



Hospitality Appraisals, Inc.
4112 George Washington Memorial Highway, Suite 4
Yorktown, VA 23692
Phone: 757.877.7319
Fax: 757.877.7954
Email: hosapp@aol.com

June 24, 2016

Mr. Charles Kolakowski
Town of Bedford, Virginia
215 East Main Street
Bedford, VA 24523

**Reference: Market Analysis
Proposed Hotel
Town of Bedford, VA 24523
HAI # 16-164**

Dear Mr. Kolakowski:

In accordance with our engagement letter dated April 27, 2016, we have prepared a ***Market Analysis*** for the above referenced property. The scope of this assignment includes a site analysis, a complete supply and demand analysis, estimated market positioning of the proposed subject, market area review, a formulation of recommended facilities, amenities and rates, a 10 year projection of occupancy, average rate, and RevPAR.

The reader should note that this analysis was based upon assumptions and estimates that are subject to uncertainty and variation. Much of this information is obtained through interviews with third parties and as such, this data is not always completely reliable. In addition, the consultants have made certain assumptions regarding the future behavior of consumers and the general economy which tends to be highly uncertain. As a result, it is likely that some assumptions will not materialize and that there may be events or circumstances that are unanticipated which may occur, which will result in the operating results being substantially different than contained in this report. While our analysis and conclusions are conscientiously prepared on the basis of our experience and the information that was available at the time, we make no warranty of any kind that the conclusions presented in this report will in fact be achieved. As hotel management is a key factor in the success of any lodging venture, we had not evaluated the effectiveness of management, nor are we responsible for any future marketing efforts and other management decisions upon which the results in this report may depend on. Information obtained from third parties is subject to the third parties' motives, access to current and relevant information, etc. Additionally, we have not researched, nor have we ascertained the legal, engineering, and regulatory requirements applicable to the property, but have assumed that all will be in compliance with state, local, and federal laws. We are further not responsible for any governmental agency that may enact legislation, including any environmental or ecological

Page 2 of 4

Mr. Charles Kolakowski

Town of Bedford, Virginia

Reference: Market Analysis

Proposed Hotel – Town of Bedford, VA

June 24, 2016

matters that may impact the subject property. Our market analysis did not include any potential impact from any significant improvement or decline in the local or general economic conditions.

The reader should note that we are not responsible for any events, conditions, or circumstances that may affect the market subsequent to the effective day of our field work, May 12, 2016.

It is important for the reader to note that the consultant's conclusion(s) is based upon the assumption that there are no hidden or unapparent conditions of the property that might impact upon buildability. The consultant recommends due diligence be conducted through the local building department or municipality to investigate buildability and whether the property is suitable for its intended use(s). The appraiser makes no representations, guarantees, or warranties.

It is also important for the reader to note that the opinion contained herein is invalid if detached from this report, which contains the text, exhibits, and the Addendum. Additionally, this report may not be distributed to or relied upon by other persons or entities without written permission of Hospitality Appraisals, Inc.

Extraordinary Assumption(s):

The use of these extraordinary assumption might have affected the assignment results.

1. We have based this report on the assumption a site will be selected for development with direct access and good visibility along US-460 between the US-460/Main Street interchange (east) and the US-460/Dillions Way intersection (west) in Bedford.
2. We have not considered any other increase in supply other than those properties discussed in this report.

Page 3 of 4

Mr. Charles Kolakowski

Town of Bedford, Virginia

Reference: Market Analysis

Proposed Hotel – Town of Bedford, VA

June 24, 2016

Mr. Kolakowski, thank you for this opportunity to be of service to you and Town of Bedford. If we can be of further assistance, please let us know.

Sincerely,

HOSPITALITY APPRAISALS, INC.

A handwritten signature in black ink, appearing to read "Robert White". The signature is written in a cursive style with a large initial "R" and "W".

Robert W. White, MAI, CHA

President

Certified General Real Estate Appraiser

Commonwealth of Virginia License #4001 001152

MARKET ANALYSIS

OF A

PROPOSED HOTEL

IN THE

TOWN OF BEDFORD, VA

AS OF

MAY 12, 2016

EXECUTIVE SUMMARY

The purpose of this assignment is to conduct a market analysis to determine the market support, as of May 12, 2016 for a proposed hotel to be located in the Town of Bedford, Virginia. The site has easy access to all demand generators. The proposed room mix is as follows:

King	25
Queen-Queen	50
Total *	75

** Includes ADA Rooms*

The prototype improvements will include a four-story, mid-upper scale lodging facility. We are recommending the specific brand of Hampton Inn, with a Fairfield Inn as an alternate. The proposed Hampton Inn is recommended to feature:

- Meeting Room
- Fitness Center
- Business Center
- Indoor Pool
- Sundry Shop
- Guest laundry (optional)

In addition, the physical plant would be anticipated to include one elevator, housekeeping, storage, electrical/mechanical areas, and front office facilities.

For the purposes of this study we are assuming that the furnishings, equipment and amenities will meet the standards of a Hampton Inn package. In addition, we believe that the facility as proposed will allow the subject to achieve the revenues and cash flows that we are projecting.

In preparing this report, we utilized a Smith Travel Research Trends Report which analyzes the collective occupancies and average daily rates of several properties that are similar and/or proximate to the proposed subject, which indicates overall increasing occupancies and average rate over the past several years.

The results of our supply and demand analysis and projected operating revenues and expenses are summarized in the following chart.

**EXECUTIVE SUMMARY
(Continued)**

**Operating Summary
Proposed Limited-Service Facility-Bedford. VA**

Year	1	2	3	4	5	6	7	8	9	10
# of Rooms	75	75	75	75	75	75	75	75	75	75
Occupancy	65.0%	70.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Average Daily Rate	\$95.00	\$98.00	\$101.00	\$104.00	\$107.00	\$110.00	\$113.00	\$116.00	\$119.00	\$123.00
Revenue Per Available Room	\$61.75	\$68.60	\$72.72	\$74.88	\$77.04	\$79.20	\$81.36	\$83.52	\$85.68	\$88.56

Conclusion

The occupancy and average rate projections and subsequent RevPAR projections set forth in the subject's projections are well supported by the historical market data as well as current market indicators. Based on this ten-year model, the project appears to be economically feasible.

Extraordinary Assumption(s):

The use of these extraordinary assumption might have affected the assignment results.

1. We have based this report on the assumption a site will be selected for development with direct access and good visibility along US-460 between the US-460/Main Street interchange (east) and the US-460/Dillions Way intersection (west) in Bedford.
2. We have not considered any other increase in supply other than those properties discussed in this report.

TABLE OF CONTENTS

SECTION I. INTRODUCTION	PAGE #
Letter of Transmittal	
Title Page	
Executive Summary	i
Table of Contents	iii
Type of Value	1
Intended Use/User.....	1
Scope of the Assignment	1
Definitions.....	1
Date of the Report.....	4
Date of the Marketability Study.....	4
Assumptions and Limiting Conditions	4
Qualifications - Robert W. White, MAI, CHA.....	8
Certification	10
 SECTION II. AREA AND PROPERTY DESCRIPTIONS	
Regional Data and Overview of the Economic Base.....	12
Neighborhood Analysis and Locational Influences.....	18
Census Tract and Special Flood Hazard Zone	25
Zoning and Other Restrictions	25
Utilities.....	26
Property Description	26
Supply and Demand Analysis.....	29
 SECTION III. VALUATIONS AND CONCLUSIONS	
Recommended Facilities.....	46
Recommended Rate Structure.....	49

TYPE OF VALUE

This report was prepared to conduct a *Phase I Market Study* the overall market support for a proposed major franchise hotel to be situated along US 460 between the US 460/Main Street interchange and the US 460/Dillions Way interchange in the Town of Bedford, Virginia. A more detailed description is included in the *Property Description* section under *Site Analysis*.

INTENDED USE/USER

The intended use of the assignment is to provide The Town of Bedford, Virginia with a basis for understanding the support for an additional lodging facility situated on the US 460 corridor in Bedford, Virginia. We were engaged for this assignment by letter from Mr. Charles Kolakowski, Town Manager of the Town of Bedford, Virginia (intended user), dated April 27, 2016, a copy of which is included in the Addendum to this report. This report is not intended for any other use or intended user.

SCOPE OF THE ASSIGNMENT

During the course of this assignment, the consultant has thoroughly researched the lodging market in the subject's area. The scope of this assignment included identifying potential sites in the Bedford area along the US 460 corridor; identifying competitive lodging facilities that would effectively compete with the proposed subject property; a physical inspection of at least three potential sites; an analysis regarding access, visibility, proximity to demand, and zoning requirements; a market analysis which effectively delineated the bounds of influence, population trends, employment trends, major business and industries, tourism venues; a complete supply and demand analysis which included a 10 year projection of occupancy, average daily rate, and RevPAR; recommended facilities, amenities and services; and also recommended possible franchises.

I (We) have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three (3) year period immediately preceding acceptance of this assignment.

The consultant queried lodging professionals, township, and county officials, and other real estate professionals within the local market to assist in determining the market analysis and projected operating results for this project. Approximately 5 facilities that were considered potential competitors were physically visited. Finally, the consultant has relied upon his extensive experience and knowledge of the lodging industry

DEFINITIONS

Market Analysis

The study of the supply and demand in a specific area for a specific property type.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, 2015; Page 139.

Definitions: Continued

Market Value

The following definition of Market Value is used by agencies that regulate federally insured financial institutions in the United States:

The most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- a. buyer and seller are typically motivated;
- b. both parties are well informed or well advised, and each acting in what they consider their own best interest;
- c. a reasonable time is allowed for exposure in the open market;
- d. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

(12 C.F.R. Part 34.42(g); 55 *Federal Register* 34696, August 24, 1990, as April 9, 1992; 59 *Federal Register* 12202, 29499, June 7, 1994)

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, 2015; Page 142.

Fee Simple Estate

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, 2015; Page 90.

As Is Market Value

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date. (Interagency Appraisal and Evaluation Guidelines) Note that the use of the “as is” phrase is specific to appraisal regulations pursuant to FIRREA applying to appraisals prepared for regulated lenders in the United States. The concept of an “as is” value is not included in the Standards of Valuation Practice of the Appraisal Institute, USPAP, or International Valuation Standards.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, 2015; Page 13.

Definitions: Continued

Market Value of the Going Concern

The market value of an established and operating business including the real property, personal property, financial assets, and the intangible assets of the business.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, 2015; Page 143.

Prospective Opinion of Value

A value opinion effective as of a specified future date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under construction to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, 2015; Page 180.

Use Value

The value of a property assuming a specific use, which may or may not be the property's highest and best use on the effective date of the appraisal. Use value may or may not be equal to market value but is different conceptually.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, 2015; Page 241.

Value In Use

The value of a property assuming a specific use, which may or may not be the property's highest and best use on the effective date of the appraisal. Value in use may or may not be equal to market value but is different conceptually.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, 2015; Page 245.

Stabilized Occupancy

1. The occupancy of a property that would be expected at a particular point in time, considering its relative competitive strength and supply and demand and conditions at the time, and presuming it is priced at market exposure. A property is at stabilized occupancy when it is capturing its appropriate share of market demand.
2. An expression of the average or typical occupancy that would be expected for a property over a specified projection period or over its economic life.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, Sixth Edition, 2015, Page 219.

