HOTEL INVESTMENTS BOOT CAMP

Understanding a Hotel Financial Statement and Key Investment Terms

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Newmark Grubb Knight Frank

GENERAL TERMINOLOGY

What is a cap rate?

- An unleveraged yield on an investment.
- Cap rates, rather than multiples, are typically used in real estate valuation analysis.
- Defined and calculated as:

$$\frac{\text{Net Operating Income}}{\text{Purchase Price of an Asset}}$$

- Example: A 7% cap rate (or a 7 cap deal) is one in which the Net Operating Income (always prior to debt service) divided by the purchase price is 7%.
- Similarly, the Purchase Price or Value can be determined by calculating the NOI divided by the cap rate.

GENERAL TERMINOLOGY

What is Net Operating Income (NOI)?

- The income stream generated by the operation of the property, independent of external factors such as financing and income taxes.

Revenues
- Distributed Expenses
Distributed Profits or Operating Income
- Undistributed Expenses
- Management Fees
Gross Operating Profit (GOP)
- Fixed Expenses
Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)
- FF&E Reserve
Net Operating Income (NOI)

GENERAL TERMINOLOGY

What is Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)?

- Essentially net income with interest, taxes, depreciation and amortization added back in.
- Used to analyze and compare profitability between companies/properties/portfolios because it eliminates the effects of financing and accounting decisions.

Revenues
- Distributed Expenses
Distributed Profits or Operating Income
- Undistributed Expenses
Gross Operating Profit (GOP)
- Fixed Expenses
Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA)

- A common misconception is that EBITDA represents cash earnings. EBITDA is a good metric to evaluate profitability, but not cash flow. EBITDA leaves out the cash required to fund working capital and the replacement of old equipment (capex, FF&E, etc.), which can be significant.

GENERAL TERMINOLOGY

What is an EBITDA multiple?

- EBITDA multiples help to provide an estimated valuation of a property/portfolio/company.
- Used to analyze and compare profitability between companies/properties/portfolios because it eliminates the effects of financing and accounting decisions.

$$\frac{\text{Value}\ ^{(1)}}{\text{EBITDA}}$$

- Example 1): A property is purchased for a price of $100 and is expected to generate an EBITDA of $10 next year. The EBITDA multiple is 10.0x.
- Example 2): A property is purchased for a price of $100 and is expected to generate an EBITDA of $8 next year. The EBITDA multiple is 12.5x.
- EBITDA multiples are used by some investors to determine when to enter/exit an investment based on pre-determined multiple levels.
- Warning: EBITDA multiples can't be computed for assets that report net losses.

(1) i.e. Enterprise Value (EV)

GENERAL TERMINOLOGY

What is an Equity Multiple?

- Calculates the overall return on an investment on a leveraged and unleveraged basis.

Leveraged Equity Multiple

$$\frac{\text{Sum of Leveraged Cash Flows + Residual Value}^{(1)}}{\text{Total Equity Invested}}$$

Unleveraged Equity Multiple

$$\frac{\text{Sum of NOIs + Residual Value}^{(1)}}{\text{Total Capital Invested}}$$

- Example 1): An investor purchases a hotel for $100 and sells the hotel three years later for $150. In addition, the investor generated a total of $50 of operating cash flows during the three years as owner, which amounts to $200 of total returns. The investor would have realized an unleveraged equity multiple of 2.0x or $200 / $100.

- Example 2): An investor purchases a hotel for $100 (funding $60 of the investment with a mortgage loan and the remaining $40 with equity), and sells the hotel three years later for $150. In addition, the investor generated a total of $50 of operating cash flows during the three years as owner which amounts to $200 of total returns. The investor would have realized a leveraged equity multiple of 3.5x or $140 / $40.

(1) Residual value is after repayment of any debt

GENERAL TERMINOLOGY

What is EBITDA flow through?

- EBITDA flow through is a concept to measure how much incremental profit will result from a change in revenue.
- The calculation is as follows:

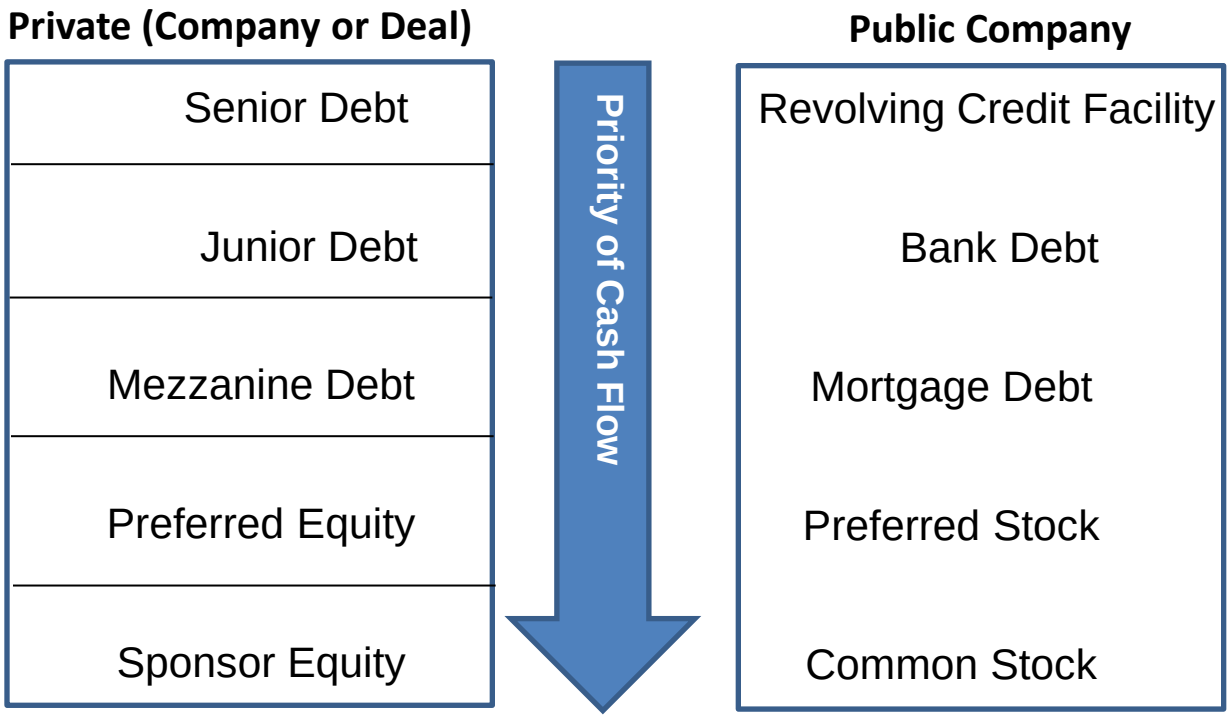
$$\frac{\text{Change in EBITDA}}{\text{Change in Revenue}}$$

- EBITDA flow through helps illustrate incremental margin, margin expansion power or margin contraction

GENERAL TERMINOLOGY

What is a Capital Stack?

- Illustrates the totality of capital (debt and equity) invested in a property/portfolio/company.
- The stack contains the most risk at the bottom (sponsor equity) and least risk at the top (senior debt). Conversely, the most return can be expected at the bottom and least at the top.



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GENERAL TERMINOLOGY

How do you determine the "exit cap rate"?

- Exit cap rate determination is highly judgmental
- Many investors assume an exit cap rate of 100 bps (basis points) wider/higher than the going in cap rate.
  - There is no rationale for this but it is commonly used.
- The appropriate way to determine an exit cap rate is to look at historical valuation levels for comparable quality assets or portfolios and use that as a base point.
  - Then sensitivities can be run to see how sensitive the deal returns are to cap rate changes.
- A buyer prefers the market's cap rate to be high – the higher the cap rate the lower the purchase price for the given income stream.
- Conversely, a seller prefers a low cap rate, as the seller wants the highest price possible for the stabilized income stream they're selling.

GENERAL TERMINOLOGY

What is an Internal Rate of Return (IRR)?

- Calculates the annualized effective compounded return rate over a specified period of time. It assumes that all cash available that could be distributed gets reinvested into a property/portfolio/company at the same IRR.
- IRR calculations are commonly used to evaluate the desirability of an investment. The higher an investment's IRR, the more desirable it is to investors.

Year	Cash Flows
0	$-4,000
1	1,200
2	1,410
3	1,875
4	1,050

$$NPV = -4{,}000 + \frac{1{,}200}{(1+r)^1} + \frac{1{,}410}{(1+r)^2} + \frac{1{,}875}{(1+r)^3} + \frac{1{,}050}{(1+r)^4} = 0$$

$$IRR = r = 14.3\%$$

- An investment's IRR is the discount rate at which the Net Present Value (NPV) of costs (negative cash flows) of the investment equals the NPV of the benefits (positive cash flows) of the investment.
- As long as the cost of capital is less than the IRR, the NPV for the project will be positive.
- Warning: IRR can be misleading for certain investments where cash flows switch from positive to negative more than once (will lead to more than one IRR).

GENERAL TERMINOLOGY

What is Net Present Value (NPV)?

