of return and loan-to-value ratios. Through a discounted cash flow and income capitalization procedure, the value of each component was calculated; the total of the mortgage and equity components equates to the value of the property.

Our nationwide experience indicates that the procedures used in estimating value by the income capitalization approach are comparable to those employed by the hotel investors who constitute the marketplace. For this reason, we believe that the income capitalization approach produces the most supportable value estimate, and it is given the greatest weight in our final estimate of the proposed subject property's investment value.

Sales Comparison Approach

The sales comparison approach uses actual sales of similar properties to provide an indication of the proposed subject property's value. Although we have investigated a number of sales in an attempt to develop a range of value indications, several adjustments are necessary to render these sale prices applicable to the proposed subject property. The adjustments, which tend to be subjective, diminish the reliability of the sales comparison approach. Moreover, typical hotel investors employ a sales comparison procedure only to establish broad value parameters.

The hotel sales outlined earlier in this report indicate an adjusted value range of $131,294 to $340,010 per available room. The income capitalization approach indicates a per room value of $259,800 (rounded). This information supports the value indicated by the income capitalization approach.

Cost Approach

The cost approach is particularly applicable to proposed hotels, so it has been given consideration in our reconciliation process.

Value Conclusion

Careful consideration has been given to the strengths and weaknesses of the three approaches to value discussed above. In recognition of the purpose of this appraisal, we have given primary weight to the value indicated by the income capitalization approach.

Based on our analysis, it is our opinion that the prospective "when complete" investment value of the combined fee simple and leased fee interests in the real and personal property of the Proposed Hilton Hotel, as of January 1, 2016, will be:

$42,600,000

FORTY-TWO MILLION SIX HUNDRED THOUSAND DOLLARS

This value estimate equates to $259,800 per room (rounded).

We have also estimated the prospective investment value of the subject property as of its projected date of stabilization. Based on our analysis, it is our opinion that the "when stabilized" prospective investment value of the combined fee simple and leased fee interest in the real and personal property of the Proposed Hilton Hotel, as of January 1, 2019, will be:

$47,900,000

FORTY-SEVEN MILLION NINE HUNDRED THOUSAND DOLLARS

The estimate of investment value includes the land, the improvements, and the furniture, fixtures, and equipment. The appraisal assumes that the hotel is open and operational.

We have assumed no hypothetical conditions in this valuation. The analysis is based on the extraordinary assumption that the described improvements will have been completed as of the prospective "when complete" date of value. The reader should understand that the completed subject property does not yet exist as of the date of the appraisal. Our appraisal does not address unforeseeable events that would alter the proposed project and/or the market conditions reflected in the analyses; we assume that no significant changes, other than those anticipated and explained in this report, will take place between the date of the inspection and the date of the prospective value. We have made no other extraordinary assumptions specific to this appraisal; however, several important general assumptions have been made that apply to this appraisal and our valuations of proposed hotels in general. These aspects are set forth in the "Assumptions and Limiting Conditions" chapter.

Feasibility Conclusion

To determine the potential feasibility of the Proposed Hilton Hotel, we analyzed the lodging market, researched the area's economics, reviewed the estimated development cost, and prepared a 10-year forecast of income and expense, which was based on our review of the current and historical market conditions, as well as comparable income and expense statements.

Based on our analysis and parameters provided by the client, the feasibility of the proposed subject property is confirmed.

14. Statement of Assumptions and Limiting Conditions

1. We note that the development of our value opinion(s) for the proposed subject property assumes this extraordinary assumption: specifically that the described improvements have been completed as of the date of value. The reader should understand that

    a. The improved subject property does not yet, in fact, exist as of the date of appraisal;

    b. Certain events need to occur, as disclosed in the report, before the property appraised with the proposed improvements will in fact exist; and

    c. The financial analysis presented in this report is based upon assumptions, estimates, and evaluations of the market conditions in the local and national economy, which may be subject to sharp rises and declines. Over the projection period considered in our analysis, wages and other operating expenses may increase or decrease due to market volatility and economic forces outside the control of the hotel's management. We assume that the price of hotel rooms, food, beverages, and other sources of revenue to the hotel will be adjusted to offset any increases or decreases in related costs. We do not warrant that our estimates will be attained, but they have been developed on the basis of information obtained during the course of our market research, and they are intended to reflect the expectations of a typical hotel buyer as of the stated date(s) of valuation.

2. This report is to be used in whole and not in part.

3. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements. The property is evaluated as though free and clear unless otherwise stated.

4. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would impact the property's development potential. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.

5. We have not considered the presence of potentially hazardous materials or any form of toxic waste on the project site. The consultants are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.

6. We have made no survey of the site, and we assume no responsibility in connection with such matters. Sketches, photographs, maps, and other exhibits are included to assist the reader in visualizing the property. It is assumed that the use of the described real estate will be within the boundaries of the property described and that no encroachment will exist.

7. All information, financial operating statements, estimates, and opinions obtained from parties not employed by MM&R Valuation Services, Inc. are assumed to be true and correct. We can assume no liability resulting from misinformation.

8. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the subject property.

9. The property is assumed to be in full compliance with all applicable federal, provincial, local, and private codes, laws, consents, licences, and regulations (including a liquor licence where appropriate), and it is assumed that all licences, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.

10. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless specified otherwise.

11. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.

12. We are not required to give testimony or attend court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.

13. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.

14. We take no responsibility for any events or circumstances that take place subsequent to either the date of value or the date of our field inspection, whichever occurs first.

15. The quality of a lodging facility's on-site management has a direct effect on a property's economic viability. The financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.

16. This analysis assumes continuation of all Canada Customs and Revenue Agency tax code provisions as stated or interpreted on either the date of value or the date of our field inspection, whichever occurs first.

17. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.

18. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client, and use of this report by third parties shall be solely at the risk of the client and/or third parties. The use of this report is also subject to the terms and conditions set forth in our engagement letter with the client.

19. Evaluating and comprising financial forecasts for hotels is both a science and an art. Although this analysis employs various mathematical calculations to provide value indications, the final forecasts are subjective and may be influenced by our experience and other factors not specifically set forth in this report.

20. Our report was prepared in accordance with, and is subject to, the requirements of the Canadian Uniform Standards of Professional Practice (CUSPAP), as provided by the Appraisal Institute of Canada.

21. This study was prepared by MM&R Valuation Services, Inc. All opinions, recommendations, and conclusions expressed during the course of this assignment are rendered by the staff of MM&R Valuation Services, Inc. as employees, not as individuals.

15. Certification

The undersigned hereby certify that to the best of our knowledge and belief:

1. the statements of fact presented in this report are true and correct;

2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;

3. we have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;

4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;

5. our engagement in this assignment was not contingent upon developing or reporting predetermined results, the amount of the value estimate, or a conclusion favouring the client;

6. we have the knowledge and experience to complete the assignment competently;

7. our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Canadian Uniform Standards of Professional Appraisal Practice;

8. Jason Wight personally inspected the property described in this report; Carrie Russell, AACI, MAI, RIBC, participated in the analysis and reviewed the findings but did not personally inspect the property;

9. no one provided significant professional assistance to the persons signing this report;

10. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute of Canada;

11. the undersigned are all members in good standing of the Appraisal Institute of Canada; and

12. as of the date of this report, the undersigned have fulfilled the requirements of the Appraisal Institute of Canada Continuing Professional Development Program for members.

Jason Wight, Vice President
MM&R Valuation Services, Inc.

Carrie Russell, AACI, MAI, RIBC, Managing Director
MM&R Valuation Services, Inc.

Penetration Explanation

Let us illustrate the penetration adjustment with an example.

A market has three existing hotels with the following operating statistics:

BASE-YEAR OCCUPANCY AND PENETRATION LEVELS

Property	Number of Rooms	Fair Share	Commercial	Meeting and Group	Leisure	Occupancy	Penetration
Hotel A	100	23.5 %	60 %	20 %	20 %	75.0 %	100.8 %
Hotel B	125	29.4	70	10	20	65.0	87.4
Hotel C	200	47.1	30	60	10	80.0	107.5
Totals/Average	**425**	**100.0 %**	**47 %**	**38 %**	**15 %**	**74.4 %**	**100.0** %

Based upon each hotel's room count, market segmentation, and annual occupancy, the annual number of room nights accommodated in the market from each market segment can be quantified, as set forth below.

MARKET-WIDE ROOM NIGHT DEMAND

Market Segment	Annual Room Night Demand	Percentage of Total
Commercial	54,704	47.4 %
Meeting and Group	43,481	37.7
Leisure	17,246	14.9
Total	**115,431**	**100.0 %**

The following discussion will be based upon an analysis of the commercial market segment. The same methodology is applied for each market segment to derive an estimate of a hotel's overall occupancy. The table below sets forth the commercial demand accommodated by each hotel. Each hotel's commercial penetration factor is computed by:

1) calculating the hotel's market share % of commercial demand (commercial room nights accommodated by subject hotel divided by total commercial room nights accommodated by all hotels) and

2) dividing the hotel's commercial market share % by the hotel's fair share %.

The following table sets forth each hotel's fair share, commercial market share, and commercial penetration factor.

COMMERCIAL SEGMENT PENETRATION FACTORS

Property	Number of Rooms	Fair Share	Commercial Capture	Commercial Market Share	Commercial Penetration
Hotel A	100	23.5 %	16,425	30.0 %	127.6 %
Hotel B	125	29.4	20,759	37.9	129.0
Hotel C	200	47.1	17,520	32.0	68.1
Totals/Average	**425**	**100.0 %**	**54,704**	**100.0 %**	**100.0 %**

If a new 100-room hotel enters the market, the fair share of each hotel changes because of the new denominator, which has increased by the 100 rooms that have been added to the market.

COMMERCIAL SEGMENT FAIR SHARE

Property	Number of Rooms	Fair Share
Hotel A	100	19.0 %
Hotel B	125	23.8
Hotel C	200	38.1
New Hotel	100	19.0
Total	**525**	**100.0 %**

The new hotel's penetration factor is projected for its first year of operation. It is estimated that the hotel will capture (penetrate) only 85% of its fair share as it establishes itself in the market. The new hotel's market share and room night capture can be calculated based upon the hotel's estimated penetration factor. When the market share of the existing hotels and that of the new hotel are added up, they no longer equal 100% because of the new hotel's entry into the market. The market share of each hotel must be adjusted to reflect the change in the denominator that comprises the sum of each hotel's market share.

This adjustment can be mathematically calculated by dividing each hotel's market share percentages by the new denominator of 97.1%. The resulting calculations reflect each hotel's new adjusted market share. The sum of the adjusted market shares equals 100%, indicating that the adjustment has been successfully completed. Once the market shares have been calculated, the penetration factors can be recalculated (adjusted market share divided by fair share) to derive the adjusted penetration factors based upon the new hotel's entry into the market. Note that each existing hotel's penetration factor actually increases because the new hotel is capturing (penetrating) less than its fair share of demand.

COMMERCIAL SEGMENT PROJECTIONS (YEAR 1)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	127.6 %	24.3 %	25.0 %	131.4 %	13,688
Hotel B	125	23.8	129.0	30.7	31.6	132.8	17,299
Hotel C	200	38.1	68.1	25.9	26.7	70.1	14,600
New Hotel	100	19.0	85.0	16.2	16.7	87.5	9,117
Totals/Average	**525**	**100.0 %**		**97.1 %**	**100.0 %**		**54,704**

In its second year of operation, the new hotel is projected to penetrate above its fair share of demand. A penetration rate of 130% has been chosen, as the new hotel is expected to perform at a level commensurate with Hotel A and Hotel B in this market segment. The same calculations are performed to adjust market share and penetration factors. Note that now the penetration factors of the existing hotels decline below their original penetration rates because of the new hotel's above-market penetration. Also, note that after the market share adjustment, the new hotel retains a penetration rate commensurate with Hotel A and Hotel B, though the penetration rates of all three hotels have declined by approximately nine percentage points because of the reapportionment of demand.

Once the market shares of each hotel have been adjusted to reflect the entry of the new hotel into the market, the commercial room nights captured by each hotel may be projected by multiplying the hotel's market share percentage by the total commercial room-night demand. This calculation is shown below.

COMMERCIAL SEGMENT PROJECTIONS (YEAR 2)

Property	Number of Rooms	Fair Share	Hist./Proj. Penetration Factor	Hist./Proj. Market Share	Adjusted Market Share	Adjusted Penetration Factor	Projected Capture
Hotel A	100	19.0 %	131.4 %	25.0 %	23.1 %	121.5 %	12,662
Hotel B	125	23.8	132.8	31.6	29.3	122.9	16,004
Hotel C	200	38.1	70.1	26.7	24.7	64.8	13,507
New Hotel	100	19.0	130.0	24.8	22.9	120.3	12,531
Totals/Average	**525**	**100.0 %**		**108.1 %**	**100.0 %**		**54,704**

Explanation of the Simultaneous Valuation Formula

The algebraic equation known as the simultaneous valuation formula, which solves for the total property value using a 10-year mortgage and equity technique, was developed by Suzanne R. Mellen, CRE, MAI, FRICS, ISHC, Managing Director of the San Francisco office of HVS. A complete discussion of the technique is presented in her article entitled "Simultaneous Valuation: A New Technique."[13]

The process of solving for the value of the mortgage and equity components begins by deducting the annual debt service from the projected income before debt service, leaving the net income to equity for each year. The net income as of the eleventh year is capitalized into a reversionary value using the terminal capitalization rate. The equity residual, which is the total reversionary value less the mortgage balance at that point in time and less any brokerage and legal costs associated with the sale, is discounted to the date of value at the equity yield rate. The net income to equity for each projection year is also discounted back to the date of value. The sum of these discounted values equals the value of the equity component. Because the equity component comprises a specific percentage of the total value, the value of the mortgage and the total property can be computed easily. This process can be expressed in two algebraic equations that set forth the mathematical relationships between the known and unknown variables using the following symbols.

[13] Suzanne R. Mellen. "Simultaneous Valuation: A New Technique," *Appraisal Journal* (April 1983).

NI	=	Net income available for debt service
V	=	Value
M	=	Loan-to-value ratio
f	=	Annual debt service constant
n	=	Number of years in the projection period
d_e	=	Annual cash available to equity
d_r	=	Residual equity value
b	=	Brokerage and legal cost percentage
P	=	Fraction of the loan paid off during the projection period
f_p	=	Annual constant required to amortize the entire loan during the projection period
R_r	=	Overall terminal capitalization rate that is applied to net income to calculate the total property reversion (sales price at the end of the projection period)
$1/S^n$	=	Present worth of $1 factor (discount factor) at the equity yield rate

Using these symbols, the following formulas can be used to express some of the components of this mortgage and equity valuation process.

