

**Development Project for the Hyatt Place Hotel**

**10 Seneca Meadows Parkway**

**Germantown, MD 20876**

By

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A practicum thesis submitted to Johns Hopkins University in conformity with the requirements for the degree of Master of Science in Real Estate.

Washington, DC  
April 28, 2012



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## **EXECUTIVE SUMMARY**

## EXECUTIVE SUMMARY

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### EXECUTIVE SUMMARY

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This paper summarizes the research and analysis efforts undertaken to assess the physical, legal, market and financial feasibility of a real estate development project envisioned on the 4.32 acre parcel of land located in the Seneca Meadows Corporate Center located on the eastern side of I-270 between exits 15 and 16 in Germantown, MD. The project site was selected as the most viable site available to pursue the development of a limited service hotel project in northern Montgomery County. In order to further understand the value of the site, a back of the envelope analysis was completed on an office project, an apartment project and the hotel project. The apartment and office project could not offer the highest value for the land and were therefore rejected. However, this review provided greater insight into the current land value. Based on this analysis and to generate an appropriate return on the investment, it is recommended that no more than \$35 per square foot be paid for the site or approximately \$6.6M. The project is intended to become a joint venture between the existing land owner, Minkoff Development, and Hospitality Reality Advisors with HRA providing the development support and oversight to complete the transaction.

The proposed project consists of a 159-room select service hotel franchised under the Hyatt Place brand and managed under a third party management contract. A complete site analysis was conducted along with a detailed review of the zoning and the analysis shows that the site is suitable for a hotel development project. Further research was then completed to evaluate the market and competitive supply and demand. Based on this analysis, a pro forma was created using detailed research on all of the financial assumptions. The project construction budget was then prepared using the cost model from Hyatt Development Corporation and modified to meet the local market conditions including impact fees, construction method and management of the project.

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The project is estimated to start entitlement in June 2012 and take 24 months to complete and an additional 18 months to complete construction with an estimated opening date of January 1, 2016.

Based on the assumption in this report, the project is estimated to cost approximately \$30.56 M (\$192,305 per Room, \$312 PSF) to develop including all pre-opening expenses and franchise fees. The project is estimated to have an unleveraged IRR of 12.92 percent based on a ten-year cash flow analysis. The reversionary value is based on a 9.5 percent capitalization rate, or 50 bps above the going in capitalization rate and a 3 percent cost of sales. The IRR on a leveraged basis increases to 18.32 percent and on an after tax basis brings this return down to a 15.17 percent IRR. The project was further evaluated using sensitivity for changes in net operating income and construction pricing changes in increments of \$500,000. Based on a range of NOI going 60 percent above and below the pro forma estimate, the IRR range for the project at the project cost range of \$27.58 M to \$33.58 was between (1.85%) and 24.29 percent. This allowed HRA to calculate a probability of loss for return of capital at 3.57 percent. This probability of loss would be greater had other variables been included in this sensitivity such as interest rates, supply and demand changes, or capitalization rates. The analysis attempted to be conservative on all of these assumptions such that the range of results appears reasonable, however, it can be assumed that the probability of loss for this type of investment is significantly higher had all other variables been included.

The sponsor of the project will achieve a greater ROI of 20.93 percent and a multiple of 3.89 times the initial investment based on the proposed waterfall structure presented in the financial analysis section.

Based on the assumptions and analysis used in this report, it is recommended that the project be pursued with the next step being to hire an independent

## **EXECUTIVE SUMMARY**

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market researcher to substantiate the findings in this report. Once completed, HRA and Minkoff Development can evaluate the proposed structure and terms presented herein and formalize a partnership agreement between the parties.



**DEVELOPMENT PROGRAM**

## DEVELOPMENT PROGRAM

## DEVELOPMENT PROGRAM

### PROJECT APPROACH

Hospitality Realty Advisors LLC is a newly formed entity incorporated in the state of Delaware and operated out of Germantown, Maryland. The purpose of this entity is to find desirable locations to develop select service hotel projects. Based upon my knowledge and experience with hotel products throughout the United States, I have been looking at the potential for a hotel development project within my home community as it appears to be a stable and growing market that will need an increase in lodging supply given the market's current growth trends. Consequently, my project type is known as a use looking for a site.

My approach to this project was to first identify available development sites for commercial use in Montgomery County Maryland, specifically those located on the major transportation routes. My investigation started by searching for land sale opportunities listed in Costar and talking with brokers from CBRE and Eastdil. I also spoke to developers who controlled land available for development along the I-270 corridor. Since a typical select service project would need 3 or more acres to accommodate the building and surface parking, my search included land for sale that exceeded this size requirement but tried to limit the search to sites less than 6 acres, as this is typically too large to sustain a freestanding select service project and is more suitable for a mixed use project.

My inquiries led me to the following sites.

	10 Seneca Meadows Parkway Germantown, MD 20874	2260 Broadbirch Dr Silver Spring, MD 20904	2100 Father Hurley Blvd Germantown, MD 20874	23310 Frederick Rd Clarksburg, MD 20871	Dino Dr Burtonsville, MD 20866	Woodfield Rd Damascus, MD 20872	4111 Sandy Spring Rd Burtonsville, MD 20866
Asking Price	\$ 6,591,865	\$ 4,800,000	\$ 5,500,000	\$ 699,000	\$ 4,500,000	\$ 2,000,000	\$ -
\$ Per Acre Land Gross	\$ 1,524,592	\$ 1,041,215	\$ 1,145,833	\$ 199,145	\$ 818,182	\$ 511,509	\$ -
\$ Per SF Land Gross	\$ 35.00	\$ 23.90	\$ 26.30	\$ 4.57	\$ 18.78	\$ 11.74	\$ -
Land Area Acres	4.32	4.61	4.80	3.51	5.50	3.91	5.12
Land Area SF	188,339	200,812	209,088	152,913	239,580	170,320	223,027
Property Type	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial	Commercial
Zoning	TMX-2 & I-3	I-1	TS	R-200		OM	I-1
Hotel Conforming Use	Yes	Conditional Use	No	No			
Days on the Market	NA	173	468	1,550	976	383	1,255
FAR	0.50	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Maximum Buildable Area	94,170	100,406	104,544	76,457	119,790	85,160	111,514
Minimum Hotel Area	85,000	85,000	85,000	85,000	85,000	85,000	85,000
Meets Area Requirements	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ranking of Land	1	2	3	4	5	6	7

## DEVELOPMENT PROGRAM

These sites were then evaluated on the basis of their desirability for a hotel development, zoning risk and price. Based on the chart presented above, it is clear that the site located in the Seneca Meadows Corporate Park is the best option for development of a new select service property based on the land currently on the market.

The next step in my analysis was to look at recent land sales in the county to better gauge the pricing of the sites available and determine if the asking prices are reasonable. The following sales were recorded over the past 3 years that provide an indicator of market value for land.

### Land Sales Comparables Montgomery County MD

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
<b>Address</b>	7949 Eastern Ave. Silver Spring, MD 20910	21000 Father Hurley Ave Germantown, MD 20874	960 N Frederick Ave Gaithersburg, MD 20879	960 N Frederick Rd Silver Spring, MD 20913	9501 Key West Ave Rockville, MD 20850
<b>Sales Price</b>	\$ 7,000,000	\$ 5,500,000	\$ 2,327,833	\$ 3,500,000	\$ 4,600,000
<b>\$ Per Acre Land Gross</b>	\$ 3,517,588	\$ 1,145,833	\$ 399,285	\$ 1,966,292	\$ 1,428,571
<b>\$ Per SF Land Gross</b>	\$ <b>80.75</b>	\$ <b>26.30</b>	\$ <b>9.17</b>	\$ <b>45.14</b>	\$ <b>32.80</b>
<b>Land Area Acres</b>	1.99	4.80	5.83	1.78	3.22
<b>Land Area SF</b>	86,684	209,088	253,955	77,537	140,263
<b>Proposed Use</b>	Hold for Development	Apartments/Senior	Assemblage	Hotel	Office
<b>Sale Date</b>	6/28/2010	Under Contract	6/30/2010	4/13/2011	3/30/2011
	Comparable 6	Comparable 7	Comparable 8	Comparable 9	Comparable 10
<b>Address</b>	500 Olney Sandy Spring Rd. Sandy Spring, MD 20860	16010 Riffle Ford Rd Gaithersburg, MD 20878	15121 Southlawn Ln Rockville, MD 20850	13860 Travilah Rd Rockville, MD 20850	19610 Turkey Thicket Dr Gaithersburg, MD 20879
<b>Sales Price</b>	\$ 1,000,000	\$ 2,750,000	\$ 1,215,000	\$ 1,793,656	\$ 2,730,300
<b>\$ Per Acre Land Gross</b>	\$ 555,556	\$ 1,037,736	\$ 610,553	\$ 896,828	\$ 664,307
<b>\$ Per SF Land Gross</b>	\$ <b>12.75</b>	\$ <b>23.82</b>	\$ <b>14.02</b>	\$ <b>20.59</b>	\$ <b>15.25</b>
<b>Land Area Acres</b>	1.80	2.65	1.99	2.00	4.11
<b>Land Area SF</b>	78,404	115,434	86,684	87,120	179,032
<b>Proposed Use</b>	Commercial	Hold for Development	NA	Hold for Development	Office
<b>Sale Date</b>	6/9/2011	12/12/2009	2/11/2010	3/12/2010	12/1/2010

The sales comparables that best reflect the site I have chosen are comparable 2 and comparable 5. The subject site is slightly superior to both of these sites and is expected that the value would be at or above comparable 5. Based on the above, HRA is assuming that \$35 per square foot is an appropriate market price for the subject property.

The parcel located in the Seneca Meadows Corporate Park is owned by the Minkoff development Company. The land is currently being held to develop flex office space.

## **DEVELOPMENT PROGRAM**

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The property was rezoned in November 2010 to TMX-2 which allows for higher density than the original I-3 zoning. Either zoning may be used for development. In order to substantiate the pricing for the sight, a back of the envelope highest and best use analysis was also conducted.

### **HIGHEST AND BEST USE**

According to the Appraisal Institute, the definition of highest and best use encompasses four tests. It is the most probable use of land or improved property that is legally possible, physically possible, financially feasible (and appropriately supportable) from the market, and which results in maximum profitability.

The current zoning would allow for retail, residential, office or hotel on the site. However, on November 4, 2010, The Montgomery County Planning Department approved an amendment to the Germantown Master Plan Area to allow for expanded retail use within the Seneca Meadows Corporate Park. As part of the developers' approvals to expand retail use on the adjacent lot, no further retail development will be allowed in the Seneca Meadows Corporate Center under the I-3 zoning. This of course could be challenged under the newly received TMX-2 zoning. The site however, would be inferior to the retail development under way next door and would be somewhat limited due to the size and configuration of the property.

While apartment real estate is still a strong sector in the Germantown market, the developer is hesitant to put apartments in the office park as it may require a significant contribution to build a community center and ½ acre park as part of any approvals. These costs would be in addition to the proposed construction budget in my analysis and pose further risk. There is significant apartment stock in the immediate area, such that this use would seem appropriate, however, there is a considerable number of new projects proposed that are closer to getting approvals and could alter the current supply and demand significantly in the near future. In terms of site location for apartments, the new retail center next door would offer a nice amenity for an apartment use. The new bus Transitway would also be a convenient adjacent use for apartments, however it would be perceived as a negative given the noise and

## DEVELOPMENT PROGRAM

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appearance of a raised roadway adjacent to the facility. The site would need to be developed as a mid-rise apartment to be able to achieve the density on the site. This is not common for the immediate area which is dominated by three-story walk-up apartments. Three-story walk-up apartments would not be feasible on the site and still allow for adequate surface parking. Therefore, to develop the site with apartments in a mid-rise configuration would be necessary and would carry additional investment risks given the market and the site's attributes. In order to generate a NOI sufficient to support the construction costs of a mid-rise apartment, the rents would need to be priced significantly above the rents in the garden style apartments. For 1-bedroom apartments HRA assumed a \$2,100 per month rent for 750 square feet and \$2,800 per month for a 1,000 square foot 2-bedroom apartment. The current high rents in the market are \$1,350 for one bedroom and \$1,800 for 2 bedroom apartments. It is assumed the apartments would be perceived as luxury. With the location adjacent to health club, Transitway, shopping and restaurants HRA believes it could justify this premium. However, even with these rents, the project does not make sense at the current land asking price. This assumes a 5 percent vacancy and credit loss on the stabilized pro forma and a below market stabilized expense ratio of 37 percent versus 39 percent. HRA believes these assumptions are aggressive and would need further vetting should the developer prefer the risk profile of this investment class of asset.

The developer is most familiar with office development and has been marketing the land to be developed as a built to suit office opportunity. The high vacancy in the market (over 15 percent) combined with the large number of projects waiting to get started, make this option relatively remote for the next several years unless a built to suit option became available. However, in order to better understand the value of the land today, HRA has conducted a back of the envelope analysis that includes apartments; flex office and select service hotel to determine the highest and best use. The pro forma and construction assumptions are listed in appendices 4 for each property type. The following chart summarizes the current cost of construction and potential value based on current market conditions for each sector.

## DEVELOPMENT PROGRAM

<b>Highest and Best Use Comparison</b>				
<b>Assumes Buildings Same Size and Open January 1, 2016</b>				
		<b>Office</b>	<b>Apartment</b>	<b>Hotel</b>
Land Cost PSF	\$	35.00	\$ 35.00	\$ 35.00
Total Land Cost	\$	6,591,745	\$ 6,591,745	\$ 6,591,745
Building Size		95,051	95,051	95,051
Net Operating Income	\$	1,914,938	\$ 1,540,684	\$ 2,813,000
Cap Rate		6.50%	5.50%	9.00%
Valuation	\$	29,460,588	\$ 28,012,435	\$ 31,255,556
Development Budget	\$	32,572,510	\$ 29,179,068	\$ 30,576,552
Development Budget PSF	\$	342.68	\$ 306.98	\$ 321.69
Gap	\$	(3,111,922)	\$ (1,166,633)	\$ 679,004
Land Price to Make Feasible	\$	3,479,823	\$ 5,425,112	\$ 7,270,749
<b>Land Price PSF Required</b>	<b>\$</b>	<b>18.48</b>	<b>\$ 28.81</b>	<b>\$ 38.61</b>
<b>Asking Price For Land</b>	<b>\$</b>	<b>40.00</b>	<b>\$ 40.00</b>	<b>\$ 40.00</b>
<b>Value Based on Market Comps</b>	<b>\$</b>	<b>35.00</b>	<b>\$ 35.00</b>	<b>\$ 35.00</b>

Based on the above, in today's current environment, a hotel is the highest and best use for the site. In discussing the project with the developer, he said he would like to achieve a price at \$40 per square foot. However, this is far above the market and increases the project risk should the project proceed at this investment level. At \$40 per square foot, an investor could still achieve above a 12 percent unleveraged equity yield at 12.27 percent. However, the project site should be priced closer to current sales prices of comparable land and for our analysis we have assumed a \$35 per square foot land cost in our development budget. It should be noted, that in order to achieve a 20 percent leveraged return on the project, the maximum price an investor should pay for the site is \$28 per square foot. This was determined by adjusting the land price to evaluate the effect on the IRR of the investment.

### **PROPOSED DEVELOPMENT PLAN**

The proposed development for the subject site is a 159-room Hyatt Place Hotel with 159 surface parking spaces. The project would be developed under a franchise agreement with Hyatt Place and then managed by a third party hotel management company. A detailed program, floor plans, site plan and pictures will be presented in the Site Planning and Building Design section.

The selection of a Hyatt Place is based on my knowledge of the industry and observing industry trends that can lead to higher potential returns. While this analysis will focus on

## DEVELOPMENT PROGRAM

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the development of a Hyatt Place hotel, it should be noted here that all major brands would be contacted to ensure that a more favorable negotiating position is in place for the development team. Other possible brands for the site include Hilton Garden Inn, Marriott Courtyard, Aloft by Starwood and Holiday Inn Express. The rationale for choosing the Hyatt Place as the primary candidate for preparing this analysis is based on the limited distribution this brand currently possesses in the marketplace, the need for a slightly more upscale select service product to service the area demand and the relative performance that this brand has had when competing with other brands.

Created for multi-tasking travelers seeking a select service hotel, Hyatt Place is a new generation of hotels that offer casual hospitality in a smartly designed, high-tech and contemporary environment. Hyatt Place offers a range of amenities valued by business travelers, while providing open areas and cafés where guests can connect with others. Properties are located in urban, airport and suburban areas.

Designed around the way people live and work, Hyatt Place allows guests to orchestrate their experience to meet their individual needs. Food is available at any time around the clock in the Guest Kitchen, and wired in-room media centers provide a fully functional work setting for the multi-tasking traveler. Hyatt Place offers the level of service a business client wants, when and how they want it.

Hyatt Place belongs to the family of Hyatt hotel brands on the following page and competes directly with the brands depicted on the following chart.

## DEVELOPMENT PROGRAM

PARK HYATT	ANdAZ	GRAND HYATT	HYATT REGENCY	HYATT	HYATT PLACE	HYATT HOUSE
						
26 hotels 5,121 rooms Average Size: 197 rooms Luxury	5 hotels 1,125 rooms Average Size: 225 rooms Boutique	36 hotels 20,868 rooms Average Size: 580 rooms Full Service	144 hotels 67,594 rooms Average Size: 470 rooms Full Service	21 hotels 4,992 rooms Average Size: 238 rooms Full Service	161 hotels 20,433 rooms Average Size: 127 rooms Select Service	54 hotels 7,603 rooms Average Size: 141 rooms Extended Stay
						

 HYATT PLACE™				
Primary				
Secondary				

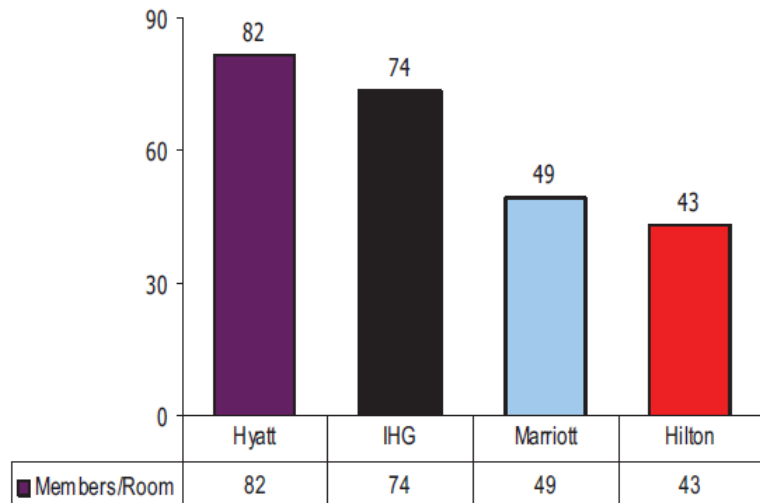


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There are currently 161 Hyatt Place hotels located in 36 states. The target customer is the savvy practical traveler. Part of the appeal of the Hyatt Place brand is the high level of growth that the brand is experiencing. From 2006 to 2010, Hyatt Hotels have increased their number of rooms by 45 percent and their number of locations by 177 percent. In addition, their award winning loyalty program has increased its membership by 36 percent over this time period and now boasts over 10.2 million members, more than any other brand on a member to room ratio.

**Higher ratio of program members per room than our three largest competitors**



The program was further awarded as the best elite program by the frequent traveler's awards and gained the silver medal award from Executive Travel for the best frequent guest program.

Aside from the stylish buildings and interior décor that appeal to lifestyle and business travelers, the most compelling reason to choose this brand has been based on its performance. When matched up against the primary competitors as shown previously, the brand has outperformed these brands head to head and achieves across its portfolio an average of a 110.4 percent RevPAR premium to its competitive sets. This combined with the brands rapid growth, which will only

## DEVELOPMENT PROGRAM

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improve the strength of its distribution, make it highly likely to be successful in the subject location where most of these competitors are already performing at a high level relative to the industry. To further illustrate this, the brand has achieved growth in its competitive sets for the past 42 months straight indicating that the market premium is growing as customers become more familiar with the product and service offerings.

Based on the above, HRA recommends the Hyatt Place brand be chosen for the subject property's development opportunity. As noted, we will conduct further analysis with each of the major brands regarding the site's hotel development viability to ensure a proper franchise negotiation. HRA also recommends procuring an independent market analysis from a hotel consulting firm to confirm this opinion.

**SITE AND PROPERTY PRODUCTIVITY ANALYSIS**

## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

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### SITE AND PROPERTY PRODUCTIVITY ANALYSIS

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#### **MARKET OVERVIEW**

Property productivity analysis is defined as an analysis of a property's capacity to deliver goods and services to meet human needs, house economic activities and supply amenities. This section analyzes the subject property's physical, legal, and locational attributes. A brief overview of the market follows:

The subject site is located in the Washington Metropolitan Area. This is the metropolitan area centered on Washington, D.C., the capital of the United States. The area includes all of the federal district and parts of the U.S. states of Maryland, Virginia, and West Virginia.

The Office of Management and Budget defines the area as the Washington–Arlington–Alexandria, DC–VA–MD–WV Metropolitan Statistical Area, a metropolitan statistical area used for statistical purposes by the United States Census Bureau and other agencies. The area includes as its principal cities Washington as well as the Virginia cities of Arlington and Alexandria. The Office of Management and Budget also includes the metropolitan statistical area as part of the larger Baltimore–Washington Metropolitan Area, which has a population of over 8.55 million.



The area is also sometimes referred to as the National Capital Region, particularly by federal agencies such as the Department of Homeland Security. The area in the region that is surrounded by Interstate 495 is also referred to as the "Capital Beltway". The Virginia portion of the area is known as Northern Virginia.

The Washington Metropolitan Area is the most educated and by some measures, the most affluent metropolitan area in the United States. As of the 2010 Census Bureau estimate, the population of the Washington Metropolitan Area was estimated to be

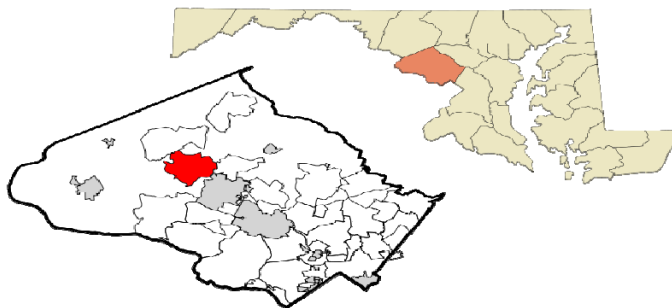
## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

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5,582,170 (+16.39%), making it the seventh-largest metropolitan area in the country.

**Montgomery County** is a county in the U.S. state of Maryland, situated just to the north of Washington, D.C., and southwest of the city of Baltimore. It is one of the most affluent counties in the United States, and has the highest percentage (29.2%) of residents over 25 years of age who hold post-graduate degrees. The county seat and largest municipality is Rockville. As of 2010 the population was 971,777. Most of the county's residents live in unincorporated locales, the most populous of which are Silver Spring, Germantown and Bethesda, though the incorporated cities of Rockville and Gaithersburg are also large population centers. It is a part of both the Washington Metropolitan Area and the Baltimore-Washington Metropolitan Area.

In 2008, Montgomery County was the second richest county in terms of per capita income in the state of Maryland and 13th richest in the United States, with a median household income of \$92,213.



Montgomery County is an important business and research center. It is the epicenter for biotechnology in the Mid-Atlantic region. Montgomery County is the third largest biotechnology cluster in the USA, holding the principal cluster and companies of large corporate size in the state. Biomedical research is carried out by institutions including Johns Hopkins University's Montgomery County Campus (JHU MCC), Howard Hughes Medical Institute and the University of Maryland. Federal government agencies engaged in related work include the Food and Drug Administration (FDA), the National Institutes of Health (NIH), and the Walter Reed Army Institute of Research.

Many large firms are based in the county, including Discovery Communications, Coventry Health Care, Lockheed Martin, Marriott International, Host Hotels & Resorts, Travel Channel, Ritz-Carlton, Robert Louis Johnson Companies (RLJ Cos), Choice

## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

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Hotels, MedImmune, TV One, BAE Systems Inc, Hughes Network Systems and GEICO.

Other U.S. federal government agencies based in the county include the National Oceanic and Atmospheric Administration (NOAA), Nuclear Regulatory Commission (NRC), U.S. Department of Energy (DOE), the National Institute of Standards and Technology (NIST), the National Naval Medical Center (NNMC), U.S. Consumer Product Safety Commission (CPSC) and the National Geospatial-Intelligence Agency (NGA).

Downtown Bethesda and Silver Spring are the largest urban business hubs in the county; combined, they rival many major city cores.

The subject site is further located within Germantown, MD, an urbanized census-designated place in Montgomery County, Maryland in the United States. It is the third most populous place in Maryland (after Baltimore and Columbia), with a population of 86,395 as of 2010. If it were to incorporate along CDP boundaries, it would become the second largest incorporated city in Maryland. It is located approximately 25 miles outside of Washington DC and is part of the Washington Metropolitan Area.

As a non incorporated region with no mayor or town council, Germantown is, however, divided up into six town sectors, or "villages": Churchill Village, Gunners Lake Village, Clopper's Mill Village, Kingsview Village, Middlebrook Village, and Neelsville Village.

The Churchill Town Sector at the corner of Route 118 and Middlebrook Road most closely resembles the center of Germantown, because of the location of the Up County Government Center, the library, the Black Rock Arts Center, the multiplex cinema, and the pedestrian shopping that features an array of restaurants. Three exits to I-270 are less than one mile away; the MARC train is walking distance, and the Germantown Transit Center that provides Ride On shuttle service to the Shady Grove red line.

Seneca Meadows Corporate Center is located within the Neelsville Village sector, less than 2 miles from the Churchill Town Center Sector, and consists of a 156.5 acre site with a mixture of light industrial, office and retail space currently providing over 700,000

## **SITE AND PROPERTY PRODUCTIVITY ANALYSIS**

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square feet of finished space. The project is built off of a central spine road (Seneca Meadows Parkway) running through the project, offering separate connection points, and allotted space for future transit connecting the west side of I-270, heading north through the site over Father Hurley Blvd.

### **SUBJECT'S PHYSICAL ATTRIBUTES**

The subject property is one portion of the larger Seneca Meadows Corporate Center. The subject site is located in the southwest quadrant of the intersection of Seneca Meadows Parkway and Observation Drive, within the Germantown Master Plan Area. The gross tract is bound by the new Wegman's development site immediately on the east, Seneca Meadows Parkway on the south, Father Hurley (MD 27) on the north, and the Healthtrex building and I-270 on the west. The subject property is known as lot 12, Parcel L, Block A of Seneca Meadows Corporate Center (Plat number 22003). The site contains 4.32369 acres or 188,339 square feet. The site is somewhat of a pie sliver shape with the narrowest portion along the Seneca Meadows Parkway. The site will share access through an easement with Lot 9 which is currently developed as the Seneca Meadows Corporate Center housing the Healthtrex fitness center and medical offices. Separating the property from the new Wegman's site is lot L, a 1.80 acre strip of land that will be the future site of a raised mass transit bus line route. The site is zoned TMX-2 or I-3 and is currently vacant. A site map and plat are located on the following pages.

SITE AND PROPERTY PRODUCTIVITY ANALYSIS

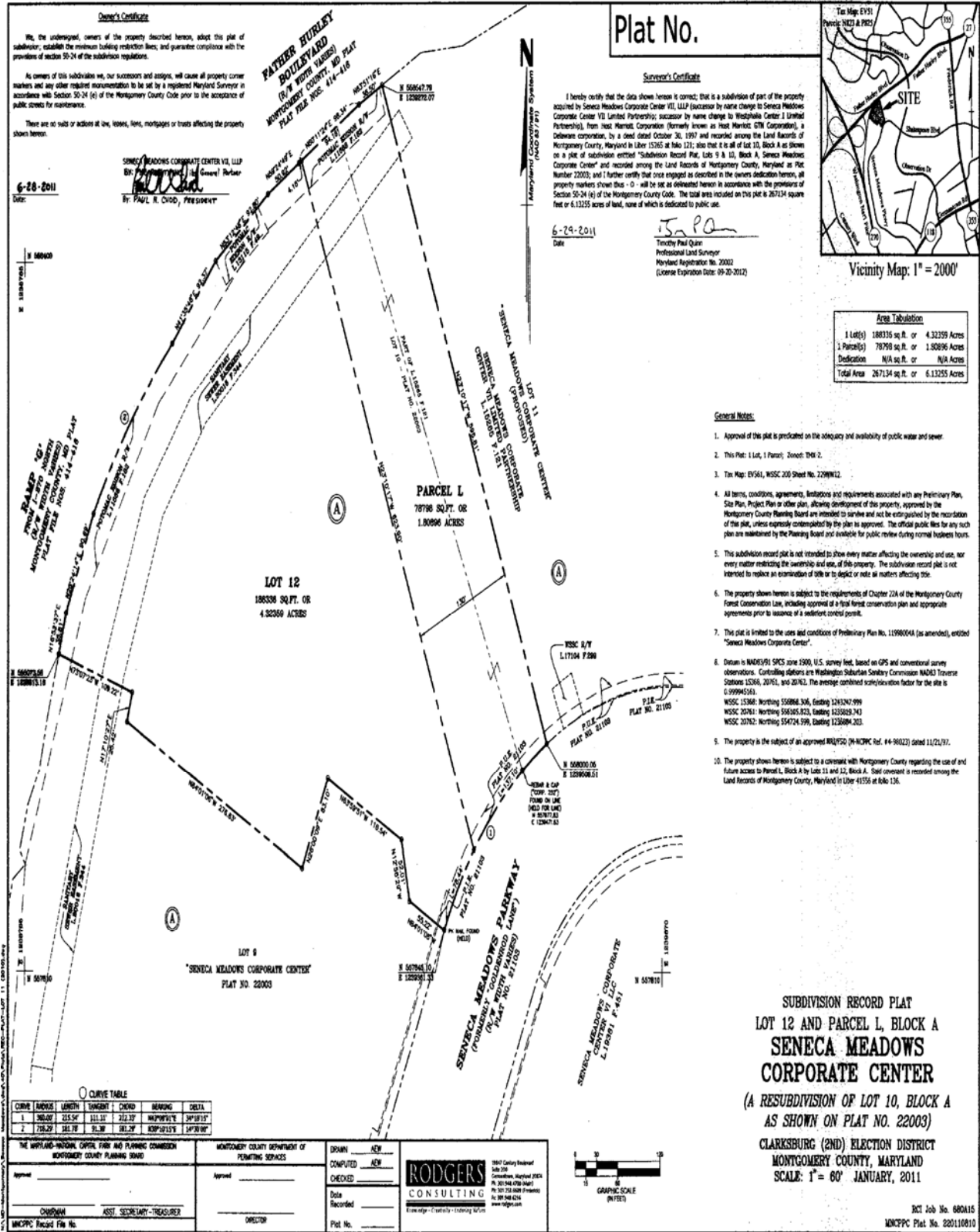
SITE MAP





# SITE AND PROPERTY PRODUCTIVITY ANALYSIS

## PLAT

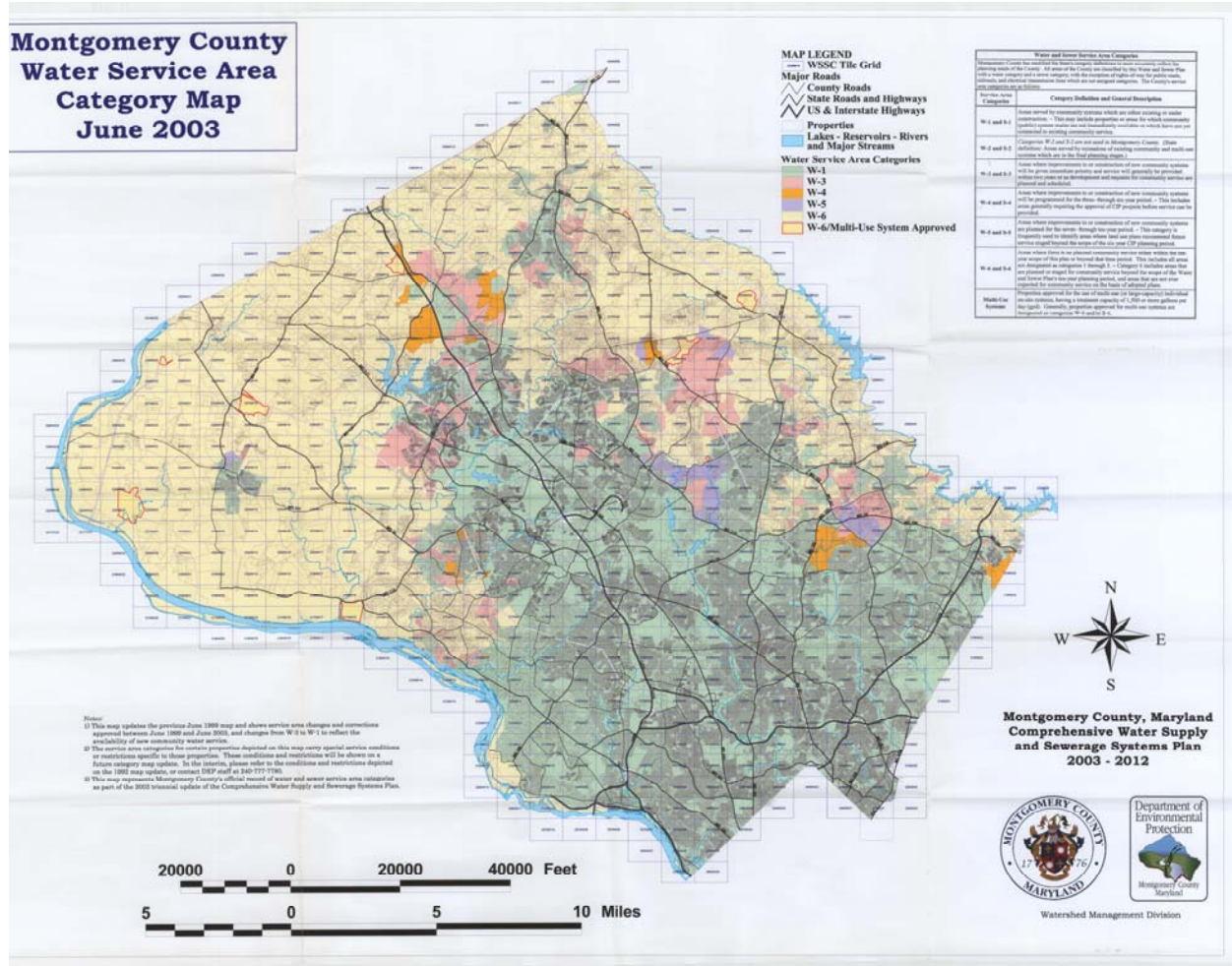


# SITE AND PROPERTY PRODUCTIVITY ANALYSIS

The Seneca Meadows Corporate Center subdivision plats have been reviewed by the M-NCPPC and other applicable agencies. The staff determined that the plat complies with plans approved by the Planning Board.

## UTILITIES

The subject property has adequate utilities provided to the street curb to move forward with the development project. Electric is provided to the site by Potomac Edison, Fiber is provided by Verizon, gas is provided by Washington Gas and Sewer and Water is provided by WSSC. WSSC is perhaps the most difficult of the utilities to receive approval.



The subject site is located, as shown above, in an area designated as W-3 and S-3. This means areas where improvements to or construction of new community systems

## **SITE AND PROPERTY PRODUCTIVITY ANALYSIS**

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will be given immediate priority and service will generally be provided within two years or as development and requests for community service are planned and scheduled.

### **SITE IMPROVEMENTS**

The site is currently vacant and relatively flat. There are no regulated environmental features on-site such as streams, wetlands, 100-year floodplain, environmental buffers, or steep slopes. A Phase 1 Environmental Study will be conducted along with soils testing as part of the land acquisition due diligence process. There are two easements located on the north end of the site that run along the exit ramp of I-270. These easements are with WSSC and Potomac Edison.

### **NEIGHBORHOOD REVIEW**

The site's immediate surroundings are an important consideration as to the general suitability, utility and desirability of the subject. Furthermore, the current and expected condition of the neighborhood is influential in the process of deriving an estimate of operating potential.

The subject's immediate area is comprised of high density garden style residential, commercial office and light industrial buildings and a significant amount of retail. This neighborhood is directly in the path of growth as Montgomery County continues to expand in the northern portion of the county.

Surrounding the subject site is a number of other planned development projects. As mentioned above, there is a new retail project anchored by Wegmans under construction to the immediate west of the project. The 150,000-square-foot store will anchor the 21 acres of The Shops at Seneca Meadows, at the north end of the 156-acre Seneca Meadows Corporate Center. The project also includes 56,570 square feet of retail stores or restaurants, and 32,870 square feet of office space. The plan also includes 1,244 parking spaces. There are currently five restaurants contemplated within

## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

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the new project making it an excellent ancillary use for both office and hotel use in the park. The project is expected to be open in the spring of 2013. South of the project site is a large vacant parcel available for office or multi-family use and as previously described, the Healthtrex Club and medical offices are situated immediately to the east with Father Hurley directly north of the site. Within the Seneca Meadows Corporate Park there is an additional 700,000 square feet of flex office developed and occupied.

Across Father Hurley Blvd. is the **Milestone Business Park** is one of Germantown, Maryland's premier office parks. It is located directly off I-270 and Father Hurley Blvd. Building III was the last building delivered in the fall of 2008 and is a 6-story, 160,000 square foot, "Class A" office building that brings the total area of the park to 475,000 square feet. The park is occupied by prestigious tenants such as JDSU, ACS, State Farm and Weatherbug. Additional development potential is available for up to 430,000 SF in 2 additional approved buildings. The first of these buildings is now under development. Boeing, together with developer Trammell Crow Company (TCC) and building owner Multi-Employer Property Trust (MEPT) have started construction on a five-story, 162,000-square-foot office that should open in 2012.

Boeing will lease the majority of the building, which has been designed to house the manufacturing and engineering operations of Boeing subsidiary Digital Receiver Technology Inc.

Directly north of the site and across I-270, another office park is located. **Cloverleaf Center** was purchased by First Potomac Realty Trust for \$25.5 million in October 2009. Cloverleaf Center is a class-A business park with a 173,655 square-foot property that was built in 2000 and consists of four one- and two-story office buildings. The multi-tenant property is currently 97% leased with no material lease expirations scheduled until August 2012. The property has a tenancy of primarily government contractors and technology companies and benefits from its close proximity to the Department of Energy.

Across from the Seneca Meadows Corporate Center entrance along Route 118, is the Montgomery County Community College Campus. Recently, it was announced that

## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

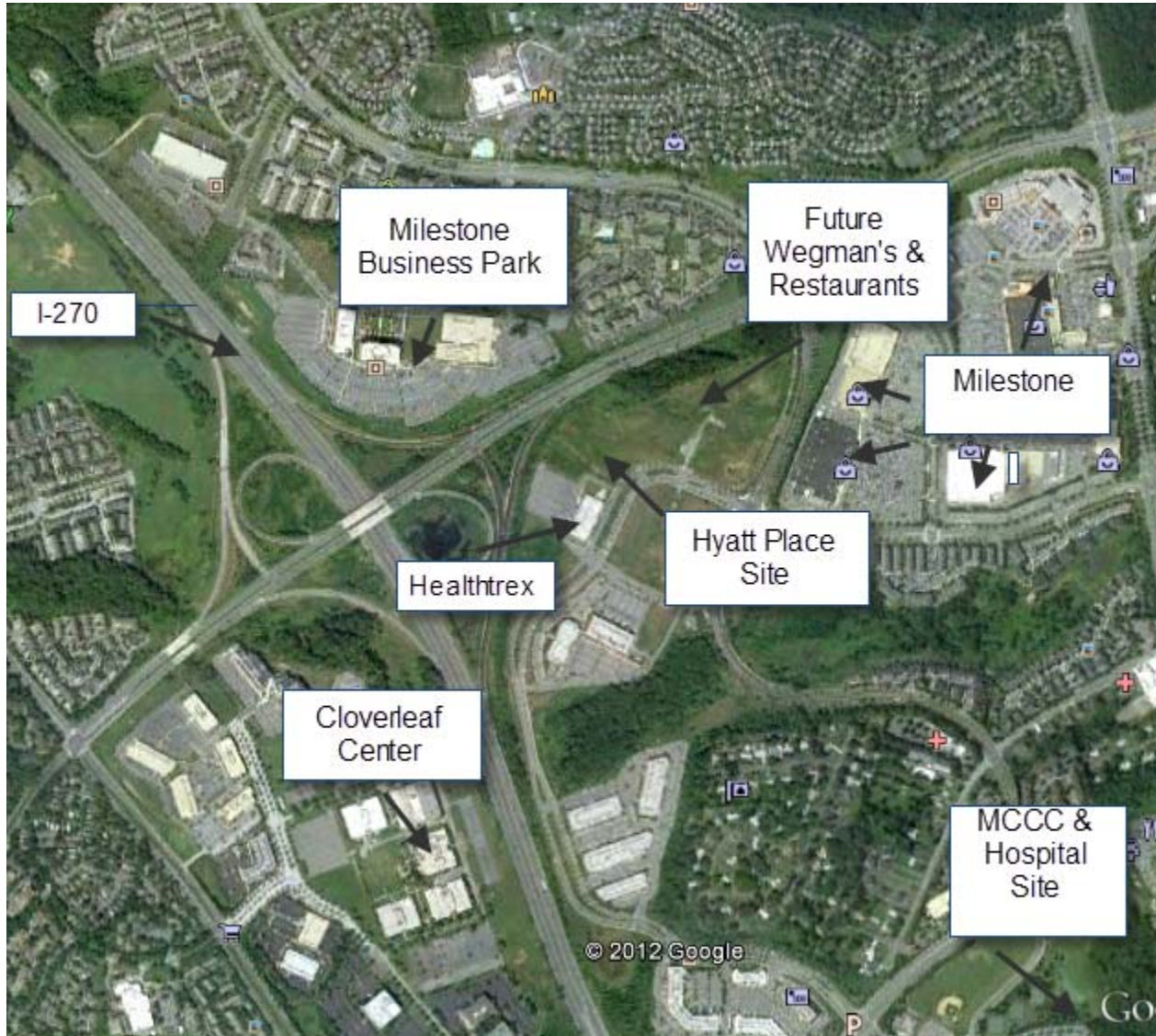
approvals were received to start building the \$202 million Holy Cross Hospital, a 93-bed facility, planned for the Germantown campus just off Interstate 270. The hospital in a best case scenario could be complete by 2014. In any event, this will be a significant demand generator for hotels in the immediate area.

Further to the east of the Seneca Meadows Corporate park is located one of Germantown's major shopping centers. **Milestone Center** in Germantown, MD, with its retail list of American favorites like Target, Wal-Mart, Home Depot, Best Buy, PetSmart, Staples, TJ Maxx, Kohl's and Giant Food, offers a smorgasbord of variety to a savvy, upscale customer base. Neighboring specialty stores add the right mix of goods and services while restaurants like Applebee's, Bob Evans and Agro Dolce are also available. The project has ample parking and contains 868,000 SF of retail venues and is truly a convenient, one-stop shopping experience for the busy metro DC consumer.



## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

In addition to the above areas, there is a significant amount of residential apartment and single family housing surrounding the area. It is apparent that the surrounding area will be very supportive of a hotel use on the subject property.



## LEGAL USE ANALYSIS

Currently the site is vacant and classified as Transit Mixed Use (TMX-2 zone) (sec 59-C-14.24) which allows for development standards for the standard method and optional method of development. Standard method projects have a maximum density of

## **SITE AND PROPERTY PRODUCTIVITY ANALYSIS**

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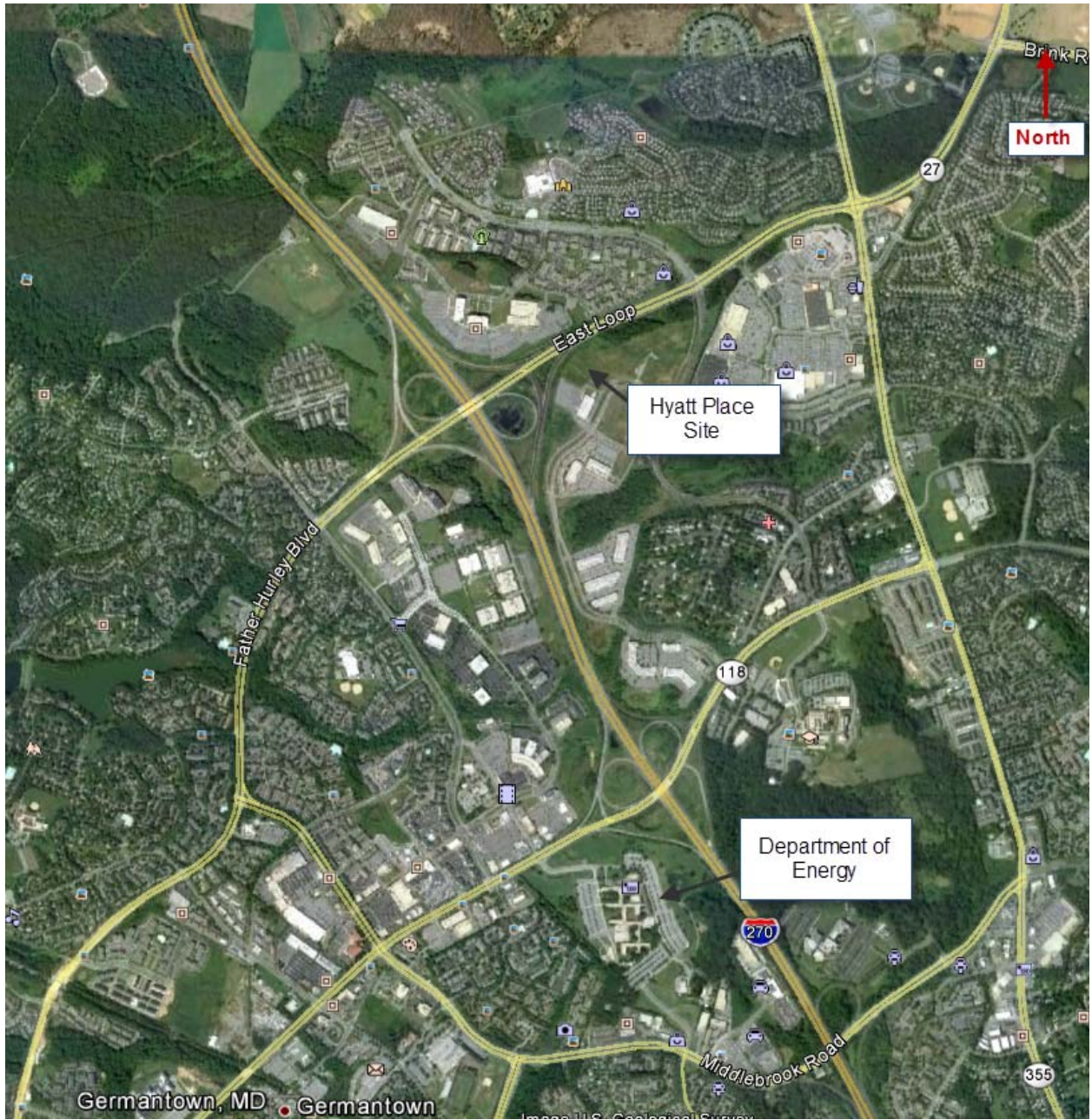
development of 0.5 FAR with a maximum building height of 42 feet (sec 59-C-14.244). Projects filed under the TMX -2 optional method of development may have a maximum density of up to 2.0 FAR with building height determined at project plan. The Sector Plan provides guidance for building height within the text of each analysis area. The site also can be classified as I-3 Zoning which allows for building heights up to 100 feet and a FAR of .5. Hotels are an approved use for this zoning and conform to the Germantown Forward which is the Germantown Employment Area Sector Plan that was approved and adopted in November 2009 by the Montgomery County Council and The Maryland-National Capital Park and Planning Commission

### **LOCATION AND ACCESS**

The Seneca Meadows Corporate Park is part of the Milestone District in Germantown, Maryland which is comprised of retail stores, restaurants, office space, apartments and single family homes. The area has continued to see growth in housing, office and retail development and is the direct pathway of growth towards northern Montgomery County.

Access to Seneca Meadows Corporate Center is excellent. The site is primarily accessed via I-270, a north-south highway that provides a connection between the Washington, DC metropolitan area and Frederick, Maryland. The property can be accessed via exits 15A exiting onto Route 118 eastbound and then making a left hand turn onto the Seneca Meadows Parkway. The Park can also be accessed further north on I-270 at exit 16 heading eastbound as well along Route 27, Father Hurley Blvd. Once a vehicle exits from exit 16, the property will need directional signage to have vehicles make the first right hand turn onto Observation Drive. Seneca Meadows Parkway is the first intersection where vehicles would make a right hand turn at the light and the property would be approximately a quarter mile down the road on the right hand side of the street. Access to the Seneca Meadows Corporate Center is also provided via Rockville Pike, which is located approximately a half of a mile to the east and connected to both Route 118 and Route 27, Father Hurley Blvd.

## SITE AND PROPERTY PRODUCTIVITY ANALYSIS



### VEHICULAR ACCESS

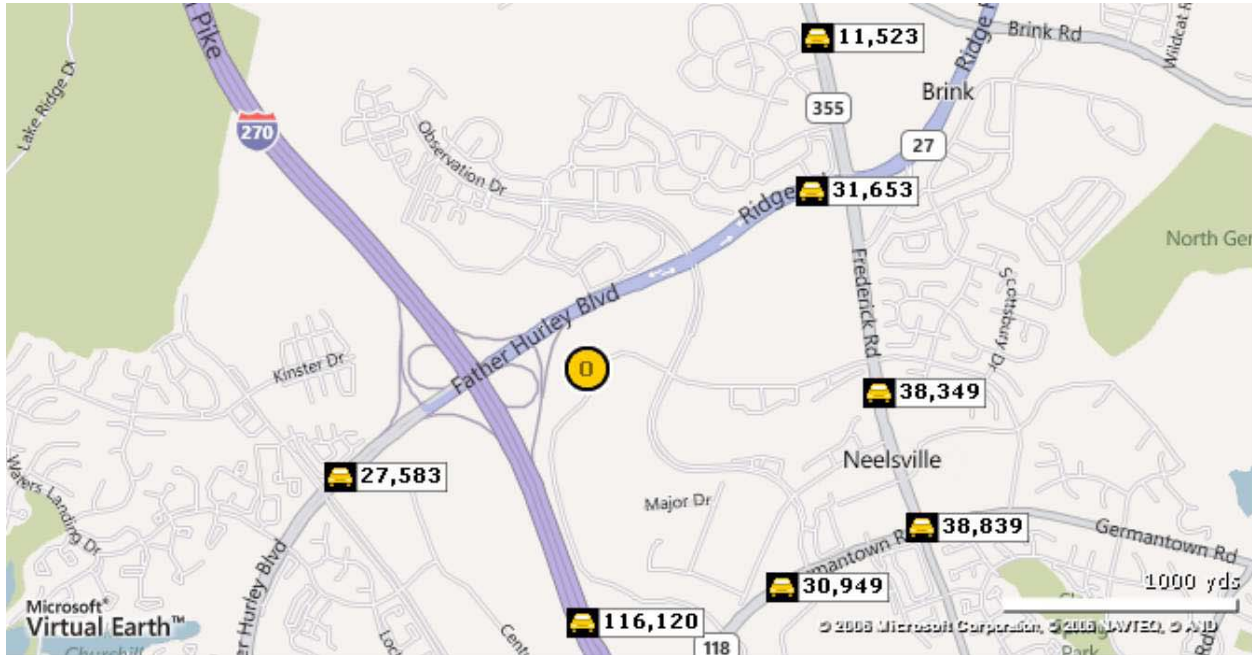
Historical trends in traffic counts at points surrounding the site indicate the area is experiencing growth. In the area along I-270 that is closest to the subject property, the Maryland Department of Transportation recorded approximately 116,120 vehicles per day (2009). The subject site is denoted by the round yellow dot on the map with other



## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

key traffic counts provided on Father Hurley Blvd, Germantown Road and Frederick Road. This shows that a significant amount of cars will pass by the subject property each day.

### Traffic Counts along Major Thoroughfares – Germantown, MD



Source: Costar

Aside from vehicular access, the Montgomery County public bus system, Ride On, serves Germantown with approximately 20 bus routes and operates a major transit hub in Germantown, known as the Germantown Transit Center. Also, a new bus system (the Corridor Cities Transitway) is under evaluation which would, when completed, connect the terminal of the Washington Metro Red Line at Shady Grove Station near Gaithersburg to Germantown and continue on northward to Clarksburg. The new transit system will run adjacent to the subject Site and provide mass transit access from the proposed hotel throughout the region.

## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

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SOURCE: GERMANTOWN FORWARD APPROVED AND ADOPTED

### VISIBILITY

Motorists traveling along I-270, the major highway thoroughfare serving the Germantown area, will have excellent visibility of the hotel traveling both northern and southern directions. Visibility from the other major thoroughfare of the county, Rockville Pike/Frederick Road will not be available. Appropriate signage will be required for drive-by visibility to improve from this access area. The hotel will be visible to pedestrian and local traffic along Father Hurley Blvd as well.