Definitions: Continued

Extraordinary Assumption

An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions.

Comment: Extraordinary Assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

Source: USPAP, 2016-2017 Edition, Page U-3.

DATES OF VALUATION

Date of Inspection:	May 12, 2016
Market Value Estimate "As Is":	May 12, 2016
Prospective Market Value Estimate "As Complete":	December 1, 2017
Prospective Market Value Estimate "As Stabilized":	December 1, 2019
Date of the Report:	June 24, 2016

OWNERSHIP AND HISTORY

For this analysis there was no specific site which we could finalize and discuss any prior transfers. However, this was not within the scope of our assignment, hence no ownership and history data was reported for this market analysis as the potential development for a lodging facility included more than one site which is specifically precludes any other analysis regarding ownership and history.

ASSUMPTIONS AND LIMITING CONDITIONS

General Assumptions:

1. The information on which this report is based has been obtained from sources normally used by **Hospitality Appraisals, Incorporated** and is considered to be reliable, but is in no sense guaranteed.
2. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
3. **Hospitality Appraisals, Incorporated** reserves the right to alter their opinion on value on the basis of information withheld or not discovered in the normal course of a diligent investigation.

4. The consultants assume no responsibility for matters of a legal nature affecting the property or the title thereto. Nor do the consultants render any opinion as to title, which is assumed to be good and marketable.
5. The property is assumed to operate under responsible ownership and competent management.
6. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless noncompliance is stated, defined and considered in the report.
7. It is assumed that all applicable zoning and use regulations have been complied with, unless nonconformity has been stated, defined and considered in this report.
8. It is assumed that all required licenses, certificates of occupancy, consents or other legislative or administrative authority from any local, state or national government or private entity or organization will be obtained for any use on which the results contained in this report is based.
9. The consultants are not required to give testimony or appear in court because of having made this report with reference to the property in questions, unless arrangements have been previously made therefore. The fee charged for this report does not include payment for court testimony or for further consultation.
10. No opinion of an engineering nature is intentionally expressed or implied and no responsibility is assumed for matters of this nature.
11. No survey was made especially for this report. Property lines, area, etc. of record or otherwise provided, are assumed to be correct.
12. Maps, plats and exhibits are for illustration only, as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose.
13. Disclosure of the contents of the report is governed by the Bylaws and Regulations of the professional organizations with which **Hospitality Appraisals, Incorporated** is affiliated.
14. Acceptance of and/or use of this report constitutes acceptance of these conditions.
15. This report is intended to comply with the Code of Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. It is further intended to comply with the Uniform Standards of Professional Appraisal Practice (USPAP).

Limiting Conditions:

1. Possession of this report, or a copy, does not carry with it the right of publication. Neither all nor any part of the contents of this report (especially any conclusions as to value, identity of the consultants or firm which they are connected or any reference to the Appraisal Institute or their designations) shall be conveyed to any person or entity other than the consultants' or firm's client, through advertising, solicitation materials, public relations, news, sales, or other media without the written consent and approval of the authors, particularly as to valuation conclusions, the identity of the consultants or firm with which the consultant is connected, or any reference to the Appraisal Institute or designation. Further, the consultant or firm assumes no obligation, liability, or accountability to any third party. If this report is placed in the hands of anyone but the client, client shall make such party aware of all the assumptions and limiting conditions of the assignment.
2. This report is to be used in whole, not in part. The contents, especially the conclusions as to value, the identity of the consultants and/or **Hospitality Appraisals, Incorporated** and any reference to the Appraisal Institute, or the MAI or CHA designations, shall not be used in connection with any other report or disseminated to the public through advertising, public relations, news, sales or other media without the prior written permission of **Hospitality Appraisals, Incorporated**.
3. The forecasts, projections or operating estimates are based upon current market conditions, anticipated short term supply and demand factors and a continued stable economy. These forecasts are, therefore, subject to changes in future conditions
4. Robert White, MAI, CHA has inspected the subject site.
5. On January 26, 1992, the Americans with Disabilities Act (ADA) took effect. This report has not considered this act and the impact it may have on the subject with respect to general compliance.
6. The consultants have prepared this report in compliance with the Competency Provision explicitly detailed in the Uniform Standards of Professional Appraisal Practice (USPAP). The consultants are fully experienced in the analysis of this product type (see Qualifications).
7. The financial and operating projections in this report are in no way warranted or guaranteed by **Hospitality Appraisals, Incorporated**.
8. No other competitive hotel projects will enter the market as of the effective dates of the report, other than those indicated in the report.
9. The forecasts, projections or operating estimates are based upon current market conditions, anticipated short term supply and demand factors and a continued stable economy. These forecasts are, therefore, subject to changes in future conditions. The

consultant cannot be held responsible for unforeseeable events that alter market conditions after the effective date of this assignment.

Extraordinary Assumption(s):

The use of these extraordinary assumption might have affected the assignment results.

1. We have based this report on the assumption a site will be selected for development with direct access and good visibility along US-460 between the US-460/Main Street interchange (east) and the US-460/Dillions Way intersection (west) in Bedford.
2. We have not considered any other increase in supply other than those properties discussed in this report.

QUALIFICATIONS

Robert W. White, MAI, CHA

Born in Philadelphia and a graduate of St. Joseph's University, Robert W. White has been actively involved in the hotel industry since 1969. He has an extensive background in the management of both restaurant and hotel properties. As Controller for the Ben Franklin Hotel (an 1100 room facility) in Philadelphia, he had a staff of 15 people reporting to him. In the early 1970s, he was Resident Manager of the 650-room Warwick Hotel in Philadelphia. As such, he controlled the Front Office, Housekeeping, Engineering, Food and Beverage Sales Departments.

The late 1970s found Mr. White as the General Manager of the Brandywine Hilton Hotel in Claymont, Delaware. He oversaw the operation of the 200 unit hotel, including restaurants, lounge, and large meeting and banquet space.

Shortly thereafter, Mr. White was the Executive Assistant Manager at the Plaza Hotel in Philadelphia. This was an all-suite concept, and he supervised and maintained a profit in all departments. He also served as Project Coordinator for a \$5 million renovation program.

Mr. White's experience extends beyond individual properties to the larger, multi-property chains. As a Regional Supervisor for Franchise Operations for Hilton Inns, he reviewed the quarterly operations of 15 franchise properties. He also assisted the Regional Manager in site evaluation, analyzed and reviewed feasibility studies and coordinated projects for new development and conversions.

As Regional Sales Director for Franchise Sales for Holiday Inns, Mr. White was responsible for 1,000 rooms, including franchise, company management and wholly-owned properties. He conducted preliminary market surveys and profit and loss projections, as well as analyzed the value of existing properties for possible conversions to the Holiday Inn franchise.

Later, as Senior Vice President and Director of Operations for Lodging Unlimited, Inc. Mr. White oversaw the operations for numerous hotels. During this 4 year period, he turned-around approximately 25 distressed properties and conducted major renovations in 10 more.

As a Real Estate Sales Associate, Mr. White received extensive experience (4 years) in selling hotels. During this same period, Mr. White was also responsible for the consulting and valuation services for Mumford Company.

He is currently President of Hospitality Appraisals, Inc., an appraisal and consulting firm which specializes in hotels/motels and restaurant properties. He has prepared a number of Feasibility and Market Analysis' for all of the major franchises as well as independent lodging and restaurant facilities. In this position, Mr. White directs and oversees all of the firm's financial and operational activities.

PERSONAL AND EDUCATIONAL BACKGROUND

Robert W. White, MAI, CHA

EDUCATION:

- Community College of Philadelphia; Graduated in 1968; AA Degree in Marketing
- St. Joseph's University, Philadelphia, Pennsylvania; BS Degree in Accounting

APPRAISAL INSTITUTE COURSES:

- Completed Courses 1A1 & 1A2, Appraisal Principles & Appraisal Procedures
- Completed Capitalization Theory and Techniques, Parts A & B
- Completed Current Parts A & B of Uniform Standards of Professional Practice Course
- Completed Advanced Income Capitalization Course
- Completed Case Studies and Report Writing
- Completed Advanced Sales and Cost Approaches Course
- Completed Advanced Applications
- Passed first two levels of Experience Reports
- Completed Highest and Best Use Course
- Completed Demonstration Report
- Completed Ted Whitmer's Seminar for the Comprehensive Appraisal Workshop
- Passed Comprehensive Examination
- Completed Separating Real and Personal Property from Intangible Business Assets

PROFESSIONAL AFFILIATIONS:

- Member Appraisal Institute (MAI) Certification #11483
- Certified Hotel Administrator (CHA)

LICENSES:

Certified General Real Estate Appraiser:

• State of Alabama	License #G00708	expiring 09/30/17
• State of Arizona	License #32129	expiring 02/28/18
• State of Colorado	License #100034262	expiring 12/31/17
• District of Columbia	License #GA11745	expiring 02/29/18
• State of Delaware	License #X1-0000316	expiring 10/31/17
• State of Georgia	License #5442	expiring 09/30/16
• State of Illinois	License #553.001458	expiring 09/30/17
• State of Indiana	License #CG41500031	expiring 06/30/18
• State of Maryland	License #10745	expiring 02/14/17
• State of Michigan	License #1201004980	expiring 07/31/17
• State of New Jersey	License #42RG00182600	expiring 12/31/17
• State of New York	License #46000035995	expiring 08/08/17
• State of North Carolina	License #A4221	expiring 06/30/17
• State of Ohio	License #2001004932	expiring 03/15/17
• Commonwealth of Pennsylvania	License #GA001761R	expiring 06/30/17
• State of South Carolina	License #CG3982	expiring 06/30/16
• State of Texas	License #TX-1330952-G	expiring 04/30/18
• Commonwealth of Virginia	License #4001 001152	expiring 02/28/18
• State of Washington	License #1101804	expiring 09/02/16
• State of West Virginia	License #CG487	expiring 09/30/16

PROFESSIONAL QUALIFICATIONS:

- Author of several articles on hotel management published in major trade publications.
- Author of "A Second Opinion", a management case study report.
- Has testified as an expert witness in Federal Bankruptcy Court, District Court and Chancery Court on numerous occasions.
- Moderator for "The Hotel Summit" - *Measuring the Risk of Acquisition*
- Moderator for "The Lodging Conference" - *Estimating Revenue*
- Panelist for "The Lodging Conference" - *Impact*
- Panelist for "The Lodging Management Academy" (*Yield Management and Real Estate Taxes Under Control*)
- Robert W. White, MAI, CHA has personally participated in over 3,600 lodging appraisals.

CERTIFICATION

The undersigned certify that to the best of our knowledge and belief and except as otherwise noted in this report:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and is our personal, impartial and unbiased professional analyses, opinions and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
4. Our compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
5. Our analyses, opinions and conclusions were developed and this report has been prepared in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice (USPAP).
6. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
7. Robert W. White, MAI, CHA has made a personal inspection of the property that is the subject of this report.
8. As of the date of this report, Robert W. White, MAI, CHA, has completed the requirements under the Continuing Education Program of the Appraisal Institute.
9. No one other than the undersigned provided significant professional hotel consulting assistance. However, other members of the staff of Hospitality Appraisals, Inc. have assisted in obtaining and processing portions of the data used.
10. The undersigned hereby certifies 1) that this report conforms to the Uniform Standards of Professional Appraisal Practice issued by the Appraisal Standards Board of the Appraisal Foundation.
11. I (We) have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three (3) year period immediately preceding acceptance of this assignment.

