FEASIBILITY STUDY
OF THE
REDEVELOPMENT OF THE
FORMER SEASIDE SANITORIUM
WATERFORD, CONNECTICUT

Waterford,
Connecticut

April 2016

PREPARED FOR:

Mr. Robert Klee, Commissioner
Department of Energy & Environmental Protection
State of Connecticut
79 Elm Street
Hartford, Connecticut 06106

PREPARED BY:

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April 11, 2016

Mr. Robert Klee, Commissioner
Department of Energy & Environmental Protection
State of Connecticut
79 Elm Street
Hartford, Connecticut 06106

Dear Mr. Klee:

Pursuant to your request, we have conducted a feasibility study and related development advisory analysis for the redevelopment of four structures at Seaside State Park on Shore Road in Waterford, Connecticut for lodging use. This report herein represents Phase 1 of our assignment which presents a hotel market study and feasibility analysis.

As in all studies of this type, the estimated results assume competent and efficient marketing and management, and presume no significant change in the competitive hotel market from that as set forth in this report. Since our projections of the market performance of the subject are based on estimations and assumptions which are subject to uncertainty and variation, we do not represent them as results that will actually be achieved; however, our projections have been conscientiously prepared on the basis of information obtained during the course of this assignment and in our capacity as professional analysts in both the real estate and lodging industries.

It is expressly understood that the scope of our study and the report thereon do not include the possible impact of zoning or environmental regulations, licensing requirements, or other restrictions concerning the project except where such matters have been brought to our attention and are disclosed in the report.

The terms of this engagement are such that we have no obligation to revise this report to reflect events or conditions which occur subsequent to the date of completion of our fieldwork; however, we are available to discuss the necessity for revision in view of changes in the economy or market factors which have a material effect on the proposed property. Our research and analyses were undertaken in November and December 2015. This report has been prepared for the State of Connecticut.

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Section I: EXECUTIVE SUMMARY

INTRODUCTION

PKF Consulting|CBRE Hotels ("PKF|CBRE") has been retained by the State of Connecticut to estimate potential market demand and conduct a feasibility study for the development of a proposed hotel to be located in Seaside State Park on Shore Road in Waterford, Connecticut. The proposed hotel will be a redevelopment of the former Seaside Sanatorium, whose buildings have architectural and historical significance.

This report represents the culmination of our market research, analysis, and assessments relative to the market demand for the subject property. The projected market performance and estimated annual operating results presented herein are subject to the following assumptions:

- The proposed subject will be operated by a hotel operator with experience in seasonal destinations.
- The proposed subject will be affiliated with an established brand or soft affiliation.
- The proposed subject site will have all the necessary and required zoning and entitlements to legally support the operation of the proposed hotel as described herein.

METHODOLOGY

In conducting the study, PKF|CBRE completed the following:

- Inspected the subject site and assessed factors such as accessibility, visibility, and location relative to demand generators and amenities;
- Evaluated the potential use of the existing buildings for hotel operations;
- Researched and analyzed the area's economic and demographic trends to determine the impact on future demand in the market;
- Identified the competitive properties within the overall lodging supply and interviewed managers of selected hotels;
- Estimated the anticipated growth in demand for, and supply of, hotel accommodations in the competitive market area and prepared a projection of future lodging demand, market segmentation, and occupancy rate for the identified competitive market;
- Developed a recommendation of appropriate room, food and beverage, meeting, and ancillary amenities and facilities for the proposed hotel;
- Determined the potential positioning of the subject within the competitive market and estimated its penetration into each market segment;
- Prepared ten-year statements of projected revenues, expenses and net operating income before the deduction of interest, amortization, depreciation, and income tax for the proposed subject hotel. The analysis was based primarily on a review of comparable hotels' operating performance in conjunction with our knowledge of hotel operating performance in the local and comparable market areas.
- Estimated the prospective market value of the proposed 100-room hotel, upon completion, utilizing a discounted cash flow analysis;

- Evaluated the financial feasibility of the proposed subject by determining the internal rate of return ("IRR") on the equity investment based on our cash flow projections, construction costs, and assumed financing structure for the proposed hotel.
- Evaluated potential ground lease terms.

Our analysis assumed that the historical structures would be fully remediated and available for build out as hotel facilities. This assumption of a remediated building shell serves to establish a base line for our analysis, though we recognize this may be a discussion point going forward.

SUMMARY OF CONCLUSIONS

Based upon information collected during the fieldwork phase of our study and our subsequent analyses, we are of the opinion that there is sufficient market demand in the Waterford market in general to support an operation such as proposed herein.

Based on an analysis of the sources of demand available to the proposed subject hotel and its estimated competitive position, we have projected the occupancy and average daily rate (in 2015 dollars), for the proposed hotel for the stabilized year of performance, which is projected to be the third year after opening, or year 2022. The proposed hotel is projected to achieve a stabilized occupancy of approximately 60 percent with an average daily rate of $200, stated in 2015 dollars. The assumed opening date of the subject is January 1, 2020. The following table is presented in calendar years.

Estimated Rooms Revenue

Year	Average Daily Rate	Annual Occupancy	Rooms Revenue
2020	$232.00	54%	$4,559,000
2021	239.00	57%	4,947,000
2022	246.00	60%	5,412,000
2023	253.00	60%	5,566,000
2024	261.00	60%	5,758,000
2025	269.00	60%	5,918,000
2026	277.00	60%	6,094,000
2027	285.00	60%	6,270,000
2028	294.00	60%	6,486,000
2029	303.00	60%	6,666,000

Based on our analysis of market demand and the estimated occupancy and average daily rate for the proposed hotel, we have estimated revenues and expenses for the proposed hotel for its first ten years of operation. These estimates result in a "bottom line" of income before fixed charges of interest, depreciation, amortization, and income taxes. The following table presents a summary of the estimated annual operating results of the proposed hotel to be developed at Seaside State Park, presented in calendar years.

Summary of Estimated Annual Operating Results			
Year	Total Revenue	Net Operating Income	Ratio to Total Revenues
2020	$7,748,000	$1,485,000	19%
2021	8,408,000	1,723,000	20%
2022	9,200,000	2,022,000	22%
2023	9,468,000	2,077,000	22%
2024	9,788,000	2,164,000	22%
2025	10,057,000	2,217,000	22%
2026	10,357,000	2,280,000	22%
2027	10,662,000	2,341,000	22%
2028	11,022,000	2,440,000	22%
2029	11,325,000	2,499,000	22%

We evaluated a redevelopment scenario that assumes a portion of the hotel will be new construction. Based on our analysis of the proposed hotel's cash flow projections, estimated construction costs, and assumed financing structure, we have determined that this project is financially feasible under this presented scenario. A summary of the IRR analysis is presented below.

Total Square Footage	Total New Construction (SF)	Total Cost	IRR, Assuming No Ground Rent Payment	Maximum Ground Rent Payment, Assuming [redacted] IRR
80,000	15,000	$21,800,000	18.8%	[redacted]

As calculated, the total IRR of the project, assuming no ground rent payment, is 18.8 percent, within the typical preferred range by investors between [redacted]. Assuming a minimum return of [redacted], required by investors, the maximum ground rent payment is equal to [redacted] of total hotel revenues. The below table presents the maximum ground rent payment as paid by the developer to the State of Connecticut as part of the hotel operation.

Annual Ground Rent Payment	
Year	Maximum Ground Rent [redacted]
2020	[redacted]
2021	[redacted]
2022	[redacted]
2023	[redacted]
2024	[redacted]
2025	[redacted]
2026	[redacted]
2027	[redacted]
2028	[redacted]
2029	[redacted]

We note that there may be steps up in rent as the property ramps up operations, and that the ultimate annual rent may vary with rent percentages below this level in initial years and above this level in latter years.

Section II: AREA REVIEW

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 a real estate property. The subject property is located within Seaside State Park on Shore Road in Waterford, Connecticut. The area review will focus on the influences of the region on the proposed subject property.

STATE OF CONNECTICUT OVERVIEW

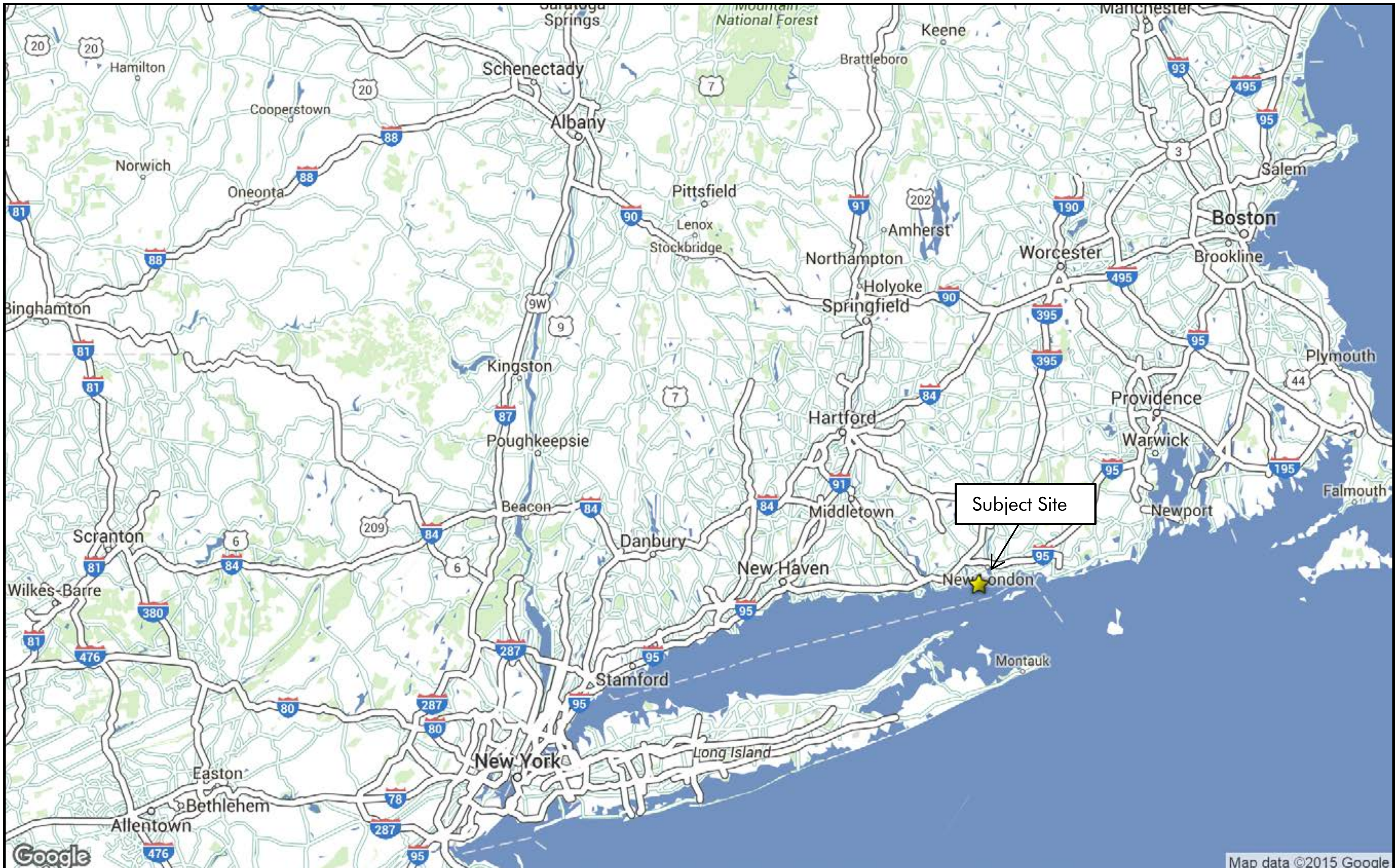
The state of Connecticut is bordered by Long Island to the south, New York to the west, Massachusetts to the north, and Rhode Island to the east. According to the 2014 U.S. Census estimate, Connecticut had a population of 3,596,421, which grew approximately 0.6 percent from the 2010 Census data. The average median household income between 2008 and 2012 (the most recent data year available) for Connecticut was $69,519 based on data collected from the U.S. Census Bureau, approximately 31.1 percent higher than the national average. As of September 2014, the state's unemployment rate was 6.4 percent, higher than the national level of 5.9 percent.

The state of Connecticut's' largest industries are finance and insurance, real estate, and manufacturing. The city of Hartford is nicknamed the "Insurance Capital of the World" as it is home to numerous insurance company headquarters, and is the largest industry in the region. Tourism has also contributed to the state's economy, as Connecticut features a wide array of outdoor activities, historical landmarks, and casinos. Popular destinations include Hartford, Mystic, New London, New Haven, and Norwalk. The Connecticut Convention Center, located in Hartford boasts state-of-art architecture and technology that draw large meetings and events to Connecticut from around the world.

NEW LONDON COUNTY OVERVIEW

New London County is located in the southeastern corner of Connecticut, home to approximately 273,954 people according the 2015 United States Census estimate. The county was one of the four original counties in Connecticut, established in 1666. New London County comprises the Norwich-New London metropolitan statistical area. As there is no county government nor county seat in the state of Connecticut, all towns in New London County are responsible for all local government activities, including fire and rescue and snow removal. Cities in New London County include New London and Norwich, while other well-known towns include Groton, Lebanon, Lisbon, and Stonington.

A regional map is presented on the following page.



Regional Map

Economic and Demographic Overview

The following section presents an economic and demographic overview of Connecticut and New London County. The data presented in the report is from CBRE's FastReport database, which sources their data from Neilson.

Population

The state of Connecticut has experienced a slight increase in population over the past 5 years with approximately 0.8 percent growth from 2010 to 2015, while the population of New London County has remained relatively constant over the same five-year period. By 2020, both the county and state are anticipated to experience slight increases in population, at 0.2 percent and 0.9 percent, respectively. These population changes are less than the growth that the United States is projected to achieve by 2020.

A summary of the comparative population trends is presented in the following table. We have also included future demographic projections for trending purposes.

Population Trends

	2000	2010	% Change	2015 Estimate	% Change	2020 Projected	% Change
New London County	259,088	274,055	5.8%	273,954	0.0%	274,587	0.2%
Connecticut	3,405,569	3,574,097	4.9%	3,602,625	0.8%	3,633,553	0.9%
United States	281,421,942	308,745,538	9.7%	319,459,991	3.5%	330,689,365	3.5%
Source: Neilson							

Median Household Income

Trends in median household incomes reflect the overall economic stability and level of affluence of an area. Residents of New London County and the state of Connecticut are in general more affluent than the national average. The median household income figures of the county and state in 2015 are estimated to be $67,173 and $68,953, both well above the United States average of $53,229. The state's median household income is projected to increase by 6.2 percent by 2020, the same as the median household income growth of the nation, while the median household income of New London County is anticipated to increase by 5.5 percent over the same period.

A summary of the comparative median household income figures is presented in the following table.

Median Household Income

	2000	2015 Estimate	% Change	2020 Projected	% Change
New London County	50,742	67,173	32.4%	70,900	5.5%
Connecticut	54,186	68,953	27.3%	73,246	6.2%
United States	42,339	53,229	25.7%	56,513	6.2%
Source: Neilson					

Employment

The New London County economy centers around trade, manufacturing, entertainment and recreational services, and educational and medical institutions. The top four sectors of health care, manufacturing, trade, and entertainment/recreation account for approximately half of private employment in New London County.

A breakdown of countywide private employment by sector is summarized in the following table.

2015 Average Industry Employment by Sector New London County, Connecticut		
2015 Employed Population	**136,531**	
Accommodation or Food Services	9,656	7.07%
Admin, Support or Waste Mgmt.	4,110	3.01%
Agriculture, Forestry, Fishing, Hunting, Mining	827	0.61%
Construction	5,846	4.28%
Educational Services	13,555	9.93%
Entertainment or Recreation	14,864	10.89%
Finance, Insurance or Real Estate	5,660	4.15%
Health Care or Social Assistance	19,944	14.61%
Information	1,895	1.39%
Mgmt of Companies	21	0.02%
Oth Svcs, Not Pub Admin	4,658	3.41%
Prof/Sci/Tech/Admin	7,323	5.36%
Public Administration	6,630	4.86%
Retail Trade	15,205	11.14%
Total Manufacturing	17,941	13.14%
Transport/Warehse/Utils	5,907	4.33%
Wholesale Trade	2,489	1.82%
Source: Neilson		

The ten largest employers in New London County are listed below. Of note, three of the largest employers are in the tourism industries, while two are medical institutions, evidence of its importance to the citywide economy.

Top Ten Largest Employers
New London County

Company	Town	Industry	Number of Employees
Foxwoods Resort Casino	Ledyard	Casinos	10,000
Mohegan Sun	Montville	Casinos	5,000 - 9,999
Pfizer Inc	Groton	Drug-Manufacturers	1,000 - 4,999
Naval Submarine Base	Groton	Military Bases	1,000 - 4,999
Lawrence & Memorial Hospital	New London	Hospitals	1,000 - 4,999
William W Backus Hospital	Norwich	Hospitals	1,000 - 4,999
Millstone Power Station	Waterford	Power Plants	1,000 - 4,999
Connecticut College	New London	Universities & Colleges	500 - 999
Mystic Seaport Museum	Groton	Museums	501 - 999
York Correctional Institution	East Lyme	State Govt-Correctional Institutions	502 - 999

Source: Connecticut Department of Labor

Pfizer, a research institute in Groton, Connecticut, is a notable demand generator for hotel roomnights in the area. It is the largest of Pfizer's research facilities and is the only location that focuses on clinical trials and drug safety. In addition, Pfizer also runs and owns a clinical research unit in New Haven. In early 2013, Pfizer cut 900 jobs at the Groton location, which contributed to lowered occupancy in the competitive set in that year and the following year. However, the Groton facility added back 350 jobs in 2014. Additionally, in July 2015, Pfizer announced that it is expanding and developing its vaccine portfolio, of which the Groton facility is involved with drug-testing and late stage development, again strengthening their presence in the region. In November 2015, it was announced that Pfizer would merge with Allergan to create the world's largest drugmaker and would be legally headquartered in Ireland. However, the area is optimistic that due to the lack of overlap between the two companies, the Groton research facility will not be severely affected by the merger, although it is too soon to know the consequences of the merger on the future of the Groton location.

Recent trends in relevant employment statistics and the CAAG (Compound Average Annual Growth Rate) between 2011 and 2014 are summarized in the following table.