### **PATH OF GROWTH AND RELATIONSHIP TO DEMAND GENERATORS**

Germantown is located in Montgomery County, approximately 35.5 miles northeast of the Capitol and about 25 miles from the District line. In addition, Germantown is proximate to the seat of the county government, Rockville, which is home to several large private and federal government organizations.

Primary demand generators for the subject include the many office tenants located within the Seneca Meadows/Milestone District, the North End District, The Cloverleaf District and Montgomery College district. These districts surrounding the subject property are all expected to show significant growth in office space development and residential from now until 2015. In addition, HRA anticipates that the availability of surrounding retail, restaurant, and entertainment options will compliment the uniqueness and ambiance often associated with higher-end lifestyle hotels. Some of the major employers in Germantown that could potentially utilize the proposed hotel include the United States Department of Energy, Qiagen, Earth Networks Inc. Availink, Inc., Hughes Network System, IBM, State Farm, and Proxy Aviation Systems.

As evidence, there is currently 303,719 square feet of class A office being built within a 1 mile radius of the subject property. In addition, Costar reports there are an additional 3.08 million square feet of class A office proposed on sites within 1 mile of the subject property. While it will take a considerable amount of time to build and absorb this inventory, it shows that the areas surrounding the subject site is increasing its density and is clearly along the path of growth for the county.

Further evidencing this is the population growth which is expected to grow by 7.1 percent from 2010 to 2015 within 1 mile of the subject property and 5.9 percent within a 5 mile radius. This compares to Montgomery County's growth rate of approximately 1.19 percent over the same period indicating that this is one of the fastest growing areas of the region.

## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

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Montgomery County is the largest suburban employment center in the Metropolitan Washington Statistical Area, and is second only to Baltimore City within Maryland. During the last decade, the County led the State in employment growth. While the County experienced a decline in employment during the early 1990's, employment increased by the end of the decade. Over the next 10 years, the employment growth rate in the County is expected to be moderate.

### Major Employers in Montgomery County, Maryland

Company	Number Employed	Product / Service	Industry
National Institutes of Health*	14,761	Medical research	Federal government
Adventist Healthcare	8,572	Medical services	Health care
National Naval Medical Center*	8,108	Medical services	Health care
U.S. Food and Drug Administration*	5,745	Food and drug R&D and standards	Federal government
Marriott International	5,025	Hotels / motels	Accommodation and food services
Lockheed Martin	4,741	Defense, aerospace & electronics	Manufacturing
Giant Food	4,377	Groceries	Retail trade
Montgomery College	3,451	Higher education	Educational services
Kaiser Foundation Health Plan	3,389	Medical services	Health care
National Geospatial-Intelligence Agency*	3,000	National security intelligence	Federal government
Verizon	2,895	Telecommunications	Information
Holy Cross Hospital	2,890	Medical services	Health care
National Institute of Standards and Technology*	2,700	Testing and standards; R&D	Federal government
National Oceanic and Atmospheric Administration*	2,550	Weather analysis & reporting	Federal government
U.S. Nuclear Regulatory Commission*	2,391	Utilities regulation	Federal government
Government Employees Insurance (GEICO)	2,372	Insurance	Finance and insurance

## SITE AND PROPERTY PRODUCTIVITY ANALYSIS

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Chevy Chase Bank/Capital One	2,000	Banking services	Finance and insurance
Suburban Hospital	1,972	Medical services	Health care
Westat	1,905	Contract research & surveys	Professional services
MedImmune	1,900	Pharmaceutical R&D and manufacturing	Professional services
Discovery Communications	1,738	Media & entertainment	Information
IBM	1,709	Information services, hardware, software & systems integration	Professional services
Hughes Network Systems	1,697	Communications systems & equipment	Manufacturing
Safeway	1,619	Groceries	Retail trade
U.S. Department of Energy*	1,594	Energy development & conservation	Federal government
Naval Surface Warfare Center, Carderock Division*	1,543	Defense technology R&D	Federal government

### **LINKAGES TO COMPLIMENTARY AND COMPETITIVE DEVELOPMENTS**

Montgomery County is approximately bisected north-south by Interstate 270, a connector linking Interstate 70 with Washington. I-270 divides in North Bethesda with its primary roadway connecting to the eastbound Capital Beltway (Interstate 495), and a spur connecting to southbound I-495 as it approaches Northern Virginia. Another spur highway, Interstate 370, connects Interstate 270 with the Shady Grove Metro station. A fiercely- and long-contested east-west toll freeway, the Inter-county Connector (Maryland Route 200), also known as the ICC, was completed in November 2011. The ICC now links Interstate 370 and I-270 with U.S. 29; and Interstate 95 and U.S. 1 in Laurel, Prince George's County.

Roughly paralleling 270 is Maryland Route 355, a surface street known for much of its length as Rockville Pike. In its southern reaches it is known as Wisconsin Avenue, while in the north it is known as Frederick Road, or Frederick Ave in Gaithersburg.

Other major routes include Maryland Route 190 (River Road); Maryland Route 97 (Georgia Avenue); Maryland Route 650 (New Hampshire Avenue), Maryland Route 185 (Connecticut Avenue), Randolph Road/Montrose Road, Maryland Route 28 (Darnestown Road, Montgomery Avenue and Norbeck Road), and Maryland Route 27 (Father Hurley Blvd., Ridge Road). U.S. Route 29 parallels the eastern border of the county; first as Georgia Avenue in Silver Spring, then Colesville Road, and thence as Columbia Pike through Burtonsville and into Howard County.

Germantown is also bisected by Interstate 270 and has a station on the MARC train commuter service's Brunswick Line, which operates over CSX's Metropolitan Subdivision. The station building itself, at the corner of Liberty Mill Road and Mateny Hill Road, is a copy of the original 1891 structure designed by E. Francis Baldwin for the Baltimore and Ohio Railroad. The current building was rebuilt after it was burned down by arson in 1978.

## **SITE AND PRODUCTIVITY ANALYSIS**

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### **SUBJECT'S PHYSICAL AND LEGAL RATING COMPARED TO MARKET STANDARD**

The subject site is considered attractive for hotel development and has strong frontage on Route 270. The trees along the highway inhibit some views; however floors three through seven and building signage will have exposure. The subject property will have surface parking, similar to the competitive market. Parking will be free as is the current trend in the competitive market. The access is slightly superior because travelers going north and south have direct access into the site from exits 15 and 16. The analysis indicates that the subject is generally rated as slightly superior in comparison with the typical site for hotel development. The location provides only slightly superior support facilities in the immediate area but does provide superior visibility and amenities when compared to other immediate hotel sites. Therefore, overall, the site will provide only a moderate advantage for a hotel development.

## SITE AND PRODUCTIVITY ANALYSIS

HOTEL LAND RATING GRID								
Address	Seneca Meadows Parkway Germantown, MD 20874	Inferior			Typical	Superior		
		High	Moderate	Slight	Neutral	Slight	Moderate	High
<b>Site</b>								
	Size				X			
	Shape				X			
	Access							X
	Visibility							X
	Proximity to demand generators			X			X	
	Proximity to support facilities						X	
	Utilities					X		
	Security				X			
	Parking (adequacy & cost)				X			
	Amenities					X		
	Mass Transit Proximity							X
	Landscaping				X			
<b>Legal</b>								
	Zoning conformance						X	
	Deed restrictions				X			
	Lease restrictions				X			
Sub-rate number of items		0	0	1	7	2	3	3
Times category score		0	2	4	5	6	8	10
Category score		0	0	4	35	12	24	30
Total subject property score		105						
Average Score		75						
Percent above or below average		40%						
<b>Asking Price</b>	\$	6,591,865						
<b>\$ Per Acre Land Gross</b>	\$	1,524,592						
<b>\$ Per SF Land Gross</b>	\$	35.00						
<b>Land Area Acres</b>		4.32						
<b>Land Area SF</b>		188,339						
<b>Property Type</b>		Commercial						
<b>Zoning</b>		TMX-2 & I-3						
<b>Hotel Conforming Use</b>		Yes						
<b>Days on the Market</b>		NA						
<b>FAR</b>		0.50						
<b>Maximum Buildable Area</b>		94,170						
<b>Minimum Hotel Area</b>		85,000						
<b>Meets Area Requirements</b>		Yes						
<b>Ranking of Land</b>		1						

The proposed improvements will be superior to those currently offered in the market and expected to have broad market appeal. There is a slight legal characteristics advantage being in the property's zoning which allows for higher density and provides for better public access. The property has strong accessibility and visibility characteristics and excellent surrounding land uses for the hotel.

Overall, we rate the subject as significantly above average in its physical and legal characteristics as compared to other land sites available and moderately above average when compared to other hotels in the market. This is further defined in the following section.



### **SUBJECT'S LOCATIONAL ATTRIBUTES**

Analysis of locational attributes focuses on the impact of these attributes on real estate in the same category as (or similar to) the subject property, which in this case is the hotel market. This analysis is divided into three parts. First, emphasis is placed on land-use trends surrounding the subject. The linkages between the subject and complementary and competitive land-uses are then considered. Finally, the suburban growth structure is analyzed, with particular emphasis placed on the direction of growth and pertinent factors affecting suburban growth in this area - such as public planning for growth, population trends, and an initial consideration of the competitive developments.

This analysis provides information essential to delineating the market for the subject property and to identifying its potential competition. The results of this analysis advance the marketability and highest and best use analysis for the subject.

# SITE AND PRODUCTIVITY ANALYSIS

Hyatt Place  
 10 Seneca Meadows Parkway  
 Germantown, MD  
 A 137 Room Select Service Hotel Property  
 Competitive Location Analysis

Hotel Competitive Location Analysis Chart														
Factor	Rating Criteria	Subject Property	Sharon Rockville	Hilton Rockville	Hyatt House Gaithersburg	Marriott Washington	Courtyard Washington	Residence Inn Washington	TownPlace Suites Gaithersburg	Fairfield Inn Germantown	Hampton Inn Germantown	Hilton Garden Inn Rockville	HomeWood Suites Rockville	Rank by Importance
1	Current travel time to employee housing	10	8	9	8	8	8	8	9	9	10	9	9	6
2	Expected travel time to employee housing in five years	10	7	8	8	8	8	8	8	9	10	8	8	5
3	Current travel time to executive housing	7	8	8	8	8	8	8	8	7	7	9	9	14
4	Expected travel time to executive housing in five years	8	8	8	9	9	9	9	7	8	8	8	8	15
5	Accessibility	10	9	9	6	9	9	9	8	8	8	8	8	4
6	Visibility	10	9	8	6	10	10	10	8	6	7	5	5	3
7	Current travel time to airport	5	7	6	6	7	7	7	8	5	5	8	8	7
8	Expected travel time to airport in five years	4	6	5	5	6	6	6	7	4	4	7	7	2
9	Support facilities (restaurants, entertainment)	8	7	7	5	10	10	9	7	7	5	6	6	9
10	Proximity to country clubs, upscale shopping	9	7	8	5	9	9	9	7	9	9	7	7	1
11	Quality of Area's Demand Generators	8	7	8	7	9	10	9	7	8	5	8	8	13
12	Reputation (prestige) of area	7	8	8	7	9	9	9	6	7	7	6	6	11
13	Area of most new buildings over last five years	10	9	7	8	9	9	9	10	10	10	10	10	8
14	Area of most public expenditures in next five years	10	8	7	9	8	8	8	6	10	10	6	6	10
15	Amount of Class A occupied office space in area	7	8	8	10	10	10	10	7	7	7	7	7	12
Total	(Individual scores times weighting)	967	936	923	921	1049	1062	1040	888	927	884	912	912	11421
	Percentage of Total Scores	8.5%	8.2%	8.1%	8.1%	9.2%	9.3%	9.1%	7.5%	8.1%	7.7%	8.0%	8.0%	100.0%
	Overall Ranking	4	5	7	8	2	1	3	11	6	12	9	9	9

## SITE AND PRODUCTIVITY ANALYSIS

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### **CONCLUSION**

HRA therefore concludes that the subject is generally moderately above par relative to location with other competitive hotels and meets the qualitative characteristics required for a successful hotel development project.

## **REGIONAL MARKET ANALYSIS**

**REGIONAL MARKET ANALYSIS**

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**INTRODUCTION**

It is generally recognized that the relative success of a hotel is influenced by factors that can be broadly categorized as economic, governmental, social, and environmental. Therefore, it is necessary to evaluate the dynamics of these factors within a market to understand their effect on the projected utilization levels of real estate property.

**ECONOMIC AND DEMOGRAPHIC INDICATORS**

Historical trends provide a positive outlook for the economic environment in the subject market area. A review of market area economic and demographic trends offers an indication of the relative health of the subject market area. The Washington, DC Primary Metropolitan Statistical Area (PMSA) is identified as the subject site's primary market drawing area.

The various agencies of the Federal Government employ over 140,000 professionals in the Washington D.C. area. A sizable number in the Washington D.C. area work for defense and civilian contracting companies that conduct business directly with the Federal Government (many of these firms are referred to as 'Beltway Bandits' under the local vernacular). As a result, the Federal Government provides the underlying basis of the economy in the region. However, the Washington D.C. area is increasingly home to a diverse segment of businesses not directly related to the Federal Government.

The Washington, D.C. area has the largest science and engineering work force of any metropolitan area in the nation in 2006 according to the Greater Washington Initiative at 324,530, ahead of the combined San Francisco Bay Area work force of 214,500, and Chicago metropolitan area at 203,090, citing data from U.S. Census Bureau, the Bureau of Labor Statistics, Claritas Inc., and other sources.

The Washington, D.C. area was ranked as the second best High-Tech Center in a statistical analysis of the top 100 Metropolitan areas in the United States by

## REGIONAL MARKET ANALYSIS

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American City Business Journals in May 2009, behind the Silicon Valley and ahead of the Boston metropolitan area. Fueling the metropolitan area's ranking was the reported 241,264 tech jobs in the region, a total eclipsed only by New York, Los Angeles, and the combined San Jose-San Francisco-Oakland regions, as well as the highest master's or doctoral degree attainment among the 100 ranked metropolitan areas.

The Washington D.C. Area is home to hundreds of major research universities, think tanks, and non-profit organizations. Additionally, Washington, D.C. is a top tourism destination as flocks of Americans and foreigners from around the world visit the museums and monuments of the Capital city year round with the peak season being during the spring and summer months of April through August. Moreover, the Washington D.C. area attracts tens of major conferences and conventions each year, which also contribute greatly to the region's economy.

### **Population**

The current population of the Washington, DC PMSA is estimated to be approximately 5.6 million. This represents a 1.4 percent compound annual increase since 2000, as compared to a growth rate of 1.0 percent experienced in the United States (US) during the same time period. The growing population bases in the PMSA are a positive indicator for hotels, as there is potential for additional room night demand to be generated from the resident population. The following table summarizes population figures for Washington, DC PMSA and the US.

**REGIONAL MARKET ANALYSIS**

<b>Population</b>						
<b>Washington, DC PMSA</b>						
<b>Year</b>	<b>Washington, DC PMSA</b>			<b>United States</b>		
	<b>Persons (000)</b>	<b>Households (000)</b>	<b>Persons per Household</b>	<b>Persons (000)</b>	<b>Households (000)</b>	<b>Persons per Household</b>
2000	4,796.2	1,800.3	2.6	281,421.	105,480.1	2.6
2011 <sup>(1)</sup>	5,612.1	2,110.6	2.6	310,650.	116,862.4	2.6
2016 <sup>(2)</sup>	5,919.9	2,227.6	2.6	323,031.	121,514.9	2.6
CAGR <sup>(3)</sup>	1.4%	1.5%	-	1.0%	1.0%	-
CAGR <sup>(4)</sup>	1.1%	1.1%	-	0.8%	0.8%	-

Notes: (1) Estimated  
(2) Projected  
(3) Compound annual growth rate for years 2000 to 2011  
(4) Compound annual growth rate for years 2011 to 2016

Source: Claritas, Inc.

**REGIONAL MARKET ANALYSIS**

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**Median Household Income**

Trends in median household incomes reflect the overall economic stability and level of affluence of an area. Residents of the Washington, DC PMSA in general are more affluent than the national average. The Washington, DC PMSA median household income is estimated to be \$80,854, well above the US average of \$49,726 in 2011. The Washington, DC PMSA has experienced a compound annual growth in median household income in the period since 2000 of 2.1 percent, as compared to a relatively slower growth rate of 1.5 percent experienced in the US during the same period. The following table summarizes income figures for the Washington, DC PMSA and the US.

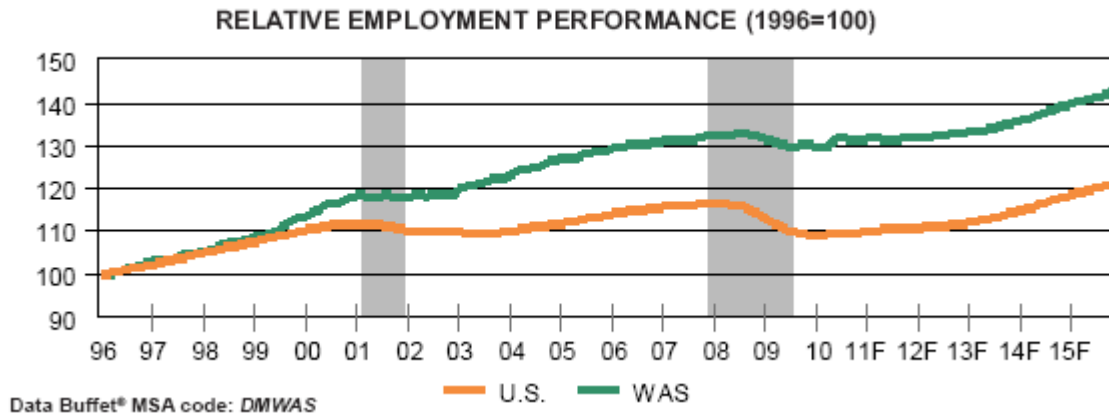
<b>Median Household Income</b>		
<b>Washington, DC PMSA &amp; United States</b>		
	<b>Washington, DC PMSA</b>	<b>United States</b>
<b>Year</b>	<b>Median Household Income</b>	<b>Median Household Income</b>
2000 2011 <sup>(1)</sup>	\$63,992	\$42,729
2016 <sup>(2)</sup>	\$80,854	\$49,726
CAGR <sup>(3)</sup> CAGR <sup>(4)</sup>	2.1%	1.5%
Notes: (1) Estimated (2) Projected (3) Compound annual growth rate for years 2000 to 2011 (4) Compound annual growth rate for years 2011 to 2016  Source: Claritas, Inc.		



## REGIONAL MARKET ANALYSIS

### Employment

Up until the current nationwide economic contraction, employment had been strong in the Washington, DC PMSA. As the following table illustrates, through 2007, increases in the number of persons unemployed were occurring at a much lower rate than employment growth. This suggests that job growth was being absorbed by the resident population, indicative of a strengthening regional economy. However, in 2009 and particularly 2010, these statistics have reversed and unemployment appears to be outpacing employment growth.



The federal spending cuts announced in tandem with August's debt ceiling compromise have darkened the outlook. The metro division is significantly exposed to direct federal employment and defense spending through both the Pentagon and contractors. The federal government's civilian workforce will post only modest growth over the forecast horizon. Professional and business services employment, closely tied to federal outlays through contractors, is now expected to post slower growth as well. The recent relocation of Northrop Grumman's headquarters to Northern Virginia highlights that proximity to the nation's capital remains a draw for many private contractors despite diminished overall spending. Slower job growth among office-using employment will create a drag on income growth, which in turn puts downside risk on consumer spending and the housing market.

## REGIONAL MARKET ANALYSIS

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Although the federal government plays an outsized role in the local economy, there are other strengths such as a tech focus that will allow Washington DC to slowly gain ground. Recent anecdotal evidence suggests that tech start-ups, particularly computer design services, are beginning to make headway. Local tech incubators—many associated with local universities—have reported an uptick in occupancy, and several more incubators and space sharing ventures are considering opening in the region. The baseline forecast does not expect strong growth in tech employment, but renewed interest in the sector creates upside risk. As federal employment slows, the talented labor pool could instead find opportunities in the tech sector.

Washington's recovery will struggle over the next year before gaining steam in 2013. The sting of slower federal spending, along with worries about the slow national recovery will lead to a more moderate pace of private hiring, matching the U.S. pace. Although the presence of the federal government will not drive expansion in the medium run, a highly educated workforce, solid population trends, and infrastructure development will enable Washington DC to maintain above-average growth within the Northeast. Longer term, growing high-tech industries will reduce reliance on the federal government, although federal activity will remain an important component of the local economy. Washington DC will be an average performer in the coming years. (Source: Moody's Analytics Washington DC)

## REGIONAL MARKET ANALYSIS

<b>Employment</b>						
<b>Washington, DC PMSA &amp; United States</b>						
<b>Year</b>	<b>Washington, DC PMSA</b>			<b>United States</b>		
	<b>Employed (000)</b>	<b>Unemployed (000)</b>	<b>Rate</b>	<b>Employed (000)</b>	<b>Unemployed (000)</b>	<b>Rate</b>
2001	2,611.0	90.9	3.4%	136,933.0	6,801.0	4.7%
2002	2,639.1	110.3	4.0%	136,485.0	8,378.0	5.8%
2003	2,672.5	107.7	3.9%	137,736.0	8,774.0	6.0%
2004	2,730.0	104.0	3.7%	139,252.0	8,149.0	5.5%
2005	2,803.1	100.2	3.4%	141,730.0	7,591.0	5.1%
2006	2,876.2	91.2	3.1%	144,427.0	7,001.0	4.6%
2007	2,913.8	88.5	2.9%	146,047.0	7,078.0	4.6%
2008	2,932.2	113.4	3.7%	145,362.0	8,924.0	5.8%
2009	2,872.2	183.0	6.0%	139,877.0	14,265.0	9.3%
2010	2,985.5	186.0	6.1%	139,064.0	14,825.0	9.6%
CAGR <sup>(1)</sup>	1.5%	8.3%	-	0.2%	9.0%	-

Note: (1) Compound annual growth rate for years 2001 to 2010

Source: U.S. Bureau of Labor Statistics

### **Employment by Industry**

According to the report issued by the Government of the District of Columbia Department of Employment Services Labor Market Research and Information July 13, 2011, they project for the Washington Metropolitan Statistical Area an annual increase of 33,922 jobs for the decade with employment rising from 3,305,236 in 2008 to 3,644,454 in 2018. The increase translates into an annual percentage rate of growth just under 1 percent per year (0.98 percent) for the decade.

The current projection reflects the lingering consequence of the 2008-2009 Great Recession. Job growth rates for the Washington Metropolitan area averaged 1.6 percent between 1991 and 2008, which makes 1 percent a guarded projection. While jobs in the Washington Metropolitan Statistical Area performed better than the national economy through the entire recession, the monthly average of area wide establishment jobs declined in 2009 over 2008. Establishment jobs were up a modest 12 thousand in 2010, but show no sign of returning to the annual gains exceeding 60 thousand jobs a year that occurred in the late 1990's and selected years after 2000.

Even though the Washington Metropolitan Statistical Area has an unusually high percentage of its jobs in the Federal Government, industry employment in both goods producing and service providing sectors shows many of the same long term trends and tendencies as other states and the national economy. The Washington Metropolitan Statistical Area goods producing sector has always been small, but like the national economy it continues to decline as a percentage share of area jobs.

## REGIONAL MARKET ANALYSIS

### Washington Metropolitan Statistical Area Employment Projections By Industry and Occupation 2008-2018

TABLE 1: EMPLOYMENT BY INDUSTRY

Industry	2008	2018	2008 share	2018 share	Growth	Growth Rate %
<b>Total, All Industries</b>	3,305,236	3,644,454	100%	100%	339,218	0.98%
<b>Good Producing</b>	233,208	244,272	7.06%	6.70%	11,064	0.46%
Natural Resources	3,937	3,794	0.12%	0.10%	-143	-0.37%
Construction	168,438	187,478	5.10%	5.14%	19,040	1.08%
Manufacturing	60,833	53,000	1.84%	1.45%	-7,833	-1.37%
<b>Service Providing</b>	2,769,933	3,091,082	83.8%	84.8%	322,043	1.10%
<b>Trade, Transportation, Utilities</b>	401,717	414,578	12.15%	11.38%	12,861	0.32%
Wholesale Trade	69,383	68,750	2.10%	1.89%	-633	-0.09%
Retail Trade	265,484	271,141	8.03%	7.44%	5,657	0.21%
Transportation and Warehousing	57,685	66,287	1.75%	1.82%	8602	1.40%
Utilities	9,165	8,400	0.27%	0.23%	-765	-0.87%
<b>Information</b>	90,982	87,384	2.75%	2.40%	-3,598	-0.40%
<b>Financial Activities</b>	154,309	159,037	4.67%	4.36%	4,728	0.30%
Finance and Insurance	100,001	105,400	3.03%	2.89%	5,399	0.53%
Real Estate and Rental Leasing	54,308	53,637	1.64%	1.47%	-671	-0.12%
<b>Professional and Business Services</b>	681,757	830,173	20.63%	22.78%	148,416	1.99%
Professional, Scientific and Technical Services	457,608	566,836	13.84%	15.55%	109,228	2.16%
Management of Companies and Enterprises	40,308	43,287	1.22%	1.19%	2,979	0.72%
Administrative Support & Waste Mgmt Services	183,841	220,050	5.56%	6.04%	36,209	1.81%
<b>Education and Health Care</b>	486,235	590,931	14.71%	16.21%	104,696	1.97%
Educational Services (including public)	238,868	281,943	7.23%	7.74%	43,075	1.67%
Health Care and Social Assistance	247,367	308,988	7.48%	8.48%	61,621	2.25%
<b>Leisure and Hospitality</b>	261,818	299,720	7.92%	8.22%	37,902	1.36%
Arts, Entertainment & Recreation	38,001	46,853	1.15%	1.29%	8,852	2.12%
Accommodation and Food Services	223,817	252,867	6.77%	6.94%	29,050	1.23%
<b>Other Services</b>	184,741	223,541	5.59%	6.13%	38,800	1.92%
<b>Government</b>	508,374	485,718	15.38%	13.33%	-21,762	-0.45%
Federal Government	348,550	325,000	10.55%	8.92%	-22,656	-0.70%
State & Local Government excluding Education	159,824	160,718	4.84%	4.41%	894	0.06%
<b>Self Employed</b>	302,095	309,100	9.14%	8.48%	7,005	0.23%

### TRANSPORTATION

The greater Washington, DC area is served by an excellent transportation network, which offers residents and visitors access to a variety of modes of travel.

### **Highway**

A number of highways serve the area, including Interstate 95 (I-95), Interstate 66 (I-66), and US Route 50 (US-50). I-95 is the primary interstate highway serving the east coast, running north-south and connecting with Interstates 295 (I-295) and 395 (I-395), which feed directly into the District. I-66 is a four to six-lane limited access highway providing east-west travel through Virginia and connecting with the District over the Theodore Roosevelt Bridge. US-50 is a four-lane primary local traffic artery traversing Fairfax and Arlington Counties in Virginia from east to west, and passing through Washington, DC into suburban Maryland and Prince George's County. US-50 serves both as a major Virginia commuter rush hour route, due to automobile occupancy restrictions on I-66 during rush hours, and a major Maryland automobile route. Highway travel throughout the PMSA is further enhanced by Interstate 495 (I-495), the Capital Beltway, which encircles the metropolitan area, providing access to various destinations and local highways. Montgomery County is approximately bisected north-south by Interstate 270, a connector linking Interstate 70 with Washington.

### **Air Transportation**

The region is served by three major airports: Washington Dulles International Airport, Ronald Reagan Washington National Airport, and Baltimore-Washington International Airport. Ronald Reagan Washington National Airport is the most convenient airport to the site, approximately 35 minutes away from the subject property by car.

Washington Dulles International Airport (IAD) is located in Chantilly, Virginia on approximately 12,000 acres of land about 26 miles from downtown Washington, DC and a 55 minute drive from the subject site in Germantown, Md. The main terminal opened in 1962 and was designed by architect Eero Saarinen. Dulles is a major hub for domestic and international air travel with 11 domestic legacy and low fare carriers and 22 international carriers, which provide air service throughout the world. Flights operate from midfield concourses A, B, C, D and Z-gates connected to the

## REGIONAL MARKET ANALYSIS

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main terminal. The airport is currently in the midst of a major construction program called D2, Dulles Development. This development plan is preparing IAD for future growth and to continue to provide improved services and facilities. The program has been in progress since 2001 with nearly \$3 billion invested in improvements to date. Highlights in 2009 include (i) expanded security screening facilities on a new mezzanine level; (ii) completed Phase I of the International Arrivals Building expansion; and, (iii) completed improvements to the roadways on IAD. Highlights for 2010 include (i) a new, on-Airport automated train system called Aero Train; (ii) the International Arrivals Building expansion continued; and, (iii) rehabilitation of the center runway was completed. Completion of the third and final phase of the International Arrivals Building expansion occurred in 2011. In addition, construction of an underground Metrorail station as part of the \$6 billion Dulles Corridor Metrorail Project has begun. This would provide direct access to the airport via the extensive Metro system in the Washington, DC area. Preliminary engineering has been completed for Phase 2, which included the airport station and rail yard. The entire project is estimated to be fully built by 2017.

Ronald Reagan Washington National Airport (DCA) is located in Arlington, Virginia, and has completed construction of a new terminal facility that provides direct Metrorail access, a 35-gate terminal, 9,000 public parking spaces, and a new drop-off/pickup driving configuration. In 2010, a new top level was added to Garages A and B/C, adding over 1,400 new parking spaces. In addition to domestic visitors, many international visitors to Washington, DC arrive at DCA via connections from various other US gateway cities.

Baltimore-Washington International Airport (BWI) is located in Linthicum, Maryland, within an approximate 60-minute drive of the proposed hotel site. On October 31, 2006, BWI celebrated the completion of \$188 million construction project that included a new terminal roadway, curbside, and skywalk expansion, the final major landside component of \$1.4 billion, multi-year improvement program. Also completed in recent years were the opening of Terminal A/B, serving Southwest Airlines, in 2005, the 8,400-space BWI Daily Garage in 2002, and a consolidated

## **REGIONAL MARKET ANALYSIS**

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rental car facility in 2003. A “cell phone lot,” new airport roadways, additional gates, and new concessions were also completed in recent years.

Historical passenger counts are summarized in the following table. It should be noted that the events of September 11, 2001 had significant effects on air travel at the three metropolitan Washington, DC airports, such as forcing Ronald Reagan Washington National Airport to be closed for an extended period.



**REGIONAL MARKET ANALYSIS**

**Airline Passenger Counts**

**Washington, DC Area Airports**

<b>Year</b>	<b>Ronald Reagan National Airport</b>	<b>Washington Dulles International Airport</b>	<b>Baltimore-Washington International Airport</b>
2001	13,265,387	18,002,319	18,001,821
2002	12,881,601	17,235,163	19,103,608
2003	14,233,123	16,950,381	19,696,158
2004	15,944,542	22,868,852	20,340,000
2005	17,847,884	27,052,118	19,740,000
2006	18,550,785	23,020,362	20,690,000
2007	18,679,343	24,737,528	21,044,384
2008	18,028,287	23,876,780	20,488,881
2009	17,577,359	23,213,341	20,953,615
2010	18,118,713	23,741,603	21,936,461
CAGR <sup>(1)</sup> )	3.5%	3.1%	2.2%

Note: (1) Compound annual growth rate for years 2001 to 2010

Source: Metropolitan Washington Airports Authority; Maryland Aviation Administration

## REGIONAL MARKET ANALYSIS

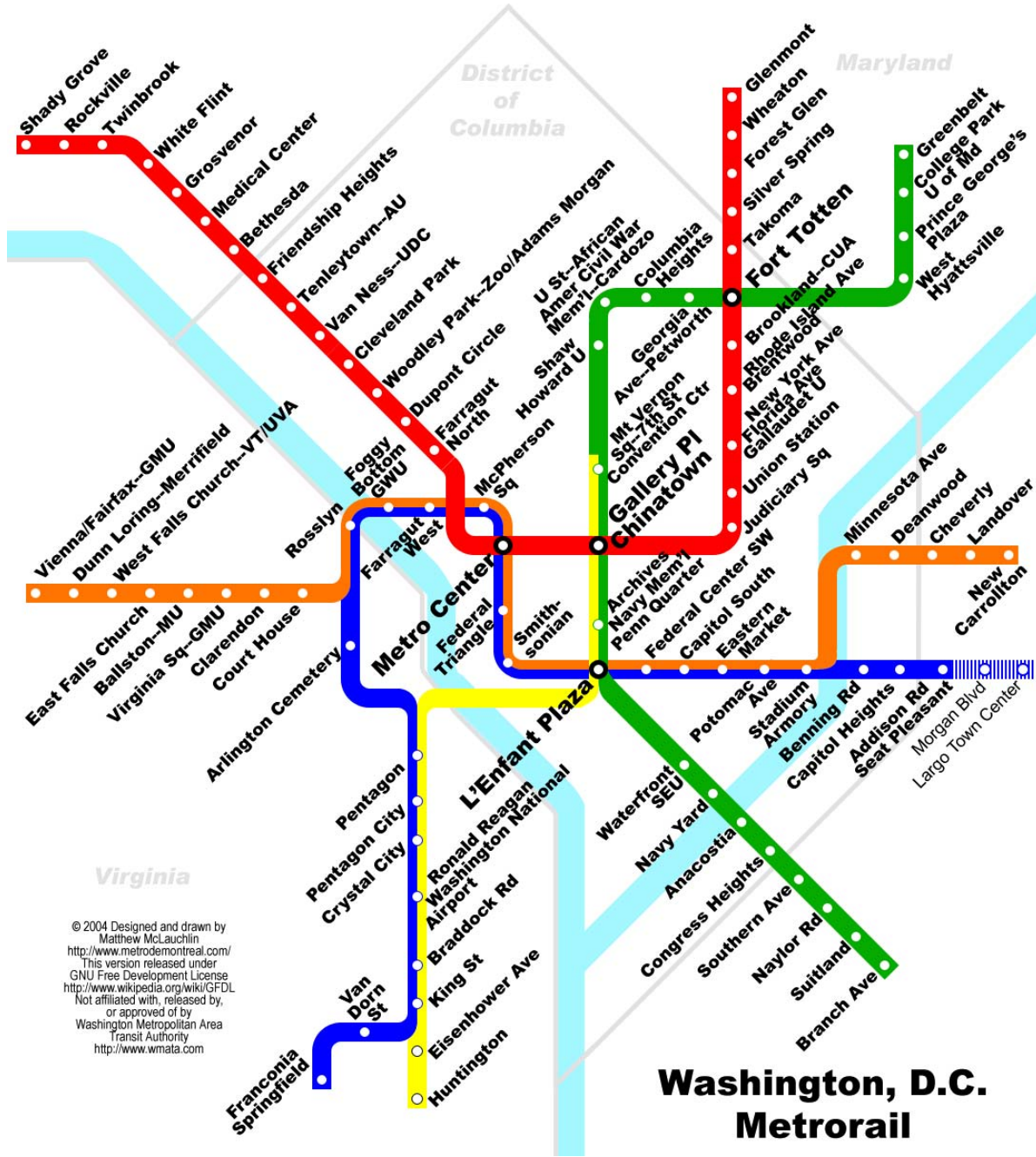
### Rail Transportation

Regional rail transportation is provided by AMTRAK, Maryland Rail Commuter (MARC), and the Virginia Railway Express (VRE) to Washington, DC's Union Station. Metrorail (Metro) is the major rapid transit commuter rail system serving the Washington, DC area. The system connects Washington, DC with suburban areas of Maryland and Virginia. The subject site is approximately 6 miles from the Shady Grove Metro station located on Somerville Drive in Rockville, MD. The closest MARC Train Station is located at 19320 Mateny Hill Road approximately 4 miles from the subject site. This can be accessed via Montgomery County Transit bus services Monday to Friday at a stop adjacent to Milestone shopping Center. This presents guests a convenient transportation alternative for travel to the District, which is approximately a 40-minute ride, and areas throughout the local region. Ronald Reagan National Airport is also accessed by Metro.



Source: [www.homes-germantown-maryland.com/transportation.shtml](http://www.homes-germantown-maryland.com/transportation.shtml)

# REGIONAL MARKET ANALYSIS



Source: [www.homes-germantown-maryland.com/transportation.shtml](http://www.homes-germantown-maryland.com/transportation.shtml)

## REGIONAL MARKET ANALYSIS

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### **OFFICE MARKET ACTIVITY**

According to the REIS Report for Suburban Maryland dated January 18, 2012, The Suburban Maryland general purpose, multi-tenant office space market has not lacked activity in recent months. Two major federal third quarter leases, with a combined total of more than 1.4 million square feet on the part of health agencies has led to large overall leasing volumes—1.9 million square feet year-to-date, according to Cushman & Wakefield. And in December, the *Washington Business Journal* reported at the time, the Pentagon announced plans for a \$300 million defense intelligence hub in Bethesda for a 40-acre site vacated in September by the National Geospatial Intelligence Agency. The project, expected to spend five years in development, is expected to draw 3,000 workers to the site off MacArthur Boulevard and Sangamore Road. These headline-grabbing events, however, conceal a somewhat less dynamic market.

Although palpable signs of recovery have appeared in the Suburban Maryland office market, progress has been slow. Accompanied by 116,000 square feet of new supply (the total for all of 2011), all in the Banner Life Insurance building in Frederick, which delivered in March, year-to-date net absorption in 2011 through third quarter was 267,000 square feet, a marked improvement from the 100,000-square-foot loss in occupancy endured in 2010. October and November followed with a combined total of negative 29,000 square feet. Vacancy ended the latest quarter at 15.3%, up 10 basis points for the period, down 20 year-to-date. No change was seen in the November rate. By the end of 2011, the rate remained at 15.3% according to preliminary fourth quarter data. The return of modest positive rent growth in 2010 was followed by similarly small increases in 2011.

Corporate and government market segments represent a significant source of demand for many hotels in the subject market area. The office market in Suburban Maryland is divided into three submarkets, which include: I-270 Corridor, Southeast Montgomery County, and North Prince George's County. The following table details office market statistics for the aforementioned submarkets, as researched by

## REGIONAL MARKET ANALYSIS

CoStar Group, Inc. Of note is that the subject site is located in the I-270 Corridor submarket.

<b>Office Market Overview</b>					
<b>4<sup>th</sup> Quarter-Year 2011</b>					
<b>Suburban Maryland</b>					
<b>Submarket</b>	<b>Inventory (SF)</b>	<b>Vacancy Rate</b>	<b>YTD Total Absorption (SF)</b>	<b>Under Construction (SF)</b>	<b>Asking Rental Price (per SF)</b>
I-270 Corridor	42,569,627	15.5%	172,911	750,560	\$27.56
Montgomery County	12,889,742	12.4%	(57,827)	0	\$26.34
N. Prince George's County	19,343,795	18.6%	(49,260)	268,762	\$20.20
Source: CoStar Group, Inc.					

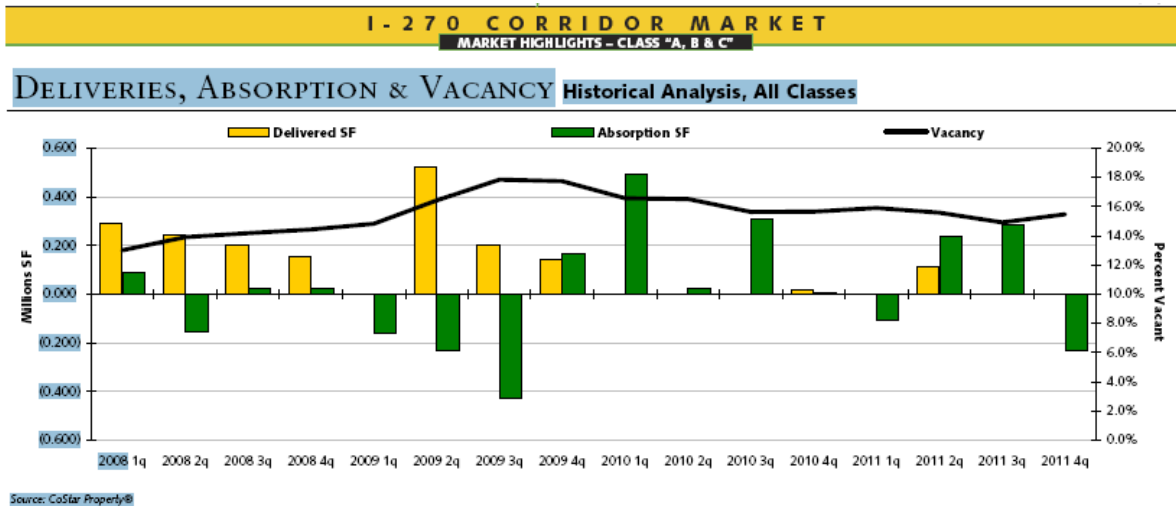
As the national economy struggled to maintain momentum for its recovery, office tenants in the Suburban Maryland office market were not as bullish about their business forecast as they had been in the previous six to 12 months. Tenant uncertainty resulted in lower leasing activity during the quarter. Many tenants in the 2010 market renewed leases or relocated early to take advantage of market conditions. Over 1 million square feet is under construction, an increase from last quarter due to the addition of the National Cancer Institute's build-to-suit in North Rockville. On July 15, 2011, *The Washington Business Journal* announced that the National Institute of Allergy and Infectious Diseases (under the National Institutes of Health) will move from its current offices in Bethesda to a 490,998 square foot space at 5601 Fishers Lane in Rockville. Construction is anticipated to be

## REGIONAL MARKET ANALYSIS

completed in 2014, with a lease term of 15 years. The three buildings in the pipeline are each 100 percent preleased to a different federal government agency. During the second quarter 2011, a 167,000-square-foot building broke ground.

In Germantown, an office project at 12409 Milestone Center Drive broke ground with a 135,000-square-foot prelease to DRT/Boeing, which represented the largest lease transaction for this quarter. There are also two buildings, one in Bethesda and one in Frederick that are anticipated to begin renovation and construction, respectively, this year. (CB Richard Ellis, 2Q 2011).

The following chart highlights the major data for the I-270 Corridor market as reported by CoStar Group Inc.:



Within the I-270 Corridor market, several submarkets exist: Gaithersburg, Germantown, I-270 Corridor North, North Bethesda/Potomac, North Rockville, and Rockville. According to CoStar data, those submarkets that contain competitor hotels (Rockville, North Rockville, and Gaithersburg) reported relatively slow growth in 2011 based on the absorption rate of space in the market.

## REGIONAL MARKET ANALYSIS

### Office Market Overview

4<sup>th</sup> Quarter - Year 2011

### I-270 Corridor Submarkets

Submarket	Inventory (SF)	Vacancy Rate	YTD Total Absorption (SF)	Under Construction (SF)	Asking Rental Price (per SF)
North Bethesda/Potomac	10,743,475	14.4%	(24,281)	358,440	\$30.33
North Rockville	12,331,862	15.9%	214,061	0	\$27.62
Rockville	9,314,533	13.1%	(53,679)	197,720	\$29.46
Gaithersburg	6,326,112	14.4%	(52,736)	0	\$22.11
I-270 North	1,079,650	50.9%	119,308	0	\$23.68
Germantown	2,926,118	13.6%	48,072	194,400	\$24.00
<b><i>I-270 Corridor</i></b>	<b><i>42,569,627</i></b>	<b><i>15.5%</i></b>	<b><i>172,911</i></b>	<b><i>750,560</i></b>	<b><i>\$27.56</i></b>

Source: CoStar Group, Inc.

The five submarkets surrounding the subject site and competitive set each had relatively high vacancy, weak absorption, and flat rental price per square foot, thus, indicating weak office business in the immediate area. With the moderate growth in the economy and significant overhang in supply, it could be a number of years

## REGIONAL MARKET ANALYSIS

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before the office market stabilizes and starts to bring forward the significant number of proposed projects that have been put on hold.

### **VISITOR VOLUME AND SPENDING**

According to Destination DC, the official tourism promotion agency for the capital, Washington, DC receives approximately 16 million visitors annually. In 2009, the most recent year for which data is available, Washington, DC drew 16.4 million visitors. 14.8 million visitors were from within the US, and 1.6 million visitors were international. An estimated 51 percent of domestic visitors traveled to Washington, DC for leisure as compared to 27 percent for transient business, 19 percent for convention, and five percent for combined business/leisure. Overall visitor spending constituted approximately \$5.25 billion.

Major tourist attractions have a significant economic impact on an area by increasing the demand for services and retail trade created by visitors. Tourists in turn tend to generate lodging demand on weekends, holidays, and summer months offsetting commercial travel during weaker periods. The following table lists major attractions in the area ranked by estimated annual attendance.



<b>Major Tourist Attractions in Washington, DC</b>	
<u>Attraction</u>	<u>Estimated Annual Attendance/Visitation</u>
National Museum of Natural History	7 million
National Air & Space Museum	6 million
Lincoln Memorial	4 million
World War II Memorial	4 million
Vietnam Veterans Memorial	4 million
National Museum of American History	3 million
National Zoological Park	3 million
Source: Destination DC	

## REGIONAL MARKET ANALYSIS

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As the nation's capital, Washington, DC is a perennial travel destination for American families, student groups, and international visitors. Major historical attractions include the Washington Monument, US Capitol, Lincoln Memorial, World War II Memorial, and Vietnam Veterans Memorial. The area is also home to a number of large museums, many of which are affiliated with the Smithsonian Institution, including the National Museum of Natural History, National Air & Space Museum, National Gallery of Art, and National Museum of American History. The John F. Kennedy Center for the Performing Arts is home to the National Symphony Orchestra, Washington National Opera, and Washington Ballet.

The National Zoological Park and National Arboretum are popular outdoor attractions. The area is also home to five major professional men's sports teams. The NFL Washington Redskins play at FedEx Field in Landover, Maryland. The NHL Washington Capitals and NBA Washington Wizards both play at the Verizon Center in the District. The MLB Washington Nationals play at the Washington Nationals Stadium, which opened in 2008, and MLS DC United play at RFK Stadium.

Large event facilities such as convention centers, exposition centers, fairgrounds, theaters, stadiums, and arenas play a major role in attracting visitors to an area. These visitors frequently make use of paid overnight accommodations and patronize local restaurants, retail stores, and tourist attractions. The largest convention facility in the area is the Walter E. Washington Convention Center, located in downtown Washington, DC. This facility, which first opened in 2004, covers six city blocks with 2.3 million square feet of total space. The Convention Center offers 700,000 square feet of exhibit space. Within the District are a number of large hotels with enough space to accommodate conventions and other large-scale events, including the Sheraton Washington Hotel, JW Marriott Hotel Washington DC, Shoreham Omni Hotel, Capital Hilton, and Grand Hyatt Washington. The Gaylord National Resort & Convention Center in Prince George's County, Maryland, offers 470,000 square feet of event space and over 80 individual

## **REGIONAL MARKET ANALYSIS**

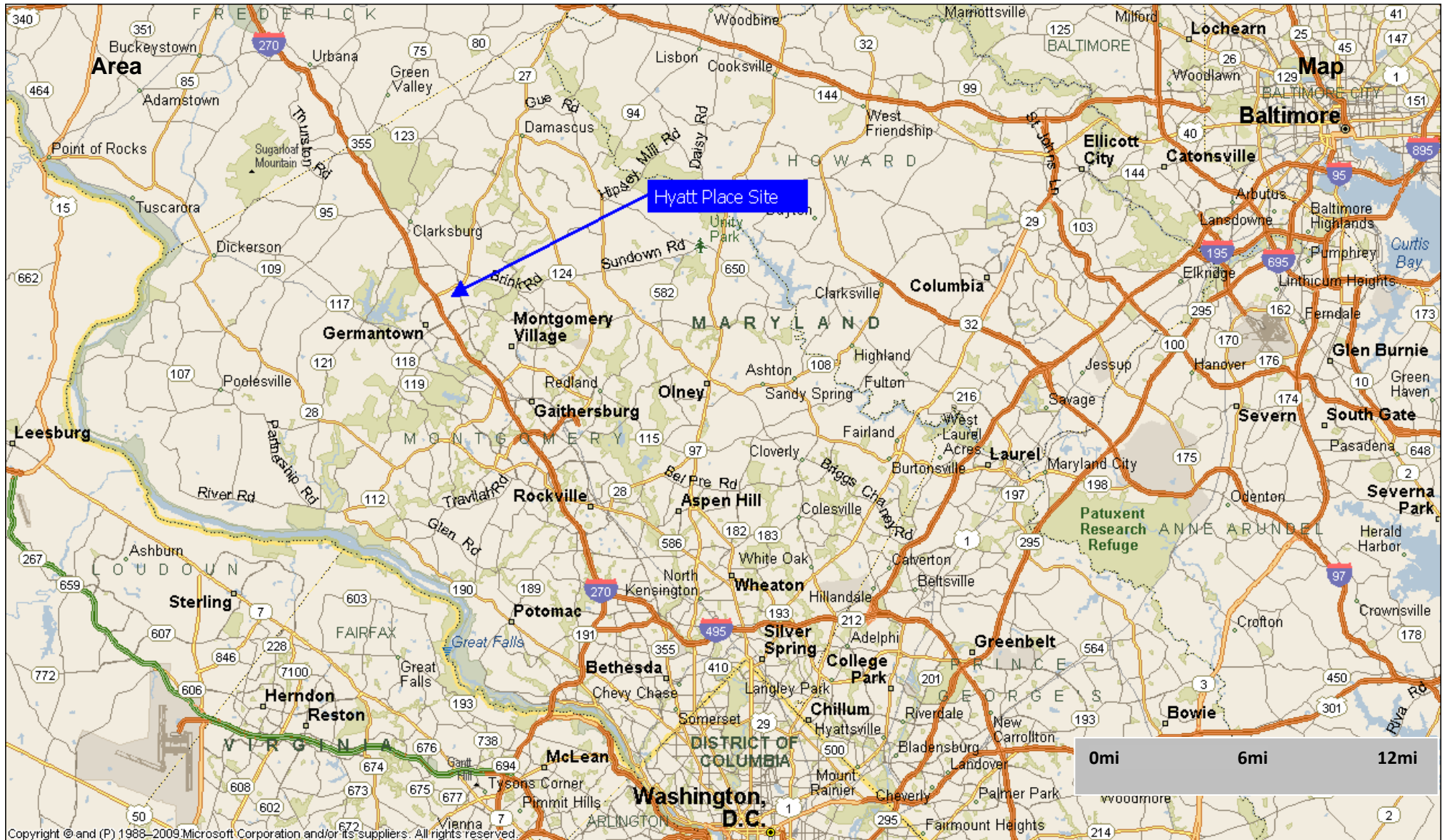
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meeting rooms. Throughout the metro area, additional meeting and event spaces are available at various other hotels, museums, municipal facilities, and college and university campuses. The largest eight conventions booked for 2010 ranged in room nights from 20,745 to 42,500 (Destination DC).

Overall, visitor volume remained essentially flat from 2010 to 2011. However, it is expected to increase to 17 million visitors in 2012 (Destination DC).

A map of the area surrounding the subject property is on the following page.

# GENERAL MARKET ANALYSIS



### **CONCLUSION**

The Washington DC region is one of the strongest regions in the US. The metropolitan area is buoyed by a diverse economy, a highly educated workforce, an excellent transportation system, strong local appeal for tourism and convention business and having the stability of being the center of government for the US.

The area should continue to prove to be an attractive area for hotel investors and developers as the market recovers.

## **COMPETITIVE MARKET ANALYSIS**

### **INTRODUCTION**

This section of the report contains an overview of the national, regional, and local lodging markets with an analysis and discussion of the competitive supply of hotels in the defined market area and the historical and projected levels of demand. This section also contains discussion of the individual characteristics of the competitive properties, anticipated changes in this market, and the competitive supply estimates for the current composition of hotel demand.

### **NATIONAL OVERVIEW**

Based on performance data through September of 2011 (provided by Smith Travel Research), and Moody's Analytics' October 2011 domestic economic forecast, PKF-HR believes that RevPAR in the U.S. will increase by 8.1 percent in 2011. The ongoing recovery of U.S. hotels in 2011 has continued to slightly outpace our forecasts. The 8.1 percent revised RevPAR forecast for the current year represents a 90 basis point increase over their previous forecast released in September 2011. Because of the accelerated performance in 2011, the PKF-HR forecast change in RevPAR for 2012 has been lowered 110 basis points from 90 days ago. However, the forecast RevPAR change for 2012 is still an attractive 6.1 percent. PKF-HR's optimistic outlook for lodging performance in 2012 is rooted in the economic forecasts of Moody's Analytics. Real personal income is projected to rise, and the most important elements of the nation's Gross Domestic Product (consumer spending and business investment) are anticipated to continue to grow. For hoteliers, the most encouraging news is the 4.7 percent forecast increase in ADR for 2012. This is more than twice the projected pace of inflation, and significantly above the 2.8 percent long-run average for this measurement.