**CERTIFICATION
(Continued)**

HOSPITALITY APPRAISALS, INC.

A handwritten signature in black ink, appearing to read "Robert White". The signature is written in a cursive style with a large initial "R" and a long, sweeping underline.

**Robert W. White, MAI, CHA
President
Certified General Real Estate Appraiser
Commonwealth of Virginia License #4001 001152**

REGIONAL DATA AND OVERVIEW OF THE ECONOMIC BASE

This section provides an overall description of Bedford County, Virginia by detailing a number of relative economic, social, political and environmental characteristics. This information is intended to provide the necessary background for understanding market forces effecting development and property values throughout the Bedford area.

Regional Profile

Bedford County is located in the western portion of the State of Virginia. Overall, Bedford County is still primarily agricultural in nature. The area surrounding Bedford County is made up of parks and small towns scattered throughout the region. The City of Bedford is the County Seat of Bedford, benefitting from social and recreational amenities such as shops, fishing, campgrounds and sports.

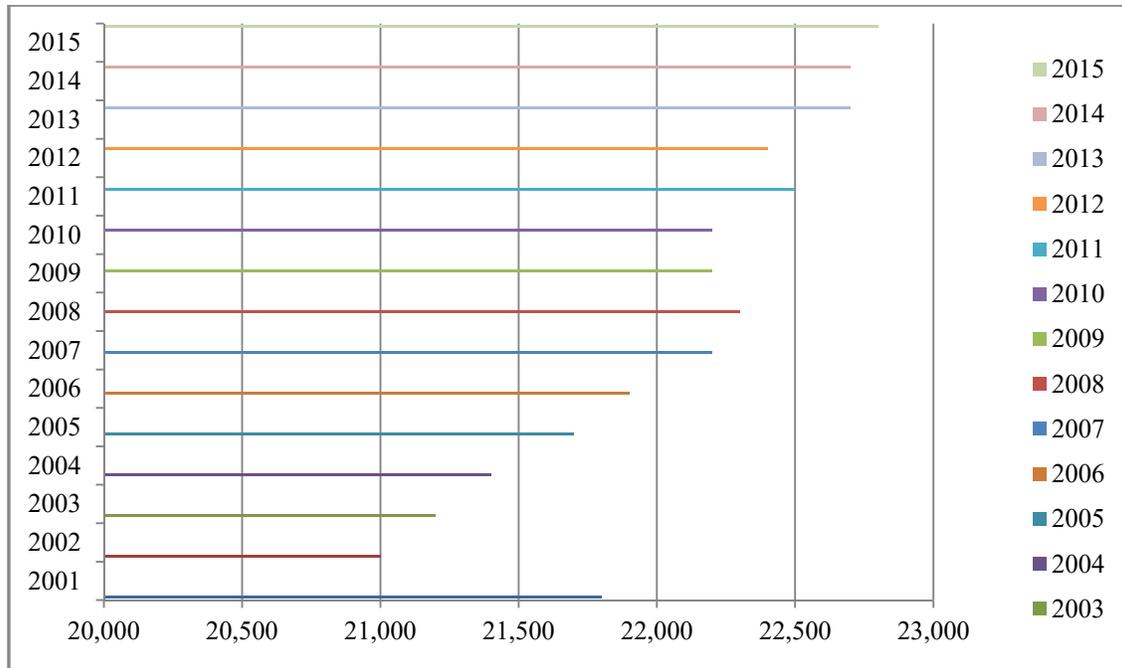
Population Trends

Trends in population are a significant indicator of a structural change within a region's economy. The rate of increase or decline of an area's population has a direct and rather obvious effect on real estate values. Typically, population growth benefits businesses, creates jobs and enhances all aspects of the local tax base. Since the supply of land is fixed, an increase in the population base will be reflected in higher demand for real estate. Naturally, this pattern of demand will be translated into value to the whole spectrum of property types within the region. Population characteristics relative to the Bedford County and the State of Virginia are provided in the chart below:

Population Characteristics

Area/Year	2001	2015	% Change 2001-15
Bedford County	60,900	73,400	+1.34%
Virginia	7,249,100	8,340,500	+1.01%

Source: *Sales and Marketing Management, STDBonline.com*



Source: *Stdb.com, Sales and Marketing Management*

Within the last fourteen years, the State of Virginia increased in population 1.01% while Bedford County increased 1.34%. The overall increases in population for both areas that are presented in the chart and graph above.

Transportation

A strong regional network of highway, rail and air transportation has contributed to the development of the manufacturing economy in the Bedford County area. Major transportation corridors include the following:

- U.S. Route 29 provides north-south access through the region, and links the region with Charlottesville and Northern Virginia to the north, and with Danville and the North Carolina border to the south. Because this corridor is such an important part of the north-south transportation network, a corridor study is currently underway to ascertain what improvements will be needed for the long-term future of the region.
- U.S. Route 60 provides east-west access through the region, and links the region with the Interstate 81 corridor located approximately 25 miles west, and with Richmond to the east.
- U.S. Route 460 also provides east-west access through the region. This route runs from Interstate 81 to the Ports of Hampton Roads.
- U.S. Route 501 provides northwest-southeast access through the region. This route runs from approximately Buena Vista in the northwest to South Boston and the North Carolina line.

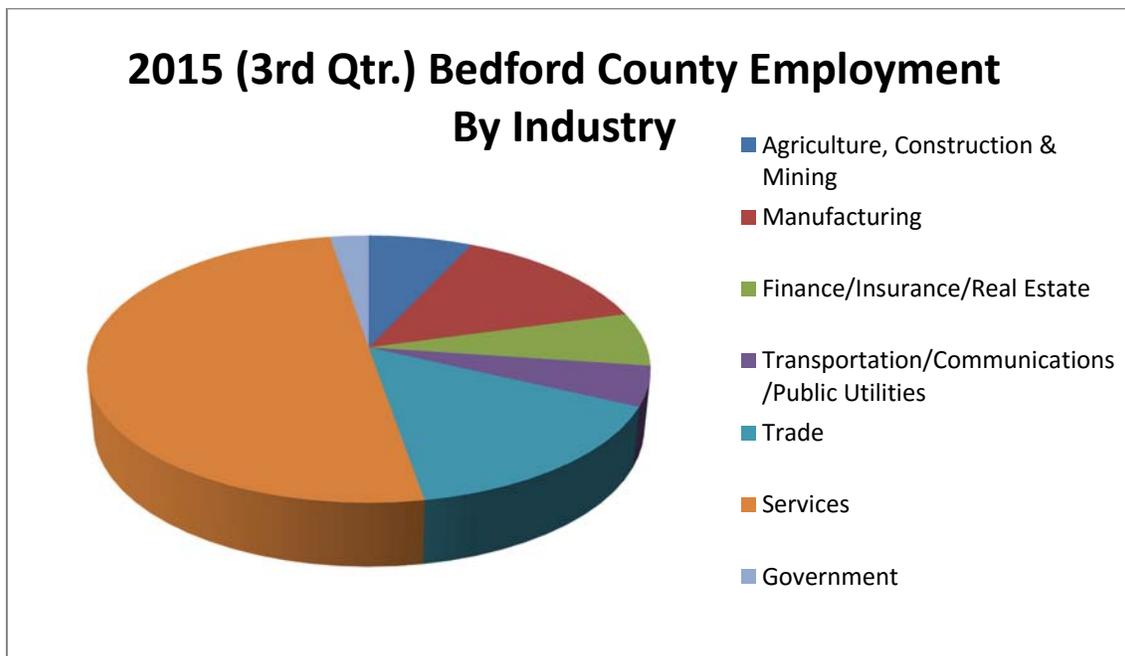
Lynchburg is a freight interchange and junction point for two rail lines. CSX operates between Newport News, Louisville, Cincinnati, Columbus and Chicago. Norfolk-Southern operates between Norfolk and Omaha, St. Louis, Detroit, Buffalo, Washington and Atlanta. Amtrak provides passenger service.

Greyhound-Trailways provides interstate passenger and parcel service. The municipally-owned Greater Lynchburg Transit Company provides service within most of the City of Lynchburg and parts of Madison Heights.

The region is served by the Lynchburg Regional Airport, located just south of the City near the U.S. Route 29 and U.S. Route 460 interchange. The airport is currently served by U.S. Airways Express and Delta Connection.

Employment

Occasionally, distribution of employment by industry reflects the area's economic character. The Virginia Employment Commission was consulted to determine the breakdown of employment by industry for Bedford County. Over 50.1% of the total jobs are found in the Services industry. Trade approximates 15.3% of the total jobs in Bedford County while Manufacturing maintains 13.7%. The remainders in order are Construction & Mining (7%), Finance/Insurance/Real Estate (6.5%), Transportation/ Communications/ Public Utilities (4.8%) and Government (2.6%). The chart to follow depicts these statistics:



One of the most significant measures of strength and vitality of the economic base is the rate of unemployment. The following table exhibits unemployment rates for Bedford County, the State of Virginia and the United States for 2013 to April of 2016.

Unemployment Rates

Area/Year	2013	2014	2015	(Apr.) 2016
Bedford County	5.7%	5.1%	4.4%	3.5%
Virginia	5.7%	5.2%	4.4%	3.5%
United States	7.0%	5.6%	5.0%	5.1%

Source: *Virginia Department of Labor*

As can be seen, Bedford County seems to maintain an unemployment rate of 3.5% while The State of Virginia seems to maintain 3.5% which is the same as Bedford County's average. Bedford County and the State of Virginia have decreased within recent years and may continue similar trends in the near future.

Effective Buying Income

An important point to consider in the appraisal of real estate is the ability of a given population within an area to satisfy its material desires. Median Household income estimates for the Bedford County and the State of Virginia are provided in the chart below.

Median Household Income Estimates

Area	2001	2015	% Change 2001-15
Bedford County	\$38,666	\$56,114	+2.70%
Virginia	\$41,095	\$62,786	+3.07%

Source: *Sales and Marketing Management, STDB.com*

The Bedford County reported an approximate \$56,114 median household income while the State of Virginia reported a \$62,786 median household income. It is reasonable to assume that the median of effective buying income per household for the areas will likely continue similar trends into the near future.

Retail Sales

As stated in the previous section, an area's Median Household Income is a significant statistic because it conveys the effective wealth of the consumer. This figure alone can be misleading and if the consumer chooses not to spend money. Therefore, the status of retail sales is an important indicator of economic vitality and help in a particular area. The following charts reflect the total taxable sales between 2012 and 2015 and the retail sales by store group for the most current year.

Retail Sales (\$000)

Area/Year	2012	2015	Compound Annual Growth 2012-2015
Bedford County	\$521,240	\$495,732	-1.66%
Virginia	\$110,002,385	\$130,090,958	+5.75%

Source: *Quickfacts.census.org, STDB.com*

Retail Sales by Store Group – Bedford County 2015 (\$000)

Area/Year	Food	Eating & Drinking Places	General Merchandise	Furniture/ Appliances	Auto
Bedford County	\$88,839	\$35,325	\$81,348	\$8,248	\$120,160
Virginia	\$22,006,760	\$12,415,546	\$22,240,989	\$3,781,790	\$27,801,705

Source: *STDB.com*

Total Retail Sales between 2012 and 2015 in the Bedford County decreased just over 1.66%. Sales in 2012 were approximately \$521 million and decreased to \$495 million dollars in 2015. The State of Virginia saw an increase of approximately 5.75% between 2012 and 2015. It is reasonable to assume that in future years in the Bedford County may eventually show a compound annual growth between that of State of Virginia and the county itself. Retail Sales By Store Group as shown in the previous table is centered on the automotive, eating & drinking places and food groups in the Bedford County and the State of Virginia. Similar trends for retail sales by store group are forecast for the near future.