- Valuation mechanism that allows investors to calculate the value of an asset today by discounting the expected future cash flows at a certain discount rate.
- The discount rate is based on the riskiness of the asset and the required returns of the equity investor. (For most hotel deals, the discount rate is between 10-15%).

Year	Cash Flows
0	$-4000
1	1200
2	1410
3	1875
4	10000

$$NPV = -4{,}000 + \frac{1{,}200}{(1+15\%)^1} + \frac{1{,}410}{(1+15\%)^2} + \frac{1{,}875}{(1+15)^3} + \frac{10{,}000}{(1+15)^4}$$

$$NPV = \$5{,}060$$

- NPV is the only metric that considers the time value of money, properly adjusting for the opportunity cost of capital.
- Warning: The only exception to the superiority of NPV is when the firm is constrained by capital rationing. This implies that the firm can not finance all positive NPV projects and should therefore choose the projects that give the highest NPV for each dollar of investment.

GENERAL TERMINOLOGY

So why is everyone so focused on IRR?

- IRR is a measure that is commonly used in evaluating financial opportunities and widely understood.
- Time value of money plays an important role since money devalues over time. The IRR can help you determine the return relative to other investments, so that you can prudently choose which opportunities yield the highest investment on your money.
- Warning: The higher rate of return is USUALLY the better investment (because of uncertainty and varying risk associated with different transactions)

RELEVANT CREDIT METRICS

Debt Service Coverage Ratio (DSCR)

- The ratio of cash available to meet annual debt service for interest and principal amortization.

$$\frac{\text{Net Operating Income}}{\text{Total Debt Service}}$$

- Example: If you own a hotel that generates $120 of NOI this year and you have a total annual debt service payment of $100 your DSCR is 1.20x. In other words, you have enough cash to meet 120% of your annual debt payment.
- A DSCR of less than 1.00x means a property is generating negative cash flow, and the borrower has to fund equity to pay the debt service.
- Loan agreements have historically included a DSCR covenant that requires the borrower to meet a specific DSCR. If a borrower fails to remain above this DSCR, it usually is considered an act of default or may cause cash to be trapped and other mechanisms to come into play.

RELEVANT CREDIT METRICS

Debt Yield

- Debt Yield is a common metric used by lenders to analyze their own returns. The Debt Yield is a proxy for a Cap Rate for the lender. This statistic may be relied upon to help determine acceptable advance rates when property values are difficult to determine in dislocated markets.

$$\frac{\text{Net Operating Income}}{\text{Total Outstanding Debt Balance}}$$

- Example: If a lender requires an 10.0% debt yield when making a loan and a property generated $80 in NOI last year, the lender would determine that an acceptable loan amount is $800.
- Debt Yields can help judge the strength of a loan based on a comparison of the Debt Yield to historical Cap Rates and/or prevailing market Cap Rates, serving as a stressed analysis to real estate investment return thresholds assuming stable cash flows.
- Debt yields have become much more important given very low floating interest rates and very low 30 day LIBOR rates, which can create a DSCR that is very high even though the credit statistics are not that strong.

RELEVANT CREDIT METRICS

Debt per key

- Debt per key is a valuation metric used during the underwriting process that measures the total amount of debt for a property or portfolio divided by the total number of keys or rooms.

$$\frac{\text{Total Debt Balance}}{\text{\# of keys}}$$

- Example: If a hotel has $1,000,000 in total debt and 200 keys, it has $5,000 of debt per key.

Debt / EBITDA

- Provides investors with an approximation as to how much time it will take for a property to pay off all of its current debt, ignoring interest, taxes, depreciation and amortization.
- In contrast to DSCR, a high Debt/EBITDA ratio suggests that a firm may not be able to service its debt in an appropriate manner.

$$\frac{\text{Total Debt Balance}}{\text{EBITDA}}$$

HOTEL INDICES

OCC (Penetration) Index

- An index designed to measure a hotel's performance relative to its competitors.

$$\frac{\text{Hotel Occupancy}}{\text{Comp Set Occupancy}}$$

- Example: If a hotel's Occupancy is 82% and the segment's Occupancy is 75%, the hotel's Occupancy index would be 109. If a hotel's Occupancy was 90%, however, its index would be 120.

ADR (Penetration) Index

- The ADR index measures a hotel's ADR performance relative to an aggregated grouping of hotels (the comp set).

$$\frac{\text{Hotel ADR}}{\text{Comp Set ADR}}$$

- Example: If a hotel's ADR is $60 and the segment's ADR is $50, the hotel's ADR index would be 120. If a hotel's ADR was $80, however, its index would be 160.

HOTEL INDICES

RevPAR

- RevPar or Revenue Per Available Room is the total guest revenue divided by the total number of available rooms or the occupancy multiplied by the ADR.

$$\text{Occupancy} \times \text{ADR}$$

- Example: If a hotel's Occupancy is 75% and the ADR is $60, the RevPar would be $45.

RevPAR (yield) Index

- Measures a hotel's revenue per available room (RevPAR) and penetration against the comp set.

$$\frac{\text{Hotel RevPAR}}{\text{Comp Set RevPAR}}$$

- Example: If a hotel's RevPAR is $60 and the segment's RevPAR is $50, the hotel's RevPAR index would be 120. If a hotel's RevPAR was $80, however, its RevPAR index would be 160.

WHAT IS CASH-ON-CASH RETURN?

- Cash-on-Cash return measures an investor's annual rate of return on total initial cash invested.

$$\frac{\text{Annual NOI} - \text{Annual Debt Service}}{\text{Total Initial Cash Investment}}$$

- Example: If an investor purchased a property for $100 but only paid $40 in cash (40% LTV), and that property generates $5 in cash flow (NOI less debt service) in a year, the Cash-on-Cash return for that year would be 12.5%.
- Generally one of the "back of the envelope" calculations used by potential investors to see if an asset qualifies for further review and analysis.

WHAT ARE POTENTIAL FLAWS WHEN COMPARING TO A "COMP SET"?

- A hotel in any given area will not necessarily compete with all hotels in that area for the same sources of **demand**. For a market study, or for diligence, it is important to determine which hotels compete with the subject hotel and to what degree, and those that do not should be eliminated.

- The process of selecting the hotels to be included in a comp set is, in itself, subjective, and the biases of the person making the selection can influence what hotels are included and excluded.

  - Other potential issues that could distort a comp set include:
    - A lack of supply within the market
    - Oversaturation of hotel supply within the market
    - Failing to acknowledge new hotels
    - Grandfathering a comp set during conversion
    - STR sufficiency guidelines
    - Substantial property uniqueness

DEFEASANCE

What is defeasance?

- Put simply, defeasance is a substitution of collateral. It is often coordinated to close contemporaneously with a sale of an asset or refinance of a loan.
- Nearly every fixed-rate commercial real estate loan originated since 1998 requires the borrower to defease the loan in order to sell or refinance.

How does it work?

- The borrower uses proceeds from the sale or refinance to purchase a portfolio of U.S. government securities that is sufficient to make all of the remaining loan payments.
- The securities are pledged to the lender, and the lender releases the real estate from the lien of the mortgage.
- The promissory note (which remains outstanding after the defeasance) and the portfolio of securities are assigned by the borrower to a successor borrower that makes ongoing debt service payments.

DEFEASANCE (cont'd)

What is a typical defeasance process?

- The defeasance process involves a host of professionals (including attorneys, accountants, servicers, trustees and rating agencies).
- The entire defeasance process typically takes approximately 30 days (2 to 3 days are allocated to the closing process).
- Defeasance has become so prevalent in securitized real estate loans that life insurance companies, HUD and others seeking to preserve the ability to securitize their loans have incorporated defeasance into their form loan documents.

YIELD MAINTENANCE

What is yield maintenance?

- Yield maintenance is a prepayment of a loan with cash.
- The yield maintenance penalty is calculated by the servicer, which can take several weeks from the date it is requested. The reality though is that the calculations are quite easy to perform in a shorter period.
- Yield maintenance language also varies from loan to loan and is often subject to the servicer's interpretation.
- While yield maintenance does not have transaction costs *per se*, the yield maintenance penalty is typically at least 1% of the loan balance (since the lender loses interest the borrower otherwise would have paid).
- Yield maintenance is effectively the extra money a prepaying borrower would have to pay to make the yield the same for the lender if the borrower made all, regularly scheduled payments until maturity.

HOW DOES YIELD MAINTENANCE DIFFER FROM DEFEASANCE?