## COMPETITIVE MARKET ANALYSIS

### National Forecast - All Hotels

Year	Period	Occ	Δ Occ	ADR	Δ ADR	RevPAR	Δ RevPAR	Δ Supply	Δ Demand
2006	Annual	63.1%	0.2%	\$97.80	7.4%	\$61.74	7.7%	0.2%	0.4%
2007	Annual	62.8%	-0.5%	\$104.30	6.6%	\$65.51	6.1%	1.2%	0.7%
2008	Annual	59.8%	-4.8%	\$107.39	3.0%	\$64.22	-2.0%	2.4%	-2.5%
2009	1	50.9%	-11.1%	\$100.68	-7.6%	\$51.20	-17.9%	3.0%	-8.4%
2009	2	57.2%	-10.9%	\$97.97	-9.5%	\$56.06	-19.4%	2.9%	-8.4%
2009	3	60.0%	-8.0%	\$97.46	-9.6%	\$58.48	-16.9%	2.9%	-5.4%
2009	4	50.0%	-4.7%	\$96.48	-7.4%	\$48.26	-11.7%	2.7%	-2.1%
2009	Annual	54.5%	-8.8%	\$98.10	-8.6%	\$53.51	-16.7%	2.9%	-6.2%
2010	1	52.0%	2.2%	\$96.37	-4.3%	\$50.08	-2.2%	2.4%	4.7%
2010	2	60.7%	6.0%	\$98.01	0.0%	\$59.47	6.1%	2.1%	8.2%
2010	3	63.9%	6.5%	\$99.19	1.8%	\$63.41	8.4%	1.5%	8.2%
2010	4	53.5%	7.0%	\$98.39	2.0%	\$52.67	9.1%	1.1%	8.1%
2010	Annual	57.6%	5.5%	\$98.06	0.0%	\$56.44	5.5%	1.8%	7.4%
2011	1	54.9%	5.6%	\$99.47	3.2%	\$54.57	9.0%	0.8%	6.4%
2011	2	63.4%	4.4%	\$101.52	3.6%	\$64.32	8.2%	0.7%	5.1%
2011	3	66.5%	4.0%	\$102.96	3.8%	\$68.44	7.9%	0.6%	4.6%
2011F	4	55.1%	2.9%	\$102.87	4.5%	\$56.66	7.6%	0.3%	3.2%
2011F	Annual	60.0%	4.2%	\$101.77	3.8%	\$61.04	8.1%	0.6%	4.8%
2012F	1	57.0%	3.8%	\$105.76	6.3%	\$60.26	10.4%	0.9%	4.7%
2012F	2	63.7%	0.6%	\$106.84	5.2%	\$68.10	5.9%	0.3%	0.9%
2012F	3	66.6%	0.1%	\$107.12	4.0%	\$71.31	4.2%	0.6%	0.7%
2012F	4	55.8%	1.2%	\$106.46	3.5%	\$59.35	4.8%	1.0%	2.2%
2012F	Annual	60.8%	1.3%	\$106.58	4.7%	\$64.77	6.1%	0.7%	2.0%
2013F	Annual	61.9%	1.9%	\$112.27	5.3%	\$69.53	7.3%	1.1%	3.0%
2014F	Annual	63.2%	2.1%	\$118.13	5.2%	\$74.71	7.4%	1.7%	3.9%
2015F	Annual	63.4%	0.3%	\$122.86	4.0%	\$77.94	4.3%	1.9%	2.2%

Source: PKF Hospitality Research, Smith Travel Research

2009 was the worst performing year for RevPAR since the Great Depression. With that now behind us, the 5.5 percent increase in 2010 and forecasted 8.2 percent increase in RevPAR for 2011 comes as slight relief. Lodging sector performance continues to benefit from a return of business and leisure guests. Hotels across the spectrum of chain-scale segments experienced occupancy and ADR gains in 2011, reflecting the breadth of the recovery. Overall, hotel occupancy in 2011 recovered to 60.1 percent, just slightly ahead of its ten-year average of 60.0 percent. As economic activity turned a corner in June 2009, lodging demand started to rebound. Lodging demand grew quickly in 2010 and 2011, reverting to a more normal level. This experience serves as a reminder of the interdependent, and cyclical, characteristics of the lodging sector.



## COMPETITIVE MARKET ANALYSIS

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The outsized gains experienced during this resumption of travel activity have largely run their course and, unfortunately, the broader economy remains sluggish. Stronger GDP growth in the fourth quarter of last year was partly due to temporary factors, and that pace is expected to slow in the first half of 2012.

US economic growth also remains hindered by the degree of structural change that is occurring, including the gradual redeployment of labor and capital toward areas of growth. As a result, while some sectors are expanding, such as professional and business services, and healthcare and education, which have experienced 5.5 percent and 5.3 percent increases in jobs since the end of the recession, respectively, other sectors, such as the finance (broadly defined) and construction, are growing slowly, at best.

In the lodging sector, there are indications of momentum. Hotel operators report group booking levels for 2012 that are ahead of prior year levels. The pace of transient travel has continued, despite frequent headlines highlighting tumultuous political and economic conditions in Europe and, to a lesser degree, in the US. Unemployment remains quite high, but domestic job growth has improved slightly, and US corporations continue to make capital investments, supporting an outlook of further growth in commercial transient travel and group events. Leisure demand continues to increase, as indicated by transient growth at resorts, and weekend occupancy rates that exceed prior year levels.

In this context, PKF's updated outlook anticipates RevPAR growth of 6.5 percent in 2012. This reflects a 5.1 percent increase in ADR, with occupancy gains slowing to 1.3 percent. Overall, 2012 RevPAR is expected to reach a level 0.7 percent below the nominal peak achieved in 2007.

## COMPETITIVE MARKET ANALYSIS

The upscale segment has shown a strong ability to rebuild occupancy after the twin impacts of the recession and an active construction pipeline that delivered a 27.9 percent increase in rooms between the end of 2006 and the end of 2010. However, hotels have achieved this performance at the expense of ADR, and the RevPAR recovery in the upscale segment has been broadly similar to the US average. Estimated 2011 occupancy levels at upscale hotels are 3.0 percent ahead of the segment's 10-year average, while real ADR is 6.6 percent below. The segment continues to have a more active construction pipeline than any of the other segments, but even that level of activity is quite low. Barring an upsurge in conversion activity, supply is expected to increase just 1.3 percent in 2012, the slowest pace in the 25 years of available history.

### Upscale Hotel Outlook

#### National Forecast - Upscale Hotels

Year	Period	Occ	Δ Occ	ADR	Δ ADR	RevPAR	Δ RevPAR	Δ Supply	Δ Demand
2006	Annual	70.1%	0.0%	\$114.18	9.4%	\$80.09	9.4%	2.9%	2.9%
2007	Annual	69.6%	-0.8%	\$121.26	6.2%	\$84.42	5.4%	4.7%	3.9%
2008	Annual	67.3%	-3.3%	\$122.76	1.2%	\$82.63	-2.1%	6.2%	2.7%
2009	1	58.7%	-10.7%	\$115.55	-8.1%	\$67.88	-18.0%	7.4%	-4.1%
2009	2	65.2%	-10.3%	\$110.83	-10.7%	\$72.24	-19.9%	8.7%	-2.5%
2009	3	66.1%	-6.7%	\$107.08	-12.2%	\$70.74	-18.1%	9.6%	2.3%
2009	4	58.7%	-2.5%	\$106.79	-10.2%	\$62.69	-12.4%	9.7%	7.0%
2009	Annual	62.2%	-7.6%	\$109.91	-10.5%	\$68.33	-17.3%	8.9%	0.6%
2010	1	62.3%	6.0%	\$106.48	-7.8%	\$66.31	-2.3%	8.8%	15.3%
2010	2	70.4%	8.0%	\$108.52	-2.1%	\$76.38	5.7%	7.1%	15.7%
2010	3	71.2%	7.8%	\$107.88	0.8%	\$76.84	8.6%	5.2%	13.4%
2010	4	63.0%	7.3%	\$108.45	1.6%	\$68.28	8.9%	3.5%	11.0%
2010	Annual	66.7%	7.3%	\$107.86	-1.9%	\$71.96	5.3%	6.1%	13.8%
2011	1	65.3%	4.9%	\$109.86	3.2%	\$71.73	8.2%	2.6%	7.5%
2011	2	73.2%	4.0%	\$112.72	3.9%	\$82.49	8.0%	1.9%	6.0%
2011	3	74.2%	4.2%	\$111.99	3.8%	\$83.09	8.1%	1.5%	5.7%
2011F	4	65.5%	4.1%	\$113.17	4.3%	\$74.17	8.6%	1.1%	5.2%
2011F	Annual	69.6%	4.2%	\$111.96	3.8%	\$77.87	8.2%	1.8%	6.1%
2012F	1	68.9%	5.5%	\$116.35	5.9%	\$80.18	11.8%	1.0%	6.6%
2012F	2	73.4%	0.3%	\$119.71	6.2%	\$87.83	6.5%	1.4%	1.6%
2012F	3	74.2%	0.0%	\$119.31	6.5%	\$88.51	6.5%	1.7%	1.7%
2012F	4	66.9%	2.1%	\$120.31	6.3%	\$80.47	8.5%	2.0%	4.1%
2012F	Annual	70.8%	1.8%	\$118.94	6.2%	\$84.25	8.2%	1.5%	3.4%
2013F	Annual	72.0%	1.6%	\$127.68	7.3%	\$91.87	9.0%	1.5%	3.1%
2014F	Annual	72.0%	0.1%	\$134.65	5.5%	\$97.01	5.6%	2.7%	2.8%
2015F	Annual	71.2%	-1.2%	\$139.23	3.4%	\$99.15	2.2%	3.9%	2.7%

Source: PKF Hospitality Research, Smith Travel Research

### **REGIONAL OVERVIEW**

According to PKF's Horizon Report for December through February 2012, by year-end 2011, Washington DC hotels are forecast to see a RevPAR increase of 1.7%. This is the result of an estimated minor increase in occupancy of 0.2% and a 1.4% gain in average daily room rates (ADR). The 1.7% advance in Washington DC RevPAR is less than the national projection of an 8.1% increase. Leading the way in 2011 RevPAR growth is the lower-priced segment of Washington DC. The properties in this category are forecast to attain a 0.9% gain in ADR and see a 1.0% increase in occupancy, resulting in a 1.9% RevPAR increase. Upper-priced hotels are projected to experience an ADR growth rate of 1.5%, along with a 0.2% loss in occupancy, resulting in a 1.2% RevPAR increase. Looking towards 2012, Washington DC RevPAR is expected to grow 5.8%. This is better than the rate of growth in 2011. Unlike 2011, prospects for RevPAR growth in the upper-priced segment (positive 6.1%) are better than in the lower-priced segment (positive 4.9%). Washington DC market occupancy levels are expected to range from 69% to 70% during the 5-year forecast period.

## COMPETITIVE MARKET ANALYSIS

### Washington DC Market Forecast - All Hotels

Year	Number of Rooms	Change in Supply	Change in Demand	Occupancy	ADR	RevPAR	Change in RevPAR
1987	64,520			67.76%	\$ 69.79	\$ 47.29	
1988	67,438	6.01%	5.21%	67.25%	\$ 73.18	\$ 49.22	4.07%
1989	70,765	4.37%	5.35%	67.89%	\$ 76.50	\$ 51.93	5.52%
1990	73,817	4.80%	-2.02%	63.47%	\$ 77.84	\$ 49.40	-4.87%
1991	74,088	1.49%	0.94%	63.13%	\$ 77.08	\$ 48.66	-1.52%
1992	73,930	0.52%	2.80%	64.56%	\$ 78.74	\$ 50.83	4.48%
1993	74,252	0.16%	4.90%	67.61%	\$ 81.58	\$ 55.16	8.51%
1994	73,905	-0.15%	-1.43%	66.75%	\$ 83.03	\$ 55.42	0.47%
1995	74,300	-0.03%	1.39%	67.69%	\$ 86.88	\$ 58.81	6.12%
1996	75,362	1.22%	0.90%	67.48%	\$ 90.59	\$ 61.13	3.95%
1997	75,953	0.92%	4.09%	69.60%	\$ 96.40	\$ 67.09	9.75%
1998	78,537	2.60%	1.74%	69.01%	\$ 101.21	\$ 69.85	4.11%
1999	80,775	3.09%	4.01%	69.62%	\$ 105.81	\$ 73.67	5.47%
2000	84,323	3.25%	6.53%	71.83%	\$ 111.87	\$ 80.36	9.08%
2001	85,871	3.22%	-6.32%	65.19%	\$ 112.73	\$ 73.49	-8.55%
2002	86,825	1.37%	1.34%	65.17%	\$ 110.98	\$ 72.33	-1.58%
2003	87,838	1.11%	2.93%	66.35%	\$ 110.79	\$ 73.51	1.63%
2004	89,129	1.50%	7.81%	70.47%	\$ 118.52	\$ 83.53	13.63%
2005	90,932	1.59%	2.55%	71.14%	\$ 131.42	\$ 93.50	11.94%
2006	91,926	1.67%	-2.50%	68.23%	\$ 141.47	\$ 96.52	3.23%
2007	93,942	1.25%	1.26%	68.23%	\$ 149.93	\$ 102.30	5.99%
2008	97,747	3.79%	1.70%	66.86%	\$ 153.43	\$ 102.58	0.27%
2009	102,305	4.08%	0.56%	64.60%	\$ 145.20	\$ 93.80	-8.56%
2010	103,623	2.83%	6.71%	67.04%	\$ 143.46	\$ 96.17	2.53%
2011	104,653	1.28%	1.86%	67.42%	\$ 144.76	\$ 97.60	1.49%
<b>2012 F</b>	<b>105,595</b>	<b>0.90%</b>	<b>5.10%</b>	<b>69.50%</b>	<b>\$ 147.84</b>	<b>\$ 102.75</b>	<b>5.28%</b>
<b>2013 F</b>	<b>107,390</b>	<b>1.70%</b>	<b>5.10%</b>	<b>70.40%</b>	<b>\$ 159.19</b>	<b>\$ 112.07</b>	<b>9.07%</b>
<b>2014 F</b>	<b>110,397</b>	<b>2.80%</b>	<b>5.10%</b>	<b>69.80%</b>	<b>\$ 166.99</b>	<b>\$ 116.56</b>	<b>4.01%</b>
<b>2015 F</b>	<b>113,378</b>	<b>2.70%</b>	<b>5.10%</b>	<b>69.10%</b>	<b>\$ 171.64</b>	<b>\$ 118.60</b>	<b>1.75%</b>
<b>Compound Growth Rate Last 2006-2011 Year</b>		<b>2.64%</b>	<b>2.39%</b>	<b>-0.24%</b>	<b>0.46%</b>	<b>0.22%</b>	
<b>Compound Growth Rate Last 2001-2011 Year</b>		<b>2.04%</b>	<b>2.38%</b>	<b>0.34%</b>	<b>2.53%</b>	<b>2.88%</b>	
<b>Compound Growth Rate Last 1996-2011 Year</b>		<b>2.23%</b>	<b>2.23%</b>	<b>-0.01%</b>	<b>3.17%</b>	<b>3.17%</b>	
<b>Compound Growth Rate Last 1991-2011 Year</b>		<b>1.10%</b>	<b>1.49%</b>	<b>0.39%</b>	<b>3.08%</b>	<b>3.48%</b>	

Source PKF Hospitality Research, Smith Travel Research

The subject hotel would be located in the Rockville/Frederick hotel tract which slightly lags the performance of the Washington DC metro area hotel tract. This market comprises of over 7,769 rooms and achieved occupancy of 65.18 percent in 2011 with an ADR of \$100.23. It is expected that this market will achieve growth rates in RevPAR similar to the overall Washington DC metro market with more limited supply additions coming in this tract of hotels. HRA is estimating that demand for the market will grow at 5 percent in years 2012-2015 and 2.65 percent thereafter based on the 20 year average compounded growth rate for the hotel tract. Supply growth is expected to be slightly higher than the 20-year average compounded growth rate for the hotel tract.

## COMPETITIVE MARKET ANALYSIS

### Historical Performance

#### Rockville/Frederick Total Tract Data

Year	Number of Rooms	Supply growth		Demand		Occupancy	ADR	RevPAR	RevPAR Growth Rate
		Rate	Growth Rate	Rate	Growth Rate				
1987	4,428					68.34% \$	52.64 \$	35.98	
1988	4,737	12.25%	2.56%			62.45% \$	55.22 \$	34.49	-4.14%
1989	4,737	1.26%	5.13%			64.83% \$	55.91 \$	36.25	5.11%
1990	4,757	0.25%	-4.28%			61.90% \$	57.41 \$	35.54	-1.96%
1991	4,757	0.17%	2.05%			63.06% \$	55.91 \$	35.26	-0.78%
1992	4,705	-0.82%	0.15%			63.68% \$	55.37 \$	35.26	0.00%
1993	4,989	3.25%	3.81%			64.03% \$	57.93 \$	37.09	5.18%
1994	4,989	2.41%	6.58%			66.63% \$	60.55 \$	40.35	8.78%
1995	4,821	-3.08%	-1.19%			67.93% \$	63.08 \$	42.85	6.21%
1996	4,959	1.90%	-0.03%			66.64% \$	67.58 \$	45.03	5.09%
1997	5,337	3.51%	7.06%			68.93% \$	72.75 \$	50.15	11.35%
1998	5,469	6.60%	4.58%			67.63% \$	76.92 \$	52.02	3.73%
1999	6,198	10.88%	9.79%			66.96% \$	76.99 \$	51.55	-0.89%
2000	6,516	6.47%	16.53%			73.29% \$	77.18 \$	56.57	9.73%
2001	6,595	2.25%	-2.87%			69.62% \$	81.16 \$	56.50	-0.12%
2002	6,675	0.75%	-8.78%			63.03% \$	83.51 \$	52.64	-6.84%
2003	6,577	-0.16%	-0.22%			63.00% \$	81.18 \$	51.14	-2.85%
2004	6,955	1.15%	6.01%			66.02% \$	84.65 \$	55.89	9.28%
2005	7,059	4.68%	7.00%			67.48% \$	93.70 \$	63.23	13.14%
2006	7,306	1.89%	-2.23%			64.75% \$	102.89 \$	66.62	5.37%
2007	7,419	3.56%	-0.94%			61.94% \$	105.44 \$	65.32	-1.96%
2008	7,648	0.86%	0.70%			61.85% \$	109.08 \$	67.47	3.29%
2009	7,648	2.82%	0.21%			60.28% \$	101.24 \$	61.03	-9.54%
2010	7,847	1.96%	5.21%			62.20% \$	100.67 \$	62.61	2.60%
2011	7,769	-0.33%	4.44%			65.18% \$	100.23 \$	65.33	4.34%
<b>Compound Growth Rate Last 2006-2011 Year</b>		<b>1.76%</b>	<b>1.90%</b>	<b>0.13%</b>	<b>-0.52%</b>	<b>-0.39%</b>			
<b>Compound Growth Rate Last 2001-2011 Year</b>		<b>1.71%</b>	<b>1.04%</b>	<b>-0.66%</b>	<b>2.13%</b>	<b>1.46%</b>			
<b>Compound Growth Rate Last 1996-2011 Year</b>		<b>3.09%</b>	<b>2.93%</b>	<b>-0.15%</b>	<b>2.66%</b>	<b>2.51%</b>			
<b>Compound Growth Rate Last 1991-2011 Year</b>		<b>2.49%</b>	<b>2.65%</b>	<b>0.16%</b>	<b>2.96%</b>	<b>3.13%</b>			

Source: PKF Hospitality Research, Smith Travel Research

## COMPETITIVE MARKET ANALYSIS

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### COMPETITIVE HOTEL MARKET

#### **Introduction**

Supply and demand factors for the subject's competitive market have been analyzed for the years 2008 through 2011. HRA has also forecasted the supply and demand for the competitive set through the forecasting period for the subject hotel. The subject is projected to open on January 1, 2016. Although both supply and demand conditions are likely to change beyond our analysis period, forecasting market conditions further into the future becomes highly speculative. The estimates are for calendar years beginning with January. Our projections analyze currently known supply and demand changes in the market and forecast a stabilized level of occupancy for both the market and the subject hotel. The stabilized level is considered to estimate a representative level of performance for both the market and the subject based upon currently known information.

#### **Competitive Supply**

Based on interviews and research, HRA has identified a competitive hotel supply with a total of 1,577 guest rooms in eleven existing hotel properties. HRA has analyzed the competitiveness of each hotel selected for the competitive set. In my opinion, each of the primary hotels is in some degree competitive with the proposed subject. HRA has utilized 100 percent of the available guest rooms for the primary competitive set. Hotels within the secondary competitive set were found to be less than 100 percent competitive. In determining the competitive supply for the proposed subject, HRA has considered the proposed subject's segmentation and sources of business. The subject will be a year-round business-oriented property focusing on the transient overnight traveler with a significant emphasis on the weekend leisure traveler. The property will also have a respectable meeting room platform given the size of the hotel and will only be smaller than the two larger group oriented hotels. This will allow the property to be

## COMPETITIVE MARKET ANALYSIS

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flexible by going after group business to create compression for the hotel during weaker occupancy periods.

In this section, HRA has profiled and analyzed the local hotel supply of nearby upscale and upper upscale properties. While there are several other hotels in the subject market area that have closer proximity to the subject hotel than some of the hotels in the competitive set, these hotels were excluded from the primary and secondary competitive set due to conditions such as age, location, type of hotel, brand and target markets. These hotels included the Extended Stay America located off of exit 16 on I-270 just off of Father Hurley in Germantown, the Homestead Suites Hotel, located in the Cloverleaf Office Park between exits 15 and 16 on I-270 in Germantown and the Holiday Inn on Route 355 in Rockville. The following tables list the competitive properties and pertinent information about each hotel.

## COMPETITIVE MARKET ANALYSIS

### Competitive Set Individual Performance

Property	Rooms	Meeting Space	2008			2009			2010			2011			2008 Indices			2011 Indices		
			OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR
Sheraton Hotel Rockville	154	1,500	59.00%	\$ 143.00	\$ 84.37	58.00%	\$ 128.00	\$ 74.24	61.00%	\$ 124.00	\$ 75.64	64.00%	\$ 119.00	\$ 76.16	0.88	0.94	0.69	0.94	0.87	0.82
Hilton Gaithersburg	301	20,000	70.00%	\$ 168.00	\$ 117.60	70.00%	\$ 153.00	\$ 107.10	70.00%	\$ 151.00	\$ 105.70	69.00%	\$ 146.00	\$ 100.74	1.04	1.10	1.15	1.01	1.07	1.08
Hyatt Summerfield Suites Gaithersburg	140	1,458	70.60%	\$ 135.84	\$ 95.90	65.60%	\$ 118.98	\$ 78.05	65.20%	\$ 119.83	\$ 78.13	63.70%	\$ 111.53	\$ 71.04	1.05	0.89	0.94	0.93	0.82	0.76
Marriott Gaithersburg Washingtonian	284	6,588	66.20%	\$ 157.05	\$ 103.97	67.50%	\$ 141.09	\$ 95.24	71.00%	\$ 142.49	\$ 101.17	69.70%	\$ 145.33	\$ 101.30	0.99	1.03	1.02	1.02	1.06	1.09
Courtyard Gaithersburg Washingtonian	210	2,700	68.00%	\$ 155.00	\$ 105.40	65.50%	\$ 144.00	\$ 94.32	69.80%	\$ 138.00	\$ 96.32	71.60%	\$ 139.00	\$ 99.52	1.01	1.02	1.03	1.05	1.02	1.07

### Secondary Set Individual Performance

Property	Rooms	Meeting Space	2008			2009			2010			2011			2008 Indices			2011 Indices		
			OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR	OCC	ADR	RevPAR
Fairfield Inn Germantown	87	533	77.00%	\$ 129.00	\$ 99.33	72.60%	\$ 129.00	\$ 93.65	74.70%	\$ 128.00	\$ 95.62	70.60%	\$ 134.00	\$ 94.60	1.08	0.94	1.12	1.00	1.08	1.08
Residence Inn Gaithersburg	132	720	79.10%	\$ 153.00	\$ 121.02	72.90%	\$ 142.00	\$ 103.52	77.20%	\$ 135.00	\$ 104.22	74.70%	\$ 137.00	\$ 102.34	1.11	1.12	1.36	1.06	1.10	1.17
Hampton Inn Germantown	178	2,185	56.00%	\$ 113.00	\$ 63.28	49.00%	\$ 108.00	\$ 52.92	54.00%	\$ 102.00	\$ 55.08	54.00%	\$ 100.00	\$ 54.00	0.78	0.83	0.71	0.76	0.80	0.62
Town Place Suites Gaithersburg	87	533	86.30%	\$ 96.00	\$ 82.85	75.80%	\$ 95.00	\$ 72.01	75.50%	\$ 101.00	\$ 76.26	78.50%	\$ 98.00	\$ 76.93	1.21	0.70	0.93	1.11	0.79	0.88
Hilton Garden Inn Rockville	112	3,200	NA	NA	NA	NA	NA	NA	74.00%	\$ 126.00	\$ 93.24	75.00%	\$ 137.00	\$ 102.75	NA	NA	NA	1.06	1.10	1.18
Homewood Suites Rockville	87	0	NA	NA	NA	NA	NA	NA	76.00%	\$ 135.00	\$ 102.60	85.00%	\$ 137.00	\$ 116.45	NA	NA	NA	1.20	1.10	1.33

Note: Data does not correlate exactly with reported data from STR for the market. This is due to discrepancies in how properties may report complimentary rooms and other deductions from the room rates such as free breakfast. These services are typically deducted from the STR reported data to ensure better comparability and are therefore lower than these reported results from the hotels. The hotel reported rates are used for competitive set forecasts as these additional services are deducted from each hotels respective financial statement.



# COMPETITIVE MARKET ANALYSIS

**Hyatt Place**  
**10 Seneca Meadows Parkway**  
**Germantown, MD**  
**A 159 Room Select Service Hotel Property**  
**Facilities Overview & Market Comparisons**



Subject Facilities Program	Representative Set Facilities	Representative Set Facilities	Representative Set Facilities																																																
<b>Hyatt Place Germantown</b> 10 Seneca Meadows Parkway, Germantown, MD 20987 Phone: NA <b>Open: 2016</b> , HPG LLC <b>Site Profile:</b> Ground up development on Vacant Land <b>Competitive Assessment:</b> Excellent location with great visibility from Route 270 in the center of a Flex office park. Adjacent to retail, restaurants and health club. New North Montgomery County Hospital and major dem and generators nearby. Excellent access via exit 15 and 16 on/off route 270.	<b>Sheraton Rockville Hotel, Rockville, MD</b> 320 King Farm Blvd, Rockville, MD Phone: (240) 912-8200 <b>Open: 2006-Not Renovated</b> <b>Site Profile:</b> Existing Hotel <b>Competitive Assessment:</b> Property is newer and has good visibility from I-270. It has less favorable surrounding amenities and access is more limited to the site.	<b>Hilton Gaithersburg, MD</b> 620 Perry Parkway/Gaithersburg, MD Phone: (301) 468-1100 <b>Open: 1981-Extensive Renovation in 2006-07</b> <b>Site Profile:</b> Existing Hotel <b>Competitive Assessment:</b> Property is closer to some major demand generators, but is older and less desirable than the newer hotels. Location is slightly superior with access to 355 and I-270 both being visible. Property is closest to Lake Forest Mall.	<b>Hyatt House, Gaithersburg, MD</b> 200 Skidmore Boulevard Gaithersburg, MD Phone: (301) 527-6000 <b>Open: 1997</b> , Updated to Hyatt House 2012 <b>Site Profile:</b> Existing Hotel <b>Competitive Assessment:</b> Hyatt House is conveniently located in the middle of the Maryland Technology Corridor along I-270 and I-370, and one mile from the Shady Grove Metro Station on the Red Line, minutes from Rockville, Germantown, Bethesda. Poorer location																																																
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">Guestrooms and Suites.</th> <th style="width: 10%;">Kings</th> <th style="width: 10%;">DD</th> <th style="width: 10%;">Suites</th> </tr> </thead> <tbody> <tr> <td>Standard Rooms</td> <td>100</td> <td>55</td> <td>4</td> </tr> <tr> <td><b>Total Rooms</b></td> <td><b>159</b></td> <td></td> <td></td> </tr> </tbody> </table> <p>Size of room high tech features, expanded relaxation area and high end shower all make this a superior product in the market. Internet is free and parking is free.</p> <p>Expected Positioning: <b>More Competitive</b></p>	Guestrooms and Suites.	Kings	DD	Suites	Standard Rooms	100	55	4	<b>Total Rooms</b>	<b>159</b>			<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">Guestrooms and Suites.</th> <th style="width: 10%;">Kings</th> <th style="width: 10%;">DD</th> <th style="width: 10%;">Suites</th> </tr> </thead> <tbody> <tr> <td>Standard Rooms</td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Total Rooms</b></td> <td><b>154</b></td> <td></td> <td></td> </tr> </tbody> </table> <p>Rooms are relatively new but not on par with the new Hyatt Place. Internet service is an extra charge to guest.</p> <p>Expected Positioning: <b>Less Competitive</b></p>	Guestrooms and Suites.	Kings	DD	Suites	Standard Rooms				<b>Total Rooms</b>	<b>154</b>			<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">Guestrooms and Suites.</th> <th style="width: 10%;">Kings</th> <th style="width: 10%;">DD</th> <th style="width: 10%;">Suites</th> </tr> </thead> <tbody> <tr> <td>Standard Rooms</td> <td>189</td> <td>119</td> <td>7</td> </tr> <tr> <td><b>Total Rooms</b></td> <td><b>315</b></td> <td></td> <td></td> </tr> </tbody> </table> <p>Rooms have been upgrade with the renovation in 2006-07 but are significantly below the quality of the Hyatt Place. Rooms are smaller and offer fewer amenities. Property is only one that charges for parking to guests. Internet service is an extra charge to guest.</p> <p>Expected Positioning: <b>Primary-Less Competitive</b></p>	Guestrooms and Suites.	Kings	DD	Suites	Standard Rooms	189	119	7	<b>Total Rooms</b>	<b>315</b>			<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">Guestrooms and Suites.</th> <th style="width: 10%;">1 BedRM</th> <th style="width: 10%;">2 BedRM</th> <th style="width: 10%;">3 BedRM</th> </tr> </thead> <tbody> <tr> <td>Standard Rooms</td> <td></td> <td>82</td> <td>53</td> </tr> <tr> <td><b>Total Rooms</b></td> <td></td> <td><b>140</b></td> <td></td> </tr> </tbody> </table> <p>This is an extended stay facility and is designed like small apartments. Rooms include kitchens and one and two bedroom Suites. Internet service is free.</p> <p>Expected Positioning: <b>Primary-Less Competitive</b></p>	Guestrooms and Suites.	1 BedRM	2 BedRM	3 BedRM	Standard Rooms		82	53	<b>Total Rooms</b>		<b>140</b>	
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<b>F&amp;B Facilities</b> Three Meal: Yes Lobby Bar: Yes Other: Grab and Go The new lounge and restaurant will allow 24-7 dining for customers giving the hotel a competitive edge in the market. Very contemporary style and free breakfast will make this a compelling business and leisure draw. Expected Positioning: <b>More Competitive</b>	<b>F&amp;B Facilities</b> Three Meal: YES Lobby Bar: Yes Other: The Hilton Rockville Hotel is a full service restaurant and Bar. While offering a more full service restaurant experience, the hours are more limited. Expected Positioning: <b>More Competitive</b>	<b>F&amp;B Facilities</b> Three Meal: Yes Lobby Bar: Yes Other: The Hilton Rockville Hotel offers a variety of on-site dining options. The Hotel has a Tuscan themed restaurant that is open for breakfast, lunch and dinner. There are conference center dining areas, an entertainment lounge with snacks and light meals available and an excellent room service menu. Expected Positioning: <b>More Competitive</b>	<b>F&amp;B Facilities</b> Three Meal: No Lobby Bar: No Other: No F&B outlets but free continental breakfast and free social hour for drinks. Expected Positioning: <b>Less Competitive</b>																																																
<b>Meeting Facilities</b> Meeting space (Sq. Ft.) 3,900 Per Key: 24.5 The Hyatt Place will have 3,900 SF of flexible space that will offer high tech and contemporary surroundings. It should have a superior position in the group market against all competitors except the Hilton and Marriott. It will offer more modern space than either of these hotels but less banquet offerings and smaller spaces will limit the hotel to smaller groups typically in the 15-50 person range. Expected Positioning: <b>More Competitive</b>	<b>Meeting Facilities</b> Meeting space (Sq. Ft.) 1,500 Per Key: 9.74 Less meeting space than the new Hyatt, but modern and competitive. Meeting and Event Facilities with Natural Lighting *High Speed Internet Access in All Meeting/Event Facilities (Charge) *Projector Expected Positioning: <b>Less Competitive</b>	<b>Meeting Facilities</b> Meeting space (Sq. Ft.) 20,000 Per Key: 63.49 The Hilton offers the most meeting space in the market including the largest space at 5,450 SF. The property can service groups conference style adding to their flexibility. Expected Positioning: <b>More Competitive</b>	<b>Meeting Facilities</b> Meeting space (Sq. Ft.) 1,458 Per Key: 10.41 The property offers 3 flexible rooms with High Speed Internet and AV services. Expected Positioning: <b>Less Competitive</b>																																																
<b>Services &amp; Facilities</b> Fitness Center: Yes Notes: Pool: Indoor In-Room Dining: No Local Restaurant Delivery Valet Parking: No Business Center: Yes Laundry: No Gift/Newsstand: Limited Club Lounge: No	<b>Services &amp; Facilities</b> Fitness Center: Yes Notes: Pool: Indoor & Spa In-Room Dining: Yes Valet Parking: No 24-hour self serve Business Center: Yes Laundry: Yes Gift/Newsstand: Yes Gift Shop Club Lounge: Yes	<b>Services &amp; Facilities</b> Fitness Center: Yes Notes: Pool: Indoor & Spa In-Room Dining: Yes Valet Parking: No 24-hour self serve Business Center: Yes Laundry: Yes Gift/Newsstand: Yes Gift Shop Club Lounge: Yes	<b>Services &amp; Facilities</b> Fitness Center: Yes Notes: Pool: Outdoor In-Room Dining: No Local Restaurant Delivery Valet Parking: No Business Center: No 24-hour self serve Laundry: Yes Gift/Newsstand: No Club Lounge: No																																																
<b>General Assessment</b> Location: Excellent Guest Rooms: Excellent Food & Beverage: Good Meeting Space: Excellent Amenities: Good	<b>General Assessment</b> Location: Excellent Guest Rooms: Excellent Food & Beverage: Good Meeting Space: Fair Amenities: Fair	<b>General Assessment</b> Location: Good Guest Rooms: Fair Food & Beverage: Fair Meeting Space: Excellent Amenities: Good	<b>General Assessment</b> Location: Fair Guest Rooms: Good Larger with Kitchen Food & Beverage: Poor Meeting Space: Fair Amenities: Poor																																																

# COMPETITIVE MARKET ANALYSIS

## Hyatt Place 10 Seneca Meadows Parkway Germantown, MD A 159 Room Select Service Hotel Property

### Facilities Overview & Market Comparisons



Subject Facilities Program	Representative Set Facilities		
<b>Marriott Washingtonian</b> 8751 Washingtonian Boulevard, Gaithersburg, MD Phone: (301)-590-0044 Open: 1993 Renovated 2008 Site Profile: Ground up development on Vacant Land Competitive Assessment: Excellent location with great visibility from Route 270 in the heart of the Rio shopping and dining complex. Excellent location near demand generators and amenities.	<b>Courtyard Washingtonian</b> 204 Boardwalk Place Gaithersburg, MD Phone: (301) 527-9000 Open: 2006 Not Renovated Site Profile: Existing Hotel Competitive Assessment: Excellent location with great visibility from Route 270 in the heart of the Rio shopping and dining complex. Excellent location near demand generators and amenities.	<b>Hilton Garden Inn</b> 14975 Shady Grove Road Rockville, MD Phone: (240) 507-1800 Open: 2010 Site Profile: Existing Hotel Competitive Assessment: Excellent location with no visibility from Route 270 but good access to demand generators and area amenities. Newest product that competes well with Hyatt Place.	<b>Homewood Suites</b> 10 Seneca Meadows Parkway, Germantown, MD 20887 Phone: (240) 507-1900 Open: 2010 Site Profile: Existing Hotel Competitive Assessment: Excellent location with no visibility from Route 270 but good access to demand generators and area amenities. All suite product that competes well with Hyatt Place for leisure business and extended stay. Internet and parking are free to guests.

Guestrooms and Suites.	Kings	DD	Suites	Guestrooms and Suites.	Kings	DD	Suites	Guestrooms and Suites.	Kings	DD	Suites	Guestrooms and Suites.	Studio 1 BedRM	2 BedRM	
Standard Rooms	103	177	4	Standard Rooms	112	91	7	Standard Rooms	78	31	3	Standard Rooms	24	58	
<b>Total Rooms</b>	<b>284</b>			<b>Total Rooms</b>	<b>210</b>			<b>Total Rooms</b>	<b>112</b>			<b>Total Rooms</b>	<b>87</b>		
Guest rooms are updated but still far below the offerings of the Hyatt Place in terms of size, style and amenities. Internet service is extra but parking is free.				Rooms are good business hotel rooms with free Wifi internet service, however the product is significantly below the Hyatt Place in design and amenities. Parking is free.				Very Nicely appointed rooms for the business travel. High level of finish for a select service, just slightly below the Hyatt but with a better distribution system. Internet and parking are free to guests.				The kitchen is appointed with a full-size refrigerator, stove, microwave, dishwasher and cooking utensils. The living room area of our studios feature a full-size sleeper sofa and a large workspace.			
Expected Positioning: <b>Primary-Less Competitive</b>				Expected Positioning: <b>Primary-Less Competitive</b>				Expected Positioning: <b>Secondary-Equally Competitive</b>				Expected Positioning: <b>Secondary More Competitive</b>			

F&B Facilities	F&B Facilities	F&B Facilities	F&B Facilities
Three Meal: Yes Lobby Bar: Yes Other: The Grille features American cuisine in an upscale setting with classic décor. The restaurant also features a lounge. The restaurant is in great need of a renovation and only services hotel guests. Expected Positioning: <b>Less Competitive</b>	Three Meal: No Lobby Bar: No Other: Property offers breakfast only and customers pay for this service. Expected Positioning: <b>Less Competitive</b>	Three Meal: Yes Lobby Bar: Yes Other: Yes The property offers the American Grille open for breakfast, lunch and dinner with a full bar facility. The property also has a pantry and microwave area for snacks. Complimentary breakfast. Expected Positioning: <b>Secondary More Competitive</b>	Three Meal: Yes Lobby Bar: Yes Other: Yes The property offers the American Grille open for breakfast, lunch and dinner with a full bar facility. The property also has a pantry and microwave area for snacks. Each suite also has its own kitchen. Expected Positioning: <b>Secondary More Competitive</b>

Meeting Facilities	Meeting Facilities	Meeting Facilities	Meeting Facilities
Meeting space (Sq. Ft.) 6,588 Per Key: 23.20 Features 5 meeting rooms with largest space approximately 5,000 square feet. Product has been updated but still lacks refinement of the Hyatt Place meeting space. Expected Positioning: <b>Equally Competitive</b>	Meeting space (Sq. Ft.) 2,700 Per Key: 12.86 Meeting space is adequate given this is mostly a commercial and leisure hotel. Product is not at the same level or space as the Hyatt Place Expected Positioning: <b>Less Competitive</b>	Meeting space (Sq. Ft.) 3,200 Per Key: 16.08 Largest space is 2,300. Property is equipped with high speed internet services and AV. Space is flexible and contemporary. Expected Positioning: <b>Secondary Less Competitive</b>	Meeting space (Sq. Ft.) No Per Key: All the meeting space is located in the adjacent Hilton Garden Inn Expected Positioning: <b>Secondary Less Competitive</b>

Services & Facilities	Services & Facilities	Services & Facilities	Services & Facilities
Fitness Center: Yes Notes: Pool: Indoor In-Room Dining: Yes Valet Parking: No Business Center: Yes Laundry: No Gift/Newsstand: Yes Small off of Desk Club Lounge: Yes	Fitness Center: Yes Notes: Pool: Indoor In-Room Dining: No Local Restaurant Delivery Valet Parking: No Business Center: Yes Self Service Laundry: Yes Gift/Newsstand: Yes Sundries only off front desk Club Lounge: No	Fitness Center: Yes Notes: Pool: Indoor In-Room Dining: Yes Dinner Only Valet Parking: No Business Center: Yes Self Service Laundry: Yes Gift/Newsstand: Yes Sundries only off front desk Club Lounge: No	Fitness Center: Yes Notes: Pool: Indoor In-Room Dining: Yes Dinner Only Valet Parking: No Business Center: Yes Laundry: Yes Gift/Newsstand: Yes Sundries only off front desk Club Lounge: No

General Assessment	General Assessment	General Assessment	General Assessment
Location: Excellent Guest Rooms: Fair Food & Beverage: Fair Meeting Space: Good Amenities: Excellent	Location: Excellent Guest Rooms: Good Food & Beverage: Poor Meeting Space: Fair Amenities: Excellent	Location: Good Guest Rooms: Excellent Food & Beverage: Good Meeting Space: Fair Amenities: Good	Location: Good Guest Rooms: Excellent Food & Beverage: Good Meeting Space: Fair Amenities: Good

# COMPETITIVE MARKET ANALYSIS

## Hyatt Place 10 Seneca Meadows Parkway Germantown, MD A 159 Room Select Service Hotel Property

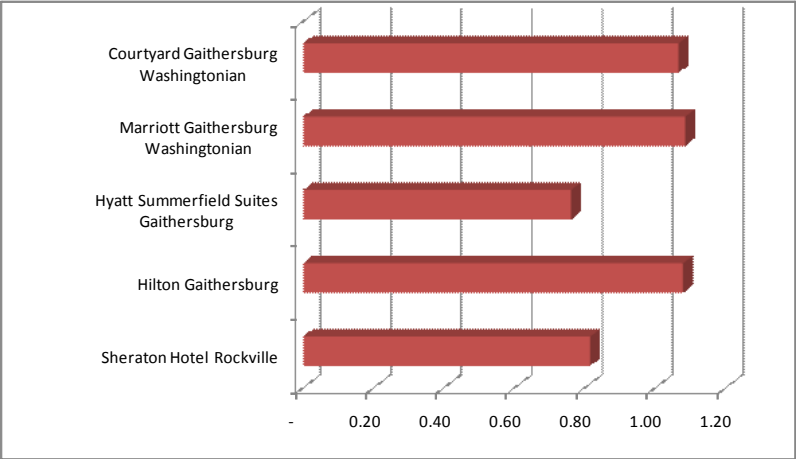
### Facilities Overview & Market Comparisons



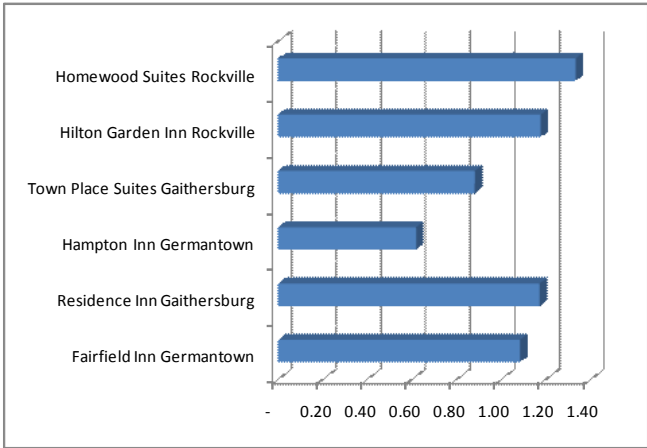
Representative Set Facilities				Representative Set Facilities				Representative Set Facilities				Representative Set Facilities			
<b>Residence Inn Germantown</b> 9721 Washingtonian Blvd. Gaithersburg, MD Open: 2002 Phone: (301)590-3003 Site Profile: Existing Hotel <b>Competitive Assessment:</b> Excellent location with great visibility from Route 270 in the heart of the Rio shopping and dining complex. Excellent location near demand generators and amenities.				<b>Town Place Suites</b> 212 Perry Parkway Gaithersburg, MD Open: 1998 Renovated 2008 Phone: (301)590-2300 Site Profile: Existing Hotel <b>Competitive Assessment:</b> Location is below average for those on I-270 and has limited visibility. Close to demand generators and				<b>Hampton Inn Germantown</b> 10 Seneca Meadows Parkway, Germantown, MD 20987 Open: 1987 Renovated 2009 Phone: (301)916-0750 Site Profile: Existing Hotel <b>Competitive Assessment:</b> Good location with average visibility from Route 270 off of 15A. Close to Montgomery college and Seneca Meadows Office Park and down the street from Department of Energy. Will be very competitive from a location standpoint with Hyatt Place, although weaker access, visibility and lower tier product.				<b>Fairfield Inn Germantown</b> 20025 Century Blvd Germantown, MD Open: 2005 Will renovate in 2012/13 Phone: (301)916-0750 Site Profile: Existing Hotel <b>Competitive Assessment:</b> Strong location with limited visibility from Route 270 across from Dep of Energy and several restaurants within walking distance. Of exit 15B, it will compete with the subject at a lower price point.			
<b>Guestrooms and Suites.</b>	Studio	1 bedRM	2 BedRM	<b>Guestrooms and Suites.</b>	Studio	1 BEDRM	2 BEDRM	<b>Guestrooms and Suites.</b>	Kings	DD	Suites	<b>Guestrooms and Suites.</b>	Kings	DD	Suites
Standard Rooms	50	50	32	Standard Rooms	40	36	15	Standard Rooms	96	78	4	Standard Rooms	25	35	27
<b>Total Rooms</b>	132			<b>Total Rooms</b>	91			<b>Total Rooms</b>	178			<b>Total Rooms</b>	87		
Upper upscale all-suite product for extended stay traveler. Offers free parking and internet access. All rooms have kitchens.				All rooms are studios or suites and offer full kitchens. Internet and parking are free to guests.				Internet and parking are free to guests.				Microwaves in room. Free wireless internet.			
Expected Positioning: <b>Secondary More Competitive</b>				Expected Positioning: <b>Secondary Less Competitive</b>				Expected Positioning: <b>Secondary Less Competitive</b>				Expected Positioning: <b>Secondary Less Competitive</b>			
<b>F&amp;B Facilities</b>				<b>F&amp;B Facilities</b>				<b>F&amp;B Facilities</b>				<b>F&amp;B Facilities</b>			
Three Meal: No Lobby Bar: No Other:				Three Meal: No Lobby Bar: No Other: Convenience Market				Three Meal: No Lobby Bar: No Other: Limited Grab and Go.				Three Meal: No Lobby Bar: No Other:			
Free hot breakfast and happy hour. Local restaurants within walking distance that also provide delivery.				Very limited, just a convenience market				Free complimentary hot breakfast. Access to area restaurants but need to get in car.				Free continental breakfast. Local restaurants within walking distance that also provide deliver.			
Expected Positioning: <b>Secondary Less Competitive</b>				Expected Positioning: <b>Secondary Less Competitive</b>				Expected Positioning: <b>Secondary Less Competitive</b>				Expected Positioning: <b>Secondary Less Competitive</b>			
<b>Meeting Facilities</b>				<b>Meeting Facilities</b>				<b>Meeting Facilities</b>				<b>Meeting Facilities</b>			
Meeting space (Sq. Ft.) 720 Per Key: 5.45				Meeting space (Sq. Ft.) 0 Per Key: 0				Meeting space (Sq. Ft.) 2,185 Per Key: 12.70				Meeting space (Sq. Ft.) 533 Per Key: 6.13			
Minimal Space, and lack of significant F&B Support.				No meeting space, send business to other hotels. Group business only that does not require space.				Four meeting rooms with the largest at 703 SF. Offer WiFi and limited AV.				Minimal Space, and lack of significant F&B Support.			
Expected Positioning: <b>Secondary Less Competitive</b>				Expected Positioning: <b>Secondary Less Competitive</b>				Expected Positioning: <b>Secondary Less Competitive</b>				Expected Positioning: <b>Secondary Less Competitive</b>			
<b>Services &amp; Facilities</b>				<b>Services &amp; Facilities</b>				<b>Services &amp; Facilities</b>				<b>Services &amp; Facilities</b>			
Fitness Center Yes Notes:				Fitness Center Yes Notes:				Fitness Center Yes Notes:				Fitness Center Yes Notes:			
Pool Outdoor				Pool No				Pool Outdoor May-Oct				Pool Indoor			
In-Room Dining No Local Restaurant Delivery				In-Room Dining No Local Restaurant Delivery				In-Room Dining No Local Restaurant Delivery				In-Room Dining No Local Restaurant Delivery			
Valet Parking No				Valet Parking No				Valet Parking No				Valet Parking No			
Business Center No				Business Center No				Business Center Yes Self Service				Business Center No			
Laundry No				Laundry No				Laundry No				Laundry No			
Gift/Newsstand No				Gift/Newsstand No				Gift/Newsstand Yes Sundries				Gift/Newsstand No			
Club Lounge No				Club Lounge No				Club Lounge No				Club Lounge No			
<b>General Assessment</b>				<b>General Assessment</b>				<b>General Assessment</b>				<b>General Assessment</b>			
Location: Excellent				Location: Fair				Location: Good				Location: Good			
Guest Rooms: Excellent				Guest Rooms: Good				Guest Rooms: Poor				Guest Rooms: Fair			
Food & Beverage: Fair				Food & Beverage: Poor				Food & Beverage: Poor				Food & Beverage: Poor			
Meeting Space: Poor				Meeting Space: Poor				Meeting Space: Fair				Meeting Space: Poor			
Amenities: Fair				Amenities: Poor				Amenities: Poor				Amenities: Fair			

# COMPETITIVE MARKET ANALYSIS

Primary Comp Set 2011 RevPAR Index

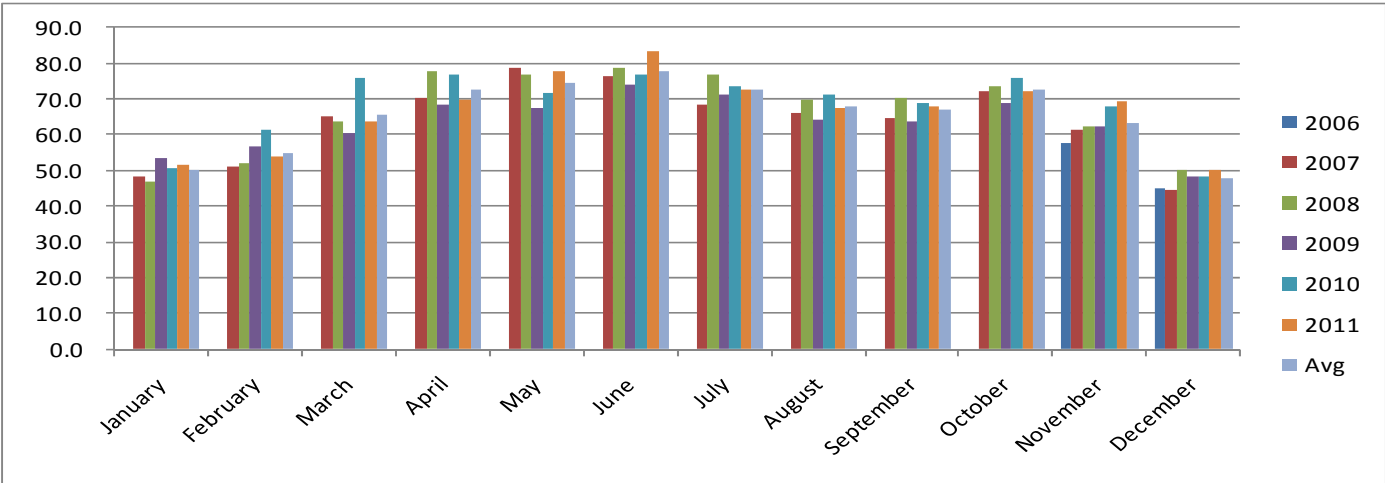


Secondary Comp Set 2011 RevPAR Index

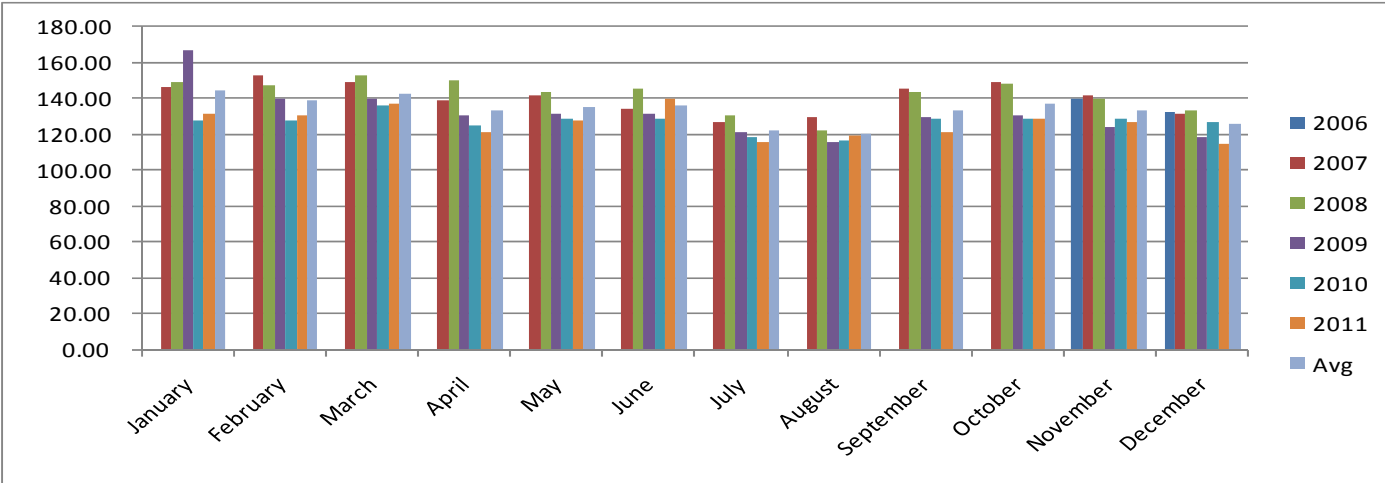


**COMPETITIVE MARKET ANALYSIS**

**Occupancy Performance Primary Competitive Set by Month 2006-2011**



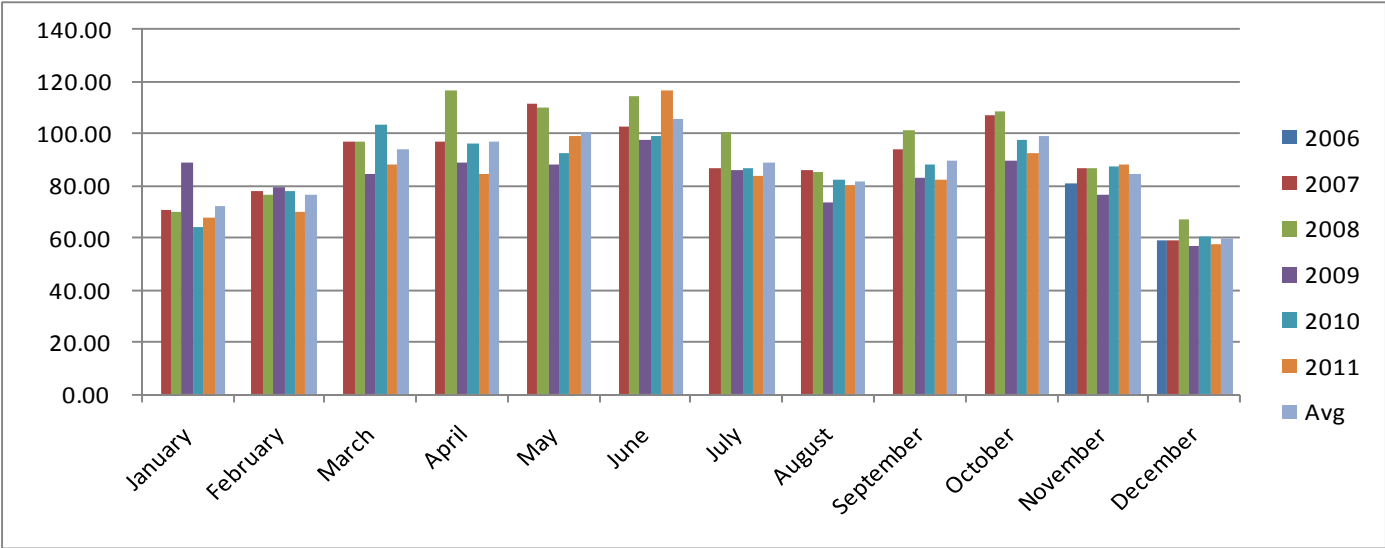
**ADR Performance Primary Competitive Set by Month 2006-2011**



**COMPETITIVE MARKET ANALYSIS**

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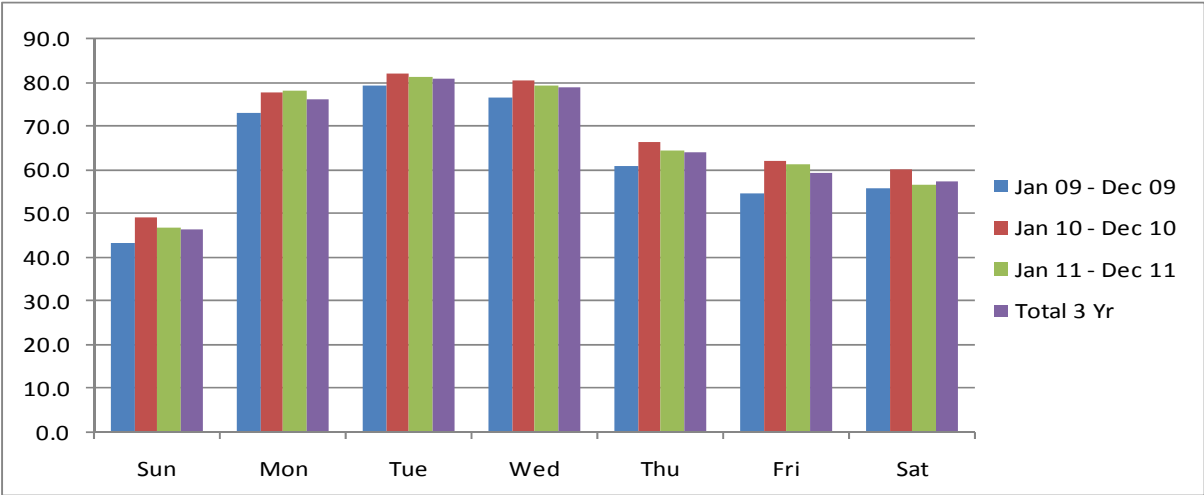
**RevPAR Performance Primary Competitive Set by Month 2006-2011**



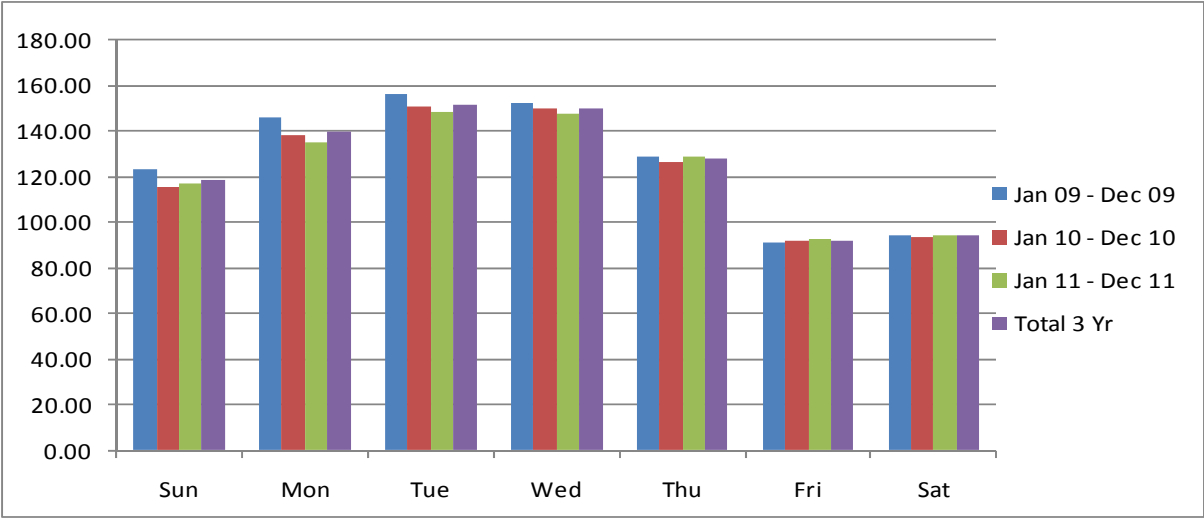
Occupancy tends to be relatively weaker December through February. The softness in these months is due to the markets weighted more heavily toward corporate and corporate group demand, as well as government and government group demand, when overall activity slows in these colder months.