Labor Market Trends

	2011	2012	2013	2014	CAAG	Sep-14	Sep-15
New London County							
Labor Force (000's)	151.7	147.1	144.2	143.3	-1.9%	143.7	136.7
Employed (000's)	138.6	134.7	132.8	134.7	-0.9%	135.2	129.6
Unemployment Rate	8.6%	8.5%	7.9%	6.0%	-	6.0%	5.2%
State of Connecticut							
Labor Force (000's)	1,918	1,879	1,860	1,891	-0.5%	1,878	1,893
Employed (000's)	1,749	1,722	1,715	1,783	0.6%	1,768	1,797
Unemployment Rate	8.8%	8.4%	7.8%	5.7%	-	5.9%	5.1%
United States							
Labor Force (000's)	153,617	154,975	155,389	155,922	0.5%	155,903	156,607
Employed (000's)	139,869	142,469	143,929	146,305	1.5%	146,941	148,980
Unemployment Rate	8.9%	8.1%	7.4%	6.2%	-	5.7%	4.9%

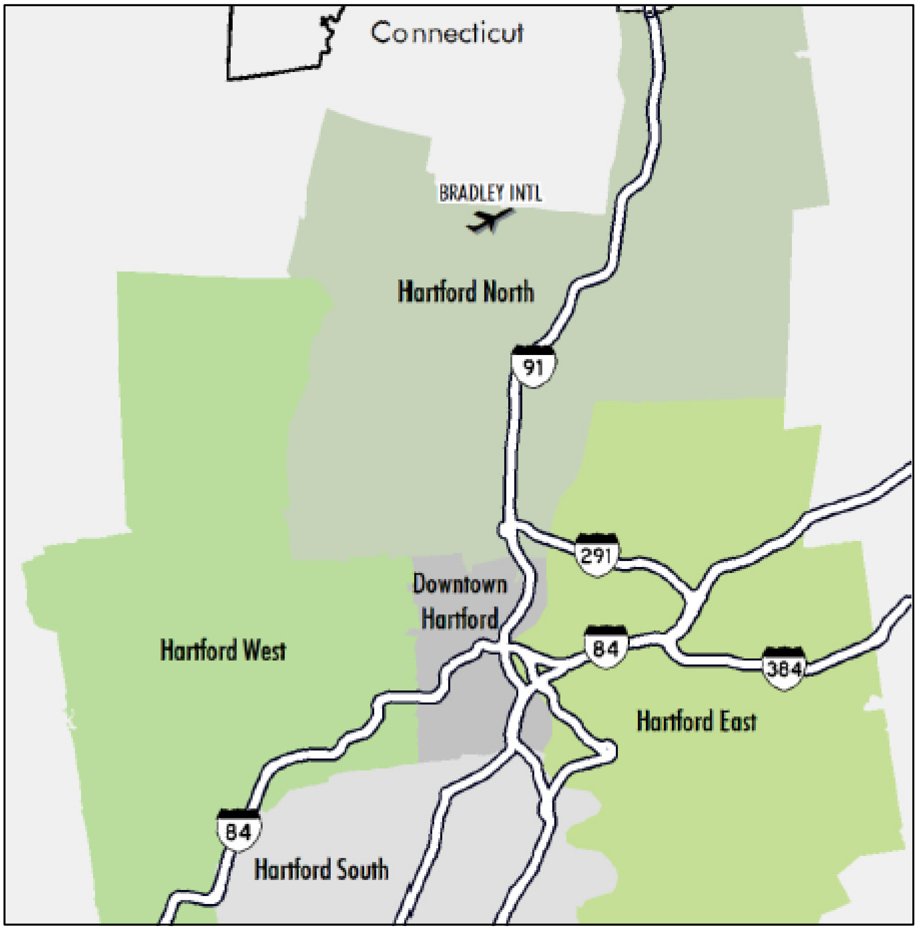
Source: Connecticut Department of Labor; Bureau of Labor Statistics

While the respective labor force for both New London County and the State of Connecticut have experienced continual decreases since 2011, the unemployment rate for each the county and state has decreased each year and has been lower than the average unemployment rate of the nation, which as of September 2015 was 4.9 percent. The state of Connecticut saw their employed population grow while their actual labor force decrease, achieving an unemployment rate of 5.7 percent in 2014. According to September statistics, the County has seen recent trends continue as both their labor force and unemployment rate have decreased . Year over year, the state saw an increase of their labor force as well as the number of employed. While the unemployment rate for the county and state are below prior year levels, each is higher than the national average for September.

Office Market Activity

The office market represents a source of demand for lodging accommodations and a review of recent trends is meaningful. An overview of the local office market conditions is an important aspect of our analysis as the Hartford office market represents a source of group demand for the subject hotel as the proposed property can hold corporate meetings, retreats, and events. In addition, the strength of the Hartford office market gives an insight to the overall strength of the nearby area's economy. The following is taken from CBRE New England's Hartford Office MarketView for Q3 2015.

A map of the Downtown Hartford and various Harford submarkets as described in the office market overview is presented below.

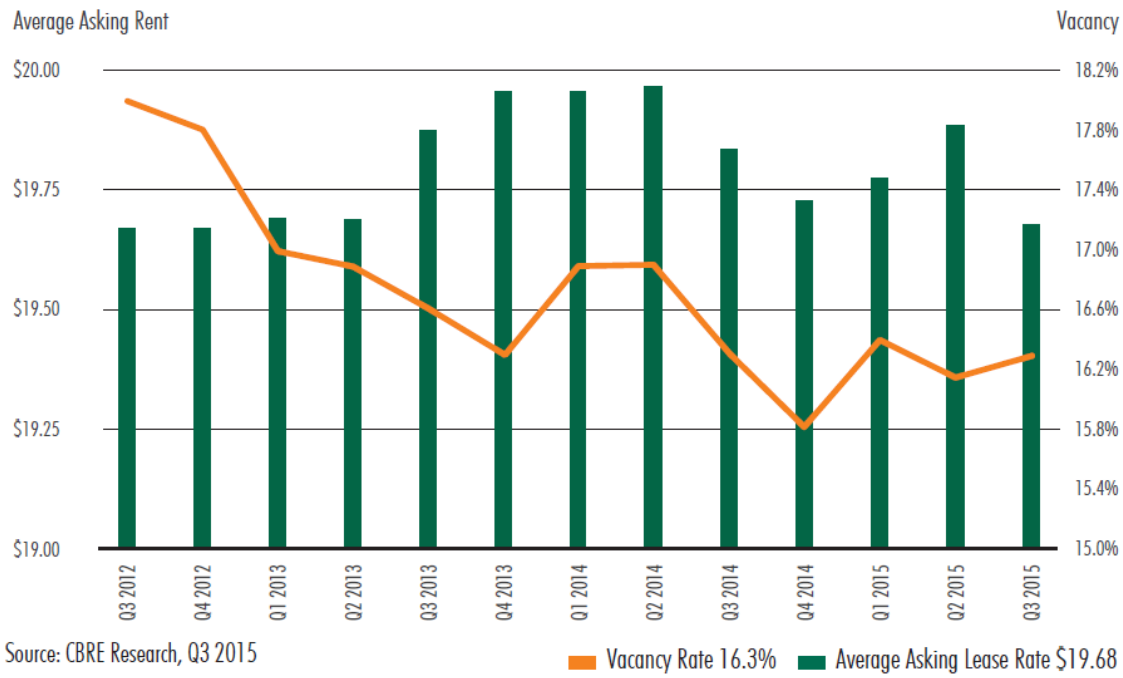


The Greater Hartford Office market posted 115,421 square feet of negative absorption in the third quarter of 2015, with a majority of the leasing velocity in the form of mid-size transactions combined with large pockets of space being returned to the inventory. Looking ahead, large leases are anticipated in 2016 and 2017 for both the CBD and suburbs. Net absorption in the office market is defined as difference between tenant move-ins and move-outs over a period of time. Thus, the Greater Hartford Office market had more square feet vacated than they did leased.

The Suburban Office market experienced the majority of the leasing activity as 21,202 square feet was absorbed. The South continued to be the cornerstone of growth in the Suburban Office market. Conversely, the CBD experienced 130,267 square feet of negative absorption. Due to the giveback of space, rental rates in the Greater Hartford market decreased $0.21 quarter-over quarter to $19.68.

The U.S. and Connecticut unemployment rates continued to drop in Q3 2015, reaching 5.1 percent and 5.3 percent in September, respectively. The Connecticut unemployment rate continues to decline, down 110 basis points year-over-year, reaching its lowest point since Q1 2008. Falling unemployment rates will likely lead to aggressive competition among companies to acquire and retain valuable talent, potentially leading to higher wages.

Figure 1: Office Vacancy vs. Average Asking Rents



Source: CBRE Research, Q3 2015

Downtown

The CBD experienced 130,267 square feet of negative absorption in the third quarter of 2015 due to a lack of blockbuster deals and a significant amount of space returning to the market because of corporate consolidations and re-strategizing footprints, particularly in the education, healthcare and service industries. Traveler's giveback of 31,500 square feet at 10 State House Square, Back9Network's recent closure at 1 American Row and other pockets of shakeups caused an uptick in both availability and vacancy, to 19.3 percent and 17.1 percent, respectively.

While vacancy rates in the CBD increased 150 basis points quarter-over-quarter, two significant transactions occurred. MRM Group, a patient safety and risk management firm, recommitted to the City of Hartford relocating from 21 Oak Street into 13,000 square feet at 20 Church Street. In addition, the YMCA of Greater Hartford's relocation to State House Square will more than double its current footprint at Hartford 21. The organization's 51,580 square-foot facility at 90 State House Square will include a new premium fitness center with a lap pool, whirlpool and various cardio areas, as well as a 9,000 square-foot office facility at 50 State House Square. Along with these refurbished amenities, the relocation and upgrade of the YMCA restores the confidence of city residents and downtown professionals alike, with its continued presence in the city.

Despite the continued cool-off in leasing activity, year-to-date investment sales have prevailed in the CBD and Q3 2015 was no exception. Chicago-based Equity Commonwealth, formerly Commonwealth REIT, sold CityPlace I, a 884,669 square-foot, 38-story Class A office tower located in the heart of downtown to Paradigm Properties of Boston for $113.3 million ($127.73 per square foot). The asset is 98 percent leased. Commonwealth paid $99.0 million for the office tower in 2012. Paradigm, a full-service real estate investment and management firm, specializes in institutional grade transactions through multiple markets. Paradigm's other commercial holdings are spread throughout Eastern Massachusetts, Greater Philadelphia, Michigan and Ohio. Meanwhile, the sale process for One Financial Plaza is progressing with an expected close by year-end. Year-to-date, four major office towers in the CBD have traded hands totaling over $184 million in transactions.

Suburban

The Greater Hartford Suburban Office market continued to stabilize in the third quarter, posting 21,200 square feet of positive absorption, mainly driven by small- to mid-sized deals. This pushed availability down 30 basis points to 17.3 percent, while vacancy dropped 60 basis points quarter-over-quarter to a respectable 16.6 percent. Year-to-date, the overall Suburban market has experienced negative movement and roughly 28,000 square feet will need to be absorbed to keep the market flat for the year.

While Hartford's North market remained flat quarter-over-quarter, the North was responsible for the largest lease transaction during Q3 2015. Meridian renewed 33,000 square feet at 1095 Day Hill Road in Windsor. Another notable transaction in Windsor was Milliman's 6,400 square-foot expansion at 80 Lamberton Road, bringing the total footprint to 24,000 square feet.

Vacancy levels in the East market increased 70 basis points during the third quarter from 19.4 percent, due to a handful of spaces being returned to the market. Symmetry Partners, an investment advisory firm, will give back 14,000 square feet at 628 Hebron Avenue in Glastonbury in June 2016. Symmetry will relocate to 151 National Drive in Glastonbury, which the company purchased in February 2015.

Hartford's South market was responsible for the majority of the suburban leasing activity in the third quarter, accounting for 44,000 square feet of positive absorption, its highest level of absorption since Q4 2013. Notable transactions include Clarus's 17,300 square-foot deal at 500 Enterprise Drive and Tallan Inc.'s 7,000 square-foot expansion at 175 Capital Boulevard, both in Rocky Hill.

The West experienced a slight uptick in negative absorption, however, Class A spaces in West Hartford continue to thrive, boasting the lowest vacancy rate of all the suburbs at 5.1 percent, dropping 100 basis points year-over-year. A notable transaction in the West was Towers Watson's two-year renewal of 21,400 square feet at 175 Powder Forest Drive in Simsbury. In July, Towers Watson and Willis Group Holdings merged in an $18-billion deal, bringing together complementary businesses to create a global advisory and brokerage firm. Willis Holdings currently has an office in CityPlace I in the CBD.

The following tables present transactions of note in the Downtown and Suburban markets, as well as a general overview of market statistics.

Figure 2: Transactions of Note

Tenant	Address	Sq. Ft.	Submarket	Type
Meridian	1095 Day Hill, Windsor	33,000	Hartford North	Renewal
Towers Watson	175 Powder Forest Drive, Simsbury	21,300	Hartford West	Renewal
Wireless Zone	795 Brook Street, Rocky Hill	18,300	Hartford South	New
Clarus	500 Enterprise Drive, Rocky Hill	17,300	Hartford South	New
MRM Group, LLC	20 Church Street, Hartford	13,000	CBD	New

Source: CBRE Research, Q3 2015.

Figure 3: Market Statistics

Market	Bldgs	Total Sq. Ft.	Available (%)	Vacant (%)	Sublease (%)	Quarter Net Absorption	YTD Net Absorption	Avg Asking Rent $ (Gross)
Hartford CBD	39	7,793,658	19.3	17.1	1.9	(130,267)	(313,231)	21.88
Hartford Peripheral	39	1,763,705	10.4	10.1	0.4	(6,356)	(3,530)	17.42
Downtown Hartford	78	9,557,363	17.7	15.8	1.6	(136,623)	(316,761)	21.36
Total Hartford North	56	3,059,574	20.8	20.8	1.5	(572)	(88,406)	16.10
Total Hartford West	109	5,279,455	18.0	16.3	1.5	(10,727)	(9,355)	19.66
Total Hartford South	89	3,13,770	10.4	10.4	0.2	44,151	70,460	18.22
Total Hartford East	67	3,273,159	20.2	19.5	0.4	(11,650)	(565)	20.09
Suburban Hartford Office	321	14,925,958	17.3	16.6	1.0	21,202	(27,866)	18.67
Overall Hartford Office	399	24,483,321	17.5	16.3	1.2	(115,421)	(344,627)	19.68

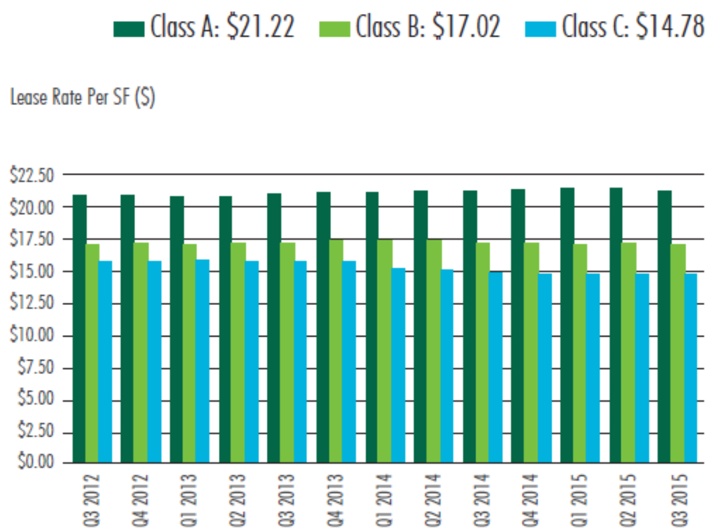
Source: CBRE Research, Q3 2015.

Average Asking Rents

Overall, the majority of the rental rates in the Greater Hartford submarkets essentially remained flat during Q3 2015. In the CBD, average asking lease rates were $21.88 per square foot, gross, a $0.13 increase quarter-over-quarter. Additionally, rates for CBD Class A space averaged $23.21 per square foot, increasing $1.00 year-over-year. In the Suburban office markets, aggregate average asking lease rates slipped to $18.67 per square foot, a $0.43 decline. Combined, the overall Hartford office market's average asking lease rates decreased roughly $0.21 quarter-over-quarter to $19.68 per square foot. Due to the recent cool-off in leasing activity combined with inconsistencies in rental rates and concession packages from landlords such as free rent have continued for both small and large requirements. For the near-term, tenants will continue to benefit from the increase in available space inventory as well as attractive space improvement packages from landlords.

The chart below presents the average asking lease rates from Q3 2012 to Q3 2015.

Figure 4: Average Asking Lease Rates

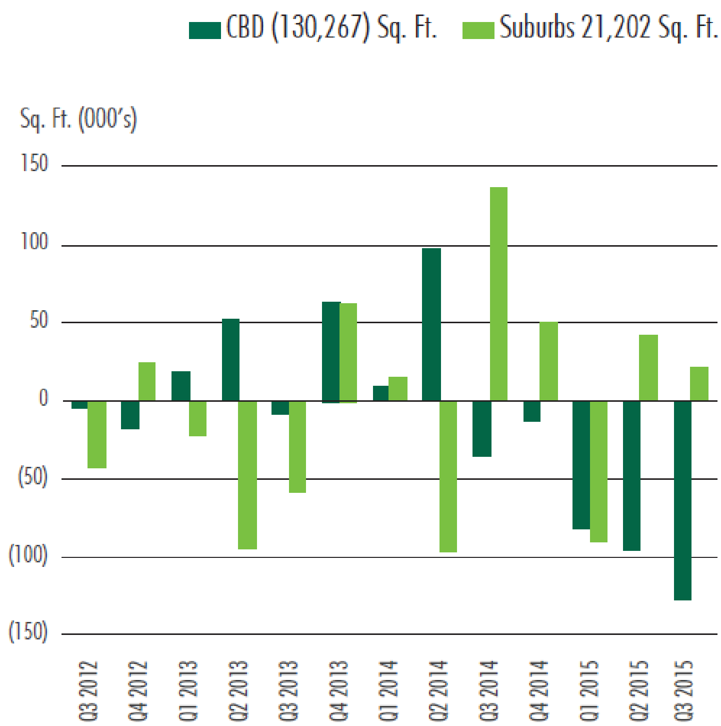


Source: CBRE Research, Q3 2015.

Net Absorption

Overall, the CBD office market experienced 130,000 square feet of negative absorption during Q3 2015. Year-to-date, the CBD has netted 313,000 square feet of negative absorption. Most of the new supply can be attributed to medium and large blocks of space coming to market across the region due to corporate consolidation and re-strategizing footprints. The majority of new leasing activity this quarter occurred in the South suburban submarket with one transaction accounted for 18,300 square feet of leasing activity, as Wireless Zone signed a lease at 795 Brook Street in Rocky Hill. Another deal of note in the South was MIRA's 10,150 square-foot lease at 200 Corporate Place, also in Rocky Hill. Overall, 44,000 square feet was removed from the available inventory in the South market. The East and West submarkets experienced 11,600, and 10,700 square feet of negative absorption, respectively, while the North remained relatively flat. For both downtown and suburban markets, the majority of leasing activity continues to be in the form of renewals at shorter terms and small- to mid-sized deals. As noted in previous quarters, 2016 and 2017 will be critical for large office users seeking to ink new deals in the CBD and suburbs. Tenants pursuing space this year will continue to have an array of options.

Figure 5: Net Absorption



Source: CBRE Research, Q3 2015.