Yield Maintenance

- Existing loan is actually paid-off and note is cancelled
- Typically has a minimum prepayment penalty of at least 1% of the loan balance
- No standardization of yield maintenance language
- Complex language leads to conflicting interpretations and inflated premium calculations
- Servicer's calculation is usually binding "absent manifest error“
- Generally seen for floating rate loans

vs

Defeasance

- 30-day process involving a substitution of collateral (the note remains outstanding)
- Not a penalty but a neutral process with the potential to defease at a discount
- High level of standardization of defeasance provisions
- Often less costly than yield maintenance, particularly if the yield maintenance calculation is performed incorrectly or market conditions are ripe for a defeasance discount
- Generally seen for fixed rate loans

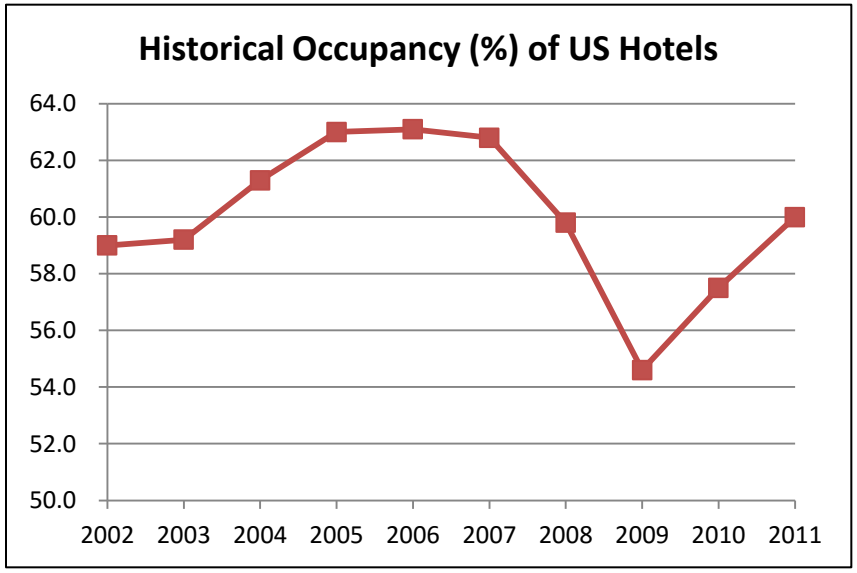
WHAT HAVE US HOTEL STATISTICS BEEN HISTORICALLY?

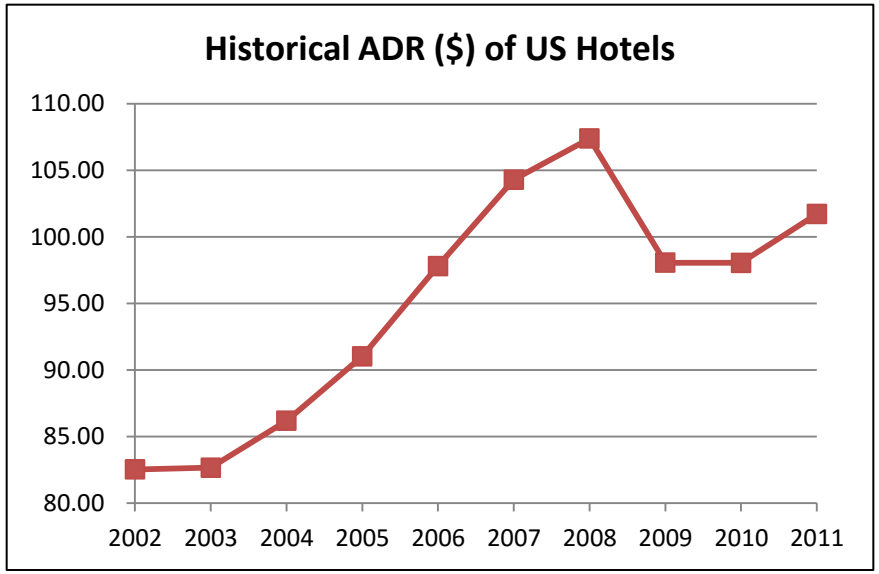
All US Hotels

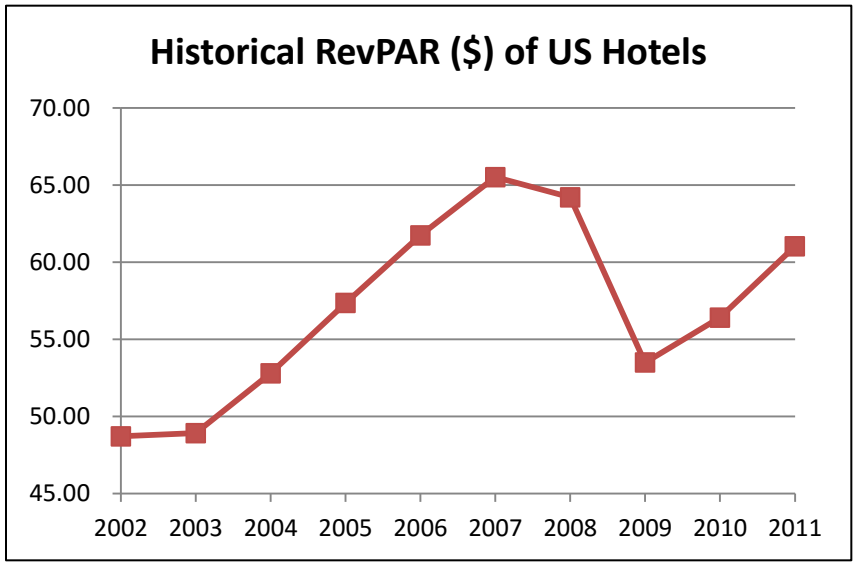
Year	Occup. (%)	change	ADR ($)	change	RevPAR ($)	change	GOP (%)	change
2002	59.0		82.53		48.70		35.7	
2003	59.2	0.3%	82.66	0.2%	48.91	0.4%	35.0	-2.0%
2004	61.3	3.5%	86.18	4.3%	52.79	7.9%	36.6	4.6%
2005	63.0	2.8%	91.02	5.6%	57.35	8.6%	38.8	6.0%
2006	63.1	0.2%	97.80	7.4%	61.74	7.7%	41.3	6.4%
2007	62.8	-0.5%	104.30	6.6%	65.51	6.1%	41.3	0.0%
2008	59.8	-4.8%	107.38	3.0%	64.21	-2.0%	38.2	-7.5%
2009	54.6	-8.7%	98.06	-8.7%	53.49	-16.7%	34.0	-11.0%
2010	57.5	5.3%	98.05	0.0%	56.40	5.4%	35.3	3.8%
2011	60.0	4.3%	101.71	3.7%	61.03	8.2%	36.1	2.3%

Source: HOST Study 2012 and HOST Margin Analysis

WHAT HAVE US HOTEL MARGINS BEEN HISTORICALLY?







Source: HOST Study 2012 and HOST Margin Analysis

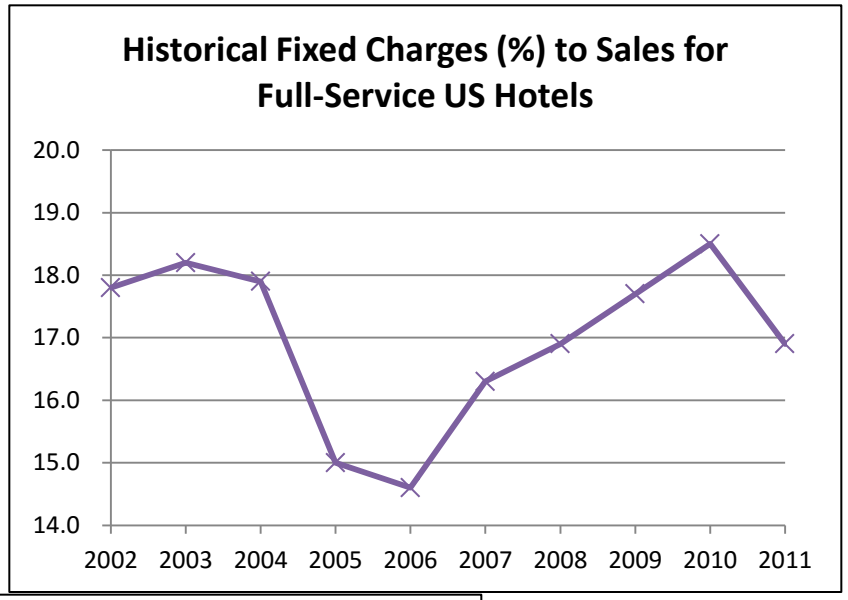
WHAT HAVE FULL SERVICE HOTEL MARGINS BEEN HISTORICALLY?