**COMPETITIVE MARKET ANALYSIS**

**Occupancy Performance Primary Competitive Set by Day of Week 2006-2011**

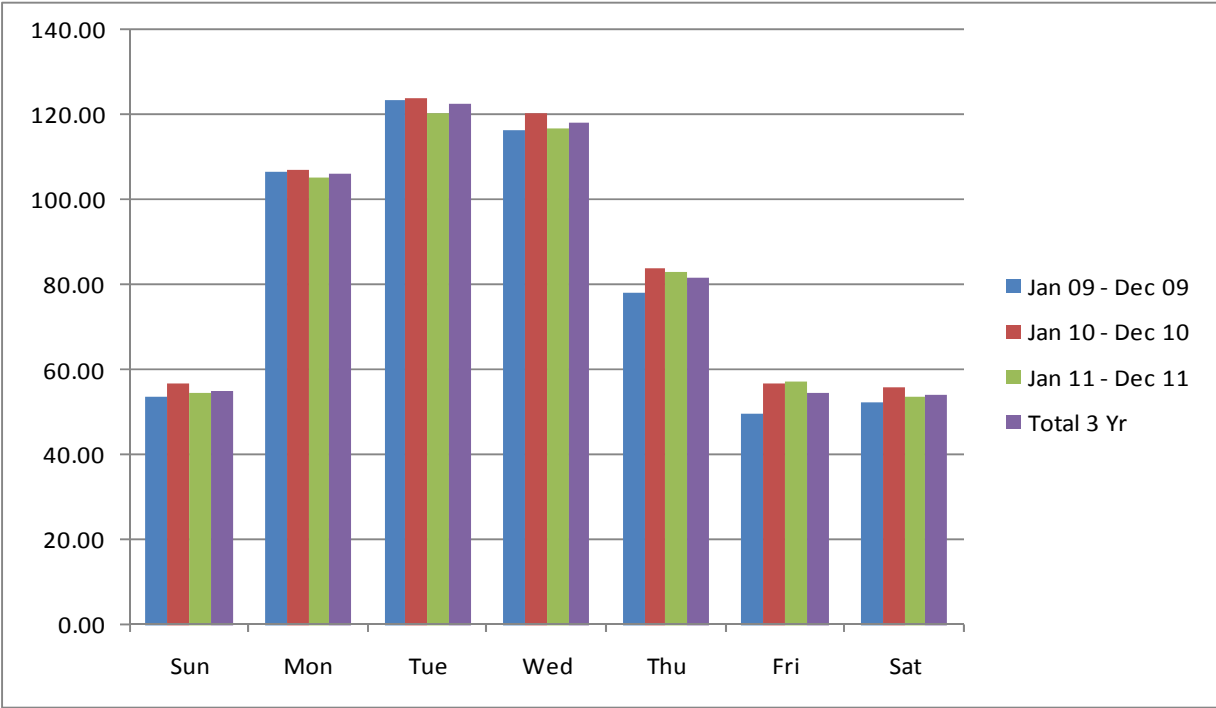


**ADR Performance Primary Competitive Set by Day of Week 2006-2011**



COMPETITIVE MARKET ANALYSIS

RevPAR Performance Primary Competitive Set by Day of Week 2006-2011

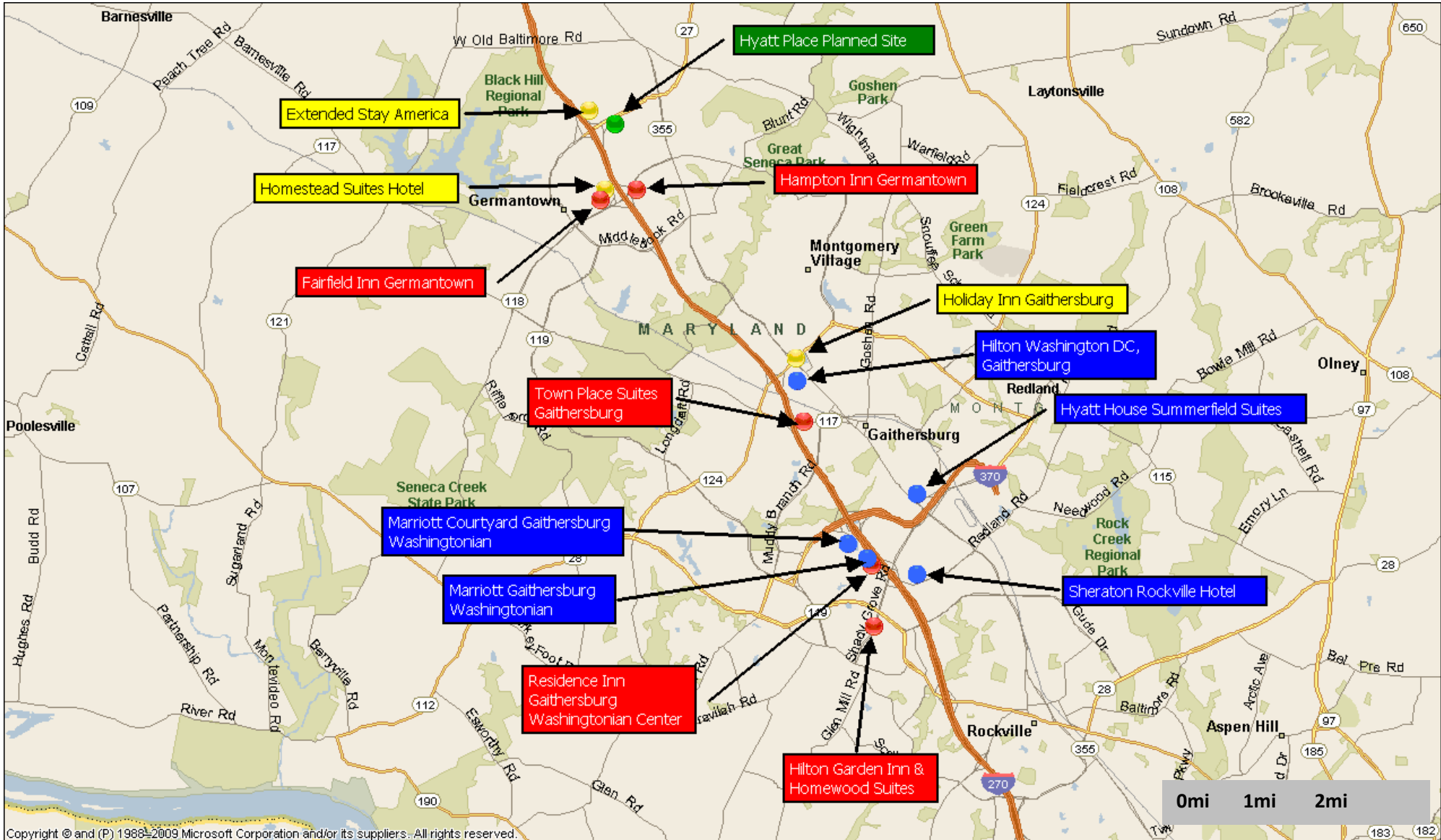


The market’s Day of Week pattern is also typical for markets with heavy corporate and government demand. Tuesday and Wednesday are peak nights, while Monday and Thursday are strong but characterized as “shoulder” nights. There is noticeable decline in occupancy levels on Friday, Saturday, and Sunday, with depressed RevPAR levels on these days.



**COMPETITIVE MARKET ANALYSIS**

**Competitive Set Map**



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## COMPETITIVE MARKET ANALYSIS

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### Sheraton Rockville Hotel, Rockville, MD



The Sheraton Rockville Hotel is located at 920 King Farm Boulevard, Rockville, Maryland. The 154-unit property features one restaurant, one lounge, indoor swimming pool, approximately 1,500 square feet of meeting space, fitness center, and business center. This hotel opened November 11, 2006 and appeared to stabilize in 2009. The market segmentation of this hotel is estimated to be 30 percent commercial, 45 percent group, and 25 percent leisure. Previously, the group booking window was 30 to 60 days. Currently, it is 14 to 21 days, demonstrating the softness of group business. The hotel is primarily a business and group hotel. Commercial and group demand is generated from the numerous tenants within the suburban office buildings, both private and public sector tenants. Within the past year, management has backfilled reduced commercial transient demand with lower ADR tour groups. When the economy improves, management anticipates realizing its previous national account demand levels. Estimated 2011 ADR is in the range of \$117 to \$122 at an occupancy rate

## COMPETITIVE MARKET ANALYSIS

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between 62 and 66 percent. This property will compete for both commercial transient and leisure guests. The Sheraton offers a similar style hotel with slightly worse facilities than the proposed Hyatt Place. The location is comparable to the subject, albeit it is closer to major demand generators in Rockville and Gaithersburg. It also faces a more stiff competition and inferior location to many of its nearby competitors. The subject property should perform at a level superior to this hotel when stabilized.

### **Hilton Gaithersburg, Gaithersburg, MD**



The Hilton Washington DC Rockville is located at 620 Perry Parkway, Gaithersburg, Maryland. The 315-unit property features one restaurant, one lounge, an indoor swimming pool, 20,000 square feet of meeting space, fitness center, and business center. This hotel underwent an extensive \$22 million renovation from 2006 to 2007 that affected nearly every part of the hotel. The market segmentation of this hotel is estimated to be 20 to 30 percent commercial, 60 percent group, and 10 to 20 percent

## COMPETITIVE MARKET ANALYSIS

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leisure. Previously, the group booking window was 65 days. Currently, it is less than 45 days, demonstrating that group business is still soft. The hotel is primarily a business and group hotel. Business and government clients constitute a significant amount of demand north of the Beltway, while associations generate a significant amount of demand south of the Beltway. Weekends are soft. Weekend business tends to be social in nature, e.g., weddings and other formal social events. Estimated 2011 ADR is in the range of \$144 to \$148 at an occupancy rate of between 67 and 71 percent. This property will compete for both commercial transient and group guests. This hotel has been impacted significantly by newer hotels entering the market and will definitely feel the impact of the proposed hotel. This hotel is more reliant on group, but will face stiff competition from the Hyatt Place for commercial and leisure as the new product is significantly better than this renovated hotel. It should be able to achieve a premium on this hotel once stabilized.

### **Hyatt House (Summerfield Suites) Gaithersburg, MD**



The Hyatt House Hotel is located at 200 Skidmore Boulevard, Gaithersburg, Maryland. This Gaithersburg hotel is nestled in a residential area and an easy drive to nearby business centers, an abundance of shopping, dining, entertainment and exciting sightseeing venues. The 140-unit property is an extended stay facility featuring spacious

## COMPETITIVE MARKET ANALYSIS

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apartment style suites with fully equipped kitchens. The property offers a complimentary full breakfast buffet and evening free cocktail reception. The property has an outdoor swimming pool, a sports court, a 24-hour fitness center, business center and approximately 1,458 square feet of meeting space. This hotel opened May 1997 and will be renovated in 2012. The market segmentation of this hotel is estimated to be 60 percent commercial, 15 percent group, and 25 percent leisure. The hotel is primarily a business and leisure extended stay hotel. Commercial and group demand is generated from the numerous tenants within the suburban office buildings, both private and public sector tenants. Estimated 2011 ADR is in the range of \$117 to \$122 at an occupancy rate between 62 and 66 percent. This property will compete for both commercial transient and leisure guests. This hotel is considered in the primary set since it is the only other Hyatt hotel located along the I-270 corridor and will share the reservation system with the proposed hotel. The hotels are positioned to go after different markets as the Hyatt House is looking for longer term stay customers than the proposed hotel.

### **Marriott Gaithersburg Washingtonian, Gaithersburg, MD**



## COMPETITIVE MARKET ANALYSIS

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The Marriott Gaithersburg Washingtonian Hotel is located at Boulevard, Gaithersburg, Maryland. The 284-unit property features one restaurant, one lounge, indoor swimming pool, approximately 6,558 square feet of meeting space, fitness center, and business center. This hotel opened June 1993 and completed a meeting space renovation in 2006 and a room renovation in 2008. The property completed a façade restoration in 2011 but still requires a substantial renovation to public spaces currently not scheduled until 2014. The market segmentation of this hotel is estimated to be 45 percent commercial, 35 percent group, and 20 percent leisure. The hotel is primarily a business and group hotel. Commercial and group demand is generated from the numerous tenants within the Rio Center and offices along the I-270 corridor. Recent completion and connection of the Inter-county Connector to I-370, near the hotel will create additional economic activity in the area. Also announcement of Great Seneca Science Corridor Master Plan and Science City will create additional demand in the area. This master plan includes 17.5 million square feet of commercial development and the Corridor Cities Transitway, a 14 miles line that will connect Clarksburg and Shady Grove. Estimated 2011 ADR is in the range of \$117 to \$122 at an occupancy rate between 62 and 66 percent. This property will compete for both commercial transient and leisure guests. This property is suffering from its age and extreme amount of newer Marriott product in the immediate vicinity. From a product standpoint, the proposed hotel is significantly better, however, the Marriott currently holds a better location near major demand generators. Access is more difficult but the property has excellent visibility.

## COMPETITIVE MARKET ANALYSIS

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### Marriott Courtyard Gaithersburg Washingtonian, Gaithersburg, MD



The Courtyard Gaithersburg Washingtonian Center Hotel is located at 204 Boardwalk Place, Gaithersburg, Maryland. The 210-unit property features one restaurant/lounge, indoor swimming pool, approximately 2,700 square feet of meeting space, fitness center, and business center. Parking is located in the parking garage adjacent to the hotel. This hotel opened May 2006 and appeared to stabilize in 2008. The market segmentation of this hotel is estimated to be 60 percent commercial, 15 percent group, and 25 percent leisure. The hotel is primarily a business and leisure hotel. Located lakeside in the heart of the upscale Gaithersburg Washingtonian Center and Rio Entertainment complex, this Gaithersburg hotel is steps from shops, dining and entertainment, and minutes from I-270 and area business parks. Estimated 2011 ADR is in the range of \$117 to \$122 at an occupancy rate between 62 and 66 percent. This property will compete for both commercial transient and leisure guests. This property is slightly below the subject property in terms of product, but is located within a superior venue and is closer to demand generators.

### Secondary Competitors in the Market

#### Fairfield Inn, Germantown, MD



The Fairfield Inn Germantown is located at 20025 Century Blvd. Germantown, Maryland. The 87-unit property was completed in 2005 and features an indoor swimming pool, 533 square feet of meeting space and a fitness center. Complimentary high-speed internet access is available in guestrooms and public areas. The property does offer a continental breakfast and local restaurants provide in-room dining options for delivery. Estimated 2011 ADR is in the range of \$132 to \$136 at an occupancy rate of between 69 and 73 percent. The market segmentation of this hotel is estimated to be 60 percent commercial, 10 percent group, and 30 percent leisure. This property will compete indirectly with the proposed subject as it is a lower tier product, but will target similar leisure and corporate customers.



## COMPETITIVE MARKET ANALYSIS

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### Residence Inn Gaithersburg Washingtonian Center, Gaithersburg, MD



The Residence Inn Gaithersburg Washingtonian Center is located at 9721 Washingtonian Blvd. Gaithersburg, Maryland. The 132-unit property was completed in 2002 and features a clubhouse that serves a continental breakfast and happy hour, a heated outdoor swimming pool, 720 square feet of meeting space, a fitness center, outdoor barbeque area. Complimentary high-speed internet access is available in guestrooms and public areas. This is Marriott's upscale extended stay hotel product and targets corporate relocations, extended training sessions or others that need a longer term accommodation. The property also is well received by leisure customers because of the suite product which include a kitchenette facility in each unit. Estimated 2011 ADR is in the range of \$135 to \$140 at an occupancy rate of between 73 and 78 percent. The market segmentation of this hotel is estimated to be 55 percent commercial, 15 percent group, and 30 percent leisure. This property will compete

## COMPETITIVE MARKET ANALYSIS

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indirectly at 50 percent with the proposed subject due to location. This property will typically outperform the proposed hotel due to location and all suite configurations.

### **Hampton Inn, Germantown, MD**



The Hampton Inn Germantown is located at 20260 Goldenrod Lane, Germantown, Maryland. The 178-unit property was completed in 1987. Recreational amenities include an outdoor pool and a fitness facility. This Germantown property has 2,185 square feet of event space consisting of banquet facilities and conference/meeting rooms. The hotel serves a complimentary hot and cold buffet breakfast. Guest parking is also complimentary. Limited business services also are available. Complimentary high-speed internet access is available in guestrooms and public areas. Estimated 2011 ADR is in the range of \$98 to \$102 at an occupancy rate of between 52 and 56 percent. The market segmentation of this hotel is estimated to be 50 percent commercial, 20 percent group, and 30 percent leisure. The property is the closest property in proximity to the subject hotel in the primary or secondary competitive sets. This property is dated, is located with difficult access, and has a poor feel versus the newer properties in the area. The property has an inferior location to the subject hotel because there are no adjacent amenities that guest can walk to from the property. The product is also a tier below the proposed hotel and will likely lose its higher end business to the subject hotel

## COMPETITIVE MARKET ANALYSIS

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for customers in the direct vicinity. It will be only 50 percent competitive for these reasons.

### **Town Place Suites Gaithersburg, MD**



The TownePlace Suites Gaithersburg is located at 212 Perry Parkway Gaithersburg, Maryland. The 91-unit property was completed in 1998. This is Marriott's lower priced extended stay facility product and does not offer a restaurant, pool or business center. It does have a 24 hour fitness center and outdoor putting green. This extended stay hotel in Gaithersburg, an all-suites hotel designed for the busy traveler, features spacious layouts with luxurious bedding and full kitchens that include a refrigerator, microwave, dishwasher and stove top. Keep hunger at bay at the 24 hour convenience market. Guests stay connected with free wireless Internet. Other amenities at this Gaithersburg, MD hotel include BBQ, daily housekeeping and complimentary local phone calls.

TownePlace Suites Gaithersburg is located near Shady Grove Hospital, Lake Forest Mall, Montgomery County Fairgrounds and the I-270 business corridor. Estimated 2011 ADR is in the range of \$95 to \$100 at an occupancy rate of between 76 and 81 percent. The market segmentation of this hotel is estimated to be 65 percent commercial, 5 percent group, and 30 percent leisure. This property will compete indirectly with the

## COMPETITIVE MARKET ANALYSIS

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proposed subject as it will compete for corporate business along the I-270 corridor. Its suite design will also help it compete for leisure demand on weekends. The product is not of the same quality as the subject hotel and does not have the locational amenities that will be available at the subject hotel. It is considered only 50 percent competitive.

### **Hilton Garden Inn & Homewood Suites, Rockville MD**



The Hilton Garden Inn Rockville-Gaithersburg is located at 14975 Shady Grove Road, Rockville, Maryland. The new 112-unit property was completed in April 2010 and features one restaurant that is open for breakfast and dinner, an indoor swimming pool, 3,200 square feet of meeting space, a fitness center, and a business center. Complimentary high-speed internet access is available in guestrooms and public areas. Estimated 2010 ADR is in the range of \$135 to \$140 at an occupancy rate of between 73 and 78 percent. The market segmentation of this hotel is estimated to be 45 percent commercial, 25 percent group, and 30 percent leisure. This property will compete directly with the proposed subject but is only accounted for 75 percent competitiveness due to location.

## **COMPETITIVE MARKET ANALYSIS**

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Homewood Suites Rockville-Gaithersburg is located adjacent to the Hilton Garden Inn and was completed at the same time. The two properties share a common entrance. Targeting the extended-stay guest, Homewood Suites features 87 guestrooms (studio, one bedroom, and two bedroom suites), of which eight have a double-double configuration. The food and beverage operation is limited to room service for dinner only. All guestrooms and public spaces are equipped with complimentary high-speed internet access. Other amenities include an indoor pool, fitness center, and business center. 3,200 square feet of meeting space is shared with the Hilton Garden Inn. Estimated 2011 ADR is in the range of \$135 to \$140 at an occupancy rate of between 83 and 87 percent. The market segmentation of this hotel is estimated to be 55 percent commercial, 10 percent group, and 35 percent leisure. Given the target market, Homewood Suites is considered 50 percent competitive with the proposed hotel.

### **COMPETITIVE SET HISTORICAL SUPPLY AND DEMAND ANALYSIS**

The following sections discuss the historical changes in the supply of and demand for hotel accommodations in the identified market area.

#### **Historical Performance**

The following data summarizes year-end aggregate performance for the competitive set from 2007 through 2011. As the data indicate, the Compound Annual Growth Rate (CAGR) for demand outpaced that for supply, .85 percent to 0.0 percent, respectively from 2007 through 2011. Consequently, occupancy increased from 63.96 percent to 66.72 percent. In the early part of the economic recession, hoteliers generally did not discount ADR to maintain occupancy levels. However, this practice subsided in 2009 when ADR growth turned negative (-7.73 percent). Hoteliers succeeded in improving

## COMPETITIVE MARKET ANALYSIS

demand in 2010, with improved market occupancy of 68.22 percent with resultant RevPAR increase of 4.29 percent. However, this went negative again in 2011 and RevPAR declined 2.46 for 2011. The CAGR for RevPAR during the period studied was slightly negative.

With the Hilton Garden Inn and Homewood Suites coming on-line, demand out-paced supply in the secondary competitive set. While these hotels are not 100 percent competitive with the proposed, they did have an impact on the primary competitive set hotels and the addition of the two new hotels were parts of the reason for the decline in RevPAR for the primary competitive set. ADR discounting has slowed and it appears that this trend will be reversed going forward as the market strengthens.

Historical Market Performance of the Competitive Supply												
Year	Market Totals			Change to Prior Year			Market Statistics			Change to Prior Year		
	Supply	Demand	Revenue	Supply	Demand	Revenue	Occ	ADR	RevPAR	Occ	ADR	RevPAR
2007	397,485	254,221	35,698,169				63.96%	\$ 140.42	\$ 89.81			
2008	397,485	264,772	37,564,127	0.00%	4.15%	5.23%	66.61%	\$ 141.87	\$ 94.50	4.15%	1.03%	5.23%
2009	397,485	251,461	32,916,432	0.00%	-5.03%	-12.37%	63.26%	\$ 130.90	\$ 82.81	-5.03%	-7.73%	-12.37%
2010	397,485	271,155	34,328,577	0.00%	7.83%	4.29%	68.22%	\$ 126.60	\$ 86.36	7.83%	-3.28%	4.29%
2011	397,485	265,210	33,485,054	0.00%	-2.19%	-2.46%	66.72%	\$ 126.26	\$ 84.24	-2.19%	-0.27%	-2.46%

The above trends are consistent with information gleaned from representatives at competitive hotels that indicated hotels in the market discounted rates in order to drive occupancy. If there is a concern with this strategy, it is that this short-term value play, where guests are getting more “bang for the buck” at nicer hotels, may negatively impact hotels from increasing ADR at historical levels (on an annual basis). HRA is of the opinion that typical ADR growth will resume in 2012 for the competitive set.

### Demand Segmentation

Overall demand in the competitive market area may be categorized into three primary segments that are traditionally tracked in the subject market area. Each segment may be broken down further into sub segments, but we believe that, presented as three segments, the following depicts an accurate representation of demand within the primary and secondary competitive set. For purposes of evaluating the various demand

## COMPETITIVE MARKET ANALYSIS

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segments for the market, HRA has collected segmentation data for the entire Rockville/Frederick tract covering over 7,772 rooms and for the primary and secondary competitive sets. The segments are briefly described as follows:

### **Commercial Demand**

Commercial demand is general transient overnight travel created by businesses and government entities in the area. The business traveler tends to be less price-sensitive than many leisure travelers and is more likely to utilize a hotel's food and beverage facilities. Government travelers generally are concerned whether per diem covers their room rate. FY 2011 lodging per diem in the subject market ranged from \$157 to \$211, depending on the season. Commercial demand is typically strongest Monday through Thursday nights. This demand segment consists of people visiting area companies and agencies for purposes of relocation, corporate inspection, sales meetings, consulting, training, and other purposes.

Commercial demand is generated by a number of companies located in the I-270 corridor market including Human Genome Sciences, Lockheed Martin Information Systems, Westat, Booz Allen Hamilton, US Pharmacopeia, BAE Systems, Northrop Grumman Infotech, IBM, Hughs, and various technology and biotech facilities and professional firms in the area. This segment also includes federal agencies such as the Food and Drug Administration, National Institute of Standards and Technology, Health & Human Services, and Nuclear Regulatory Commission.

Commercial demand represented an estimated 40.9 percent of overall room demand, or 756,330 room nights in this hotel market in 2011. For the primary and secondary competitive hotels, commercial demand represented 43.2 percent of overall room demand or 160,957 room nights.

## COMPETITIVE MARKET ANALYSIS

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### **Group Demand**

Group meetings range in size from small executive conferences to large professional and trade associations. A group typically consists of guests who occupy a block of 10 rooms or more and who arrive and depart on approximately the same days, with or without use of meeting space. The demand generated from this segment in the competitive set hotels is mainly corporate meetings, which tend to have 50 to 75 attendees on average and follow the same demand cycle as transient corporate demand with demand peaking on weekdays. The second-largest component of this demand segment is government, which tends to be relatively small with 30 to 50 attendees on average. Professional and Trade Organizations ranks third with social, military, educational, religious and fraternal (SMERF) organizations ranking fourth. SMERF groups typically tend to be more price-sensitive and book during the shoulder and off-seasons when room rates are lower. Group meetings represented an estimated 44 percent of overall room demand, or 815,284 room nights in this hotel market in 2011. For the primary and secondary competitive hotels, group demand represented 32.6 percent of overall room demand or 121,517 room nights.

### **Leisure Demand**

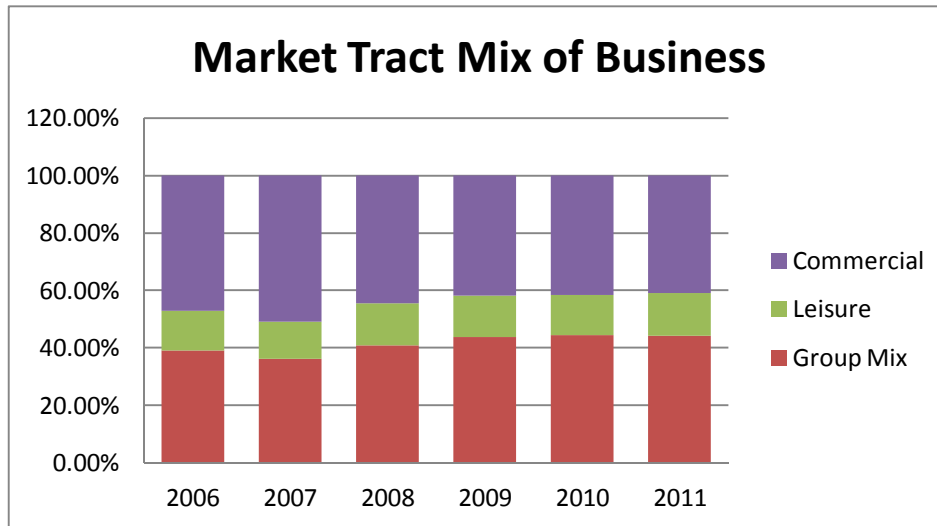
Leisure demand consists of individuals and families visiting attractions in the area or passing through en route to other destinations. Their purpose for travel may include sightseeing, visiting friends and relatives, recreation, relaxation, events, and numerous other non-business activities. Leisure demand is strongest Friday and Saturday nights and during school holiday periods. Tourist demand for lodging peaks during the summer and fall months due to the appeal of the Washington, DC area. This subject's submarket is convenient for day trips into the District. Additionally, leisure demand comes from the many sports tournaments and events held in Montgomery County. While the leisure segment often is comprised of more rate sensitive travelers, at times,



## COMPETITIVE MARKET ANALYSIS

this segment is willing to pay higher rates during peak demand periods. Leisure demand represented an estimated 15 percent of overall room demand, or 277,344 room nights in this hotel market in 2011. For the primary and secondary competitive hotels, leisure demand represented 24.2 percent of overall room demand or 90,074 room nights.

The chart below depicts the changes in the demand segments for the Market Tract for the years 2006-2011.



Source: STR Market Analytics

## COMPETITIVE MARKET ANALYSIS

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### **FUTURE HOTEL DEVELOPMENT**

In April 2010, two new hotels entered the subject's market area. They are owned by Lerner Enterprises and managed by Urgo Hotels. The properties are the 112-room Hilton Garden Inn and 87-room Homewood Suites. These two hotels are joined by a common entrance at 14975 Shady Grove Road, Rockville, Maryland. Given their location, the properties would be only slightly competitive with the proposed subject property.

There are no known other hotels in the subject's market under construction or in the final planning stages with known funding. There are several hotels being considered in the market but are currently on hold and are not moving forward at this time. These include a 121-room TownePlace Suites in Frederick, MD, a 170-room Embassy Suites in Rockville and a 200-room Westin in Bethesda. For purposes of estimating supply, we have included the opening of the Embassy Suites in January 2014, the Hyatt Place Germantown (subject hotel) in January 2016 and an unnamed hotel of 150 rooms in January 2019. The following chart highlights the market supply including recent additions for the DC Market. For forecasting purposes, we have compared the long-term 20-year compound annual growth rate of 2.5 percent for supply growth with our market assumptions of 2.86 for reasonableness. While this is slightly higher than the long-term average growth for the period 2011-2021, it appears reasonable based on the strength and growth potential of the market.

## COMPETITIVE MARKET ANALYSIS

Competitive Supply Additions									
Chain Scale	Hotel Name	Market Tract	Rooms	Stage	Open Date	Address	City	State	Competitive with Subject
Luxury	Capella Georgetown Hotel	CBD	48	Early Planning	NA	1050 31st St. NW	Washington	DC	No
Luxury	Unbranded Hotel	CBD	260	Early Planning	NA	5th St. 1 St. NW	Washington	DC	No
Luxury	Edition	CBD	170	Early Planning	NA	1770 Euclid St. NW	Washington	DC	No
Luxury	Trump Hotel Old Post Office	CBD	300	Early Planning	NA	1100 Pennsylvania Ave. NW	Washington	DC	No
Luxury	One Hospitality	Dulles Airport	400	Early Planning	NA	1 Loudoun	Ashburn	VA	No
Upper Upscale	Renaissance Hotel	Arlington VA	300	Recently Opened	3/9/2011	2800 S Potomac Ave.	Arlington	VA	No
Upper Upscale	Marriott Marquis Convention Center	CBD	1175	Under Construction	6/30/2014	901 Massachusetts Ave.	Washington	VA	No
Upper Upscale	Salamander Resort & Spa	Suburban VA	168	Under Construction	4/15/2013	Foxcroft Road	Middleburg	VA	No
Upper Upscale	Westin Hotel	Bethesda/College Park	200	Early Planning	1/1/2015	7740 Wisconsin Ave.	Bethesda	MD	No
Upper Upscale	Unbranded Hotel	CBD	350	Early Planning	NA	New York Avenue. & 9th St. NW	Washington	DC	No
Upper Upscale	Unbranded Hotel 2	CBD	358	Early Planning	NA	Southwest Waterfront	Washington	DC	No
Upper Upscale	Westin Hotel	Dulles Airport	211	Early Planning	NA	14371 Newbrook Dr.	Chantilly	VA	No
Upper Upscale	Embassy Suites	Frederick Rockville	170	Early Planning	10/1/2013	Watkins Mill Rd.	Gaithersburg	MD	Yes/50%
Upper Upscale	Unbranded Disney Hotel	Maryland South & East	500	Early Planning	NA	American Way	Oxon Hill	MD	No
Upscale	Spring Hill Suites	Alexandria	91	Recently Opened	5/16/2010	6065 Richmond Highway	Alexandria	VA	No
Upscale	Spring Hill Suites	Alexandria	155	Recently Opened	3/28/2011	2950-70 Eisenhower Ave.	Alexandria	VA	No
Upscale	Residence Inn	Arlington VA	325	Recently Opened	3/9/2011	2850 S Potomac Ave.	Arlington	VA	No
Upscale	Hilton Garden Inn	Bethesda/College Park	104	Recently Opened	7/19/2010	2200 Broadburch Dr.	Silver Spring	MD	No
Upscale	Hilton Garden Inn	CBD	205	Recently Opened	4/28/2011	1225 1st St. NE	Washington	DC	No
Upscale	Doubletree Hotel	Dulles Airport	171	Recently Opened	4/11/2010	21611 Atlantic Blvd.	Sterling	VA	No
Upscale	Residence Inn	Fairfax Tysons Corner	155	Recently Opened	4/11/2010	14975 Shady Grove Road	Fairfax	VA	No
Upscale	Homewood Suites by Hilton	Frederick Rockville	87	Recently Opened	4/22/2010	14975 Shady Grove Road	Rockville	MD	Yes/50%
Upscale	Hilton Garden Inn	Frederick Rockville	112	Recently Opened	4/29/2010	14975 Shady Grove Road	Rockville	MD	Yes/75%
Upscale	Spring Hill Suites	I-95 Fredericksburg	100	Recently Opened	8/30/2010	14325 Crossing Place	Woodbridge	VA	No

### PROJECTED PERFORMANCE OF THE COMPETITIVE SET

The following paragraphs discuss the projected future performance for hotel accommodations in the subject competitive supply area and the rationale for its growth.

#### **Commercial Demand**

Research suggests that commercial demand began to recover in the fourth quarter of 2009, and 2010 results are encouraging. While 2011 was slightly down due to local factors noted above, we expect 2012 to continue its positive growth as the national economy continues to improve. As for government demand, we expect it to be challenged in the near-term due to federal budgetary constraints, government per diems, and the presidential election.

### **Group Demand**

Group demand in the competitive set is strongest at Gaithersburg Marriott Hotel and the Hilton Rockville. The Hilton contains the largest meeting space for the competitive set with 20,000 square feet followed by the Marriott with 6,588 square feet. Professional services firms, financial sector companies, pharmaceutical corporations, and other firms with national or international scope plus government agencies are some of the predominant group business served by these hotels. Social occasions such as weddings, birthdays, Bar & Bat Mitzvahs, anniversaries, and fundraising events are prevalent. Overall, group demand is up year over year.

### **Leisure Demand**

Leisure demand in the market is predominantly supported by tourism. Tourism is a key component of the area's economy and lodging demand. In 2009 (most recent data available), the District hosted 16.4 million visitors. Domestic travel declined slightly to 14.8 million, while international visitation remained strong at 1.6 million. Additionally, the District is the seventh-most visited American destination for international travelers, up from the Number Eight spot in 2008. The leisure segment equaled approximately 40 percent of room night demand in 2009 for the DC metro area, and we anticipate consistent growth for the next several years as the national and global economies recover. While this is a smaller portion of the business in the Rockville/Frederick market tract, this segment is expected to grow as tourists look for lower priced hotels as the business compresses in the district.

## COMPETITIVE MARKET ANALYSIS

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### **Projected Future Levels of Demand, Occupancy, and Average Daily Rate**

Based upon my analysis as well as from interviews with market participants and experts, the outlook for the competitive set beyond 2011 is positive on the back of a slow but steady economic recovery and signs of increased business, group, and leisure travel. The following charts summarize HRA's projections for the competitive market. This assumes that the 170 room Embassy Suites will open on January 1, 2014 and the Hyatt Place will open on January 1, 2016. Furthermore, one additional unnamed competitor of 150 rooms is estimated to be added to the competitive supply in 2019. The demand for the market is assumed to grow at 5 percent for 2012 through 2014 and then grow at the 20 year average of 2.65 percent thereafter. This is slightly below the expected growth in demand for the Washington DC market area. We have also included additional latent demand at the opening of the Embassy Suites Hotel and Hyatt Place Hotel of 10,000 room nights and 5,000 room nights respectively. Latent demand is demand that is not currently being accommodated in the marketplace and must go to an alternative location not accounted for in the competitive set. This is most likely demand that is pushed away on Tuesday through Thursday during busier seasons of the year when the market competitive set runs high occupancies and can not accommodate the demand.

It should be noted in the below forecast, that while the RevPAR performance shows a stronger growth over the next several years, it does not get back to 2008 levels on an inflation adjusted basis assuming a 2.5 percent inflation rate. This shows that there is potential opportunity for significantly stronger rate growth as the market compresses from demand. HRA has chosen to not show larger spikes in the rate as there continues to be pressure from customers in the market and higher rents would also bring more growth in supply.

## COMPETITIVE MARKET ANALYSIS

Projected Market Performance of the Competitive Supply										
Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Market Occupancy	Average Daily Rate	Percent Change	RevPAR	Percent Change	
2008	494,484		336,808		68.79%	\$ 148.84		\$ 102.38		
2009	494,484	0.00%	326,563	-3.04%	66.04%	\$ 136.78	-8.10%	\$ 90.33	-11.77%	
2010	529,387	7.06%	364,146	11.51%	68.79%	\$ 134.39	-1.75%	\$ 92.44	2.33%	
2011	541,021	2.20%	373,344	2.53%	69.01%	\$ 133.54	-0.63%	\$ 92.15	-0.31%	
2012	541,021	0.00%	392,011	5.00%	72.46%	\$ 136.21	2.00%	\$ 98.70	7.10%	
2013	541,021	0.00%	411,611	5.00%	76.08%	\$ 141.66	4.00%	\$ 107.78	9.20%	
2014	603,071	11.47%	438,076	6.43%	72.64%	\$ 150.87	6.50%	\$ 109.59	1.69%	
2015	603,071	0.00%	449,685	2.65%	74.57%	\$ 156.15	3.50%	\$ 116.44	6.24%	
2016	676,183	12.12%	466,601	3.76%	69.01%	\$ 160.05	2.50%	\$ 110.45	-5.14%	
2017	676,183	0.00%	478,966	2.65%	70.83%	\$ 164.06	2.50%	\$ 116.21	5.22%	
2018	676,183	0.00%	491,659	2.65%	72.71%	\$ 168.16	2.50%	\$ 122.27	5.22%	
2019	737,695	9.10%	504,688	2.65%	68.41%	\$ 172.36	2.50%	\$ 117.92	-3.56%	
2020	737,695	0.00%	518,062	2.65%	70.23%	\$ 176.67	2.50%	\$ 124.07	5.22%	
2021	737,695	0.00%	531,791	2.65%	72.09%	\$ 181.09	2.50%	\$ 130.54	5.22%	
<b>CAGR</b>	<b>2.90%</b>		<b>3.32%</b>		<b>0.34%</b>	<b>1.41%</b>		<b>1.75%</b>		
<b>CAGR from 2011</b>	<b>2.86%</b>		<b>3.27%</b>		<b>0.40%</b>	<b>2.81%</b>		<b>3.22%</b>		

Assumes 10,000 room nights of latent demand when Embassy Suites opens and 5,000 room nights latent demand with Hyatt Place Opens.

Source STR and HRA LLC

**ESTIMATED UTILIZATION AND ADR**

## **ESTIMATED UTILIZATION AND ADR**

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### **ESTIMATED UTILIZATION AND ADR**

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This section provides an analysis of the projected market position of the subject, specifically, the projected future levels of occupancy and average rates per occupied room.

#### **PROJECTED MARKET UTILIZATION**

A hotel's fair market share is a primary consideration in formulating estimates of potential competitive market position. Fair market share is defined as the percentage of demand a given property could obtain based on the ratio of its available guestrooms to the total number of available guestrooms in the competitive market including the subject property. After determining the subject's fair market share, its market penetration is estimated to derive its utilization level. Market penetration, or competitive share, is expressed as a percentage of the fair share based on the attributes of the hotel relative to the competitive market. It is defined as the percentage of demand captured by a property on the basis of such competitive factors as location, appearance, brand affiliation, size, reputation, physical condition, market orientation, room rate structure and facilities offered. Factors indicating a hotel possesses competitive advantages would be reflected in competitive share ratios in excess of 100 percent while competitive weaknesses are reflected in competitive share ratios of less than 100 percent.

The subject will be a year-round business-oriented property focusing on the transient overnight traveler. The competitive advantages that should accrue to the subject upon completion will stem largely from the fact that it will be the newest hotel in the competitive set with the best overall product, it will have a



**ESTIMATED UTILIZATION AND ADR**

location with excellent amenities, access and visibility and is represented through a franchise affiliation that is underweighted in the market.

The projected penetration by market segment and the subject's mix of demand from 2016 to 2021 is presented below.

<p align="center"><b>Hjett Place</b>  <b>10 Seneca Meadows Parkway</b>  <b>Gamartown, MD</b>  <b>A 159 Room Select Service Hotel Property</b></p> <p align="center"><b>Market Penetration Analysis</b></p>												
Year	Comp Set Occupied Rooms	Comp Set Market Occupancy	Hjett Place Fair Share	Leisure Demand	Market Penetration	Commercial Demand	Market Penetration	Group Demand	Market Penetration	Total Demand	Hjett Place Occupancy	Market Penetration
2016	466,601	69.0%	8.5%	112,824	9.0%	201,572	10.6%	152,205	9.5%	39,291	67.7%	98.1%
2017	478,966	70.8%	8.5%	115,814	9.8%	206,913	10.7%	156,239	9.7%	41,253	71.1%	100.4%
2018	491,659	72.7%	8.5%	118,883	9.5%	212,397	11.0%	160,379	10.0%	43,511	75.0%	103.1%
2019	504,688	68.4%	7.8%	122,084	9.5%	218,025	11.0%	164,629	10.0%	40,989	70.5%	103.1%
2020	518,062	70.2%	7.8%	125,267	9.5%	223,803	11.0%	168,992	10.0%	42,024	72.4%	103.1%
2021	531,791	72.0%	7.8%	128,587	9.5%	229,734	11.0%	173,470	10.0%	43,138	74.3%	103.1%

## **ESTIMATED UTILIZATION AND ADR**

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We estimate the subject, operated as an upscale select-service hotel, should achieve a 98.1 percent market penetration within its first 12 months of operation. This results in occupancy of 67.7 percent. As the subject improves its recognition and market presence, we anticipate that its overall penetration will achieve 100.4 percent in Year Two, increasing to a stabilized level of 103.1 percent penetration and 75 percent occupancy. However, for purposes of our forecast, HRA is assuming a stabilized occupancy of 72 percent after year two. With the subject's proximity to strong commercial and leisure demand generators, coupled with strong linkages to the region, as well as the other facilities and amenities discussed previously, this level of occupancy is attainable for a well-managed property.

Based on the above analysis, we are of the opinion that the subject would penetrate the commercial segment 105 percent in the first year, 107 percent in the second year, and stabilizing at 110 percent in the third year through the end of our projections. The subject's programmed meeting space of approximately 3,900 square feet will likely be a competitive advantage with all but the Hilton and Marriott hotel. In the first year of operation, we estimate penetration of 95 percent and stabilizing at 100 percent in the third year. Given the market and Hyatt Place's strong leisure-oriented base, we expect the subject to begin with a penetration rate of 90 percent, increasing to 93 percent in the second year and finally stabilizing at 95 percent in the third full year of operations.

### **AVERAGE DAILY RATE**

We have based the average room rate analysis for the subject hotel on the estimated average room rates achieved by properties in the competitive market, price points of properties with similar product, and the pricing and discounting policies within the market area. Other factors considered in estimating the

**ESTIMATED UTILIZATION AND ADR**

average daily room rates were the anticipated market mix of the proposed hotel after opening.

Over the past five years, the average rate for the primary competitive set (Courtyard, Hilton, Marriott, Sheraton, and Hyatt House) has ranged from a high of \$141.87 (2008) to a low of \$126.26 (2011). The subject will be the newest hotel in the market and will be most comparable to the Courtyard Gaithersburg in positioning from a rate perspective.

We estimate that the subject property should be able to achieve an ADR of \$141 (2011 value dollars) in a representative year of operation. A representative year of operation is a year in which the subject property is projected to have reached a stabilized level of performance. The following table illustrates our projected average daily room rates (in future dollars) for the operating period from January 1, 2016 through December 31, 2021. The chart also provides the estimate of RevPAR for the forecast period and the RevPAR index.

<p align="center"><b>Hyatt Place</b>  <b>10 Seneca Meadows Parkway</b>  <b>Germantown, MD</b>  <b>A 159 Room Select Service Hotel Property</b></p> <p align="center"><b>Estimation of Occupancy, ADR &amp; RevPAR</b></p>							
Year	Market ADR	Hyatt Place ADR Index	Hyatt Place ADR	Hyatt Place Occupancy	Hyatt Place RevPAR	Market RevPAR	Hyatt Place RevPar Index
2016	\$ 160.05	102.0%	\$ 163.26	67.7%	\$ 110.53	\$ 110.45	100.1%
2017	\$ 164.06	104.0%	\$ 170.62	71.1%	\$ 121.28	\$ 116.21	104.4%
2018	\$ 168.16	106.0%	\$ 178.25	72.0%	\$ 128.34	\$ 122.27	105.0%
2019	\$ 172.36	106.0%	\$ 182.70	72.0%	\$ 131.55	\$ 117.92	111.6%
2020	\$ 176.67	106.0%	\$ 187.27	72.0%	\$ 134.83	\$ 124.07	108.7%
2021	\$ 181.09	106.0%	\$ 191.95	72.0%	\$ 138.21	\$ 130.54	105.9%

### **CONCLUSION**

We estimate that the proposed hotel, if properly marketed and managed, should be able to achieve a stabilized occupancy of approximately 72 percent at an average daily rate of \$141.00 (2011 value dollars). The subject competitive set and overall Washington, DC market appear to be resilient and poised for growth. The project's RevPAR index falls between the ranges of 100.1 to 111.6 percent which is on the lower end of the performance level for Hyatt Place hotels in other markets. For these reasons, the expected ADR and Occupancy used in the pro forma are conservative.