Transportation

New London County is served by several major highways including Interstate 95 (I-95), a north-south highway which runs, in general, east-west, from Port Chester, New York to Hopkinton, Rhode Island. The highway runs through New London and continues east past Mystic to the Rhode Island state line. Other major interstate and state routes include Interstate 395, which connects New London County to Worcester, Massachusetts and CT-2 and CT-9, which connects New London County to the Connecticut capital of Hartford.

Both Amtrak and the high-speed Acela Express train service runs from New London Union Station to major cities on the east coast including Boston, Providence, New York, Philadelphia, Baltimore, and Washington, DC. The Connecticut Department of Transportation also operates the Shore Line East, which originates in New London and makes stops in several Connecticut cities and towns such as Westbrook, New Haven, Bridgeport, and Stamford.

Primary air transportation to New London County is by T.F. Green and Bradley International Airport, which are both within 75 minutes driving time. T.F. Green Memorial State Airport is located in Warwick, Rhode Island. T.F. Green offers year-round nonstop service to Atlanta, Baltimore, Charlotte, Chicago, Detroit, Fort Lauderdale, Newark, Orlando, Philadelphia, Praia (Cape Verde), Tampa, and Washington DC. Seasonal service is provided to Block Island, Fort Myers, Frankfurt, Martha's Vineyard, Nantucket, and West Palm Beach.

Bradley International Airport is located in Windsor Locks, Connecticut. The airport is branded as the "Gateway to New England" and is home to the New England Air Museum, and North America's only Flight Simulation conference, FlightSimCon. Bradley International Airport provides year-round non-stop service to Atlanta, Baltimore, Chicago, Charlotte, Cincinnati, Cleveland, Dallas/Fort Worth, Denver, Detroit, Fort Lauderdale, Houston, Las Vegas, Miami, Minneapolis, Montreal, Newark, Orlando, Philadelphia, Raleigh/Durham, San Juan, Tampa, Toronto, Washington DC, and West Palm Beach. In addition, nonstop service to Dublin, Ireland is to commence September 2016. Seasonal service from Bradley International Airport is provided to Cancun, Fort Meyers, and Las Vegas.

In addition to the two major airports mentioned above, air transportation to the area is also provided by the Groton-New London Airport, which offers charter services through the onsite fixed-based operator, and the Tweed New Haven Regional Airport, which provides service to Philadelphia. There are talks for the Tweed airport to expand, as the airport is soliciting data in order to quantify the demand for air service with the hopes of soliciting additional flights and carriers.

Tourism and Visitation

Trends in tourism, visitation and convention activity offer an indication of the vitality of the Connecticut lodging market. Mystic, Connecticut is a major New England tourist destination that offers visitors a vibrant and charming downtown and plenty of recreational opportunities. The Mystic Seaport is the world's largest maritime museum and the Mystic Aquarium is known for its whale tours and rehabilitation and research. The Mystic Aquarium receives on average 700,000 visitors per year, making it one of largest attractions in Connecticut. The Mystic area overall is one of the most popular destinations in the state of Connecticut.

Fifteen minutes from Mystic are the casinos, another major attraction in the state of Connecticut. Mohegan Sun and Foxwoods offer visitors a wide array of evening activities, including fine dining, events and concerts, and gambling. Many hotels in the area provide transportation to the casinos so that guests are able to enjoy the opportunities available at the casinos.

Mystic exhibits a high degree of seasonality in demand. The length of each season is a function of weather and summer vacation season. The high season occurs in July and August, when the weather is most desirable and the hotels exhibit the highest occupancies and rates. There is more travel by individuals rather than groups during this period. The shoulder seasons occur in June and between September and October. In June, there is ramp up to the high season as schools are out and families begin traveling for the summer vacation, as well as an increase in group business. In September and October, group demand exceeds transient demand. The low season occurs in the winter and early spring months from November through May due to the cold temperatures, followed by the shoulder season.

TOWN OF WATERFORD OVERVIEW

Incorporated in 1801, the town of Waterford is located in New London County, Connecticut, approximately 110 miles southwest of Boston, Massachusetts and approximately 122 miles northeast from New York City. Geographically, the town contains a total area of 44.6 square miles, of which 32.8 square miles are land and the rest is water. It is bordered by the Niantic River to the west.

According to the United States Census Bureau, the estimated population in 2013 (most recent data available) was 13,975. This figure increased by 4.9 percent from the 2010 census figure collected by the U.S. Census Bureau of 13,320. Between 2009 and 2013, the median household income was $107,705 and median value of owner occupied housing was $540,400.

Waterford is located in the southeastern portion of Connecticut, and is bordered to the south by the Long Island Sound. Major roadways within the town include Interstate 95, U.S. Route 395, as well as State Route 1. The town of Waterford is considered a convenient meeting point as it is approximately half the distance between New York City and Boston Massachusetts. The closest airport to Waterford is Bradley International Airport.

Waterford separated from the town of New London in 1801 and was historically a large agricultural town known for its sheep farms and granite. Today, Waterford is home to many retail chains and the Crystal Mall, which contains 800,000 square feet of gross leasable area. Major tenants include Forever 21, Gap, H&M, Hollister, JC Penny, and Macy's. Other attractions in the town of Waterford include Mago Point, the Connecticut College Arboretum, Eugene O'Neill Theater, Harkness Memorial State Park, Waterford Beach Park, and the subject site Seaside State Park.

Overall, the town of Waterford benefits from a convenient location off of I-95 and between Boston, Massachusetts and New York City. The future outlook of Waterford appears to be stable with expected growth opportunities.

CONCLUSION

Connecticut, and the New London County area, has been affected by economic fluctuations – both positive and negative – over the last several years. Overall, the area is tied notably to tourism and leisure demand, which impacts the lodging market in the area. From the lodging market perspective, as discussed in the following, the economy appears to have recovered from the past fluctuations and is returning to a stabilization point.

Section III: PROPERTY DESCRIPTION

LOCATION

The proposed hotel is planned to be located within Seaside State Park in Waterford, Connecticut. Currently improved on the site is the former Seaside Sanatorium, which is expected to house all or most of the hotel operation. The total acreage of Seaside State Park is 32 acres, although the state of Connecticut will retain ownership of the land, and the hotel will be a leasehold operation with the State retaining the leased fee interest. Seaside State Park is located approximately a half-hour drive from Mystic, Connecticut, Connecticut's top leisure destination. Other demand generators in the area include Harkness Memorial State Park, Connecticut College, Pfizer, and General Dynamics Electric Boat. Harkness Memorial State Park, on average, draws approximately 250,000 visitors a year, while Rocky Neck State Park, located 22 minutes west of the subject, attracts approximately an average of 650,000 visitors a year. The site itself overlooks the Long Island Sound and is located in a quiet residential area. Due to the proposed hotel's location proximate to residential homes and a quiet local neighborhood, the hotel design and operation will be sensitive to the needs of these residents.

In addition, Harkness Memorial State Park, located approximately 1.4 miles from the proposed subject, is a popular wedding venue without hotel support. They host approximately 80 weddings through the months of May through December, and guests at these weddings have no close-by options for lodging. Thus, the proposed subject has the opportunity to capture these guests. Although Harkness Memorial State Park is a popular wedding venue, we believe that due to the high demand for wedding venues during Harkness' operating period, the proposed subject and will not impede on the number of weddings at Harkness, and vice versa.

A map of the subject location is presented below.

Access and Visibility

The subject site is located within Seaside State Park, and is approximately 32 acres. The subject site benefits from a convenient location, as it is approximately halfway between New York City and Boston, Massachusetts. Travelers coming from Boston can take I-93 southbound and continue onto I-95 south, then exit at Exit 82 for CT-85/Broad Street toward Waterford, take CT-213 N /Great Neck Road, and finally turn onto Shore Road. Travelers coming from New York City can take I-95 northbound, then exit at Exit 75 to merge onto US-1 North/Boston Post Road toward Waterford, take CT-213 N /Great Neck Road, and finally turn onto Shore Road.

The subject site is located at a convenient location alongside Route 3 and minutes from I-95. The combination of the good visibility and a convenient location near the highway is advantageous to the subject.

FACILITY OVERVIEW

The former Seaside Sanatorium is located at Seaside State Park in Waterford, Connecticut. The site is approximately 32 acres and faces the Long Island Sound. The Seaside Sanatorium operated on the site from 1934 until 1958, known for its treatment of tuberculosis, and then it was used as a geriatric hospital from 1959 to 1961. The buildings were then operated as a regional center for the mentally disabled until it was closed in 1996 and has since remained unused and has not been maintained. We understand significant remediation is required before the buildings can be repurposed as a hotel.

The architect of the Main Hospital Building and Nurses' Residence was Cass Gilbert, a world-renowned architect who also designed buildings such as the Woolworth Building in New York, the Supreme Court Building in Washington D.C., and the Minnesota State Capital building in Saint Paul. These buildings at Seaside State Park are constructed in the Tudor Revival Style, and were placed on the National Register of Historic Places in 1995.

There are four total buildings on the site that can be potentially redeveloped as a lodging facility: the Main Hospital Building, the Nurses' Residence, the Superintendent's Residence, and the Duplex House. As these buildings were constructed in the 1930s and were abandoned in 1996, these buildings are in major disrepair and currently contain lead paint, asbestos, and other environmental hazards. In order to redevelop these buildings as lodging facilities, these buildings will have to undertake a substantial cleanup and rehabilitation effort. Below presents the approximate opinion of probable construction costs for each building as estimated in the Seaside Sanatorium Exterior Envelope Condition Assessment. It should be noted that the gross square feet includes the basement in all buildings, as well as the tower additions in the Main Hospital Building.

• Main Hospital Building:	$6,850,000	71,850 GSF
• Nurses' Residence:	$1,661,000	20,280 GSF
• Superintendent's Residence:	$808,000	7,185 GSF
• Duplex House:	$447,000	8,320 GSF
Total	**$9,766,000**	**107,635 GSF**

Source: WJE

It is important to note that these cost estimates do not include construction manager fees, upcharges, or abatement of hazardous materials, and that the end result of these efforts will be remediated building shells that will still require significant capital expense to build out. For the purpose of this analysis, we have assumed these monies will be spent prior to any hotel developer beginning their build-out of the building shells, and that the buildings will be delivered cured of any hazards.

Main Hospital Building

The Main Hospital building was constructed in 1934 and includes several subsequent alterations and additions. The Building is H-shaped with a Kitchen Wing projecting from the north elevation. The central spine measures 140 feet in the east/west direction and 60 feet north to south. The wings at the east and west ends are each 50 feet in the east/west direction and 105 feet north to south. The building is four stories high and has varying structure heights. The original design has stepped wings with open terraces that extend towards the Long Island Sounds. Additions to the original structure include two circular brick towers and the enclosure of the second and third floor terraces. It is assumed that these additions and alterations will be torn down as part of the redevelopment plan.

Nurses' Residence

The Nurses' Residence is a three story structure with a rectangular plan, measuring 204 feet in the east/west direction and 32 feet north to south. The building was constructed in 1934. The ceiling heights on the first, second, and third floor 9"2'.

Superintendent's Residence

The superintendent's Residence is asymmetrically designed. The house measures 72 feet in the east/west direction. In the north/south direction, the residence is 20 feet at the west end, 40 feet in the center section, and 68 feet in the east end, which includes a garage. It is two stories high with an attic, accessible from a folding ladder. The building was constructed in 1936.

Duplex House

The Duplex House is a two-family residential structure that was originally used to house physicians working at the sanatorium. It is generally rectangular in plan measuring 98 feet in the east/west direction and 30 feet north to south. It is two stories high with a walk up attic. The building was constructed in 1936.

Project Recommendations

Our overall recommendation for the redevelopment of the Seaside Sanatorium is to redevelop the four buildings as a high-end hotel with related facilities and amenities. Our recommendations for each building are as follows:

- Main Hospital Building – The main hospital building's layout is supportive of hotel operations, subject to any ceiling height and load bearing wall restrictions. Resort and waterfront hotels are typically oriented towards the water in a U shape in order to create a central courtyard and maximize viewing corridors while also maximizing building efficiency. We find this building has potential to host food and beverage, guest services, and recreational amenities on the lower floors and outdoor areas, while the upper rooms may lend themselves to guestrooms and spa.
- Nurses' Residence – The structure is set back from the waterfront and is somewhat too narrow to support double loaded guestrooms. We envision a combination of meeting space and guest support space in this building, though it may potentially be utilized as a guestroom building if a single loaded corridor is deemed feasible. We find that this setup

would result in lower efficiency factor, however, and would suggest any potential developer evaluate this building for both rooms and public space usage.
- Superintendent's Building and Duplex House – These two smaller structures could be higher-end multiple bedroom units or additional guestrooms. We also suggest evaluation of less intense uses such as boardroom and facilities support, due to their proximate locations relative to neighboring residents.

These preliminary thoughts as to potential use serve as recommendations, though we recognize and suggest that the potential specific uses may be ultimately be determined by the specific hotel developer's/operator's vision for the project.

Guestrooms

We recommend the proposed subject to include 100 guestrooms and suites. As discussed further in the report, the hotels in the competitive set have a range of guestrooms between 32 and 285 rooms, while the competitive market average is 134 guestrooms. We believe 100 guestrooms to be appropriate for the subject hotel as this provides a critical mass at the hotel that will populate the hotel's ancillary amenities. While the restaurants, meeting space, and spa are expected to be visited by local patrons, guests at the hotel are expected to drive revenues at these facilities, and therefore there must be a critical mass from which the hotel can draw. We do not believe that a higher guest count is appropriate due to the proximity of residential neighbors and the high seasonality of demand, and a fewer number of guestrooms would not provide the hotel with enough of a critical mass to populate the facilities, though there likely is a range of slightly smaller to slightly larger room count that could be appropriate under the right facilities program. To warrant a significantly fewer number of rooms, the proposed subject would have to be an ultra-luxury product that charges extremely high rates. In addition, we believe that 100 rooms is attractive from a developer standpoint, as a 100-room hotel can benefit from certain economies of scale.

We also recommend a combination of king and queen/queen rooms, and the availability of connecting rooms. We suggest the proposed hotel feature several one-bedroom and two-bedroom suites to accommodate large families and groups. The availability of suites is especially important for weddings, as brides and grooms look for suites to get ready before the celebration.

As the property will be positioned as a high-end boutique hotel, we recommend the guestrooms to have upscale finishes and amenities. This may include upscale décor, spacious rooms, high grade wood, variety of artwork, comfort-enhanced mattress, and high thread count linens. We recommend the bathrooms to feature stone floors and oversized counter space. In addition, we recommend that the proposed hotel, for each guestroom, offers luxury linens, bathrobes and slippers, coffeemaker and tea service, complimentary wireless Internet, flat-screen television with premium channels, hairdryer, iron and ironing board, and luxury bath products.

The proposed hotel is also anticipated to feature environmentally-friendly practices and sustainability features, and will be operated as a green facility. Such practices may include a towel reuse program, high efficiency lighting, HVAC, and other mechanical equipment, local food sourcing, low emitting materials, etc.

Food and Beverage

We recommend the hotel to feature at least two different dining options, including a full-service upscale restaurant/lounge, and a casual eatery serving lunch and dinner. We also recommend that at least one of these establishments offer seasonal outdoor dining. These eateries should be open to the public, and the more formal restaurant should have its own separate entrance. During the low season, the local residents provide a stable source of demand, and the proposed hotel should market their restaurant and event space to the local community.

Meeting Space

The typical range for full-service hotels for the amount meeting space is between 65 and 75 square feet per guestroom. Using these metrics, this suggests that the proposed hotel offer between 6,500 and 7,500 square feet. We recommend that the hotel offer approximately 6,500 square feet of meeting space, or 65 square feet of meeting space per room. The average square feet of meeting space in the competitive market is approximately 7,300 square feet. The facility lends itself well to meetings and events due to its water views and plentiful natural light. Furthermore, there are significant existing improvements that can be utilized for these purposes. The site also presents an opportunity to hold outdoor events along the Long Island Sound.

As discussed further in the report, the property is expected to draw groups of varying purposes and size. Therefore, having flexible meeting space is important to accommodate these groups and their respective needs. The hotel is expected to host small corporate groups related to executive meetings, corporate retreats, training sessions, and small conferences. The hotel is also expected to draw a large amount of social groups, such as weddings, family reunions and other celebrations, which also require function space. Due to a range in anticipated group size, we recommend that the meeting space be divisible into separate rooms to accommodate multiple groups and/or group needs. Having flexible meeting space is important when drawing groups to the hotel, and meeting and event space is most often designed to be flexible to meet today's variety of demand types and needs. Specifically, we recommended that the hotel offer space that could accommodate 250 people for events and meetings. This would require an undivided space of approximately 3,000 square feet. To offer meeting planners flexibility, this room should be able to be seamlessly divided into smaller sections.

It is important that the proposed hotel provide sufficient support space and allow for breakout rooms, including rooms for storage. In addition, these rooms should have separate ingress and egress so guests can directly enter the meeting area without walking through a separate meeting room. Also important is sufficient pre-function space so that meeting participants can mingle beforehand and have an area where guests can check their coats and register, if necessary.

Service, food and beverage, and amenities are important aspects to the hotel, especially when it comes to meetings. The proposed hotel must have the kitchen space and capacity to provide for banquets for various size meetings or groups. The proposed hotel should also provide those attending meetings with a variety of snack and beverage options, and have a menu available for full breakfast, lunch, and dinner options for meetings and events.

In addition, the proposed hotel should offer state-of-the-art technology for their meeting and event facilities. It is important that the meeting space have both wired and wireless Internet connections and be equipped with HVAC, AV equipment, LCD projector, microphone, portable PA system, a portable stage, television, and video camera. Additionally, videoconferencing and specialty lighting should also be made available.

Other Facilities and Amenities

For a successful operation, the proposed hotel will have to attract year-round visitation to the hotel and not just rely on demand from the summer season. In order to be attractive to potential guests at all times of the year, we recommend the hotel to offer a variety of amenities in the facilities. Not only do these facilities allow for local visitation as well, but at the projected positioning of the subject hotel, guests are expecting these amenities to be available. Below are our recommendations for the proposed hotel, although we recognize that the exact programming is determined by the developer.

We recommend the hotel to have a fitness center and a movement studio where guests can partake in a variety of fitness classes. We also recommend the subject to offer an indoor pool and whirlpool. As part of this fitness facility, we recommend the hotel to include a spa with four treatment rooms, totaling approximately 4,000 square feet. As part of the spa, the hotel should offer separate men and women locker rooms and a relaxation room.

In addition to these onsite facilities, we recommend the proposed hotel to partner with various recreational outlets in the area so that guests can access a variety of activities, such as golf and fishing. We also recommend the hotel offer a shuttle service to Waterford so guests can visit the various restaurants, shopping centers, beaches, and other attractions such as the Eugene O'Neil Theater Center, and Mago Point. Shuttle service should also be available to Mystic so that guests can enjoy the shopping and recreational activities in the area.