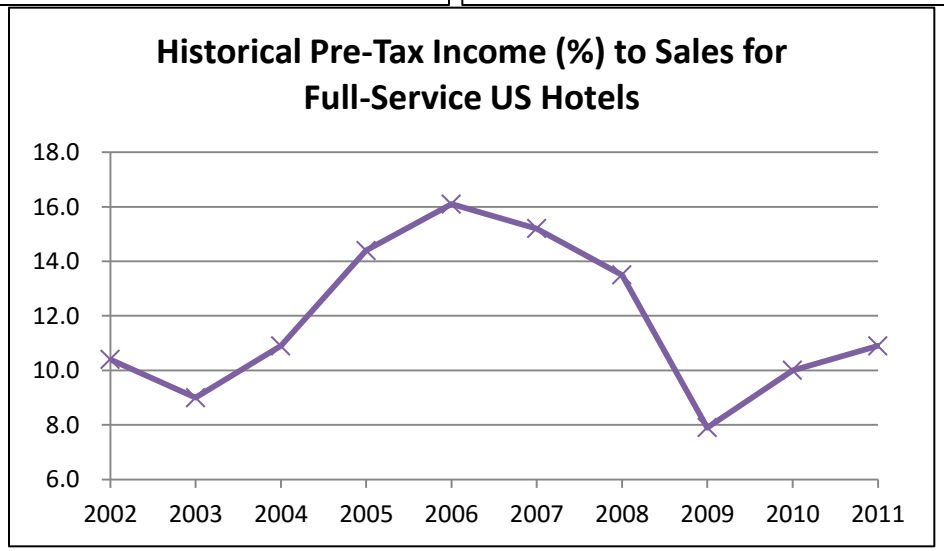
Financial Ratios to Sales

Year	GOP (%)	change	Fixed Charges (%)	change	Pre-Tax Income (%)	change
2002	33.6		17.8		10.4	
2003	30.8	-8.3%	18.2	2.2%	9.0	-13.5%
2004	31.3	1.6%	17.9	-1.6%	10.9	21.1%
2005	33.0	5.4%	15.0	-16.2%	14.4	32.1%
2006	34.4	4.2%	14.6	-2.7%	16.1	11.8%
2007	35.7	3.8%	16.3	11.6%	15.2	-5.6%
2008	34.3	-3.9%	16.9	3.7%	13.5	-11.2%
2009	29.4	-14.3%	17.7	4.7%	7.9	-41.5%
2010	29.9	1.7%	18.5	4.5%	10.0	26.6%
2011	30.4	1.7%	16.9	-8.6%	10.9	9.0%

Source: HOST Study 2012 and HOST Margin Analysis

WHAT HAVE FULL SERVICE HOTEL MARGINS BEEN HISTORICALLY?





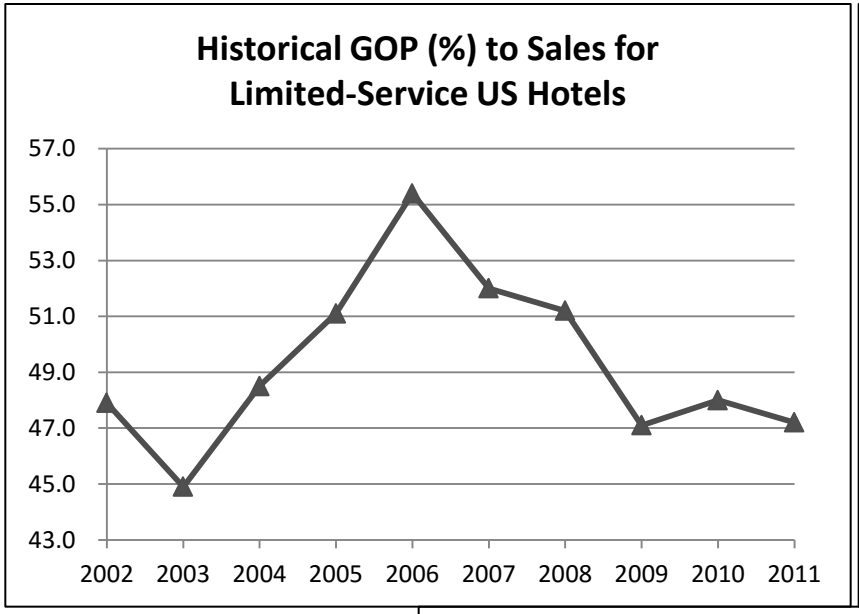
Source: HOST Study 2012 and HOST Margin Analysis

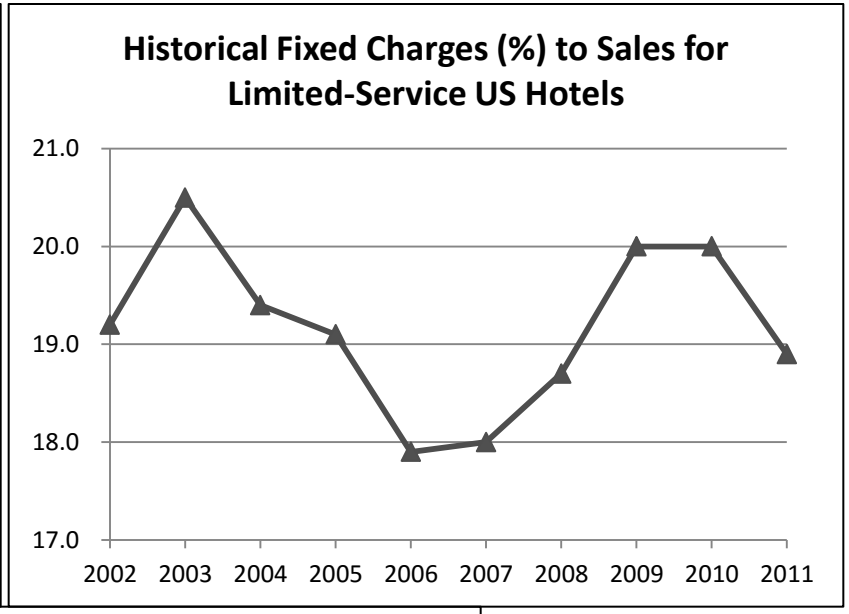
WHAT HAVE LIMITED SERVICE HOTEL MARGINS BEEN HISTORICALLY?

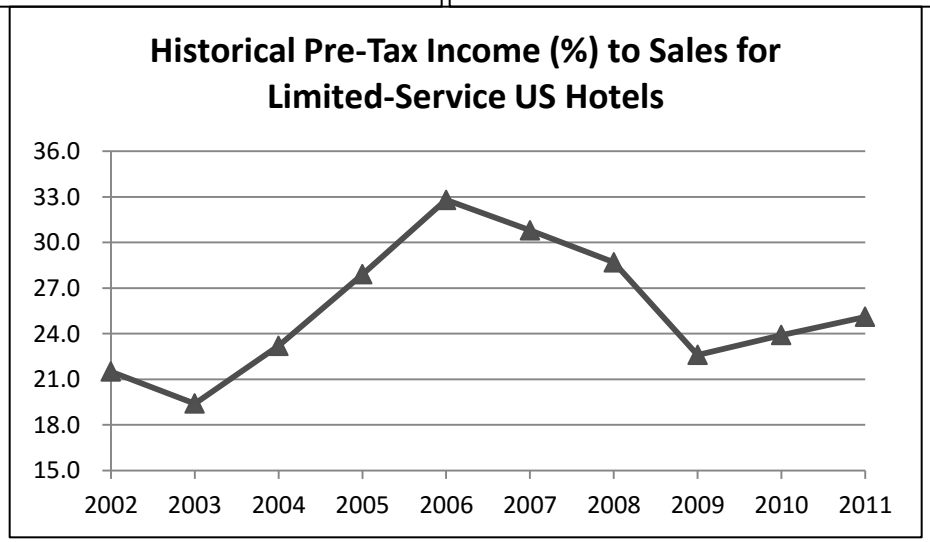
Financial Ratios to Sales						
Year	GOP (%)	change	Fixed Charges (%)	change	Pre-Tax Income (%)	change
2002	47.9		19.2		21.5	
2003	44.9	-6.3%	20.5	6.8%	19.4	-9.8%
2004	48.5	8.0%	19.4	-5.4%	23.2	19.6%
2005	51.1	5.4%	19.1	-1.5%	27.9	20.3%
2006	55.4	8.4%	17.9	-6.3%	32.8	17.6%
2007	52.0	-6.1%	18.0	0.6%	30.8	-6.1%
2008	51.2	-1.5%	18.7	3.9%	28.7	-6.8%
2009	47.1	-8.0%	20.0	7.0%	22.6	-21.3%
2010	48.0	1.9%	20.0	0.0%	23.9	5.8%
2011	47.2	-1.7%	18.9	-5.5%	25.1	5.0%

Source: HOST Study 2012 and HOST Margin Analysis

WHAT HAVE LIMITED SERVICE HOTEL MARGINS BEEN HISTORICALLY?







Source: HOST Study 2012 and HOST Margin Analysis

WHAT ARE SOME COMMON FINANCIAL MODELING ERRORS?

- The net income on the income statement does not equal the net income at the top of the cash flow statement.
- On the balance sheet, total assets do not equal total liabilities.
- The ending cash balance on the cash flow statement does not equal the cash balance on the balance sheet.
- The ending debt balance on the detailed debt schedule does not equal the beginning debt balance for the following year.
- The EBITDA or net income margins fluctuate wildly from year to year.
- Sources and Uses do not equal each other.
- Excessive depreciation of PP&E resulting in a negative value for PP&E on the books.