Debt Service – A property's debt service is calculated by first determining the mortgage amount that equals the total value (V) multiplied by the loan-to-value ratio (M). Debt service is derived by multiplying the mortgage amount by the annual debt service constant (f). The following formula represents debt service.

$$f \times M \times V = \text{Debt Service}$$

Net Income to Equity (Equity Dividend) – The net income to equity (d_e) is the property's net income before debt service (NI) less debt service. The following formula represents the net income to equity.

$$NI - (f \times M \times V) = d_e$$

Reversionary Value – The value of the hotel at the end of the tenth year is calculated by dividing the eleventh-year net income before debt service (NI^{11}) by the terminal capitalization rate (R_r). The following formula represents the property's tenth-year reversionary value.

$$(NI^{11}/R_r) = \text{Reversionary Value}$$

Brokerage and Legal Costs – When a hotel is sold, certain costs are associated with the transaction. Normally, the broker is paid a commission and the attorney collects legal fees. In the case of hotel transactions, brokerage and legal costs typically range from 1% to 4% of the sales price. Because these expenses reduce the proceeds to the seller, they are usually deducted from the reversionary value in the mortgage and equity valuation process. Brokerage and legal costs (b), expressed as a percentage of reversionary value (NI^{11}/R_r), are calculated by application of the following formula.

$$b\,(NI^{11}/R_r) = \text{Brokerage and Legal Costs}$$

Ending Mortgage Balance – The mortgage balance at the end of the tenth year must be deducted from the total reversionary value (debt and equity) in order to determine the equity residual. The formula used to determine the fraction of the loan remaining (expressed as a percentage of the original loan balance) at any point in time (P) takes the annual debt service constant of the loan over the entire amortization period (f) less the mortgage interest rate (i), and divides it by the annual constant required to amortize the entire loan during the ten-year projection period (f_p) less the mortgage interest rate. The following formula represents the fraction of the loan paid off (P).

$$(f - i)/(f_p - i) = P$$

If the fraction of the loan paid off (expressed as a percentage of the initial loan balance) is P, then the remaining loan percentage is expressed as 1 - P. The ending mortgage balance is the fraction of the remaining loan (1 - P) multiplied by the initial loan amount (M x V). The following formula represents the ending mortgage balance.

$$(1 - P) \times M \times V$$

Equity Residual Value – The value of the equity upon the sale at the end of the projection period (d_r) is the reversionary value less the brokerage and legal costs and the ending mortgage balance. The following formula represents the equity residual value.

$$(NI^{11}/R_r) - (b\ (NI^{11}/R_r) - ((1 - P) \times M \times V) = d_r$$

Annual Cash Flow to Equity – The annual cash flow to equity consists of the equity dividend for each projection year plus the equity residual at the end of the tenth year. The following formula represents the annual cash flow to equity.

$$NI^1 - (f \times M \times V) = d_e^1$$

$$NI^2 - (f \times M \times V) = d_e^2$$

$$NI^{10} - (f \times M \times V) = d_e^{10}$$

$$(NI^{11}/R_r) - (b\ (NI^{11}/R_r) - ((1 - P) \times M \times V) = d_r$$

Value of the Equity – If the initial mortgage amount is calculated by multiplying the loan-to-value ratio (M) by the property value (V), then the equity value is one minus the loan-to-value ratio multiplied by the property value. The following formula represents the value of the equity.

$$(1 - M)\ V$$

Discounting the Cash Flow to Equity to the Present Value – The cash flow to equity in each projection year is discounted to the present value at the equity yield rate ($1/S^n$). The sum of these cash flows is the value of the equity (1 - M) V. The following formula represents the calculation of equity as the sum of the discounted cash flows.

$$(d_e^1 \times 1/S^1) + (d_e^2 \times 1/S^2) + \ldots + (d_e^{10} \times 1/S^{10}) + (d_r \times 1/S^{10}) = (1 - M)\ V$$

Combining the Equations: Annual Cash Flow to Equity and Discounting the Cash Flow to Equity to the Present Value – The last step is to arrive at one overall equation that shows that the annual cash flow to equity plus the yearly discounting to the present value equals the value of the equity.

$$((NI^1 - (f \times M \times V))\ 1/S^1) + ((NI^2 - (f \times M \times V))\ 1/S^2) + \ldots$$

$$((NI^{10} - (f \times M \times V))\ 1/S^{10}) +$$

$$(((NI^{11}/R_r) - (b\ (NI^{11}/R_r)) - ((1 - P) \times M \times V))\ 1/S^{10}) = (1 - M)\ V$$

Because the only unknown in this equation is the property's value (V), it can be solved readily.

Ten-Year Projection of Income and Expense – Because the fixed and variable forecast of income and expense is carried out only to the stabilized year, it is necessary to continue the projection to the eleventh year. In most cases, net income before debt service beyond the stabilized year is projected at an assumed inflation rate. By increasing a property's revenue and expenses at the same rate of inflation, net income remains constant as a percentage of total revenue, and the dollar amount escalates at the annual inflation rate. The 10-year forecast of income and expense illustrates the proposed subject property's net income, which is assumed to increase by 2.0% annually subsequent to the hotel's stabilized year of operation.

The following values are assigned to the variable components for the purposes of this valuation.

SUMMARY OF KNOWN VARIABLES

Annual Net Income	NI	See 10-Year Forecast
Loan-To-Value Ratio	M	60 %
Interest Rate	*i*	5.0 %
Debt Service Constant	f	0.069793
Equity Yield	Ye	13.0 %
Transaction Costs	b	1.0 %
Annual Constant Required to Amortize the Loan in Ten Years	fp	0.128294
Terminal Capitalization Rate	Rr	7.5 %

The following table illustrates the present worth of a $1 factor at the 13.0% equity yield rate.

PRESENT WORTH OF $1 FACTOR AT THE EQUITY YIELD RATE

Year Ending	Present Worth of $1 Factor at 13.0%
2016	0.884968
2017	0.783168
2018	0.693079
2019	0.613353
2020	0.542798
2021	0.480359
2022	0.425102
2023	0.376202
2024	0.332926
2025	0.294629

Using these known variables, the following intermediary calculations must be made before applying the simultaneous valuation formula. The fraction of the loan paid off during the projection period is calculated as follows.

$$P = (\quad 0.06979 - \quad 0.0500 \ ) / (\quad 0.12829 - \quad 0.0500 \ ) = \quad 0.252798$$

The annual debt service is calculated as f x M x V.

$$(f \times M \times V) = \quad 0.06979 \times 0.60 \times V = (\quad 0.04188 \ )V$$

Inserting the known variables into the hotel valuation formula produces the following.

$$
\begin{array}{llllll}
(& 1,340,000 - & 0.04188\ V\ ) & \times & 0.88496 & + \\
(& 2,610,000 - & 0.04188\ V\ ) & \times & 0.78315 & + \\
(& 3,310,000 - & 0.04188\ V\ ) & \times & 0.69305 & + \\
(& 3,503,000 - & 0.04188\ V\ ) & \times & 0.61332 & + \\
(& 3,570,000 - & 0.04188\ V\ ) & \times & 0.54276 & + \\
(& 3,639,000 - & 0.04188\ V\ ) & \times & 0.48032 & + \\
(& 3,709,000 - & 0.04188\ V\ ) & \times & 0.42506 & + \\
(& 3,780,000 - & 0.04188\ V\ ) & \times & 0.37616 & + \\
(& 3,853,000 - & 0.04188\ V\ ) & \times & 0.33288 & + \\
(& 3,928,000 - & 0.04188\ V\ ) & \times & 0.29459 & +
\end{array}
$$

$$(((\ 4{,}007{,}000\ /\ 0.075\ )-(\ 0.010\ \times (\ 4{,}007{,}000\ /\ 0.075\ ))-$$

$$((\ 1-\ 0.252798\ )\times\ 0.6\ \times V))\times\ 0.294588\ )=(\ 1-\ 0.6\ )V$$

Like terms are combined as follows.

$$
\begin{aligned}
\$32{,}377{,}504 - 0.359297V &= (1 - 0.60)V \\
\$32{,}377{,}504 &= 0.75930V \\
V &= \$32{,}377{,}504\ /\ 0.75930 \\
V &= \$42{,}641{,}408
\end{aligned}
$$

Total Property Value as Indicated by the Income Capitalization Approach (Say)	=	$42,600,000

TITLE SEARCH PRINT 2013-12-02, 09:55:59

Requestor: PA10697

Folio/File Reference:

CURRENT INFORMATION ONLY - NO CANCELLED INFORMATION SHOWN

Land Title District	KAMLOOPS
Land Title Office	KAMLOOPS
Title Number	CA3242092
From Title Number	CA2941492
Application Received	2013-07-18
Application Entered	2013-07-23

Registered Owner in Fee Simple

Registered Owner/Mailing Address: 0754028 B.C. LTD., INC.NO. BC0754028
202 - 43869 PROGRESS WAY
CHILLIWACK, BC
V2R 0E6

Taxation Authority CITY OF KELOWNA

Description of Land

Parcel Identifier: 027-710-491

Legal Description:

LOT A DISTRICT LOT 139 OSOYOOS DIVISION YALE DISTRICT PLAN KAP87835

Legal Notations

THIS TITLE MAY BE AFFECTED BY A PERMIT UNDER PART 26 OF THE LOCAL GOVERNMENT ACT, SEE LB240883

Charges, Liens and Interests

Nature:	MORTGAGE
Registration Number:	CA3242298
Registration Date and Time:	2013-07-18 14:41
Registered Owner:	SHOREBROOK CAPITAL INC. INCORPORATION NO. 924247
Remarks:	INTER ALIA

Nature:	ASSIGNMENT OF RENTS
Registration Number:	CA3242299
Registration Date and Time:	2013-07-18 14:41
Registered Owner:	SHOREBROOK CAPITAL INC. INCORPORATION NO. 924247

Duplicate Indefeasible Title	NONE OUTSTANDING
Transfers	NONE
Pending Applications	NONE

CURRENT INFORMATION ONLY - NO CANCELLED INFORMATION SHOWN

Title Issued Under	SECTION 98 LAND TITLE ACT
Land Title District	KAMLOOPS
Land Title Office	KAMLOOPS
Title Number	CA1863471
From Title Number	CA1638068 CA1638081 LA89819 LA89820 LA89821 LA89822
Application Received	2011-01-10
Application Entered	2011-01-14

Registered Owner in Fee Simple

Registered Owner/Mailing Address: 0754028 B.C. LTD., INC.NO. BC0754028
101 - 33119 SOUTH FRASER WAY
ABBOTSFORD, BC
V2S 2B1

Taxation Authority CITY OF KELOWNA

Description of Land

Parcel Identifier: 028-442-113
Legal Description:
LOT A DISTRICT LOT 139 OSOYOOS DIVISION YALE DISTRICT PLAN EPP9526

Legal Notations NONE

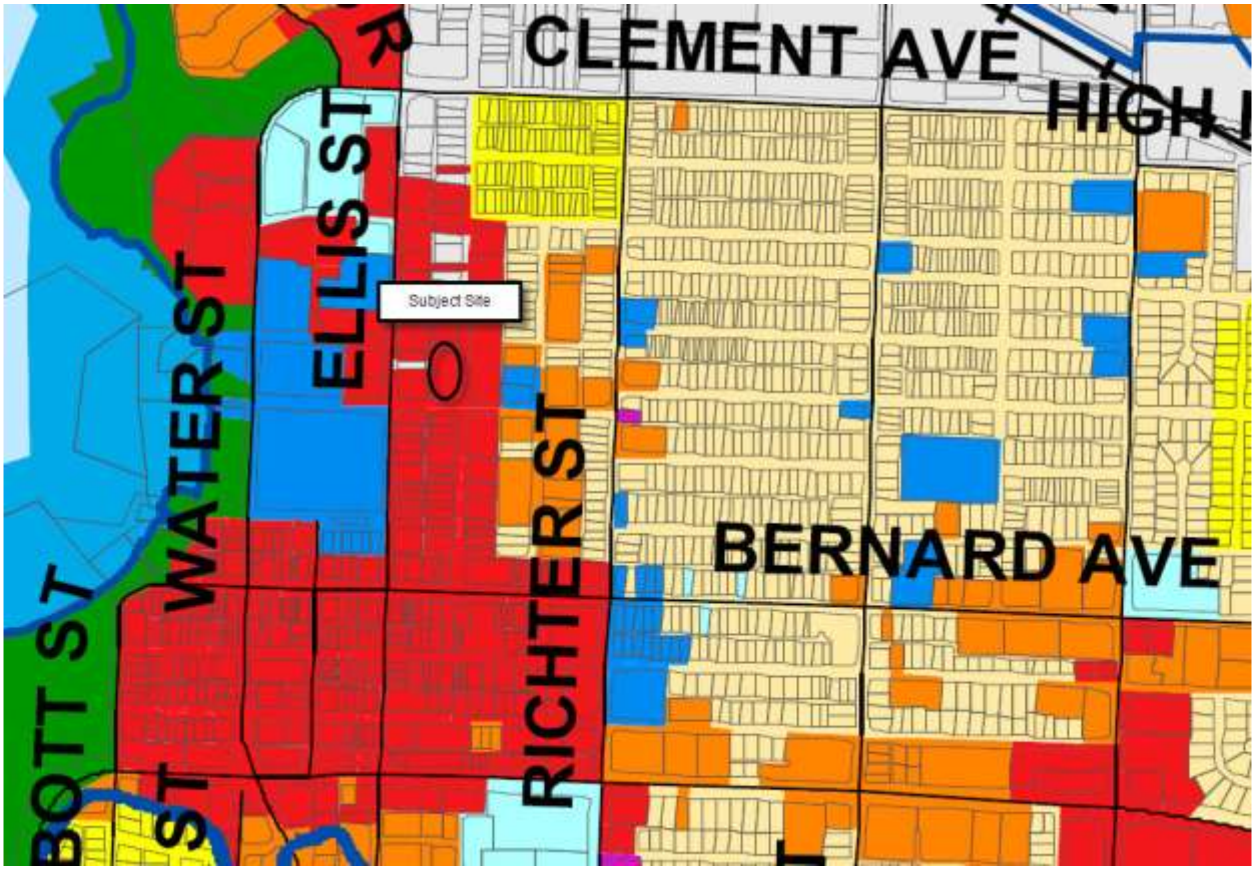
Charges, Liens and Interests

Nature: MORTGAGE
Registration Number: CA2323511
Registration Date and Time: 2011-12-20 15:44
Registered Owner: JAYCAP FINANCIAL LTD.
INCORPORATION NO. A0072280

Nature:	ASSIGNMENT OF RENTS
Registration Number:	CA2323512
Registration Date and Time:	2011-12-20 15:44
Registered Owner:	JAYCAP FINANCIAL LTD. INCORPORATION NO. A0072280
Nature:	MORTGAGE
Registration Number:	CA2323634
Registration Date and Time:	2011-12-20 16:27
Registered Owner:	TROY WALKER PAULA WALKER AS JOINT TENANTS
Nature:	MORTGAGE
Registration Number:	CA3242298
Registration Date and Time:	2013-07-18 14:41
Registered Owner:	SHOREBROOK CAPITAL INC. INCORPORATION NO. 924247
Remarks:	INTER ALIA
Nature:	CERTIFICATE OF PENDING LITIGATION
Registration Number:	CA3343580
Registration Date and Time:	2013-09-11 14:56
Registered Owner:	TROY WALKER PAULA WALKER
Nature:	CERTIFICATE OF PENDING LITIGATION
Registration Number:	LB522378
Registration Date and Time:	2013-09-25 13:06
Registered Owner:	JAYCAP FINANCIAL LTD.