Branding

Based on our research of brand performance and market trends, we recommend that a new hotel in this market be positioned as a luxury or upper upscale lodging facility and be branded or affiliated with one of the major national hotel companies. Examples of hotel brands/affiliations that may be available include Luxury Collection or Tribute Portfolio (Starwood), Curio or Canopy (Hilton), Hyatt Centric (Hyatt), and Autograph Collection (Marriott). Other affiliations include Preferred Hotels and Resorts and Destination Hotels and Resorts. While this will assist in the subject's distribution power, we find that a softer brand rather than a primary flagship brand such as Marriott, Westin, and Hilton would be more appropriate for the type of lodging facility envisioned here. Furthermore, there are independent hotel companies that through their regional footprints are able to deliver a supporting marketing and operational structure, and would likely also be an appropriate fit for this opportunity.

As the subject buildings are located on a state park, we have researched several park lodges in the Northeast and Western United States. The majority of these park lodges are located on either State or National Parks of substantial acreage, much greater than the 32 acres of the subject site. These parks generate their own overnight visitation due to their vast acreage, which often lends itself to a variety of activities including skiing, hiking, biking, camping, boating, rock climbing, ice fishing, etc. While we believe Seaside State Park to be an important feature of the subject site, we do not expect this park to be the primary reason of visitation. Thus, we do not recommend a park lodge product, but instead recommend the hotel to integrate the park and its available activities into its operation. Though we do not recommend the hotel to be exclusively a park-lodge, there is an opportunity to design the interior of the subject in a lodge-style manner.

Management

We have assumed the proposed subject will be managed by an experienced hotel operator, and our projected revenue and expenses of the proposed subject have taken this into consideration. As such, we have deducted a management fee of three percent, which is industry standard.

Site and Buildings

As previously mentioned, the proposed subject is planned to be a redevelopment of the Seaside Sanatorium at Seaside State Park in Waterford, Connecticut. The following pages contain photographs of the subject site, as well as photographs of the existing buildings' exteriors and interiors.

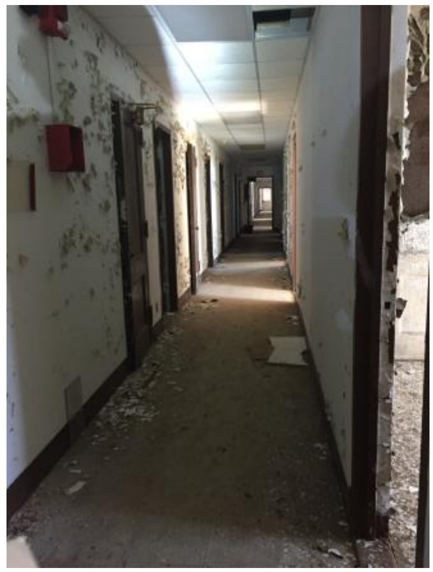
It is important to note that while these are our recommendations, the actual hotel programming and plans are dependent on the chosen developer.

PHOTOGRAPHS OF SITE AND BUILDINGS

Facing Long Island Sound

Facing Long Island Sound

Nurses' Residence



Nurses' Residence Hallway

PHOTOGRAPHS OF SITE AND BUILDINGS

Nurses' Residence Room

Main Hospital Building

Main Hospital Building

Main Hospital Building

Main Hospital Building

Superintendent's Residence

Section IV: HOTEL MARKET ANALYSIS

INTRODUCTION

As a hotel includes a going-concern business as well as real property, the success of a lodging facility is a direct function of the supply and demand for the hotel rooms within its market area. Accordingly, an analysis of the local area's hotel market is a key component in determining the viability and estimated performance of a proposed lodging property. Based upon our analysis of the market, the subject will primarily compete with regional hotels and resorts located in the Connecticut and Newport, Rhode Island region. These properties primarily cater to leisure and group demand, and some commercial demand as well. Below is a table defining terms widely used in the hotel industry.

Occupancy: The number of total occupied rooms divided by the number of total available rooms

Average Daily Rate (ADR): The total rooms revenue of the hotel divided by the total number of occupied rooms

Revenue per Available Room (RevPAR): The total rooms revenue of the hotel divided by the total number of available rooms

The following section provides an analysis of the competitive market in which the subject is expected to compete.

NATIONAL HOTEL MARKET

According to the December 2015 to February 2016 edition (most recent issued) of *Hotel Horizons®, National Edition* produced by PKF Hospitality Research|CBRE Hotels (PKF-HR), the demand for lodging accommodations in the U.S. continues to grow at a strong pace. PKF-HR|CBRE Hotels is forecasting a 3.0 percent increase in the number of occupied room nights during 2015. This marks the six consecutive year of demand growth in excess of the long-run average annual rate of 1.8 percent. With demand growth exceeding the change in supply, PKF-HR is projecting an all-time record level of occupancy of 65.6% for 2015.

Record breaking performance is expected to continue for the foreseeable future. At the national level, supply growth is not expected to exceed its long-run average pace of 1.7 percent until 2016. Therefore, demand growth above 2.0 percent will keep occupancy levels above 66% through 2017. With limited pressure from new competition, annual ADR gains will exceed 5.0% through 2018.

The good news flows through to the bottom line as well. With ADR gains contributing 80% of the RevPAR growth, PKF-HR is forecasting net operating income increases greater than 10% in both 2015 and 2016. By 2016, profits measured on a per-available- room basis should exceed pre-recession levels.

The following table summarizes PKF-HR's current forecast for the national hotel industry through 2019.

National Forecast Summary

YEAR	OCC	Δ OCC	ADR	Δ ADR	REVPAR	Δ REVPAR
2010	57.6%	5.5%	$98.02	-0.2%	$56.42	5.4%
2011	60.0%	4.2%	$101.72	3.8%	$61.01	8.1%
2012	61.4%	2.3%	$105.99	4.2%	$65.07	6.6%
2013	62.2%	1.4%	$110.01	3.8%	$68.45	5.2%
2014	64.4%	3.5%	$114.97	4.5%	$74.04	8.2%
2015F	65.6%	1.9%	$120.34	4.7%	$78.96	6.7%
2016F	66.0%	0.6%	$126.93	5.5%	$83.81	6.1%
2017F	66.0%	0.0%	$134.28	5.8%	$88.68	5.8%
2018F	65.6%	-0.7%	$141.49	5.4%	$92.78	4.6%
2019F	64.4%	-1.8%	$146.23	3.4%	$94.21	1.5%

Source: PKF Hospitality Research | CBRE Hotels, STR Inc., Q3 2015

While these national perspectives are relevant and of great interest in terms of overall direction, more localized perspectives are more important and germane.

HARTFORD HOTEL MARKET

Hartford, Connecticut is the most proximate major hotel market to Waterford and is tracked by PKF|CBRE's *Hotel Horizons®* forecast. It is helpful to analyze the Hartford hotel market when looking at the competitive market of the proposed subject, as Hartford is a major hotel market with a sizeable critical mass. This analysis can be used to gauge the strength of the overall region's hotel market and identify any area lodging trends. This is followed by a more detailed analysis of the local competitive market.

According to the December 2015 to February 2016 edition (most recent issued) of *Hotel Horizons®*, *Hartford Edition*, by year-end 2015, Hartford hotels are forecast to see a RevPAR increase of 7.8 percent. This is the result of an estimated increase in occupancy of 4.5 percent and a 3.2 percent gain in average daily room rates (ADR). The 7.8 percent boost in Hartford RevPAR is better than the national projection of a 6.7 percent increase.

Leading the way in 2015 RevPAR growth is the lower-priced segment of Hartford. The properties in this category are forecast to achieve a 6.3 percent gain in ADR and see a 5.1 percent increase in occupancy, resulting in an 11.7 percent RevPAR increase. Upper-priced hotels are projected to experience an ADR growth rate of 1.2 percent, along with a 3.6 percent gain in occupancy, resulting in a 4.8 percent RevPAR increase.

Looking towards 2016, Hartford RevPAR is expected to grow 4.0 percent. This is less than the rate of growth in 2015. Unlike 2015, prospects for RevPAR growth in the upper-priced segment (positive 4.2 percent) are better than in the lower-priced segment (positive 3.7 percent). Hartford market occupancy levels are expected to range from 59.5 percent to 61.3 percent during the 5-year forecast period.

The following table summarizes PKF-HR's current forecast for the Hartford hotel industry through 2019.

Hartford Forecast Summary

YEAR	OCC	Δ OCC	ADR	Δ ADR	REVPAR	Δ REVPAR
2010	52.7%	7.1%	$93.83	-1.5%	$49.49	5.5%
2011	58.5%	11.0%	$95.88	2.2%	$56.11	13.4%
2012	56.3%	-3.7%	$98.83	3.1%	$55.68	-0.8%
2013	56.9%	1.0%	$101.26	2.5%	$57.64	3.5%
2014	57.9%	1.8%	$103.98	2.7%	$60.23	4.5%
2015F	60.5%	4.5%	$107.31	3.2%	$64.92	7.8%
2016F	61.0%	0.9%	$110.66	3.1%	$67.53	4.0%
2017F	61.3%	0.4%	$116.01	4.8%	$71.09	5.3%
2018F	60.9%	-0.5%	$120.98	4.3%	$73.73	3.7%
2019F	59.5%	-2.4%	$124.13	2.6%	$73.82	0.1%

Source: PKF Hospitality Research | CBRE Hotels, STR Inc., Q3 2015

COMPETITIVE SUPPLY

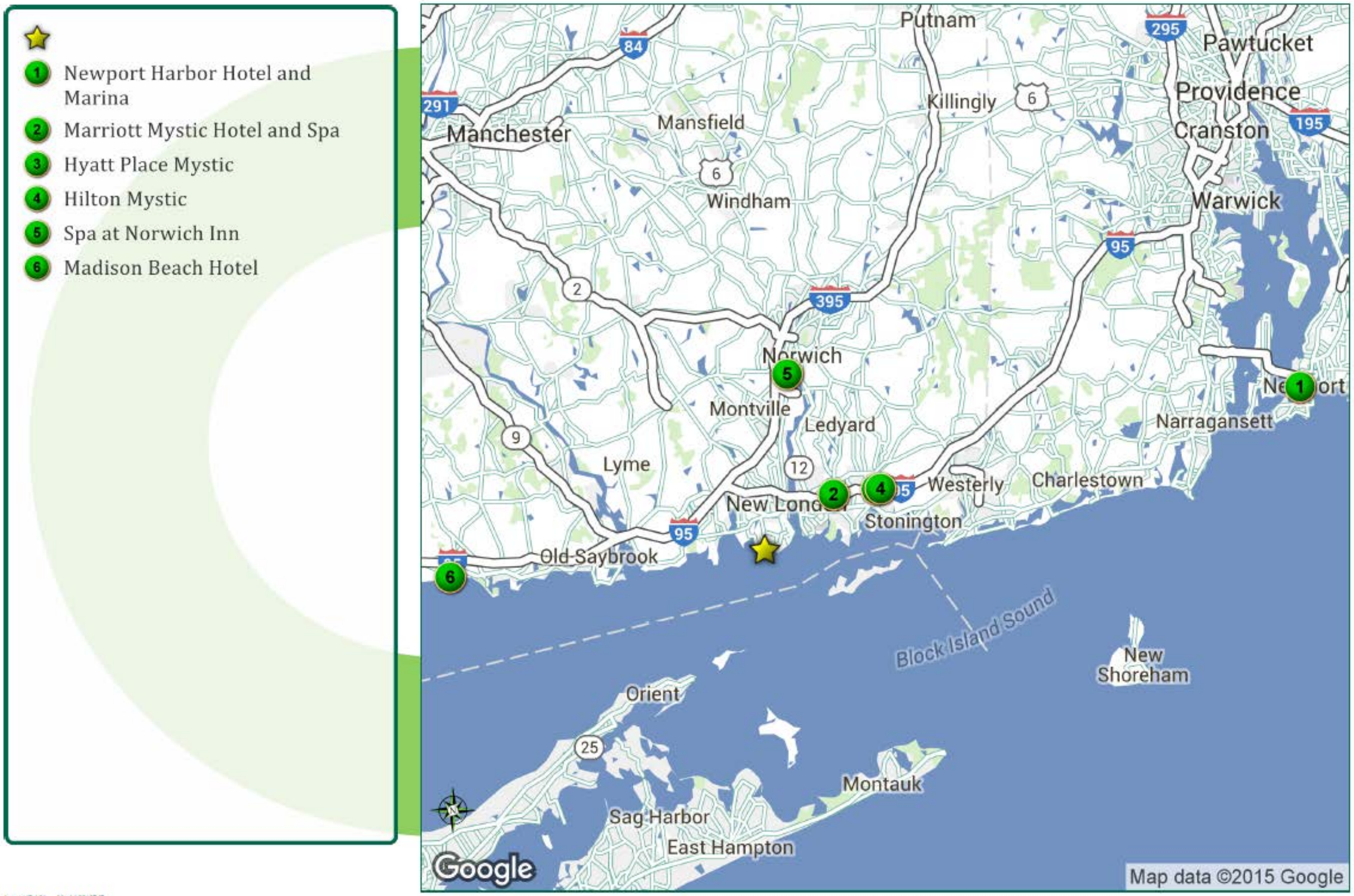
To identify the competitive market for the proposed hotel, we have analyzed the regional hotel and resort market, and we have selected six upscale and upper-upscale full-service and select-service properties located in Connecticut and Rhode Island. The selection of the competitive supply was based on each property's location, number of guestrooms, brand, size of meeting space, support facilities and amenities, and market orientation relative to the proposed subject. In addition to our detailed analysis of this set, we also utilized data points of regional and national lodging operations to evaluate the subject opportunity.

The chart below presents the competitive set for the proposed subject, and a comparison of their facilities and amenities. It should be noted that although the Madison Beach Hotel opened in 2012, it only became affiliated with the Curio Collection in June of 2015. It should be noted that Saybrook Point Inn and Spa is located 34 minutes from the proposed subject site, and while we have toured the property and incorporated it into our analysis, they do not participate in STR, and therefore they have been excluded from the competitive supply.

A map indicating the competitive hotels' locations, a description of each of the competitive hotels, and a discussion of the potential additions to the competitive supply are presented on the subsequent pages.

Competitive Set Profile								
			Meeting Space (sq. ft.)					
	Rooms No.	Year Built	Total	Sq. ft. per room	F&B Outlet	Fitness Center	Pool	Spa
Primary Competition								
Newport Harbor Hotel & Marina	133	1969	3,986	30	Yes	No	Indoor	No
Marriott Mystic Hotel & Spa	285	2001	20,297	71	Yes	Yes	Indoor	Red Door Spa
Hyatt Place Mystic	79	1999	752	10	No	Yes	Outdoor	No
Hilton Mystic	182	1986	6,000	33	Yes	Yes	Indoor	No
The Spa @ Norwich Inn	95	1929	6,000	63	Yes	Yes	Indoor	Yes
Curio Collection Madison Beach Hotel	32	1900	7,030	220	Yes	Yes	No	Yes
Competitive Set Average	**134**	**1964**	**7,344**	**55**	**N/A**	**N/A**	**N/A**	**N/A**

Source: PKF Consulting USA; individual property management and website



Competitive Set Map

Newport Harbor Hotel & Marina

Location:	Newport, Rhode Island
Year Built:	1969
Number of Keys:	133
Amenities:	One food and beverage outlet, approximately 4,000 square feet of meeting space, heated saltwater indoor pool, men and women's saunas and changing rooms, discounted passes at nearby fitness center, marina on site, dry cleaning and laundry services
In-room amenities:	Individual climate control, Keurig coffeemaker, iron and ironing board, robes, work desk, dual-line telephone, complimentary wireless Internet, HD cable television, Blu-ray players
Additional Information:	In 2014, the Newport Harbor Hotel achieved an occupancy slightly below the competitive market average, and had an average daily rate above the competitive market average.

Marriott Mystic Hotel & Spa

Location:	Groton, Connecticut
Year Built:	2001
Number of Keys:	285
Amenities:	One food and beverage outlet, Starbucks, approximately 20,000 square feet of meeting space, Red Door Spa by Elizabeth Arden, steam rooms, indoor pool and jacuzzi, concierge lounge, laundry and dry cleaning services, shuttle (for fee) within 5 miles and to Mohegan Sun
In-room amenities:	Complimentary wireless Internet, coffeemaker and tea service, alarm clock, iron and ironing board, mini refrigerator, bathrobe, CD player, color television, cordless phone, work desk
Additional Information:	In 2014, the Mystic Marriott Hotel and Spa achieved an occupancy above the competitive market average, and an average daily rate below the competitive market average.

Hyatt Place Mystic

Location:	Mystic, Connecticut
Year Built:	1999
Number of Keys:	79
Amenities:	Complimentary hot breakfast, 24/7 Guest Kitchen, grab-and-go station, complimentary parking, complimentary shuttle service within 5 miles, heated outdoor pool, 24-hour fitness center, 24-hour business center and remote printing
In-room amenities:	Complimentary wireless Internet, 42" flat panel television, refrigerator, coffeemaker, separate workspace
Additional Information:	In 2014, the Hyatt Place Mystic achieved an occupancy above the competitive market average, and an average daily rate below the competitive market average.

Hilton Mystic

Location:	Mystic, Connecticut
Year Built:	1986
Number of Keys:	182
Amenities:	One food and beverage outlet, approximately 6,000 square feet of meeting space, 24-hour pantry market, gift shop, laundry valet/service, local area transportation, room service, fitness center, indoor pool
In-room amenities:	Complimentary wireless Internet, coffeemaker, clock radio with MP3 connection, work desk and chair, 37-inch television with HD channels, iron and ironing board, hairdryer, dual-line telephone
Additional Information:	The Hilton Mystic recently completed a full renovation of its hotel, including all guestrooms, bathrooms, meeting space, and public areas. While historically the hotel's occupancy has been above the competitive market average, in 2014 occupancy was below the competitive market average due to its renovation. Rate has been historically below the competitive market average.

The Spa @ Norwich Inn

Location:	Norwich, Connecticut
Year Built:	1929
Number of Keys:	95
Amenities:	Two food and beverage outlets, approximately 6,000 square foot of meeting space, spa with 37 treatment rooms, steam room, sauna, hot tub, salon, indoor pool, relaxation room
In-room amenities:	Complimentary wireless Internet, iron and ironing board, plush bathrobes, spa amenities in bathroom, flat screen television, work desk and chair
Additional Information:	The hotels sits on 42 acres and is owned by the Mashantucket Pequot Tribal Nation. In 2000, the tribe completed a $15 million renovation that doubled the size of the Spa, making it the largest on the East Coast at project completion. This renovation project also included the redecoration of the property's 100 guest rooms, in both the inn and the adjacent villas. The property was also renovated in 2014. The hotel is a member of Historic Hotels of America.

Curio Collection Madison Beach Hotel

Location:	Madison, Connecticut
Year Built:	2012
Number of Keys:	32
Amenities:	One food and beverage outlet, approximately 7,000 square feet of meeting space, fitness center, yoga room, complimentary beach chairs, towels, and umbrellas, laundry/valet service
In-room amenities:	Complimentary wireless Internet, furnished patio with ocean views, marble bathroom, work desk, 37-inch HDTV, coffeemaker, alarm clock, iron and ironing board, refrigerator
Additional Information:	The hotel opened in 2012 after in 2009, the hold historic Madison Beach Hotel was torn down. In June 2015, the hotel became affiliated with Hilton's Curio collection and has thus seen a large increase in bookings.