Tourism & Recreation

The Bedford Museum and Genealogical Library displays collections that tell Bedford’s story from its earliest Native American residents through the 20th century. Popular exhibits include the Company A of the 116th Infantry, a Native American and African American exhibits. Genealogical records and other materials for research about Bedford and Virginia are located in the museum.

The Blue Ridge Parkway offers 460 miles of picturesque travel across Virginia and North Carolina. Ranging in elevations from 600 to 6,000 feet, the road encompasses a variety of ever changing weather conditions, regardless of the season. The Parkway was designed as a scenic leisure road for motor vehicles so bikers should use caution and be prepared for significant distances between developed areas and services that may vary by season.

Located in the town suffering the highest per capita D-Day losses in the nation, The National D-Day Memorial honors the Allied forces that participated in the invasion of Normandy on June 6, 1944. With its stylized English Garden, haunting invasion tableau, and striking Victory Plaza, the Memorial stands as a powerful permanent tribute to the valor, fidelity, and sacrifice of D-Day participants.

Summary

Bedford County is located in the western portion of the State of Virginia. Bedford has traditionally enjoyed steady growth due to its location within Bedford County. The solid economic outlook for Bedford enhances modest growth.

The area will likely to show modest growth in population and household income. Social and recreational amenities in the area include the parks, fairs, historical sites and other regional attractions. These amenities enhance the quality of life. These recreational amenities create lodging demand on weekends, holidays and summer months. Based on the areas relative strength over the recent years from low operating cost for corporations, transportation network and the abundance of skilled labor, modest growth will likely continue.

NEIGHBORHOOD ANALYSIS AND LOCATIONAL INFLUENCES

A neighborhood analysis is defined, for the purposes of this appraisal, as "the objective analysis of observable and/or quantifiable data indicating discernible patterns of urban growth, structure, and change that may detract from or enhance property values; focuses on four sets of considerations that influence value: social, economic, governmental, and environmental factors." (The Dictionary of Real Estate Appraisal, Sixth Edition, Appraisal Institute, 2015, page 156).

A neighborhood is defined as "a group of complementary land uses; a congruous grouping of inhabitants, buildings or business enterprises." (The Dictionary of Real Estate Appraisal, Sixth Edition, Appraisal Institute, 2015, page 156).

The neighborhood area has a direct impact on the surrounding real estate. Physical, social, economic, and governmental factors existing at a macro scale also exist on a micro or district level. An analysis of these forces in the market area and the way they affect the subject properties is critical to an understanding of their current and probable future impacts on the subject properties. To identify neighborhood boundaries, one examines the subject properties' surroundings. The investigation begins with the subject property and proceeds outward, identifying all relevant actual and potential influences on the property's value that can be attributed to its location.

Neighborhood Analysis Boundaries:

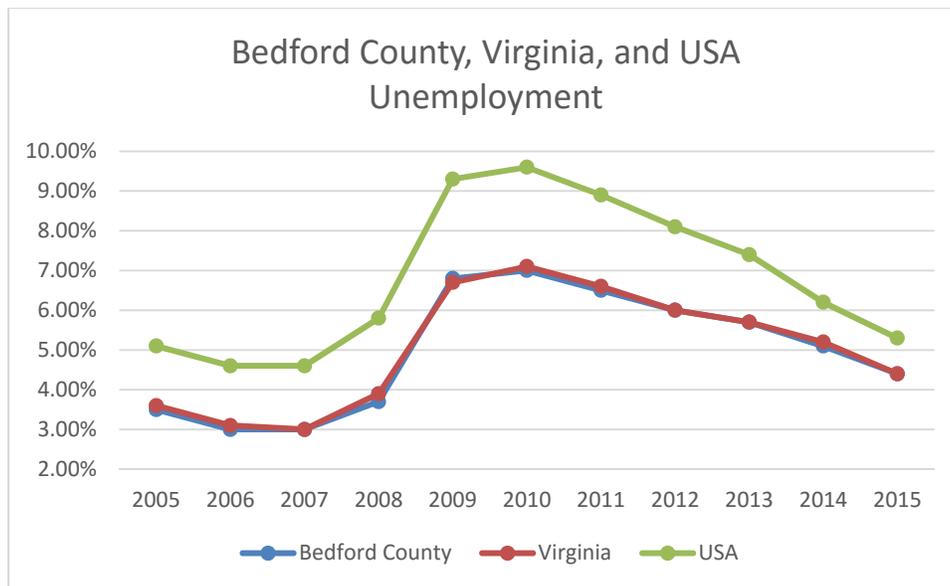
The subject's potential sites are located in the Town of Bedford, Virginia, near the Town of Bedford's eastern limit along US-460. The subject's neighborhood is generally defined as the US-460/US-460 Bypass commercial corridor between the Commercial Rd. intersection to the west of the Town of Bedford and the Dillions Way intersection in the east of Bedford and is considered to include the land area within the city limits of the Town of Bedford. The neighborhood's land uses basically consist of commercial/industrial uses along the main roads and residential along side streets. The town's commercial/industrial market includes retail, office/warehouse, distribution and manufacturing buildings. Other land uses include government buildings and tourist destinations (the Bedford Welcome Center, the National D-Day Memorial, etc.).

The proposed subject's wider market area is considered to be the nearby cities of Roanoke and Lynchburg. Roanoke is a city of 99,897 persons (2015) located approximately 30 miles west of the proposed sites. Lynchburg is approximately 21 miles east of the proposed sites. The population of Lynchburg in 2015 was 79,812. Bedford County is located in the Lynchburg Metropolitan Statistical Area (MSA), also known as Region 2000. Region 2000 includes the City of Lynchburg and the counties of Amherst, Appomattox, Bedford, and Campbell. The Lynchburg MSA has historically been a desirable business location. In 2011, Forbes listed the Lynchburg MSA in its top 50 Best Places for Business and Careers. The presence of the pharmaceutical, nuclear technology, and material handling industries along with a skilled work force and a low cost of living helps maintain a strong business atmosphere.

Demographics and Economics

Bedford County's key industries include forestry, agriculture, nuclear energy, and wireless communication, according to the Bedford County Office of Economic Development. The Town of Bedford's key industry is manufacturing, specifically abrasives, woven products, foams, plastics, rubber, and etc., according to the Director of Economic Development. The largest employers in Bedford County include companies such as TEVA Pharmaceuticals, GP Big Island LLC, Harris Corporation, Innovairre, and CommScope Andrew Corporation. Key companies which are more proximate to the proposed subject include: Centra (Bedford Memorial Hospital), Simplimatic Automation, Valley Processing, Sam Moore Furniture, Bedford Weaving Mills INC, Cintas, Symth Companies, Valley Processing, Fostek Corporation, and W Abrasives.

Unemployment in Bedford County has been decreasing since reaching a high of 7.0% in 2010. The Bedford County unemployment in 2015 was 4.4% and 3.5% in April 2016. This is similar to the overall unemployment trend for the state of Virginia which reached 7.1% in 2010 before decreasing to 4.4% in 2015. The unemployment rate in the USA followed a similar trend as the Virginia unemployment rate and the Bedford County unemployment rate; however, Bedford County and Virginia have had unemployment rates lower than the overall USA since at least 2005. This information is presented in the following graph.



The appraisers have compiled population and income data for the areas within a 1, 3, and 5-mile radius surrounding the purposed sites in order to gain a more clear perspective of the immediate surrounding area. This data includes future projections to 2020 provided by ESRI. The population within a 1, 3, and 5-mile radius is displayed in the following chart.

Population			
Year	1-Mile	3-Mile	5-Mile
2010	1,142	8,902	12,764
2015	1,155	9,109	13,136
2020 (projected)	1,099	9,255	13,483
CAGR*	-0.38%	0.39%	0.55%

*Compound Annual Growth Rate
Source: ESRI Business Analyst

Population within a 1-mile radius of the proposed sites, the most applicable, is projected to decrease at an average rate of approximately 0.38% per year from 2010 to 2020 as the corridor becomes more commercially developed. From 2010 to 2015, the rate increased slightly, but the projection provided by ESRI Business Analyst shows a slight decrease from 2015 to 2020. Population in a 3-mile radius is projected to increase at 0.39%. Average population increases within a 5-mile radius from 2010 to 2020 (projected) are expected to be 0.55% annually. Population in the wider Region 2000 market is projected has increase at an annual rate of 0.57% from 2010 to 2015, slightly faster than the area around the proposed sites.

The income for households and per capita within a 1, 3, and 5-mile radius is displayed in the following chart.

Median Household Income				Median Per Capita Income		
Year	1-Mile	3-Mile	5-Mile	1-Mile	3-Mile	5-Mile
2015	\$31,983	\$34,299	\$37,214	\$16,356	\$20,445	\$21,815
2020 (Projected)	\$34,252	\$37,883	\$41,697	\$18,061	\$23,275	\$24,945
CAGR	1.38%	2.01%	2.30%	2.00%	2.63%	2.72%

* Source: ESRI

2010 median household and per capita income data was not made available within specific radii surrounding the proposed sites. Income for households within a 1-mile radius of the proposed sites is projected to increase at a rate of approximately 1.38% annually from 2015 to 2020, while the per capita median income is expected to increase at a rate of 2%. Within the 3-mile and 5-mile radius, income is projected increase by approximately 2% and 3% annually for households and per capita over the same period of time. Median income per household in the wider Bedford County was \$54,072 in 2015. It is projected to increase to \$62,137 in 2020, an annual increase of approximately 2.82%. Per capita income was \$29,421 in 2015 and is projected to increase to \$33,537 in 2020, an annual increase of approximately 2.65%. Therefore, incomes and the rate of increases in income are higher in the wider area than the most proximate area directly surrounding the subject.

Tourism

The key tourist attraction in Bedford is the National D-Day Memorial. Bedford was selected as the location for the National D-Day Memorial because the town lost the most men (per capita) of any community in America on D-Day. George W. Bush dedicated the memorial in June of 2001. The National D-Day Memorial is currently finalizing plans to build an indoor education facility to house their 5,000± historical artifacts. The facility is projected to be complete in 2020±. Visitation at the memorial since 2009 is displayed in the following chart.

Calendar Year	Visitation
2009	81,510
2010	58,269
2011	48,989
2012	49,690
2013	47,337
2014	59,606
2015	53,686
2016	55,000*
2011-2016 CAGR	2.34%

**Estimated based on 5 months*

Visitation at the memorial decreased significantly during the recession from a high of 81,510 visitors in 2009 to a low of 48,989 visitors in 2011. Annual attendance since 2011 has increased at an annual rate of approximately 2.34%. According to April Cheek-Messier, the memorial host approximately 33 events each year, and ½ of all visitors to the memorial are from a state other than Virginia. Ticket prices for the memorial are priced from \$10 and down. Guests' also have the opportunity to purchase a duel ticket to Bedford's other key attraction, Poplar Forest. Approximately 20% of the guests to the memorial chose to buy the duel ticket to Poplar Forest as well.