Sample Financial Illustrations

I. Acquisition Model

Financial Summary

($ in thousands, except per key amounts)

Illustrative Sources & Uses

Purchase Price	$170,000	87.2%
Closing Costs	5,000	2.6%
Renovation Costs	20,000	10.3%
Total Uses	$195,000	100.0%
Debt	$110,000	56.4%
Equity	85,000	43.6%
Total Sources	$195,000	100.0%

Exit Assumptions

2017 NOI	$17,625
Exit Cap Rate	6.5%
Gross Sale Price	$271,156
Less: 2.0% Fee	2.0%
Net Sale Price	**$265,733**
Exit / Key	$542,312

Returns

Equity IRR		**20.0%**
Equity NPV	10%	$40,933
Unleveraged IRR		**13.4%**
Unleveraged NPV	10%	$28,379
Equity Multiple		2.3x

Valuation Metrics:

All-In Price / Key	$390,000
Debt / Key	220,000
Rooms	500

		2012	2013	2014	2015	2016	2017	5 Year CAGR
Occupancy		66.0%	68.5%	70.0%	71.0%	72.0%	72.0%	1.8%
ADR		$80.50	$83.90	$86.40	$89.60	$90.10	$93.20	3.0%
RevPAR		53.13	57.47	60.48	63.62	64.87	67.10	4.8%
% Growth			*8.2%*	*5.2%*	*5.2%*	*2.0%*	*3.4%*	
Rooms Revenues		$9,696	$10,489	$11,038	$11,610	$11,839	$12,246	4.8%
F&B Revenues		10,000	10,000	12,000	13,000	13,000	14,000	7.0%
Other Revenues		5,000	6,000	6,000	6,500	7,000	8,000	9.9%
Total Revenues		**$24,696**	**$26,489**	**$29,038**	**$31,110**	**$31,839**	**$34,246**	**6.8%**
Revenue Growth			*7.3%*	*9.6%*	*7.1%*	*2.3%*	*7.6%*	
GOP		**$15,000**	**$15,500**	**$17,000**	**$17,750**	**$19,000**	**$20,000**	5.9%
% Margin		*60.7%*	*58.5%*	*58.5%*	*57.1%*	*59.7%*	*58.4%*	-0.8%
EBITDA		**$14,000**	**$14,495**	**$15,995**	**$16,745**	**$17,995**	**$18,995**	6.3%
% Margin		*56.7%*	*54.7%*	*55.1%*	*53.8%*	*56.5%*	*55.5%*	-0.4%
FF&E	4.0%	(988)	(1,060)	(1,162)	(1,244)	(1,274)	(1,370)	
NOI		**$13,012**	**$13,435**	**$14,833**	**$15,501**	**$16,721**	**$17,625**	6.3%
% Margin		*52.7%*	*50.7%*	*51.1%*	*49.8%*	*52.5%*	*51.5%*	

Source: NGKF Illustrative Projections

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Sample Financial Illustrations

I. Acquisition Model (cont'd)

($ in thousands)

	2012	2013	2014	2015	2016	2017
Valuation Metrics						
Implied Purchase Price Cap Rate	7.4%	7.7%	8.5%	8.9%	9.6%	10.1%
Implied All-In Cap Rate	6.7%	6.9%	7.6%	7.9%	8.6%	9.0%
Implied EBITDA Multiple	13.9x	13.5x	12.2x	11.6x	10.8x	10.3x
Credit Stats						
Debt / EBITDA	7.9x	7.6x	6.9x	6.6x	6.1x	5.8x
Debt Yield	11.8%	12.2%	13.5%	14.1%	15.2%	16.0%
DSCR	1.7x	1.7x	1.9x	2.0x	2.2x	2.3x
Returns Analysis						
Property Cash Flow		$13,435	$14,833	$15,501	$16,721	$17,625
Acquisition Cost / Sale Proceeds	($175,000)					265,733
Renovation Costs	(20,000)					
Debt	110,000					(110,000)
Debt Service (at 7.0% rate)		(7,700)	(7,700)	(7,700)	(7,700)	(7,700)
Equity Cash Flow	**($85,000)**	**$5,735**	**$7,133**	**$7,801**	**$9,021**	**$165,658**
Unlevered Cash Flow	**($195,000)**	**$13,435**	**$14,833**	**$15,501**	**$16,721**	**$283,358**

Leveraged IRR Sensitivity

	NOI Performance		
Exit Cap Rate	**100%**	90.0%	80.0%
6.5%	**20.0%**	14.9%	8.9%
6.0%	22.7%	17.7%	12.0%
5.5%	25.6%	20.7%	15.1%

Equity Multiple Sensitivity

	NOI Performance		
Exit Cap Rate	**100%**	90.0%	80.0%
6.5%	**2.3x**	1.9x	1.5x
6.0%	2.6x	2.1x	1.7x
5.5%	2.9x	2.4x	1.9x

Leveraged IRR Sensitivity

Change in Occ	Change in ADR Each Year		
Each Year	$10	**$0**	($10)
3.0%	19.8%	20.0%	20.1%
0.0%	19.9%	**20.0%**	20.2%
-3.0%	19.9%	20.1%	20.2%

Leveraged IRR Sensitivity

	Renovation Cost		
Exit Cap Rate	**$20,000**	$15,000	$10,000
6.5%	**20.0%**	21.7%	23.5%
6.0%	22.7%	24.4%	26.2%
5.5%	25.6%	27.3%	29.2%

Source: NGKF Illustrative Projections

Sample Financial Illustrations

II. Development Model

Financial Summary

($ in thousands, except per key amounts)

Illustrative Sources & Uses

Purchase Price	$14,000	56.0%
Development Cost	10,000	40.0%
Closing Costs	1,000	4.0%
Total Uses	$25,000	100.0%
Debt	$17,500	70.0%
Equity	7,500	30.0%
Total Sources	$25,000	100.0%

Valuation Metrics:

All-In Price / Key	$500,000
Debt / Key	350,000
Rooms	50

Exit Assumptions

2017 NOI	$2,431
Exit Cap Rate	6.5%
Gross Sale Price	$37,397
Less: 2.0% Fee	2.0%
Net Sale Price	**$36,649**
Exit / Key	$747,944

Returns

Equity IRR		**20.1%**
Equity NPV	10%	$5,276
Unleveraged IRR		**13.7%**
Unleveraged NPV	10%	$3,760
Equity Multiple		1.9x

		Close	2013	2014	2015	2016	2017	3 Year CAGR
Occupancy				75.0%	85.0%	86.0%	87.0%	5.1%
ADR				$400.00	$450.00	$500.00	$550.00	11.2%
RevPAR				300.00	382.50	430.00	478.50	16.8%
% Growth					*27.5%*	*12.4%*	*11.3%*	
Rooms Revenues				$5,475	$6,981	$7,848	$8,733	16.8%
F&B Revenues				1,400	1,484	1,573	1,667	6.0%
Other Revenues				150	156	162	169	4.0%
Total Revenues				**$7,025**	**$8,621**	**$9,583**	**$10,569**	**14.6%**
Revenue Growth					*22.7%*	*11.2%*	*10.3%*	
GOP				**$1,756**	**$2,328**	**$2,779**	**$3,276**	23.1%
% Margin				*25.0%*	*27.0%*	*29.0%*	*31.0%*	7.4%
EBITDA				**$1,475**	**$1,983**	**$2,396**	**$2,854**	24.6%
% Margin				*21.0%*	*23.0%*	*25.0%*	*27.0%*	8.7%
FF&E	4.0%			(281)	(345)	(383)	(423)	
NOI				**$1,194**	**$1,638**	**$2,012**	**$2,431**	26.7%
% Margin				*17.0%*	*19.0%*	*21.0%*	*23.0%*	

Source: NGKF Illustrative Projections

Sample Financial Illustrations

II. Development Model (cont'd)

($ in thousands)

	Close	2013	2014	2015	2016	2017
Valuation Metrics						
Implied Purchase Price Cap Rate			10.9%	14.9%	18.3%	22.1%
Implied All-In Cap Rate			4.8%	6.6%	8.0%	9.7%
Implied EBITDA Multiple			16.9x	12.6x	10.4x	8.8x
Credit Stats						
Debt / EBITDA			11.9x	8.8x	7.3x	6.1x
Debt Yield			6.8%	9.4%	11.5%	13.9%
DSCR			1.0x	1.3x	1.6x	2.0x
Returns Analysis						
Property Cash Flow		$0	$1,194	$1,638	$2,012	$2,431
Acquisition Cost / Sale Proceeds	($15,000)					36,649
Renovation Costs		(10,000)				
Debt		17,500				(17,500)
Debt Service (at 7.0% rate)			(1,225)	(1,225)	(1,225)	(1,225)
Equity Cash Flow	**($15,000)**	**$7,500**	**($31)**	**$413**	**$787**	**$20,355**
Unlevered Cash Flow	**($15,000)**	**($10,000)**	**$1,194**	**$1,638**	**$2,012**	**$39,080**

Leveraged IRR Sensitivity

	NOI Performance		
Exit Cap Rate	**100%**	90.0%	80.0%
6.5%	**20.1%**	15.2%	9.3%
6.0%	22.9%	18.2%	12.7%
5.5%	25.9%	21.4%	16.1%

Leveraged IRR Sensitivity

	Renovation Cost		
Exit Cap Rate	**$10,000**	$12,000	$14,000
6.5%	**20.1%**	16.8%	13.4%
6.0%	22.9%	19.8%	16.6%
5.5%	25.9%	23.0%	20.0%

Source: NGKF Illustrative Projections

Sample Financial Illustrations

III. Sample Pro Forma - Historicals

($ in thousands, except per key amounts)