Duplicate Indefeasible Title	NONE OUTSTANDING
Transfers	NONE
Pending Applications	NONE

Zoning Map


CLEMENT AVE
HIGH
ELLIS ST
Subject Site
WATER ST
RICHTER ST
BERNARD AVE
BOTT ST
ST

14.7 C7 – Central Business Commercial
C7rls – Central Business Commercial (Retail Liquor Sales)
C7lp – Central Business Commercial (Liquor Primary)
C7lp/rls – Central Business Commercial (Liquor Primary/ Retail Liquor Sales)

14.7.1 Purpose

The purpose is to designate and preserve land for the orderly **development** of the financial, retail and entertainment, governmental and cultural core of the Downtown, as well as the retail, entertainment and cultural core of Rutland, which shall provide for high **density** residential **uses**, and **commercial uses**.

14.7.2 Principal Uses

The **principal uses** in this **zone** are:

(a) **amusement arcade, major**
(b) **apartment housing**
(c) **apartment hotels**
(d) **boarding or lodging houses**
(e) **breweries and distilleries, minor**
(f) **broadcasting studios**
(g) **business support services**
(h) **child care centre, major**
(i) **commercial schools**
(j) **community recreational services**
(k) **congregate housing**
(l) **custom indoor manufacturing/artist's studio**
(m) **emergency and protective services**
(n) **financial services**
(o) **food primary establishment**
(p) **funeral services**
(q) **fleet services**
(r) **gaming facilities**
(s) **government services**
(t) **health services**
(u) **hotels**
(v) **household repair services**
(w) **liquor primary establishment, major (C7lp and C7lp/rls only)**
(x) **liquor primary establishment, minor**
(y) **multiple dwelling housing**
(z) **non-accessory parking**
(aa) **offices**
(bb) **participant recreation services, indoor**
(cc) **personal service establishments**
(dd) **private clubs**

(ee) **private education services**
(ff) **public education services**
(gg) **public libraries and cultural exhibits**
(hh) **public parks**
(ii) **recycled materials drop-off centres**
(jj) **retail liquor sales establishment (C7rls and C7lp/rls only)**
(kk) **retail stores, convenience**
(ll) **retail stores, general**
(mm) **spectator entertainment establishments**
(nn) **spectator sports establishments**
(oo) **supportive housing**
(pp) **temporary shelter services**
(qq) **used goods stores**
(rr) **utility services, minor impact**

14.7.3 Secondary Uses

The **secondary uses** in this **zone** are:

(a) **agriculture, urban**
(b) **amusement arcade, minor**
(c) **child care centre, minor**
(d) **home based businesses, minor**

14.7.4 Subdivision Regulations

(a) The minimum **lot width** is 6.0 m.
(b) The minimum **lot depth** is 30.0 m.
(c) The minimum **lot area** is 200 m^2.

14.7.5 Development Regulations

(a) The maximum **height** is 22.0 m except in Area 1 and Area 2, as shown on C7 -Diagram A and Diagram C, attached to this bylaw. The maximum allowable **height** within Area 1 and Area 2, as shown on C7 - Diagram A and Diagram C attached to this bylaw, is 44.0 m.
(b) The minimum **front yard** is 0.0 m.
(c) The minimum **side yard** is 0.0 m.
(d) The minimum **rear yard** is 0.0 m.
(e) Any portion of a **building** above 15 metres in **height** must be a minimum of 3.0 m. from any **property line** abutting a **street**, as shown on C7 - Diagram B attached to this bylaw.
(f) Within Areas 1 and 2, as shown on C7 - Diagram A and Diagram C, attached to this bylaw, any portion of a **building** above 15.0 m in **height** must be a minimum of 4.0 m from any **property line** abutting another **property** as illustrated on C7 - Diagram B attached to this bylaw.

(g) Within Areas 1 and 2, as shown on C7 - Diagram A and Diagram C, attached to this bylaw, any portion of a **building** above 15.0 m in **height** must lie within the prescribed line illustrated on C7 – Diagram B, attached to this bylaw. This line will start at the geodetic elevation 15.0 m above all **property lines** adjacent to a **street**, and be inclined at an angle of 80 degrees.

(h) Within Areas 1 and 2, as shown on C7 - Diagram A and Diagram C, attached to this bylaw, any **floor plate** situated above 15.0 m in **height** cannot exceed 676.0 m^2, as illustrated on C7 - Diagram B attached to this bylaw.

(i) Within Areas 1 and 2, as shown on C7 - Diagram A and Diagram C, attached to this bylaw, any portion of a **building** above 15.0 m in **height** cannot exceed a continuous exterior horizontal dimension of 26.0 m, as illustrated on C7 – Diagram B attached to this bylaw.

(j) Within Areas 1 and 2, as shown on C7 - Diagram A and Diagram C, attached to this bylaw, any **floor plate** situated above 15.0 m in **height** cannot exceed a diagonal dimension of 39.0 m as illustrated on C7 – Diagram B attached to this bylaw.

(k) In reference to the provisions restricting **building** envelope, the F.A.R is 9.0.

(l) Any portion of a **building** above 22.0m in **height** must maintain a minimum setback of:

(i) 15.0m from any **property line** abutting another property line.
(ii) 10.0m from any **property line** abutting a **lane**.
(iii) 30.0m between more than one tower on the same property.

The above setbacks will be measured from the nearest exterior building face, exclusive of unenclosed balconies.

14.7.6 Other Regulations

(a) A minimum area of 6.0 m^2 of **private open space** shall be provided per **bachelor dwelling**, 10.0 m^2 of **private open space** shall be provided per 1 **bedroom dwelling**, and 15.0 m^2 of **private open space** shall be provided per **dwelling** with more than 1 **bedroom**.

(b) Within Areas 1 and 2, as shown on C7 - Diagram A and Diagram C, attached to this bylaw, a supplemental floor area of 5% can be added to any floor area above 15.0 m in **height** provided the floor dimensions comply with all other provisions set out in the C7 zone. The supplemental area can only be added to the floor used as the basis for the calculation and shall be based on **gross floor area** of that floor.

(c) In addition to the regulations listed above, other regulations may apply. These include the general **development** regulations of Section 6 (accessory **development**, **yards**, projections into **yards**, accessory **development**, lighting, stream protection, etc.), the **landscaping** and fencing provisions of Section 7, the parking and loading regulations of Section 8, and the specific **use** regulations of Section 9.

(d) All buildings along an identified “Retail Corridor”, as shown on C7 – Diagram A, attached to this bylaw, shall provide a functional, retail commercial space on the first floor, which must occupy a minimum of 90% of the **street frontage.**

(e) Drive-in food services are not a permitted form of development in this zone.

(f) **Financial services** in the Rutland Urban Centre shall have a maximum total **gross floor area** of 500 m^2 unless a larger branch of the **Financial services** establishment is located within the Downtown Urban Centre.

(f) All **development** within the C7 zone must provide an active commercial or residential **use** at-grade along all **street frontages** (e.g. retail, office space, ground-orientated residential units), which must occupy a minimum of 90% of the **street frontages**, OR a minimum of 75% on secondary **street frontages** provided 100% of the principal **frontage** has an active commercial or residential space. Access driveways and other portions of the **street frontage** not used as **building** will not be considered for the purpose of this calculation.

(g) Within Area 3, as shown on C7 – Diagram A, attached to this bylaw, buildings less than or equal to 15.0m in **height** shall not be required to meet the vehicle parking space requirements of Section 8.1 of this Bylaw. Any buildings greater than 15.0m in **height** shall fully conform to Section 8.1.

British Columbia

Kelowna

CMA

Population	
July 1, 2012 Estimate	185,280
% Cdn. Total	0.53
06-12% Population Change	10.86
Avg annual % rate of pop change 06-12	1.73
2014 Projected Population	192,275
2017 Projected Population	202,805
2012 Households Estimate	77,970
2014 Projected Households	81,503
2017 Projected Households	86,813

Income	
% Above/Below Ntl. Avg. (per Capita)	-5
2012 Total Income Estimate $	6,036,243,327
% Cdn. Total	0.50
2012 Average Hhld. Income $	77,418
2012 per Capita $	32,579
% 2012 Hhlds., Inc. $100,000+	20
2014 Projected Total Hhld. $	6,768,814,757
2017 Projected Total Hhld. $	7,945,273,004

Retail Sales	
% Above/Below Ntl. Avg. (per Capita)	12
2012 Retail Sales Estimate $	2,863,061,479
% Cdn. Total	0.6
2012 per Household $	36,720
2012 per Capita $	15,453
2012 No. of Establishments	1,273
2014 Projected Retail Sales $	3,229,780,787
2017 Projected Retail Sales $	3,726,797,677

Population

2012 Estimates:

Age groups	*Total*	*Male*	*Female*
All	185,280	91,357	93,923
0-4	8,485	4,325	4,160
5-9	8,347	4,452	3,895
10-14	8,803	4,433	4,370
15-19	10,516	4,991	5,525
20-24	13,215	6,918	6,297
25-29	13,769	7,129	6,640
30-34	10,476	5,407	5,069
35-39	10,841	5,418	5,423
40-44	11,792	6,132	5,660
45-49	13,399	6,732	6,667
50-54	14,501	6,802	7,699
55-59	14,014	6,696	7,318
60-64	12,135	6,095	6,040
65-69	9,664	4,610	5,054
70+	25,323	11,217	14,106

Daytime Population

2012 Estimates:	
Working Population	91,525
At Home Population	85,002
Total	176,527

Income

2012 Estimates:	
Avg. Household Income $	77,418
Avg. Family Income $	88,092
Avg. Per Capita Income $	32,579
Avg. Employment Income Male $	46,277
Avg. Employment Income Male (Full Time) $	63,389
Avg. Employment Income Female $	29,795
Avg. Employment Income Female (Full Time) $	45,009

Disaposable & Discretionary Income

2012 Estimates:	
Disposable Income per Hhld. $	60,161
Discretionary Income per Hhld. $	21,778

Liquid Assets

2012 Estimates:	
Equity Investments per Hhld. $	56,736
Interest Bearing Investments per Hhld. $	74,152
Total Liquid Assets per Hhld. $	130,888
Total Liabilities per Hhld. $	146,335

Labour Force

2012 Estimates:	*Male*	*Female*
In the Labour Force	52,493	47,785
Participation Rate	68.5	59.6
Employed	48,881	45,251
Unemployed	3,612	2,534
Unemployed Rate	6.9	5.3
Not in the Labour Force	24,174	32,324

Occupations by Major Groups

2012 Estimates:	*Male*	*Female*
Management	7,358	4,125
Business, Finance & Admin	4,003	12,675
Natural & Applied Sci. & Rel'd	3,711	849
Health	1,341	4,579
Social Sci., Gov't Serv's & Relig'n	974	2,669
Education	1,087	1,955
Arts. Culture, Recr'n & sport	1,352	1,402
Sales & Service	10,283	15,570
Trades, Transp. & Equip. Ops. Etc	16,115	1,076
Primary Industries	3,104	1,312
Processing. Mfg. & Utilities	2,743	1,014

British Columbia

British Columbia

PR

Population	
July 1, 2012 Estimate	4,650,047
% Cdn. Total	13.31
06-12% Population Change	9.58
Avg annual % rate of pop change 06-12	1.54
2014 Projected Population	4,780,103
2017 Projected Population	4,975,544
2012 Households Estimate	1,892,944
2014 Projected Households	1,965,433
2017 Projected Households	2,074,231

Income	
% Above/Below Ntl. Avg. (per Capita)	-4
2012 Total Income Estimate $	153,194,718,795
% Cdn. Total	12.77
2012 Average Hhld. Income $	80,929
2012 per Capita $	32,945
% 2012 Hhlds., Inc. $100,000+	22.11
2014 Projected Total Hhld. $	170,212,030,968
2017 Projected Total Hhld. $	197,392,631,006

Retail Sales	
% Above/Below Ntl. Avg. (per Capita)	-2
2012 Retail Sales Estimate $	62,493,375,006
% Cdn. Total	13.01
2012 per Household $	33,014
2012 per Capita $	13,439
2012 No. of Establishments	31,138
2014 Projected Retail Sales $	69,130,122,289
2017 Projected Retail Sales $	77,803,316,534

Population

2012 Estimates:

Age groups	*Total*	*Male*	*Female*
All	4,650,047	2,302,456	2,347,591
0-4	230,564	118,878	111,686
5-9	225,092	116,524	108,568
10-14	235,562	121,651	113,911
15-19	270,835	139,191	131,644
20-24	327,261	168,732	158,529
25-29	339,222	173,102	166,120
30-34	316,406	156,278	160,128
35-39	297,247	146,075	151,172
40-44	327,290	161,728	165,562
45-49	357,880	178,672	179,208
50-54	363,555	179,347	184,208
55-59	336,707	164,409	172,298
60-64	293,493	143,825	149,668
65-69	229,756	112,623	117,133
70+	499,177	221,421	277,756

Daytime Population

2012 Estimates:

Working Population	2,358,327
At Home Population	2,099,380
Total	4,457,707

Income

2012 Estimates:

Avg. Household Income $	80,929
Avg. Family Income $	91,840
Avg. Per Capita Income $	32,945
Avg. Employment Income Male $	51,150
Avg. Employment Income Male (Full Time) $	69,099
Avg. Employment Income Female $	32,135
Avg. Employment Income Female (Full Time) $	49,165

Disaposable & Discretionary Income

2012 Estimates:

Disposable Income per Hhld. $	62,450
Discretionary Income per Hhld. $	22,736

Liquid Assets

2012 Estimates:

Equity Investments per Hhld. $	56,676
Interest Bearing Investments per Hhld. $	77,635
Total Liquid Assets per Hhld. $	134,311
Total Liabilities per Hhld. $	151,126

Labour Force

2012 Estimates:	*Male*	*Female*
In the Labour Force	1,339,886	1,210,781
Participation Rate	70.1	61.1
Employed	1,234,082	1,132,994
Unemployed	105,804	77,787
Unemployed Rate	7.9	6.4
Not in the Labour Force	572,351	771,327

Occupations by Major Groups

2012 Estimates:	*Male*	*Female*
Management	168,669	97,589
Business, Finance & Admin	120,503	311,723
Natural & Applied Sci. & Rel'd	128,917	33,100
Health	31,614	107,653
Social Sci., Gov't Serv's & Relig'n	34,741	76,243
Education	34,442	60,479
Arts. Culture, Recr'n & sport	42,077	48,055
Sales & Service	258,450	370,492
Trades, Transp. & Equip. Ops. Etc	355,840	25,547
Primary Industries	71,369	28,106
Processing. Mfg. & Utilities	75,143	30,904