Additions to Supply

There are a number of hotel projects in the overall Hartford market at various stages of the development process, including those that are in the very preliminary stages of discussion. However, not all of these will come to fruition, and furthermore, not all of them will have more than a nominal impact on the properties in the selected competitive set, or the proposed subject, in particular. There are various hotel project currently planned in the vicinity of the subject site and have described the project below.

- **Lighthouse Inn** – This property is located at 48 Guthrie Place in New London, Connecticut. Overlooking the Long Island Sounds, the inn was built in 1902 and closed in 2008 in debt, and was then bought by the City of New London at auction in 2013. The city selected Michael Datillo, principal of Water's Edge Resort and Spa, as the redeveloper of the inn in November 2015. The proposal contains a large residential component, but also the construction/renovation of lodging rooms. Datillo's proposal states that the best use of the property is predominately residential with limited to no food and beverage operation. The neighboring residential properties, limited number of guestrooms, remote location, and distance to the beach would make it challenging to have long-term successful traditional inn operation.

- **Fort Trumbull Development Site** – There are potential hotel developments that would be built at the Fort Trumbull development site in New London. The Municipal Development Plan for Fort Trumbull, approved in 2000, calls for office space, retail space, and hotel use, however due to the recession, development has slowed. Completed projects at Fort Trumbull include 1 Chelsea Street, an 88,000-square-foot complex whose tenants include the U.S. Coast Guard Research and Development Center, the U.S. Coast Guard Marine Safety Laboratory, the International Ice Patrol, Alion Science & Technology and ABS Consulting Group (American Bureau of Shipping), as well as 194 Howard Street, a 50,000-square-foot medical office facility. Future developments include apartment units, up to 140,000 square feet of office space, and a mixed-use development at Parcel 4A, including the possibility of boutique office and lodging space, parking and a destination restaurant. There is also a second hotel development on site that could accommodate up to 250 rooms and would include a waterside restaurant and meeting/event space.

Because of the heavy residential component of the Lighthouse Inn, we believe this development to be only indirectly competitive to the proposed subject, and thus did not include this into additions to supply. In addition, because the hotel developments at Fort Trumbull are not planned, financed, nor have a known developer, we have not included these hotels into the additions to competitive supply.

HISTORICAL MARKET CONDITIONS

Demand for hotel rooms is categorized in three ways:

- Demonstrated Demand: the demand already captured at competitive hotels;
- Induced Demand: the demand that does not presently seek accommodations in the competitive market, but could be persuaded to do so through marketing efforts, room rates, facilities, services and amenities.
- Unsatisfied Demand: the demand that seeks accommodations in the market but is not satisfied due to one of a number of factors: sell-outs during peak season; lack of a particular type of accommodation; lack of meeting space; or high room rates.

Historical Performance of the Competitive Supply

The following table represents the historical market performance for the competitive market from years 2010 through 2014, and year-to-date through October 2015. RevPAR is defined as Revenue per Available Room.

Historical 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
2010	284,335	N/A	172,152	N/A	60.5%	$143.84	N/A	$87.09	N/A
2011	284,121	-0.1%	174,503	1.4%	61.4%	147.14	2.3%	90.37	3.8%
2012	291,902	2.7%	188,224	7.9%	64.5%	146.27	-0.6%	94.32	4.4%
2013	296,380	1.5%	192,293	2.2%	64.9%	146.87	0.4%	95.29	1.0%
2014	296,380	0.0%	187,828	-2.3%	63.4%	153.46	4.5%	97.25	2.1%
CAAG	1.0%		2.2%			1.6%		2.8%	
YTD 10/2014	246,848	N/A	161,592	N/A	65.5%	$158.28	N/A	$103.61	N/A
YTD 10/2015	245,297	-0.6%	163,984	1.5%	66.9%	165.39	4.5%	110.57	6.7%

Source: PKF Consulting|CBRE Hotels

Supply increased in 2012 and in 2013 due to the opening of the Madison Beach Hotel in May of 2012. Year to date compared to the same period last year, supply has decreased 0.6 percent as the Spa at Norwich Inn took out five rooms from inventory in January 2015.

During the five year period from 2010 to 2014, occupied rooms have increased at a compound annual average of 2.2 percent. Market occupancy increased 1.4 percent in 2011. In 2012, occupancy increased by 7.9 percent to end the year at 64.5 percent, amidst a slight ADR decrease. Occupancy then increased in 2013 by 2.2 percent, reaching a five-year high overall market occupancy of 64.9 percent. Demonstrated by the fact that occupied rooms grew at a greater pace than supply during these years, the Madison Beach Hotel was quickly absorbed into the market. Occupancy decreased in 2014 by 2.3 percent as a result of slowed corporate demand. Year-to-date as of October, market occupied rooms increased by 1.5 percent over the same period the prior year.

Between 2010 and 2014, average daily rate grew at a compound aggregate annual average of 1.6 percent, attributable to a 2.3 percent increase in 2011, a 0.6 percent decrease in 2012, a slight increase in 2013 of 0.4 percent, and an increase of 4.5 percent in 2014. As of June 2015, year-to-date average daily rate has increased by 4.5 percent over year-to-date October 2014 levels.

RevPAR for the competitive market grew by 2.8 percent on an average annual basis between 2010 and 2014, driven by the slightly greater increase in occupancy. As of October 2015, year-to-date RevPAR levels have increased by 6.7 percent over the prior year, driven growth in average daily rate.

Competitive Market Mix of Demand

As noted in the following table, the current mix of demand is spread among group, leisure and individual corporate room nights. Transient room nights accounted for 72 percent of demand in 2014 within the competitive market, while group demand accounted for 28 percent of demand of the competitive market. Each market segment is discussed in the following paragraphs, followed by a summary table with our estimated growth in demand by market segment.

Competitive Market
2014 Mix of Demand

Market Segment	Room Nights	Ratio
Transient	134,500	72%
Group	53,300	28%
Total	188,000	100%

Source: PKF Consulting USA

The ***transient segment*** is the largest segment of demand in the competitive market in terms of demonstrated room nights. In 2014, this segment accounted for 134,500 room nights of demonstrated demand. This is equivalent to 72 percent of the demonstrated demand in the market. This segment consists of both leisure and corporate individual travelers. Leisure guests are primarily from the Greater Boston and New York City areas who travel to enjoy vacation getaways with their spouse, children, and extended families. This segment is highly seasonal, in that the busiest months are from mid-June through August and during other periods of school break during the year. During periods of decline in corporate and group demand, transient leisure demand serves as a backbone.

Individual business travelers in the transient segment stay at hotels during the course of their business engagements. This segment is generated primarily from the variety of companies and organizations that are located in the nearby area. Companies that are demand generators for the greater Mystic hotel market include Pfizer, General Dynamics Electric Boat, Deloitte, Accenture, and the U.S. Navy.

The ***group segment*** accounted for 53,300 room nights, or 28 percent of the demonstrated demand within the competitive market in 2014. The group segment is typically looking for meeting space to hold social events or conduct meetings, retreats, conferences, or events. In this competitive set, a substantial portion of group demand relates to destination driven social groups, such as weddings, reunions, alumni groups, tours, and other social functions. Group functions primarily occur during the shoulder months of the May through early June, and September through October, as the weather is still desirable but rates are slightly less than that during the summer season.

PROJECTED MARKET CONDITIONS

Based on the historical market trends and our industry experience in comparable markets, we estimate that the ***transient market segment*** will increase by 2.5 percent in 2015, 2.0 percent in 2016, and then 1.0 percent for the remainder of the projection period. Additionally, we have induced 5,000 transient room nights into the competitive market in 2020 as a result of the opening of the proposed hotel.

The subject hotel is anticipated to cater to a combination of existing demand within the market while also inducing a portion of its demand via the introduction of a new waterfront lodging facility that is dynamic and can cater to both transient and group needs.

Based on the historical market trends and our industry experience in comparable markets, we anticipate that the ***group market segment*** will increase by 2.5 percent in the competitive market in 2015. We anticipate an increase of 2.0 percent in 2016 and then 1 percent for the remainder of the projection period. Additionally, we have induced 2,000 group room nights into the competitive market in 2020 as a result of the opening of the proposed hotel.

Summary of Demand Growth and Market Occupancies

The competitive market has seen a range of occupancy between 2010 and 2014, from 60.5 percent in 2010 to 64.9 percent in 2013. Based on interviews with management of the competitive properties and their information on current bookings, as well as an assessment of overall area economics, we expect that the competitive set will end 2015 at 65 percent occupancy. In 2016, occupancy is expected to increase to 66 percent, and in 2017 through 2019, the competitive market is anticipated to reach an occupancy of 67 percent. As new supply enters the market, occupancy is expected to decrease to 63 percent in 2019, and then increase to 64 percent in 2020, at which is expected to stabilize.

Based upon the historical performance of the market and due to the cyclical seasonal patterns and weekday versus weekend trends in the market, coupled with anticipated additions to supply, it is unlikely that the competitive market will exceed the 64 percent level over the long term. Therefore, we have projected the competitive market to stabilize at 64 percent occupancy in 2021, one year after the opening year of the proposed hotel.

With ongoing projected growth in demand and the competitive market performing at a stabilized level of occupancy, the result is unsatisfied demand that cannot be accommodated within the competitive supply. This demand spills out of the competitive market and is accommodated by properties not within the competitive set as a result of the demand compression. The projected future growth in supply and demand is presented in the table on the following page.

Proposed Hotel Seaside

Competitive Market

Estimated Future Growth in Lodging Supply and Demand

2014 - 2024

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ROOMS SUPPLY	812										
Additions/(Deletions) to Supply											
Proposed Hotel Seaside							100				
Cumulative Rooms Supply	812	812	812	812	812	812	912	912	912	912	912
Total Annual Rooms Supply	296,380	296,380	296,380	296,380	296,380	296,380	332,880	332,880	332,880	332,880	332,880
Growth Over the Prior Year	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	12.3%	0.0%	0.0%	0.0%	0.0%
DEMONSTRATED DEMAND IN BASE YR											
Transient	134,544	72%									
Group	53,284	28%									
TOTAL DEMONSTRATED DEMAND	187,828	100%									
INDUCED/(UNSATISFIED) DEMAND											
Transient		0	0	0	0	0	5,000	0	0	0	0
Group		0	0	0	0	0	2,000	0	0	0	0
TOTAL INDUCED/(UNSATISFIED) DEMAND		0	0	0	0	0	7,000	0	0	0	0
GROWTH RATES											
Transient		2.5%	2.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Group		2.5%	2.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
PROJECTED DEMAND											
Transient											
Demonstrated	134,544	137,908	140,666	142,072	143,493	144,928	146,377	152,891	154,420	155,964	157,524
Induced/(Unsatisfied)	0	0	0	0	(1,251)	(2,686)	3,830	(299)	(1,828)	(3,373)	(4,932)
Total	134,500	137,900	140,700	142,100	142,200	142,200	150,200	152,600	152,600	152,600	152,600
Growth Over Prior Year	N/A	2.5%	2.0%	1.0%	0.1%	0.0%	5.6%	1.6%	0.0%	0.0%	0.0%
Group											
Demonstrated	53,284	54,616	55,708	56,265	56,828	57,396	57,970	60,570	61,176	61,788	62,405
Induced/(Unsatisfied)	0	0	0	0	(496)	(1,064)	1,537	(119)	(724)	(1,336)	(1,954)
Total	53,300	54,600	55,700	56,300	56,300	56,300	59,500	60,500	60,500	60,500	60,500
Growth Over Prior Year	N/A	2.4%	2.0%	1.1%	0.0%	0.0%	5.7%	1.7%	0.0%	0.0%	0.0%
Total Market Demand	187,800	192,500	196,400	198,400	198,500	198,500	209,700	213,100	213,100	213,100	213,100
Growth Over Prior Year	N/A	2.5%	2.0%	1.0%	0.1%	0.0%	5.6%	1.6%	0.0%	0.0%	0.0%
Market Occupancy	**63.4%**	**65%**	**66%**	**67%**	**67%**	**67%**	**63%**	**64%**	**64%**	**64%**	**64%**

Source: PKF Consulting USA

Average Daily Rate of the Competitive Market

We have also estimated the average daily rate of the competitive market based on our analysis of the historical rates achieved, interviews with management of the competitive properties, the new supply entering the market, and anticipated continued strength in economic conditions.

Average daily rate in the competitive market experienced a 4.5 percent increase in 2014. We have estimated a 4.3 increase in average daily rate in 2015, resulting in a market average daily rate of $160. Beginning in 2016, we have projected further growth in average daily rate for the competitive market consistent with long-term levels of inflation, or approximately 3.0 percent per annum.

Based on the foregoing analysis, the following table summarizes our estimates of future supply, accommodated demand, occupancy, average daily rate, and RevPAR for the competitive market from 2015 to 2025.

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
2015	296,380	0.0%	192,500	2.5%	65%	$160.00	4.3%	$103.92	6.9%
2016	296,380	0.0%	196,400	2.0%	66%	$165.00	3.1%	109.34	5.2%
2017	296,380	0.0%	198,400	1.0%	67%	$170.00	3.0%	113.80	4.1%
2018	296,380	0.0%	198,500	0.1%	67%	$175.00	2.9%	117.21	3.0%
2019	296,380	0.0%	198,500	0.0%	67%	$180.00	2.9%	120.55	2.9%
2020	332,880	12.3%	209,700	5.6%	63%	$190.00	5.7%	119.69	-0.7%
2021	332,880	0.0%	213,100	1.6%	64%	$196.00	2.8%	125.47	4.8%
2022	332,880	0.0%	213,100	0.0%	64%	$202.00	3.3%	129.31	3.1%
2023	332,880	0.0%	213,100	0.0%	64%	$208.00	3.0%	133.16	3.0%
2024	332,880	0.0%	213,100	0.0%	64%	$214.00	3.0%	137.00	2.9%
2025	332,880	0.0%	213,100	0.0%	64%	$221.00	3.2%	141.48	3.3%
CAAG	1.2%		1.0%			3.3%		3.1%	

Source: PKF Consulting USA

ESTIMATED PERFORMANCE OF THE SUBJECT HOTEL

This section presents an estimation of the subject hotels' future market position, with respect to total demand that can reasonably be captured by the property. The extent to which the subject properties could capture demand within the market is estimated by performing a fair share penetration analysis, expressed quantitatively, as a percentage of demand. A hotel's fair share of the market is defined as the number of available rooms within the subject hotel divided by the total supply of available rooms within the competitive market, including the subject property. Factors indicating that a hotel possesses competitive advantages suggest a market penetration in excess of 100 percent of fair market share, while competitive weaknesses or marketing strategies reflect penetration levels below 100 percent.

It should be noted that the actual penetration of each market segment by the subjects might deviate from fair market share for the following reasons:

- The competitive advantages or disadvantages of the hotel versus the competition taking into consideration such factors as location, room rate structure, chain affiliation, quality of management, marketing efforts, and image;
- The characteristics, composition, and needs of each market segment;
- The restraint on demand captured due to capacity constraints during certain periods of the week or times of the year; and,
- Management decisions concerning target markets.

Penetration of the Subject Hotel

Estimated occupancy levels for the subject hotel have been projected on the basis of a penetration analysis. Our estimate of the subject's performance begins January 1, 2020, the anticipated opening date. Our estimates of subject penetration by each segment of demand are presented in the paragraphs below.

Transient demand at the subject is expected to comprise of both leisure and business travelers to the area. This will include the existing leisure and commercial demand sources within the market, while also embodying its park atmosphere and catering to lodge demand. We have estimated that the subject hotel will achieve a penetration rate of 86 percent in 2020. In 2021, we project the subject to increase in penetration to 88 percent. We project the subject to penetrate this segment at 94 percent beginning in 2022 and for the remainder of our projections. The proposed subject hotel is projected to under-penetrate the transient market as it is anticipated to have a much higher positioning, and therefore capture higher-rated clientele, but less occupancy.

Group demand at the subject is comprised of corporate meetings and events and social groups. The subject will offer approximately 6,500 square feet of meeting and event space, which is just slightly below the competitive market average. However, it is important to note that the Marriott Mystic's 20,000 square feet of meeting space skews the average upwards. We project the subject is projected to end 2020 with a penetration of 83 percent and end 2021 with a penetration of 90 percent. In 2022, the penetration rate is expected to stabilize at 95 percent group penetration.

Overall Mix, Penetration, and Occupancy of the Subject Hotel

The estimated stabilized market mix and penetration for the Subject Hotel are presented in the following table.

Proposed Hotel Seaside
2022 Mix of Demand and Market Penetration

Market Segment	Room Nights	Ratio	Penetration
Transient	15,700	71%	94%
Group	6,300	29%	95%
Total	22,000	100%	94%

Source: PKF Consulting USA

Based on projected demand within the various market segments and the competition from a variety of hotel properties, we estimate that the subject hotel will achieve an overall stabilized penetration rate of 94 percent with a resulting stabilized occupancy of 60 percent, which we find reasonable given the subject's size, anticipated facilities, amenities, positioning, and location within the competitive market. Given its anticipated higher market positioning but location away from a core downtown, the subject hotel is anticipated to under penetrate both segments.

Based on the foregoing analysis, we have estimated an overall occupancy for the first year of operation, 2020, for the subject to be 54 percent. Occupancy is expected to increase to 57 percent in 2021 as the property ramps up its sales and marketing efforts and its awareness and reputation gains traction in the market. In 2022, we anticipate the proposed subject to achieve a 60 percent occupancy rate and maintain this approximate level on a stabilized basis. This represents a stabilized market penetration of 94 percent beginning in 2022. We believe this level of under-penetration in this year to be reasonable due to its high comparative positioning and location within the competitive market.

The table on the following page depicts a summary of our estimated performance of the proposed subject hotel.