	Historicals					
	2010		2011		2012	
Number of Rooms	215		215		215	
Occupancy	70.0%		76.0%		82.0%	
Growth (% pts)			*8.6%*		*7.9%*	
ADR	$150.00		$161.00		$166.00	
Growth			*7.3%*		*3.1%*	
RevPAR	$105.00		$122.36		$136.12	
Growth			*16.5%*		*11.2%*	
Days Open	365		366		365	
Rooms Available	78,475		78,690		78,475	
Rooms Occupied	54,933		59,804		64,350	
Revenues	**$**	**%**	**$**	**%**	**$**	**%**
Rooms	$8,240	75.9%	$9,629	76.8%	$10,682	76.2%
Food & Beverage	2,315	21.3%	2,600	20.7%	2,990	21.3%
Rentals & Other Income	296	2.7%	315	2.5%	346	2.5%
Total Revenue	**$10,851**	**100.0%**	**$12,544**	**100.0%**	**$14,018**	**100.0%**
Revenue Growth			*15.6%*		*11.8%*	
Distributed Expenses						
Rooms	$2,050	24.9%	$2,300	23.9%	$2,450	22.9%
Food & Beverage	1,800	77.8%	2,035	78.3%	2,300	76.9%
Rentals & Other Income	96	32.4%	104	33.0%	116	33.5%
Total Distributed Expenses	**$3,946**	**36.4%**	**$4,439**	**35.4%**	**$4,866**	**34.7%**
Operating Income	**$6,905**	**63.6%**	**$8,105**	**64.6%**	**$9,152**	**65.3%**
Total Undistributed Expenses	**$2,300**	**21.2%**	**$2,295**	**18.3%**	**$2,495**	**17.8%**
GOP	**$4,604**	**42.4%**	**$5,809**	**46.3%**	**$6,657**	**47.5%**
Management Fee	326	3.0%	376	3.0%	421	3.0%
Total Fixed Expenses	**$1,270**	**11.7%**	**$1,505**	**12.0%**	**$1,710**	**12.2%**
EBITDA	**$3,009**	**27.7%**	**$3,928**	**31.3%**	**$4,526**	**32.3%**
FF&E Reserve	434	4.0%	502	4.0%	561	4.0%
NOI	**$2,575**	**23.7%**	**$3,426**	**27.3%**	**$3,965**	**28.3%**

Source: NGKF Illustrative Projections

Sample Financial Illustrations

III. Sample Pro Forma (cont'd) – 5-Year Forecast

($ in thousands, except per key amounts)

	Forecast										'13-'17 CAGR
	2013		2014		2015		2016		2017		
Number of Rooms	215		215		215		215		215		
Occupancy	85.0%		85.0%		85.0%		85.0%		85.0%		0.0%
Growth (% pts)	*0.0%*		*0.0%*		*0.0%*		*0.0%*		*0.0%*		
ADR	$174.30		$183.02		$192.17		$201.77		$211.86		5.0%
Growth	*5.0%*		*5.0%*		*5.0%*		*5.0%*		*5.0%*		
RevPAR	$148.16		$155.56		$163.34		$171.51		$180.08		5.0%
Growth	*0.0%*		*5.0%*		*5.0%*		*5.0%*		*5.0%*		
Days Open	365		365		365		365		365		
Rooms Available	78,475		78,475		78,475		78,475		78,475		
Rooms Occupied	66,704		66,704		66,704		66,704		66,704		
Revenues	**$**	**%**	**$**	**%**	**$**	**%**	**$**	**%**	**$**	**%**	
Rooms	$11,626	76.8%	$12,208	76.8%	$12,818	80.7%	$13,459	84.7%	$14,132	89.0%	5.0%
Food & Beverage	3,140	20.8%	3,296	20.8%	3,461	21.8%	3,634	22.9%	3,816	24.0%	5.0%
Rentals & Other Income	363	2.4%	381	2.4%	401	2.5%	421	2.6%	442	2.8%	5.0%
Total Revenue	**$15,129**	**100.0%**	**$15,886**	**100.0%**	**$16,680**	**105.0%**	**$17,514**	**110.3%**	**$18,390**	**115.8%**	5.0%
Revenue Growth	*7.9%*		*5.0%*		*5.0%*		*5.0%*		*5.0%*		
Distributed Expenses											
Rooms	$2,524	21.7%	$2,599	21.3%	$2,677	20.9%	$2,757	20.5%	$2,840	20.1%	3.0%
Food & Beverage	2,369	75.5%	2,440	74.0%	2,513	72.6%	2,589	71.2%	2,666	69.9%	3.0%
Rentals & Other Income	119	32.9%	123	32.3%	127	31.6%	131	31.0%	134	30.5%	3.0%
Total Distributed Expenses	**$5,012**	**33.1%**	**$5,162**	**32.5%**	**$5,317**	**31.9%**	**$5,477**	**31.3%**	**$5,641**	**30.7%**	3.0%
Operating Income	**$10,117**	**66.9%**	**$10,723**	**67.5%**	**$11,363**	**68.1%**	**$12,037**	**68.7%**	**$12,749**	**69.3%**	5.9%
Total Undistributed Expenses	**$2,751**	**18.2%**	**$2,889**	**18.2%**	**$3,033**	**18.2%**	**$3,185**	**18.2%**	**$3,344**	**18.2%**	5.0%
GOP	**$7,366**	**48.7%**	**$7,835**	**49.3%**	**$8,330**	**49.9%**	**$8,853**	**50.5%**	**$9,405**	**51.1%**	6.3%
Management Fee	454	3.0%	477	3.0%	500	3.0%	525	3.0%	552	3.0%	5.0%
Total Fixed Expenses	**$1,796**	**11.9%**	**$1,885**	**11.9%**	**$1,942**	**11.6%**	**$2,000**	**11.4%**	**$2,100**	**11.4%**	4.0%
EBITDA	**$5,117**	**33.8%**	**$5,473**	**34.5%**	**$5,887**	**35.3%**	**$6,327**	**36.1%**	**$6,753**	**36.7%**	7.2%
FF&E Reserve	605	4.0%	635	4.0%	667	4.0%	701	4.0%	736	4.0%	5.0%
NOI	**$4,512**	**29.8%**	**$4,837**	**30.5%**	**$5,220**	**31.3%**	**$5,626**	**32.1%**	**$6,017**	**32.7%**	7.5%

Source: NGKF Illustrative Projections

Sample Financial Illustrations

IV. Sample Refi Analysis

Debt Refinancing Analysis (including Sources and Uses) based on Assumed DSCR **($ in thousands, except per key amounts)**

- The analysis below illustrates a refinancing each year of the hotel and the refinancing excess / (shortfall) to the debt using NGKF's projections

	2015	2016	2017	2018	2019
Total Debt	$41,093	$40,144	$39,148	$38,105	$37,012
EBITDA	7,916	11,068	12,203	13,002	14,194
FF&E Reserve	1,249	1,469	1,554	1,615	1,704
NOI	6,667	9,599	10,649	11,387	12,490
NOI	$6,667	$9,599	$10,649	$11,387	$12,490
Assumed DSCR	*1.4x*	*1.4x*	*1.4x*	*1.4x*	*1.4x*
Implied Interest	$4,762	$6,857	$7,607	$8,134	$8,921
Refinance Constant	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*
New Loan Proceeds	$59,523	$85,707	$95,084	$101,670	$111,517
Fees[(1)]	(1,786)	(2,571)	(2,853)	(3,050)	(3,345)
Net Proceeds	**$57,737**	**$83,136**	**$92,232**	**$98,620**	**$108,171**
Refinancing Excess/(Shortfall) ($)	**$16,644**	**$42,992**	**$53,083**	**$60,515**	**$71,159**
Refinancing Excess/(Shortfall) (%)	**40.5%**	**107.1%**	**135.6%**	**158.8%**	**192.3%**
Refinancing Per Key (290 keys)	**$297,614**	**$428,535**	**$475,421**	**$508,351**	**$557,583**
Implied Refinancing EBITDA Multiple	**7.5x**	**7.7x**	**7.8x**	**7.8x**	**7.9x**

Source: NGKF Illustrative Projections

Sample Financial Illustrations

IV. Sample Refi Analysis (cont'd)

Debt Refinancing Analysis (including Sources and Uses) based on Assumed Debt Yield **($ in thousands, except per key amounts)**

- The analysis below illustrates a refinancing each year at an implied debt yield of 10.0% and the refinancing excess / (shortfall) to the debt using NGKF's projections

	2015	2016	2017	2018	2019
Total Debt	$41,093	$40,144	$39,148	$38,105	$37,012
EBITDA	7,916	11,068	12,203	13,002	14,194
FF&E Reserve	1,249	1,469	1,554	1,615	1,704
NOI	6,667	9,599	10,649	11,387	12,490
Debt Yield	16.2%	23.9%	27.2%	29.9%	33.7%
NOI	$6,667	$9,599	$10,649	$11,387	$12,490
Assumed Debt Yield	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
New Loan Proceeds	$66,666	$95,992	$106,494	$113,871	$124,898
Fees[(1)]	(2,000)	(2,880)	(3,195)	(3,416)	(3,747)
Net Proceeds	**$64,666**	**$93,112**	**$103,299**	**$110,454**	**$121,152**
Refinancing Excess/(Shortfall) ($)	**$23,572**	**$52,968**	**$64,151**	**$72,349**	**$84,139**
Refinancing Excess/(Shortfall) (%)	**57.4%**	**131.9%**	**163.9%**	**189.9%**	**227.3%**
Refinancing Per Key (290 keys)	**$333,328**	**$479,959**	**$532,471**	**$569,353**	**$624,492**
Implied Refinancing EBITDA Multiple	**8.4x**	**8.7x**	**8.7x**	**8.8x**	**8.8x**