**LAND USE AND PUBLIC POLICY**

### LAND USE AND PUBLIC POLICY

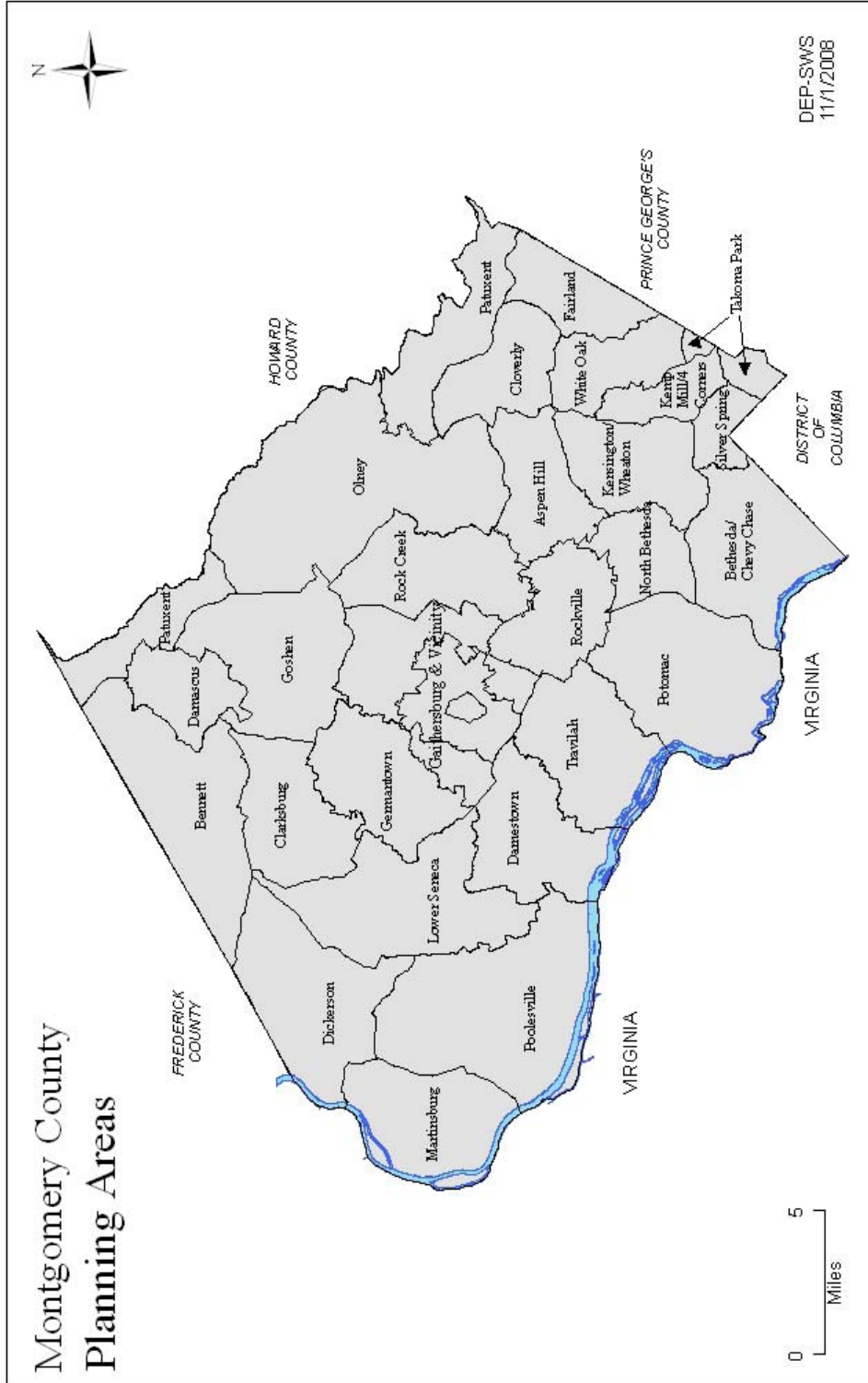
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#### LAND USE TRENDS

Land use policies in the County are implemented through planning and zoning decisions. The County comprehensive land use plan, "*A General Plan for the Maryland-Washington Regional District in Montgomery and Prince George's Counties, as amended*", (the General Plan) was adopted in 1964 and most recently revised in 1993. For each planning area, a Master Plan must be adopted and reviewed periodically.

The General Plan also has been amended and amplified over the years by a series of master plans, sector plans, and functional plans. The General Plan includes the policy that the County will be developed on a wedges and corridors approach, with more density concentrated near major transportation corridors interspersed by wedges of large open space and farmland. The County is divided up into 27 planning areas as illustrated in map below. "*A General Plan Refinement of the Goals and Objectives of Montgomery County*," dated December 1993, was approved by the County Council and adopted by MNCPPC. The subject property is located in the Germantown Planning Area.



## LAND USE AND PUBLIC POLICY

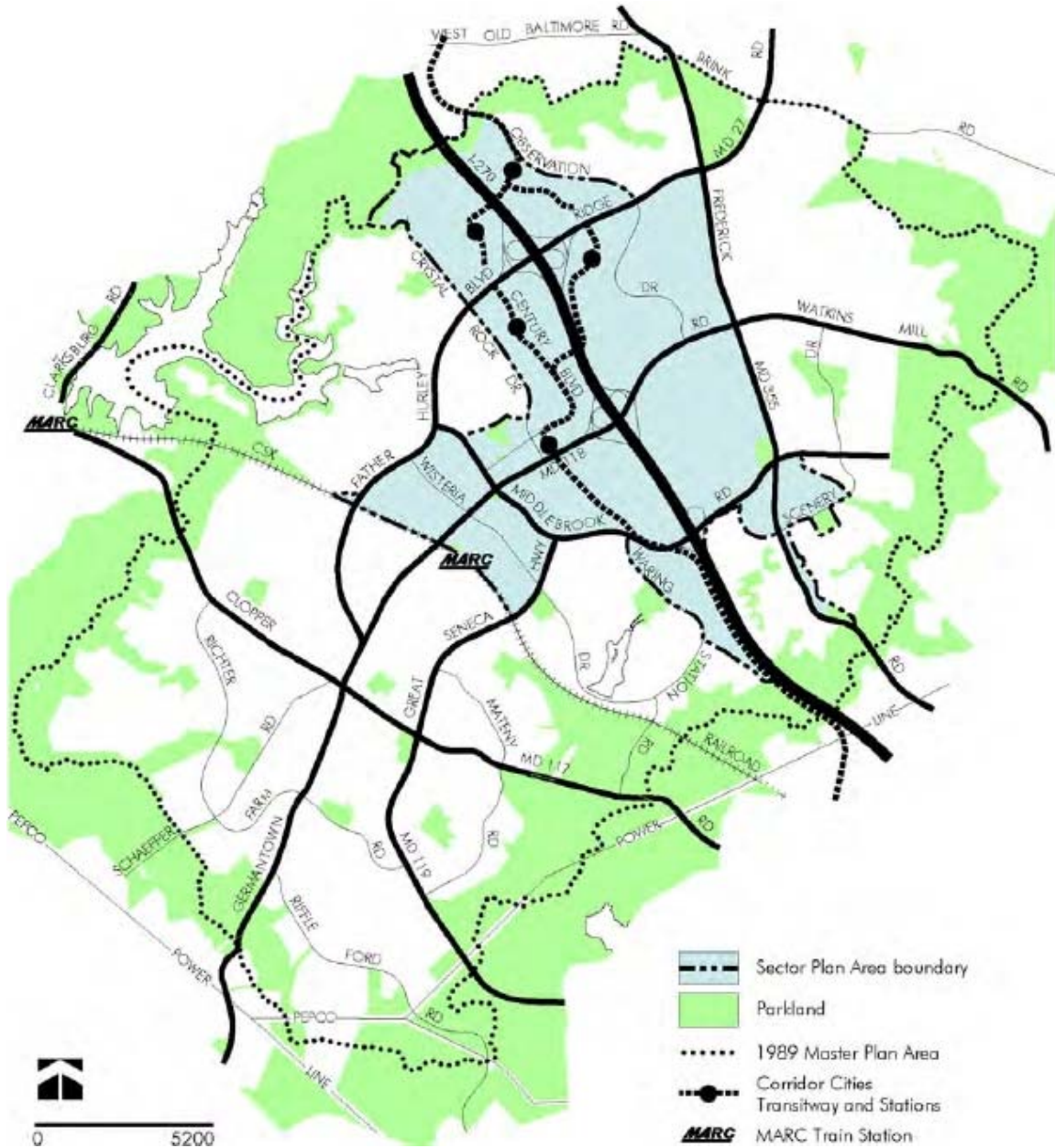
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Germantown Forward is the Germantown Employment Area Sector Plan that was approved and adopted in November 2009 by the Montgomery County Council and The Maryland-National Capital Park and Planning Commission. This Plan for the commercial center of Germantown contains the text and supporting maps of a comprehensive amendment to the approved and adopted 1989 Germantown Master Plan. It also amends The General Plan (On Wedges and Corridors) for the Physical Development of the Maryland-Washington Regional District in Montgomery and Prince George's Counties, as amended. The Plan also amends relevant functional master plans including the Master Plan of Highways within Montgomery County, the Countywide Bikeways Functional Master Plan, and the Countywide Park Trails Plan. The Plan makes recommendations for land use, design, environment, transportation, and community facilities as well as the zoning that is intended to guide development.

The Germantown sector Plan area crosses I-270 and focuses on a roughly 2,400-acre area in the employment and Town Center Areas of Germantown. Roadways and road right-of-ways encompass approximately 600 acres of the Sector Plan area, almost 25 percent of the total acreage.



## LAND USE AND PUBLIC POLICY



The corridor created by I-270, MD 355, the Metro Red Line, and the MARC line forms the transportation spine of the up-County today. The addition of the CCT will complete the transit infrastructure. The Corridor employs almost half of Montgomery County's workforce but more than one-third of the Corridor's employed residents commute to jobs outside of the County. A significant portion of the County's future employment growth will take place on vacant or under-used sites in Germantown on the both sides of I-270 and in the area of

## LAND USE AND PUBLIC POLICY

Montgomery College. This Plan replaces the single-purpose zoning designations of the 1989 Plan with flexible, mixed-use designations that retain employment potential and provide for retail, hotel, commercial, housing, and entertainment uses near jobs.

As shown on the map below, the plan is broken up into eight districts. The subject property is located in the Seneca Meadows/Milestone District.



## LAND USE AND PUBLIC POLICY

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The Seneca Meadows/Milestone District illustrates the office and industrial development that is possible within current I-3 zoning. Development has been in the form of one, two, and three story buildings with surface parking. A significant portion of the district has been retained in green space, conservation areas, and stream buffers. A future CCT station along Seneca Meadows Parkway will be the focal point of activity in the 390-acre area. In the interim, a mixed-use retail and office center will provide services to existing businesses and workers in the office park. Currently, Germantown's largest retail center containing more than 100 acres and 850,000 square feet of space is located in this district. A new urban recreation center located in a multi-use building will offer educational and recreational activities for workers and residents. The goal of the Land use plan for the Seneca Meadows/Milestone District is the following:

### Land Use

- Concentrate mixed use development at the transit station with an average of 1.0 FAR on the Seneca Meadows Property north of the Crystal Rock Tributary (SM-1). To ensure the areas retains an employment profile with a minimum of 70 percent employment uses that include limited street level retail and a maximum of 30 percent residential uses. Street level retail must conform to the Plan's urban design guidance.
- Provide industrial office and technology uses south of the Crystal Rock tributary with signature office development along I-270.
- Support Milestone Regional Shopping Center and Neelsville Village Center as the Germantown-Clarksburg destination retail center.
- Support the Milestone Regional Shopping Center (SM-3) and Neelsville Village Center (SM-4) retail center. Redevelopment is unlikely given the fragmented ownership. If ownership consolidates, a coordinated redevelopment option may be proposed that meets the existing RMX Zone density standards of 0.5 FAR. With redevelopment, add residential uses and urban open space in a compact urban form with structured parking.
- Design stormwater management, in coordination with the Montgomery County Department of Permitting Services and the Montgomery County Department of Environmental Protection, to protect the Germantown Bog.

## LAND USE AND PUBLIC POLICY

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- Rezone portions of the Seneca Meadows property (SM-1) from I-3 to TMX-2 to allow a mix of uses at the Seneca Meadows CCT station.

### Urban Form

- This area would be appropriate for a community recreation center if the site develops with a residential component and an alternative location for the recreation center in the vicinity is not identified.
- Allow building heights up to 143 feet clustered at the transit station to create a defined center. Allow 100 foot building heights along I-270. Step down building heights towards existing residential neighborhoods to the north, south and east. Establish a three- to four-story building base with step backs for upper floors.
- Concentrate a limited amount of street level retail near the transit station. Big box retailers, if proposed, should have active storefronts with multiple entrances and smaller retail uses facing Seneca Meadows Parkway and Observation Drive.
- Building Setbacks from I-270 should maintain existing setback of 200 feet from the current right-of-way. If the I-270 right-of-way is widened, setbacks may be reduced to maintain the existing building line.
- New Development along MD 355 should establish a building line, fronting the roadway with parking located behind buildings.
- Dedicate a one-half acre urban park (adjacent to the future recreation center if it is to be located in this area) Either dedicate additional land for the community recreation center or integrate the center into the ground floors of mixed-use buildings if the area is selected as the location of the center.
- Provide an urban plaza with seating, lighting, shelter and other amenities adjacent to the transit station.
- Provide streetscape improvements in accordance with the streetscape plan.

### Transportation

- Create a network of new streets with short block lengths in the mixed-use

## LAND USE AND PUBLIC POLICY

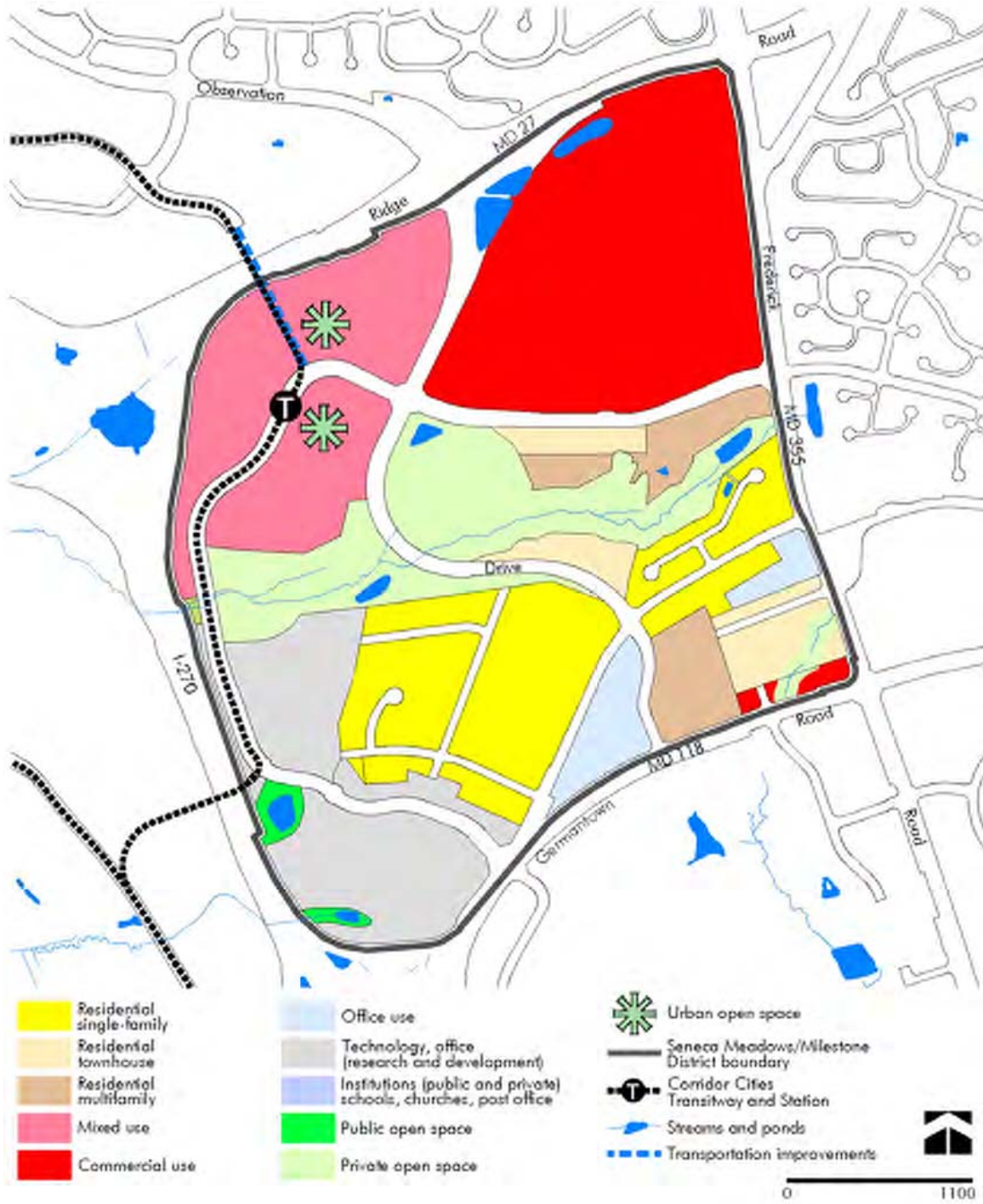
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neighborhood around the transit center. Provide a bridge over I-270 accommodating the CCT and a pedestrian connection to the median of Seneca Meadows Parkway. Expand the street network (B-25) with a bridge over MD 27/Ridge Road that accommodates the CCT, pedestrians, and bicyclists.

- Provide a bridge over I-270 accommodating the CCT and a pedestrian connection to the median of Seneca Meadows Parkway.
- Expand the street network (B-25) with a bridge over MD 27/Ridge Road that accommodates the CCT, pedestrians, and bicyclists.

The following maps provide an overview of the Seneca Meadows/Milestone district land use, property reference and proposed zoning. The subject property is located in the mixed use area identified as property 1 with a zoning of TMX-2.

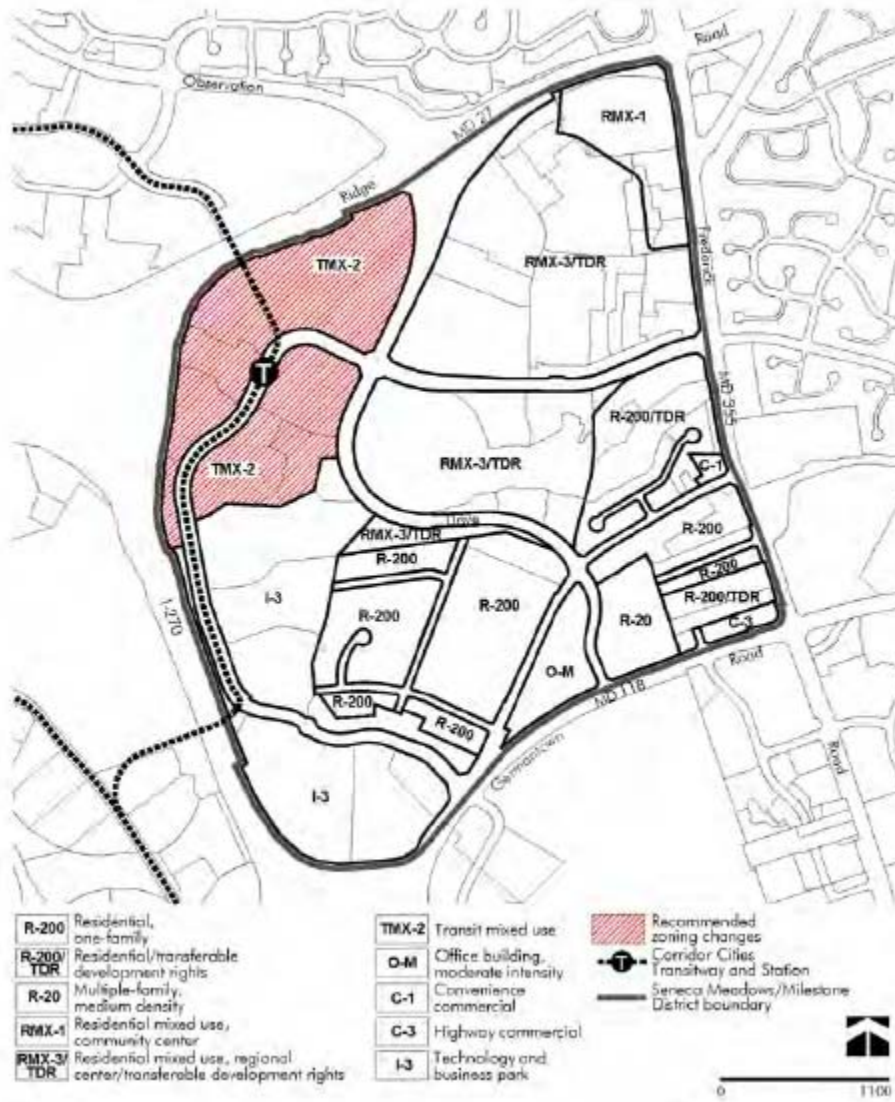
Seneca Meadows/Milestone District Land Use



Seneca Meadows/Milestone District Property Reference



Seneca Meadows/Milestone District Proposed Zoning





### **PROPERTY ZONING**

Zoning is the legal tool used by the county to regulate the use of private property for the purpose of protecting public health, safety and welfare. Zoning is used to implement the planning policies established by the General Plan, area master plans, sector plans and related functional plans. As stated earlier, the site as part of the Seneca Meadows/Milestone District which has I-3 zoning but was proposed to change to TMX-2 zoning. On July 16, 2010, Minkoff Development Corporation received approval to create 2 sites in the TMX-2 zone. This included the 4.32 acre parcel for the proposed hotel. The plan recommended that sites south of the Wegmans site have an average density of 1.0 FAR, develop with a minimum of 70 percent employment uses and 30 percent residential uses that may include limited street level retail.

There are two methods of development that are available under the TMX zone.

(a) **Standard Method of Development:** The standard method requires compliance with a specific set of development standards and permits a range of uses and a density compatible with these standards. Site Plan is required under Section 59-D-3. If streetscaping on the right-of-way immediately fronting the development is needed, then development may only be approved on the condition that the development will provide that streetscaping.

(b) **Optional Method of Development:**

(1) Under the optional method, greater densities may be permitted and these are fewer specific standards, but additional public facilities and amenities must be provided by the developer. The procedure for the approval of an optional method of development project is under Section 59-D-2. Site plan review is required under Section 59-D-3. Site plans submitted for optional method projects must be consistent with general design principles recommended

## LAND USE AND PUBLIC POLICY

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by the applicable master or sector plan, and design guidelines adopted by the Planning Board, to implement the applicable master or sector plan.

(2) Projects that are subject to subdivision under Chapter 50 have the option of submitting a Division 59-D-2 Project Plan. If the applicant chooses not to submit a Project Plan, the Planning Board must find that the proposed subdivision will satisfy the standards of 59-D-2.42 and 59-D-2.43 in order to approve the preliminary plan of subdivision.

### **Purpose of Zoning**

The purposes of the TMX zone are to:

(a) Implement the recommendations of approved and adopted master or sector plans for Transit Station Development Areas by:

(1) Facilitating mixed-use development with a compatible network of interconnecting streets, open squares, plazas, and civic and community oriented uses;

(2) Providing flexible development standards; and

(3) Encouraging designs that produce a desirable relationship among individual buildings, the circulation system, public spaces, and adjacent areas, and that foster use of non-auto forms of transportation, including pedestrian, bicycle, and public transit.

(b) Encourage land assembly.

(c) Provide a variety of housing opportunities.

(d) Promote the effective use of transit facilities.

(e) Provide for building lot terminations (BLTs).

## LAND USE AND PUBLIC POLICY

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The purpose of the I-3 zone is to provide a medium-density, industrial zone for park-like development of high-technology industries, research and development facilities, corporate and business offices, and uses that have similar locational, site development, and use requirements. The I-3 zone is intended to be at locations within the county that can be served by transit. In order to ensure high quality industrial/employment development, the following objectives of the zone must be met:

(a) To provide a suitable operating environment for the range of uses allowed in the zone.

(b) To maximize the attractiveness of and to enhance the visual appearance of the zone through:

(1) Preservation of significant natural features.

(2) Provision of green space throughout a project as well as in required yard and setback areas.

(3) Orderly clustering of buildings arranged and designed to promote internal compatibility.

(c) To reduce traffic congestion by encouraging the clustering of buildings near internal streets, the provision of service commercial uses, and the development of pedestrian networks to reduce dependence on single-occupant automobiles and to better accommodate bus service, carpooling, and vanpooling within a project in the zone.

(d) To protect I-3 zoned areas from the encroachment of incompatible employment uses, and to prevent industries within the I-3 zone from adversely affecting surrounding non-industrial uses by increased setback and landscaping requirements.

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Based on the purpose for both zoning areas, the proposed hotel would fit within the requirements for both TMX-2 and I-3 zoning.

Below is a chart that shows the specific requirements for TMX-2 and I-3 zoning along with what is proposed to be developed on the site. Again, based on the following, it appears that either zoning could be pursued. However, according to the Kim McCary at Rodgers Consulting, Inc, TMX-2 zoning would be the preferred zoning to seek approvals as this allows for the greatest flexibility for planning officials to grant variances. Standard method and optional method of development projects must satisfy the following development standards.

## LAND USE AND PUBLIC POLICY

### Zoning Overview

Description	TMX-2 Standard	TMX-2 Optional	I-3 Zoning	Proposed
Conforming Uses-Hotel	Yes	Yes	Yes-Special Exception	Yes
Minimum Net Lot Area	NA	18,000 SF	87,120	188,615
Gross Building Area				97,993
Proposed Building Area				18,005
Maximum Building Coverage: (percent of net lot area)	75.00%	Determined at Project Plan	65.00%	9.55%
Minimum Public Use Space: (percent of net lot area)	10.00%	20.00%	35.00%	20.00%
Maximum Building Height: (in feet)	42	Determined at Project Plan	100	75
Minimum Setbacks: (in feet)		Determined at Project Plan		Over 50
From an Adjacent Building on a separate lot	15	Determined at Project Plan	NA	Over 50
From an adjacent commercial or industrial zone	20		25	Over 50
From an adjacent single family residential zone	25	25	100	NA
From a public right-of -way	10		25	Over 50
Maximum Density of Development: (floor area ratio)	0.500	2.000	0.500-0.600 (1)	0.520
Parking Requirements	1.5 Spaces per 1,000 SF	1.5 Spaces per 1,000 SF	1.5 Spaces per 1,000 SF	159 space

(1) In the I-3 zone, the maximum density may be increased up to a maximum floor area ratio of 0.60, provided that the applicant for development obtains approval of a traffic mitigation agreement at the time of site plan review that will result in traffic generation equal to or less than a project with a floor area ratio of 0.50.

(2) Building setbacks increase under I-3 zoning by 2 feet for every 1 foot above 40 feet in height.

### Special regulations for use of a Building Lot Termination (BLT) Development Right.

The approval of an application for any gross floor area in an optional method of development project must be subject to the following requirements:

(a) 12.5 percent of any floor area above the maximum allowed under the standard method of development, as recommended in the applicable master or sector plan, must be supported through the purchase by the applicant of a BLT

## **LAND USE AND PUBLIC POLICY**

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easement or through a contribution to the Agricultural Land Preservation Fund under Chapter 2B, for purchase of a BLT easement on real property to preserve agricultural land in the County. One Buildable RDT lot must be extinguished for each 9,000 square feet of residential space, or for each 7,500 square feet of non-residential space. The BLT requirement does not apply to residential development in areas subject to the workforce housing program under Section 59-A-6.18 and Chapter 25B.

(b) If the applicant for optional method of development under the TMX zone cannot purchase an easement, or if the amount of density to be attributed to BLT easement is a fraction of the applicable floor area equivalent, the Planning Board must require the applicant to pay the Agricultural Land Preservation Fund an amount set annually by Executive Regulation.

Since the proposed hotel will be slightly above the .5 FAR for TMX-2 zoning, the development of the property will need to account for this expenditure in the development budget. HRA has assumed these are part of the soft costs for this development.

### **PARKING STANDARDS**

The minimum widths and lengths for parking spaces shall be as prescribed in the following table for developments in Montgomery County. A more detailed description may be found in section 59-E-2-2 in the Chapter 59 zoning Notes for the county. These standards are used in the proposed site layout plan presented in the Site and Building Design section.

**LAND USE AND PUBLIC POLICY**

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Parking Angle	Standard Size Space Width/Length		Modified Standard Size Space (for Regional Shopping Centers Only) Width/Length		Small Car Size Space Width/Length	
	(Parallel) 0°	7'	21'	6.5'	20.5'	6'
45°-59°	12'	26.5'	11'	22.5'	N/A	N/A
60°-75°	10'	23'	9'	22'	8.5'	21'
(Perpendicular) 90°	8.5'	18'	8'	17.5'	7.5'	16.5'

**PROCESS FOR SITE APPROVAL**

The Montgomery County Planning Board is charged by the County Council with guiding land use development to meet community goals. Through the development review process they determine whether a proposed development satisfies master plan recommendations, Zoning Ordinance requirements, Subdivision and Forest Conservation Regulations, and the standards of the Growth Policy and the Adequate Public Facilities Ordinance.

Each participant in this process— the applicant, the staff, and the Planning Board — must meet requirements that are designed to create a fair and open process of submittal, evaluation, and approval. Throughout this process, the public is able to evaluate the effects of a proposed development on their neighborhood and participate in its review and approval. To ensure that development projects are reviewed completely and fairly, Planning Department staff worked with the County to codify the rules and standards for reviewing development applications. These procedures of law were approved by the County Council and adopted by

## LAND USE AND PUBLIC POLICY

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the Planning Board in September 2007 as the Manual of Development Review Procedures for Montgomery County, Maryland.

In general, the process goes through the following stages:

- Application Process
- Technical Staff Review
- Planning Board Hearing
- Hearing by the Office of Zoning and Administrative Hearings
- Board of Appeals Decision

The Planning Process presented at the end of this section provides an overview of the public review that is required for Site Plan approval within Montgomery County, through the Maryland – National Capital Park & Planning Commission (M-NCP&PC). This detailed flow chart was prepared by Rogers Consulting and illustrates the detailed steps that are necessary to reach an approval. The site plan is the initial phase of plan preparation and processing. This part of the process ranges from 9 to 12 months to complete, depending on the level of issues that may be presented by staff, civic, or other governmental agencies.

The more detailed phase is for final engineering, which is the preparation of all details related to site development. This design process is lengthier than the planning process due the different disciplines and necessary details. Most all of these plans are reviewed and approved, then require permitting and bonding through the various agencies. This process typically ranges from 9 to 18 months to prepare, process, and obtain the necessary permits:

- Storm Water Management (SWM) – MCDPS permit, bond required
- Sediment Control – MCDPS permit, bond required
- Site Grading – M-NCP&PC bond
- Landscaping - M-NCP&PC bond
- Storm Drain and Paving - MCDPS permit, bond required

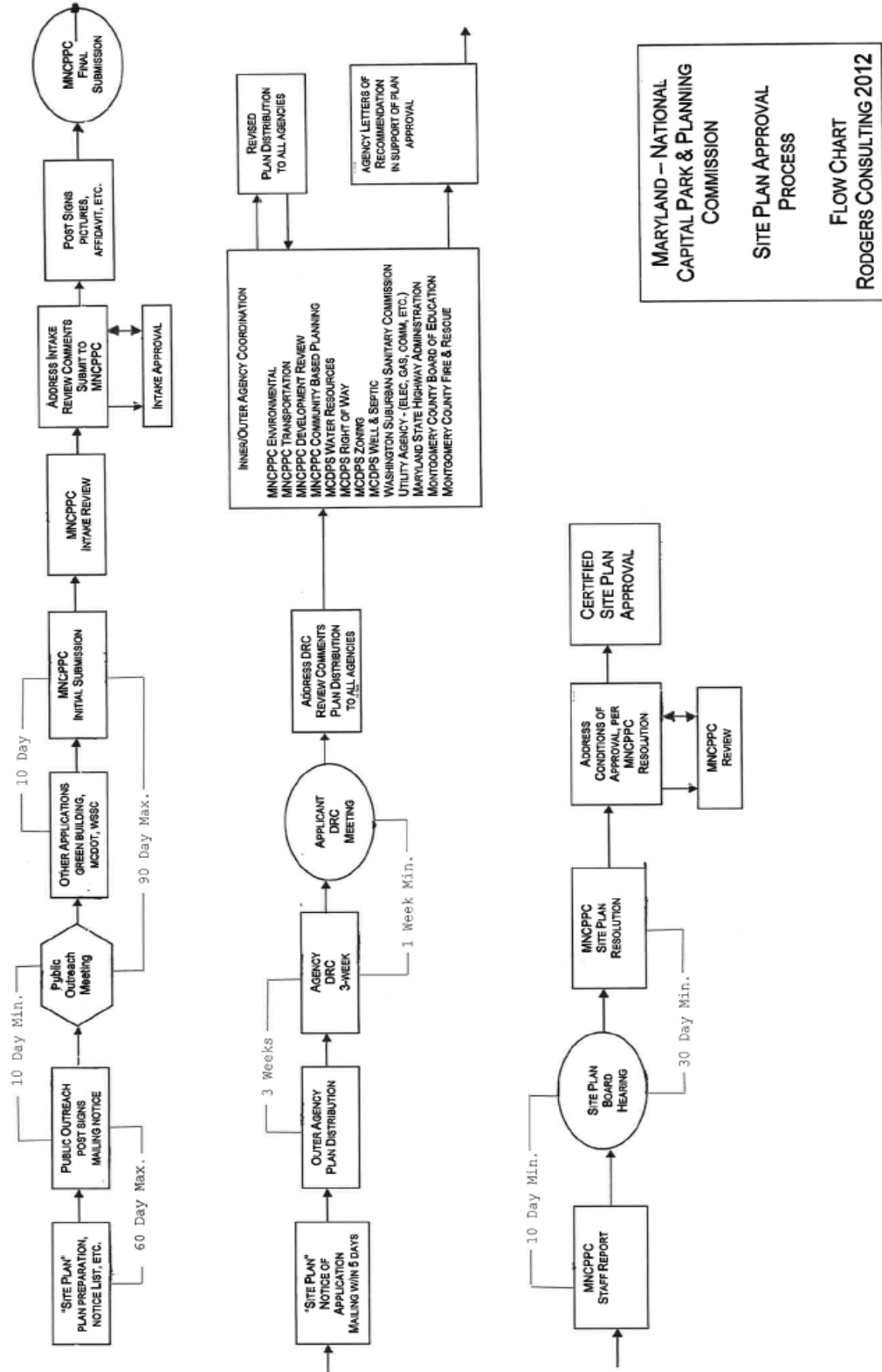


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- Water & Sewer – WSSC permit, bond required
- Entrance Plans - MCDPS permit, bond required
- Temporary Traffic Control - MCDPS permit, bond required
- Forest Conservation (FFCP) - M-NCP&PC bond

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Based on the previous overview, HRA is estimating that it will take 24 months to be in the position for the architects to be able to pull a building permit and start construction for the proposed project.

### **IMPACT FEES**

Development impact fees and building excise taxes are a way for local governments to defray costs of additional or expanded public facilities/services by collecting revenue from development that is creating or contributing to the expanded need for facilities/services. These charges have been the subject of State and local legislation in past years, in some cases increasing and/or restructuring the amounts of the charges and in others providing some manner of relief from the charges, whether in general or for certain types of development.

Development impact fees and building excise taxes enable local governments to collect revenue from builders for public facilities necessitated by new residential or commercial development. As a result of these development charges, local governments are able to shift the costs of financing new public facilities from existing taxpayers to individuals responsible for the development. In many situations, the use of such development charges may eliminate the need for jurisdiction-wide tax increases. Another benefit of development charges is that local officials can collect the needed revenue for the expansion or construction of new public facilities prior to the construction of any new residential development. In this manner, payment of an impact fee or excise tax may be required by local officials before the issuance of a building permit or approval of a subdivision plat.

The update impact fees and building excise taxes have been updated for 2012 as shown below for Montgomery County. The impact fee for hotels would be listed under other nonresidential and equate to \$8.80 PSF of gross building area.

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### Impact Taxes in Montgomery County Fiscal 2012

<u>Land Use Type</u>	<u>Levy</u>	<u>Transportation<sup>1</sup></u>			<u>Public Schools<sup>2</sup></u>
		<u>General</u>	<u>Metro Station</u>	<u>Clarksburg</u>	<u>Countywide</u>
<b>Residential</b>					
Single-family detached	per unit	\$12,425	\$6,213	\$18,638	\$23,868
Single-family attached	per unit	10,166	5,084	15,250	17,970
Multifamily residential (except high rise)	per unit	7,906	3,953	11,860	11,358
High-rise residential	per unit	5,647	2,824	8,472	4,815
Multifamily senior residential	per unit	2,259	1,129	3,388	0
<b>Nonresidential</b>					
Office	per sq. ft.	11.30	5.65	13.60	N/A
Industrial	per sq. ft.	5.65	2.85	6.75	N/A
Bioscience facility	per sq. ft.	0.00	0.00	0.00	N/A
Retail	per sq. ft.	10.15	5.05	12.20	N/A
Place of worship	per sq. ft.	0.60	0.35	0.80	N/A
Private elementary and secondary school	per sq. ft.	0.95	0.45	1.20	N/A
Hospital	per sq. ft.	0.00	0.00	0.00	N/A
Social service provider	per sq. ft.	0.00	0.00	0.00	N/A
Other nonresidential	per sq. ft.	5.65	2.85	6.75	N/A

<sup>1</sup>The transportation impact tax is imposed on each property according to which of the three impact tax districts in which it is located. Recent 2011 county legislation also created a White Flint Impact Tax District in which the transportation development impact tax rates are set at \$0, but can be changed by county council resolution.

<sup>2</sup>The public school impact tax on any single-family detached or attached dwelling unit is increased by \$2 for each square foot of gross floor area that exceeds 3,500 square feet, to a maximum of 8,500 square feet.

Source: Montgomery County

## **OCCUPANCY TAXES**

All counties and Baltimore City are authorized to impose a hotel rental tax, except for Harford County, and all except Harford currently impose this tax. Rates currently range from 3% in Frederick County to 8% in Allegany County and Baltimore County. Under certain conditions, municipal corporations may impose an additional hotel rental tax of up to 2%. Both Rockville and Gaithersburg in Montgomery County have enacted a 2% tax to promote the local convention center activates.

A hotel's owner, operator, or manager must collect hotel taxes from their guests. For the purposes of the tax, a hotel is considered to be any building in which members of the public rent sleeping accommodations. The tax covers hotels, motels, and bed and breakfasts, as well as condominiums, apartments, and houses rented for less than 30 consecutive days. Hotel tax does not apply to

## **LAND USE AND PUBLIC POLICY**

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hospitals, sanitariums, nursing homes, student dormitories operated by colleges and universities, or condominiums, apartments, and houses leased for more than 30 consecutive days. The occupancy tax rate for Montgomery County hotels is as follows:

- Montgomery County Local Hotel Tax Rate: 7%
- Municipality Hotel Tax Rate, City of Gaithersburg: 2% (+local hotel tax rate of 7%)
- Municipality Hotel Tax Rate, City of Rockville: 2% (+local hotel tax rate of 7%)

Typically, a portion of the occupancy tax will be used to promote tourism and conventions to the local market, however, governments primarily use these taxes to offset costs related to county services such as police, fire and other needs as they see fit. As such, jurisdictions generally look favorably on hotels because they provide a substantial source of revenue to the county and do not burden the school systems and many other local services provided. Based on the above, HRA is estimating that the subject property will be required to collect a 7% occupancy tax. This is 2% lower for the subject hotel versus the Rockville and Gaithersburg competitors and offers a slight advantage when selling to group and transient customers.

### **PROPERTY TAXES**

Below is a list of jurisdictions in Montgomery County and their property tax rates in effect on July 1, 2011. All rates are shown per \$100 of assessment. Based on the chart below, the subject property would have a tax rate as shown under Montgomery. The initial assessed value will be based on the actual cost and compared to other similar properties for reasonableness.

**LAND USE AND PUBLIC POLICY**

Prior Years' County Tax Rates	COUNTY RATE			TOWN/SPECIAL TAXING DISTRICT TAX RATE		
	JURISDICTION	REAL	*PERSONAL	**UTILITY		
<b>MONTGOMERY</b>	<b>0.713</b>	<b>1.783</b>	<b>1.783</b>			
Barnesville	0.713	1.783	1.783	0.0514	0.2	0.2
Battery Park	0.713	1.783	1.783	0.05	0.125	0.125
Brookeville	0.713	1.783	1.783	0.15	0.45	0.45
Chevy Chase, Sec. 3	0.713	1.783	1.783	0.02	0.05	0.05
Chevy Chase, Sec. 5	0.713	1.783	1.783	0	0	0
Chevy Chase, Town of	0.713	1.783	1.783	0.0105	0.1	0.1
Chevy Chase View	0.713	1.783	1.783	0.022	0	0
Chevy Chase Village	0.713	1.783	1.783	0.1005	0.66	0.66
Drummond <sup>2</sup>	0.713	1.783	1.783	0.048	0.12	0.12
Friendship Heights	0.713	1.783	1.783	0.04	0.04	0.04
Gaithersburg	0.713	1.783	1.783	0.262	0.53	0.53
Garrett Park	0.713	1.783	1.783	0.21	1	1
Glen Echo	0.713	1.783	1.783	0.13	0.8	0.8
Kensington	0.713	1.783	1.783	0.136	0.55	1.65
Laytonsville	0.713	1.783	1.783	0.11	0.3	0.3
Martin's Additions	0.713	1.783	1.783	0.046	0.5	1.45
North Chevy Chase	0.713	1.783	1.783	0.052	0.13	0.13
Oakmont <sup>2</sup>	0.713	1.783	1.783	0.04	0.1	0.1
Poolesville	0.713	1.783	1.783	0.1594	0.6	0.6
City of Rockville - Class 1	0.713	1.783	1.783	0.622	0	0
City of Rockville - Class 4	0.713	1.783	1.783	0.049	0.1225	0.1225
City of Rockville - Class 5	0.713	1.783	1.783	0.292	0	0
City of Rockville - Class 50	0.713	1.783	1.783	0.292	0.805	0.805
Somerset	0.713	1.783	1.783	0.08	1	1
Takoma Park	0.713	1.783	1.783	0.58	1.45	1.45
Washington Grove	0.713	1.783	1.783	0.221	0.6	0.6

The following hotels tax bills are shown on a number of rooms basis to better come up with the method for estimating the property taxes for the subject hotel.

## LAND USE AND PUBLIC POLICY

Property Name	Year Built	Number of Rooms	Total Assessed Value 2011	Total 2011 Taxes	Taxes per available room
Sheraton Rockville	2008	154	\$ 21,215,000	\$ 277,097	\$ 1,799
Hilton Rockville	1981	315	\$ 62,000,000	\$ 796,351	\$ 2,528
Hyatt House	1997	140	\$ 11,600,000	\$ 150,161	\$ 1,073
Marriott Washingtonian	1993	284	\$ 29,154,300	\$ 376,924	\$ 1,327
Courtyard Washingtonian	2006	210	\$ 14,000,000	\$ 183,440	\$ 874
Hampton Inn Germantown	1987	157	\$ 13,287,400	\$ 149,115	\$ 950
Town Place Suites	1998	91	\$ 16,934,800	\$ 236,960	\$ 2,604
Hilton Garden Inn	2010	199	\$ 17,141,300	\$ 228,508	\$ 1,148
		1550		\$ 2,398,556	\$ 1,547

The projections for the subject are based on discussions with the Montgomery County Tax Assessor, Ava McIntyre-Garvey. New construction projects would initially be assessed using the cost basis which when applying the model used in Montgomery County should approximate actual building costs. Once the property is operating, the County will also use an income approach and sales comparable approach for the assessed value. For this pro forma, based on my discussion with the assessor, HRA has assumed an assessed value of \$26.0 M for the project which includes the building and land value. This assessed value was then used to calculate the property taxes that would equate to \$269,418 or \$1,700 per available room. This appears reasonable based on the fact the hotel is a select service hotel and the only hotels that have a higher tax assessment per room are full service or suite properties. HRA is estimating that the tax bill will be escalated by 3 percent each year until the opening in 2016.

### **CONCLUSION**

This section shows that the proposed project should be able to be developed within the zoning requirements under existing zoning and is in conformance with the Germantown Sector Plan. The project has been reviewed to include the required impact fees, occupancy taxes and property taxes to help develop the construction budget and operating budget for the project's financial analysis. Based on the above, there are no known conditions that should restrict the development of the proposed Hyatt Place hotel on the subject site.

**SITE PLANNING AND BUILDING DESIGN**



### SITE PLANNING AND BUILDING DESIGN

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#### **SITE ISSUES AND CONSTRAINT**

As discussed in the Site and Productivity Analysis section, the site contains 4.32369 acres or 188,339 square feet. The site will share access through an easement with Lot 9 which is currently developed as the Seneca Meadows Corporate Center housing the Healthtrex fitness center and medical offices. Separating the property from the new Wegman's site is lot L, a 1.80 acre strip of land that will be the future site of a raised mass transit bus line route. The site is zoned TMX-2 or I-3 and is currently vacant. The site is somewhat of a pie sliver shape with the narrowest portion along the Seneca Meadows Parkway that could pose some issues to the layout of the building design. The raised Transitway could also pose some site layout issues as site planners will need to try to mitigate the noise from this traffic.

As previously noted, the site is currently vacant and relatively flat. There are no regulated environmental features on-site such as streams, wetlands, 100-year floodplain, environmental buffers, or steep slopes. A Phase 1 Environmental Study will be conducted along with soils testing as part of the land acquisition due diligence process. All utilities are available and are located directly adjacent to the site along Seneca Meadows Parkway. There are two easements located on the north end of the site that run along the exit ramp of I-270. These easements are with WSSC and Potomac Edison. No building will be located above these two easements and will serve as a design constraint.

The first step in the site planning and building design phase after finding a site is to understand the programming for the project. "The programming defines the project's objectives and functional requirements, including the proposed activities, area allocated for each activity and functional or special relationship among those activities". (Source: **Site Analysis A contextual Approach to Sustainable Land Planning and Site Design** by James S. LaGro Jr. published by John Wiley and Sons, 2008)

## SITE PLANNING AND BUILDING DESIGN

The following will present a detailed program for the proposed hotel facilities, a description of the improvements and provide a layout for the building on the site that would meet the requirements for the current zoning that is in place. It should be noted that the site plan presented is for illustrative purposes and is not meant to represent the actual site plan that would be used for the approval process. For that purpose, a professional civil engineering firm will be chosen to evaluate the issues and layout of the project on the site. This professional review will include a review of all issues related to the physical (soils, topography, hydrology, geology and climate), biological (wildlife and vegetation), and cultural (land use, legal, utilities, circulation, historic and sensory) aspects of the site and result in the preparation of the site plan to be used in the land use approval process.

### **PROJECT PROGRAMMING**

The following represents the proposed programming for the subject hotel.

#### **Rooms Matrix**

Type	Level							Total
	G	2	3	4	5	6	7	
King								
Type KA-Standard		9	10	10	10	10	10	59
Type KB-Connecting		1	2	2	2	2	2	11
Type KC-Accessible		1	1	1				3
Type KD-Studio		4	4	4	4	4	4	24
Type KE-Accessible Suite				1				1
Type KF-Corner					1	1	1	3
Type KG-Suite					1	1	1	3
Double Queen								
Type QA-Standard		7	7	7	7	7	7	42
Type QB-Connecting		1	2	2	2	2	2	11
Type QC-Accessible		1	1					2
Total King	0	15	17	18	18	18	18	104
Total Double	0	9	10	9	9	9	9	55
Total	0	24	27	27	27	27	27	159

#### **Area Summary**

Scheme A (Indoor Pool)		
Ground Level	18,005	SF
Level 2	12,803	SF
Level 3-7	13,437	SF
Total	<u>97,993</u>	SF

## SITE PLANNING AND BUILDING DESIGN

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### Program Summary per Level

<b>Level 1</b>	<b>Square Feet</b>	<b>Level 2</b>	<b>Square Feet</b>
Sales Office	98	Storage	265
Work Room	270	Housekeeping	130
Dishwashing	312	Electrical Closet	58
Food Prep	310	Mechanical	133
Staging	127	Maintenance	153
Luggage	80	Telephone Equipment RM	118
Work Room	320	Electrical Room	160
Comp	150	Elevator	114
Sunroom	300	Elevator Lobby	181
Kitchen/Dining	425	Stairs	318
Lounge 1	625	Corridor	2,408
Lounge 2	250	Total	4,038
Bar/Café	625	Guest Room Area	8,765
Host	225	Gross Building Area	12,803
Front Vestibule	230		
Lobby	565	<b>Level 3-7</b>	<b>Square Feet</b>
Gallery	535	Storage	387
E-Room	525	Housekeeping	130
GM Office	171	Electrical Closet	58
Women-Rest Room	200	Elevator	114
Men-Rest Room	175	Elevator Lobby	181
Janitor Closet	34	Stairs	318
Meeting Room Storage	312	Corridor	2,048
Meeting Room 1	381	Total	3,236
Meeting Room 2	403	Guest Room Area	10,201
Meeting Room 3	1,129	Gross Building Area	13,437
Back Vestibule	114		
Elevator Lobby	181		
Elevator Machine Room	76		
Linen Chute	70		
Electrical Room	231		
Linen Storage	138		
Laundry	825		
Employee Area	425		
Chemical Storage	50		
Pool Mechanical	172		
Pump Room	64		
Toilet	53		
Fitness Room	465		
Indoor Pool	823		
Deck	1,028		
Stairs	318		
Elevator	114		
Storage	173		
Corridor	1,808		
Total	15,905		
Additoinal Meeting Room	2,100		
Gross Building Area	18,005		

Note: Gross area of building is based on outside face of CMU as cladding system type/  
thickness may vary based on exterior system selected.

### **PROJECT DESCRIPTION**

This section provides the detailed review of the various components of the subject hotel and its respective positioning for the marketplace.

#### **Hyatt Place-An upscale select service hotel with a modern attitude.**

Designed for multi-tasking travelers seeking a select service hotel, Hyatt Place properties offer smart design and a relaxed setting with a 24/7 guest kitchen and grab n go case. Located in urban, airport and suburban areas, Hyatt Place features casual hospitality in a contemporary, technology-enabled environment. Sixteen new Hyatt Place hotels opened in North America in 2010 and more than 30 are under development in the U.S., India, Panama, Costa Rica and the Netherlands.

#### **Exterior**

Signature building elements such as a striking glass edge on the roofline and dramatic night lighting bring a visual flair to each hotel, making them easily recognizable to travelers. The hotel's entry features a portico and lobby that reflect the unique brand personality of Hyatt Place<sup>®</sup>. Pool areas, café-style patio seating and other external features add visual uniqueness to each hotel.

## SITE PLANNING AND BUILDING DESIGN

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### **GATHERING AREA**

Gathering areas are thoughtfully designed with guests' comfort in mind. Intimate den spaces provide an ideal retreat for small groups and individuals, while areas like the Great Room offer spacious and inviting settings for large gatherings.

*Great Room*



*Reception*





## SITE PLANNING AND BUILDING DESIGN

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### GUESTROOMS

Hyatt Place® guestrooms are spacious and comfortable, with more space than traditional hotel rooms. Three room configurations are available: King Suites, Double Queen Bed Suites and Studio Kings.





### ***Living Area***

Each guestroom has a separate living area with a comfortable eight-foot couch, ottoman and contemporary wall lighting. Décor fabrics are both attractive and durable. An opaque wall separating the bedroom and living space allows additional window light to filter into the area.

### ***Office and Entertainment***

Designed with today's business traveler in mind, the office area features a modular desk system that can be customized into multiple configurations. A power strip consolidates electrical outlets and data ports in a convenient central location that allows guests to connect their laptops to the 42" flat-panel HDTV. In

## SITE PLANNING AND BUILDING DESIGN

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addition, all guestrooms feature free wired and wireless high-speed Internet access.

### ***Bedroom***

Every Hyatt Place guestroom features a Hyatt Grand Bed<sup>®</sup> and comfortable, upgraded linens. Contemporary wall sconces produce exceptional reading light and allow for additional table space by each bed.

### ***Bathroom***

All bathrooms are nicely appointed with a dressing area, oversized granite vanity, framed mirror, roomy walk-in shower, large closets and upgraded Portico<sup>™</sup> brand amenities.

## **AMENITIES**

Guests have an array of amenities at their disposal to make their stay complete. Every Hyatt Place<sup>®</sup> hotel has meeting space, an indoor or outdoor swimming pool, and a fitness center.



## SITE PLANNING AND BUILDING DESIGN

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### ***Meeting Space***

Flexible meeting space ranges from 1,000 to 4,000 square feet, depending on location. Three bay rooms can be divided when needed for multiple meetings. AV equipment and other meeting needs are also available.



### ***Fitness Center***

Each hotel includes a fitness center with a variety of aerobic equipment and free weights.



### FOOD & BEVERAGE

Hyatt's food and beverage expertise has been leveraged to create an innovative approach to select-service dining that is unprecedented in the category.