Canada

CAN

Population	
July 1, 2012 Estimate	34,931,599
% Cdn. Total	100.00
06-12% Population Change	7.23
Avg annual % rate of pop change 06-12	1.17
2014 Projected Population	35,800,257
2017 Projected Population	37,105,835
2012 Households Estimate	13,987,134
2014 Projected Households	14,426,992
2017 Projected Households	15,092,931

Income	
% Above/Below Ntl. Avg. (per Capita)	0
2012 Total Income Estimate $	1,199,986,671,572
% Cdn. Total	100.00
2012 Average Hhld. Income $	85,792
2012 per Capita $	34,352
% 2012 Hhlds., Inc. $100,000+	23.46
2014 Projected Total Hhld. $	1,327,769,257,945
2017 Projected Total Hhld. $	1,531,513,868,378

Retail Sales	
% Above/Below Ntl. Avg. (per Capita)	0
2012 Retail Sales Estimate $	480,420,342,154
% Cdn. Total	100
2012 per Household $	34,347
2012 per Capita $	13,753
2012 No. of Establishments	217,428
2014 Projected Retail Sales $	526,368,739,202
2017 Projected Retail Sales $	593,661,302,473

Population

2012 Estimates:

Age groups	*Total*	*Male*	*Female*
All	34,931,599	17,306,382	17,625,217
0-4	1,935,814	991,952	943,862
5-9	1,852,556	952,929	899,627
10-14	1,885,486	968,575	916,911
15-19	2,152,559	1,098,858	1,053,701
20-24	2,440,275	1,245,907	1,194,368
25-29	2,487,230	1,266,008	1,221,222
30-34	2,401,630	1,202,749	1,198,881
35-39	2,315,894	1,159,673	1,156,221
40-44	2,393,593	1,203,523	1,190,070
45-49	2,692,881	1,355,970	1,336,911
50-54	2,714,739	1,357,651	1,357,088
55-59	2,439,068	1,203,217	1,235,851
60-64	2,062,273	1,009,057	1,053,216
65-69	1,645,429	796,736	848,693
70+	3,512,172	1,493,577	2,018,595

Daytime Population

2012 Estimates:

Working Population	17,642,024
At Home Population	15,701,523
Total	33,343,547

Income

2012 Estimates:

Avg. Household Income $	85,792
Avg. Family Income $	97,959
Avg. Per Capita Income $	34,352
Avg. Employment Income Male $	54,550
Avg. Employment Income Male (Full Time) $	72,301
Avg. Employment Income Female $	34,509
Avg. Employment Income Female (Full Time) $	50,629

Disaposable & Discretionary Income

2012 Estimates:

Disposable Income per Hhld. $	65,213
Discretionary Income per Hhld. $	23,429

Liquid Assets

2012 Estimates:

Equity Investments per Hhld. $	47,059
Interest Bearing Investments per Hhld. $	67,043
Total Liquid Assets per Hhld. $	114,102
Total Liabilities per Hhld. $	113,231

Labour Force

2012 Estimates:	*Male*	*Female*
In the Labour Force	10,117,662	9,112,414
Participation Rate	71.8	62.5
Employed	9,243,316	8,468,013
Unemployed	874,346	644,401
Unemployed Rate	8.6	7.1
Not in the Labour Force	3,983,015	5,474,436

Occupations by Major Groups

2012 Estimates:	*Male*	*Female*
Management	1,188,764	682,932
Business, Finance & Admin	984,804	2,422,465
Natural & Applied Sci. & Rel'd	995,670	283,215
Health	223,661	855,721
Social Sci., Gov't Serv's & Relig'n	253,640	599,683
Education	262,164	496,430
Arts. Culture, Recr'n & sport	257,718	323,004
Sales & Service	1,895,651	2,546,248
Trades, Transp. & Equip. Ops. Etc	2,605,885	200,799
Primary Industries	556,001	159,404
Processing. Mfg. & Utilities	740,140	370,999

2010 Canadian Hotel Sales

Prov.	Date of Sale	Hotel Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
BC	Mar-10	Travelodge Maple Ridge	Maple Ridge	58	$3,650,000	$62,931	n/a
	Mar-10	Nita Lake Lodge Whistler	Whistler	51	$19,000,000	$372,549	n/a
	Apr-10	Burrard Inn	Vancouver	73	$8,200,000	$112,329	4.7%
	May-10	Travelodge Duncan Silver Bridge Inn	Duncan	33	$6,300,000	$190,909	11.0%
	May-10	Ocean Village Beach Resort	Tofino	51	$7,400,000	$145,098	10.0%
	May-10	Pacific Palisades Hotel	Vancouver	233	$46,975,000	$201,609	n/a
	May-10	Rio Motel	Abbotsford	23	$1,935,000	$84,130	8.5%
	Jul-10	The Empress Hotel	Chilliwack	50	$1,270,000	$25,400	n/a
	Sep-10	Ramada Guildford	Surrey	77	Not Available		n/a
	Oct-10	Hilton Vancouver Metrotown	Burnaby	283	$44,000,000	$155,477	8.5%
	Nov-10	Traveller's Inn Gorge Road	Victoria	64	$3,362,576	$52,540	n/a
	Nov-10	Traveller's Inn - 710 - 712 Queens	Victoria	36	$1,887,424	$52,428	n/a
		12 Sales		**1,032**	**$143,980,000**	**$139,516**	
AB	Mar-10	Holiday Inn Canmore (Former Hotel of the Rockies)	Canmore	99	$8,150,000	$82,323	n/a
	Mar-10	Okotoks Willingdon Inn	Okotoks	15	$1,300,000	$86,667	n/a
	Mar-10	York Hotel	Edmonton	45	$3,038,640	$67,525	7.0%
	Apr-10	Innoka Resort	Canmore	20	$3,000,000	$150,000	n/a
	Jun-10	Super 8 Athabasca	Athabasca	48	$4,900,000	$102,083	11.5%
	Jun-10	Solara Canmore	Canmore	106	$25,500,000	$240,566	n/a
	Jun-10	Pointe Inn	Calgary	150	$6,750,000	$45,000	n/a
	Jun-10	Dayslander Motel	Daysland	10	$450,000	$45,000	n/a
	Jun-10	Junction Inn Hotel	Two Hills	20	$640,000	$32,000	n/a
	Jun-10	Advantage Motel	Edmonton	50	$3,000,000	$60,000	n/a
	Jul-10	J's Motel and Restaurant	Forestburg	25	$375,000	$15,000	n/a
	Jul-10	Sun Plaza Motel	Sundre	24	$650,000	$27,083	n/a
	Aug-10	Crowne Plaza Chateau Lacombe	Edmonton	307	$47,800,000	$155,700	5.7%
	Oct-10	Holiday Inn Express	Strathmore	124	$8,000,000	$64,516	n/a
		14 Sales		**1,043**	**$113,553,640**	**$108,872**	
SK	Jan-10	Super 8 Swift Current	Swift Current	63	$5,737,000	$91,063	n/a
	Feb-10	Safari Inn Motel	Swift Current	18	$925,000	$51,389	13.8%
	Mar-10	Last Mountain Inn	Watrous	18	$650,000	$36,111	16.8%
	Jul-10	Homestead Motel	Grenfell	17	$440,000	$25,882	13.9%
	Sep-10	Wander Inn	Esterhazy	24	$1,240,000	$51,667	15.6%
		5 Sales		**140**	**$8,992,000**	**$64,229**	
MB	Jul-10	Days Inn Winnipeg	Winnipeg	66	$6,300,000	$95,455	n/a
	Oct-10	Superior Inn & Conference Centre	Beausejour	36	$1,200,000	$33,333	n/a
	Nov-10	Airliner Hotel	Winnipeg	152	$4,900,000	$32,237	n/a
		3 Sales		**254**	**$12,400,000**	**$48,819**	
ON	Jan-10	Quality Champlain Hotel Waterfront	Orillia	57	$2,825,000	$49,561	n/a
	Feb-10	Riverbend Inn & Vineyard	Niagara-on-the-Lake	21	$4,175,000	$198,810	n/a
	Mar-10	Le Meridien King Edward Toronto	Toronto	298	$48,000,000	$161,074	2.6%
	Mar-10	Quality Hotel & Conference Centre	Niagara Falls	144	$7,500,000	$52,083	5.3%
	Mar-10	Ramada Plaza Niagara Falls	Niagara Falls	202	$2,500,000	$12,376	n/a
	Mar-10	Knights Inn Owen Sound	Owen Sound	28	$985,050	$35,180	n/a
	Mar-10	North Adventure Inn	Cochrane	30	$770,000	$25,667	n/a
	Mar-10	Gloucester Square Inn	Toronto	22	$4,200,000	$190,909	n/a
	Mar-10	Country Inn Motel	Dunnville	20	$850,000	$42,500	n/a
	Apr-10	Comfort Inn Sturgeon Falls	Sturgeon Falls	60	$4,000,000	$66,667	n/a
	Apr-10	Carriage House Motor Lodge	Niagara Falls	122	$2,500,000	$20,492	n/a
	Apr-10	Lantern Inn & Suites	Port Hope	16	$1,300,000	$81,250	n/a
	Apr-10	Travelodge Toronto North	North York	183	$5,500,000	$30,055	n/a
	Apr-10	Traveller's Hotel	Parry Sound	20	$1,485,000	$74,250	n/a

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2010 Canadian Hotel Sales

Prov.	Date of Sale	Hotel Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Jun-10	Best Western Country Squire Resort	Gananoque	68	$3,429,619	$50,436	n/a
	Jun-10	Yorkland Hotel Toronto	Toronto	285	$12,200,000	$42,807	n/a
	Jun-10	Regency Motor Hotel	Niagara Falls	23	$1,200,000	$52,174	n/a
	Jul-10	Forest Golf & Country Hotel	Forest	75	$1,650,000	$22,000	n/a
	Jul-10	Fairway Motor Inn	Niagara Falls	49	$1,505,000	$30,714	n/a
	Aug-10	Parkway Motel	London	29	$1,400,000	$48,276	n/a
	Aug-10	Travelodge Barrie	Barrie	96	$3,800,000	$39,583	5.7%
	Aug-10	Howard Johnson Kemptville	Kemptville	47	$1,640,000	$34,894	n/a
	Aug-10	Cottages at the Pointe	Kawartha Lakes	16	$1,386,000	$86,625	n/a
	Aug-10	Tulip Motel (Town & Country Motel)	Woodstock	20	$1,070,000	$53,500	n/a
	Sep-10	Comfort Inn Windsor	Windsor	100	$6,031,000	$60,310	n/a
	Sep-10	Sheraton Fallsview Hotel & Conference Center Niagara Falls	Niagara Falls	407	$70,000,000	$171,990	n/a
	Sep-10	Town & Country Motel	Burlington	30	$2,130,000	$71,000	n/a
	Sep-10	Kawartha Lakes Inn	Lindsay	38	$1,992,501	$52,434	n/a
	Sep-10	Travelodge Ambassador Bridge	Windsor	134	$2,600,000	$19,403	n/a
	Sep-10	Lindsay Inn	Lindsay	44	$1,500,000	$34,091	n/a
	Sep-10	Westmount Motel & Hotel	Woodstock	22	$791,000	$35,955	n/a
	Sep-10	All Seasons Motel	Port Elgin	22	$920,000	$41,818	n/a
	Sep-10	Marriott Fallsview	Niagara Falls	432	$76,400,000	$176,852	n/a
	Oct-10	Minaki on the River	Kenora	120	$1,200,000	$10,000	n/a
	Oct-10	Niagara Inn	Niagara Falls	40	$1,120,000	$28,000	n/a
	Oct-10	Destination Inn & Suites	Waterloo	104	Not Available		n/a
	Oct-10	Best Western Jacobs Country Inn	Waterloo	118	Not Available		n/a
	Nov-10	Elora Mill Inn	Elora	32	$1,850,000	$57,813	n/a
	Nov-10	Sleep Inn	Oshawa	25	$1,690,000	$67,600	n/a
	Nov-10	Lions Head Resort	Georgina	88	$3,100,000	$35,227	n/a
	Nov-10	Orangeville Inn	Orangeville	36	$3,200,000	$88,889	n/a
	Dec-10	Four Points by Sheraton Meadowvale	Mississauga	205	$17,200,000	$83,902	8.0%
	Dec-10	Viamede Resort and Conference Centre	Stoney Lake	50	$2,835,000	$56,700	n/a
		44 Sales		**3,978**	**$310,430,170**	**$78,037**	
QC	Jan-10	Hotel Royal William	Quebec City	44	$4,100,000	$93,182	n/a
	Feb-10	Clarion Hotel & Suites Downtown	Montreal	265	$17,100,000	$64,528	n/a
	Feb-10	Motel Canada Greenfield Park	Greenfield Park	52	$3,050,000	$58,654	n/a
	Mar-10	Celebrities Hotel Montreal	Montreal	26	$1,600,000	$61,538	n/a
	Apr-10	Hotel Gault Montreal	Montreal	30	$4,200,000	$140,000	n/a
	Apr-10	Courtyard Montreal	Montreal	181	$12,300,000	$67,956	n/a
	Apr-10	Hotel des Gouverneur Saint-Foy	Sainte-Foy	320	$17,400,000	$54,375	n/a
	May-10	Super 8 Sainte Foy	Sainte Foy	79	$5,075,000	$64,241	n/a
	May-10	Super 8 Trois-Rivieres	Saint Jean	78	$5,400,000	$69,231	n/a
	May-10	Super 8 Lachenaie Terrebonne	Lachenaie	81	$7,300,000	$90,123	n/a
	May-10	Super 8 Sainte Agathe Des Monts	Sainte Agathe Des Monts	74	$4,219,566	$57,021	n/a
	May-10	Super 8 St. Jerome	St. Jerome	81	$5,201,000	$64,210	n/a
	Jun-10	Best Western Europa Downtown	Montreal	174	$10,000,000	$57,471	n/a
	Aug-10	Auberge du Mont Orford	Magog	22	$1,400,000	$63,636	n/a
	Sep-10	Hotel Lesesque	Riviere-du-loup	83	$1,350,000	$16,265	n/a
	Sep-10	Days Inn	Riviere-du-loup	42	$1,950,000	$46,429	n/a
	Dec-10	Motel Rimouski	Rimouski	27	$1,100,000	$40,741	n/a
		17 Sales		**1,659**	**$102,745,566**	**$61,932**	
NB	Aug-10	Park Inn & Suites on the River	Miramichi	65	$1,200,000	$18,462	n/a
	Aug-10	Town and Country Motel	Fredericton	20	$1,070,000	$53,500	n/a
		2 Sales		**85**	**$2,270,000**	**$26,706**	
		96 Total Hotel Sales		**8,191**	**694,371,376**	**84,772**	