Proposed Hotel Seaside

Market Penetration and Projected Occupancy

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
TOTAL ROOMS AVAILABLE										
Proposed Hotel Seaside	**36,500**	**36,500**	**36,500**	**36,500**	**36,500**	**36,500**	**36,500**	**36,500**	**36,500**	**36,500**
Competitive Market	332,880	332,880	332,880	332,880	332,880	332,880	332,880	332,880	332,880	332,880
Fair Share of Supply	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
ESTIMATED TOTAL MARKET DEMAND										
Transient	151,400	152,600	152,600	152,600	152,600	152,600	152,600	152,600	152,600	152,600
Group	60,000	60,500	60,500	60,500	60,500	60,500	60,500	60,500	60,500	60,500
TOTAL	211,400	213,100	213,100	213,100	213,100	213,100	213,100	213,100	213,100	213,100
FAIR SHARE OF DEMAND										
Transient	16,600	16,700	16,700	16,700	16,700	16,700	16,700	16,700	16,700	16,700
Group	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600
TOTAL	23,200	23,300	23,300	23,300	23,300	23,300	23,300	23,300	23,300	23,300
SUBJECT PENETRATION										
Transient	86%	88%	94%	94%	94%	94%	94%	94%	94%	94%
Group	83%	90%	95%	95%	95%	95%	95%	95%	95%	95%
ROOM NIGHTS CAPTURED										
Transient	14,300	14,700	15,700	15,700	15,700	15,700	15,700	15,700	15,700	15,700
Group	5,500	6,000	6,300	6,300	6,300	6,300	6,300	6,300	6,300	6,300
TOTAL CAPTURED DEMAND	19,800	20,700	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000
MARKET SHARE CAPTURED	9.4%	9.7%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
OVERALL MARKET PENETRATION	**85%**	**89%**	**94%**	**94%**	**94%**	**94%**	**94%**	**94%**	**94%**	**94%**
SUBJECT OCCUPANCY	**54%**	**57%**	**60%**	**60%**	**60%**	**60%**	**60%**	**60%**	**60%**	**60%**
MARKET MIX										
Transient	72%	71%	71%	71%	71%	71%	71%	71%	71%	71%
Group	28%	29%	29%	29%	29%	29%	29%	29%	29%	29%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: PKF Consulting USA

Average Daily Rate and Yield for the Subject Hotel

Our derivation of the average daily rate (ADR) for the subject property in a stabilized year of operation is based on the historical average daily rates achieved by the market, and information concerning the performance of other hotel properties in the competitive supply. Considerations were also given to the comparison of the other competitive properties with the proposed subject in terms of quality of facility, location, and mix of demand.

We find it reasonable to assume that the subject hotel will be able to obtain a stabilized ADR of $200.00 in a representative year, stated in 2015 dollars, near the top of the market. We believe this to be reasonable due to the subject's affiliation within an upper-upscale or luxury brand or soft brand or independent, with high-end furnishings, amenities and facilities, unique history, and water views. Each year, we assume rate to increase by 3.0 percent, consistent with long-term levels of inflation and our projections for the overall rate growth of the market.

The table below outlines our estimates of average daily rate and the resulting revenue yield for the subject. It should be noted that figures are rounded to the nearest dollar amounts.

Projected Market Performance of the Subject Hotel

Year	Annual Supply	Percent Change	Occupied Rooms	Percent Change	Occupancy Percentage	Market Penetration	Average Daily Rate	Percent Change	REVPAR	Percent Change	Revenue Yield
2020	36,500	N/A	19,600	N/A	54%	85%	232.00	N/A	124.58	N/A	104%
2021	36,500	0.0%	20,700	5.6%	57%	89%	239.00	3.0%	135.54	8.8%	108%
2022	36,500	0.0%	22,000	6.3%	60%	94%	246.00	3.0%	148.27	9.4%	115%
2023	36,500	0.0%	22,000	0.0%	60%	94%	253.00	3.0%	152.49	2.8%	115%
2024	36,500	0.0%	22,000	0.0%	60%	94%	261.00	3.0%	157.32	3.2%	115%
2025	36,500	0.0%	22,000	0.0%	60%	94%	268.75	3.0%	161.99	3.0%	114%
CAAG	0.0%		2.3%				3.0%		5.4%		

Source: PKF Consulting USA

Section V: STATEMENTS OF ESTIMATED ANNUAL OPERATING RESULTS

INTRODUCTION

To prepare estimates of future operating results for the subject hotel as of January 2020 with good management in a representative year or stabilized market, calculated in 2015 dollars.

FUTURE OPERATING RESULTS OF THE SUBJECT HOTEL

We estimate that during a representative year, the proposed subject could achieve a stabilized occupancy of 60 percent at an average daily room rate of $200, stated in 2015 dollars. From this base, we considered the effects of inflation and occupancy levels for the projection period starting January 1, 2020 through December 31, 2029, reflecting ten years of operation. The projections are presented on a calendar year basis and the underlying rationale and assumptions used in preparing these estimates are presented in this section.

The estimates of revenues, costs and expenses are based on the proposed subject's facilities and services and the operational characteristics thereof. The basis for our projections are the operating results of lodging properties with similar characteristics that are believed to operate with efficient management and proper control over costs and expenses.

Basis for Cash Flow Projections

In order to develop our estimate of the net operating income (cash flow) for the subject for both a stabilized year of operation (direct capitalization) and each year of the aforementioned holding period (yield capitalization), we have analyzed the following in detail:

- Comparable data which includes recent financial results for five upscale and upper-upscale hotels with similar average daily rate, occupancy, size, location, and market positioning from PKF Consulting's *Trends® in the Hotel Industry* survey (referred to as Comparables "A", "B", "C", "D", and "E"). All five comparables feature similar market positioning and operations scale as the proposed subject, and represent a room count ranging from approximately 65 to 133 rooms with an average size of 105 rooms. These properties achieved an average occupancy of 62.1 percent with an ADR of $185.54. Two comparables are located in Connecticut, while the others are located in the Midwestern, Southwestern, and Western United States. Although located elsewhere in the United States, these properties are located in comparable destinations and have similar room counts, rate structure, and amenities.

  The weighted average of the comparables is also presented, which is calculated as the sum of all five comparables' revenue or expense item divided by the sum of all five comparables' specific metric used for comparison. For example, the weighted average of the comparables for rooms expense per occupied room would be the sum of the comparables' individual rooms expenses divided by the sum of the individual comparables' occupied rooms.

The following pages contain the historical financials of the comparables.

Proposed Hotel Seaside
Operating Results of Comparable Hotels

	Hotel A			Hotel B			Hotel C		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	62.8%	43,389	179.58	55.3%	39,093	$184.87	61.6%	$44,268	$187.37
Food & Beverage	32.3%	22,308	92.33	44.2%	31,276	147.90	24.6%	17,684	74.85
Other Operated Departments	5.0%	3,426	14.18	0.5%	350	1.65	9.6%	6,877	29.11
Rentals and Other Income	0.0%	0	0.00	0.0%	0	0.00	4.2%	3,050	12.91
Total Revenues	100.0%	69,123	286.09	100.0%	70,718	334.43	100.0%	71,878	304.24
Departmental Expenses									
Rooms	27.3%	11,859	49.08	26.5%	10,359	48.99	23.3%	10,336	43.75
Food & Beverage	75.9%	16,937	70.10	88.2%	27,580	130.42	89.9%	15,898	67.29
Other Operated Departments	61.2%	2,096	8.68	234.3%	820	3.88	90.2%	6,203	26.26
Total Departmental Expenses	44.7%	30,892	127.86	54.8%	38,758	183.29	45.1%	32,437	137.30
Departmental Profit	55.3%	38,232	158.23	45.2%	31,961	151.14	54.9%	39,441	166.94
Undistributed Expenses									
Administrative & General	10.9%	7,561	31.29	8.8%	6,208	29.36	9.4%	6,788	28.73
Marketing	7.8%	5,375	22.24	1.8%	1,288	6.09	6.4%	4,603	19.48
Property Operation and Maintenance	3.5%	2,433	10.07	6.4%	4,494	21.25	3.6%	2,590	10.96
Utility Costs	5.5%	3,820	15.81	4.8%	3,400	16.08	4.1%	2,947	12.48
Total Undistributed Operating Expenses	27.8%	19,189	79.42	21.8%	15,389	72.78	23.6%	16,929	71.65
Gross Operating Profit	27.5%	19,043	78.81	23.4%	16,571	78.37	31.3%	22,512	95.29
Base Management Fee	3.0%	2,074	8.58	5.0%	3,536	16.72	2.5%	1,798	7.61
Fixed Expenses									
Property Taxes	0.5%	356	1.47	1.0%	686	3.25	1.1%	803	3.40
Insurance	1.0%	661	2.73	2.0%	1,389	6.57	1.8%	1,317	5.57
Total Fixed Expenses	1.5%	1,016	4.21	2.9%	2,076	9.82	2.9%	2,120	8.97
Net Operating Income	23.1%	15,953	66.03	15.5%	10,960	51.83	25.9%	18,595	78.71
FF&E Reserve	0.0%	0	0.00	0.0%	0	0.00	0.0%	0	0.00
Net Operating Income After Reserve	23.1%	$15,953	$66.03	15.5%	$10,960	$51.83	25.9%	$18,595	$78.71

Source: PKF Consulting|CBRE Hotels

Proposed Hotel Seaside
Operating Results of Comparable Hotels

	Hotel D			Hotel E			Weighted Average		
	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.	Ratio	Per Room	P.O.R.
Revenues									
Rooms	62.2%	$33,112	$160.68	69.3%	$47,234	207.62	63.2%	$42,049	$185.54
Food & Beverage	34.6%	18,431	89.44	18.5%	12,576	55.28	29.1%	19,365	85.44
Other Operated Departments	3.2%	1,694	8.22	12.2%	8,283	36.41	6.9%	4,588	20.24
Rentals and Other Income	0.0%	0	0.00	0.0%	30	0.13	0.9%	1,319	5.70
Total Revenues	100.0%	53,237	258.34	100.0%	68,123	299.44	100.0%	66,580	293.77
Departmental Expenses									
Rooms	22.1%	7,310	35.47	19.5%	9,204	40.46	23.5%	9,862	43.52
Food & Beverage	75.8%	13,968	67.78	71.5%	8,987	39.50	80.0%	15,490	68.35
Other Operated Departments	61.1%	1,034	5.02	25.0%	2,071	9.10	54.5%	2,501	11.03
Total Departmental Expenses	41.9%	22,313	108.28	29.7%	20,263	89.07	41.8%	27,854	122.90
Departmental Profit	58.1%	30,924	150.07	70.3%	47,860	210.37	58.2%	38,727	170.87
Undistributed Expenses									
Administrative & General	13.2%	7,041	34.17	8.5%	5,757	25.31	10.1%	6,698	29.56
Marketing	7.9%	4,188	20.32	7.3%	4,997	21.96	6.6%	4,409	19.45
Property Operation and Maintenance	4.2%	2,237	10.86	4.7%	3,202	14.07	4.3%	2,872	12.67
Utility Costs	4.1%	2,205	10.70	6.2%	4,224	18.57	5.1%	3,401	15.01
Total Undistributed Operating Expenses	29.4%	15,672	76.05	26.7%	18,180	79.91	26.1%	17,380	76.69
Gross Operating Profit	28.7%	15,252	74.02	43.6%	29,680	130.46	32.1%	21,346	94.19
Base Management Fee	3.0%	1,597	7.75	3.0%	2,043	8.98	3.2%	2,104	9.28
Fixed Expenses									
Property Taxes	4.6%	2,428	11.78	4.3%	2,907	12.78	2.3%	1,513	6.68
Insurance	0.8%	425	2.06	1.9%	1,277	5.61	1.5%	983	4.34
Total Fixed Expenses	5.4%	2,854	13.85	6.1%	4,184	18.39	3.8%	2,497	11.02
Net Operating Income	20.3%	10,802	52.42	34.4%	23,453	103.09	25.2%	16,746	73.89
FF&E Reserve	0.0%	0	0.00	0.0%	0	0.00	0.0%	0	0.00
Net Operating Income After Reserve	20.3%	$10,802	$52.42	34.4%	$23,453	$103.09	25.2%	$16,746	$73.89

Source: PKF Consulting|CBRE Hotels

STABILIZED YEAR ESTIMATE FOR THE SUBJECT HOTEL

In order to develop our projections of revenues and expenses for the subject hotel, we first estimate the performance of the subject for a representative, or stabilized year of operation. This estimate is based on an analysis of the historical operating results of the subject. We have also included an analysis of the performance of the selected comparable facilities. The basis for the stabilized year estimate is detailed below, and is stated in calendar year 2015 value dollars.

Departmental Revenues and Expenses

In the *Uniform System of Accounts for the Lodging Industry*, revenues to the facility are categorized by the department from which they are derived. In the case of the subject, these include income from rooms and other operated departments. In the *Uniform System of Accounts for the Lodging Industry*, only direct operating expenses associated with each department are charged to the operating departments. General overhead items, which are applicable to the overall operation of the facility, are classified as undistributed operating expenses.

Direct or departmental revenues and expenses, which typically vary with occupancy, are generally analyzed on a per occupied room (POR) or ratio basis, while undistributed expenses, which are more fixed in nature, are typically analyzed on a per available room (PAR) basis.

Rooms Revenue and Expense

Rooms revenue is based on the number of occupied rooms multiplied by the ADR for each respective year as presented in this report. As indicated in our previous analyses for the baseline scenario, we estimated that the stabilized occupancy rate of the subject would be 60 percent, with an ADR of $200 (expressed in 2015 dollars).

100 Rooms x 365 Days x 60 percent Occupancy x $200= $4,400,000 (rounded)

The following is a table illustrating average daily rate, annual occupancy, and annual rooms revenue commencing January 1, 2020.

Estimated Rooms Revenue

Year	Average Daily Rate	Annual Occupancy	Rooms Revenue
2020	$232.00	54%	$4,559,000
2021	239.00	57%	4,947,000
2022	246.00	60%	5,412,000
2023	253.00	60%	5,566,000
2024	261.00	60%	5,758,000
2025	269.00	60%	5,918,000
2026	277.00	60%	6,094,000
2027	285.00	60%	6,270,000
2028	294.00	60%	6,486,000
2029	303.00	60%	6,666,000

Rooms expense consists of salaries and wages, employee benefits, commissions, contract cleaning, guest transportation, laundry and dry cleaning, linen, operating supplies, reservations costs, uniforms, and other items related to the room division.

The composite operating results for the comparable hotels represent a range from 19.5 to 27.3 percent of rooms revenue with a weighted average of 23.5 percent. On a per occupied room basis, rooms expense for the comparables ranged from $35.47 to $49.08 Based on our analysis, we estimate that for a stabilized year of operation, rooms department expense for the subject will be $45.00 per occupied room or 22.5 percent of rooms revenue. This estimate is within the range of the comparables' average on a per occupied room and ratio to rooms revenue basis.

Rooms Expense

	Per Occupied Room	Ratio to Rms Revenue
Comparables		
A	$49.08	27.3%
B	48.99	26.5%
C	43.75	23.3%
D	35.47	22.1%
E	40.46	19.5%
Weighted Average	43.52	23.5%
Subject Stabilized Year	$45.00	22.5%

Food and Beverage Revenue and Expense

Food and beverage revenue is generated by the sale of meals to both hotel guests and outside patrons in the food and beverage outlet, the sale of soft drinks, liquor, and wine in the restaurant and lounge, room service, and other associated revenues. Additionally, food and beverage revenue includes the rental of the conference/meeting space and related function revenue. Food and beverage revenue will vary depending on the number of food and beverage outlets, and the amount of meeting space. Food and beverage revenue at the subject hotel will be generated from the full-service restaurant and bar, casual restaurant, and all catering for meetings and events held at the property.

Food and beverage revenue for the comparables ranged from $55.28 to $147.90 per occupied room, or $135.53 to $583.56 per square foot of meeting space. Based on the restaurants and meeting space planned at the proposed subject hotel, and the range of the comparables, we have estimated that the subject will achieve food and beverage revenue of $100.00 per occupied room, or $2,220,000 in a stabilized year of operation. This amounts to $338 per square foot of meeting space. This is within range of the comparables on both a per occupied room and per square foot of meeting space basis. We believe this to be reasonable given the restaurant on site, which caters to guests and local demand, and the meetings, and events that are anticipated to be held at the property.

Food & Beverage Revenue

	Total Amount	Per Occupied Room	Per SF of Meeting Space
Comparables			
A	$2,944,688	92.33	516.61
B	2,032,946	147.90	135.53
C	1,750,689	74.85	583.56
D	1,843,097	89.44	409.58
E	1,672,655	55.28	419.63
Weighted Average	N/A	85.44	318.28
Subject Stabilized Year	$2,200,000	$100.00	$338.46

Food and beverage expense includes the cost of food and beverage, payroll and related expenses for the restaurant/lounge and meeting/function space, and other items such as laundry, linen, china, glassware, silverware, uniform costs, supplies, as well as other miscellaneous items, for the restaurant and meeting/function facilities.

Food and beverage expense ranged for the comparables from 71.5 percent to 89.9 percent of food and beverage revenue, with a weighted average of 80.0 percent. We believe a food and beverage expense of 80.0 percent is appropriate for the subject property based on the nature of the food and beverage service to be provided, which is within the range of the comparables.

Food & Beverage Expense	
	Ratio to F&B Rev.
Comparables	
A	75.9%
B	88.2%
C	89.9%
D	75.8%
E	71.5%
Weighted Average	80.0%
Subject Stabilized Year	80.0%

Spa Revenue and Expense

Spa Revenue will be generated by the assumed spa facility on site. The hotel spa is recommended to contain four treatment rooms, offering a complete range of skin and body treatments, facials, and massages. In addition to hotel guests, the spa is anticipated to be used by residents in the nearby area. We have analyzed three different comparable hotel spas to support the projection of spa revenue and expense for the subject, on a per occupied room and per treatment room basis.

The spa comparable hotels ranged in spa department revenue between $7.70 and $20.49 per occupied room, or between $66,592 and $150,393 per treatment room. As a percentage of total revenues, spa revenue for the comparables ranged between 2.4 percent and 5.4 percent, with an average of 3.6 percent. In a stabilized year, stated in 2015 dollars, we estimate spa revenue at $330,000. This equals approximately $15.00 per occupied room, or $82,500 per treatment room. This represents 4.4 percent of total revenues.

Spa Revenue					
	Total Amount	Percent of Total Hotel Revenue	Per Available Room	Per Occupied Room	Per Treatment Room
Comparables					
Spa Comp A	$532,737	2.4%	$1,670	$7.70	$66,592
Spa Comp B	902,356	5.4%	4,338	20.49	150,393
Spa Comp C	493,542	3.3%	2,455	11.44	98,708
Weighted Average of Spa Comps	N/A	3.6%	$2,649	$12.33	$101,507
Spas fewer than 10 Treatment Rooms	984,919	2.5%	2,467	9.51	156,557
Spas with less than 200 Hotel Rooms	1,700,254	7.8%	13,210	50.28	177,468
Subject Stabilized Year	$330,000	4.4%	$3,300	$15.00	$82,500

Spa Expenses are all expenses associated with the operation and maintenance of the subject's spa. Spa expenses at the hotel spa comparables have ranged from 46.7 percent to 77.2 percent of total spa revenue. In a stabilized year, we have projected spa expenses be at 65.0 percent, within the range of the comparables. Included in our expense estimates is the assumption that the spa will be managed by an experience hotel/resort spa operator.

Spa Expense	
	Ratio to Spa Rev.
Comparables	
Spa Comp A	77.2%
Spa Comp B	46.7%
Spa Comp C	72.0%
Weighted Average	61.6%
Spas fewer than 10 Treatment Rooms	72.7%
Spas with less than 200 Hotel Rooms	64.7%
Subject Stabilized Year	65.0%

Other Operated Departments Revenue and Expense

Other operated departments revenues can vary significantly among the comparable properties and the subject depending on the nature of the additional revenue generators. Other operated department revenue is typically generated from guest laundry, business center, and/or recreational amenities. Other operated departments at the subject represent various revenue sources including telephone, guest laundry/dry cleaning, in-room entertainment, programming revenue, and various concierge services.