- Limited menu items of familiar, yet creatively prepared, comfort foods are produced with minimal complexity and staff.
- Prepared menu items, including our signature oversized muffin, are baked fresh and served at the Bakery Café.
- Several menu items, along with prepackaged snacks, beer and wine, are available for sale throughout the day and into the evening.
- A cashless touch-screen menu system allows guests to swipe any major credit card or their key card to charge orders to their Guest Folio.

### ***Dining Area***

Dining areas are open and welcoming and feature a variety of seating or lounging options, including The Great Room, Den, Bakery Café and Guest Kitchen, which is complete with cabinets, an oversized community table and a fresh-brew, single-serve coffee machine. A complimentary continental breakfast buffet is served daily.



### ***Assembly Kitchen***

Hyatt Place® has developed exclusive recipe specifications for many of its menu items. Individual, rapid-preparation products standardize the delivery of signature

## SITE PLANNING AND BUILDING DESIGN

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soups, salads, appetizers, sandwiches and entrées. Skilled culinary labor is not required to manage the food preparation and delivery process, and front-line employees can easily be trained to use the hotel's efficient, compact kitchens.





### **TECHNOLOGY AND ENTERTAINMENT**

Based on extensive research into the needs of multi-tasking travelers, Hyatt Place® offers leading-edge technology to enhance customer service, entertainment and telecommunication. Through the use of the latest IP technology and innovative devices that facilitate self-service, Hyatt Place is positioned to introduce new media innovations that are designed to drive guest satisfaction and brand preference.

#### ***Registration***

Today's busy travelers have come to expect the convenience and flexibility of self-service kiosks. Touch-screen technology supports the service-delivery



## SITE PLANNING AND BUILDING DESIGN

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process, allowing Hyatt Place's staff to assist guests while also providing the convenience of cashless technology. Gallery Hosts are available to assist guests with this process and enhance their overall experience.



### ***Transactions***

In the dining area, cashless touch screens with card-swipe technology simplify menu ordering and virtually eliminate the need for cash transactions.

### ***Guestrooms***

Hyatt Place offers unmatched in-room entertainment and technology for business travelers and leisure guests. Rooms feature both wired and wireless high-speed Internet access, as well as the Hyatt Plug Panel™, which allows guests to easily integrate laptops and other electronic devices, such as DVD players, portable game systems and MP3 players, directly into the 42" flat-panel HDTV.



### **FLOOR PLANS, ROOM LAYOUTS AND ELEVATIONS**

In order to maximize the opportunity of the site and increase the marketability of the proposed project, HRA is recommending two changes to the prototype hotel plans. The first is to change the guest room use on the first floor to additional meeting space creating 2,100 additional square feet to house group businesses in the project. The second major change is the addition of one additional guest room floor adding 27 guest rooms. We believe that the ratio of elevators is still adequate to serve these additional rooms as the typical ratio is one elevator per 100 rooms. This will be further addressed in the design phase of the project should the project move forward.

The following pages represent the main floor of the project and the guest room floor layouts. In addition, the room layout for the standard king and double/double room are presented as well.

First Floor



FIRST FLOOR PLAN | HYATTPLACE | HYATTDEVELOPMENT.COM

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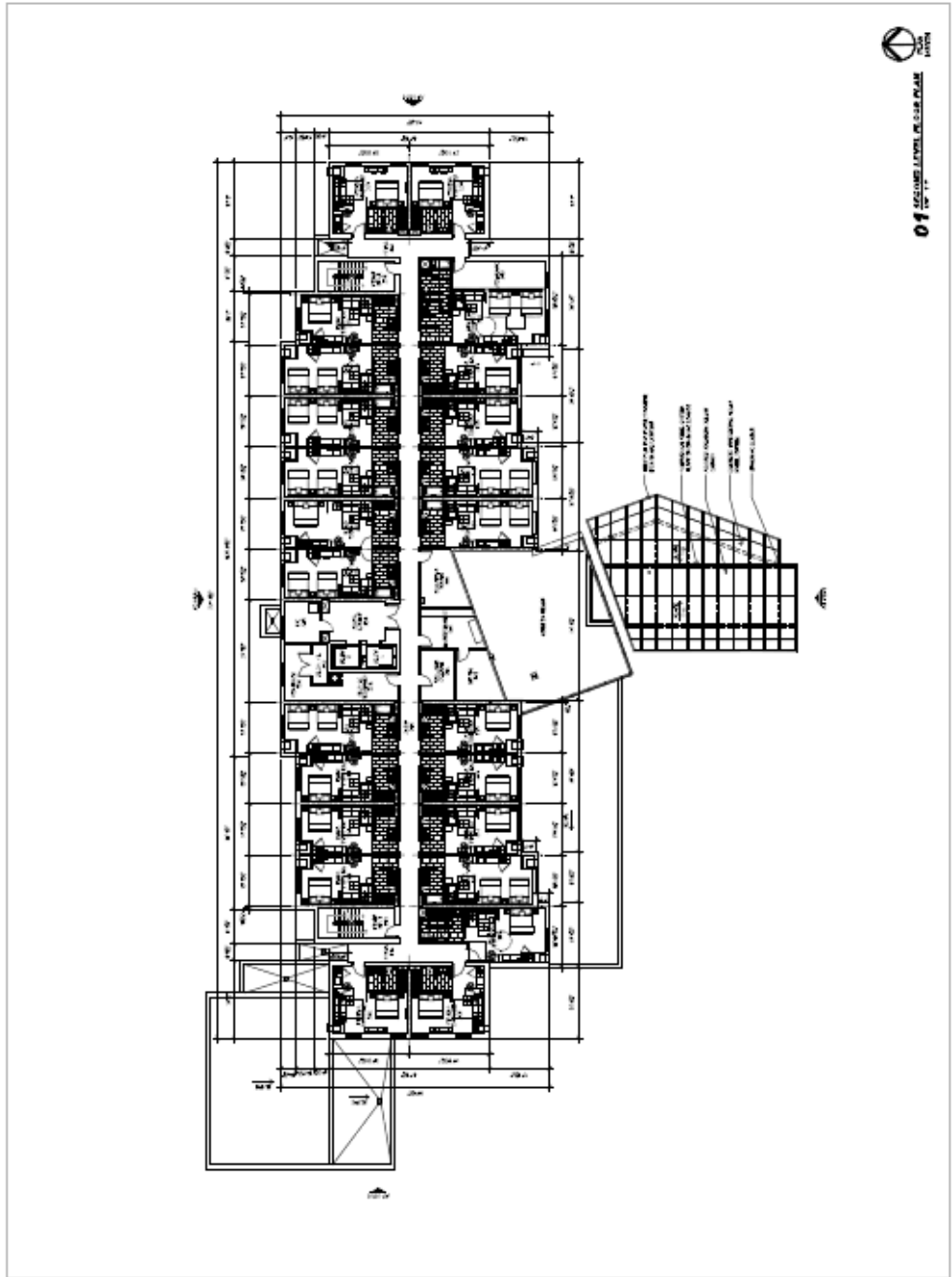
# SITE PLANNING AND BUILDING DESIGN

## Second Floor



NOTES:  
1. ALL DIMENSIONS ARE IN METERS UNLESS OTHERWISE SPECIFIED.  
2. ALL WALLS ARE 200mm THICK UNLESS OTHERWISE SPECIFIED.  
3. ALL FLOORS ARE 100mm CONCRETE SLAB ON 150mm GRANULAR FILL.  
4. ALL ROOFS ARE 150mm CONCRETE SLAB ON 150mm GRANULAR FILL.  
5. ALL CEILING ARE 100mm GYPSUM BOARD.  
6. ALL DOORS ARE 2100mm HIGH BY 900mm WIDE.  
7. ALL WINDOWS ARE 2100mm HIGH BY 1200mm WIDE.  
8. ALL STAIRS ARE 1800mm WIDE.  
9. ALL ELEVATIONS ARE TO FACE UNLESS OTHERWISE SPECIFIED.  
10. ALL FINISHES ARE TO BE AS SHOWN ON THE FINISH SCHEDULE.  
11. ALL MATERIALS ARE TO BE AS SHOWN ON THE MATERIAL SCHEDULE.  
12. ALL WORK IS TO BE IN ACCORDANCE WITH THE NATIONAL BUILDING REGULATIONS.  
13. ALL WORK IS TO BE IN ACCORDANCE WITH THE NATIONAL ELECTRICAL REGULATIONS.  
14. ALL WORK IS TO BE IN ACCORDANCE WITH THE NATIONAL PLUMBING REGULATIONS.  
15. ALL WORK IS TO BE IN ACCORDANCE WITH THE NATIONAL MECHANICAL REGULATIONS.  
16. ALL WORK IS TO BE IN ACCORDANCE WITH THE NATIONAL FIRE REGULATIONS.  
17. ALL WORK IS TO BE IN ACCORDANCE WITH THE NATIONAL ENVIRONMENTAL REGULATIONS.  
18. ALL WORK IS TO BE IN ACCORDANCE WITH THE NATIONAL HEALTH AND SAFETY REGULATIONS.  
19. ALL WORK IS TO BE IN ACCORDANCE WITH THE NATIONAL OCCUPATIONAL SAFETY AND HEALTH REGULATIONS.  
20. ALL WORK IS TO BE IN ACCORDANCE WITH THE NATIONAL WORKERS COMPENSATION REGULATIONS.

NO.	DESCRIPTION
1	PROVISIONAL FLOOR
2	PROVISIONAL FLOOR
3	PROVISIONAL FLOOR
4	PROVISIONAL FLOOR
5	PROVISIONAL FLOOR
6	PROVISIONAL FLOOR
7	PROVISIONAL FLOOR
8	PROVISIONAL FLOOR
9	PROVISIONAL FLOOR
10	PROVISIONAL FLOOR
11	PROVISIONAL FLOOR
12	PROVISIONAL FLOOR
13	PROVISIONAL FLOOR
14	PROVISIONAL FLOOR
15	PROVISIONAL FLOOR
16	PROVISIONAL FLOOR
17	PROVISIONAL FLOOR
18	PROVISIONAL FLOOR
19	PROVISIONAL FLOOR
20	PROVISIONAL FLOOR



Third-Seventh Floors

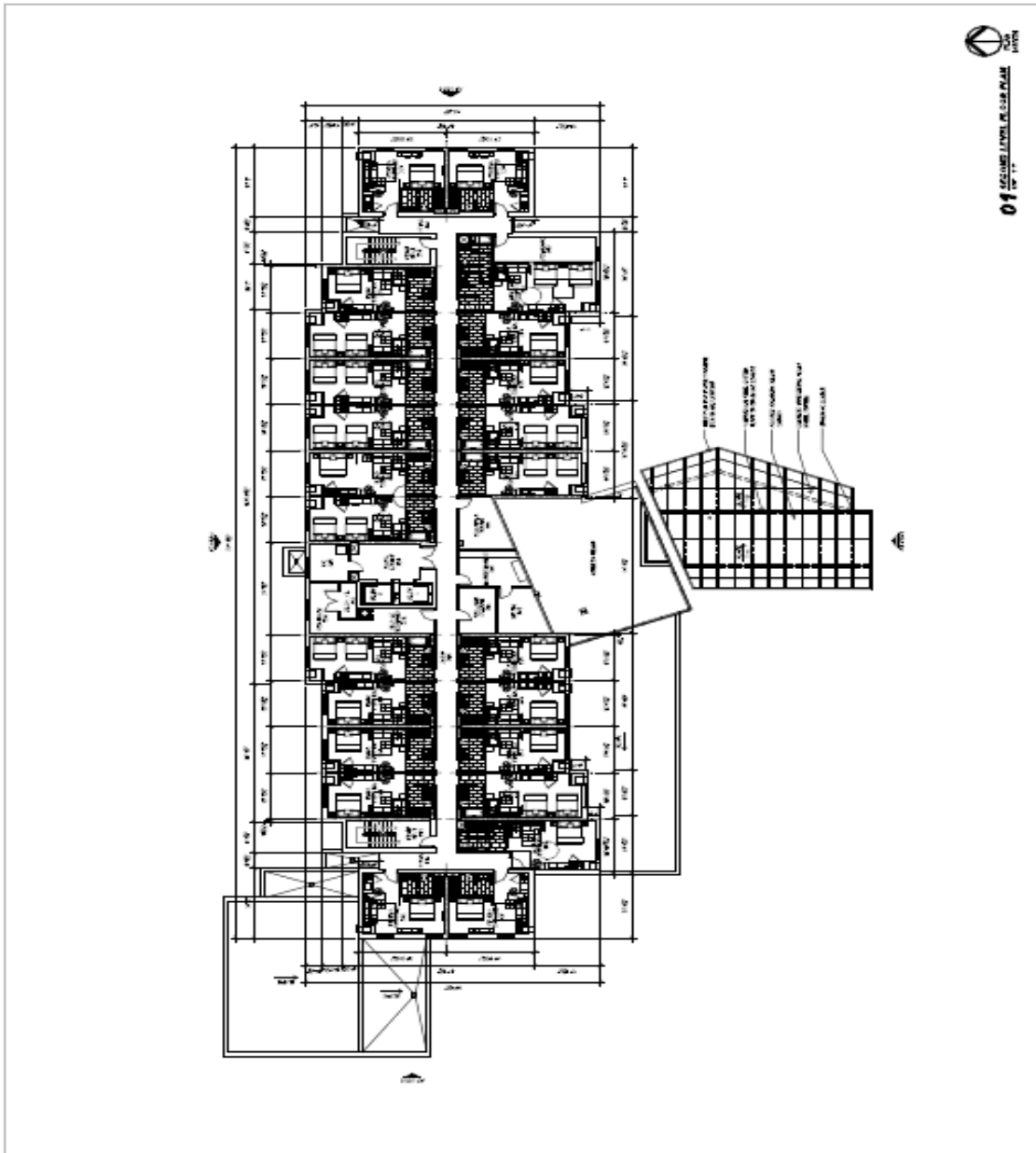


NOTES:  
1. ALL DIMENSIONS ARE IN FEET AND INCHES.  
2. ALL DIMENSIONS ARE TO FACE UNLESS NOTED OTHERWISE.  
3. ALL DIMENSIONS ARE TO CENTERLINE UNLESS NOTED OTHERWISE.  
4. ALL DIMENSIONS ARE TO CENTERLINE UNLESS NOTED OTHERWISE.  
5. ALL DIMENSIONS ARE TO CENTERLINE UNLESS NOTED OTHERWISE.  
6. ALL DIMENSIONS ARE TO CENTERLINE UNLESS NOTED OTHERWISE.  
7. ALL DIMENSIONS ARE TO CENTERLINE UNLESS NOTED OTHERWISE.  
8. ALL DIMENSIONS ARE TO CENTERLINE UNLESS NOTED OTHERWISE.  
9. ALL DIMENSIONS ARE TO CENTERLINE UNLESS NOTED OTHERWISE.  
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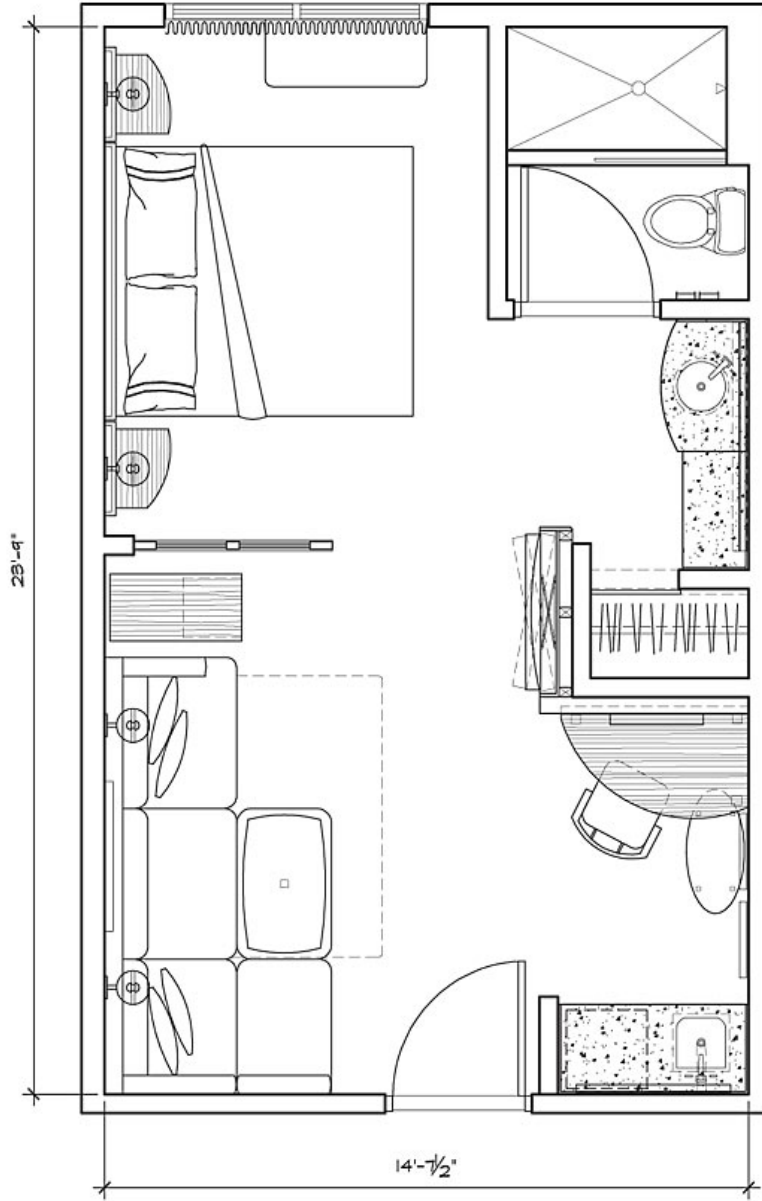
NO. 1	NO. 2	NO. 3	NO. 4	NO. 5	NO. 6	NO. 7	NO. 8	NO. 9	NO. 10

PROJECT: **PreDevelopment 4a**  
 TITLE: **FLOOR PLAN**  
 SHEET: **GROUND LEVEL**  
 DATE: **11/11/11**  
 DRAWN BY:   
 CHECKED BY:   
 APPROVED BY:

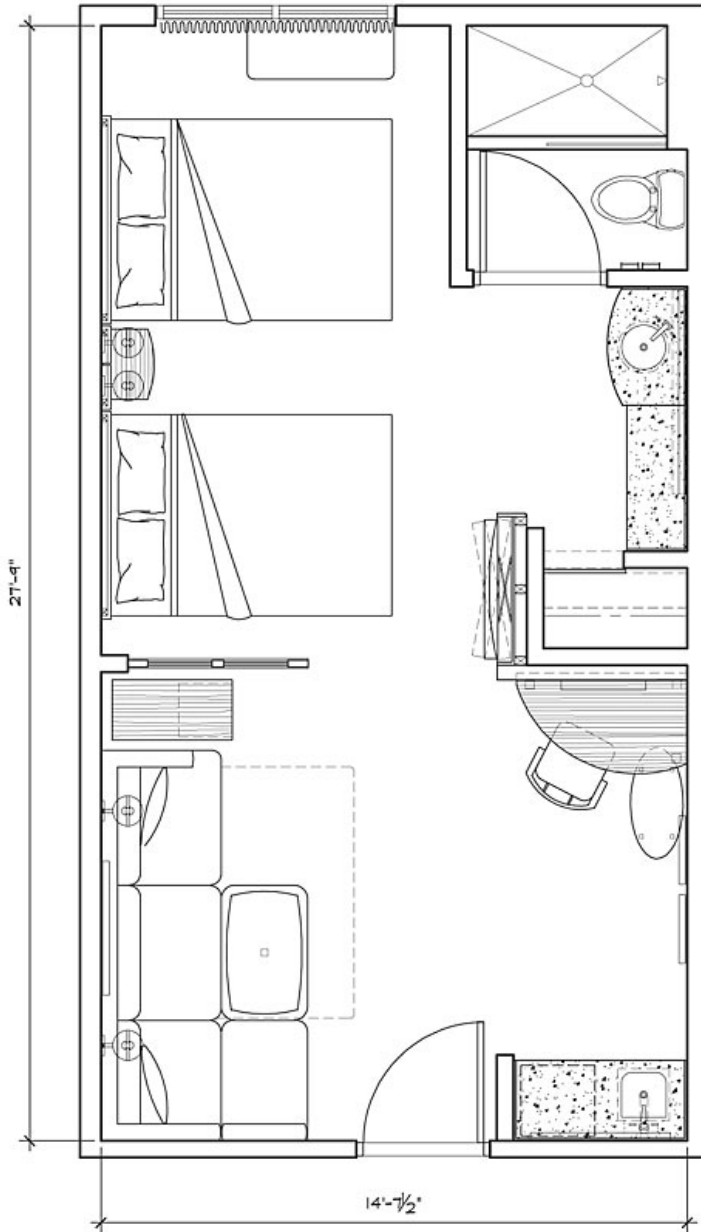
**A1-02**



King Room



Double/Double

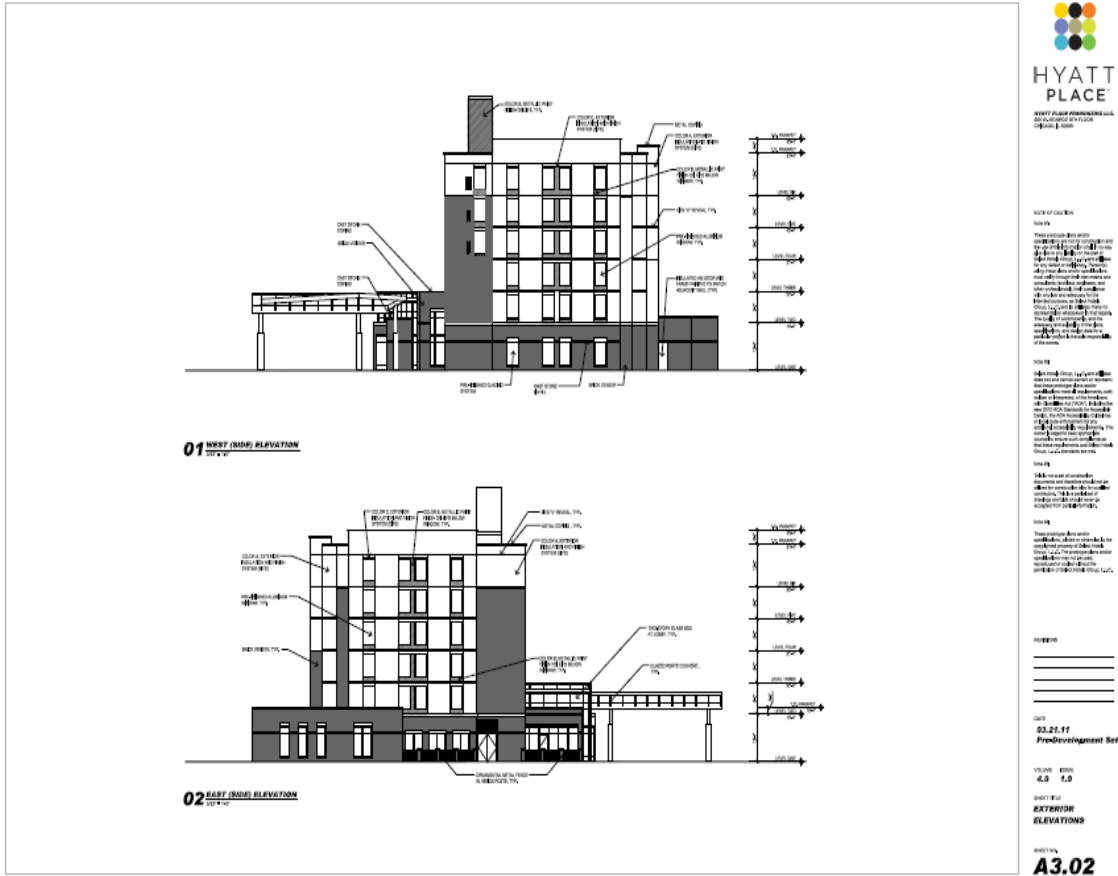






# SITE PLANNING AND BUILDING DESIGN

## Elevation View Front and Back



## SITE PLAN

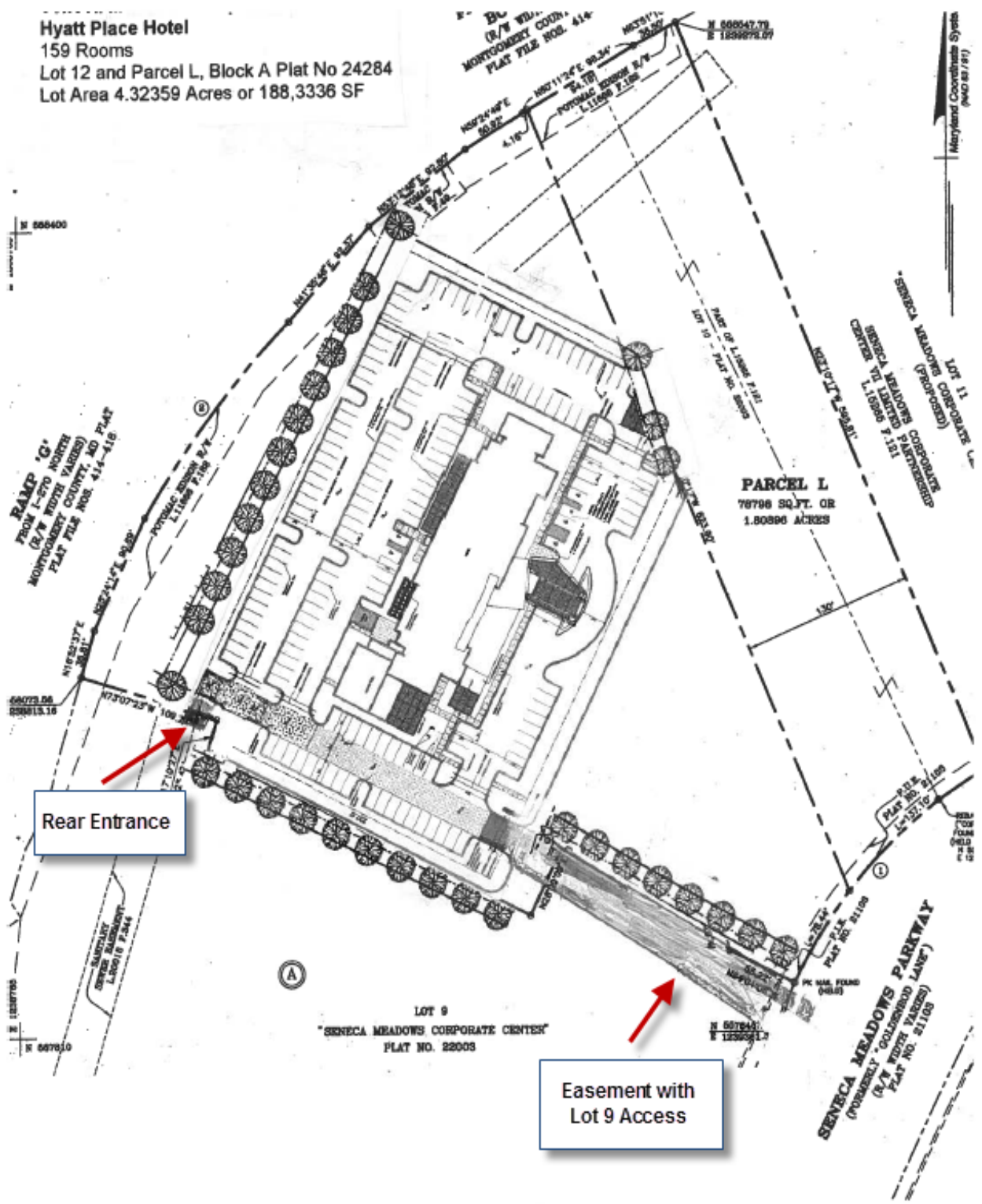
The site plan below is the standard site plan for the prototype 137-room Hyatt Place hotel. The site plan on the following page represents the proposed 159-room Hyatt Place hotel with 166 surface parking spaces presented to show how the project can be placed on the site in conformance with the existing zoning. Assuming the project will use the TMX-2 zoning, the project team will need to receive approval for the building height at 70 feet which is allowed under this zoning but requires specific approval. The project layout indicates the orientation of the project on the site and allows for superior views of the project for travelers heading north and south along I-270.

## **SITE PLANNING AND BUILDING DESIGN**

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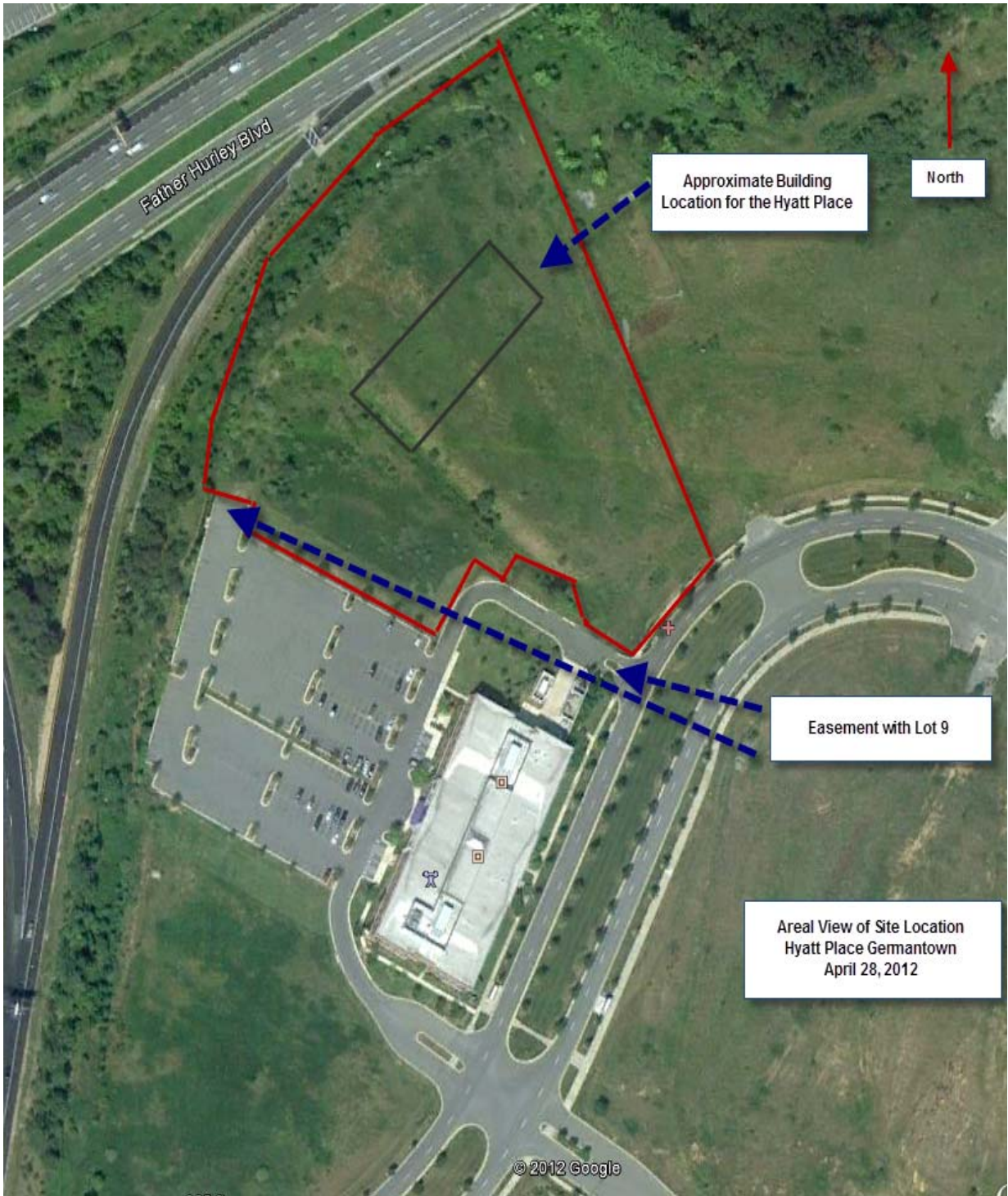
The building orientation further provides a frontal view of the Hotel along the Seneca Meadows Parkway. In addition, the building position is aiming to reduce window line exposure to the future proposed transitway. The building needed to be set back on the site as the portion of the site closest to Seneca Meadows Parkway is too narrow to locate the building. The plan will need to be further refined by a professional engineering firm, but as can be shown, the building can be placed on the site with appropriate setbacks and an orientation that provides the maximum visibility. Access as shown on the drawing is via the easement with Lot 9 and connects the hotel site in two locations to ensure proper traffic flow, allow for a separate entrance for service vehicles and provides adequate egress for fire vehicles.

# SITE PLANNING AND BUILDING DESIGN



Scale 1" = 60'  
 April 28, 2012

# SITE PLANNING AND BUILDING DESIGN



**DEVELOPMENT/CONSTRUCTION COST & SCHEDULE**

## **DEVELOPMENT/CONSTRUCTION COST & SCHEDULE**

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### **DEVELOPMENT/CONSTRUCTION COST & SCHEDULE**

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This section will discuss the method and assumptions related to the development of the construction budget, the method of bidding the project and the plan for managing the construction process. In addition, the section will include the detailed construction budget and the schedule for completing this project

#### **CONSTRUCTION BUDGET ASSUMPTIONS**

The basis for developing the construction budget for this development project relies heavily on interviews with hospitality project managers with extensive experience in the development of hotel projects. After preparing the construction budget using the cost estimating tool available through Hyatt Development, this budget was reviewed for reasonableness with Schafer Project Management and Larry Oleck, Senior Director of Capital Expenditures for Host Hotels and Resorts. Both professionals have extensive experience in developing hotel projects and have significant local knowledge of construction in the mid Atlantic region. The cost of land and impact fees presented in the budget was based on assumptions presented earlier in this analysis. A discussion related to site conditions was conducted with Kim McCary, Senior Associate at Rogers Consulting Inc. Rogers Consulting has completed all of the land use planning and civil engineering for the Seneca Meadows Corporate Center for Minkoff Development as is very knowledgeable about the site conditions of the subject property.

The Hyatt Development model for a Hyatt Place hotel is presented in the appendix which provides a very detailed review of all assumptions and estimated costs for each category listed in the budget presented below. Based on current economic trends and the forecasted rate of inflation, we have taken the 2011 construction budget estimates and increased by three percent per year until the start of construction in mid 2014. In addition, we have adjusted construction pricing to account for local conditions in suburban Maryland.

## DEVELOPMENT/CONSTRUCTION COST & SCHEDULE

Construction interest was assumed to be 50 percent of the construction loan multiplied by the interest rate and duration for the loan. Based on the construction schedule of 18 months, the construction interest of 5.5 percent and a construction loan of \$19.874M the construction interest is estimated to be \$775,500 on the project. Based on the above assumptions, the following represents the construction budget used in the analysis of the Hyatt Place hotel.

Hyatt Place 10 Seneca Meadows Parkway Germantown, MD A 159 Room Select Service Hotel Property Development Budget for 1-1-2016 Opening								
Description	Subtotal	Total	Escalation	Revised Total	Per Key	Per Square Foot	Percent of Total	
<b>Site</b>								
Number of Acres	4.32							
Cost per Square Foot	\$ 35.00							
Land Cost	\$ 6,591,745							
Additional Site Conditions Contingency	75,000							
<b>Site Sub-Total</b>		<b>\$ 6,666,745</b>	<b>0.00%</b>	<b>\$ 6,666,745</b>	<b>\$ 41,929.22</b>	<b>\$ 68.03</b>		<b>21.80%</b>
<b>Design &amp; Engineering</b>								
Architectural/CA	\$ 222,600							
Structural/MEP	103,350							
Civil Design	73,501							
Interior Design	40,000							
Landscape Design Build	15,000							
Geotechnical/Survey/Environmental	8,500							
Miscellaneous Consultants	10,000							
Material Testing and Inspection	9,000							
Project Management Fees	500,000							
Reimbursable	67,473							
<b>Design &amp; Engineering Sub-Total</b>		<b>\$ 1,049,424</b>	<b>3.00%</b>	<b>\$ 1,146,827</b>	<b>\$ 7,212.75</b>	<b>\$ 11.70</b>		<b>3.75%</b>
<b>Permits, License &amp; Fees</b>								
Building Permit	\$ 54,873							
Franchise Fee	63,600							
Impact Fee	832,940							
Water/Sanitary Tap Fees	15,000							
Business License	20,000							
<b>Permits, License &amp; Fees Sub-Total</b>		<b>\$ 986,413</b>	<b>3.00%</b>	<b>\$ 1,077,967</b>	<b>\$ 6,779.67</b>	<b>\$ 11.00</b>		<b>3.53%</b>
<b>Construction</b>								
Base Construction	\$ 10,331,911							
Additional Construction State or Local Taxes	-							
Landscaping Allowance	100,000							
<b>Construction Sub-Total</b>		<b>\$ 10,431,911</b>	<b>3.00%</b>	<b>\$ 11,400,154</b>	<b>\$ 71,699.08</b>	<b>\$ 116.34</b>		<b>37.28%</b>
<b>Furniture Fixtures &amp; Equipment</b>								
Guestroom FF&E	\$ 1,664,695							
Guestroom OS&E	137,543							
<b>Furniture Fixtures &amp; Equipment Sub-Total</b>		<b>\$ 1,802,238</b>	<b>3.00%</b>	<b>\$ 1,969,514</b>	<b>\$ 12,386.88</b>	<b>\$ 20.10</b>		<b>6.44%</b>
<b>Public Areas FF&amp;E and OS&amp;E</b>								
Fitness Center FF&E	\$ 3,488							
Fitness Center Equipment & OS&E	40,048							
Meeting Room FF&E	20,457							
Meeting Room OS&E	92,706							
Corridor Costs	90,604							
Gallery FF&E	138,996							
Gallery OS&E	23,993							
Gallery Millwork	87,000							
Kitchen & Café/Bar Equipment	158,918							
Maintenance Shop OS&E	7,993							
Commercial Laundry & Housekeeping OS&E	84,663							
<b>Public Areas FF&amp;E and OS&amp;E</b>		<b>\$ 748,866</b>	<b>3.00%</b>	<b>\$ 818,372</b>	<b>\$ 5,147.00</b>	<b>\$ 8.35</b>		<b>2.68%</b>

## DEVELOPMENT/CONSTRUCTION COST & SCHEDULE

<b>Technology Signage &amp; Miscellaneous</b>						
Technology	\$	425,090				
Interior Signage		14,230				
Exterior Signage		62,050				
Miscellaneous		66,000				
Construction/Marketing/Graphics & Signage		3,500				
Provision for Attic Stock - All FF&E		25,511				
<b>Technology Signage &amp; Miscellaneous Sub-Total</b>		<b>\$ 596,381</b>	3.00%	<b>\$ 651,734</b>	<b>\$ 4,098.96</b>	<b>\$ 6.65 2.13%</b>
<b>Fees Taxes &amp; Freight</b>						
Purchasing Fee Allowance (FF&E and OS&E)	\$	104,479				
Installation Allowance		238,500				
Sales Tax		272,867				
Freight		217,896				
Warehousing		75,000				
<b>Fees Taxes &amp; Freight Sub-Total</b>		<b>\$ 908,742</b>	3.00%	<b>\$ 993,087</b>	<b>\$ 6,245.83</b>	<b>\$ 10.13 3.25%</b>
<b>Construction and Finish Out Sub-Total</b>		<b>\$ 16,523,975</b>	3.00%	<b>\$ 18,057,656</b>	<b>\$ 113,570.16</b>	<b>\$ 184.27 59.06%</b>
<b>Inventories (Food and Beverage) Sub-Total</b>		<b>\$ 19,950</b>	3.00%	<b>\$ 21,802</b>	<b>\$ 137.12</b>	<b>\$ 0.22 0.07%</b>
<b>Pre-Opening Expense</b>						
Salaries and Wages	\$	120,840				
Relocation Payroll & T&E Expense		37,460				
Office Rental & Expense		19,875				
Advertising and Promotional Expense		52,470				
Chain Services Fee		32,448				
Shared Service		6,360				
<b>Pre-Opening Expense Sub-Total</b>		<b>\$ 269,453</b>	3.00%	<b>\$ 294,462</b>	<b>\$ 1,851.96</b>	<b>\$ 3.00 0.96%</b>
<b>Working Capital Sub-Total</b>		<b>\$ 100,000</b>	3.00%	<b>\$ 109,282</b>	<b>\$ 687.31</b>	<b>\$ 1.12 0.36%</b>
<b>Project Management by Owner Sub-Total</b>		<b>\$ 500,000</b>	3.00%	<b>\$ 546,408</b>	<b>\$ 3,436.53</b>	<b>\$ 5.58 1.79%</b>
<b>Insurance and Bonds Sub-Total</b>		<b>\$ 25,000</b>	3.00%	<b>\$ 27,320</b>	<b>\$ 171.83</b>	<b>\$ 0.28 0.09%</b>
<b>Financial Taxes &amp; Legal</b>						
Feasibility & Appraisal	\$	12,500				
Initial Financing Costs		237,000				
Interim Interest		775,500				
Ad Valorem Taxes		26,235				
Development Legal Expense		40,000				
Development Accounting Expense		20,000				
Development Fee (by HPG LLC)		500,000				
Asset Management Fee		350,000				
Insurance During Construction		22,864				
<b>Financial Taxes &amp; Legal Sub-Total</b>		<b>\$ 1,984,099</b>	3.00%	<b>\$ 2,168,254</b>	<b>\$ 13,636.82</b>	<b>\$ 22.13 7.09%</b>
<b>Project-Wide Contingency Percentage (%)</b>	10%	<b>\$ 2,456,611</b>	3.00%	<b>\$ 2,684,623</b>	<b>\$ 16,884.42</b>	<b>\$ 27.40 8.78%</b>
<b>Grand Total (All Subtotal Lines)</b>		<b>\$ 28,545,833</b>		<b>\$ 30,576,552</b>	<b>\$ 192,305.36</b>	<b>\$ 312.03 100.00%</b>

## METHOD OF PROJECT DELIVERY

The construction of the Hyatt Place Germantown will be complete on a Design-Bid-Build basis. Design-bid-build (or design/bid/build, and abbreviated D-B-B or D/B/B accordingly), also known as Design-tender (or "design/tender") and traditional method, is a project delivery method in which the agency or owner contracts with separate entities for each the design and construction of a project.

Design-bid-build is the traditional method for project delivery and differs in several substantial aspects from design-build.



## DEVELOPMENT/CONSTRUCTION COST & SCHEDULE

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There are three main sequential phases to the design–bid–build delivery method:

- The design phase
- The bidding (or tender) phase
- The construction phase

### **Design Phase**

In this phase the owner retains an architect (or engineer for infrastructure works) to design and produce tender documents on which various general contractors will in turn bid, and ultimately be used to construct the project. For building projects, the architect will work with the owner to identify the owners needs, develop a written program documenting those needs and then produce a conceptual or schematic design. This early design is then developed, and the architect will usually bring in other professionals including mechanical, electrical, and plumbing engineers (MEP engineers), a fire engineer, structural engineer, sometimes a civil engineer and often a landscape architect to complete documents (drawings and specifications). These documents are then coordinated by the architect and put out for tender to various general contractors.

### **Bid Phase**

Bids (tenders) can be "open", in which any qualified bidder may participate, or "select", in which a limited number of pre-selected contractors are invited to bid.

The various general contractors bidding on the project obtain copies of the tender documents, and then put them out to multiple subcontractors for bids on sub-components of the project. Sub-components include items such as the concrete work, structural steel frame, electrical systems, and landscaping. Questions may arise during the tender period, and the architect will typically issue clarifications or addenda. From these elements, the contractor compiles a complete "tender price" for submission by the closing date and time. Tender documents can be based on the quantities of materials in the completed construction such as in the

## DEVELOPMENT/CONSTRUCTION COST & SCHEDULE

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UK with bills of quantities, or the operations needed to build it as in operational bills.

Once bids are received, the architect typically reviews the bids, seeks any clarifications required of the bidders, ensures all documentation is in order (including bonding if required), and advises the owner as to the ranking of the bids. If the bids fall in a range acceptable to the owner, the owner and architect discuss the suitability of various bidders and their proposals. The owner is not obligated to accept the lowest bid, and it is customary for other factors including past performance and quality of other work to influence the selection process. The project is usually awarded to the lowest bid by a qualified general contractor.

In the event that all of the bids are in excess of the goals of the owner, the owner may elect to reject all bids. The following options become available:

- Abandon the project.
- The architect may revise the design at no cost to the owner, making the project smaller or more efficient, or reduce features or elements of the project to bring the cost down. The revised documents can then be re-tendered.
- The owner may elect to select the lowest qualified bid's general contractor to join the architectural team to assist with cost reduction. This process is often referred to as value engineering.

### **Construction Phase**

After the project has been awarded, the construction documents may be updated to incorporate addenda or changes and they are issued for construction. The necessary approvals (such as the building permit) must be achieved from all jurisdictional authorities for the construction process to begin. In most instances, almost every component of a project is supplied and installed by sub-contractors. The general contractor often provides work with its own forces, but it is not uncommon for a general contractor to limit its role to management of the

**DEVELOPMENT/CONSTRUCTION COST & SCHEDULE**

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construction process and daily activity on a construction site (see also construction management). The architect acts as the owner's agent to review the progress of the work and to issue site instructions, change orders or other documentation necessary to the construction process.

<b>Design-Bid-Build Versus Design-Build Advantages and Disadvantages</b>	
<b>Advantages</b>	<b>Disadvantages</b>
<b>Design-Bid Build</b>	
<ul style="list-style-type: none"> <li>· Building is fully defined.</li> <li>· Competitive bidding results in lowest cost.</li> <li>· Relative ease of assuring quality control.</li> <li>· Objective contract award.</li> <li>· Good access for small contractors.</li> </ul>	<ul style="list-style-type: none"> <li>· Agency gets involved in conflicts and disputes.</li> <li>· Builder not involved in design process.</li> <li>· May be slower.</li> <li>· Price not certain until construction bid is received.</li> <li>· Agency may need more technical staff.</li> </ul>
<b>Design-Build (Stipulated Price)</b>	
<ul style="list-style-type: none"> <li>· Price certainty.</li> <li>· Agency may avoid conflicts and disputes.</li> <li>· Builder involved in design process.</li> <li>· Faster project delivery.</li> <li>· Agency needs less technical staff.</li> </ul>	<ul style="list-style-type: none"> <li>· Limited assurance of quality control.</li> <li>· Subjective contract award.</li> <li>· Limited access for small contractors.</li> </ul>

**CONSTRUCTION SCHEDULE**

In order to prepare an accurate construction schedule, HRA reviewed the project timeline for reasonableness with the project managers previously noted and

## **DEVELOPMENT/CONSTRUCTION COST & SCHEDULE**

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other professionals including Minkoff Development. We have assumed that the project will have the following sequence in the development of the construction documents, bidding process and construction schedule.

### **Pre-Design Phase**

1. Interview Project Managers for the construction project.
2. HRA will select a PM Consultant and award a Project Management Services Contract Agreement that will price out each phase of the development project.
3. HRA, with the assistance of their selected PM Consultant, writes and issues a Request for Proposals (RFP) to competitively procure architectural and engineering design (A/E) services. The RFP will include very specific information regarding the development program that has already been determined in the Site and Building Design section.
4. RFP's will be sent to more than five (5), but less than ten (10) pre-screened, architectural firms. After reviewing the received A/E proposals, which will include structural, mechanical, electrical, plumbing and life safety engineering design services, HRA will schedule and conduct interviews with each responding A/E firm.
5. Based upon the A/E Interviews and the full vetting of all A/E proposals, HRA will select an A/E firm and award a Design Services Contract Agreement that provides pricing for each phase of the design.
6. This Phase should take place in June 2012 and we would conclude this phase by August 2012.

### **Schematic Design Phase**

The schematic design establishes the programmatic demand, space plan requirements, general scope and then a conceptual design, scale and relationships among the components of the project. The primary objective is to arrive at a clearly defined, feasible concept while exploring the most promising

## **DEVELOPMENT/CONSTRUCTION COST & SCHEDULE**

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alternative design solutions. The follow steps and deliverables will be provided at the end of this phase.

1. Design Charrette - Because the project will be based on the prototype Hyatt Place hotel, the charette will be conducted to expedite establishing the initial design criteria and changes suggested to be made to the standard building layout. A Design Charrette consists of an intense period of design activity and effort during a predetermined, and fixed, amount of time (a day or two) with specific objectives which must be completed by given deadline. The Design Charrette consolidates the iterations, conversations and exploration of all suggestions in a short, intense yet effective and efficient manner. Design Charrette will require a couple of days of the development team's attention to the programmatic and functional requirements of the new hotel.
2. Upon completion of the Design Charrette, the Architect will prepare a series of rough plans, known as schematics, which show the general arrangement of rooms and of the building on the site. Models and/or illustrations are prepared to help visualize the project as necessary. Design proceeds to the next design phase (Design Development) only after HRA approves the Schematic Design.
3. Based on the Schematic design, we will charge our Project Manager to produce a revised budget the hotel project.
4. This phase is estimated to take 4 months.

### **Design Development Phase**

1. Based upon the approved Schematic Design documents, the Architect develops more detailed drawings illustrating other aspects of the proposed

## **DEVELOPMENT/CONSTRUCTION COST & SCHEDULE**

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design, including floor plans showing all the rooms in correct size and shape.

2. Outline specifications are prepared listing the major materials and room finishes. The Architect verifies the design complies with building codes and works with engineers to design the structure, mechanical and electrical systems.
3. The project proceeds to the next phase when the Owner approves the Design Development documents. At the end of this phase, the project manager will have the estimator update the project costs so we can evaluate opportunities for savings.
4. It is estimated to take 6 months to complete this phase.
5. Review financing options and complete loan commitment for the project. This phase will take approximately 6 months and needs to be started during the DD phase in order to complete on time.

### **Construction Document Phase**

1. Once the developer has approved the Design Development phase, the Architect prepares detailed construction documents (drawings and specifications), which the Contractor will use to establish actual construction cost to build the project. Room finishes (materials, colors, etc.); door types, door hardware, etc. are finalized during the CD Phase. These drawings and specifications become part of the construction contract.
2. This phase will include the detailed preparation of the FF&E procurement order. We intend to bring the procurement firm on at the beginning of the project to ensure we do not have any surprises throughout the planning phase.

## **DEVELOPMENT/CONSTRUCTION COST & SCHEDULE**

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3. It is estimated to take 4 months to complete this phase.

### **Permitting, Bidding & Contracting Phase**

1. With their PM Consultant, HRA will prepare Bid Documents and develop a pre-screened list of Bidders. Bid Document include invitations to bid and instructions to bidders, the conditions of the contract, and the form of contact agreement between the Owner and the Contractor.
2. While the construction documents are out for bidding, the Architect will also submit them to Montgomery County for Building Permit Review and Approval. The Architect is responsible to review, address and revise the construction documents to mitigate all Montgomery County Permit Review Comments.
3. It is estimated to take 4 months to complete this phase.

### **Construction Administration Phase**

1. During actual construction, the Architect reviews and approves product submittals to ensure all materials; equipment and system conform to the construction documents (drawings and specifications) and the original design intent. In order to determine, in general, if the project is being built in accordance with the construction documents, the Architect will make site visits to observe the construction. The Architect will assist the PM Consultant with the review of Contractor's applications for payment and proposed change orders. Contractor Requests for Information (RFI's) are sent to and answered by the Architect when the construction drawings need additional clarification.
2. This phase is expected to take 18 months to complete (estimated):

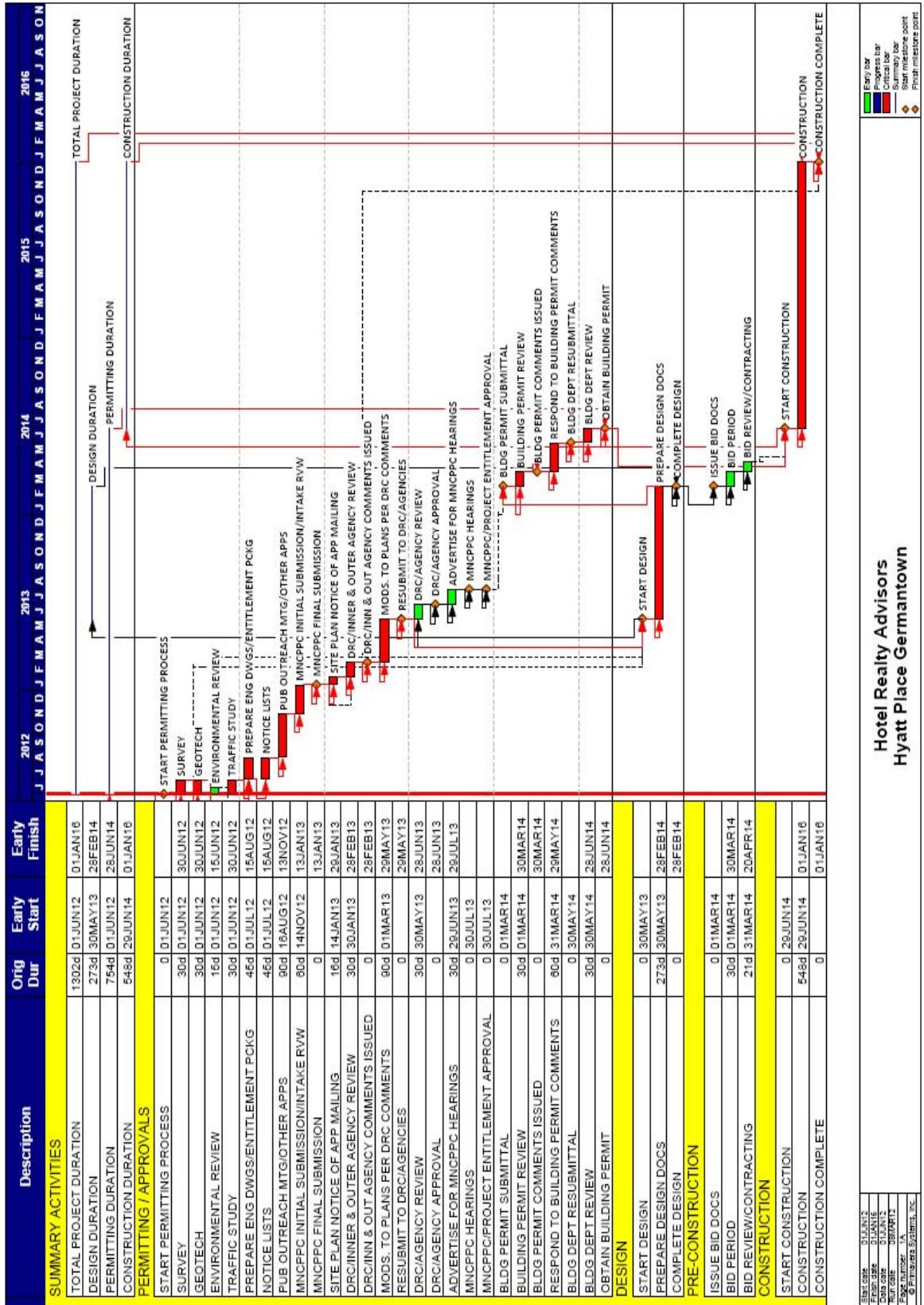
## **DEVELOPMENT/CONSTRUCTION COST & SCHEDULE**

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The following schedule provides a detailed timeline and critical path for the planning, design and development of the Hyatt Place hotel in Germantown, MD.