Poplar Forest is the plantation and retreat home inherited by Thomas Jefferson in 1773. There are numerous events held throughout the year at Poplar Forest including running races, concerts, festivals, and etc. Annual attendance at Poplar Forest is estimated to be 35,000 a year.

Environmental and Governmental Characteristics

Environmental factors include transportation linkages, adjacent and nearby land uses, changing land use patterns, physical boundaries and the availability of infrastructure, such as municipal water and sewer. The primary governmental influences on the subject property are directly related to zoning laws, real estate assessments, building codes, and housing and sanitary codes.

The primary route serving the Town of Bedford is US-460. The former links the town to Lynchburg (25 miles), Appomattox (43 miles), and Farmville (70 miles) to the east and Roanoke/I-

581 (28 miles) to the west. The nearest Interstate, I-81, is accessible 21 miles north in Buchanan, VA (accessible by SR-41). A network of local roads provides good access through the city and its surroundings. The traffic counts along US-460 will be the most pertinent to transient demand for the purposed subject property. Traffic counts along US-460 proximate to the subject sites on the eastern side of the Town of Bedford, just the east of the US-460 and Main Street interchange, over the previous ten years are represented in the following chart.

US-460 Annual Average Daily Traffic (AADT) Counts

Calendar Year	AADT
2006	15,000
2007	16,000
2008	16,000
2009	16,000
2010	15,000
2011	15,000
2012	15,000
2013	16,000
2014	16,000
2015	16,000
CAGR*	0.72%

Source: Virginia Department of Transportation
 *Compound Annual Growth Rate

Traffic has remained relatively flat over the past ten years with moderate Annual Average Daily Traffic counts of 16,000.

The main airport servicing the region is located in Lynchburg. The Lynchburg Regional Airport is within approximately 20 road miles east of the purposed sites.

The airport offers regional services via American Airlines’ regional carrier, American Eagle, to the Charlottesville, SC hub.

Calendar Year	Enplanements
2005	65,895
2006	60,737
2007	55,785
2008	55,307
2009	86,366
2010	93,772
2011	73,821

Calendar Year	Enplanements
2012	79,889
2013	77,795
2014	78,876
CAGR*	2.02%

Source: Federal Aviation Administration (most recent data)

Enplanements at Lynchburg Regional Airport have increased at an annual rate of approximately 2% over the ten years (long term growth) ending on December 31st, 2014. Over the trailing three year period (short term growth), enplanements have decreased at an approximate annual rate of -0.64%.

Lodging Development

There are no known hotels being developed in the Town of Bedford. A complete discussion of primary and secondary competitors is presented in the Supply and Demand Analysis section of this appraisal report.

Governmental Factors

Governmental factors to be considered in assessing the nature of a given market area are policies regarding development, re-zoning, and infrastructure improvements. Other items include tax rates, comprehensive plan issues, and neighborhood attitudes towards development.

Governmental regulations in the area, controlled by the Town of Bedford, are not burdensome or difficult as to hinder development. Rather, the appraisers have found the local government to be “pro-growth.” The B2 zoning district is non-restrictive and friendly to commercial development.

Environmental Characteristics

Environmental considerations relate to either natural or man-made features that affect a neighborhood and its geographic location. These considerations include topography, adequacy of public utilities, building size, building type, density of development, and maintenance.

The Town of Bedford benefits from a humid subtropical summers characterized by mild, humid summers and mild to cool winter. Snow does occur in the winter, but it is usually not heavy. Spring and fall bring thunderstorms.

As previously discussed, utilities to the sites are adequate; however, natural gas is not available. Refuse and trash pickup provided by the town’s Public Works division. Law enforcement is governed by the Bedford Police Department, while fire and rescue services come from the Bedford Fire Department. The area also has a well-established transportation infrastructure.

We did not observe any environmental characteristics that would negatively impact the neighborhood or market area.

Evidence of Change

Typically, neighborhoods go through a cycle of growth, stability, decline and revitalization. Based on the previous analysis, the subject's neighborhood is generally characterized as relatively stable with commercial development increasing along the US-460 corridor.

Conclusion

In summary, the subject neighborhood has enjoyed a steady recovery since the start of the "great recession." The area is known to be business friendly, and the government of Bedford is considered "pro-growth". It is attractive to a variety of commercial and industrial users.

CENSUS TRACT AND SPECIAL FLOOD HAZARD ZONE

According to maps provided by the United States Bureau of Census, the subject site is located in designated Census Tract #0304.02 in Bedford, Virginia.

For this appraisal, the appraisers have reviewed the FIRM flood insurance rate map for the subject property. According to STDB.com (SiteToDoBusiness), the map is identified as community panel #51019C0328D, with an effective date of September 29, 2010. The map indicates that the subject site is located in Zone X (or C Zone); a non-hazardous zone. A copy of the flood map is included in the Addendum of this report.

ZONING AND OTHER RESTRICTIONS

The subject site is located in zone B2 (General Business) in the Town of Bedford, Virginia. The intent of the B2 district is to “accommodate uses in a nodal development pattern,” and provisions are “made for the conduct of general business to which the public requires direct and frequent access.”

This district allows for a variety of retail and service uses, including, but not limited to: automobile service stations; restaurants; food and drug stores; general merchandise stores; apparel shops; dry cleaners; bed and breakfasts; hotels and motels; offices; and clinics and doctors offices.

According to the zoning regulations for business, industrial, and other none residential uses in the B2 district, development criteria are as follows:

Minimum Lot Size:	None
Minimum Lot Width:	Must adequately meet driveway entrance requirements
FAR:	None
Impervious Surface Ratio:	None
Maximum Height:	None

Minimum Yard Requirements*

Front:	0 feet
Side:	0 feet
Rear:	0 feet

*“Exception: When a lot abuts a residential district, the side and rear yard setback shall be equal to that of the residential district.”

Parking Requirements:	One (1) space per rooming unit, plus one (1) space per two (2) employees
-----------------------	--------------------------------------------------------------------------

Conclusion

After review of the existing zoning regulations, it appears the proposed subject site “as improved” with an upper midscale, limited-service hotel would be considered a legal, conforming use assuming all development criteria applying to the B2 zone are met.

UTILITIES

Public utilities serving the neighborhood include electricity from the Town of Bedford and water and sewer from the Bedford Regional Water Authority. Telephone and satellite/cable service is available from a variety of companies. Columbia Gas of Virginia provides natural gas to the Bedford Area. The utilities available to the site appear to be adequate to serve a variety of uses including its proposed use as a limited-service hotel, but considerations would have to be made since the site lacks natural gas access.

PROPERTY DESCRIPTION

Site Analysis

The preferred site is comprised of one parcel, which is currently vacant of any improvements. The parcel contains 3.76± acres according to the Bedford Commissioner of the Revenue. The subject site is irregular in shape and just below grade with US-460.

The recommended parcel is situated on the south side of US-460, east of the US-460 and Main Street interchange. Ingress/egress to the site is provided by an access road, which runs parallel to US-460. The subject site is located within the limits of the Town of Bedford, and it is identified by the Bedford Commissioner of the Revenue as parcel #90509633. The physical characteristics of the subject site appear to be adequate with no apparent detrimental influences.

While this site is the most desirable for the purposed hotel, other sites along US-460 may also be considered provided the site is located with direct access and good visibility from US-460 between the US-460/Main Street interchange (east) and the US-460/Dillions Way intersection (west) in Bedford. Locations within this stretch of road will be proximate to the Applebee’s, Ruby Tuesday, and Walmart Supercenter.

Description of the Improvements

The proposed improvements include a 4-story, interior-corridor building consisting of 75 guest rooms, lobby/breakfast area, indoor pool, business center, fitness center, administrative offices, guest laundry, and commercial laundry. Other improvements will include an asphalt parking lot with approximately 80± marked spaces. The exterior of the proposed hotel will be a typical prototype for an upper midscale brand, which typically includes a brick or EIFS exterior. Construction is assumed to be wood-frame with a flat roof and mansard fascia.

The following is a basic building outline for the proposed subject property:

Building Outline

General Building Use:	Interior corridor, limited-service, upper midscale hotel
Year Built:	New
Estimated Effective Age:	New
Gross Building Area:	40,000± Sq. Ft.
Restaurant Area:	N/A
Stories:	Four (4)
Elevators:	One (1)
Stairwells:	Two (2)
Meeting Room:	330±
Commercial Laundry:	Two (2) Washers (55lbs.) Two (2) Dryers (75 lbs.)
Interior Amenities:	Guest Laundry, breakfast area, fitness center, business center, indoor pool

Basic Construction

Foundation:	Slab on Grade
Construction:	Wood frame, EIFS/brick siding
Roof:	Flat roof and mansard fascia

Interior Finish

Floors:	Lobby and bathrooms: tile/vinyl flooring Corridors and rooms: carpet
Walls:	Hotel rooms and most public areas are knockdown drywall or vinyl.

Ceilings: Assumed hotel rooms are sprayed textured

Insulation: Assumed insulation to be adequate

Electrical/Mechanical

HVAC: Guest rooms will have individual through the wall units while public areas utilize package units