Source: NGKF Illustrative Projections

V. Sample Modeling Errors

1. Forget to repay the debt

	2011	2012	2013	2014	2015	2016
Returns Analysis						
Property Cash Flow		$13,435	$14,833	$15,501	$16,721	$17,625
Acquisition Cost / Sale Proceeds	($155,000)					265,733
Renovation Costs	(20,000)					
Debt	110,000					(110,000)
Debt Service (at 7.0% rate)		(7,700)	(7,700)	(7,700)	(7,700)	(7,700)
Equity Cash Flow	**($65,000)**	**$5,735**	**$7,133**	**$7,801**	**$9,021**	**$165,658**
Unlevered Cash Flow	**($175,000)**	**$13,435**	**$14,833**	**$15,501**	**$16,721**	**$283,358**

V. Sample Modeling Errors (cont'd)

2. Forget to repay mezzanine debt or preferred equity

	2012	2013	2014	2015	2016	2017	2018	2019
Valuation Metrics								
Implied Purchase Price Cap Rate				14.8%	20.2%	21.6%	23.1%	25.3%
Implied All-In Cap Rate				6.8%	9.3%	9.9%	10.6%	11.6%
Implied EBITDA Multiple				13.6x	9.7x	8.8x	8.3x	7.6x
Returns Analysis								
Property Cash Flow	$0	$0	$0	$7,291	$9,966	$10,649	$11,387	$12,490
Acquisition Cost / Sale Proceeds	(45,368)	(4,000)						153,001
Development Costs		(29,000)	(29,000)					
Debt Issuance/Repayment		13,000	29,000					(37,012)
Preferred Equity		20,000						(20,000)
Interest Expense				(1,988)	(2,148)	(2,289)	(2,393)	(2,451)
Debt Amortization				(907)	(950)	(995)	(1,043)	(1,093)
Refinancing Proceeds				0	0	0	0	0
Equity Cash Flow	**($45,368)**	**$0**	**$0**	**$4,397**	**$6,868**	**$7,365**	**$7,951**	**$104,934**
Unlevered Cash Flow	**(45,368)**	**(33,000)**	**(29,000)**	**7,291**	**9,966**	**10,649**	**11,387**	**165,491**

V. Sample Modeling Errors (cont'd)

3. No construction period for a development

- Renovation costs and acquisition costs all incorrectly taking place in the same year instead of prior to receiving property cash flows.

	Close	2014	2015	2016	2017
Valuation Metrics					
Implied Purchase Price Cap Rate		11.2%	15.4%	18.9%	22.9%
Implied All-In Cap Rate		7.6%	10.5%	12.9%	15.6%
Implied EBITDA Multiple		10.6x	7.9x	6.5x	5.5x
Credit Stats					
Debt / EBITDA		4.1x	3.0x	2.5x	2.1x
Debt Yield		19.9%	27.3%	33.5%	40.5%
DSCR		2.8x	3.9x	4.8x	5.8x
Returns Analysis					
Property Cash Flow		$1,194	$1,638	$2,012	$2,431
Acquisition Cost / Sale Proceeds		($5,625)			36,649
Renovation Costs		(10,000)			
Debt		6,000			(6,000)
Debt Service (at 7.0% rate)		(420)	(420)	(420)	(420)
Equity Cash Flow	**$0**	**$0**	**($8,851)**	**$1,218**	**$1,592**	**$32,660**
Unlevered Cash Flow	**$0**	**$0**	**($14,431)**	**$1,638**	**$2,012**	**$39,080**

1. Funding all development (or capex) at closing

- The leveraged deal return is 14.2% when funding all development costs (or capex) at closing.

Financial Summary ($ in thousands, except per key amounts)

Illustrative Sources & Uses		
Purchase Price	$44,000	41.0%
Development Cost[(1)]	58,000	54.0%
Transaction Costs	5,368	5.0%
Total Uses	**$107,368**	**100.0%**
Debt	42,000	39.1%
Preferred Equity	20,000	18.6%
Equity	45,368	42.3%
Total Sources	**$107,368**	**100.0%**
Valuation Metrics:		
All-In Price / Key		$370,236
Debt / Key		144,828
Rooms		290

Exit Assumptions	
2019 NOI	$12,490
Exit Cap Rate	8.0%
Gross Sale Price	$156,123
Less: 2.0% Fee	2.0%
Net Sale Price	**$153,001**
Exit / Key	$538,356

Returns		
Equity IRR		**14.2%**
Equity NPV	10%	$17,847
Unleveraged IRR		**10.5%**
Unleveraged NPV	10%	$3,215
Equity Multiple		2.9x

	2012	2013	2014	2015	2016	2017	2018	2019
Valuation Metrics								
Implied Purchase Price Cap Rate				14.8%	20.2%	21.6%	23.1%	25.3%
Implied All-In Cap Rate				6.8%	9.3%	9.9%	10.6%	11.6%
Implied EBITDA Multiple				13.6x	9.7x	8.8x	8.3x	7.6x
Returns Analysis								
Property Cash Flow	$0	$0	$0	$7,291	$9,966	$10,649	$11,387	$12,490
Acquisition Cost / Sale Proceeds	(45,368)	(4,000)						153,001
Development Costs	(58,000)							
Debt Issuance/Repayment		13,000	29,000					(37,012)
Preferred Equity		20,000						(20,000)
Interest Expense				(1,988)	(2,148)	(2,289)	(2,393)	(2,451)
Debt Amortization				(907)	(950)	(995)	(1,043)	(1,093)
Refinancing Proceeds				0	0	0	0	0
Equity Cash Flow	**($103,368)**	**$29,000**	**$29,000**	**$4,397**	**$6,868**	**$7,365**	**$7,951**	**$104,934**
Unlevered Cash Flow	**(103,368)**	**(4,000)**	**0**	**7,291**	**9,966**	**10,649**	**11,387**	**165,491**

Sample Financial Illustrations

VI. How deal structuring affects returns (cont'd)

1. Funding all development (or capex) at closing (cont'd)

- The leveraged deal return is 18.0% with a 2-year development period (equal funding in each year)

Financial Summary ($ in thousands, except per key amounts)

Illustrative Sources & Uses		
Purchase Price	$44,000	41.0%
Development Cost[1]	58,000	54.0%
Transaction Costs	5,368	5.0%
Total Uses	**$107,368**	**100.0%**
Debt	42,000	39.1%
Preferred Equity	20,000	18.6%
Equity	45,368	42.3%
Total Sources	**$107,368**	**100.0%**
Valuation Metrics:		
All-In Price / Key		$370,236
Debt / Key		144,828
Rooms		290

Exit Assumptions	
2019 NOI	$12,490
Exit Cap Rate	8.0%
Gross Sale Price	$156,123
Less: 2.0% Fee	2.0%
Net Sale Price	**$153,001**
Exit / Key	$538,356

Returns		
Equity IRR		**18.0%**
Equity NPV	10%	$25,516
Unleveraged IRR		**12.0%**
Unleveraged NPV	10%	$10,884
Equity Multiple		2.9x

	2012	2013	2014	2015	2016	2017	2018	2019
Valuation Metrics								
Implied Purchase Price Cap Rate				14.8%	20.2%	21.6%	23.1%	25.3%
Implied All-In Cap Rate				6.8%	9.3%	9.9%	10.6%	11.6%
Implied EBITDA Multiple				13.6x	9.7x	8.8x	8.3x	7.6x
Returns Analysis								
Property Cash Flow	$0	$0	$0	$7,291	$9,966	$10,649	$11,387	$12,490
Acquisition Cost / Sale Proceeds	(45,368)	(4,000)						153,001
Development Costs		(29,000)	(29,000)					
Debt Issuance/Repayment		13,000	29,000					(37,012)
Preferred Equity		20,000						(20,000)
Interest Expense				(1,988)	(2,148)	(2,289)	(2,393)	(2,451)
Debt Amortization				(907)	(950)	(995)	(1,043)	(1,093)
Refinancing Proceeds				0	0	0	0	0
Equity Cash Flow	**($45,368)**	**$0**	**$0**	**$4,397**	**$6,868**	**$7,365**	**$7,951**	**$104,934**
Unlevered Cash Flow	**(45,368)**	**(33,000)**	**(29,000)**	**7,291**	**9,966**	**10,649**	**11,387**	**165,491**

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Sample Financial Illustrations

VI. How deal structuring affects returns (cont'd)

2. Different leverage levels

- Leverage of approximately 40.0% results in a leveraged equity IRR of 18.0%.