# DEVELOPMENT/CONSTRUCTION COST & SCHEDULE



**Hotel Realty Advisors**  
**Hyatt Place Germantown**

REVISED: 01JAN12  
 PREPARED BY: 01JAN12  
 DATA DATE: 01JAN12  
 PERIOD: 12/01/11 - 12/31/11  
 PROJECT: 12/01/11 - 12/31/11  
 PREPARED BY: PROJECTS, INC.

## **FINANCIAL ANALYSIS**

## FINANCIAL ANALYSIS

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### FINANCIAL ANALYSIS

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A thorough financial feasibility analysis was conducted by Hospitality Realty Advisors LLC (HRA) by reviewing each assumption used in the pro forma for reasonableness. The analysis provides the investor with the scenario that provides the most likely outcome based on current and expected conditions in the market and by providing appropriate risk mitigation strategies for each variable in our forecast. The analysis will also show a range of outcomes including an upside and downside scenario, a sensitivity analysis based on construction costs and revenue projections as well as other financial return measures that will help the investor quantify and measure the risk and return of the proposed investment.

#### **FIXED AND VARIABLE REVENUE AND EXPENSE ANALYSIS ASSUMPTIONS**

Operating revenues and expenses for hotels have a component that is fixed and a component that is variable with respect to increases or decreases in occupancy. The fixed component increases at an inflationary level, while the variable component is adjusted in proportion to the use of the hotel facility.

The applicable fixed and variable ratios were derived through discussions with hotel experts and are consistent with industry norms. These ratios and the associated revenue component drivers are illustrated as follows:

## FINANCIAL ANALYSIS

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### Limited Service, Fixed / Variable Component Ranges by Occupancy Level

Expense Item	Fixed Component Occupancy Range	Variable Component Occupancy Range
Rooms Labor	Not observable	40%-80%
Rooms Other	40%-49%	50%-80%
F&B Labor	50%-55%	45%-50%
F&B Other	50%-55%	45%-50%
Other Operating Labor	n/a	n/a
Other Operating Other	20%-40%	40%-80%
Administrative and General Labor*	20%-40%	40%-80%
Administrative and General Other*	70%-80%	40%-69%
Sales and Marketing Labor*	61%-68%	40%-60%, 69%-80%
Sales and Marketing Other*	61%-80%	40%-60%
Maintenance Labor	30%-70%	30%-70%
Maintenance Other	30%-70%	30%-70%
Energy	80%-90%	10%-20%

**Source: PKF Hospitality Research and HRA**

The actual fixed and variable measures used in this analysis are based on results derived from Hyatt Place Hotel's actual results and are described in each of the assumptions used for the pro forma below and are all within the ranges provided by PKF Hospitality Research.

### Occupancy, ADR and RevPAR Definitions and Assumptions

**Percentage of Occupancy**-The percentage of available rooms occupied for a given period. It is computed by dividing the number of paid guest rooms occupied for a period by the number of rooms available for the same period.

**Average Daily Rate**-This is the total guest room revenue for a given period divided by the total number of paid occupied rooms during the same period.

## FINANCIAL ANALYSIS

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**RevPAR**-This is defined as rooms revenue divided by the annual number of available rooms.

The occupancy rate and ADR over the holding period is based on the subject's estimated stabilized occupancy rate and estimated lease-up period to achieve a stabilized occupancy position. The ADR assumptions are also provided by comparing the subject properties various attributes to the competitive hotels and determining whether the property will achieve a performance above or below the competitive hotels in the marketplace. The complete discussion and analysis of occupancy and ADR is located in the Competitive Market Analysis and Estimated Utilization and ADR sections. A review of these assumptions is listed below:

<b>Year</b>	<b>Occupancy</b>	<b>ADR</b>	<b>RevPAR</b>
2016	67.7%	\$163.26	\$110.53
2017	71.1%	\$170.62	\$121.28
2018	72.0%	\$178.25	\$128.34
2019	72.0%	\$182.70	\$131.55
2020	72.0%	\$187.27	\$134.83

### ROOMS DEPARTMENT REVENUES

Revenue derived from the rental of sleeping rooms, no-show charges, early departure and late checkout fees, pet fees, and charges for rollaway beds and cribs. The subject's revenues for this department as a percentage of total revenues, on a per available room basis, and on a per occupied room basis are summarized as follows:

<b>Year 1 Pro Forma Estimate:</b>	
<b>2016 Total Dollars:</b>	\$6,253,000
<b>2016 Per Available Room:</b>	\$ 40,342
<b>2016 Per Occupied Room:</b>	\$ 163.26
<b>2016 Percent of Sales:</b>	95.06%

### FOOD & BEVERAGE REVENUE

Revenue derived from the sale of food, alcohol, and nonalcoholic beverages in restaurants, lounges, room service, mini-bar, and banquet rooms. Also includes

## FINANCIAL ANALYSIS

revenue from public room rentals, service charges, and the rental of audio/visual and other meeting room equipment. The subject's and the comparable data revenues for this department as a percentage of total revenues, on a per available room basis, and on a per occupied room basis are summarized as follows:

<b>Food &amp; Beverage Revenue</b>									
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)									
Percent of Sales			Per Available Room			Inputs Selected for Pro Forma Per Occupied Room Range			
Low	Average	High	Low	Average	High	Low	Average	High	
2.98%	4.25%	4.79%	\$ 1,052	\$ 1,376	\$ 1,629	\$ 4.29	\$ 5.03	\$ 6.01	
PKF Trends in the USA 2011									
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								\$	651
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								\$	333
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								\$	502
Percent of Revenue Variable Range:						From:	100%	To:	100%
<b>HRA Basis for Pro Forma Estimate:</b>			<b>\$ 5.50 Per Occupied Room</b>						
<b>Percent of Revenue Variable:</b>			<b>100%</b>						
Year 1 Pro Forma Estimate:									
2016 Total Dollars:									\$ 238,000
2016 Per Available Room:									\$ 1,535
2016 Per Occupied Room:									\$ 6.21
2016 Percent of Sales:									3.62%

## TELECOMMUNICATIONS DEPARTMENT REVENUE

Telecommunications department revenues are those derived from guest-use of telephones in the hotel, including local and long distance calls, service charges and commissions received from pay phones. The subject's and the comparable data revenues for this department as a percentage of total revenues, on a per available room basis, and on a per occupied room basis are summarized as follows:

## FINANCIAL ANALYSIS

Telephone Revenue										
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)										
Percent of Sales			Per Available Room			Inputs Selected for Pro Forma Per Occupied Room Range				
Low	Average	High	Low	Average	High	Low	Average	High		
0.06%	0.26%	0.85%	\$ 14	\$ 88	\$ 272	0.06	\$ 0.31	\$ 1.00		
PKF Trends in the USA 2011										
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room									NA	
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room									NA	
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room									NA	
Percent of Revenue Variable Range:						From:	100%	To:	100%	
HRA Basis for Pro Forma Estimate:			\$ 0.50 Per Occupied Room							
Percent of Revenue Variable:			100%							
Year 1 Pro Forma Estimate:										
2016 Total Dollars:			\$ 22,000							
2016 Per Available Room:			\$ 142							
2016 Per Occupied Room:			\$ 0.57							
2016 Percent of Sales:			0.33%							

## OTHER OPERATING DEPARTMENT REVENUES

Other Operating Department revenues are those derived from garage and parking, guest laundry, gift shop, retail, newsstand when operated by the hotel. Also included are revenues generated from sources not included elsewhere, such as on-demand movie rentals, vending machines, and fax and business services. The subject's and the comparable data revenues for this department as a percentage of total revenues, on a per available room basis, and on a per occupied room basis are summarized as follows:

Other Operated Departments Net										
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)										
Percent of Sales			Per Available Room			Inputs Selected for Pro Forma Per Occupied Room Range				
Low	Average	High	Low	Average	High	Low	Average	High		
0.09%	0.71%	2.29%	\$ 45	\$ 198	\$ 522	0.14	\$ 0.80	\$ 2.39		
PKF Trends in the USA 2011										
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room									\$ 216	
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room									\$ 407	
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room									\$ 265	
Percent of Revenue Variable Range:						From:	100%	To:	100%	
HRA Basis for Pro Forma Estimate:			\$ 1.50 Per Occupied Room							
Percent of Revenue Variable:			100%							
Year 1 Pro Forma Estimate:										
2016 Total Dollars:			\$ 65,000							
2016 Per Available Room:			\$ 419							
2016 Per Occupied Room:			\$ 1.70							
2016 Percent of Sales:			0.99%							

## FINANCIAL ANALYSIS

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### EXPENSE PROJECTIONS

In order to estimate expenses for the subject, the following data has been reviewed and analyzed:

- Published industry averages for similar hotel segments and geographic regions.
- Actual operating expense data for six similar Hyatt Place hotel properties located in the Northeastern United States.

The individual expense categories applicable to the subject are discussed in the following sections.

PKF Trends Report figures and information for the expense comparables are not shown for: Franchise Fees, Loyalty Fees, Reserves for Replacement; and Total Expenses as the data collection from this survey set is not consistent or are rates based on expected contract terms.

### DEPARTMENT EXPENSES

Departmental expenses are typically occupancy sensitive and directly related to an associated revenue source. These expenses are therefore compared and estimated on a per occupied room basis and then evaluated as a percentage of sales for reasonableness.

**Rooms Expenses** include labor costs such as salaries and wages for front desk, housekeeping, reservations, bell staff and laundry, plus employee benefits. Also included herein are linens, cleaning supplies, guest supplies, uniforms, central or franchise reservation fees, equipment leases and travel agent commissions. Payroll costs are typically the largest component. A hotel is labor-intensive, although relatively low-paying. Overall, wages typically account for 50% to 60% of the total departmental expense. The comparable data and projections for the subject are summarized as follows:



## FINANCIAL ANALYSIS

Rooms Department Expense									
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)									
Percent of Sales			Per Available Room			Inputs Selected for Pro Forma Per Occupied Room Range			
Low	Average	High	Low	Average	High	Low	Average	High	
24.73%	28.82%	32.45%	\$ 6,905	\$ 8,953	\$ 11,581	\$ 27.03	\$ 32.55	\$ 36.81	
PKF Trends in the USA 2011									
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								\$	6,297
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								\$	4,926
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								\$	7,394
Percent of Revenue Variable Range:						From:	40%	To:	80%
HRA Basis for Pro Forma Estimate:			\$ 32.50 Per Occupied Room						
Percent of Revenue Variable:			50%						
Year 1 Pro Forma Estimate:									
2016 Total Dollars:			\$ 1,408,000						
2016 Per Available Room:			\$ 9,084						
2016 Per Occupied Room:			\$ 36.76						
2016 Percent of Sales:			22.52% ADR is higher than comparable hotels						

**Food and Beverage Expenses** include the costs of goods sold (food and beverages), labor and related benefits, and other operating expenses. Labor costs include departmental management, cooks and kitchen personnel, service staff, banquet staff and bartenders. Other operating expenses include china, silverware, linens, restaurant and kitchen supplies, menus and printing, and special promotions. As with the rooms department, payroll costs are typically the largest component. The comparable data and projections for the subject are summarized as follows:

Food & Beverage Expense									
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)									
Percent of Sales			Per Available Room			Inputs Selected for Pro Forma Per Occupied Room Range			
Low	Average	High	Low	Average	High	Low	Average	High	
54.40%	75.61%	88.85%	\$ 822	\$ 1,030	\$ 1,270	\$ 2.79	\$ 3.80	\$ 4.69	
PKF Trends in the USA 2011									
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								\$	309
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								\$	374
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								\$	577
Percent of Revenue Variable Range:						From:	45%	To:	50%
HRA Basis for Pro Forma Estimate:			\$ 4.00 Per Occupied Room						
Percent of Revenue Variable:			45%						
Year 1 Pro Forma Estimate:									
2016 Total Dollars:			\$ 173,000						
2016 Per Available Room:			\$ 1,116						
2016 Per Occupied Room:			\$ 4.52						
2016 Percent of Sales:			72.69%						

## FINANCIAL ANALYSIS

**Telecommunications Expenses** include the costs of calls, labor cost of operators and other related expenses. Specifically excluded are associated capital lease payments. The comparable data and projections for the subject are summarized as follows:

<b>Telephone Expense</b>									
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)									
Percent of Sales			Per Available Room			Inputs Selected for Pro Forma Per Occupied Room Range			
Low	Average	High	Low	Average	High	Low	Average	High	
-74.22%	478.13%	1482.84%	\$ (207.13)	\$ 126.02	\$ 202.58	\$ (0.74)	\$ 0.47	\$ 0.93	
PKF Trends in the USA 2011									
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								NA	
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								NA	
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								NA	
Percent of Revenue Variable Range:						From:	NA	To:	NA
<b>HRA Basis for Pro Forma Estimate:</b>			<b>\$ 0.50</b>	<b>Per Occupied Room</b>					
<b>Percent of Revenue Variable:</b>			<b>40%</b>						
Year 1 Pro Forma Estimate:									
2016 Total Dollars:			\$	22,000					
2016 Per Available Room:			\$	142					
2016 Per Occupied Room:			\$	0.57					
2016 Percent of Sales:			100.00%						

## UNDISTRIBUTED OPERATING EXPENSES

Undistributed operating expenses are typically not directly related to an associated revenue source, but can be compared on the basis of total revenues for similar types of hotels. These expenses are therefore compared and estimated as a percentage of total revenues.

**Administrative and General Expenses** include payroll and related expenses for the general manager, human resources and training, security, clerical staff, controller and accounting staff. Other expenses include office supplies, computer services, accounting and legal fees, cash overages and shortages, bad debt expenses, travel insurance, credit card commissions, transportation (non-guest) and travel and entertainment. These payroll costs are significant. The comparable data and projections for the subject are summarized as follows:

## FINANCIAL ANALYSIS

Administrative and General Expense										
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)										
Percent of Sales			Inputs Selected for Pro Forma Per Available Room			Per Occupied Room Range				
Low	Average	High	Low	Average	High	Low	Average	High		
7.17%	9.23%	10.14%	\$ 2,375	\$ 3,003	\$ 3,375	\$ 9.46	\$ 10.97	\$ 12.39		
PKF Trends in the USA 2011										
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								\$	2,351	
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								\$	1,878	
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								\$	2,759	
Percent of Revenue Variable Range:						From:	40%	To:	80%	
HRA Basis for Pro Forma Estimate:			\$ 2,800 Per Available Room							
Percent of Revenue Variable:			40%							
Year 1 Pro Forma Estimate:										
2016 Total Dollars:			\$ 491,000							
2016 Per Available Room:			\$ 3,168							
2016 Per Occupied Room:			\$ 12.82							
2016 Percent of Sales:			7.46%							

**Loyalty Fees** include fees paid for the Hyatt Gold Passport program and are fixed at 1.75% for the pro forma period based on current program guidance by Hyatt Development.

Loyalty Program Expense										
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)										
Inputs Selected for Pro Forma Percent of Sales			Per Available Room			Per Occupied Room Range				
Low	Average	High	Low	Average	High	Low	Average	High		
1.52%	1.74%	2.02%	\$ 456	\$ 573	\$ 775	\$ 1.63	\$ 2.08	\$ 2.46		
PKF Trends in the USA 2011										
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								NA		
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								NA		
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								NA		
Percent of Revenue Variable Range:						From:	100%	To:	100%	
HRA Basis for Pro Forma Estimate:			1.75% Per Occupied Room							
Percent of Revenue Variable:			100%							
Year 1 Pro Forma Estimate:										
2016 Total Dollars:			\$ 115,115							
2016 Per Available Room:			\$ 743							
2016 Per Occupied Room:			\$ 3.01							
2016 Percent of Sales:			1.75%							

**Marketing Expenses** include payroll and related expenses for the sales and marketing staff, direct sales expenses, advertising and promotion, travel expenses for the sales staff and civic and community projects. This includes

## FINANCIAL ANALYSIS

national marketing fee as well. The comparable data and projections for the subject are summarized as follows:

Marketing Expense									
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)									
Percent of Sales			Inputs Selected for Pro Forma Per Available Room			Per Occupied Room Range			
Low	Average	High	Low	Average	High	Low	Average	High	
2.93%	3.63%	4.30%	\$ 745	\$ 1,194	\$ 1,391	\$ 3.33	\$ 4.33	\$ 5.01	
PKF Trends in the USA 2011									
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room									\$ 2,349
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room									\$ 1,508
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room									\$ 3,308
Percent of Revenue Variable Range:						From:	40%	To:	60%
HRA Basis for Pro Forma Estimate:			\$ 1,200 Per Available Room						
Percent of Revenue Variable:			60%						
<b>Year 1 Pro Forma Estimate:</b>									
2016 Total Dollars:			\$ 210,000						
2016 Per Available Room:			\$ 1,355			Note PKF includes Loyalty Programs in Marketing			
2016 Per Occupied Room:			\$ 5.48						
2016 Percent of Sales:			3.19%						

**Property Operations & Maintenance Expenses** includes all payroll and related expenses for maintenance personnel, cost of maintenance supplies, cost of repairs and maintenance of the building, furniture and equipment, the grounds and the removal of waste matter. The comparable data and projections for the subject are summarized as follows:

## FINANCIAL ANALYSIS

Property Operations and Maintenance Expense									
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)									
Percent of Sales			Inputs Selected for Pro Forma			Per Occupied Room Range			
Low	Average	High	Low	Average	High	Low	Average	High	
5.10%	6.06%	7.99%	\$ 1,611	\$ 1,977	\$ 2,698	\$ 5.47	\$ 7.24	\$ 8.58	
PKF Trends in the USA 2011									
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								\$	1,251
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								\$	1,040
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								\$	1,459
Percent of Revenue Variable Range:						From:	30%	To:	70%
HRA Basis for Pro Forma Estimate:			\$ 2,000 Per Available Room						
Percent of Revenue Variable:			30%						
Year 1 Pro Forma Estimate:									
2016 Total Dollars:			\$ 351,000						
2016 Per Available Room:			\$ 2,265						
2016 Per Occupied Room:			\$ 9.16						
2016 Percent of Sales:			5.34%						

**Utility Expenses** typically include electricity, fuel (oil, gas and coal), purchased steam and water. This category also includes any central plant and energy management systems. The comparable data and projections for the subject are summarized as follows:

Energy Expenses									
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)									
Percent of Sales			Inputs Selected for Pro Forma			Per Occupied Room Range			
Low	Average	High	Low	Average	High	Low	Average	High	
3.39%	4.74%	6.14%	\$ 1,112	\$ 1,546	\$ 2,087	\$ 4.45	\$ 5.64	\$ 7.70	
PKF Trends in the USA 2011									
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								\$	1,509
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								\$	1,206
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								\$	1,360
Percent of Revenue Variable Range:						From:	10%	To:	20%
HRA Basis for Pro Forma Estimate:			\$ 1,350 Per Available Room						
Percent of Revenue Variable:			10%						
Year 1 Pro Forma Estimate:									
2016 Total Dollars:			\$ 237,000						
2016 Per Available Room:			\$ 1,529						
2016 Per Occupied Room:			\$ 6.19						
2016 Percent of Sales:			3.60%						

## FINANCIAL ANALYSIS

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### MANAGEMENT FEES

It is anticipated the subject property will enter into a third party management agreement with Interstate Hotels. The management agreement would be signed approximately at the time the project construction starts. The agreement will stipulate that the property can only be sold unencumbered of the management agreement after the fifth year of the contract with a penalty of one year's management fees. We are assuming a term of 15 years with a base fee equivalent to 3.0 percent of sales and an incentive fee of 15 percent of cash flow after a the owner receives a 10 percent return on invested capital. All future owner investments above the FF&E escrow will also receive a priority. In order to negotiate a fair management agreement, the project will be put out to bid to several companies that are capable of providing operational oversight that is appropriate for the asset.

### FRANCHISE FEES

One of the primary assumptions in this analysis is that the brand on the project will be a Hyatt Place Hotel. While the rationale for this selection is sound, it is generally a mistake to ever move forward with a hotel development with only one brand in mind. In order to ensure a fair negotiating position for ownership, Starwood Hotels, Marriott International and Hilton Hotels would all be given an opportunity to present their own feasibility projections and franchise terms for the investment group. Marriott and Hilton are both widely represented in the market and are therefore, in my opinion, less viable as a brand choice for this location. Starwood's Aloft brand would be a very good alternative to the Hyatt Place product; however, the positioning may produce a slightly lower ADR. After brand selection it is assumed that the initial franchise fees of \$63,600 will be paid upon signing of the contract to build a Hyatt Place Hotel. These are included in the development budget. In addition, the terms related to the franchise agreement will include a term of 20 years and fees of 3 percent of revenue in year one, 4

## FINANCIAL ANALYSIS

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percent in year two and 5 percent each year thereafter. This provides access to the brands reservation system, loyalty programs, national advertising, national on-line web sites and various other services provided by the brand.

### **Fixed Charges**

Fixed charges are typically not directly related to an associated revenue source, and are typically not compared on the basis of total revenues for similar types of hotels. These expenses are therefore not typically compared and estimated as a percentage of total revenues.

### **Property Taxes**

Property taxes were discussed in greater detail previously in this report. The projections for the subject are based on discussions with the Montgomery County Tax Assessor, Ava McIntyre-Garvey. New construction projects would initially be assessed using the cost basis which when applying the model used in Montgomery County should approximate actual building costs. Once the property is operating, the County will also use an income approach and sales comparable approach for the assessed value. For this pro forma, based on my discussion with the assessor, HRA has assumed an assessed value of \$26.0 M for the project which includes the building and land value. This assessed value was then used to calculate the property taxes that would equate to \$269,418 or \$1,694 per available room. This would be approximately the average of the hotels in the competitive set which is \$1,684. For purposes of this forecast, HRA has assumed a tax rate of \$1,700 per available room and escalated this by 3 percent per year to account for inflation.

## FINANCIAL ANALYSIS

Property Tax Expense										
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)										
Percent of Sales			Inputs Selected for Pro Forma Per Available Room			Per Occupied Room Range				
Low	Average	High	Low	Average	High	Low	Average	High		
2.93%	4.96%	7.12%	\$ 685	\$ 1,684	\$ 2,498	\$ 3.06	\$ 5.99	\$ 8.22		
PKF Trends in the USA 2011										
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								\$	1,531	
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								\$	1,010	
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								\$	1,474	
Percent of Revenue Variable Range:						From:	0%	To:	0%	
HRA Basis for Pro Forma Estimate:			\$	1,700 Per Available Room Per Tax Assessor						
Percent of Revenue Variable:			0%							
Year 1 Pro Forma Estimate:										
2016 Total Dollars:			\$	298,000						
2016 Per Available Room:			\$	1,923						
2016 Per Occupied Room:			\$	7.78						
2016 Percent of Sales:			4.53%							

### Insurance

The insurance expense includes the cost of insuring the hotel building and contents against fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, or other perils such as terrorism. This category includes all insurance costs except workers' compensation which is allocated out to each department in the payroll department under benefits. The comparable data and projections for the subject are summarized as follows:

Insurance Expense										
Hyatt Place Hotels 2011 Year-End Results (6 comparable hotels in the Northeastern US)										
Percent of Sales			Inputs Selected for Pro Forma Per Available Room			Per Occupied Room Range				
Low	Average	High	Low	Average	High	Low	Average	High		
0.47%	1.22%	3.03%	\$ 151	\$ 362	\$ 693	\$ 0.51	\$ 1.40	\$ 3.18		
PKF Trends in the USA 2011										
PKF 2010 Limited Service Hotels Mid-Atlantic & New England Per Available Room								\$	330	
PKF 2010 Limited Service Hotels over 150 Rooms Per Available Room								\$	313	
PKF 2010 Limited Service Hotels over \$100 ADR Per Available Room								\$	402	
Percent of Revenue Variable Range:						From:	0%	To:	0%	
HRA Basis for Pro Forma Estimate:			\$	375.00 Per Available Room						
Percent of Revenue Variable:			0%							
Year 1 Pro Forma Estimate:										
2016 Total Dollars:			\$	66,000						
2016 Per Available Room:			\$	426						
2016 Per Occupied Room:			\$	1.72						
2016 Percent of Sales:			1.00%							



## FINANCIAL ANALYSIS

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### **Reserves for Replacement**

Structural reserves account for the replacement of short-lived items, including the roof, building systems, and parking lot. FF&E reserves for replacement are typically included in hotel expense projections to account for the periodic replacement of the furniture, fixtures and equipment (FF&E). It does not reflect the value of existing FF&E. It is solely an expense to reflect future replacements of short-lived items. This expense can be based on the actual replacement cost of the FF&E, its projected economic life and a reasonable reinvestment rate for the reserve funds (essentially a sinking fund account). An alternative and more widely utilized method is to estimate FF&E reserves based on a percentage of total revenues. Using this method, the typical ratio ranges from 3 to 5 percent of total revenues. The brand requirements are for a reserve of 3 percent in year one, 4 percent in year 2 and 5 percent thereafter. HRA is using 5 percent of sales in all years of the pro forma. It is assumed that the hotel will be completely renovated in year 7 of operation using the escrow funds

### **DISCOUNTED CASH FLOW ANALYSIS ASSUMPTIONS**

The discounted cash flow analysis relies on a projection of net operating income over a fixed holding period and a future sale of the property at the end of the holding period. This is consistent with current investor trends for analyzing this property type. The discounted cash flow analysis takes into consideration the timing and degree of the projected changes in average daily rate, occupancy, and expenses for the subject.

## FINANCIAL ANALYSIS

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### FINANCIAL ASSUMPTIONS

#### SUMMARY OF DISCOUNTED CASH FLOW ASSUMPTIONS

##### General Assumptions

Start Date	January 2016
Terms of Analysis	10 Years
Basis	Calendar
Software	Excel

##### Growth Rate Assumptions

Income Growth	2.50%
Expense Growth	3.00%
Inflation (CPI)	2.50%
Real Estate Tax Growth	3.00%

##### Stabilized Revenue Assumptions (Year 3)

Average Daily Rate	\$178
Stabilized Average Daily Rate	72.0%
Estimated Stabilization	January 2018

##### Financial Assumptions

Discount Rate	12.00%
Terminal Capitalization Rate	9.50%

##### Other Assumptions

Cost of Sale	2.00%
Capital Expenses Reserve	5%

Compiled by HRA

#### Cash Flow Assumptions

The discounted cash flow analysis relies on the income and expense projections presented earlier in this section. Specific assumptions integral to the analysis are summarized as follows:

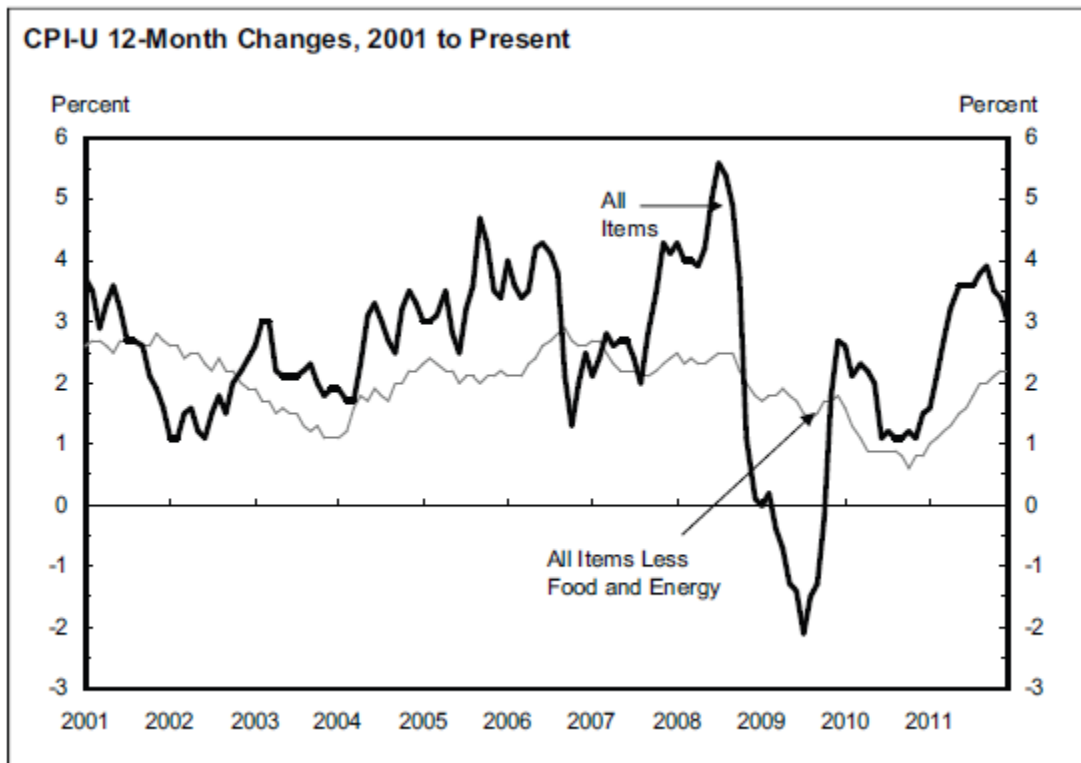
## FINANCIAL ANALYSIS

### GENERAL ASSUMPTIONS

The DCF analysis utilizes a 10-year projection period with fiscal year inflation and discounting. This is consistent with current investor assumptions. The analysis is done with Excel software.

### GROWTH RATE ASSUMPTIONS

The inflation and growth rates for the DCF analysis have been estimated by analyzing the expectations typically used by buyers and sellers in the local marketplace. Published investor surveys, an analysis of the Consumer Price Index (CPI), as well as HRA's survey of brokers and investors active in the local market form the foundation for the selection of the appropriate growth rates.



**Forecast-Chart.com** is forecasting that US Inflation Rates will be roughly 2.32% over the next year. The forecast shows a HDTFA of 0.90% which suggests that

## FINANCIAL ANALYSIS

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US inflation for the 12 months ending January, 2013 could easily fall between 3.22% and 1.41%.

### Annual Inflation Rates

Last Month.....	3.0%
Last Year . . . . .	3.0%
Last 5 Years.....	2.2%
Last 10 Years.....	2.4%
Last 20 Years.....	2.5%

### Annual Inflation Rate: Highs & Lows

High (Last 12 Months) 3.9% (September, 2011)

Low (Last 12 Months) 1.6% (January, 2011)

High (Since January, 1922) 19.7% (March, 1947)

Low (Since January, 1922) -11.1% (January, 1922)

The annual US Inflation Rate for the 12 months ended in December, 2011 was 2.96%. That's 0.43% percent lower than the 12 months ended in November, 2011 which inflated at a rate of 3.39%. It is 1.47% percent higher than the 12 months ended in December, 2010 which inflated at a rate of 1.50%. The fall in inflation rates from November to December indicates that the short term inflation trend has been down. If that trend continues, we should see an inflation rate for the 12 months ended in January, 2012 that is close to 2.53%.

The US Inflation Rate one year ago was 1.50%. Over the last year it was 2.96%. The average rate over the last 10 years was 2.43%. Higher inflation over the last 12 months compared to the average inflation over the last 10 years serves

## FINANCIAL ANALYSIS

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as an indicator that the long term trend in the US Inflation Rate is up. Inflation expectations should be adjusted accordingly.

**Forecast-Chart.com's** historical research covers US Inflation Rate data back to January, 1922. The average annual inflation rate during that period of history was 2.94%. The highest rate was 19.67%. The lowest rate was -11.05%. The high was attained in the 12 months ended in March of 1947. The low was achieved in the 12 months ended in January of 1922. Recent rates experienced in the 12 months ended in December of 2011 are similar to the historical 2.94% average. Based on the above long term averages and trends, HRA is estimating for the forecast period the following growth rates:

### SUMMARY OF GROWTH RATES

Growth Rate Indicator ADR (after Stabilization)	2.5%
Other Revenue	2.5%
All Expenses	3.0%
General Inflation	3.0%

### HOTEL INVESTOR RATES

Provided on the following pages is a discussion of the direct capitalization, discount, and terminal capitalization rates.

### DIRECT CAPITALIZATION RATE (OAR)

Direct capitalization is a method used to convert a single year's estimated stabilized net operating income into a value indication. The overall capitalization rates (OAR's) based on the comparable sales analyzed by PWC and CBRE are as follows for the select service lodging segment as of the 3<sup>rd</sup> quarter of 2011:

**PWC Range 5% to 12 %**

## FINANCIAL ANALYSIS

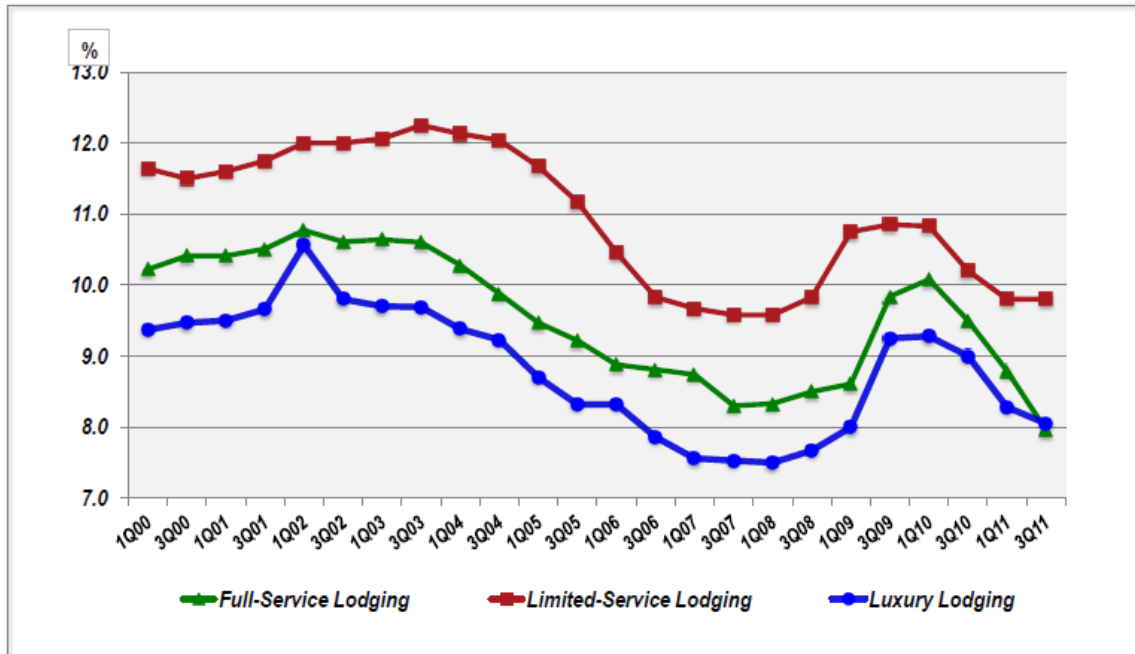
### Average 8.4%

Within the Washington DC market, according to CBRE, the select service range for OAR's for stabilized hotels ranged from 7.5% to 8.5%.

### OVERALL CAPITALIZATION RATE – CONCLUSION

Based on the subject's projected stabilized occupancy level and its competitive position in the local market, an OAR toward the full service range indicated by the comparables is considered appropriate. The proposed hotel competes directly with full service hotels and typically performs better on a RevPAR basis as well as on a net operating income per available room. Based on the timing of the proposed investment and history of OAR's for this class of asset, HRA has assumed a direct capitalization rate of **9.0%** for the investment analysis and for evaluating the loan terms available in the market.

### Hotel Cap Rates – PWC Survey



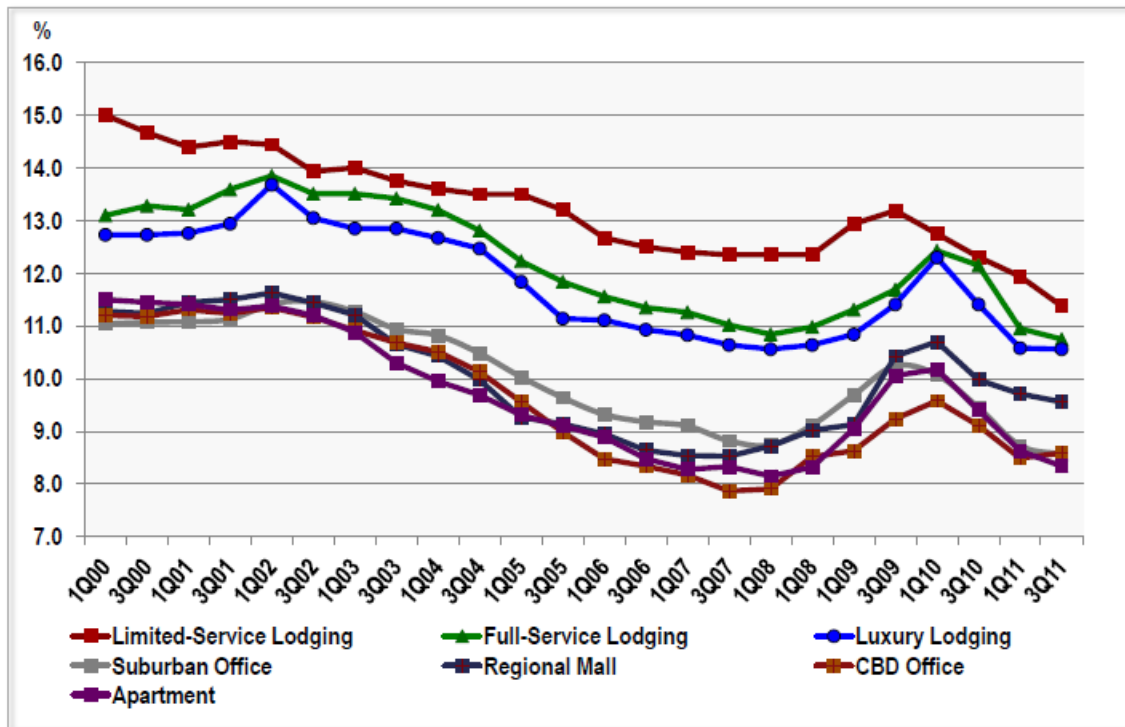
HRA's Estimate 9.0%

## FINANCIAL ANALYSIS

### DISCOUNT RATES

The results of the most recent *PWC Korpacz Real Estate Investor Survey and HVS* are summarized in the following chart. Yield premiums have been on a steady decline since the first quarter of 2000.

### Hotels Retain Yield Premium



In addition, PWC’s Real Estate Investor Survey for the Third Quarter 2011 estimates discount rates for select service hotels to be in a range of 10% to 15% with an average of 11.55%. The subject is considered to be a select service hotel property however; it is treated more typically like a full service hotel based on its performance. Overall, a rate in the middle portion of the range is considered appropriate because of the quality of the property, the brand, the location and market of the proposed hotel. Below is another method to evaluate the discount

## FINANCIAL ANALYSIS

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rate or expected IRR. This includes starting with the long-term risk free rate and adding a premium based on the risk. HRA assumes a 400 bps adjustment for hotel investments above the US treasury 10-Year average return. In addition, a 300 bps risk premium is added for the construction risk. Based on these assumptions, HRA will use a 12 percent discount rate.

### Discount Rates

### Adjustments for Risk

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10-Year Treasury Rate (20 Year Average)	5.10%	This equals real rate plus inflation or nominal rate.
Investment Risk	4.00%	Hotel premium required over US Treasury
<u>Development Risk</u>	<u>3.00%</u>	Additional risk related to development projects.
Discount Rate	12.10%	

**HRA Estimate 12.00%**

### TERMINAL CAPITALIZATION RATE

The reversionary value of the subject is based on an assumed sale at the end of the holding period based on capitalizing the Year 11 NOI at a terminal capitalization rate. Typically, for properties similar to the subject, terminal capitalization rates are 25 to 50 basis points higher than going-in capitalization rates (OAR's). This is a result of the uncertainty of future economic conditions and the natural aging of the property, but assuming adequate reserves have been utilized to keep the property in good operating condition. Residual capitalization rates as presented in the PWC Real Estate Investor Survey Third Quarter 2011 indicate a range of residual cap rates of 6% to 12% for the select service lodging segment. The average for the survey was 9.0%. The Terminal Cap rates for the Korpacz Investor Survey were as follows:



## FINANCIAL ANALYSIS

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Property Type	2011		2010	
	Average (%)	Range (%)	Average (%)	Range (%)
Full Service	5.6	1.7 - 10.9	5.3	1.7 - 8.0
Select and Extended-Stay	6.7	3.2 - 12.6	7.8	3.1 - 12.4
Limited Service	9.4	.20 - 30.0	8.5	1.3 - 16.3

Given the timing of the project and uncertainty of the future market events, HRA is taking a more conservative approach and is estimating the terminal cap rate to be well above the full service hotels and slightly above the select service average.

**HRA Estimate 9.50%**

### PRO FORMA

The pro forma presented under the base case is presented on the following page and represents the scenario that HRA estimates to be the most likely for this investment opportunity. HRA has also used upside and downside estimate to create a range of probable outcomes for this project.

# FINANCIAL ANALYSIS

**Hyatt Place**  
**10 Seneca Meadows Parkway**  
**Germentown, MD**  
**A 137 Room Select Service Hotel Property**  
**Base Case**  
**Financial Pro Forma**

	Base Year 2016	Base +1 2017	Base +2 2018	Base +3 2019	Base +4 2020	Base +5 2021	Base +6 2022	Base +7 2023	Base +8 2024	Base +9 2025	Base +10 2026	Base +11 2027
<b>Hyatt Place Germentown</b>												
Number of Rooms	155	155	155	155	155	155	155	155	155	155	155	155
Occupancy	67.7%	71.1%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Average Rate	\$ 163.26	\$ 170.62	\$ 178.25	\$ 182.70	\$ 187.27	\$ 191.95	\$ 196.75	\$ 201.67	\$ 206.71	\$ 211.88	\$ 217.17	\$ 222.60
Days Open	365	365	365	365	365	365	365	365	365	365	365	365
Rooms Occupied	38,301	40,225	40,734	40,734	40,734	40,734	40,734	40,734	40,734	40,734	40,734	40,734
<b>Revenues</b>												
Rooms	\$ 6,253	\$ 6,863	\$ 7,261	\$ 7,442	\$ 7,628	\$ 7,819	\$ 8,014	\$ 8,215	\$ 8,420	\$ 8,631	\$ 8,846	\$ 9,067
Food & Beverage	\$ 238	\$ 257	\$ 266	\$ 273	\$ 280	\$ 287	\$ 294	\$ 301	\$ 309	\$ 317	\$ 324	\$ 333
Telephone	\$ 22	\$ 23	\$ 23	\$ 24	\$ 25	\$ 26	\$ 27	\$ 27	\$ 28	\$ 29	\$ 29	\$ 30
Other Operated Departments (Net)	\$ 65	\$ 70	\$ 73	\$ 74	\$ 76	\$ 78	\$ 80	\$ 82	\$ 84	\$ 86	\$ 88	\$ 91
<b>Total Revenue</b>	\$ 6,578	\$ 7,213	\$ 7,624	\$ 7,814	\$ 8,009	\$ 8,210	\$ 8,415	\$ 8,625	\$ 8,841	\$ 9,063	\$ 9,287	\$ 9,521
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>Departmental Expenses</b>												
Rooms	\$ 1,408	\$ 1,487	\$ 1,542	\$ 1,588	\$ 1,635	\$ 1,685	\$ 1,735	\$ 1,787	\$ 1,841	\$ 1,896	\$ 1,953	\$ 2,011
Food & Beverages	\$ 173	\$ 183	\$ 189	\$ 195	\$ 201	\$ 207	\$ 213	\$ 219	\$ 226	\$ 233	\$ 239	\$ 247
Telephone	\$ 22	\$ 23	\$ 23	\$ 24	\$ 25	\$ 26	\$ 27	\$ 27	\$ 28	\$ 29	\$ 29	\$ 31
Other Operated Departments (Net)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Departmental Expenses</b>	\$ 1,603	\$ 1,683	\$ 1,754	\$ 1,807	\$ 1,861	\$ 1,918	\$ 1,975	\$ 2,033	\$ 2,085	\$ 2,158	\$ 2,222	\$ 2,289
	24.4%	23.5%	23.5%	23.0%	23.1%	23.2%	23.4%	23.5%	23.8%	23.7%	23.8%	23.9%
<b>Departmental Income</b>	\$ 4,975	\$ 5,520	\$ 5,870	\$ 6,007	\$ 6,148	\$ 6,292	\$ 6,440	\$ 6,592	\$ 6,746	\$ 6,905	\$ 7,065	\$ 7,232
	75.6%	76.5%	76.5%	77.0%	76.9%	76.8%	76.6%	76.5%	76.4%	76.3%	76.2%	76.1%
<b>Unsubsidized Operating Expenses</b>												
Administrative & General	\$ 491	\$ 506	\$ 522	\$ 537	\$ 553	\$ 570	\$ 587	\$ 605	\$ 623	\$ 641	\$ 661	\$ 680
Loyalty Program	\$ 115	\$ 126	\$ 133	\$ 137	\$ 140	\$ 144	\$ 147	\$ 151	\$ 155	\$ 159	\$ 163	\$ 167
Marketing	\$ 210	\$ 217	\$ 224	\$ 230	\$ 237	\$ 244	\$ 252	\$ 259	\$ 267	\$ 275	\$ 283	\$ 292
Franchise Fees	\$ 197	\$ 208	\$ 216	\$ 224	\$ 232	\$ 240	\$ 248	\$ 256	\$ 264	\$ 272	\$ 280	\$ 289
Energy Costs	\$ 237	\$ 244	\$ 251	\$ 259	\$ 267	\$ 275	\$ 283	\$ 291	\$ 300	\$ 309	\$ 318	\$ 328
<b>Total UDDEs</b>	\$ 1,601	\$ 1,743	\$ 1,882	\$ 1,919	\$ 1,973	\$ 2,031	\$ 2,089	\$ 2,149	\$ 2,211	\$ 2,274	\$ 2,339	\$ 2,406
	24.3%	24.3%	24.2%	24.7%	24.6%	24.6%	24.7%	24.8%	24.9%	25.0%	25.1%	25.2%
<b>Income Before Fixed Charges</b>	\$ 3,374	\$ 3,777	\$ 3,988	\$ 4,088	\$ 4,175	\$ 4,261	\$ 4,351	\$ 4,443	\$ 4,535	\$ 4,631	\$ 4,726	\$ 4,826
	51.3%	52.4%	52.4%	52.3%	52.3%	52.1%	51.9%	51.7%	51.5%	51.3%	51.1%	50.9%
<b>Fixed Charges</b>												
Management Fee	\$ 197	\$ 216	\$ 228	\$ 234	\$ 240	\$ 246	\$ 252	\$ 258	\$ 264	\$ 271	\$ 278	\$ 285
Property Tax	\$ 298	\$ 307	\$ 316	\$ 326	\$ 336	\$ 346	\$ 356	\$ 367	\$ 378	\$ 389	\$ 401	\$ 413
Insurance	\$ 66	\$ 68	\$ 70	\$ 72	\$ 74	\$ 76	\$ 79	\$ 81	\$ 83	\$ 86	\$ 88	\$ 91
Reserve for Replacement	\$ 329	\$ 360	\$ 380	\$ 399	\$ 420	\$ 449	\$ 480	\$ 513	\$ 549	\$ 589	\$ 633	\$ 681
<b>Total Fixed Charges</b>	\$ 890	\$ 951	\$ 994	\$ 1,022	\$ 1,049	\$ 1,077	\$ 1,107	\$ 1,136	\$ 1,166	\$ 1,198	\$ 1,230	\$ 1,264
	13.5%	13.2%	13.2%	13.0%	13.1%	13.1%	13.1%	13.2%	13.2%	13.2%	13.2%	13.2%
<b>Net Income</b>	\$ 2,484	\$ 2,826	\$ 2,994	\$ 3,066	\$ 3,126	\$ 3,184	\$ 3,244	\$ 3,307	\$ 3,369	\$ 3,433	\$ 3,496	\$ 3,562
	37.8%	39.2%	39.2%	39.3%	39.2%	39.0%	38.8%	38.5%	38.3%	38.1%	37.9%	37.6%
<b>EBITDA</b>	\$ 2,813	\$ 3,186	\$ 3,374	\$ 3,456	\$ 3,525	\$ 3,593	\$ 3,664	\$ 3,737	\$ 3,810	\$ 3,885	\$ 3,959	\$ 4,037

### CONSTRUCTION COSTS AND TIMING

The construction costs for the project are assumed to be \$31.897 M based on the estimate provided in the Construction and Scheduling section of this report. HRA believes adequate risk mitigations have been included in the process for developing this estimate and will be further mitigated with a design bid build method of construction that will provide fixed contract pricing. In addition, HRA is providing an adequate contingency fund for the development. Scheduling risk is mitigated by putting together a conservative estimate on the timing of approvals and the actual construction duration estimate for the project.

### CONSTRUCTION FINANCING TERMS

In order to present appropriate assumptions for the financing of this project, HRA was completed interviews with a local mortgage broker, Dunlop and Winthrop, and the Treasurer of Host Hotels and Resorts. Based on these conversations, the following are the terms assumed to be appropriate for the project for the construction financing phase:

**Term:** Interest Only for 36 months plus 2 two 1-year extensions

**Rate:** 250 BPS over 30-day LIBOR of .25% or 2.75%

**Amortization:** Interest Only

**Recourse:** A definite completion guarantee with a burn-off over the remainder of the term.

**Loan to Value:** 65% to actual cost

**DS Coverage:** 1.25X lender will be looking at this only as it relates to the stabilized pro forma and would assume this coverage. Lender would look for the property to appraise higher than the loan value based on a 70% LTV of stabilized operations.

**Points/fees:** 50 BPS for the lender and 50 BPS for the mortgage broker.

HRA is assuming the interest rate will rise and be 5.50% for the financing of the construction loan for this analysis. This is significantly above the current market

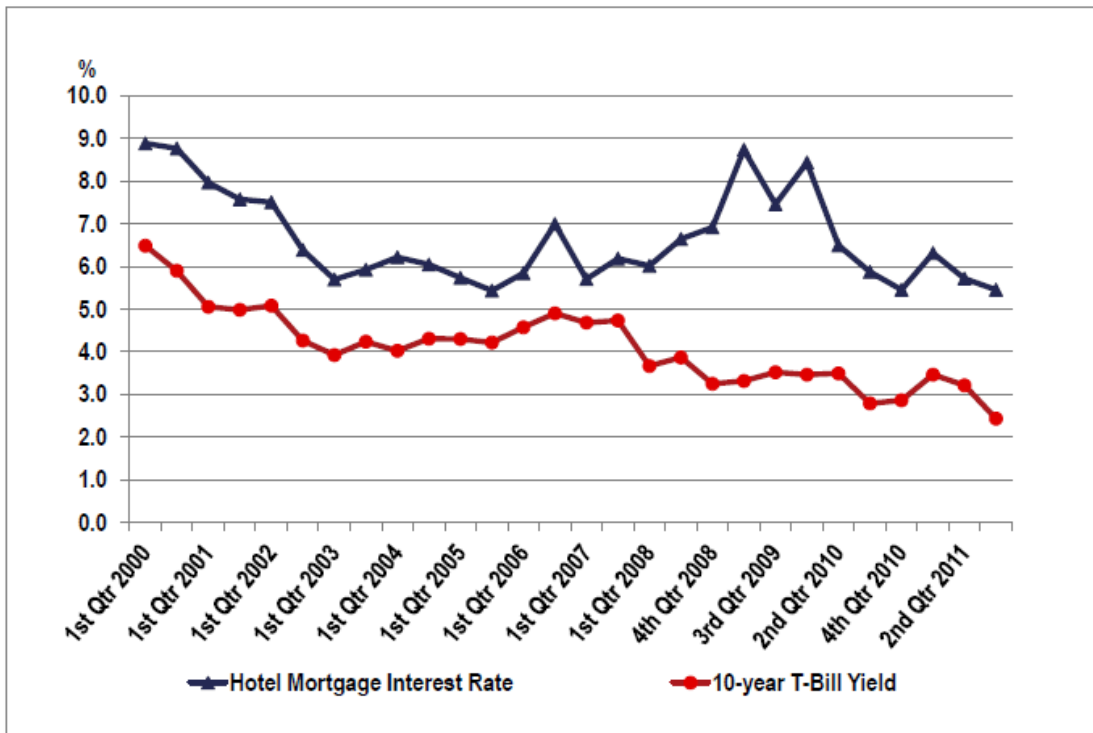
## FINANCIAL ANALYSIS

rates but appears more realistic based on historical lending terms for this type of project.