Other operated departments revenues ranged for the comparables from $1.65 to $36.41 per occupied room, with a weighted average of $20.24 per occupied room. We estimate other operated department revenue at $25.00 per occupied room in a representative year of operation, which is reasonable given the range of competitive hotels.

Other Operated Departments Revenue	
	Per Occupied Room
Comparables	
A	$14.18
B	1.65
C	29.11
D	8.22
E	36.41
Weighted Average	20.24
Subject Stabilized Year	$25.00

Other Operated Department Expenses include telephone and internet expense, as well as payroll costs, employee benefits, and operating supplies of any other operated departments. Other operated department expenses ranged from 25.0 percent to 234.3 percent of other operated departments revenues for the comparables. For a representative year of operations, we have estimated expenses at approximately 60 percent of revenues for the subject, which is within the range of the comparables.

Other Operated Departments Expense	
	Ratio to O.O.D. Rev.
Comparables	
A	61.2%
B	234.3%
C	90.2%
D	61.1%
E	25.0%
Weighted Average	54.5%
Subject Stabilized Year	60.0%

Undistributed Operating Expenses

Undistributed Operating Expenses are operating expenses that are not chargeable to a particular operating department and are presented as undistributed operating expenses, in accordance with the *Uniform System of Accounts for the Lodging Industry*. These expenses include administrative and general, marketing (including franchise fees), property operations and maintenance, and energy and utilities. These expenses are relatively unaffected by fluctuations in occupancies and ADR. Excluding management fees, which are a fixed percentage based on a contract agreement and market parameters, these expenses are analyzed primarily on a dollar amount per available room (PAR) basis.

Administrative and General

This category includes the salary and wages of the general manager and office staff, cash overages and shortages, credit card commissions, bad debt expense, security, data processing costs, accounting payroll expense, and professional fees.

Administrative and general expenses at the comparables ranged from $5,757 to $7,561 per available room, or 8.5 percent to 13.2 percent of total revenues. We estimate administrative and general expense at the subject to be approximately $7,070 PAR in a stabilized year, which includes a credit card commission fee of 2.5 percent of total revenues. This aggregate equates to 9.5 percent of total revenues, and is within the range of the comparable hotels.

Administrative and General		
	Per Available Room	Ratio to Total Rev.
Comparables		
A	$7,561	10.9%
B	6,208	8.8%
C	6,788	9.4%
D	7,041	13.2%
E	5,757	8.5%
Weighted Average	6,698	10.1%
Subject Stabilized Year	$7,070	9.5%

Marketing

This expense includes the cost of advertising, printing of brochures, salary associated with sales and marketing personnel, social media efforts, and other costs associated with an ongoing sales and promotion program. Marketing expense also includes a Starwood franchise fee for Sheraton.

Marketing expenses for the comparables ranged from $1,288 to $5,375 per available room, or 1.8 percent to 7.9 percent of total revenues, with a weighted average of 6.6 percent. We estimate marketing expenses for the proposed subject at 5.5 percent of total revenues, or approximately $4,100 per available room, on a stabilized basis. This is within range of the comparables.

Marketing		
	Per Available Room	Ratio to Total Rev.
Comparables		
A	$5,375	7.8%
B	1,288	1.8%
C	4,603	6.4%
D	4,188	7.9%
E	4,997	7.3%
Weighted Average	4,409	6.6%
Subject Stabilized Year	$4,100	5.5%

Property Operations and Maintenance

Property operations and maintenance expenses are a function of building age and usage. This category includes the engineering salaries, wages and benefits, maintenance of the building, grounds and landscape, electrical and mechanical equipment, engineering, refrigeration, operating supplies, cleaning, waste removal, and uniforms.

The comparable hotels posted expenses ranging from $2,433 to $4,494 per available room, or 3.5 percent to 6.4 percent of total revenues, with a weighted average of 4.3 percent. We estimate a property operations and maintenance expense of $3,000 PAR in a stabilized year, or 4.0 percent of total revenues. This is within range of the comparables.

Property Operation and Maintenance		
	Per Available Room	Ratio to Total Rev.
Comparables		
A	$2,433	3.5%
B	4,494	6.4%
C	2,590	3.6%
D	2,237	4.2%
E	3,202	4.7%
Weighted Average	2,872	4.3%
Subject Stabilized Year	$3,000	4.0%

Energy & Utilities

Energy expenses are generally particular to the location, climate, and type of hotel structure. Utility expense includes electricity, gas, water and sewer charges. These are property and utility district specific.

The comparables have shown costs from $2,205 to $4,224 PAR. Due to the typically high utility usage associated with the Northeast climate, we estimate that energy costs to operate the subject will be approximately $3,200 PAR in a representative year of operation, or 4.3 percent of total revenue. This is within the range of comparables on a per available room basis.

Utility Costs		
	Per Available Room	Ratio to Total Rev.
Comparables		
A	$3,820	5.5%
B	3,400	4.8%
C	2,947	4.1%
D	2,205	4.1%
E	4,224	6.2%
Weighted Average	3,401	5.1%
Subject Stabilized Year	$3,200	4.3%

Fixed Charges

Management Fees

We assume that the proposed hotel will be operated by a third-party management company. Therefore, we have assumed three percent of gross revenue as a base management fee in our projections, as is typical in the lodging industry.

Property Taxes

The subject property is in the real estate taxing jurisdiction of the town of Waterford's Assessor's Office, and is subject to the town tax rate. For Fiscal Year 2015, the commercial property tax rate for the town of Waterford is $25.83 per every $1,000 of assessed value. For a stabilized year, we have estimated property taxes at $1,800 per available room or 2.4 percent of total revenues, based on the property tax comparables, which are located in Mystic and Groton. This represents a total real estate tax expense of $180,000 for the subject's representative year of operation.

Insurance

Insurance for liability and buildings and contents is estimated to be approximately $1,000 per available room in 2015 dollars in a representative year of operation, based upon the comparables and our knowledge of the industry standards.

Insurance	
	Per Available Room
Comparables	
A	$661
B	1,389
C	1,317
D	425
E	1,277
Weighted Average	983
Subject Stabilized Year	$1,000

Ground Rent

The proposed hotel is planned to be a leased-fee operation as the land will continued to be owned by the state, and leased to the developer of the hotel via a leasehold interest. As such, a ground rent payment must be included in the subject's operating statement. We have analyzed this potential ground payment later in the report.

Reserves for Replacement

We have deducted a percentage of the total revenue from each year of the projection period to provide a reserve fund to cover the replacement of short and long lived building components, including furniture, fixtures, and equipment and other structural repairs. Prevailing practices in the industry suggest a stabilized reserve for replacement of 4.0 percent for hotel properties. As such, we projected reserve for replacement ramping up from 2.0 percent in the first year, 3.0 percent in the second year, and stabilizing at 4.0 in the third year and for the remaining projection period for the subject.

STABILIZED YEAR OPERATING RESULTS OF THE SUBJECT HOTEL

Presented on the following page is an estimate of the subject hotel's stabilized year operating results, not including ground rent, expressed in current value 2015 dollars. This estimate is based on the foregoing analysis. For this twelve-month period, revenues are projected to total approximately $7,480,000. Gross operating profit, which does not include management fees, property taxes, direct assessments, insurance, or reserves for replacement, totals approximately $2,448,000, or 32.7 percent of total revenue. Net operating income for the subject in a stabilized year, after the deduction of a management fee, property taxes, insurance, is projected to be 1,944,000, or 26.0 percent of total revenue. Net operating income for the subject after a reserve for capital replacement is projected to be $1,645,000 or 22.0 percent of total revenue.

Proposed Hotel Seaside
Representative Year of Operation

	Stated in	2015	Dollars	
Number of Units:	100			
Number of Annual Rooms Available:	36,500			
Number of Rooms Occupied:	22,000			
Annual Occupancy:	60%			
Average Daily Rate:	$200.00			
Revenue Per Available Room:	$120.55			
	Amount	Ratio	Per Room	P.O.R.
Revenues				
Rooms	$4,400,000	58.8%	$44,000	$200.00
Food & Beverage	2,200,000	29.4%	22,000	100.00
Spa	330,000	4.4%	3,300	15.00
Other Operated Departments	550,000	7.4%	5,500	25.00
Total Revenues	7,480,000	100.0%	74,800	340.00
Departmental Expenses				
Rooms	990,000	22.5%	9,900	45.00
Food & Beverage	1,760,000	80.0%	17,600	80.00
Spa	215,000	65.2%	2,150	9.77
Other Operated Departments	330,000	60.0%	3,300	15.00
Total Departmental Expenses	3,295,000	44.1%	32,950	149.77
Departmental Profit	4,185,000	55.9%	41,850	190.23
Undistributed Expenses				
Administrative & General	707,000	9.5%	7,070	32.14
Marketing	410,000	5.5%	4,100	18.64
Property Operation and Maintenance	300,000	4.0%	3,000	13.64
Utility Costs	320,000	4.3%	3,200	14.55
Total Undistributed Operating Expenses	1,737,000	23.2%	17,370	78.95
Gross Operating Profit	2,448,000	32.7%	24,480	111.27
Base Management Fee	224,000	3.0%	2,240	10.18
Fixed Expenses				
Property Taxes	180,000	2.4%	1,800	8.18
Insurance	100,000	1.3%	1,000	4.55
Total Fixed Expenses	280,000	3.7%	2,800	12.73
Net Operating Income	1,944,000	26.0%	19,440	88.36
FF&E Reserve	299,000	4.0%	2,990	13.59
Net Operating Income After Reserve	$1,645,000	22.0%	$16,450	$74.77

Source: PKF Consulting USA

Estimated Annual Operating Results of the Subject Hotel

The previous analysis provided for the income and expenses incurred in the operation of the subject in a stabilized year. In the following analysis, we provide estimated income and expenses for the subject during each year of a ten year holding period anticipated for a typical investor. Our estimate of the performance for the subject in the stabilized year is used as a basis for our analysis, considering the effects of inflation, business development, and varying occupancy. In addition, the anticipated ground rent statement is not included in the following estimated annual operating results, as it is discussed later in the report.

Inflation

To portray price level changes during the holding period, we have assumed an inflation rate of 3.0 percent throughout the projection period. This rate reflects the consensus of several well-recognized economists for the current long-term outlook for the future movement of prices and is consistent with the historical inflation rates. All expenses are projected to increase at 3.0 percent throughout the holding period.

It should be noted that inflation is caused by many factors and unanticipated events and circumstances can affect the forecasted rate. Therefore, the estimated operating results computed over the projection period can vary from the actual operating results, and the variations may be material.

Statement of Estimated Annual Operating Results of the Subject Hotel

The estimated annual operating results for the proposed subject from January 1, 2020 to December 31, 2029 are presented on the following pages.

Proposed Hotel Seaside
Projected Operating Results
Calendar Years

	2020		2021		2022		2023		2024	
Number of Units:	100		100		100		100		100	
Number of Annual Rooms Available:	36,600		36,500		36,500		36,500		36,600	
Number of Rooms Occupied:	19,650		20,700		22,000		22,000		22,060	
Annual Occupancy:	54%		57%		60%		60%		60%	
Average Daily Rate:	$232.00		$239.00		$246.00		$253.00		$261.00	
Revenue Per Available Room:	$124.58		$135.54		$148.27		$152.49		$157.32	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues										
Rooms	$4,559,000	58.8%	$4,947,000	58.8%	$5,412,000	58.8%	$5,566,000	58.8%	$5,758,000	58.8%
Food & Beverage	2,278,000	29.4%	2,472,000	29.4%	2,706,000	29.4%	2,787,000	29.4%	2,878,000	29.4%
Spa	342,000	4.4%	371,000	4.4%	406,000	4.4%	418,000	4.4%	432,000	4.4%
Other Operated Departments	569,000	7.3%	618,000	7.4%	676,000	7.3%	697,000	7.4%	720,000	7.4%
Total Revenues	7,748,000	100.0%	8,408,000	100.0%	9,200,000	100.0%	9,468,000	100.0%	9,788,000	100.0%
Departmental Expenses										
Rooms	1,086,000	23.8%	1,147,000	23.2%	1,218,000	22.5%	1,254,000	22.5%	1,293,000	22.5%
Food & Beverage	1,910,000	83.8%	2,027,000	82.0%	2,165,000	80.0%	2,230,000	80.0%	2,300,000	79.9%
Spa	222,000	64.9%	241,000	65.0%	264,000	65.0%	272,000	65.1%	281,000	65.0%
Other Operated Departments	342,000	60.1%	371,000	60.0%	406,000	60.1%	418,000	60.0%	432,000	60.0%
Total Departmental Expenses	3,560,000	45.9%	3,786,000	45.0%	4,053,000	44.1%	4,174,000	44.1%	4,306,000	44.0%
Departmental Profit	4,188,000	54.1%	4,622,000	55.0%	5,147,000	55.9%	5,294,000	55.9%	5,482,000	56.0%
Undistributed Expenses										
Administrative & General	797,000	10.3%	831,000	9.9%	870,000	9.5%	895,000	9.5%	923,000	9.4%
Marketing	475,000	6.1%	490,000	5.8%	504,000	5.5%	519,000	5.5%	535,000	5.5%
Property Operation and Maintenance	348,000	4.5%	358,000	4.3%	369,000	4.0%	380,000	4.0%	391,000	4.0%
Utility Costs	371,000	4.8%	382,000	4.5%	394,000	4.3%	405,000	4.3%	418,000	4.3%
Total Undistributed Operating Expenses	1,991,000	25.7%	2,061,000	24.5%	2,137,000	23.2%	2,199,000	23.2%	2,267,000	23.2%
Gross Operating Profit	2,197,000	28.4%	2,561,000	30.5%	3,010,000	32.7%	3,095,000	32.7%	3,215,000	32.8%
Base Management Fee	232,000	3.0%	252,000	3.0%	276,000	3.0%	284,000	3.0%	294,000	3.0%
Fixed Expenses										
Property Taxes	209,000	2.7%	215,000	2.6%	221,000	2.4%	228,000	2.4%	235,000	2.4%
Insurance	116,000	1.5%	119,000	1.4%	123,000	1.3%	127,000	1.3%	130,000	1.3%
Total Fixed Expenses	325,000	4.2%	334,000	4.0%	344,000	3.7%	355,000	3.7%	365,000	3.7%
Net Operating Income	1,640,000	21.2%	1,975,000	23.5%	2,390,000	26.0%	2,456,000	25.9%	2,556,000	26.1%
FF&E Reserve	155,000	2.0%	252,000	3.0%	368,000	4.0%	379,000	4.0%	392,000	4.0%
Net Operating Income After Reserve	$1,485,000	19.2%	$1,723,000	20.5%	$2,022,000	22.0%	$2,077,000	21.9%	$2,164,000	22.1%
Source: PKF Consulting USA	Full Year of Operation									

Proposed Hotel Seaside
Projected Operating Results
Calendar Years

	2025		2026		2027		2028		2029	
Number of Units:	100		100		100		100		100	
Number of Annual Rooms Available:	36,500		36,500		36,500		36,600		36,500	
Number of Rooms Occupied:	22,000		22,000		22,000		22,060		22,000	
Annual Occupancy:	60%		60%		60%		60%		60%	
Average Daily Rate:	$269.00		$277.00		$285.00		$294.00		$303.00	
Revenue Per Available Room:	$162.14		$166.96		$171.78		$177.21		$182.63	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Revenues										
Rooms	$5,918,000	58.8%	$6,094,000	58.8%	$6,270,000	58.8%	$6,486,000	58.8%	$6,666,000	58.9%
Food & Beverage	2,957,000	29.4%	3,045,000	29.4%	3,137,000	29.4%	3,240,000	29.4%	3,328,000	29.4%
Spa	443,000	4.4%	457,000	4.4%	471,000	4.4%	486,000	4.4%	499,000	4.4%
Other Operated Departments	739,000	7.3%	761,000	7.3%	784,000	7.4%	810,000	7.3%	832,000	7.3%
Total Revenues	10,057,000	100.0%	10,357,000	100.0%	10,662,000	100.0%	11,022,000	100.0%	11,325,000	100.0%
Departmental Expenses										
Rooms	1,330,000	22.5%	1,370,000	22.5%	1,412,000	22.5%	1,456,000	22.4%	1,497,000	22.5%
Food & Beverage	2,365,000	80.0%	2,436,000	80.0%	2,509,000	80.0%	2,589,000	79.9%	2,662,000	80.0%
Spa	288,000	65.0%	297,000	65.0%	306,000	65.0%	316,000	65.0%	324,000	64.9%
Other Operated Departments	443,000	59.9%	457,000	60.1%	471,000	60.1%	486,000	60.0%	499,000	60.0%
Total Departmental Expenses	4,426,000	44.0%	4,560,000	44.0%	4,698,000	44.1%	4,847,000	44.0%	4,982,000	44.0%
Departmental Profit	5,631,000	56.0%	5,797,000	56.0%	5,964,000	55.9%	6,175,000	56.0%	6,343,000	56.0%
Undistributed Expenses										
Administrative & General	950,000	9.4%	979,000	9.5%	1,008,000	9.5%	1,039,000	9.4%	1,070,000	9.4%
Marketing	551,000	5.5%	568,000	5.5%	585,000	5.5%	602,000	5.5%	620,000	5.5%
Property Operation and Maintenance	403,000	4.0%	415,000	4.0%	428,000	4.0%	441,000	4.0%	454,000	4.0%
Utility Costs	430,000	4.3%	443,000	4.3%	456,000	4.3%	470,000	4.3%	484,000	4.3%
Total Undistributed Operating Expenses	2,334,000	23.2%	2,405,000	23.2%	2,477,000	23.2%	2,552,000	23.2%	2,628,000	23.2%
Gross Operating Profit	3,297,000	32.8%	3,392,000	32.8%	3,487,000	32.7%	3,623,000	32.9%	3,715,000	32.8%
Base Management Fee	302,000	3.0%	311,000	3.0%	320,000	3.0%	331,000	3.0%	340,000	3.0%
Fixed Expenses										
Property Taxes	242,000	2.4%	249,000	2.4%	257,000	2.4%	264,000	2.4%	272,000	2.4%
Insurance	134,000	1.3%	138,000	1.3%	143,000	1.3%	147,000	1.3%	151,000	1.3%
Total Fixed Expenses	376,000	3.7%	387,000	3.7%	400,000	3.8%	411,000	3.7%	423,000	3.7%
Net Operating Income	2,619,000	26.0%	2,694,000	26.0%	2,767,000	26.0%	2,881,000	26.1%	2,952,000	26.1%
FF&E Reserve	402,000	4.0%	414,000	4.0%	426,000	4.0%	441,000	4.0%	453,000	4.0%
Net Operating Income After Reserve	$2,217,000	22.0%	$2,280,000	22.0%	$2,341,000	22.0%	$2,440,000	22.1%	$2,499,000	22.1%

Source: ***PKF Consulting USA***

FEASIBILITY ANALYSIS

Estimated Development Cost

Based upon our knowledge of the recommended brands, the typical size of a full-service hotel is approximately 800 gross square feet per guestroom. Based on 100 guestrooms, this would indicate a gross building area of 80,000 square feet. While we understand the total footprint of the current buildings is larger than 80,000 square feet, it is up to the developer to decide which portions of the buildings to redevelop as a hotel.