2011 Canadian Hotel Sales

BC	Date of Sale	Property Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Feb-11	Traveller's Inn Victoria	Victoria	48	$2,300,000	$47,917	9.5%
	Mar-11	Tally Ho Motor Hotel	Victoria	51	$4,200,000	$82,353	4.0%
	Mar-11	Travelodge Nanaimo	Nanaimo	78	$6,500,000	$83,333	8.5%
	Mar-11	Kamloops Towne Lodge	Kamloops	202	$15,000,000	$74,257	9.0%
	Mar-11	Super 8 Langley Aldergrove	Langley	41	$3,000,000	$73,171	8.5%
	Apr-11	Travelodge Kamloops	Kamloops	67	$5,000,000	$74,627	N/A
	Apr-11	Lonsdale Quay Hotel	North Vancouver	70	---Undisclosed---		
	Apr-11	Sandman Hotel & Suites Squamish (Holiday Inn Express)	Squamish	95	$5,810,000	$61,158	N/A
	May-11	Traveller's Inn Downtown	Victoria	81	$6,325,000	$78,086	8.4%
	Jun-11	Sutton Place Hotel	Vancouver	561	$163,625,000	$291,667	5.6%
	Jun-11	Delta Vancouver Airport Hotel & Marina	Richmond	414	$55,000,000	$132,850	4.5%
	Jun-11	Comfort Inn Vancouver Airport	Richmond	129	$12,000,000	$93,023	7.2%
	Jun-11	Best Western Tumbler Ridge	Tumbler Ridge	102	$7,015,000	$68,775	N/A
	Jun-11	Beach Grove Motel	Tsawwassen	15	$1,350,000	$90,000	N/A
	Jun-11	Ramada Inn Pitt Meadows	Pitt Meadows	78	$9,550,000	$122,436	8.4%
	Jul-11	Days Inn Chilliwack	Chilliwack	29	$1,900,000	$65,517	N/A
	Sep-11	Oasis Hotel	Surrey	40	$5,600,000	$140,000	N/A
	Oct-11	Aerie Resort & Spa	Malahat	35	$3,100,000	$88,571	N/A
	18	**Sales**		**2,136**	**$311,275,000**	**$145,728**	

AB	Date of Sale	Property Name	City	Rm. Count	Price Paid	Price Per Room	Overall Cap
	Jan-11	Howard Johnson Express Inn Calgary	Calgary	48	$3,136,000	$65,333	N/A
	Feb-11	Econo Lodge Edmonton	Edmonton	37	$3,600,000	$97,297	9.6%
	Mar-11	Lloydminster Motor Inn	Lloydminster	64	$2,100,000	$32,812	N/A
	Mar-11	Courtyard Edmonton	Edmonton	177	$26,000,000	$146,893	7.8%
	Mar-11	Stonebridge Hotel Fort McMurray	Fort McMurray	134	$27,500,000	$205,224	11.5%
	Apr-11	Best Western of Olds	Olds	41	$5,200,000	$126,829	N/A
	May-11	Athabasca Lodge Motel	Athabasca	32	$1,860,000	$58,125	N/A
	May-11	Jasper House Bungalows	Jasper	56	$7,500,000	$133,929	9.0%
	May-11	Royal Inn Spruce Grove	Spruce Grove	48	$4,250,000	$88,542	N/A
	Jun-11	Sutton Place Edmonton	Edmonton	313	$33,875,000	$108,227	4.7%
	Jul-11	Travellers Inn Camrose	Camrose	40	$2,030,000	$50,750	16.2%
	Aug-11	Holiday Inn Calgary Airport	Calgary	168	$23,500,000	$139,881	10.0%
	Sep-11	Best Western Premier Freeport Inn & Suites	Calgary	97	$15,500,000	$157,732	N/A
	Sep-11	Super 8 Medicine Hat	Medicine Hat	70	$4,604,000	$65,771	11.3%
	Oct-11	Thriftlodge Lethbridge	Lethbridge	91	$2,300,000	$25,275	N/A
	Oct-11	Super 8 Vermillion	Vermillion	66	$8,100,000	$122,727	10.7%
	Oct-11	Best Western Village Park Inn Calgary	Calgary	159	$23,000,000	$144,654	N/A
	17	**Sales**		**1,641**	**$194,055,000**	**$118,254**	

MB	Date of Sale	Property Name	City	Rm. Count	Price Paid	Price Per Room	Overall Cap
	Feb-11	Howard Johnson Express Inn Winnipeg West	Winnipeg	48	$4,500,000	$93,750	N/A
	Jun-11	Stock Exchange Hotel	Winnipeg	14	$2,200,000	$157,143	16.0%
	Aug-11	Country Inn & Suites Winnipeg	Winnipeg	76	$7,300,000	$96,053	11.6%
	Oct-11	Hilton Suites Winnipeg Airport	Winnipeg	160	$25,000,000	$156,250	9.1%
	4	**Sales**		**298**	**$39,000,000**	**$130,872**	

(Continue Next Page)

2011 Canadian Hotel Sales

SK	Date of Sale	Property Name	City	Rm. Count	Price Paid	Price Per Room	Overall Cap
	Jul-11	Motel 6 Estevan	Estevan	68	$6,775,000	$99,632	12.1%
	Jul-11	Super 8 Regina	Regina	61	$5,200,000	$85,246	11.4%
	Aug-11	Country Inn & Suites	Saskatoon	76	$11,000,000	$144,737	10.9%
	Aug-11	Country Inn & Suites By Carlson	Regina	77	$7,500,000	$97,403	11.3%
	Dec-11	Wingate by Wyndham Regina Hotel	Regina	118	$16,150,000	$136,864	10.0%
	5	**Sales**		**400**	**$46,625,000**	**$116,563**	

NU	Date of Sale	Property Name	City	Rm. Count	Price Paid	Price Per Room	Overall Cap
	May-11	Navigator Inn Iqaluit	Iquluit	35	$3,800,000	$108,571	N/A
	May-11	Nova Inn Iqaluit (Hotel Arctic)	Iqaluit	75	$17,000,000	$226,667	N/A
	2	**Sales**		110	$20,800,000	$189,091	

ON	Date of Sale	Property Name	City	Rm. Count	Price Paid	Price Per Room	Overall Cap
	Jan-11	Hidden Valley Resort	Huntsville	94	$2,500,000	$26,596	3.5%
	Feb-11	Lotus Motel	Cobourg	24	$1,241,000	$51,708	N/A
	Mar-11	Deerhurst Resort	Huntsville	221	$26,000,000	$117,647	2.5%
	Mar-11	Inn at Manitou	McKellar	34	$1,450,000	$42,647	N/A
	Mar-11	Ramada Inn London	London	124	$3,900,000	$31,452	N/A
	Mar-11	Lake Simcoe Motel	Barrie	20	$1,260,000	$63,000	N/A
	Mar-11	Avenue Inn	Niagara Falls	66	$1,265,000	$19,167	N/A
	Mar-11	River Garden Inn	Stratford	115	$6,500,000	$56,522	N/A
	Apr-11	Niagara Family Inn	Niagara Falls	36	$1,835,000	$50,972	N/A
	May-11	Benmiller Inn & Spa	Goderich	57	$1,550,000	$27,193	1.4%
	May-11	Anchorage Motel	Niagara-on-the-Lake	22	$4,507,000	$204,864	N/A
	May-11	Parkview Motel	Guelph	36	$2,200,000	$61,111	N/A
	May-11	Perth Manor Boutique Hotel	Perth	16	$1,350,000	$84,375	N/A
	May-11	Delta Toronto East	Toronto	371	$21,275,000	$57,345	N/A
	Jun-11	Hill Island Resort	Lansdowne	51	$1,199,000	$23,510	N/A
	Jun-11	Shamrock Motel	Midland	24	$1,210,000	$50,417	N/A
	Jun-11	Sunset Inn	North Bay	26	$1,377,000	$52,962	N/A
	Jul-11	Knights Inn Niagara Falls Lundys Lane	Niagara Falls	93	$2,450,000	$26,344	N/A
	Jul-11	Idlewyld Inn	London	23	$1,100,000	$47,826	N/A
	Aug-11	Howard Johnson	Toronto	69	$12,250,000	$177,536	N/A
	Aug-11	Rosseau JW Marriott Resort & Spa	Minett	132	---Undisclosed---		
	Aug-11	Baymont Inn & Suites Niagara Falls	Niagara Falls	59	$1,285,000	$21,780	N/A
	Aug-11	Best Western White House Inn	Brockville	57	$2,800,000	$49,123	N/A
	Aug-11	Tulip Motel	Woodstock	21	$1,199,900	$57,138	N/A
	Sep-11	Inn on Somerset	Ottawa	12	$1,400,000	$116,667	N/A
	Sep-11	Indigo Inn	Cornwall	67	$1,200,000	$17,910	N/A
	Sep-11	Travelodge Trenton	Trenton	43	$3,020,000	$70,233	N/A
	Sep-11	Monterey Inn Resort	Ottawa	88	$4,300,000	$48,864	N/A
	Sep-11	InterContinental Toronto Center	Toronto	586	---Undisclosed---		
	Oct-11	Palace Motel	Grimsby	24	$1,215,000	$50,625	N/A
	Oct-11	Super 8 Barrie	Barrie	82	$7,950,000	$96,951	7.0%
	Oct-11	Michael's Inn By The Falls	Niagara Falls	130	$6,000,000	$46,154	N/A
	Oct-11	Marriott Courtyard Airport Corporate Centre West	Mississauga	94	---Undisclosed---		
	Oct-11	Residence Inn by Marriott Airport Corporate Centre West	Mississauga	133	---Undisclosed---		
	Oct-11	Residence Inn by Marriott Toronto Vaughan	Vaughan	132	---Undisclosed---		
	Oct-11	Courtyard by Marriott Hamilton	Hamilton	136	---Undisclosed---		
	Oct-11	Best Western Plus Governor 's Inn	Kincardine	59	$5,000,000	$84,746	N/A
	Oct-11	Garden City Inn & Suites	St. Catharines	52	2,425,000	$46,635	N/A
	Nov-11	The Grange Hotel	Toronto	77	6,650,000	$86,364	5.4%
	Dec-11	Holiday Inn Yorkdale	Toronto	370	$22,850,000	$61,757	8.9%
	Dec-11	Code's Mill Inn	Perth	58	$2,900,000	$50,000	N/A
	Dec-11	Elephant Lake Lodge	Haliburton	32	$1,080,000	$33,750	N/A
	42	**Sales**		**3,966**	**$388,443,900**	**$102,872**	

(Continue Next Page)

2011 Canadian Hotel Sales

QC	Date of Sale	Property Name	City	Rm. Count	Price Paid	Price Per Room	Overall Cap
	Feb-11	Holiday Inn Pointe Claire Montreal Airport	Pointe Claire	308	$12,200,000	$39,610	N/A
	Feb-11	Motel White House	Beauport	32	$1,400,000	$43,750	N/A
	Mar-11	Le Port Royal Hotel & Suites	Quebec	47	$3,200,000	$68,085	N/A
	Apr-11	Manoir d'Youville	Chateauguay	117	$5,050,000	$43,162	N/A
	Jun-11	Residence Inn Montreal Airport	Montreal	169	$20,033,429	$118,541	8.2%
	Jun-11	Courtyard Montreal Airport	Montreal	160	$18,966,560	$118,541	8.2%
	Jun-11	Hotel Val-des-Neiges	Beaupre	111	$2,500,000	$22,523	N/A
	Aug-11	Hotel L'Urbania (Hotel du Roy)	Trois-Rivieres	102	$1,900,000	$18,627	N/A
	Sep-11	Hotel Clarion Gatineau Ottawa	Gatineau	116	$7,400,000	$63,793	N/A
	Nov-11	Clarendon Hotel	Quebec City	143	$15,200,000	$106,294	N/A
	10	**Sales**		**1,305**	**$87,849,989**	**$67,318**	

NS	Date of Sale	Property Name	City	Rm. Count	Price Paid	Price Per Room	Overall Cap
	Jun-11	Radisson Suite Hotel Halifax	Halifax	104	$12,324,000	$118,500	6.2%
	Oct-11	Holiday Inn Express Halifax	Halifax	98	$6,500,000	$66,327	4.3%
	2	**Sales**		**202**	**$18,824,000**	**$93,188**	
	100	**Total Sales**		**10,058**	**$1,106,872,889**	**$112,304**	

2012 Canadian Hotel Sales

BC	Date of Sale	Property Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Jan-12	Comfort Inn Vancouver Airport	Richmond	129	$15,000,000	$116,279	5.8%
	Feb-12	Stonebridge Hotel Fort St. John	Fort Saint John	127	$14,274,800	$112,400	15.0%
	Feb-12	Huntingdon Hotel & Suites	Victoria	135	$5,650,000	$41,852	N/A
	Mar-12	401 Inn	Burnaby	31	$3,175,000	$102,419	0.0%
	Mar-12	Queen Victoria Hotel & Suites	Victoria	146	$22,000,000	$150,685	N/A
	Apr-12	Best Value Westward Inn	Langley	52	$2,127,271	$40,909	N/A
	May-12	Inn at Westminster Quay	New Westminster	126	$17,325,000	$137,500	7.6%
	Jul-12	Travelodge Victoria Airport	Sidney	89	$16,200,000	$182,022	N/A
	Oct-12	Howard Johnson Canterbury Inn	Victoria	80	$3,800,000	$47,500	N/A
	Nov-12	Ramada Hotel & Suites Metrotown	Vancouver	122	$15,500,000	$127,409	N/A
	10	**Sales**		**1,037**	**$115,052,071**	**$110,947**	

AB	Date of Sale	Property Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Jan-12	Five Calgary Downtown Suites	Calgary	301	$56,600,000	$188,040	8.0%
	Feb-12	Radisson Hotel & Suites Fort McMurray	Fort McMurray	134	$25,100,000	$187,313	7.3%
	Feb-12	Grande Prairie Inn	Grande Prairie	204	$22,480,000	$110,196	2.7%
	Feb-12	Stonebridge Grand Prairie	Grande Prairie	126	$14,162,400	$112,400	15.0%
	Mar-12	Banff International Hotel	Banff	162	$23,500,000	$145,062	N/A
	Mar-12	Sand Brar Inn & Suites	Fox Creek	93	$11,500,000	$123,656	14.8%
	Apr-12	Pyramid Lake Resort	Jasper	62	$6,500,000	$104,839	9.3%
	Apr-12	Mountaineer Lodge	Lake Louise	78	$8,000,000	$102,564	9.3%
	May-12	Causeway Bay Hotel	Calgary	72	$4,300,000	$59,722	N/A
	May-12	Clearwater Timberlea Residence Hotel	Fort McMurray	66	$30,500,000	$462,121	11.0%
	May-12	Best Western Innisfail Inn	Innisfail	66	$5,100,000	$77,273	10.9%
	Jun-12	Travelodge Calgary MacLeod Trail	Calgary	254	$11,000,000	$43,307	6.7%
	Jun-12	Nova Inn Slave Lake	Slave Lake	89	$7,100,000	$79,775	14.1%
	Jun-12	Sands Hotel	Edmonton	53	$3,600,000	$67,924	N/A
	Jul-12	Super 8 Three Hills	Three Hills	82	$4,500,000	$54,878	5.0%
	Jul-12	Nova Inn Whitecourt	Whitecourt	76	$6,500,000	$85,526	11.2%
	Jul-12	Holiday Inn Express & Suites Edmonton North	Edmonton	95	$14,135,000	$148,789	9.6%
	Aug-12	Grande Rockies Resort	Canmore	29	$2,575,000	$88,793	N/A
	Aug-12	Drumheller Inn	Drumheller	100	$3,350,000	$33,500	N/A
	Aug-12	Hilton Garden Inn West Edmonton	Edmonton	160	$31,000,000	$193,750	6.6%
	Aug-12	Days Inn & Conference Center Edmonton Airport Leduc	Leduc	120	$12,750,000	$106,250	9.8%
	Sep-12	Travelodge Red Deer	Red Deer	135	$2,600,000	$19,300	N/A
	Sep-12	Sawridge Inn	Slave Lake	175	$10,500,000	$60,000	13.5%
	Sep-12	Travelodge Edmonton East	Edmonton	90	$8,200,000	$91,111	9.6%
	Nov-12	Super 8 Edson	Edson	63	$6,400,000	$101,587	11.7%
	25	**Sales**		**2,885**	**$331,952,400**	**$115,061**	