### PERMANENT FINANCING TERMS

As shown in the chart below presented by HVS, the spread for hotel loans is rising when compared to the 10-Year US treasury rate, however, it is still declining overall as the market sector is continues to improve.

### Spreads Rise But Interest Rates Remain Favorable Despite Market Uncertainty



In order to present appropriate assumptions for the financing of this project, HRA completed interviews with a local mortgage broker, Dunlop and Winthrop, and the Treasurer of Host Hotels and Resorts. Based on these conversations, the following are the terms assumed to be appropriate for the project for the permanent financing phase:

## FINANCIAL ANALYSIS

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**Term:** 10 years

**Rate:** 5-5.25% Fixed

**Amortization:** Up to 30 years

**Recourse:** Non-recourse with bad boy clause carve outs.

**Loan to Value:** 70% LTV based on trailing 12 month cash flow at 9-11% direct capitalization and a 1.25 debt service coverage ratio.

**Points/fees:** 50 BPS for the lender and 50 BPS for the mortgage broker.

HRA is assuming the interest rate will be 5.25% for the financing of the permanent loan for this analysis and amortized on a 20 year basis. It is further assumed that the loan will be based on a 70% LTV using a 9.0% direct capitalization rate to size the loan with a 1.25 minimum coverage. Again, this is more conservative than the current terms available on the market today. A detailed amortization schedule is presented in Appendix 3.

### **INVESTMENT OWNERSHIP STRUCTURE**

The ownership structure for this investment is proposed to be a Joint Venture known as HPG LLC which is a partnership between Minkoff Hotel Investors LLC and HRA LLC as the General Partner (Sponsor) and 10 equity investors each representing approximately \$876,000 of the equity as limited partners. The partnership will be based on 20 percent of the equity provided by the general partner and 80 percent provided by the limited partners as shown in the following partnership splits.

## FINANCIAL ANALYSIS

**Hyatt Place**  
**10 Seneca Meadows Parkway**  
**Germantown, MD**  
**A 159 Room Select Service Hotel Property**  
**Partnership Interests**

<b>HGPE LLC Equity Partners</b>	80.0%	\$	8,760,433	<b>Sponsor HPG LLC</b>	20.0%	\$	2,190,108
LP 1	10.0%	\$	876,043				
LP 2	10.0%	\$	876,043	HRA LLC	25%	\$	547,527
LP 3	10.0%	\$	876,043	MHI LLC	75%	\$	1,642,581
LP 4	10.0%	\$	876,043				
LP 5	10.0%	\$	876,043				
LP 6	10.0%	\$	876,043				
LP 7	10.0%	\$	876,043				
LP 8	10.0%	\$	876,043				
LP 9	10.0%	\$	876,043				
LP 10	10.0%	\$	876,043				
<b>Total</b>	<b>80%</b>	<b>\$</b>	<b>8,760,433</b>		<b>100%</b>	<b>\$</b>	<b>10,950,541</b>

HRA LLC will provide 25 percent of the General Partnership equity and MHI LLC will provide the other 75 percent. The proposed equity splits and promote schedule is as follows:

<b>Equity Assumptions</b>	
<b>Total Development Cost</b>	\$ 30,576,552
<b>Financing</b>	19,626,011      64.19%
<b>Equity Requirement</b>	<u>\$ 10,950,541      35.81%</u>
<b>PROJECT FUNDING</b>	
Equity Contributions	
Sponsor	20% \$ 2,190,108
Equity Partner	80% \$ 8,760,433
Total	<u>100% \$ 10,950,541</u>
<b>Cash Flows to each tranche:</b>	
I. Pari Passu to an IRR of	<u>12.00%</u>
Sponsor	20.00%
Equity Partner	80.00%
II. Splits up to an IRR of	
Sponsor	30.00%
Equity Partner	70.00%
Cash left for Distribution	
III. Sponsor Promote	<u>50.00%</u>
Cash to Equity	
Sponsor	50.00%
Equity Partner	50.00%

## FINANCIAL ANALYSIS

The project Sources and Uses of Funds statement is shown below:

<b>Hyatt Place</b> <b>10 Seneca Meadows Parkway</b> <b>Germantown, MD</b> <b>A 159 Room Select Service Hotel Property</b> <b>Sources &amp; Uses</b>				
SOURCES OF FUNDS				
			Percent	PSF
<b>Equity</b>				
Sponsor-CAM LLC	20.0%	2,190,108	7.16%	\$ 22.35
Equity Partner-Minkoff Development LLC	80.0%	8,760,433	28.65%	\$ 89.40
<b>Total Equity</b>		10,950,541		\$ 111.75
<b>Debt</b>				
Acquisition Loan (LTV at Development)	62.5%	19,626,011		
<b>Total Debt</b>		19,626,011	64.19%	\$ 200.28
<b>Total Sources of Funds</b>		30,576,552	100.00%	\$ 312.03
USES OF FUNDS				
<b>Development Cost</b>				
Land Cost		6,591,745	21.56%	\$ 67.27
Additional Site Conditions Contingency		75,000	0.25%	\$ 0.77
<b>Sub-Total Land Cost</b>		6,666,745	21.80%	\$ 68.03
Design & Engineering		1,146,827	3.75%	\$ 11.70
Permits, License & Fees		1,077,967	3.53%	\$ 11.00
<b>Construction</b>		11,400,154	37.28%	\$ 116.34
Furniture Fixtures & Equipment		1,969,514	6.44%	\$ 20.10
Public Areas FF&E and OS&E		818,372	2.68%	\$ 8.35
Technology Signage & Miscellaneous		651,734	2.13%	\$ 6.65
Fees Taxes & Freight		993,087	3.25%	\$ 10.13
<b>Sub-Total Construction &amp; FF&amp;E</b>		18,057,656	59.06%	\$ 184.27
Inventories (Food and Beverage) Sub-Total		21,802	0.07%	\$ 0.22
Pre-Opening Expense Sub-Total		294,462	0.96%	\$ 3.00
Working Capital Sub-Total		109,282	0.36%	\$ 1.12
Project Management		546,408	1.79%	\$ 5.58
Bonds & Insurance		27,320	0.09%	\$ 0.28
Financial Taxes and Legal		2,168,254	7.09%	\$ 22.13
<b>Sub-Total Soft Cost</b>		3,167,528	10.36%	\$ 32.32
Project Wide Contingency		2,684,623	8.78%	\$ 27.40
<b>Total Development cost</b>		30,576,552	100.00%	\$ 312.03
<b>Total Uses of Funds</b>		30,576,552	100.00%	\$ 312.03

### WEIGHTED AVERAGE COST OF CAPITAL

Based on the above assumptions, the weighted average cost of capital is derived as follows:

## FINANCIAL ANALYSIS

<b>Hyatt Place</b> <b>10 Seneca Meadows Parkway</b> <b>Germantown, MD</b> <b>A 159 Room Select Service Hotel Property</b> <b>Weighted Average Cost of Capital</b>	
Cost of Debt	8.36%
Cost of Equity	12.00% Based on 10 year average of cash on cash yield for pro forma (Not Including Refinancing proceeds)
Percent Equity	35.81%
Percent Debt	64.19%
Total	100.00%
WACC Calculation	9.66%
<b>WACC Calculation</b> (% Debt x % Loan Constant) + (% Equity x % Required Dividend Yield) = % WACC	

### PARTICIPATION AND WATERFALL STRUCTURE

The equity participation for this investment is based on the assumptions presented in the Investment Ownership section. Based on these splits and the base case pro forma assumptions, the following are the investment returns anticipated for this investment.

<b>PROJECT FUNDING</b>		
Equity Contributions		
Sponsor	20%	(2,190,108)
Equity Partner	80%	(8,760,433)
Total	100%	(10,950,541)
Cash Proceeds for Distribution		33,519,053
<b>Project Cash Flow</b>		<b>22,568,513</b>
<b>Profit</b>	<b>\$22,568,513</b>	
<b>IRR</b>	<b>18.31%</b>	
<b>Multiple</b>	<b>3.06</b>	



## FINANCIAL ANALYSIS

<b>STRUCTURE</b>		
<b>Tier 1</b>		
	<b>0.0310538% Daily Rate</b>	
BoP Balance		
Equity Contributions		(10,950,541)
Accrual	12.0%	(8,695,479)
Paydown		19,646,020
EoP Balance		
Cash left for distribution		13,873,034
<i>IRR Check</i>	<b>12.0%</b>	8,695,479
<b>Tier 2</b>		
	<b>0.0453567% Daily Rate</b>	
Starting Balance		
Equity Contributions		(10,950,541)
Accrual	18.0%	
Paydown		32,568,778
Balance		
Cash left for distribution		950,276
<i>IRR Check</i>	<b>18.0%</b>	21,618,237

<b>Cash Flows to each tranche :</b>		
I. Pari Passu to an IRR of	12.00%	19,646,020
Sponsor	20.00%	3,929,204
Equity Partner	80.00%	15,716,816
II. Splits up to an IRR of	18.00%	12,922,758
Sponsor	30.00%	3,876,827
Equity Partner	70.00%	9,045,931
Cash left for Distribution		950,276
III. Sponsor Promote	50.00%	475,138
Cash to Equity	50.00%	475,138
Sponsor	50.00%	237,569
Equity Partner	50.00%	237,569

## FINANCIAL ANALYSIS

<b>INVESTOR CASH FLOWS</b>	
<b>SPONSOR</b>	
Equity Investment	(2,190,108)
Proceeds	8,518,738
CF	6,328,630
<b>Profit</b>	<b>\$6,328,629.9</b>
<b>% of Total Profit</b>	<b>28.0%</b>
<b>IRR</b>	<b>20.93%</b>
<b>Multiple</b>	<b>3.89</b>
<b>EQUITY PARTNER</b>	
Equity Investment	(8,760,433)
Proceeds	25,000,315
CF	16,239,883
<b>Profit</b>	<b>\$16,239,882.8</b>
<b>% of Total Profit</b>	<b>72.0%</b>
<b>IRR</b>	<b>17.52%</b>
<b>Multiple</b>	<b>2.85</b>

Based on the above, the limited partners would receive a 17.52 percent IRR and a multiple of 2.85 of their initial investment. The general partners would receive a 20.93 percent IRR and a multiple of 3.89 of their initial investment. In addition, Minkoff would receive a market value for their land of \$35.00 per square foot which is consistent with market values today. Also, Minkoff will receive a development fee of \$375,000. HRA will receive \$125,000 development fee and a \$350,000 asset management fee for putting the proposed deal together. This will be used by HRA as the primary source of its equity investment. After the hotel is open, HRA will receive additional payment for asset management services of 2.0 percent of NOI per year for oversight of the management, reporting to the partnership, and advising on refinancing, capital investments and the property sales strategy.

## FINANCIAL ANALYSIS

### TAX ASSUMPTIONS AND RATES OF RETURN

In order to help investors understand the returns on an after tax basis, HRA has also presented the following analysis based on the assumption that the tax rates are the follow:

#### Tax Rates in the United States

Ordinary Income Tax Rate	2003–2012				Ordinary Income Tax Rate	2013–		
	2003–2007		2008–2012			2013–		
	Short- term Capital Gains Tax Rate	Long- term Capital Gains Tax Rate	Short- term Capital Gains Tax Rate	Long- term Capital Gains Tax Rate		Short- term Capital Gains Tax Rate	Long- term Capital Gains Tax Rate	
<b>10%</b>	10%	5%	10%	0%	<b>15%</b>	15%	10%	
<b>15%</b>	15%	5%	15%	0%		15%	10%	
<b>25%</b>	25%	15%	25%	15%		<b>28%</b>	28%	20%
<b>28%</b>	28%	15%	28%	15%		<b>31%</b>	31%	20%
<b>33%</b>	33%	15%	33%	15%		<b>36%</b>	36%	20%
<b>35%</b>	35%	15%	35%	15%		<b>39.6%</b>	39.6%	20%

HRA has used the long term capital gains tax rate of 20% and the ordinary income tax rate of 39.6% for this analysis. These estimates are subject to change based on the tax policy of the US government and will be different based on the individual investor's tax situation. These returns are meant only for illustration purposes and all investors should discuss the investment and assumptions with a qualified tax advisor. The complete analysis can be found in Appendix 3.

<b>After Tax Cash Flow-Leveraged</b>	
Discount Rate	12.00%
Selling Costs	2.50%
Disposition Fee	0.50%
Residual Capitalization Rate	9.50%
Leveraged Present Value	<b>\$13,482,483</b>
Leveraged NPV	<b>\$2,531,942</b>
Leveraged IRR	<b>15.17%</b>

## FINANCIAL ANALYSIS

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### RATIO ANALYSIS

Below is a chart that reviews a number of key investment ratios used by lenders and investors and provide additional insight into the project's expected performance.

## FINANCIAL ANALYSIS

<b>Hyatt Place</b> <b>10 Seneca Meadows Parkway</b> <b>Germantown, MD</b> <b>A 159 Room Select Service Hotel Property</b>			
<b>Ratio Analysis Year 3 Stabilization</b>			
Debt Coverage Ratios		Return Ratios	
<b>Debt Coverage on NOI</b>		<b>Return on Assets(using investment costs)</b>	
NOI (Year 3)	2,993,580	Cash Flow from Operations	2,993,580
Debt Service	1,640,591	Estimated Investment Cost	30,576,552
Debt Service Coverage Year 1	1.82	Return on Assets	9.79%
DSCR Before Reserve	1.68		
<b>Value</b>		<b>Return on Equity (using proposed equity investment)</b>	
NOI (Year Three)	2,993,580	Cash Flow After Financing	\$ 1,628,213
Cap Rate	9.00%	Proposed Equity Investment	10,950,541
Estimated Value	33,262,000	Return on Equity	14.87%
<b>Loan-to-Value and Loan-to-Cost Ratios</b>		<b>Breakeven Rent And Occupancy Ratios</b>	
<b>Loan-to-Value Ratio</b>		<b>Breakeven Occupancy at \$130 ADR</b>	
Proposed Loan Amount	19,874,759	Total Operating Expense	4,747,745
Estimated Value	33,262,000	Debt Service	<u>\$ 1,640,591</u>
Loan-to-Value Ratio	0.60	Subtotal	<u>\$ 6,388,336</u>
<b>Loan-to-Cost Ratio</b>		Potential Gross Income	<u>\$ 7,544,550</u>
Proposed Loan Amount	19,874,759	Breakeven Occupancy	<u>84.67%</u>
Estimated Cost	30,576,552	<b>Breakeven ADR at 70% Occupancy</b>	
Loan-to-Cost Ratio	0.65	Total Operating Expense	\$ 4,747,745
<b>Per Square Foot Value and Loan Exposure</b>		Debt Service	<u>\$ 1,640,591</u>
<b>Value PSF</b>		Subtotal	6,388,336
Estimated Value	33,262,000	Number of Guest Rooms	159
Number of Square Feet	97,993	Times: Occupancy Rate	<u>70%</u>
Value Per Square Foot	339.43	ADR Required at 70% Occupancy	<u>\$ 157.25</u>
Value Per Room	\$ 209,195	Break Even ADR at 50% Occupancy	\$ 220.15
<b>Loan Exposure per square foot</b>		<b>Financial Returns</b>	
Proposed Loan Amount	19,874,759	<b>Leveraged and Refinanced After Year 5</b>	
Number of Square Feet	97,993	Before Tax PV	\$ 15,745,802
Loan Exposure Per Square Foot	\$ 202.82	Before Tax NPV	\$ 4,795,262
<b>Breakeven Mortgage Constant</b>		Before Tax IRR	18.32%
NOI	2,993,580	<b>Pre-Tax</b>	
Proposed Loan Amount	19,874,759	GP IRR	17.52%
Breakeven Mortgage Constant	15.06%	Sponsor IRR	20.93%
Proposed Mortgage Constant	8.36%	Equity Multiple Return Limited Partner	2.85
Debt Service	1,640,591	Equity Multiple Return General Partner	3.89
		Weighted Average Cost of Capital	9.66%

## FINANCIAL ANALYSIS

### **SENSITIVITY ANALYSIS**

The following represents a sensitivity analysis for the project internal rate of return based on changes to the construction costs and income for the project. This analysis allows the investor to further evaluate the risks of the investment related to the sensitivity of changing these two key variables for the project. The range provided shows a change of construction costs in \$500,000 increments and shows a range of NOI outcomes of negative 60 percent of the base case to a positive of 60 percent increase from the base case. Because hotels have high operating leverage, these fluctuations are reasonable and would indicate a RevPAR Index range of 84 percent to 121 percent. The project is estimated to achieve a stabilized RevPAR Index of 106 percent which is conservatively below the average of the brand at just over 110 percent.

#### **IRR Range Based on Changes in NOI and Construction Costs**

Construction Cost	NOI Percent Change								
	-60%	-40%	-20%	-10%	0%	10%	20%	40%	60%
\$ 27,576,552	0.67%	6.35%	10.87%	12.86%	14.74%	16.50%	18.19%	21.34%	24.29%
\$ 28,076,552	0.44%	6.08%	10.57%	12.56%	14.42%	16.17%	17.84%	20.97%	23.89%
\$ 28,576,552	0.21%	5.82%	10.29%	12.26%	14.10%	15.84%	17.50%	20.61%	23.50%
\$ 29,076,552	-0.02%	5.57%	10.01%	11.96%	13.80%	15.53%	17.17%	20.25%	23.12%
\$ 29,576,552	-0.24%	5.32%	9.73%	11.68%	13.50%	15.22%	16.85%	19.91%	22.75%
\$ 30,076,552	-0.45%	5.08%	9.46%	11.40%	13.21%	14.91%	16.53%	19.57%	22.39%
<b>\$ 30,576,552</b>	-0.66%	4.84%	9.20%	11.12%	<b>12.92%</b>	14.62%	16.23%	19.24%	22.04%
\$ 31,076,552	-0.87%	4.61%	8.95%	10.86%	12.64%	14.33%	15.93%	18.92%	21.69%
\$ 31,576,552	-1.07%	4.38%	8.70%	10.60%	12.37%	14.04%	15.63%	18.60%	21.36%
\$ 32,076,552	-1.27%	4.15%	8.45%	10.34%	12.10%	13.77%	15.34%	18.29%	21.03%
\$ 32,576,552	-1.47%	3.94%	8.21%	10.09%	11.84%	13.50%	15.06%	17.99%	20.71%
\$ 33,076,552	-1.66%	3.72%	7.97%	9.84%	11.59%	13.23%	14.79%	17.70%	20.40%
\$ 33,576,552	-1.85%	3.51%	7.74%	9.60%	11.34%	12.97%	14.52%	17.41%	20.09%

### **RISK ANALYSIS AND PROBABILITY OF LOSS**

All investments in real estate carry some type of investment risk. Development projects in particular represent investments that are inherently riskier than stabilized assets. Furthermore, hotels are considered one of the riskiest classes of real estate investments. HRA has attempted to use assumptions that are reasonable based on current market conditions, a thorough analysis of the site,

## FINANCIAL ANALYSIS

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the proposed land use, construction costs, the supply and demand conditions in the market and other operating variables that could impact the investment.

Based on the assumptions used in the project, we have produced the above range of outcomes that will help evaluate the overall risk of the investment and the probability of loss of an investor's initial capital. By providing this analysis, investors can more appropriately determine if the investment risk is appropriately compensated by the return of the project.

### Probability of Loss Analysis

<b>Average Return</b>	12.22%
<b>Std. Deviation</b>	6.78%
<b>CV</b>	0.55
<b>Z-Score</b>	(1.80)
<b>Prob of Return</b>	96.43%
<b>Prob of Loss</b>	3.57%

Based on this analysis, the average return for the range of outcomes was 12.22 percent with a standard deviation of 6.78 percent on that return. Assuming the range accounts for the best case and worst case scenarios for the investment, the investor would have a 3.57 percent chance of losing some or all of his initial investment. While this appears to be a somewhat limited downside risk, it should be noted that the actual probability of loss would be greater had we entered other variables into the analysis including interest rate risk, market demand risk, market supply risk and changes in other investment terms such as discount rates and capitalization rates. In addition, expenses could rise faster than were projected in the forecast which combined with these other factors would change the financial results and could materially increase the probability of loss.

## FINANCIAL ANALYSIS

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### **CONCLUSION**

HRA believes that based on the above assumptions, the project financial risks have been appropriately accounted in the investment return analysis. These risks should be further evaluated at the various stages of the project investigation before the construction is started.



## **PROJECT MANAGEMENT PLAN**

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#### DEVELOPMENT TEAM

Once it agreed that the project is viable and the decision is made to move forward, the next step is to assemble the team for the development. Hospitality Realty Advisors LLC (HRA) will provide asset management services and development oversight for this hotel development. HRA will be responsible for selecting the team and negotiating the contracts for final review and approval from Minkoff Development Corporation.

#### **Minkoff Development Corporation-Developer**

MDC will be the developer of this project and is proposed to hire HRA to oversee the entire project on their behalf. MDC will offer their expertise throughout the land use approval process as well as provide oversight and control of the project through their agent HRA. MDC will lead the efforts in procuring equity investors with the support of HRA. The following is a brief description of Minkoff Development Corporation.

**MDC** was founded in 1972 by the late Leon P. Minkoff, who had been in the fire restoration, real estate development and general contracting business for over twenty years. Under the guidance of the family's second generation of leadership, the firm's focus continues to be the development of light industrial, flex, and office properties. The company has developed and built, under the names of various limited partnerships for its own portfolio, approximately one and a half million square feet in twenty buildings in Montgomery County and Prince George's County. These properties are still owned and managed by the principals of Minkoff Development Corporation, who continue to provide direct

## PROJECT MANAGEMENT PLAN

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"hands-on" control of the various functions of a full service, real estate development firm:

- Site selection and engineering
- Building design and construction analysis
- Value engineering and cost analysis
- General contracting
- Tenant build-out and interior renovation
- Leasing and property management
- Construction and permanent loan financing

Minkoff Development Corporation provides the experience and expertise necessary to efficiently evaluate and provide for the leasing requirements of its tenants. Tenant spaces have been designed and constructed for a wide variety of functions:

- Warehousing and distribution
- Light manufacturing
- Light assembly and processing
- Test facilities
- Research and development
- Laboratory facilities
- Engineering and drafting
- Sales/marketing offices
- Corporate offices

Minkoff Development Corporation continues to develop and provide excellent working environments oriented towards the needs of high-tech, office, biotech, and light industrial users. A diverse, yet compatible blend of large and small companies has located in our properties, utilizing them for a wide array of functions. Responsible management allows us to provide practical rental space

## PROJECT MANAGEMENT PLAN

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for new tenants while providing for the corporate growth requirements of our existing tenants.

### **ASSET MANAGEMENT-Hospitality Realty Advisors LLCA**

HRA will lead the development project and provide key services throughout the lifecycle of the project on behalf of the owner. After completion of the entitlement and design process, HRA will seek development financing, provide continued input during the construction phase, negotiate the management and franchise agreements and provide continued asset management services for fee after the project is developed. HRA will also work with the developer to solicit equity investors as needed. HRA will receive 25 percent of the owner development fee, 100 percent of the asset management fee and an ongoing fee of 2.0 percent of NOI for annual asset management duties.

Mr. Mason is the President of HRA and also currently serves as a Senior Vice President of Asset Management for Host Hotels & Resorts, Inc.'s Western Region where he has been a member of the Host Asset Management team for the past 16 years. Mr. Mason directly oversees a team that aggressively asset manages a portfolio of 38 full service hotels in the upper upscale and luxury hotel tiers with a value in excess of \$5.0 Billion. Brands included in this portfolio include Marriott, Hyatt, Westin, Hilton, Ritz-Carlton, Westins, W, Sheratons and Fairmont. Mr. Mason has international asset management experience in overseeing hotels in Mexico, Chile and Hungary.

Prior to his joining HHR, Mr. Mason served as Senior Vice President of the Carey Winston Company, a full service commercial real estate firm where he represented numerous institutional clients in the investment, management, and leasing of commercial office and retail properties. Preceding this, Mr. Mason served as Vice President of Asset Management at The Balcor Company, an American Express real estate subsidiary.

## **PROJECT MANAGEMENT PLAN**

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Mr. Mason earned his Bachelor of Science degree from the School of Hotel Administration at Cornell University. He also has a Master of Management degree from the Kellogg Graduate School of Management at Northwestern University with a concentration in finance. Mr. Mason is currently a candidate to receive his Master of Real Estate Development from the Carey School of Business at Johns Hopkins University in June 2012.

He is a member of the Institute of Real Estate Management through which he has attained the Certified Property Manager® (CPM®) designation. He has also received the Certified Hotel Administrator (CHA) designation from the Educational Institute of the American Hotel & Motel Association, the Commercial Investment Real Estate Member (CCIM) designation from the CCIM Institute, and the Real Property Administrator (RPA) designation from the BOMI Institute. He has recently achieved his Six Sigma Black Belt certification as well. Mr. Mason is a member of the Cornell Hotel Society and is a Certified Hotel Asset Manager (CHAM) with the Hotel Asset Management Association (HAMA). He also currently serves on the AH&LA Financial Management Committee and is on the Advisory Board for the School of Hotel Administration at Northern Arizona University.

### **PROJECT TEAM SELECTION**

The first member of the team selected will be the project manager. Having worked with multiple project managers over the years, it is important to have a project manager that has local knowledge, a proven track record, the depth to complete the project, an expertise in ground up hotel development projects and one that has experience working with construction lenders. After review a number of PM's available locally, I would proceed to negotiate a contract for Agency Construction Management Services with Schaefer Construction Management, Inc. It is anticipated that this fee would be in the range of \$10,000

## **PROJECT MANAGEMENT PLAN**

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per month in pre construction phases and \$15,000 per month during the 20 month construction and closeout period for a cost estimate of \$500,000. With this service provider on board, he would take the lead in hiring, negotiating and supervising the civil engineer, architect and ultimately the general contractor. HRA will act as the owner representative in giving instructions to the team throughout the development process and be responsible for communicating progress reports to the investors.

A brief background on Schaefer Construction Management, Inc. follows:

### **PROJECT MANAGEMENT-Schaefer Construction Management, Inc.**

For almost a decade, Schaefer Construction Management, Inc. (SCM) has been providing our Owner clients the complete range of "value-added" construction management services during the development, design and construction project phases.

Founded in 1998 by Principal Mark Thomas Schaefer, SCM continues to handle a wide variety of projects in the commercial, industrial, and residential development and construction markets, all over the United States. We have successfully managed the completion of more than \$150,000,000 worth of construction in our ten-year history. Mark Schaefer is a registered Professional Engineer and a Certified Construction Manager, and earned both a Bachelor's and Master's Degree in Civil Engineering/Construction Management at The Pennsylvania State University. Our Senior Construction Manager, Mr. Tim Hill, holds a Master's in Business Administration (MBA) and is LEED certified. Together, Mr. Schaefer and Mr. Hill have 30 years of development and construction experience working for Owners, Architects, Engineers and General Contractors. We understand and know the business from the point of view of every team member integral to the process. Our experience drives our company's 100 percent fiduciary relationship to you, the Owner.

## PROJECT MANAGEMENT PLAN

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All of the technical and professional staff at SCM has been employed by an Owner or End User at some point in their careers. Everyone at SCM pursues our roles and duties from the perspective of the Owner, knowing without the Owner there would be no project. Thus, we believe the Owner is King.

### **CIVIL ENGINEERING-Rodgers Consulting**

Selection of the Civil Engineer is the next critical member of the team. HRA has had preliminary discussions with Kim McCary of Rogers Consulting regarding the development of the subject property. Since Minkoff Development Corporation has used Rodgers Consulting to complete all of their development entitlements in the Seneca Meadows Corporate Center, there are certainly advantages to using the firm that the developer is familiar and has a history with the site. In addition, this firm has a long history of successful projects throughout Montgomery County including some of the largest and most complicated projects. The civil engineer will work with the project manager to complete the soil report testing, traffic reports, a Phase One environmental analysis and any other reports required for the development of the site. A brief overview of the firm's history and services follow:

Consulting, Inc., our mission is to provide quality consulting services for clients who recognize the importance of integrity, community responsibility, with a commitment to excellence in planning and design.

- Working collaboratively with each client to identify and design creative yet practical solutions that meet the highest standards in our industry.
- Specializing in town planning, urban design, development entitlements, site engineering and natural resource management for developers, builders, institutions and corporations.

## PROJECT MANAGEMENT PLAN

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Since 1957, Rodgers Consulting has earned a reputation for providing superior planning and engineering services.

1. Offering our clients a unique, fully-integrated approach to planning and engineering design using a team of highly skilled professionals who share a level of knowledge, creativity and enduring values.
2. Sharing a passion for superiority in every phase of the planning and design process.

Rodgers Consulting has been at the forefront of the new urbanist movement since the mid-1980s.

- Involved at the very earliest stages in the planning and design of the Kentlands, one of the first neo-traditional neighborhoods in the United States.
- Served on the original charrette team led by new-urbanist pioneers Andres Duany and Elizabeth Plater-Zyberk (of the internationally renowned DPZ Architects, Inc.).
- Provided site planning, engineering and natural resources management services on this project; a winner of numerous national awards.
- Planned and designed over twenty new urbanist communities in and around the Washington, D.C. metropolitan region.
- Creating communities with a sense of place, in harmony with their natural environment, and where people want to live and work.

The owners and employees of Rodgers Consulting, Inc. celebrated the 50th anniversary of the firm throughout 2007. As part of the celebration, we wrote a book documenting the history and leadership of the first 50 years.



## PROJECT MANAGEMENT PLAN

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### ARCHITECT

The architect will be selected based on presentation from the selected firms. We have selected five firms that have a strong reputation in hospitality development and design and will select the architect based on the experience of the team presented, success in similar development projects, experience in working in Montgomery County, price and quality of work. We will review their history and evaluate their experience level and expertise for each phase of the project. All architects will have significant experience in interior design for hotels as well. The three firms selected will include:

Gensler  
2020 K Street, NW  
Suite 200  
Washington, D.C. 20006

BBGM  
1825 K Street NW,  
Suite 300 Washington, DC 20006 USA

Forrest Perkins  
2121 Wisconsin Ave NW, Suite 100  
Washington, DC 20007

Hughes Design Associates  
1487 Chain Bridge Rd, Suite 100  
McLean, VA 22101

ASD  
3030 Clarendon Blvd.  
Suite 350  
Arlington, VA 22201

We will consider other firms that the project manager and civil engineer bring to the table as well.

## PROJECT MANAGEMENT PLAN

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### GENERAL CONTRACTOR

As noted in the Construction and Scheduling section of this report, we are going to use a Design-Bid-Build method of construction. We will bid the project out to five of the larger contractors in the DC/Maryland region who have expertise working in the regulatory environment of the mid Atlantic region. We have chosen these initial contractors based on size, expertise, ability to complete projects on time and on budget and have a strong history and reputation creating value with developers. We will accept other suggestions for GC from our project manager to ensure the project is competitively bid. All contractors will be bondable and a thorough review of their financials will be evaluated as part of the selection process. The first list of contractors will include:

**Whiting Turner**

**Clark Construction Company**

**Hitt Contracting Inc.**

**Forrester Construction**

**Turner Construction**

### PROCUREMENT-Benjamin West

Procurement of the furniture fixtures and equipment is a specialized field in the hospitality industry. While there are several excellent firms available, there are only several that are approved vendors to provide these services for a Hyatt Place hotel. Based on my experience and background, this is a contract that makes more sense to negotiate versus bid to competitors. The reason is it is more important to work with a vendor that has strong relations with the manufactures, has better pricing, stronger warranty representation and ability to provide the resources necessary to complete complex projects on time and on budget. The fees charges for this service range from 3.5 to 5 percent with the

## PROJECT MANAGEMENT PLAN

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expectation for a project of this size to come in approximately 4 percent. Because of their size, quality and ability to deliver projects, my recommendation would be to select Benjamin West. A brief profile follows:

Founded in 1998 by Alan Benjamin, Benjamin West is the global leader in furniture, fixtures and equipment (FF&E) and operating supplies and equipment (OS&E) purchasing for the hospitality industry. Alan Benjamin continues a family history of service to the hospitality industry dating back to the establishment of his grandfather's firm in Chicago in 1931.

Through its vast network of resources and relationships, Benjamin West delivers tremendous value to its global client base. Each client has unique requirements, and the hospitality purchasing team at Benjamin West is equipped to provide cost-effective, high-quality solutions to those needs. Accuracy, integrity and reliability are demonstrated in each and every project, earning Benjamin West an unparalleled reputation.

During each project, Benjamin West acts as an agent on behalf of the client. The company maintains a full accounting department to meet clients' budgeting and financial needs. Whether establishing terms with a vendor, creating an innovative product warranty, or negotiating cost, quality or lead-time, Benjamin West thinks like an owner.

Benjamin West is based in Boulder, Colorado. Additional offices are located in Chicago, Dallas, Hong Kong and London

### **PROPERTY MANAGER-Interstate Hotels-Property Manager**

HRA will negotiate a management contract with terms comparable to those presented in the Financial Analysis section of this report with Interstate Hotels. We will invite another management company, Crestline hotels and Resorts to the table to ensure we are achieving the best terms possible on this agreement. The reason for selecting Interstate Hotels is that they are locally based, have

## PROJECT MANAGEMENT PLAN

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significant breadth in the management of select service hotels, they are an approved manager for Hyatt Place Hotels, and offer an extremely competitive value proposition for management services. In order to maximize the potential returns for the ownership, we will negotiate a 15 year contract that is terminable after five years with 6 months notice and a separation fee. This will provide ownership the opportunity to bring the property to stabilization and have the management contract terminable for the purpose of selling the asset. If the owner wishes to sell the asset after five years, the property will receive a significantly larger pool of potential bidders if the management is available. This allows other owner operators to bid on the project as well as institutional players that may have a preference for a different management company.

Interstate Hotels & Resorts is the largest U.S.-based global hotel management company, and along with its affiliates manage and/or have ownership interests nearly 400 hotels with more than 69,000 rooms in 40 states, the District of Columbia, Canada, Mexico, England, Ireland, Belgium, the Netherlands, Russia, India and China. As a leading hotel real estate investor, Interstate has ownership interests in 57 of its managed hotels and resorts, including six wholly owned assets. The company is a wholly owned subsidiary of a joint venture between subsidiaries of Thayer Lodging and Jin Jiang Hotels.

As a preferred hotel management company, Interstate Hotels & Resorts consistently delivers results for hotel owners such as institutional real estate owners, high net worth investors, non-institutional ownership groups, privately held companies, and private equity funds.

With over 50 years of experience managing hotels, resorts and conference centers, Interstate is a proven choice among hotel management companies, providing extensive resources with responsiveness and dexterity that allow its hotels to succeed in any marketplace and in any business cycle.

## PROJECT MANAGEMENT PLAN

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Interstate Hotels & Resorts, a leader in the hospitality industry, offers hotel owners, investors and developers a range of consulting services for ground up new-build hotel development, renovations and brand conversions.

During the past 24 months, the company has been involved in over 20 new hotel openings throughout the world. At present, 25 new hotel and resort projects are underway worldwide in various phases of hotel construction or development, many in which Interstate is an equity participant.

Interstate Hotels & Resorts has experienced leadership with familiarity in all leading international brands and brand standards for a range of hotels projects including pre-opening and technical services; design and construction consulting services; FF&E; OS&E; supply and equipment procurement; project budgeting; and engineering consulting services.

### **FRANCHISOR-Hyatt Hotels Corporation-Franchisor of Hyatt Place**

Hyatt Hotels Corporation provides the franchise services as described in the financial section of this report. HRA will be responsible for negotiating the terms of this agreement.

Hyatt is headquartered in Chicago, is a leading global hospitality company with a proud heritage of making guests feel more than welcome.

The Company's subsidiaries manage, franchise, own and develop hotels and resorts under the Hyatt®, Park Hyatt®, Andaz®, Grand Hyatt®, Hyatt Regency®, Hyatt Place® and Hyatt House™ brand names and have locations on six continents. Hyatt Residential Group, Inc., a Hyatt Hotels Corporation subsidiary, develops, operates, markets or licenses Hyatt Residences™ and Hyatt Vacation Club®, which is changing its name to Hyatt Residence Club™.

## **PROJECT MANAGEMENT PLAN**

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We are focused on enhancing our brand preference by continuously improving the performance of existing hotels and successfully expanding the presence of our brands in select markets worldwide. Smart growth and development is fundamental to achieving these aims. As a company, we thoughtfully add hotels in locations throughout the world where our loyal guests and customers want us to be. Our team works closely with developers to ensure their success through innovative and efficient design, operational excellence and effective sales and marketing strategies. We are focused on the role of development within the organization and have formed a dedicated and experienced global development team.

As of June 30, 2011, the Company's worldwide portfolio consisted of 456 properties in 44 countries.

### **OTHER TEAM PLAYERS**

In addition to the above team members, it should be noted that a number of other professionals will be added to the team to provide advice. Some of these include but are not limited to the following: legal representation, insurance advisor, construction estimators, various consultants such as soils experts, environmental experts, kitchen design, a mortgage broker, hospitality market consulting and others as may be required to bring the project to a successful conclusion.

### **MARKETING STRATEGY**

The marketing strategy for this type of hotel is first relying on the Hyatt brand to produce room nights through its reservation system and loyalty program, Hyatt Gold Passport. This will provide the base of the transient demand business. The brand is currently under represented in the market which means that there is potentially significant demand already in the market for their products. The only current Hyatt flag that is closer than Bethesda is the Hyatt House hotel, an older

## PROJECT MANAGEMENT PLAN

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extended stay hotel that appeals to a different segment, the long term stay category. By hiring the property management company and general manager 6-8 months prior to opening will allow the team to meet with local accounts and develop contract opportunities with local demand generators. We will procure services from Hotelligence to identify the key accounts that produce the most significant room night production in the market.

In addition, we will be looking at the newer demand generators such as the new hospital and Boeing offices that will be entering the market in the next 12-36 months as well as canvas all of the companies within several miles of the property.

We will also create a strong leisure marketing strategy by identifying those groups that bring demand into the areas. The Maryland Soccerplex is a sports complex in Germantown, Maryland, United States there are nineteen natural grass fields, three artificial fields, and eight indoor courts. Two miniature golf courses, a driving range, and a swim center have recently been added.

The main stadium holds 5,200 and was home to the Washington Freedom, a team in Women's Professional Soccer, the successor to the defunct Women's United Soccer Association in which the team originally played. The Soccerplex now hosts the D.C. United Women of the W-League.

The Soccerplex is home to many other events: D.C. United Open Cup matches, Real Maryland, NCAA Conference Championships, Discovery Cup, and the Mid-Atlantic Cup. The complex brings teams in from all over the region and often requires room nights for various tournaments.

We will rely on Interstate Hotels to develop a group customer sales strategy and also focus on our internet marketing strategy. We will use reader board services to produce a list of groups that conduct business meetings in the area and provide those contacts to our sales representatives to pursue. The sales team will also conduct the negotiation of any OTA's (Online Travel Agents)

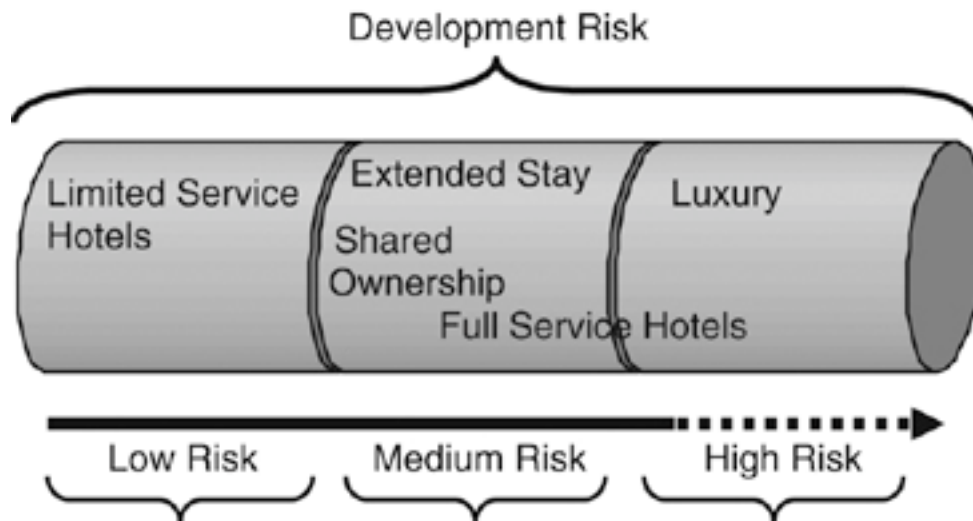
## PROJECT MANAGEMENT PLAN

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agreements and evaluate the proper placement of the property for search purposes on the internet. A complete marketing plan will be developed by the manager and reviewed by HRA 6 months prior to opening with goals and objects set to meet or exceed the pro forma. We will identify any potential risks and focus our direct marketing efforts to mitigate those areas that represent a threat to meeting our objectives.

### **RISK MITIGATION STRATEGY**

There are multiple areas of risk that come with the development of hotel projects. Obviously, the more complicated the type of asset is, the higher the development risk would be. In other words, this risk is the probability that a setback takes place during the development process that has a negative effect on the development cost or any aspect that influences the future investment returns (location of the asset, positioning, type of operator, physical characteristics, construction and design, timing of completion, capital structuring and so forth). There is sometimes a great difference between how a hotel asset should look and how it actually does when it is built. We have reduced the risk of this project to some extent by choosing a product type that fits in the lower risk category of hotel development and has a fully developed prototype and history of operations.





## PROJECT MANAGEMENT PLAN

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The purpose of this section is to fully identify the key risks of the project and create a plan to mitigate those risks to provide our investors with the confidence that we will meet or exceed their expectations. These risks and our plan to mitigate include the following:

1) **Land value risk:** land acquisition costs and the risk that the value of acquired land changes due to market circumstances. This risk was mitigated by completing a highest and best use analysis to properly value the land. Furthermore, by creating a joint venture with the land owner /developer, this risk is significantly reduced. The owner also minimizes his risk in that he will participate in the upside of the development and can alter the path of development right up until the construction is started. This risk is contained by the exposure of the soft costs related to the design and approval of a hotel and the duration of time lost if that use proves to be less valuable at the time of committing to the project. An alternative use of higher value would need to consider these sunk costs before changing the course of action.

2) **Land exploitation risk:** the risks mainly related to environmental issues. This risk will be mitigated through a Phase 1 Environmental Survey and soil/hydrology study. The owner/developer of the property already has these risks since he possesses title. This risk is therefore already been vetted for the primary equity investor. The environmental and soils/hydrology survey will provide additional assurance for new investors of the venture and allow for better construction cost estimating.

3) **Planning permit risk:** the risk that no usable planning permit is received or that this process takes longer than expected. This risk also applies to other municipal approvals/permits, such as commercial licenses. Whether or not grants are obtained is also included in this risk. This risk will be mitigated by having an experienced civil engineer and zoning attorney to help lead the team through the

## PROJECT MANAGEMENT PLAN

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process. We have assumed a conservative timeline for achieving approvals. In addition, the hotel is a conforming use for the subject property and the site has adequate utilities that exist at the curb.

4) **Construction risk:** this regards pricing, design, quality and possible delays. This risk is mitigated in several ways. We will be using a prototype Hyatt Place plan and FF&E package that has been built in numerous locations around the country. We will hire a highly skilled architect who will be work with an experienced asset manager and project manager who are familiar with the various risks associated with construction projects and understand how to mitigate those risks. By having detailed and complete sets of drawings, we will minimize change orders during the construction phase. We will use a project estimator at key milestones of the design to make sure we are on target and will employ value engineering exercises to keep the project on track. The project will be bid to experienced general contractors who have significant local experience as well as expertise in hotel development. The pricing will be based on a Lump Sum that will further mitigate the risk for the developer by moving much of the construction risk to the general contractor. In addition, we will carry a 10 percent contingency on the soft and hard costs associated with the project. We will also hire a professional procurement firm with vast knowledge and experience to keep the FF&E package on time and on budget.

5) **Pro Forma risk:** there are many factors that influence the hotel forecast. These include, RevPAR levels, operating cost assumptions, capitalization rates, discount rates, inflation and interest rate levels, demand and supply in the market. By preparing a regional market analysis and competitive market analysis, the hotel forecast is based on accurate market data and trends in the marketplace. It is recommended that before the project move forward with significant entitlement expenditures, a third party market feasibility study will be completed concurrently with the site environmental and soil/hydrology studies. We have studied the market to develop the discount rates and capitalization

## PROJECT MANAGEMENT PLAN

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rates used in the marketplace and believe that these are reasonable based on further discussions with hotel brokers. We have evaluated the interest rate risk by discussing market rates with mortgage lenders and discussed the longer term outlook for interest rates. Based on these expectations, we believe that there is risk associated with this item, however, by looking at Treasury Rates and being familiar with current government policy, we believe the rates used in this analysis provide adequate coverage for this risk. Finally, we have created a sensitivity and probability of loss analysis which helps the investor better gage the risk related to the investment.

6) **Duration risk:** the duration is a consequence of other risks. It can impact interest costs, but can also cause other problems, promises made to customers that may book events at the hotel. A delay could also mean that the project has to face adverse market circumstances. This risk is somewhat mitigated by building a competent team of experts and putting reasonable expectations on the timing of approvals. The risks to customers are more limited in select service hotels since most group bookings are done on a short term basis and are a smaller portion of the hotel's expected demand.

7) **Political risk:** the risk that the project encounters problems due to a change in government, regulations, etc. While this is a risk for any project, this project should enjoy a favorable view from county officials as it will create jobs, provide significant revenue via its occupancy tax, have a lower demand on county services and is a conforming use with the plans in the Germantown Forward. In addition, the project will be a sustainable development which will show the commitment the investors to the community.

8) **Operator and Franchisor risk:** Choosing the right property management company is critical to any successful hotel investment. By choosing a company such as Interstate Hotels, we bring to the table a local player with a management platform that spans the globe. HRA's experience with this operator and putting in

## PROJECT MANAGEMENT PLAN

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proper controls for ownership in the management contract are the key ways to mitigate this risk. One aspect will be to ensure that ownership has approval of key members of the operating team. For the Franchisor, HRA's research shows that this is an excellent brand with substantial name recognition. The market study we conduct will further verify this brand choice and can certainly be modified if the findings conclude that the market is strong but there is a better alternative. We have reviewed the Aloft Brand by Starwood Hotels as a possible alternative which we could use as a stalking horse in our negotiations with the franchisor. This brand would also be a viable alternative for the site.

9) **Partner risk:** the risk that a partner in the project cannot meet its obligations or disagrees on the way forward. This will be limited risk as Minkoff Development will have ultimate control as the lead General Partner of the venture and has the ability to complete the project with or without limited partners in the venture. HRA, while being part of the General Partnership team, will have limited control and act more on an advisory nature to the General Partner.

10) **Legal risk:** this covers a broad area of topics: possible objections against changes in zoning, liability risks or contracts which have not been drawn up correctly. It also concerns the risk of not obtaining the required permits and the risks involved with buying existing companies to acquire land positions. Tax risk is also included in the legal risk. Many of the legal risks mentioned are limited as the zoning is already in place. A strong legal representative that is familiar with development will be an important team member. In addition, we will engage a law firm with hotel expertise to work with HRA on the negotiation of the property management and franchise agreements.

In addition to the above there are other important ways to mitigate risks throughout the development process that include:

- Do the homework and properly research each area of the investment.

## PROJECT MANAGEMENT PLAN

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- Adequately phase the project, make the steps to be taken smaller, with possible exits following each phase.
- Many risks can be mitigated by carefully drawn up contracts. It is therefore essential that legal expertise is involved.
- The project needs to be insured in line with the needs and risks. Employing an insurance expert will help insure proper policies are in place and all contractors and vendors have appropriate business risk coverage.
- The quality of partner agreements (clauses on the decision process and exit possibilities) needs to be highlighted.
- Timing payments: in the case of costs it is preferred to pay as late as possible, whereas in the case of revenues it is preferred to receive these as early as possible.

Based on the above, HRA believes that the project risks will be adequately mitigated and by breaking the project up into a staged development process, the risks will be adequately addressed throughout the development cycle.

HRA will continue to monitor the project throughout the lifecycle of the asset and will make recommendations to the joint venture at key junctures. It is assumed in the analysis that the project will be held for a period of 10-years and then sold to determine the return on equity for investors. It is anticipated that HRA will complete a sell/hold analysis upon the operating stabilization and at the time the permanent loan is put in place. The JV will be given the opportunity to review these options during these milestone events.

## CONCLUSIONS AND RECOMMENDATIONS

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This paper has provided a thorough review of the physical, legal, market and financial feasibility of a 159-room Hyatt Place hotel development project located in Germantown, MD within the Seneca Meadows Corporate Park. Hotel Realty Advisors LLC is interested in developing a select service hotel in northern Montgomery County and found that the site chosen is the best available and offers above average attributes to other hotels in the market while holding significant superior characteristics when compared to other land sites available in the county that can be developed for hotel use.

After concluding that the hotel was feasible and the highest and best use for the site, a thorough site analysis was completed and concluded that the property has appropriate access, visibility and excellent linkages to demand generators. The vacant site has appropriate zoning and has all the required utilities at the street. It was also concluded that the property is in the path of growth and that the surrounding land uses are complimentary for a hotel development.

The market analysis revealed that the metro area and Montgomery County are strong healthy markets that are continuing to grow and will provide increased demand for the development of new hotels. Based on a supply and demand analysis for the submarket, it appears that the market is strong and recovering well from the recent recession. While the demand growth and RevPAR are expected to be strong over the next several years, there is little new hotel development planned in the market and none in this area of the county. Based on our understanding of the site and the competitiveness of the proposed hotel product, we believe that the occupancy and ADR performance should exceed that of the market average consistent with other Hyatt Place hotel projects located around the US.

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Our research further evaluated the land use plan for the Germanton Sector and found that the project will comply with the plan. Furthermore, the project will generate significant impact fees and occupancy taxes for the area making it an excellent revenue source for the community. The project zoning and parking requirements were further reviewed and there were no significant issues identified with the development of the subject property on the proposed site. Based on further discussions with the county department of planning and a local civil engineer we have provided a detailed view of the process to complete entitlements for the site which are estimated to take two years to complete.

HRA then evaluated the detailed offerings of the hotel and modified the prototype hotel to enhance the competitive position of the property in the market. This was accomplished by converting first floor rooms to additional meeting space to make this the best meeting space in the immediate area of any hotel. HRA also provides floor plans, pictures and a site plan with the expected orientation of the project. This was completed to show that the hotel can be sited properly on the land and meet the various setback, parking and open space requirements on the site. There do not appear to be any issues but will need a professional engineer to review and modify as needed.

The project construction budget was prepared by utilizing a detailed program from Hyatt Development and modifying this to adapt to local market conditions, taxes, fees and project delivery method. The project development budget of \$30.577 M carries a significant contingency of 10 percent on all items except land cost. HRA believes that the estimates are conservative but in line with other recent hotel deliveries at \$192,300 per room. This is based on further discussions with Hyatt Development representatives and local project management firms.

Based on the financing and proposed equity structure presented in the financial analysis section, HRA believes that the return on investment of 12.93 Percent



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unlevered and 18.32 percent levered will make this an attractive investment. It is intended that the general partners will raise \$8.76 M in funds from limited partners. The general partners will retain a 20 percent equity position and receive a promote on the project returns. The sponsor is anticipating a 20.93 percent IRR on the investment with a probability of loss under 4 percent on the return of capital.

HRA has further put together a preliminary view of the proposed team for the project. In addition, a detailed risk mitigation plan is outlined and provides details of how project risks will be mitigated throughout the development timeline.

Based on the conclusions in this report, it is recommended that Minkoff Development and HRA move forward with an independent market study to substantiate the market analysis and conclusions found in this report. It is then recommended that the parties meet to negotiate the partnership agreement to provide the framework for the development project based upon the recommendations in this report.

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## APPENDICES

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1. **Construction Budget**
2. **Pro Forma Model**
3. **Financial Analysis Model**
4. **Highest and Best Use Analysis**
5. **Land Evaluation Charts**