Proposed Hotel Seaside
Summary of Recommended Facilities

Room Count	100
Chain Scale	Upper Upscale
Brand	Nationally Affiliated Brand/Soft Brand
Gross Building Area	80,000 SF
Gross Square Feet Per Room	+/-800 SF
Food & Beverage Facilities	Two restaurant outlets, 6,000 SF of meeting space
Other	Business center, fitness center, pool, spa, surface parking lot

Based on our review of the actual development budgets and averages of similar hotel products, we have provided our development cost estimate for the proposed Subject, assuming a three to four story Class A building with surface parking. In this scenario, we have assumed that the State will assume to cost to abate the hazardous materials of the buildings, as well as the cost to rehab the shell of the building so that it is ready for the developer. We have assumed the shell to include any masonry, windows, and the roof of the building.

While there are existing buildings currently improved on the property, it is likely that a developer may propose new construction. As a result, we have estimated costs for a mix of new construction and the rehabilitation of current buildings.

While the amount of new construction is dependent on the exact plans of the developer, we have assumed that approximately 30 rooms would be contained in a newly constructed building of Class B, Excellent quality. As the new-built building will only contain guestrooms and back of house space, we have assumed approximately 500 gross square feet per guestroom, totaling 15,000 square feet of new construction. Thus, based on a total hotel square footage of 80,000 square feet, the total square footage utilized from the existing buildings is 65,000 square feet.

The table below presents the estimated construction cost of the redevelopment of the existing 65,000 square feet, as paid by the developer.

MVS Cost Estimate	
Cost Source	Marshall Valuation Service
Section & Page	Section 11, Page 25-26, dated 11/2014
Building Structure Class	Class A - Full Service
Quality	Excellent
Number of Units	70
Gross Building Area (sq. ft.)	65,000
Building	
Based Square Foot Cost	$237.09
Sprinkler Adjustment	$2.00
	$239.09
Multipliers:	
Height Per Story	1.00
Local	1.11
Adjusted Base Cost Per Square Foot	$278.66
Gross Building Area (sq. ft.)	65,000
Total Building and Improvements Cost	**$18,112,861**
Interior Build-Out per Square Foot	$107.00
% Interior Build-Out	*45.1%*
Adjusted Building and Improvements Cost	$8,174,000
Source: PKF Consulting USA, Marshall Valuation Service	

As shown, after factoring in the relevant multipliers, the total cost per square foot for the building and improvements of a Class A Excellent building is $278.66 per square foot. Assuming 65,000 total square feet, this would represent a total building and improvement cost of approximately $18,123,000. As this cost represents both the exterior shell of the building in addition to the interior build-out, this number must be adjusted as the state of Connecticut is assumed to be responsible for the abatement of hazardous materials and the exterior shell of the building, which includes aspects such as masonry and windows. According to Marshall Valuation Services, $107.00 of the total cost per square foot is dedicated to the interior build-out, or approximately 45 percent of the total cost. As such, only 45 percent of the total building cost applies to the interior build-out. Thus, the building cost, as required by the developer, amounts to a total of $8,174,000.

As the state of Connecticut will own the land, there is no land value included in the below estimate of total development cost, which includes soft costs and contingency. It should be noted that this cost estimate is subject to further refinement once the ultimate brand, room count, and design program have been finalized.

The table below presents the estimated costs of new construction, assuming 15,000 square feet of total new construction. We have increased the base square foot cost by 15 percent to adjust for the high quality of construction and façade work that is needed in order to maintain a cohesive look and feel with the existing historic buildings.

MVS Cost Estimate	
Cost Source	Marshall Valuation Service
Section & Page	Section 11, Page 22-23, dated 11/2014
Building Structure Class	Class B - Limited Service
Quality	Excellent
Number of Units	30
Gross Building Area (sq. ft.)	15,000
Building	
Based Square Foot Cost	$163.44
Adjustment	15%
Sprinkler Adjustment	$2.00
	$189.96
Multipliers:	
Current	1.05
Local	1.11
Adjusted Base Cost Per Square Foot	$221.39
Gross Building Area (sq. ft.)	15,000
Building and Improvements Cost	**$3,321,000**
Source: PKF Consulting USA, Marshall Valuation Service	

Thus, the building and improvement cost, taking into account new construction, totals approximately $11,495,000 ($8,174,000 + $3,321,000). The table below presents the estimate of total development cost, which includes soft costs and contingency in addition to the construction cost of the building and improvements. It should be noted that this cost estimate is subject to further refinement once the ultimate brand, room count, and design program have been finalized.

Proposed Hotel Seaside

Line Item	Notes	$	$/room	$/sq. ft.
Building and Improvements [1]	80,000 x $143.69/sq. ft.	$11,495,000	$114,950	$143.69
FF&E	$38,571 per room	$2,700,000	$27,000	$41.54
Pre-Opening Expenses	$5,500 per room	$550,000	$5,500	$8.46
Operating Supplies and Equipment	$3,800 per room	$380,000	$3,800	$5.85
Working Capital	$3,500 per room	$350,000	$3,500	$5.38
Legal, Taxes, Insurance & Fees	$4,500 per room	$450,000	$4,500	$6.92
Architect and Engineering Fees	3.0% of Hard Costs	$345,000	$3,450	$5.31
Developer Fees	3.0% of Hard Costs	$345,000	$3,450	$5.31
Financing Points [2]	1.5% bps on 65% LTV	$348,000	$3,480	$5.35
Construction Period Interest [3]	6.0% Interest Rate	$981,000	$9,810	$15.09
Contingency	5.0% of Costs	$897,000	$8,970	$13.80
Total		$18,800,000	$188,000	$235.00
Inflated Total Cost (2020 $)		**$21,800,000**	**$218,000**	**$272.50**
Sources:				
Equity	-	$7,600,000	$76,000	$95.00
Debt [4]	65% LTV (b/f Financing Costs)	$14,200,000	$142,000	$177.50
Total		**$21,800,000**	**$218,000**	$272.50

[1] Based on new construction of 15,000 sq. ft. and a total hotel footprint of 80,000 sq. ft.
[2] Assumes 65.0% or $14,170,000 loan
[3] Assumes 6.0% interest rate, 65.0% LTC, 18-month construction period, 50.0% utilization
[4] Based on proposed hotel cost of $21,800,000

As noted, total development costs total $18,800,000, or $188,000 per room, stated in 2015 value dollars and based on 100 guestrooms. The estimate is within the range of the costs using the same factor of 45 percent applied to average development costs for several full-service and select-service brands. We have then inflated this total cost to 2020 value dollars, and used this inflated value cost estimate in our analysis of the economic feasibility of the proposed 100-room hotel.

Estimated Market Value

We then developed an estimate of the prospective market value of the proposed subject upon its opening using a yield capitalization or a discounted cash flow analysis. In yield capitalization, the value of the property is the present value of the net operating income in each year of the holding period (here projected to be ten years) and the value of the property when sold at the end of the holding period (the reversion). The present value of these elements is obtained by applying a market derived discount rate. The value of the reversion is obtained through the capitalization of the adjusted income at the end of the holding period, which assumes the sale of the hotel.

The following table shows the present value of the projected net operating income, not including ground rent, for the proposed hotel for the ten-year holding period, along with the present value of the reversion, deriving a value estimate. As can be noted, we are of the opinion that a reversionary capitalization rate of 8.5 and a discount rate of 10.5 percent are appropriate to value the proposed subject using this approach. These rates were based on our review of national investor surveys that track return requirements for hotel investments.

Proposed Hotel Seaside VALUATION - DISCOUNTED CASH FLOW				
Period	Number of Months	Projected NOI	10.50% PV Factor	Unrounded Present Value
2020	12	$ 1,485,000	0.904977	$ 1,343,891
2021	24	1,723,000	0.818984	1,411,110
2022	36	2,022,000	0.741162	1,498,630
2023	48	2,077,000	0.670735	1,393,116
2024	60	2,164,000	0.607000	1,313,548
2025	72	2,217,000	0.549321	1,217,845
2026	84	2,280,000	0.497123	1,133,441
2027	96	2,341,000	0.449885	1,053,181
2028	108	2,440,000	0.407136	993,412
2029	120	2,499,000	0.368449	920,754
Reversion		29,642,059	0.368449	10,921,583
				$ 23,200,510
			Rounded	$ 23,200,000
Value of the Reversion				
Year 11 NOI				$ 2,571,000
Terminal Capitalization Rate				8.500000%
Indicated Value at Reversion (Fee Simple Interest)				$ 30,247,059
Less Selling Costs				(605,000)
Net Reversion				29,642,059
Value (Rounded)				$ 23,200,000
Value Per Room				$ 232,000
Going-in Rate-Year 1				6.40%

Source: PKF Consulting USA

As detailed in the preceding table, our conclusion to the estimated fee simple value of the proposed 100-room hotel using yield capitalization (discounted cash flow) is approximately $23,200,000, or approximately $232,000 per room based on 100 rooms. Said a different way, we are of the opinion that, hypothetically, if the developer of the proposed Subject sold the property, they could sell it for this amount after the completion of construction. This is only to estimate the market value of the proposed property, and does not actually assume the sale of the property.

Economic Feasibility of the Proposed Subject

The feasibility of a hotel can be determined by comparing the estimate of the market value of the property upon opening to the cost of the development. If the value of a hotel is equal to or exceeds the cost of development, a project is deemed feasible, as it meets the return on investment requirements of the market. If the value of the hotel is less than the cost of development, the project is considered infeasible.

As previously discussed, the inflated development cost of the proposed Subject, taking into account assumed new construction, is estimated to be $21.8 million and the market value upon opening is estimated to be $23.2 million. This results in a variance of $1,400,000. Based on this test, our projected market value for the proposed subject upon opening on January 1, 2020 exceeds the cost to develop the hotel, indicating that the project is feasible.

	Total	Per Room
Total Development Cost, Inflated to 2020	$21,800,000	$218,000
Estimate of Market Value Upon Completion	$23,200,000	$232,000
Variance	$1,400,000	$14,000

In addition to the foregoing, we have also calculated the Internal Rate of Return ("IRR") on an assumed equity investment in the proposed Subject based upon the following assumptions:

- Loan to cost – 65 percent of development costs
- Interest Rate – 6.0 percent
- Amortization period – 25 years

Without Ground Rent Payment

While the proposed subject is anticipated to be a leased fee operation, we have calculated the IRR of the proposed subject as if no ground rent payment would be paid to the State of Connecticut.

Based on the forgoing financing assumptions, the equity IRR, assuming no ground rent payment, is estimated to be 18.8 percent for the proposed hotel.

With Ground Rent Payment

As this is a leased fee operation, we have calculated the maximum ground rent payment to be paid to the state. For the purpose of this analysis, we have assumed that the minimum IRR a developer would require would be [redacted]. Thus, the maximum ground rent payment a developer would be willing to pay is calculated as the percentage of total gross revenues subtracted from the annual cash flow, which would then equal [redacted].

Based on the forgoing financing assumptions and assuming an IRR of [redacted], the maximum ground rent payment is estimated to be [redacted] percent of total hotel revenues. We note that this reflects a set percentage rent, and that any final ground lease terms will likely need to incorporate a ramp up in fees during development and the ramp up in operations following the opening of the subject.

As a point of reference, hotel investors typically require an IRR on their equity investments of between [redacted]. The IRR of this project falls within the typical preferred range. As such, the proposed hotel is forecast to generate a relatively attractive market level of return based on our estimated development costs and operating results. Worksheets detailing these IRR calculations are presented on the following pages.

Without Ground Rent Payment

WITHOUT GROUND RENT PAYMENT
LEVERAGED IRR ANALYSIS
Proposed Hotel Seaside

SOURCE AND USE OF FUNDS

		First Mortgage	$14,170,000	65.0%
Total Inflated Development Costs	$21,800,000	Developer's Equity	$7,630,000	35.0%
		Total Source of Funds	$21,800,000	100.0%

Number of Rooms	100
Total Cost per Room	$218,000

FIRST MORTGAGE

Mortgage Amount	$14,170,000	Monthly Payment	$92,373
Interest Rate	6.00%	Annual Payment	$1,108,473
Amortization Period	25 years		

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Beginning Balance	$14,170,000	$14,040,864	$13,774,843	$13,492,861	$13,193,960	$12,877,125	$12,541,280	$12,185,284	$11,807,929	$11,407,932
Annual Payment	$554,236	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473
Portion to Interest	$425,100	$842,452	$826,491	$809,572	$791,638	$772,627	$752,477	$731,117	$708,476	$684,476
Portion to Principal	$129,136	$266,021	$281,982	$298,901	$316,835	$335,845	$355,996	$377,356	$399,997	$423,997
Ending Balance	$14,040,864	$13,774,843	$13,492,861	$13,193,960	$12,877,125	$12,541,280	$12,185,284	$11,807,929	$11,407,932	$10,983,935

YEARLY CASH FLOW SUMMARY

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Net Operating Income	$1,485,000	$1,723,000	$2,022,000	$2,077,000	$2,164,000	$2,217,000	$2,280,000	$2,341,000	$2,440,000	$2,499,000
First Mortgage Annual Payment	$554,236	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473
Cash Flow after Debt Service	$ 930,764	$614,527	$913,527	$968,527	$1,055,527	$1,108,527	$1,171,527	$1,232,527	$1,331,527	$1,390,527

CAPITAL GAIN CALCULATION

Eleventh Year Net Operating Income	$ 2,571,000
Terminal Cap Rate	8.5%
Gross Sales Price	$30,247,059
Selling Costs	2.0%
Net Sales Price	$29,642,118
Remaining First Mortgage Balance	$10,983,935
Return of Equity	$7,630,000
Capital Gain	$11,028,183
Sales Price per Room	$302,471

LEVERAGED IRR ANALYSIS

	2015	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Equity	($7,630,000)										
Cash Flow after Debt Service		$930,764	$614,527	$913,527	$968,527	$1,055,527	$1,108,527	$1,171,527	$1,232,527	$1,331,527	$1,390,527
Net Sales Price											$29,642,118
Remaining First Mortgage Balance											$10,983,935
	($7,630,000)	$930,764	$614,527	$913,527	$968,527	$1,055,527	$1,108,527	$1,171,527	$1,232,527	$1,331,527	$20,048,710
Cash-on-Cash Return	100%	12.2%	8.1%	12.0%	12.7%	13.8%	14.5%	15.4%	16.2%	17.5%	262.8%

10-Year Leveraged IRR 18.8%

With Ground Rent Payment

WITH GROUND RENT PAYMENT
LEVERAGED IRR ANALYSIS
Proposed Hotel Seaside

SOURCE AND USE OF FUNDS

Total Inflated Development Costs	$21,800,000	First Mortgage	$14,170,000	65.0%
		Developer's Equity	$7,630,000	35.0%
		Total Source of Funds	$21,800,000	100.0%
Number of Rooms	100			
Total Cost per Room	$218,000			

FIRST MORTGAGE

Mortgage Amount	$14,170,000	Monthly Payment	$92,373
Interest Rate	6.00%	Annual Payment	$1,108,473
Amortization Period	25 years		

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Beginning Balance	$14,170,000	$14,040,864	$13,774,843	$13,492,861	$13,193,960	$12,877,125	$12,541,280	$12,185,284	$11,807,929	$11,407,932
Annual Payment	$554,236	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473
Portion to Interest	$425,100	$842,452	$826,491	$809,572	$791,638	$772,627	$752,477	$731,117	$708,476	$684,476
Portion to Principal	$129,136	$266,021	$281,982	$298,901	$316,835	$335,845	$355,996	$377,356	$399,997	$423,997
Ending Balance	$14,040,864	$13,774,843	$13,492,861	$13,193,960	$12,877,125	$12,541,280	$12,185,284	$11,807,929	$11,407,932	$10,983,935

YEARLY CASH FLOW SUMMARY

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Net Operating Income	$1,485,000	$1,723,000	$2,022,000	$2,077,000	$2,164,000	$2,217,000	$2,280,000	$2,341,000	$2,440,000	$2,499,000
First Mortgage Annual Payment	$554,236	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473	$1,108,473
Cash Flow after Debt Service	$ 930,764	$614,527	$913,527	$968,527	$1,055,527	$1,108,527	$1,171,527	$1,232,527	$1,331,527	$1,390,527

CAPITAL GAIN CALCULATION

Eleventh Year Net Operating Income	$ 2,571,000
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Return of Equity	$7,630,000
Capital Gain	$11,028,183
Sales Price per Room	$302,471

LEVERAGED IRR ANALYSIS

	2015	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Equity	($7,630,000)										
Ground Rent Payment		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Cash Flow after Debt Service		$930,764	$614,527	$913,527	$968,527	$1,055,527	$1,108,527	$1,171,527	$1,232,527	$1,331,527	$1,390,527
Net Sales Price											$29,642,118
Remaining First Mortgage Balance											$10,983,935
	($7,630,000)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Cash-on-Cash Return	100%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

10-Year Leveraged IRR [redacted]

As calculated, the total IRR of the project, assuming no ground rent payment, is 18.8 percent, within the typical preferred range by investors between [redacted]. Assuming a minimum return of [redacted] percent, required by investors, the maximum ground rent payment is equal to [redacted] percent of total hotel revenues. The below table presents the maximum ground rent payment as paid by the developer to the State of Connecticut as part of the hotel operation.

Annual Ground Rent Payment

Year	Maximum Ground Rent [redacted]
2020	[redacted]
2021	[redacted]
2022	[redacted]
2023	[redacted]
2024	[redacted]
2025	[redacted]
2026	[redacted]
2027	[redacted]
2028	[redacted]
2029	[redacted]

We note that there may be steps up in rent as the property ramps up operations, and that the ultimate annual rent may vary with rent percentages below this level in initial years and above this level in latter years.

Based on our analysis of the proposed hotel's cash flow projections, estimated construction costs, and assumed financing structure, we have determined that this project is financially feasible under this presented scenario. A summary of the IRR analysis is presented below.

Total Square Footage	Total New Construction (SF)	Total Cost	IRR, Assuming No Ground Rent Payment	Maximum Ground Rent Payment, Assuming [redacted] IRR
80,000	15,000	$21,800,000	18.8%	[redacted]

This concludes our feasibility study and related development advisory analysis for the redevelopment of four structures at Seaside State Park. It has been a pleasure to work with you on this assignment. If we can be of any further assistance in the interpretation of our findings, please feel free to contact us.

Sincerely,

PKF Consulting|CBRE Hotels

Mark Van Stekelenburg
Managing Director