Lighting: Incandescent/Fluorescent

Hot Water: Electric water heaters

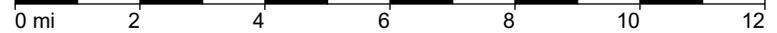
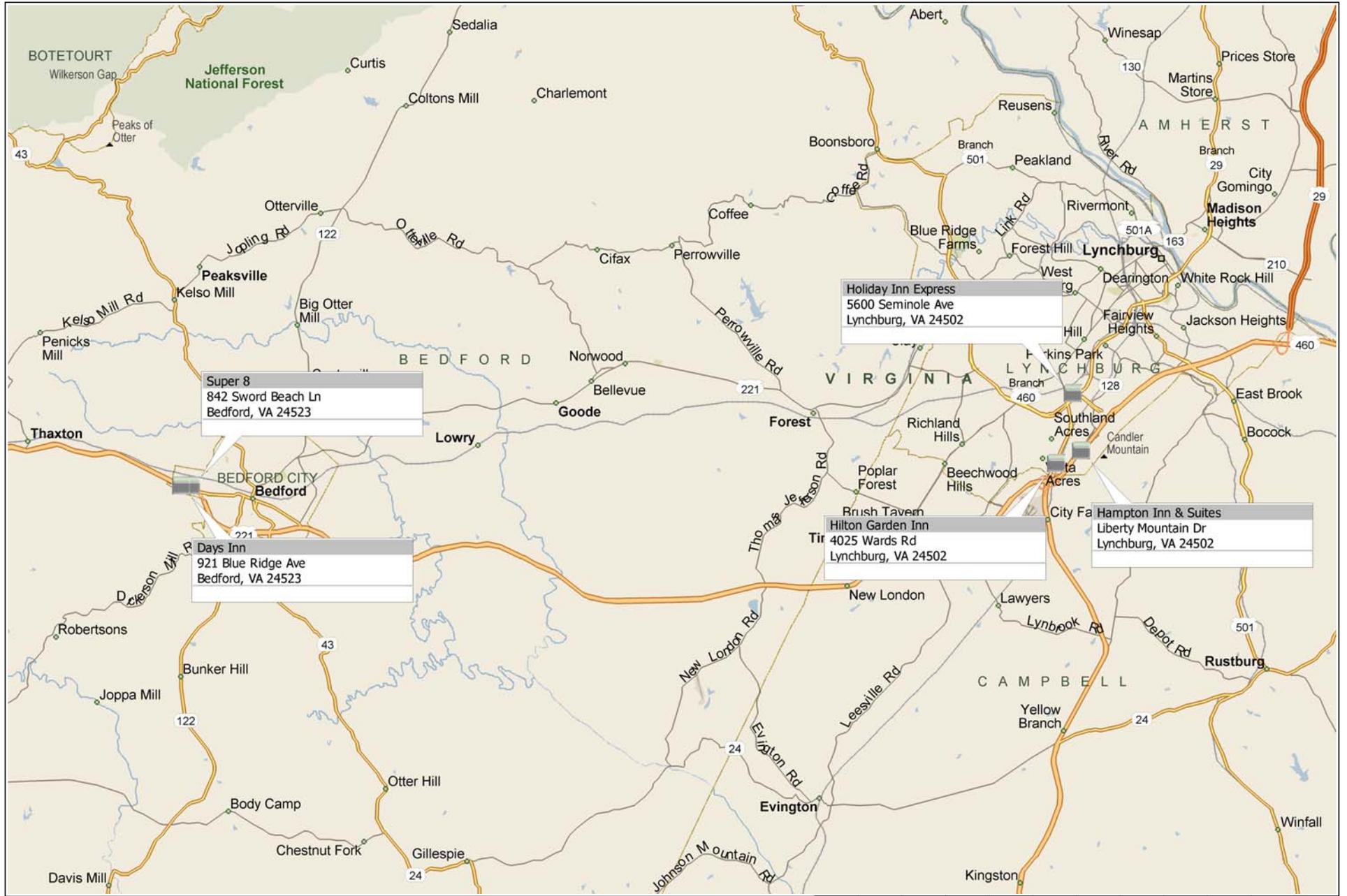
Fire Safety: Fully sprinklered with hardwired smoke detectors w/ battery backup with full alarm/speaker system.

Site Improvements

Parking: 80± marked spaces

Other: Sidewalks and curbing, property signs and good landscaping.

Competitor Map



SUPPLY AND DEMAND ANALYSIS

Competitive Lodging Supply

Current and anticipated lodging facilities are an integral component of the supply and demand relationship. To properly evaluate the competitive lodging environment within a given area, the following facets of supply are analyzed.

- Review all area lodging facilities to determine which ones are competitive with the subject.
- Review and identify any proposed lodging facility developments that may be added to the competitive supply in the foreseeable future.
- Quantify both existing and proposed rooms within the area.
- Evaluate the current occupancy and average rate levels of each competitor as well as each one's market orientation, facilities and amenities.
- Quantify historic demand by market segment.
- Estimate occupancy and average rate for Stabilized Year.

According to the Smith Travel Research there are approximately 33 opened and operating hotels in the Bedford/Lynchburg market. Of these, 24 report directly to Smith Travel Research (STR). As previously indicated, the primary influences on the proposed subject property include its proximity to the National D-Day Memorial, US-460, Lynchburg, and Bedford County businesses. The proposed subject will be the only mid-upper scale, limited-service, franchised property in the Town of Bedford. We are recommending the property be a strong franchise brand, preferably a Hampton Inn (alternatively a Fairfield Inn). We have selected five properties that will represent the subject's competition including: the 62-room Super 8 Bedford, 78-room Days Inn Bedford, 112-room Hampton Inn & Suites Lynchburg, 126-room Hilton Garden Inn Lynchburg, and the 100-room Holiday Inn Express Lynchburg. The two franchised properties in Bedford, the Super 8 and the Days Inn, provide inferior amenities, are in inferior condition and achieve a significantly lower rate than the subject will be able to garner in Year 1. Therefore, the consultants consider the Days Inn and Super 8 to be secondary competitors to the proposed subject. The next group of franchised properties are located over 20 miles away in Lynchburg. Of these properties, the consultants consider the 112-room Hampton Inn & Suites and the 126-room Hilton Garden Inn to be secondary competitors to the proposed subject because they are on the same Hilton reservation platform. They cannot be considered primary competitors due to their distance from the proposed subject site and higher average rates. Finally, we consider the 100-room Holiday Inn Express a secondary competitor due to its similar rate and amenities as well as its appeal to the individual business traveler, which will make up a portion of the proposed subject's demand base. Its location, over 20 miles away, prevents it from being considered a primary competitor.

Individual evaluations have been prepared for each of the competitors. The appraiser's evaluations of the five secondary competitors are presented on the following pages.

SECONDARY COMPETITIVE FACILITY #1

Property:	DAYS INN BEDFORD
Address:	921 Blue Ridge Avenue Bedford, VA 24523
Number of Rooms:	78
Estimated Occupancy:	30.0% (12 Months Ending May 31, 2016)
Estimated Average Rate:	\$56.00 (12 Months Ending May 31, 2016)



The **Days Inn** is a 2-story, exterior corridor, limited-service facility that opened in 1964. This facility was in fair condition at the time of inspection. Amenities and services at this facility include but are not limited to: an outdoor pool, complimentary continental breakfast, limited meeting space, business center, vending, WiFi, and guest laundry. Guest room amenities include but are not limited to: microwaves, refrigerators, coffee makers etc. This hotel is pet friendly.

Standard rates for this facility were quoted from \$54.36 to \$59.46. Discounts such as AARP, AAA, corporate discounts also apply to these rates. The market segmentation for this facility was estimated to be 15% commercial, 85% leisure, and 0% group.

SECONDARY COMPETITIVE FACILITY #2

Property:	SUPER 8 BEDFORD
Address:	842 Sword Beach Lane Bedford, VA 24523
Number of Rooms:	62
Estimated Occupancy:	45.0% (12 Months Ending May 31, 2016)
Estimated Average Rate:	\$62.00 (12 Months Ending May 31, 2016)



The **Super 8** is a 2-story, interior corridor, limited-service facility that opened in 1999. This facility was in good condition at the time of inspection. Amenities and services at this facility include but are not limited to: a complimentary continental breakfast, WiFi, and vending. Guest room amenities include but are not limited to: microwaves, refrigerators, etc. This hotel is pet friendly.

Standard rates for this facility were quoted from \$59.49 to \$84.99. Discounts such as AARP, AAA, corporate discounts also apply to these rates. The market segmentation for this facility was estimated to be 20% commercial, 80% leisure, and 0% group.

SECONDARY COMPETITIVE FACILITY #3

Property: **HILTON GARDEN INN LYNCHBURG**

Address: 4025 Wards Road
Lynchburg, VA 24502

Number of Rooms: 126

Estimated Occupancy: 82.5% (12 Months Ending May 31, 2016)

Estimated Average Rate: \$125.00 (12 Months Ending May 31, 2016)



The **Hilton Garden Inn** is a 5-story, interior corridor, select-service facility that opened in 2008. This facility was in very good condition at the time of inspection. Amenities and services at this facility include but are not limited to: a fitness center, business center, 5,888 sq. ft. of meeting space, indoor pool, restaurant (breakfast and dinner), WiFi, sundry shop, and guest laundry. Guest room amenities include but are not limited to: hair dryers, coffee makers, iron and ironing boards, microwaves, refrigerators etc.

Standard rates for this facility were quoted from \$150 to \$250. Discounts such as AARP, AAA, corporate discounts also apply to these rates. The market segmentation for this facility was estimated to be 55% commercial, 40% leisure, and 5% group.

SECONDARY COMPETITIVE FACILITY #4

Property:	HAMPTON INN & SUITES LYNCHBURG
Address:	3600 Liberty Mountain Drive Lynchburg, VA 24502
Number of Rooms:	112
Estimated Occupancy:	75.0% (12 Months Ending May 31, 2016)
Estimated Average Rate:	\$126.00 (12 Months Ending May 31, 2016)

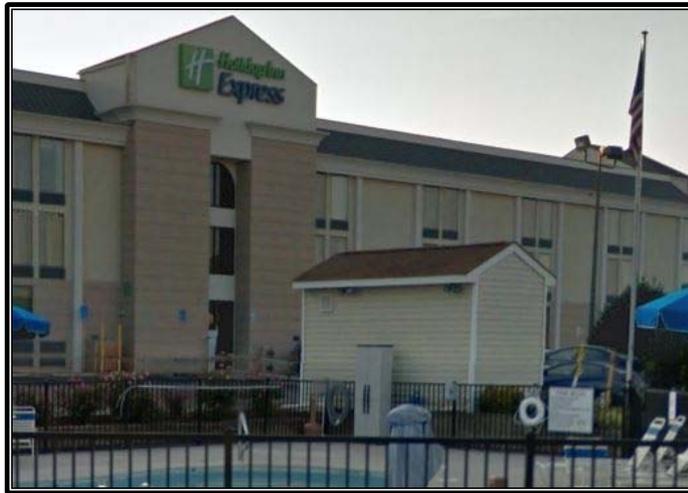


The **Hampton Inn & Suites** is a 5-story, interior corridor, limited service facility that opened in 2014. This facility was in very good condition at the time of inspection. Amenities and services at this facility include but are not limited to: fitness center, WiFi, business center, 641 sq. ft. of meeting space, a heated indoor pool, complimentary hot breakfast, sundry shop, and guest laundry. Guest room amenities include but are not limited to: hair dryers, coffee makers, iron and ironing boards, microwaves, refrigerators, etc.

Standard rates for this facility were quoted from \$144 to \$199. Discounts such as AARP, AAA, corporate discounts also apply to these rates. The market segmentation for this facility was estimated to be 60% commercial, 35% leisure, and 5% group.

SECONDARY COMPETITIVE FACILITY #5

Property:	HOLIDAY INN EXPRESS LYNCHBURG
Address:	5600 Seminole Avenue Lynchburg, VA 24502
Number of Rooms:	100
Estimated Occupancy:	76.0% (12 Months Ending May 31, 2016)
Estimated Average Rate:	\$96.50 (12 Months Ending May 31, 2016)



The **Holiday Inn Express** is a 3-story, interior corridor limited service facility that opened in 1989. This facility was in good condition at the time of inspection. Amenities and services at this facility include but are not limited to: a business center, outdoor pool, vending, WiFi, and a complimentary hot breakfast. Guest room amenities include but are not limited to: hair dryers, coffee makers, iron and ironing boards, microwaves, refrigerators, etc.

Standard rates for this facility were quoted from \$114 to \$158.76. Discounts such as AARP, AAA, corporate discounts also apply to these rates. The market segmentation for this facility was estimated to be 50% commercial, 45% leisure, and 5% group.

Future Additions to Supply

Through discussion with government officials, the consultants have discovered three hotels under development in the market area including a 104-room Homewood Suites, 116-room Residence Inn, and a 115-room (approximate) Virginian Hotel. We have chosen not to add these rooms to the competitive room supply because of their location, over twenty miles away in Lynchburg. Also, the facilities will have significantly higher rates, and each will be different amenities and services and therefore a different market orientation.

Therefore, for this analysis, we have assumed that the existing competitive supply of 478 rooms in will remain throughout the holding period before increasing by the subject's 75-rooms in Year 1.

Summary:

The competitors were classified by location, market orientation, amenities, service, franchise affiliation, and price point. The entire group of hotels has both common and varied sets of characteristics.