MB	Date of Sale	Property Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Jun-12	Lord Selkirk Hotel & Motel	Selkirk	27	$1,050,000	$38,889	N/A
	Jun-12	Pandora Inn	Winnipeg	8	$1,075,000	$134,375	N/A
	Dec-12	Holiday Inn Winnipeg South*	Winnipeg	170	$5,500,000	$64,706	10.0%
	3	**Sales**		**205**	**$7,625,000**	**$37,195**	

(Continue Next Page)

2012 Canadian Hotel Sales

SK	Date of Sale	Property Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Feb-12	Prospector Inn	Creighton	35	$1,400,000	$40,000	15.0%
	Nov-12	Saskatoon Inn Hotel & Conference Center	Saskatoon	250	$37,150,000	$148,600	10.0%
	2	**Sales**		**285**	**$38,550,000**	**$135,263**	

ON	Date of Sale	Property Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Jan-12	Super 8 North Bay	North Bay	50	$2,677,000	$53,540	N/A
	Jan-12	Orangeville Motel	Orangeville	18	$1,605,000	$89,167	N/A
	Jan-12	Super 8 Peterborough	Peterborough	82	$5,760,000	$70,244	8.5%
	Feb-12	Hotel Quinte	Belleville	46	$2,355,000	$51,196	N/A
	Feb-12	Knights Inn by the Falls	Niagara Falls	47	$1,350,000	$28,723	N/A
	Feb-12	Best Western Pembroke Inn & Conference Center	Pembroke	88	$6,250,000	$71,023	N/A
	Feb-12	Devonshire Inn	Wellington	7	$1,292,500	$184,643	N/A
	Feb-12	Canadiana Inn	Whitby	26	$1,775,000	$68,269	N/A
	Mar-12	Four Points London	London	181	$19,000,000	$104,972	7.5%
	Mar-12	Travelodge North Bay	North Bay	76	$2,300,000	$30,263	N/A
	Mar-12	Four Seasons Toronto	Toronto	380	$142,500,000	$375,000	N/A
	Apr-12	Quality Inn & Suites 1000 Islands	Gananoque	54	$3,350,000	$62,037	N/A
	Apr-12	Best Western Plus Royal Brock Hotel and Conference Centre	Guelph	104	$7,525,000	$72,400	N/A
	Apr-12	Guelph Royal Inn & Suites	Guelph	63	$2,100,000	$33,333	N/A
	Apr-12	Super 8 Motel Guelph	Guelph	34	$3,040,000	$89,400	N/A
	Apr-12	Howard Johnson Inn Leamington	Leamington	77	$3,885,000	$50,455	N/A
	Apr-12	Clarion Hotel & Suites Selby	Toronto	82	$16,125,000	$196,646	N/A
	Apr-12	Evenholme Estate Inn & Spa	Woolwich	10	$1,746,500	$174,650	N/A
	May-12	Bradford Inn	Bradford	14	$1,105,000	$78,929	8.5%
	May-12	Mohawk Inn	Campbellville	37	$3,200,000	$86,486	N/A
	May-12	Comfort Inn Guelph	Guelph	80	$3,600,000	$45,000	4.7%
	Jun-12	Travelodge Kenora	Kenora	42	$2,270,000	$54,048	N/A
	Jun-12	Super 8 Mount Hope	Mount Hope	49	$3,700,000	$75,510	N/A
	Jun-12	Stardust Inn Niagara Falls	Niagara Falls	24	$1,275,000	$53,100	N/A
	Jun-12	Stouffville Inn	Stouffville	50	$1,541,084	$30,822	N/A
	Jun-12	Sutton Place Toronto	Toronto	454	$57,000,000	$125,551	N/A
	Jul-12	Best Western Sword Motor Inn	Bancroft	46	$2,600,000	$56,522	N/A
	Jul-12	Motel 6 London	London	99	$4,000,000	$40,400	N/A
	Jul-12	Super 8 Motel Woodstock	Woodstock	72	$3,500,000	$48,611	N/A
	Aug-12	Sam Jakes Inn	Merrickville	33	$1,790,000	$54,242	N/A
	Aug-12	Super 8 Motel	Scarborough	50	$2,380,000	$47,600	N/A
	Sep-12	Comfort Inn Brampton	Brampton	107	$3,300,000	$30,800	0.3%
	Sep-12	Best Western Country Squire Resort	Gananoque	68	$2,800,000	$41,200	N/A
	Oct-12	Four Points by Sheraton Kingston	Kingston	171	$14,500,000	$84,800	4.0%
	Oct-12	Station Park An All Suite Hotel	London	126	$12,650,000	$100,400	8.0%
	Oct-12	Comfort Inn Midland	Midland	60	$2,600,000	$43,333	N/A
	Oct-12	Voyager Inn	North Bay	80	$3,500,000	$43,750	N/A
	Oct-12	Quality Hotel & Conference Centre Oshawa	Oshawa	194	$6,400,000	$32,990	N/A
	Oct-12	Four Points Toronto Lakeshore	Toronto	154	$25,700,001	$166,900	N/A
	Oct-12	Comfort Inn Windsor	Windsor	80	$3,400,000	$42,500	5.0%
	Nov-12	Delta Kitchener	Kitchener	201	---Undisclosed---		
	Nov-12	Comfort Inn Brockville	Brockville	75	$4,720,000	$62,900	9.4%
	Nov-12	Royal Connaught Hotel	Hamilton	244	$6,400,000	$26,200	N/A
	Nov-12	Travelodge Ottawa Downtown	Ottawa	37	$3,300,000	$89,189	N/A
	Nov-12	Marriott Toronto Airport	Toronto	424	$30,600,000	$72,170	N/A
	Dec-12	Lindsay Inn	Lindsay	44	$3,180,000	$72,300	N/A
	Dec-12	Carriage House Motor Lodge	Niagara Falls	91	$2,400,000	$26,400	N/A
	Dec-12	Courtyard by Marriott Ottawa Downtown*	Ottawa	183	$13,250,000	$144,809	10.0%
	48	**Sales**		**4814**	**$457,797,085**	**$95,097**	

(Continue Next Page)

2012 Canadian Hotel Sales

QC	Date of Sale	Property Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Feb-12	Auberge Chomedey Inn	Laval	41	$1,950,000	$47,600	N/A
	Apr-12	Grand Plaza Montreal Centre-Ville	Montreal	371	$26,850,000	$72,372	N/A
	May-12	Hotel Le Cofortel	L'Ancienne-Lorette	137	$5,160,000	$37,664	N/A
	Jul-12	Residence Inn by Marriott Downtown Montreal	Montreal	190	$24,000,000	$126,316	9.7%
	Aug-12	Holiday Inn Express Saint Jean Sur Richelieu	Saint Jean Sure Richelieu	98	$7,200,000	$73,469	10.0%
	Sep-12	Opus Montreal	Montreal	138	$10,000,000	$72,500	N/A
	Sep-12	Hotel de la Montagne	Montreal	142	$39,000,000	$274,648	N/A
	7	**Sales**		**1117**	**$114,160,000**	**$102,202**	

NB	Date of Sale	Property Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Mar-12	Algonquin Hotel & Resort St Andrews	St Andrews	242	N/A	N/A	N/A

NS	Date of Sale	Property Name	City	Room Count	Price Paid	Price Per Room	Overall Cap
	Nov-12	Holiday Inn Express Hotel Stellarton New Glasgow	Stellarton	125	$7,899,999	$63,200	12.0%
	97	**Total Hotel Sales**		**10710**	**$1,073,036,555**	**$104,307**	

Note: * Purchase price represents a 50% interest

Jason Wight

EMPLOYMENT

2008 to present	HVS Vice President Vancouver, British Columbia
2005-2008	SHERATON SUITES CALGARY EAU CLAIRE Calgary, Alberta
2002-2005	RICKY'S ALL DAY GRILL Calgary, Alberta

PROFESSIONAL AFFILIATIONS

Appraisal Institute of Canada (Candidate)
Real Estate Council of Alberta (RECA)

EDUCATION

University of Calgary, Haskayne School of Business - Calgary, Alberta
Bachelor of Hotel and Resort Management

Southern Alberta Institute of Technology – Calgary, Alberta
Hotel and Restaurant Management Diploma

ARTICLES AND PUBLICATIONS

"How to Identify a Hotel Competitive Set for a Hotel Market Study," *Canadian Monthly Lodging Outlook*, October 2012

"Understanding Oil and Gas Lodging Markets in Western Canada," *Canadian Monthly Lodging Outlook*, September 2011

"Extended-Stay Hotels in Canada," *Canadian Lodging Outlook*, July 2010

"Property Taxes in Canada," *Canadian Lodging Outlook,* March 2010

"2009 Canadian Hotel Transaction Survey" *Canadian Lodging Outlook,* November 2009

"Hotel Loyalty Programs: An Overview and How They Benefit Hotels" *Canadian Lodging Outlook,* August 2009

"Rate Cutting: A look at Canada" *Canadian Lodging Outlook,* July 2009

"Brand Conversion: What You Need to Know," *Canadian Lodging Outlook,* February 2009

"2008 Canadia Hotel Transaction Survey," *Canadian Lodging Outlook,* November 2008

SPEAKING AND LECTURE APPEARANCES

Haskayne School of Business, Calgary, Alberta, February 2012, February 2011 and February 2010

EXAMPLES OF CORPORATE AND INSTITUTIONAL CLIENTS SERVED

Aareal Bank
AVS Windows
Balboa Hotels
Bhanji Brothers Investment
Boon Siong Lee
Borelli Walsh
Bridge Road Developments
Business Development Bank of Canada
C & H Developments
Canad Inns
Canadian Urban
Canalta
Cellcom Wireless
Centron Group of Companies
Century West Developments
Choi & Han Investment
Clique Hotels & Resorts
CMLS Financial
Days Hospitality
Delta Hotels and Resorts
Encore Hospitality
Estevan Investments
Exchange District Management
Focus Hotels
Frankish Management
GE
Genesis Hospitality
GWL Realty Advisors
Hardy Bains
Hayer Builders Group
Hotel of the Rockies
Inspire Group Development Corporation
John Beveridge
John Varga
Kechika Developments
Lakeview Hotels & Resorts
Liquor Plus
Marquee Hotels
Martie Murphy
Mayfair Hotels & Resorts
Mission Ventures
Mitchell Group Investments
New Urban Conusulting
Oxford Properties Group
Pasutto's Hotels
Peace Enterprises
Pinnacle International
Pomeroy Group
Prestige Hospitality Corporation
Radisson Plaza Saskatchewan
Remington Development Corporation
Ron Mundi
Royal Oak Homes
Servus Credit Union
Shelter Canadian Properties
Shirvam Developments
SilverBirch Hotels and Resorts
SITQ
Southpeg Hospitality Group
Starwood Capital Group
Steinbock Development Corporation
Superior Lodging Corporation
TC Enterprises
Terrace Economic Development
Textron Financial Corporation
The Hollypark Organization
Town of Devon
Triple One Properties
Westmont Hospitality Group
Widewaters Group

EXAMPLES OF HOTELS APPRAISED OR EVALUATED

Alberta
Proposed Microtel, Blackfalds
Acclaim Hotel Airport, Calgary
Best Western Village Park Inn, Calgary
Converted Aloft, Calgary
Courtyard Airport, Calgary
Delta Bow Valley, Calgary
Hampton Inn & Suites Airport, Calgary
Hyatt Regency, Calgary
International Hotel Suites, Calgary
Proposed All-Suite Downtown, Calgary
Proposed Boutique Hotel, Calgary
Proposed Candlewood Airport, Calgary
Proposed Clique Hotel, Calgary
Proposed Courtyard by Marriott, Calgary
Proposed Delta Airport, Calgary
Proposed Element Airport, Calgary
Proposed Fairfield Airport, Calgary
Proposed Fairfield Inn & Suites, Calgary
Proposed Hampton Airport, Calgary
Proposed Hampton/Homewood, Calgary
Proposed Hilton Downtown, Calgary
Proposed Hilton & Conference Centre, Calgary
Proposed Homewood Airport, Calgary
Proposed Hilton/Homewood, Calgary
Proposed Hotel Airport, Calgary
Proposed Hotels (2), Calgary
Proposed Marriott Airport, Calgary
Proposed Residence Inn, Calgary
Proposed SpringHill Suites Airport, Calgary
Proposed Wingate Airport, Calgary
Radisson Airport, Calgary
Ramada Hotel, Calgary
Residence Inn Airport, Calgary
Westin, Calgary
Wingate Inn South, Calgary
Sheraton Four Points, Canmore
Proposed Pomeroy, Devon
Lakeview Inn & Suites, Drayton Valley
Delta South, Edmonton
Sutton Place, Edmonton
Westin, Edmonton
Lakeview Inn & Suites, Edson
Clearwater Suite Hotel, Fort McMurray
Franklin Suite Hotel, Fort McMurray
Merit Hotel & Suites, Fort McMurray
Proposed Clearwater Timberlea, Fort McMurray
Proposed Microtel, Fort McMurray
Radisson Hotel, Fort McMurray
Lakeview Inn & Suites, Fort Saskatchewan
Proposed Hampton Inn, Fort Saskatchewan
Lakeview Inn, Fox Creek
Days Inn, Hinton
Coast Hotel, Lethbridge
Proposed Hilton Garden Inn, Lethbridge
Proposed Hotel, Red Deer
Holiday Inn Express, Sherwood Park
Proposed Pomeroy Inn & Suites, Vegreville
Lakeview Inn & Suites, Whitecourt

British Columbia
Pomeroy Inn & Suites, Chetwynd
Best Western, Dawson Creek
Pomeroy Inn & Suites, Dawson Creek
Proposed Western Discovery, Dawson Creek
Pomeroy Inn & Suites, Fort St. John
Proposed Still Water Inn & Suites, Hudson's Hope
Delta Grand Okanagan, Kelowna
Pinnacle Hotel, North Vancouver
Proposed Holiday Inn Express, Surrey
Proposed Limited-Service, Terrace
Best Western Plus Downtown, Vancouver
Buchan Hotel, Vancouver
Delta Airport, Vancouver
Fairmont Hotel, Vancouver
Westin Bayshore, Vancouver
Proposed Fairfield Inn & Suites, Vernon
Converted Holiday Inn, Victoria
Days Inn, Victoria