Financial Summary ($ in thousands, except per key amounts)

Illustrative Sources & Uses		
Purchase Price	$44,000	41.0%
Development Cost[(1)]	58,000	54.0%
Transaction Costs	5,368	5.0%
Total Uses	**$107,368**	**100.0%**
Debt	42,000	39.1%
Preferred Equity	20,000	18.6%
Equity	45,368	42.3%
Total Sources	**$107,368**	**100.0%**
Valuation Metrics:		
All-In Price / Key		$370,236
Debt / Key		144,828
Rooms		290

Exit Assumptions	
2019 NOI	$12,490
Exit Cap Rate	8.0%
Gross Sale Price	$156,123
Less: 2.0% Fee	2.0%
Net Sale Price	**$153,001**
Exit / Key	$538,356

Returns		
Equity IRR		**18.0%**
Equity NPV	10%	$25,516
Unleveraged IRR		**12.0%**
Unleveraged NPV	10%	$10,884
Equity Multiple		2.9x

	2012	2013	2014	2015	2016	2017	2018	2019
Valuation Metrics								
Implied Purchase Price Cap Rate				14.8%	20.2%	21.6%	23.1%	25.3%
Implied All-In Cap Rate				6.8%	9.3%	9.9%	10.6%	11.6%
Implied EBITDA Multiple				13.6x	9.7x	8.8x	8.3x	7.6x
Returns Analysis								
Property Cash Flow	$0	$0	$0	$7,291	$9,966	$10,649	$11,387	$12,490
Acquisition Cost / Sale Proceeds	(45,368)	(4,000)						153,001
Development Costs		(29,000)	(29,000)					
Debt Issuance/Repayment		13,000	29,000					(37,012)
Preferred Equity		20,000						(20,000)
Interest Expense				(1,988)	(2,148)	(2,289)	(2,393)	(2,451)
Debt Amortization				(907)	(950)	(995)	(1,043)	(1,093)
Refinancing Proceeds				0	0	0	0	0
Equity Cash Flow	**($45,368)**	**$0**	**$0**	**$4,397**	**$6,868**	**$7,365**	**$7,951**	**$104,934**
Unlevered Cash Flow	**(45,368)**	**(33,000)**	**(29,000)**	**7,291**	**9,966**	**10,649**	**11,387**	**165,491**

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2. Different leverage levels (cont'd)

- Increasing to leverage of approximately 75.0% results in a higher leveraged equity return of 20.4%.

Financial Summary ($ in thousands, except per key amounts)

Illustrative Sources & Uses		
Purchase Price	$44,000	41.0%
Development Cost[(1)]	58,000	54.0%
Transaction Costs	5,368	5.0%
Total Uses	**$107,368**	**100.0%**
Debt	80,000	74.5%
Preferred Equity	20,000	18.6%
Equity	7,368	6.9%
Total Sources	**$107,368**	**100.0%**
Valuation Metrics:		
All-In Price / Key		$370,236
Debt / Key		275,862
Rooms		290

Exit Assumptions	
2019 NOI	$12,490
Exit Cap Rate	8.0%
Gross Sale Price	$156,123
Less: 2.0% Fee	2.0%
Net Sale Price	**$153,001**
Exit / Key	$538,356

Returns		
Equity IRR		**20.4%**
Equity NPV	10%	$27,373
Unleveraged IRR		**11.1%**
Unleveraged NPV	10%	$6,669
Equity Multiple		11.3x

	2012	2013	2014	2015	2016	2017	2018	2019
Valuation Metrics								
Implied Purchase Price Cap Rate				14.8%	20.2%	21.6%	23.1%	25.3%
Implied All-In Cap Rate				6.8%	9.3%	9.9%	10.6%	11.6%
Implied EBITDA Multiple				13.6x	9.7x	8.8x	8.3x	7.6x
Returns Analysis								
Property Cash Flow	$0	$0	$0	$7,291	$9,966	$10,649	$11,387	$12,490
Acquisition Cost / Sale Proceeds	(7,368)	(42,000)						153,001
Development Costs	(58,000)							
Debt Issuance/Repayment		24,762	55,238					(70,500)
Preferred Equity		20,000						(20,000)
Interest Expense				(3,786)	(4,092)	(4,360)	(4,559)	(4,668)
Debt Amortization				(1,727)	(1,809)	(1,896)	(1,987)	(2,082)
Refinancing Proceeds				0	0	0	0	0
Equity Cash Flow	**($65,368)**	**$2,762**	**$55,238**	**$1,778**	**$4,065**	**$4,393**	**$4,842**	**$68,241**
Unlevered Cash Flow	**(65,368)**	**(42,000)**	**0**	**7,291**	**9,966**	**10,649**	**11,387**	**165,491**

3. Different exit cap rates

- An exit cap rate of 8% produces a leveraged equity IRR of 18.0%.

Financial Summary ($ in thousands, except per key amounts)

Illustrative Sources & Uses		
Purchase Price	$44,000	41.0%
Development Cost[(1)]	58,000	54.0%
Transaction Costs	5,368	5.0%
Total Uses	**$107,368**	**100.0%**
Debt	42,000	39.1%
Preferred Equity	20,000	18.6%
Equity	45,368	42.3%
Total Sources	**$107,368**	**100.0%**
Valuation Metrics:		
All-In Price / Key		$370,236
Debt / Key		144,828
Rooms		290

Exit Assumptions	
2019 NOI	$12,490
Exit Cap Rate	8.0%
Gross Sale Price	$156,123
Less: 2.0% Fee	2.0%
Net Sale Price	**$153,001**
Exit / Key	$538,356

Returns		
Equity IRR		**18.0%**
Equity NPV	10%	$25,516
Unleveraged IRR		**12.0%**
Unleveraged NPV	10%	$10,884
Equity Multiple		2.9x

	2012	2013	2014	2015	2016	2017	2018	2019
Valuation Metrics								
Implied Purchase Price Cap Rate				14.8%	20.2%	21.6%	23.1%	25.3%
Implied All-In Cap Rate				6.8%	9.3%	9.9%	10.6%	11.6%
Implied EBITDA Multiple				13.6x	9.7x	8.8x	8.3x	7.6x
Returns Analysis								
Property Cash Flow	$0	$0	$0	$7,291	$9,966	$10,649	$11,387	$12,490
Acquisition Cost / Sale Proceeds	(45,368)	(4,000)						153,001
Development Costs		(29,000)	(29,000)					
Debt Issuance/Repayment		13,000	29,000					(37,012)
Preferred Equity		20,000						(20,000)
Interest Expense				(1,988)	(2,148)	(2,289)	(2,393)	(2,451)
Debt Amortization				(907)	(950)	(995)	(1,043)	(1,093)
Refinancing Proceeds				0	0	0	0	0
Equity Cash Flow	**($45,368)**	**$0**	**$0**	**$4,397**	**$6,868**	**$7,365**	**$7,951**	**$104,934**
Unlevered Cash Flow	**(45,368)**	**(33,000)**	**(29,000)**	**7,291**	**9,966**	**10,649**	**11,387**	**165,491**

Sample Financial Illustrations

VI. How deal structuring affects returns (cont'd)

3. Different exit cap rates (cont'd)

- Decreasing the exit cap rate results in a higher leveraged equity return of 20.6%.

Financial Summary ($ in thousands, except per key amounts)

Illustrative Sources & Uses		
Purchase Price	$44,000	41.0%
Development Cost[(1)]	58,000	54.0%
Transaction Costs	5,368	5.0%
Total Uses	**$107,368**	**100.0%**
Debt	42,000	39.1%
Preferred Equity	20,000	18.6%
Equity	45,368	42.3%
Total Sources	**$107,368**	**100.0%**
Valuation Metrics:		
All-In Price / Key		$370,236
Debt / Key		144,828
Rooms		290

Exit Assumptions	
2019 NOI	$12,490
Exit Cap Rate	7.0%
Gross Sale Price	$178,426
Less: 2.0% Fee	2.0%
Net Sale Price	**$174,858**
Exit / Key	$615,264

Returns		
Equity IRR		**20.6%**
Equity NPV	10%	$36,730
Unleveraged IRR		**13.9%**
Unleveraged NPV	10%	$22,098
Equity Multiple		3.4x

	2012	2013	2014	2015	2016	2017	2018	2019
Valuation Metrics								
Implied Purchase Price Cap Rate				14.8%	20.2%	21.6%	23.1%	25.3%
Implied All-In Cap Rate				6.8%	9.3%	9.9%	10.6%	11.6%
Implied EBITDA Multiple				13.6x	9.7x	8.8x	8.3x	7.6x
Returns Analysis								
Property Cash Flow	$0	$0	$0	$7,291	$9,966	$10,649	$11,387	$12,490
Acquisition Cost / Sale Proceeds	(45,368)	(4,000)						174,858
Development Costs		(29,000)	(29,000)					
Debt Issuance/Repayment		13,000	29,000					(37,012)
Preferred Equity		20,000						(20,000)
Interest Expense				(1,988)	(2,148)	(2,289)	(2,393)	(2,451)
Debt Amortization				(907)	(950)	(995)	(1,043)	(1,093)
Refinancing Proceeds				0	0	0	0	0
Equity Cash Flow	**($45,368)**	**$0**	**$0**	**$4,397**	**$6,868**	**$7,365**	**$7,951**	**$126,792**
Unlevered Cash Flow	**(45,368)**	**(33,000)**	**(29,000)**	**7,291**	**9,966**	**10,649**	**11,387**	**187,348**

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