- Estimated occupancies range from a low of 30% for the Days Inn to a high for the Hilton Garden Inn of 82.5%. There is a distinct difference in occupancies between the properties in Lynchburg and those in Bedford, which achieve approximately half the occupancies of those in Lynchburg.
- Estimated average rates range from \$56.00 to \$126.00. Similar to the trend in occupancy, rates at the two properties in Bedford are significantly lower than in Lynchburg. The Hampton Inn & Suites is the market leader at \$126.00. The Hilton Garden Inn had a similar rate of \$125.00. The Days Inn had the lowest estimated rate at \$56.00 while the Super 8 had an estimated rate of \$62.00. The Holiday Inn Express represents the median estimated rate at \$96.50.
- The hotels range in size from 62 rooms to 126 rooms with an overall average of 96 rooms. We have assumed the subject will contain 75 rooms, which will be significantly smaller than the overall average.
- The properties located in Lynchburg (Hilton Garden Inn, Hampton Inn and Suites, and Holiday Inn Express) have superior locations compared to the properties located in Bedford (Super 8 and Days Inn). However, even within Bedford, the Super 8 and the Days in are located in a less traveled area with few supporting uses. The proposed subject sites are located near supporting uses such as restaurants and retail in a highly traveled area.
- The Days Inn is considered to be in inferior (fair) condition compared to the other competitors. The Hampton Inn & Suites and the Hilton Garden Inn are considered to be advantaged and are in very good condition.

Demand Analysis

Demand within the subject's market emanates from three market segments and they are: the commercial, leisure, and group. It is important to note that historical demand has been relatively constant throughout the year. Although, January, February, and March were softer months in the trailing twelve months ending in April 2016. It is also important to note that weekday demand is typically highest on Tuesday and Wednesday, and occupancy averaged over 74% on these days during the twelve months ending April 2016.

Commercial Demand

The slightly dominant market demand segment for the competitive hotels in the subject Bedford/Lynchburg area represents approximately 49% of the overall room night demand accommodated over the past 12 months. This segment includes business travelers generated by corporations and a variety of businesses located in the region. Commercial demand includes individual business transient travelers as well as corporate and other business groups attending meetings at local or regional headquarters.

As previously indicated in our Neighborhood and Market Analysis, the largest employers in Bedford County include companies such as TEVA Pharmaceuticals, GP Big Island LLC, Harris Corporation, Innovairre, and CommScope Andrew Corporation. Key companies which are more proximate to the proposed subject include: Centra (Bedford Memorial Hospital), Simplimatic Automation, Valley Processing, Sam Moore Furniture, Bedford Weaving Mills INC, Cintas, Symth Companies, Valley Processing, Fostek Corporation, and W Abrasives. According to discussions with government officials and with representatives from the major companies, we have determined approximately 450 room nights will be generated from these specific companies located in Bedford and in the New London Business and Technology Center. Other local, small businesses will provide additional, less quantifiable, commercial demand as well as overflow from the Lynchburg market on occasion. Businesses, such as TEVA Pharmaceuticals, located in Forest, VA are more likely to use hotels in Lynchburg due to their proximity to the airport and to Forest, VA.

In addition to the businesses located in and around the Town of Bedford, walk-in/transient, commercial business will be garnered due to the subject's proximity to US-460. Billboards to the east and west of the subject on US-460 will be required. Finally, the consultants are projecting the subject, of strong franchise and new condition, will attract 40% of the approximate 18,725 room nights being used at the Bedford Days Inn and Super 8. A significant portion of these nights will represent commercial business.

The majority of the commercial demand occurs between Monday and Thursday.

Leisure Demand

Leisure demand accounts for approximately 47% of the overall demand over the past 12 months. This segment includes persons visiting friends or relatives living in the area, visitors to the D-Day Memorial, transient business from US-460, overflow from Lynchburg and Roanoke (to a lesser degree) during major events, and etc.

The National D-Day Memorial will be the key driver of leisure demand in the market. The memorial experienced attendance greater than 80,000 annually prior to the financial collapse in 2009. It appears the memorial has stabilized at approximately 55,000 visitors per year. We estimate the Memorial will generate approximately 2,750 room nights at the proposed property (5% of total visitors).

As previously discussed, the new subject will be able to capture 40% of the room nights currently being used at the Bed properties, the Days Inn or the Super 8. A significant portion of these nights will make contribute to leisure demand for the subject. The subject will also be able to capture a portion of the leisure business in Lynchburg due to a competitive facility (the subject) located just over twenty miles away but offering significantly lower rates. This is especially true for those staying in the area for multiple nights.

Transient/walk-in business will be derived from the subject's proximity to US-460. Approximately 16,000 travelers pass the subject site on a given day on US-460. A portion of these travelers are passing reroute to other destinations and will chose to stay at the subject. Billboards will help attract transient business.

It is important to understand that the bulk of the leisure demand occurs on both Friday and Saturday nights and is more prevalent during the Spring, Summer, and early Fall. In particular on average Friday night occupancies over the past 12 months average 68% followed by Saturday nights at 65%.

Group Demand

A smaller, but important business of the proposed subject's demand emanates from the group segment. Group demand will primarily be derived from two sources.

First, groups visiting the D-Day Memorial will likely generate a significant portion the group segment demand for the proposed hotel. As previously mentioned, the memorial experiences approximately 55,000 visitors annually.

Wedding business, primarily from Bedford Columns, will account for another portion of the proposed hotel's group business. Jamie Keys, event planner at Bedford Columns, informed the appraisers the venue hosts approximately 30 weddings a year with an average guest count between 100 and 120 people. The venue contains overnight suites for the wedding party, but other guests are forced to seek off-site accommodations. Keys estimated, 90% of these guest chose to stay at a mid/upper scale hotel in Lynchburg (20 miles away) because of the lack of similar

accommodations in Bedford. Bedford Columns also hosts 10 to 15 non-wedding functions per year. Secondary wedding business will also be derived from West Manor, which lies in Forest, VA, halfway between Lynchburg and Bedford and from The Old Mill Farm.

Other group demand may be generated from research projects at the Center for Advance Engineering Research and by groups visiting Bedford County for sporting events. Andy Dooley, who coordinates local youth athletic tournaments, indicated approximately three weekends per year in which local softball/baseball tournaments fill the franchised and independent hotels in Bedford. Often demand spills over into the Lynchburg lodging market due to the limited accommodations in Bedford. Dooley also indicated, the city would have an easier time booking more tournaments if additional hotel rooms were present in the immediate area.

Much of this group business tends to occur on weekends and is generally more prevalent in the Spring, Summer, and early Fall.

Quantifying Demand

Consists of:

- Quantify current and forecasted accommodated demand by market segment.
- Determine current and forecasted induced and unaccommodated demand by market segment.
- Quantify accommodatable latent and total usable latent demand.
- Combine forecasted accommodated and total usable latent demand to produce total usable room night demand.
- Quantify the market's guest room supply and total room nights available.
- Forecast the overall occupancy for the subject area.

Historical Overall Market Data

A Smith Travel Research report was utilized to report the occupancy, average daily rate, and RevPAR for the proposed subject's secondary competitors for the twelve month periods ending April 2011 through 2016. The Smith Travel Research report consists of the five secondary competitors of the proposed subject (the 126-room Hilton Garden Inn, the 100-room Holiday Inn Express, the 112-room Hampton Inn & Suites, the 78-room Days Inn, and the 62-room Super 8). We assume these five franchised lodging facilities represent the proposed subject's overall competitive market. A table illustrating the 12 months ending April 30 from 2011 through 2016 displaying occupancy, average daily rate, and RevPAR is illustrated in the following chart.

**Proposed Subject's Primary Competitors
(Twelve Months Ending April 30)**

Year	Annual Occupancy	% Change	Annual ADR	% Change	Annual RevPAR	% Change
2011	55.2%	N/A	\$93.50	N/A	\$51.62	N/A
2012	58.5%	6.0%	\$95.61	2.3%	\$55.92	8.3%
2013	60.1%	2.7%	\$99.46	4.0%	\$59.77	6.9%
2014	62.2%	3.5%	\$102.91	3.5%	\$64.02	7.1%
2015	63.0%	1.3%	\$106.69	3.7%	\$67.18	4.9%
2016	65.9%	4.6%	\$108.16	1.4%	\$71.27	6.1%
CAGR	3.6%	N/A	3.0%	N/A	6.7%	N/A

Source: *Smith Travel Research*

The occupancy, average daily rate, and RevPAR data is further displayed in the following graph.



As illustrated in the above, the occupancy from 2011 to 2016 have steadily increased from a low of 55.2% for the 12-month period ending April 2011 to a high in 2016 of 65.9%. The net result is occupancy increased by 3.6% compounded annually over that time period. More particularly, year-over-year (YOY) approximate increases in occupancy have remained between 1.3% and 6.0%. All indications suggest that the area is in a growth mode. Although we do not anticipate the kind of growth experienced during the 12-month month period ending April 2016 (4.6%), we would anticipate a more modest growth rate relative to occupancy moving forward.

**Market Segmentation
(Subject's Competitive Set)**

Property	# of Rooms	12 mo. ended May-16 Occupancy	Total Room Nights	Market Segmentation		Occupied Room Nights
Days Inn	78	30.0%	8,541	Commercial	15.00%	1,281
				Ind. Leisure	85.00%	7,260
				Group	<u>0.00%</u>	<u>0</u>
				Total	100.00%	8,541
Super 8	62	45.0%	10,184	Commercial	20.00%	2,037
				Ind. Leisure	80.00%	8,147
				Group	<u>0.00%</u>	<u>0</u>
				Total	100.00%	10,184
Hilton Garden Inn	126	82.5%	37,942	Commercial	55.00%	20,868
				Ind. Leisure	40.00%	15,177
				Group	<u>5.00%</u>	<u>1,897</u>
				Total	100.00%	37,942
Hampton Inn & Suites	112	75.0%	30,660	Commercial	60.00%	18,396
				Ind. Leisure	35.00%	10,731
				Group	<u>5.00%</u>	<u>1,533</u>
				Total	100.00%	30,660
Holiday Inn Express	100	76.0%	27,740	Commercial	50.00%	13,870
				Ind. Leisure	45.00%	12,483
				Group	<u>5.00%</u>	<u>1,387</u>
				Total	100.00%	27,740
Totals	478	66.0%	115,067	Commercial	49.06%	56,452
				Ind. Leisure	46.75%	53,798
				Group	<u>4.19%</u>	<u>4,817</u>
				Total	100.00%	115,067

immaterial differences in totals may result due to rounding

In terms of day-of-week business (excluding the 'no-man's land' of Sunday), Monday-Thursday average occupancy was 70.7% and Friday-Saturday average occupancy was 66.5% for the 12 months ending April 2016. This suggests a slight market lean toward the commercial segment.

Average rate has also steadily increased from 2011 to 2016 from a low of \$93.50 for the 12-month period ending in April of 2011 to a high of \$108.16 for the same period of time ending in 2016. The net result is that average rate increased by approximately 3.0% compounded annually from May 2010 to April 2016. YOY changes in average rate ranged from 1.4% to 4.0%. We anticipate that this rate of increase will continue due to the strength of the market and the consistency in which increases have been seen in occupancy and ADR over the previous six years. An increase over a ten year period would likely be 3.0% which appears reasonable given the overall inflationary trends.