Manitoba
Victoria Inn, Flin Flon
Proposed Best Western, Thompson
Best Western Pembina Inn & Suites, Winnipeg
Proposed Best Western, Winnipeg
Proposed Porter Hotel, Winnipeg
Radisson Downtown, Winnipeg

Northwest Territories
Proposed Limited-Service Hotel, Yellowknife

EXAMPLES OF HOTELS APPRAISED OR EVALUATED (CONT)

Saskatchewan
Western Star, Carlyle
Proposed Western Star, Carnduff
Western Star, Esterhazy
Suburban Expansion, Estevan
Proposed Western Star, Melita
Proposed Sigma Inn & Suites, Melville
Proposed Canalta, Martensville
Proposed Suburban, Moosejaw
Proposed Best Western Plus, Moosomin
Western Star, Redvers
Proposed All-Suite Hotel, Regina
Proposed Best Western, Regina
Proposed Hampton, Regina
Proposed Limited-Service, Regina
Radisson Plaza Hotel, Regina
Super 8, Regina
Wingate Inn, Regina
Delta Bessborough, Saskatoon
Proposed Residence Inn, Saskatoon
Proposed Western Star, Stoughton
Proposed Motel 6, Swift Current
Proposed Suburban, White City

United States
Fairmont Olympic, Seattle, WA

Carrie Russell, AACI, MAI, RIBC

EMPLOYMENT

1997 to present	HVS Managing Director Vancouver, BC
1996	ASHLER CONSULTING Vancouver, BC
1995-1996	SWANS HOTEL Victoria, BC
1994	VERNON GOLF AND COUNTRY CLUB Vernon, BC
PROFESSIONAL AFFILIATIONS	Appraisal Institute of Canada (AACI) Real Estate Institute of BC (RIBC) Real Estate Council of Alberta (RECA) Appraisal Institute of United States (MAI)
EDUCATION	University of Victoria, Victoria, BC Faculty of Business Bachelor of Commerce, specializing in Tourism Management University of British Columbia, Vancouver, BC Diploma – Urban Land Economics Programme

ARTICLES AND PUBLICATIONS

"Hotel Development Trends in Alberta" *Alberta Hospitality,* Winter 2013

"2012 Canadian Hotel Transaction Survey," *Canadian Lodging Outlook*, December 2012

"Hotel Financing Parameters in Canada," *Canadian Lodging Outlook*, November 2012

"Back to Peak? A Look at Canadian Hotel Operating Performance: 2008-2011" *Colliers International INNvestment Canada,* Q1 2012

"2011 Canadian Hotel Transaction Survey," *Canadian Lodging Outlook*, December 2011

"State of the Hospitality Industry" *Western/Eastern Hotelier Magazine,* October 2011

"A Look at the Canadian Lodging Industry in 2011 and Ahead to 2012," *Canadian Lodging Outlook*, October 2011

"2010 Canadian Hotel Transaction Survey," *Canadian Lodging Outlook*, December 2010

"2009 Canadian Hotel Transaction Survey," *Canadian Lodging Outlook*, November 2009

"Who will be the Winners in this Downturn?" *Canadian Lodging Outlook*, March 2009

"2008 Canadian Hotel Transaction Survey," *Canadian Lodging Outlook*, November 2008

"How Does Debt Financing Impact the Value of a Hotel?" *Canadian Lodging Outlook*, June 2008

"A Crash Course in Cap Rates," *Canadian Lodging Outlook*, January 2005

"Have Hotel Values in Canada Declined Since September 11? You Bet They Have" *Canadian Lodging Outlook*, August 2001

"Does Supply Generate Demand?" *Canadian Lodging Outlook*, February 2001

"Should You Build a Spa in Your Hotel?" *Canadian Lodging Outlook*, November 1999

"Winnipeg Downtown Hotel Market," *Canadian Lodging Outlook*, July 1999

"Downtown Toronto Hotel Market," *Canadian Lodging Outlook*, January 1999

"Franchising – Ready or Not?" *InnFocus*, Spring 1998

"Another Blockbuster Year For Canadian Hotel Sales," *InnFocus*, Winter 1998

SPEAKING AND LECTURE APPEARANCES

Canadian Hotel Investment Conference
Western Canadian Hotel Investment Conference
America Lodging Investment Summit (ALIS)
Appraisal Institute of BC Provincial Conference
Vancouver AM Tourism Association
Hospitality Financial and Technology Professionals (HFTP) Calgary Chapter
BC Assessment Hotel Industry Round Table
Travelodge Canada National Owners Conference
Ramada Regional Owners Conference
University of Calgary
University of Victoria

EXAMPLES OF CORPORATE AND INSTITUTIONAL CLIENTS SERVED

1339850 Alberta Ltd. (Alim Jessa)
404980 Alberta Ltd. (Karima Suleman)
Aareal Bank
A-1 Hospitality
AHG Thompson
Albert Street Project
Allied Holdings
Amacon
Aquilini Group
Archon Financial
Argus Properties
Ariel Development
AVS Windows
B.A.C. Capital Corp.
Babson Capital Management
Balboa Hotels
Bank of America
Bass Hotels and Resorts
BC Housing Management Commission
Bear Stearns
Best Western International
Bhanji Brothers Investment
Bill Sidhu
Borelli Walsh
Bosa Properties
Brentwood Bay Lodge Ltd.
Bridge Road Developments
Business Development Bank of Canada
Builders Bank (Chicago)
C & H Developments
Choi & Sons Enterprises
C.S. First Boston
Cadim
Calgary Exhibition and Stampede
Calgary Tourist Development
Canad Inns
Canadian Western Bank
CanAlta Real Estate Services
Capital Co. of America
CapStar Hotel Company
Cellcom Wireless
Centron Group
Century Group
Century West Developments
Charan Rai
Chase Manhattan Bank
Chin Hong
Choi & Han Investment
CIGNA Investments Management
CitiGroup Private Bank
City of Calgary
City of Penticton
City of Port Townsend, WA
City of Vancouver
Clique Hotels & Resorts
CMLS Financial
Coast Hotels & Resorts
Command Developments
Concert Properties
Continental Wingate Capital
Coronado Properties
County of Thorhild
Credit Suisse First Boston
Crystal Square Development Corp.
Dawson Creek General Partnership
Days Hospitality
Delta Hotels & Resorts
Delta Land Developments
Delta Whistler Village Suites Strata Council
Desert Inn Osoyoos
Devonian Properties
Diamond Trust
Diversified Financial
Donaldson, Lefkin & Jenrette
Eagle River Hospitality
Eastdil Secured
Ed Bhanji
Eddie Teranishi
Encore Hospitality
Estevan Investments
Exchange District Management
Fairmark Investments

EXAMPLES OF CORPORATE AND INSTITUTIONAL CLIENTS SERVED (CONT)

Fairmont Hotels and Resorts
Faskin Martineau
Finova Capital Corporation
Finwest Holdings
First Calgary Savings
Focus Hotels
Frankish Management
Gateway Travel Centre
GE Capital Corporation
GE Real Estate Business Property
Genesis Hospitality
Germain Group
GMAC Commercial Mortgage Group
Golden Properties
G. T. Soomal
Guildford 401 Motel
GWL Realty Advisors
Hardy Bains
Highgate Holdings
Holloway Lodging REIT
Hollypark Organization
Hotel of the Rockies
Inspire Group Development Corporation
Intrawest
Ivanhoé Cambridge
IXIS Real Estate Capital
Jassi Holdings
Jean Bourdua
John Beveridge
John Varga
Johnson Brothers Hospitality
Jordan Hotel Corporation
Kechika Developments
Kent MacPherson Appraisals
Kileel Developments
Kimpton Hotel and Restaurant Group
KLIO Real Estate Systems
Kooner Construction
L-7 Inc.
Lake Tahoe Development Company
Lakeview Hotel REIT
Lakeview Hotels & Resorts
Larco Enterprises
LaSalle Investment Management
Legacy Hotels REIT
Lehman Brothers
Lickman Travel Centre
Liquor Plus
Manitoba Lotteries Corporation
Marquee Hotels
Martie Murphy
Mayfair Hotels & Resorts
Mayfair Properties
Meridian Resource Accommodations
Merrill Lynch & Company
Meyers Norris Penny
Micro-Tel Inn and Suites
Midwest Developments
Mission Ventures
Mitchell Group Investments
Moe Sihota
Montrose Mortgage
Morguard Investments
Mutsumi Enterprises Canada
Nanjico
National Hospitality Group
Nations Bank
Naushad Jinah
New Urban Consulting
Nitze Stagen
Nor-Sham Group
Nova Builders
Ocwen Capital Corporation
ORIX Real Estate Corporation
Owens Hospitality Group
Oxford Properties Group
Pacifica Companies
Pacifican Properties
Pacrim Hospitality Services
PAN
Paragon Gaming
Pavi Khunkhun
Peace Enterprises
Peterson Investment Group
PHI Hotel Group
Picadilly Development
Pinnacle International
Pomeroy Group

EXAMPLES OF CORPORATE AND INSTITUTIONAL CLIENTS SERVED (CONT)

PPM Finance
Prestige Hospitality
Proprietary Industries
Radisson Plaza Saskatchewan
Ramada Coquitlam
Randhawa Hotels
Remai Group
Remington Development Corporation
Retirement Concepts
Ron Mundi
Royal Bank of Canada
Royal Oak Homes
Royop Hospitality
Salomon Brothers Realty Corp.
Santo Properties
Scott Cameron
Semiahmoo Company
Servus Credit Union
Shelter Canadian Properties
Shinsei Bank
Shirvam Developments
SilverBirch Hotels and Resorts
Silver Hotel Holdings
SITQ
Souris Valley Lodging
Southpeg Hospitality Group
Starwood Asset Management
Starwood Capital Group
Starwood Financial Trust
State Bank of India
Steinbock Development Corporation
Stone Creek Properties
Summerland Motel
Sunshine Inn Estates
Superior Lodging Group
TC Enterprises
Temple REIT
Teranishi and Associates
TerraCap Group
Terrace Economic Development
The Hollypark Organization
Town of Devon
Tri City Contracting
Trilogy Development Corporation
Triple One Properties
Vacations West
Valley First Credit Union
Vancouver Hotel Association
Washington Mutual Bank
Wells Fargo
West Canadian Development
West LB
Westbank Holdings
Westmark Hotels
Westmont Hospitality
Widewaters Group
Windermere Commercial Lands
Zul Nathoo

EXAMPLES OF HOTELS APPRAISED OR EVALUATED

Alberta – Existing Hotels

Best Western, Athabasca
Douglas Fir Resort, Banff
Tunnel Mountain Resort, Banff
Acclaim Hotel, Calgary
Acclaim Hotel Airport, Calgary
Best Western Calgary Suites, Calgary
Best Western Village Park, Calgary
Converted Aloft Hotel, Calgary
Delta Bow Valley, Calgary
Fairmont Palliser, Calgary
Four Points by Sheraton, Calgary
Hampton Inn & Suites, Calgary
Hampton Inn & Suites Airport, Calgary
Hilton Garden Inn, Calgary
Hyatt Regency, Calgary
Holiday Inn, Calgary
International Hotel Suites, Calgary
Radisson, Calgary
Ramada Hotel, Calgary
Stampeder Inn, Calgary
Westin, Calgary
Doubletree Conversion, Canmore
Sheraton Four Points, Canmore
Lakeview Inn & Suites, Drayton Valley
Service Plus, Drayton Valley
Super 8, Drayton Valley
Best Western, Edmonton
Chateau Nova, Edmonton
Coast Hotel, Edmonton
Coast Terrace Inn, Edmonton
Delta South, Edmonton
Hilton Garden Inn West, Edmonton
Holiday Inn Convention Ctr, Edmonton
Holiday Inn Express, Edmonton
Holiday Inn West, Edmonton
Hotel & Convention Centre, Edmonton
Quality Inn Chateau, Edmonton
Sutton Place, Edmonton
Westin, Edmonton
Lakeview Inn & Suites, Edson East
Nova Hotel & Court, Edson
Advantage West Inn & Suites, Fort McMurray
Best Western Nomad Inn, Fort McMurray
Clearwater Suite Hotel, Fort McMurray
Franklin Suites Hotel, Fort McMurray
Merit Hotel, Fort McMurray
Merit Inn and Suites, Fort McMurray
Nomad Hotel, Fort McMurray
Nomad Inn and Suites, Fort McMurray
Platinum Hotel, Fort McMurray
Radisson Hotel, Fort McMurray
Super 8, Fort McMurray
Vantage Inn & Suites, Fort McMurray
Best Western Fort Inn, Ft. Saskatchewan
Lakeview Inn & Suites, Ft. Saskatchewan
Lakeview Inn, Fox Creek
Grande Cache Hotel, Grande Cache
Best Western, Grande Prairie
Holiday Inn, Grande Prairie
Pomeroy Inn and Suites, Grande Prairie
Stonebridge Inn, Grande Prairie
Super 8, High Level
Pomeroy Inn and Suites, High Prairie
Days Inn, Hinton
Nova Inn, Hinton
Nova Lodge, Hinton
BW Kananaskis Inn, Kananaskis
Hilton Garden Inn, Leduc
Coast Hotel, Lethbridge
Holiday Inn Express, Lethbridge
Lethbridge Lodge Hotel, Lethbridge
BW Wayside Inn & Suites, Lloydminster
Lakeview Inn & Suites, Okotoks
Nova Hotel, Peace River
Best Western, Red Deer
Capri Hotel, Red Deer
Comfort Inn & Suites, Red Deer
Home2, Red Deer
Sandman Hotel, Red Deer
Coast Edmonton East, Sherwood Park
Holiday Inn Express, Sherwood Park
Best Western, Slave Lake
Northwest Inn, Slave Lake
Super 8, Three Hills
Lakeview Inn & Suites, Whitecourt
Nova Inn, Whitecourt
Super 8, Whitecourt

EXAMPLES OF HOTELS APPRAISED OR EVALUATED (CONT)

Alberta – Proposed Hotels

AmeriHost, Airdrie
Microtel, Blackfalds
Limited -Service Hotel, Bonnyville
Best Western, Brooks
Super 8, Brooks
All-Suite Downtown, Calgary
Best Western Inn & Suites, Calgary
Boutique Hotel, Calgary
Calgary Stampede Hotel, Calgary
Candlewood Suites Airport, Calgary
Clique Hotel, Calgary
Courtyard by Marriott, Calgary
Delta, Calgary
Delta Airport, Calgary
Element Airport, Calgary
Extended-Stay Hotel, Calgary
Focused-Service Hotel, Calgary
Four Points, Calgary
Four Points Airport, Calgary
Germain Hotel, Calgary
Hampton Airport, Calgary
Hampton & Homewood, Calgary
Hilton Downtown, Calgary
Hilton & Conference Ctr, Calgary
Hilton/Homewood, Calgary
Homewood Airport, Calgary
Hotels (2), Calgary
Hotel Airport, Calgary
Hotels (2) South, Calgary
Marriott Airport, Calgary
Residence Inn, Calgary
Select-Service Hotel, Calgary
Staybridge Suites, Calgary
Wingate Inn Airport, Calgary
All-Suite Hotel, Canmore
Fairholme Lodge, Canmore
Hotel at SilverTip, Canmore
Super 8, Canmore
Super 8, Cochrane
Days Inn, Cold Lake
Extended-Stay, Devon
Pomeroy Hotel, Devon
Comfort Inn, Edmonton
Four Points, Edmonton
Hampton Inn, Edmonton
Hilton Garden Inn Airport, Edmonton
Nova Inn, Edmonton
Pomeroy Inn, Edmonton
Staybridge Suites, Edmonton
Renaissance Clubsport Windermere, Edmonton
Pomeroy Inn and Suites, Fairview
Clearwater Timberlea, Fort McMurray
Holiday Inn, Fort McMurray
Nova Inn, Fort McMurray
Super 8, Fort Saskatchewan
AmeriHost, Grande Prairie
Limited- Service, Grande Prairie
Motel 6, Grande Prairie
Pomeroy Inn & Suites, Grimshaw
Best Western, Lacombe
Comfort Suites, Leduc
Courtyard by Marriott, Leduc
Hampton Inn, Leduc
Hotel, Leduc
Hilton Garden Inn, Lethbridge
Holiday Inn & Suites, Lethbridge
Microtel, Lloydminster
Super 8, Lloydminster
Hampton Inn & Suites, Medicine Hat
Holiday Inn, Medicine Hat
Home2, Medicine Hat
Pomeroy Inn, Olds
Super 8, Oyen
Microtel, Peace River
Nova Inn, Peace River
Ramada, Pincher Creek
Super 8, Ponoka
Hotel, Red Deer
Microtel, Red Deer
Super 8, Red Deer
TownePlace Suites, Red Deer
Extended-Stay, Sherwood Park
Super 8, Slave Lake
Ramada, Stettler
Holiday Inn Express, Strathmore
Hotel, Thorhild
Best Western, Valleyview
Pomeroy Inn & Suites, Vegreville
Best Western, Wainwright

EXAMPLES OF HOTELS APPRAISED OR EVALUATED (CONT)

British Columbia – Existing Hotels

Holiday Inn Express, Abbotsford
Crystal Square Hilton, Burnaby
Coast Discovery Inn, Campbell River
Pomeroy Inn & Suites, Chetwynd
BW Rainbow Country Inn, Chilliwack
Comfort Inn, Chilliwack
Best Western Chelsea, Coquitlam
Ramada, Coquitlam
Best Western, Dawson Creek
Days Inn, Dawson Creek
George Dawson Inn, Dawson Creek
Pomeroy Inn & Suites, Dawson Creek
Super 8, Fort Nelson
Holiday Inn Express, Fort St. John
Lakeview Inn & Suites, Fort St. John
Pomeroy Inn & Suites, Fort St. John
Stonebridge Hotel, Fort St. John
Super 8, Fort St. John
Resort and Spa, Harrison Hot Springs
Sunshine Inn, Houston
Best Western Towne Lodge, Kamloops
Hotel 540, Kamloops
The Thompson Hotel, Kamloops
Delta Grand Okanagan Resort, Kelowna
Sheraton Four Points, Langford
Best Western Langley Inn, Langley
Holiday Inn Express, Langley
Schooner Cover Hotel, Nanoose Bay
Inn at Westminster Quay, New Westminster
Pinnacle Hotel, North Vancouver
Desert Inn, Osoyoos
Super 8, Osoyoos
Ramada Inn & Suites, Penticton
Travelodge, Penticton
Best Western, Prince George
Coast Hotel, Prince George
Four Points, Prince George
Treasure Cove Hotel, Prince George
Qualicum Heritage Inn, Qualicum Beach
Days Inn, Richmond
Expanded Holiday Inn Express Riverport, Richmond
Radisson Hotel, Richmond
Holiday Inn Express, Squamish
Guildford Inn and Suites, Surrey
Ramada Guildford, Surrey
Sandman Suites Guildford, Surrey
Best Western Plus Downtown, Vancouver
Biltmore Hotel, Vancouver
Comfort Inn Airport, Vancouver
Crowne Plaza Hotel Georgia, Vancouver
Days Inn, Vancouver
Days Inn Downtown, Vancouver
Delta Airport, Vancouver
Delta Pinnacle Hotel, Vancouver
Delta Vancouver Suites, Vancouver
Fairmont, Vancouver
Fairmont Waterfront, Vancouver
Four Points by Sheraton, Vancouver
Georgian Court, Vancouver
Hampton Inn & Suites, Vancouver
Holiday Inn Airport, Vancouver
Holiday Inn Express Airport, Vancouver
Hotel Georgia, Vancouver
Howard Johnson Plaza Hotel, Vancouver
Marriott Pinnacle, Vancouver
Opus Hotel, Vancouver
Pacific Palisades, Vancouver
Pan Pacific Hotel, Vancouver
ParkHill Hotel, Vancouver
Quality Inn Airport, Vancouver
Ramada Airport, Vancouver
Ramada Hotel, Vancouver
Ramada Kingsway, Vancouver
Renaissance Harbourside, Vancouver
Sandman Airport, Vancouver
Shangri-La, Vancouver
Sutton Place, Vancouver
The Opus Hotel, Vancouver
Travelodge Hotel Airport, Vancouver
Westin Bayshore, Vancouver
Best Western Carlton Plaza, Victoria
Brentwood Bay Lodge & Spa, Victoria
Converted Holiday Inn, Victoria
Days Inn Waterway, Victoria
Delta Ocean Pointe, Victoria
Fairmont Empress, Victoria
Harbour Towers, Victoria
Parkside Victoria Resort & Spa, Victoria
Holiday Inn, Westbank
Coast Whistler Resort, Whistler
Delta Whistler Village Suites, Whistler
Whistler Fairways, Whistler

EXAMPLES OF HOTELS APPRAISED OR EVALUATED (CONT)

British Columbia – Proposed Hotels

Hampton Inn & Suites, Abbotsford
Hotel, Abbotsford
Hotel, Agassiz
Courtyard Hotel, Burnaby
Crystal Square Hilton, Burnaby
Hotel, Burnaby
Super 8, Chemainus
Pomeroy Inn and Suites, Chetwynd
Super 8, Coquitlam
Holiday Inn Express, Courtenay
Super 8, Courtenay
Best Western, Dawson Creek
Super 8, Dawson Creek
Western Discovery Inn & Suites, Dawson Creek
Hotel, Fernie
Super 8, Fort Nelson
Limited-Service, Fort St. James
Casino Hotel, Fort St. John
Hampton Inn, Fort St. John
Pomeroy Hotel and Casino, Fort St. John
Salt Spring Island Wellness Retreat, Ganges
Holiday Inn, Golden
Days Inn, Hudson's Hope
Still Water Inn & Suites, Hudson's Hope
Hampton Inn, Kamloops
Limited-Service, Kamloops
Park Inn Hotel, Kamloops
Hampton Inn, Kelowna
Holiday Inn, West Kelowna
Four Points, Langford
Quality Inn, Langley
Super 8, Langley
Convention Facilities, Panorama
Hotel, Penticton
Wilderness Lodge, Port Renfrew
Alt, Richmond
Holiday Inn Express, Richmond
Homewood Suites, Richmond
Hotel Study, Richmond
Hotel, Salmon Arm
Resort & Spa, Sechelt
Super 8, Squamish
Summerland Motel, Summerland
Holiday Inn Express, Surrey
Super 8, Surrey
Limited-Service, Terrace
Sunshine Inn, Terrace
Coast Hotel, Tsawwassen
Boutique Hotel, Vancouver
Crystal Blu, Vancouver
Fairmont Convention Centre, Vancouver
Fairmont Hotel, Vancouver
Hilton Downtown, Vancouver
JW Marriott & Autograph Hotels, Vancouver
Marriott Convention Centre, Vancouver
Opus, Vancouver
Radisson Hotel, Vancouver
Regent Hotel, Vancouver
Yaletown Hotel, Vancouver
Fairfield Inn & Suites, Vernon
Holiday Inn Express, Vernon
Pomeroy Inn & Suites, Vernon
Marriott, Victoria
Royal Victoria Hotel, Victoria
Sheraton Four Points, Victoria
Super 8, Westbank

EXAMPLES OF HOTELS APPRAISED OR EVALUATED (CONT)

Manitoba
Royal Oak Inn, Brandon
Victoria Inn, Brandon
Victoria Inn, Flin Flon
Proposed Super 8 , Portage La Prairie
Proposed Best Western, Thompson
Proposed Super 8, Thompson
Best Western International Inn, Winnipeg
Best Western Pembina Inn & Suites, Winnipeg
Fairmont, Winnipeg
Four Points by Sheraton, Winnipeg
Holiday Inn Airport West, Winnipeg
MainStay Suites, Winnipeg
Proposed Best Western, Winnipeg
Proposed Four Points by Sheraton, Winnipeg
Proposed Porter Hotel, Winnipeg
Proposed Super 8, Winnipeg
Radisson, Winnipeg
Victoria Inn, Winnipeg

New Brunswick
Lakeview Inn & Suites, Fredericton
Sheraton Hotel, Fredericton
Proposed Hotel, Moncton
Proposed Super 8, Moncton
Proposed Super 8, Quispamsis
Proposed Super 8, St. John
Proposed Super 8, St. Stephen

Northwest Territories
Capital Suites, Yellowknife
Chateau Nova and Nova Suites, Yellowknife
Proposed Limited-Service, Yellowknife

Nova Scotia
Proposed Super 8, Bedford
Proposed Hotel, Halifax

Ontario
Proposed Courtyard by Marriott, Hamilton
Ramada Inn, London
Radisson, Markham
Holiday Inn, Mississauga
Proposed Super 8, Napanee
Marriott, Ottawa
Westin, Ottawa
Best Western Inn on the Bay, Owen Sound
Quality Inn, Peterborough
Victoria Inn, Thunder Bay
Fairmont Royal York, Toronto
Inn on the Park, Toronto
Marriott Bloor Yorkville, Toronto
Super 8 North, Toronto
Travelodge, Toronto Airport
Westin Harbour Castle, Toronto

Quebec
Radisson Hotel, Longueil
Chateau Royal, Montreal
Hilton Montréal Bonaventure, Montreal
Hotel Complexe Des Jardins, Montreal
Opus, Montreal
Proposed Boutique Hotel, Montreal
Proposed Microtel Inn & Suites, Montreal
Proposed Super 8, Montreal
Proposed Westin, Montreal
Springhill Suites, Montreal
Holiday Inn Airport West, Pointe-Claire

Saskatchewan
Western Star, Carlyle
Proposed Western Star, Carnduff
Western Star, Esterhazy
Proposed Extended-Stay, Estevan
Proposed Work Camp, Estevan
Proposed Motel 6, Kindersley
Proposed Suburban Exended-Stay, Kindersley
Proposed Canalta, Martensville
Proposed Super 8, Melfort
Proposed Western Star, Melita
Proposed Sigma Inn & Suites, Melville
Proposed Suburban, Moosejaw
Proposed Best Western Plus, Moosomin
Proposed Best Western, North Battleford
Proposed Super 8, Prince Albert
Western Star, Redvers
Proposed All-Suite Hotel, Regina
Proposed Best Western Regina
Proposed Hampton, Regina
Proposed Limited-Service, Regina
Radisson Plaza Hotel, Regina
Super 8, Regina
Wingate Inn, Regina
Delta Bessborough, Saskatoon
Proposed Best Western, Saskatoon
Proposed Hampton Inn, Saskatoon
Proposed MainStay, Saskatoon
Proposed Residence Inn, Saskatoon
Proposed Sleep Inn, Saskatoon
Sandman Hotel, Saskatoon
Saskatoon Inn Hotel & Conference Ctr., Saskatoon

EXAMPLES OF HOTELS APPRAISED OR EVALUATED (CONT)

Saskatchewan (continued)
Western Star, Stoughton
Proposed Full-Service, Swift Current
Proposed Motel 6, Swift Current
Proposed Motel 6, Tisdale
Proposed Microtel, Weyburn

Yukon
Proposed Super 8, Whitehorse
Whitehorse Hotel & Conference Ctr, Whitehorse

USA – Existing Hotels
The Fairmont Princess, Scottsdale, AZ
Embassy Suites, South Lake Tahoe, CA
Holiday Inn Airport, Long Beach, CA
Residence Inn, San Diego, CA
DoubleTree Riverside, Boise, ID
Best Western Inn and Suites, Caldwell, ID
Best Western Foothills Motor Inn, Mountain Home, ID
Sleep Inn, Mountain Home, ID
Sheraton Suites, Chicago O'Hare, IL
Super 8, Hazard, KY
Sheraton Suites, Lexington, KY
Club Hotel by Doubletree, Louisville, KY
Super 8, Prestonsburg, KY
Comfort Inn, Danvers, MA
Comfort Suites, Haverhill, MA
Mainstay Suites, Peabody, MA
Annapolis Marriott, Annapolis, MD
Doubletree Hotel, Rockville, MD
Doubletree, Minneapolis, MN
Kahler Grand, Rochester, MN
Valley River Inn, Eugene, OR
Hilton Garden Inn, Lake Oswego, OR
5th Avenue Suites, Portland, OR
Hotel Vintage Plaza, Portland, OR
Marriott Downtown, Portland, OR
Embassy Suites, Tigard, OR
Holiday Inn, Wilsonville, OR
Wyndham Anatole, Dallas, TX
Comfort Inn, Springfield, VA
Hampton Inn, Springfield, VA
Bellevue Hilton, Bellevue, WA
Candlewood Suites, Bellevue, WA
Larkspur Landing, Bellevue, WA
Residence Inn, Bellevue, WA
Residence Inn, Bellevue, WA
Embassy Suites, Lynnwood, WA
Residence Inn, Lynnwood, WA
BW College Way Inn, Mt. Vernon, WA
Holiday Inn Express, Port Orchard, WA
Larkspur Landing, Renton, WA
Fairmont Olympic, Seattle, WA
Four Seasons Olympic, Seattle, WA
Hilton, Seattle, WA
Inn at the Market, Seattle, WA
Paramount Hotel, Seattle, WA
SpringHill Suites, Seattle, WA
Summerfield Suites, Seattle, WA
Inn at Semi-Ah-Moo, Semi-Ah-Moo, WA

USA – Proposed Hotels
Hotel and Convention Center, South Lake Tahoe, CA
Hampton Inn and Suites, Red Bluff, CA
Embassy Suites, Boise, ID
Hilton Garden Inn, Boise, ID
Summerfield Suites, Overland Park, KS
Hotel, Blaine, WA
Regional Conf. Centre Analysis, Port Townsend, WA
Boutique Hotel, Seattle, WA
Union Station Hotel, Seattle, WA
Hotel, Silverdale, WA
Davenport Sheraton, Spokane, WA
Convention Center Hotel, Tacoma, WA

Bermuda
Proposed Eco-Tents