The net result of the increasing occupancy and average rate is RevPAR has increased on a compounded annual basis by 6.7%. It has increased from a 2011 low of \$51.62 to a high of \$71.27 in 2016. It is unlikely this rate of growth can be sustained. The consultants will accommodate this assumption when determining a more modest rate of growth in occupancy.

Current Accommodated Room Night Demand

Current accommodated room night demand for each market segment for the secondary competitors comprising the subject property's competitive set in Bedford and Lynchburg is calculated using the following formula:

$$\begin{aligned} & \text{Room Count} \times \text{Occupancy Percentage} \times \text{Market Segmentation} \times 365 \\ & = \text{Total Number of Occupied Rooms Per Year Per Segment} \end{aligned}$$

After calculating room night demand for each market segment, total room night demand is quantified by totaling the room night demand for all market segments. The chart on the facing page illustrates the estimated annual occupancy and market demand segmentation for each of the competitors during the twelve-month period ending May 31, 2016.

Unaccommodated Demand

Unaccommodated demand is represented by those guests who cannot get a room in one of the competitive hotels because they are all sold out, and they forced to seek accommodations at other less desirable facilities in the area because of inadequate room supply.

In commercial lodging markets where annual occupancy exceeds 70% and/or in leisure markets where occupancy is greater than 80%, there are generally two to five days of the week, which are occupied at 100% capacity. During these peak periods, a percentage of demand is unaccommodated. According to the STR market report, the competitive hotels in the Bedford/Lynchburg market had a market occupancy of 65.9% for the 12 months ending April 31, 2016, and there is some limited unaccommodated demand. Based on discussions with hotel operators and the STR market data, it is estimated there were approximately 70 days during the

**Proposed Hotel, Bedford, VA
Analysis of Unaccommodated Demand and Overall Occupancy**

Segment/Year	12 mo. ended 05/31	18-Month Interim Period	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Commercial and Contract Segment	56,452	58,146	59,308	60,495	61,705	62,939	64,197	65,481	66,791	68,127	69,489	70,879
Induced Demand	0	0	1,270	1,270	1,270	1,270	1,270	1,270	1,270	1,270	1,270	1,270
Unaccommodated Demand	834	859	876	894	912	930	948	967	987	1,007	1,027	1,047
Growth Rate	N/A	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Usable Demand	57,286	59,005	61,455	62,658	63,886	65,138	66,416	67,719	69,048	70,403	71,786	73,196
Ind. Leisure/Transient Segment	53,798	55,412	56,520	57,651	58,804	59,980	61,179	62,403	63,651	64,924	66,222	67,547
Induced Demand	0	0	1,346	1,346	1,346	1,346	1,346	1,346	1,346	1,346	1,346	1,346
Unaccommodated Demand	795	819	835	852	869	886	904	922	940	959	978	998
Growth Rate	N/A	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Usable Demand	54,593	56,231	58,701	59,848	61,018	62,212	63,429	64,671	65,937	67,229	68,547	69,891
Group Segment	4,817	4,962	5,061	5,162	5,265	5,370	5,478	5,587	5,699	5,813	5,929	6,048
Induced Demand	0	0	121	121	121	121	121	121	121	121	121	121
Unaccommodated Demand	71	73	75	76	78	79	81	83	84	86	88	89
Growth Rate	N/A	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Usable Demand	4,888	5,035	5,257	5,359	5,464	5,571	5,680	5,791	5,904	6,020	6,138	6,258
Total Usable Room Night Demand	116,767	120,271	125,413	127,865	130,368	132,921	135,525	138,181	140,889	143,652	146,471	149,345

Segment/Year	18-Month Interim Period	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Available Rooms	478	553	553	553	553	553	553	553	553	553	553
Annual Available Rooms	174,470	201,845	201,845	201,845	201,845	201,845	201,845	201,845	201,845	201,845	201,845
Occupancy	N/A	62.13%	63.35%	64.59%	65.85%	67.14%	68.46%	69.80%	71.17%	72.57%	73.99%
Subject Penetration Level	N/A	105.00%	110.00%	112.00%	Stabilized						
Subject Occupancy	N/A	65.24%	69.68%	72.34%	Stabilized						
Subject Occupancy Rounded	N/A	65.00%	70.00%	72.00%	Stabilized						

*Immaterial rounding differences may occur

last 12 months when every competitive hotel was sold out or where enough hotels were sold out in the brands desired that guests sought accommodations at economy level hotels or at mid-scale or upper-midscale hotels outside the market area. Most of this unaccommodated demand occurred during the Spring and Summer. This also occurred during graduation weekends at Liberty University in Lynchburg.

Multiplying the number of days (70) times the current room supply of 478 rooms equals 33,460 room nights. We have estimated that unaccommodated demand equates to approximately 5% of this figure which calculates to 1,673 room nights or approximately 1,700 when rounded. This figure has been proportionally divided between the three market segments based on current demand and is included in our projected room night demand for the overall market.

Therefore, this total *current* unaccommodated demand of 1,700 room nights will be inflated (demand growth) and applied to our estimates of total usable room night demand throughout the entire projected holding period.

Induced Demand

Induced demand, also considered latent demand, includes those travelers visiting an area due to a local attraction such as a retail complex, recreational facility, the opening of a new convention center or lodging facility, or the aggressive marketing efforts of one or more hotel. Induced demand is also caused when a new hotel opens in the market area and brand loyal customers stay at the property when they otherwise would stay outside the market area or at a non-competitive property. The opening of the proposed hotel at will result in a large amount of induced demand being brought to the market, especially because of its status as a Hampton Inn (Hilton) or Fairfield (Marriott). We have estimated a large amount of induced demand equal to 10% of the available room nights (2,737 room nights) at the subject property and added this demand (constant, not inflated) to the core demand in the market each year of the projection period. The subject hotel is expected to capture the balance of its occupied room nights from existing demand accommodated by the other hotels, including 40% of the current business of the Super 8 and Days Inn, as previously discussed.

Projected Market Segment Growth Rates

Growth Rates

As previously illustrated in our room statistics table occupancy consistently increased for at least the last five years, and it has demonstrated a CAGR of approximately 3.6%. However, it is likely a lower rate of growth can be sustained. Therefore, we have estimated a more modest growth rate of 2% annually over the ten year holding period. The interim period is considered to be 18± months and therefore, a growth rate of 3% was applied to the interim year and then 2% per year thereafter for each market segment.

**MARKET PENETRATION FACTORS
Competitive Set**

12 mos ending 05/31 Fair Market Share Calculation of the Competitive Set

Property	# of Rooms		Competitive Room Supply		Fair Market Share
Days Inn	78	÷	478	=	16.32%
Super 8	62	÷	478	=	12.97%
Hilton Garden Inn	126	÷	478	=	26.36%
Hampton Inn & Suites	112	÷	478	=	23.43%
Holiday Inn Express	100	÷	478	=	20.92%
Totals	478		478		100.00%

12 mos ending 05/31 Fair Market Share Calculation of the Competitive Set

Property	Number of Occupied Rooms		Total Occupied Rooms		Actual Market Share
Days Inn	8,541	÷	115,067	=	7.42%
Super 8	10,184	÷	115,067	=	8.85%
Hilton Garden Inn	37,942	÷	115,067	=	32.97%
Hampton Inn & Suites	30,660	÷	115,067	=	26.65%
Holiday Inn Express	27,740	÷	115,067	=	24.11%
Totals	115,067		115,067		100.00%

12 mos ending 05/31 Fair Market Share Calculation of the Competitive Set

Property	Actual Market Share		Fair Market Share		Market Penetration Factor
Days Inn	7.42%	÷	16.32%	=	45.47%
Super 8	8.85%	÷	12.97%	=	68.23%
Hilton Garden Inn	32.97%	÷	26.36%	=	125.08%
Hampton Inn & Suites	26.65%	÷	23.43%	=	113.74%
Holiday Inn Express	24.11%	÷	20.92%	=	115.25%
Totals	100.00%		100.00%		100.00%

Projected Room Supply

The current room supply for the five secondary competitors is 478 rooms on a daily basis. We have projected that this figure will increase to 553 rooms in Year 1 of the subjects projected holding period. This will account for an increase of 75 rooms which consists of the all of which will be attributable to the subject property.

Competitive Market Penetration

Market Penetration for each of the competitive properties is calculated as follows:

$$\text{Market Penetration} = \text{Actual Market Share} \div \text{Fair Market Share}$$

$$\text{Fair Market Share} = \text{Number of Property's Rooms} \div \text{Total Room Supply}$$

$$\text{Actual Market Share} = \text{Number of Property's Rooms} \div \text{Total Occupied Rooms/Entire Market}$$

The Market Penetration Factors for the subject's competitors during the 12-month period ended May 31, 2016 are calculated in the tables on the following facing page.

The penetration levels for the five secondary competitors range from a low of approximately 45% to a high of 125%. The Hilton Garden Inn achieved the highest penetration level of 125% followed by the Holiday Inn Express and Hampton Inn & Suites at approximately 115% each. The Super 8 and the Days Inn each failed to their fair market share. The Days Inn achieved the lowest penetration of approximately 45% followed by the Super 8 at 68%. The Days Inn is larger in size than the Super 8, and it is consider to be in inferior condition.

Factors generally impacting penetration level are based on age/condition, size, location, access and visibility, franchise affiliation, room rates, and amenity base. These factors are discussed in the following text.

The following are analyses regarding several of the factors that typically influence Market Penetration.

Property Size

Often smaller properties experience greater market penetration than larger ones because they have fewer rooms to fill to reach higher occupancy levels. The five competitors range from the smallest, the Super 8 at 53-rooms, to the largest, the Hilton garden Inn with 126-rooms. The overall average among the five competitors is approximately 96 rooms. However, our analysis suggests size does not appear to have a major impact. In fact, other factors appear to mitigate the size issue are franchise affiliation, location, condition etc. The smallest properties, the Super 8 and the Days Inn, are located an inferior location, are in inferior condition, and are franchised with inferior brands. Clearly, there does not appear to be any significant advantage to being smaller in the broader market. However, amongst the facilities in Bedford (Super 8 and Days Inn) the smaller property, the Super 8, achieved a higher market penetration.

Location

The proposed subject will be situated along the US-460 corridor on the eastern side of Bedford, VA. The proposed site is proximate to restaurants (Applebee's, Ruby Tuesdays, etc.) and retail, including a Walmart. It is clear the properties located in Lynchburg (Hilton Garden Inn, Hampton Inn and Suites, and Holiday Inn Express) achieved higher penetration levels than the properties located in Bedford (Super 8 and Days Inn). However, even within Bedford, the Super 8 and the Days Inn are located in a less traveled area with few supporting uses. The proposed subject's site will mitigate some of the differences in location desirability between the current Bedford properties and the properties located in Lynchburg; however, the Lynchburg properties will still be considered advantaged.

Services and Amenities

The Hilton Garden Inn is a select service facility with a limited restaurant menu. To some extent this is an advantage. The remaining four facilities are considered to be limited service with no food and beverage amenities other than offering a complimentary breakfast. The Super 8 is considered inferior than the other properties without a fitness center or pool. The competitors' amenities and services are detailed in the following chart:

Amenity or Feature	Days Inn	Super 8 Suites	Hilton Garden Inn	Hampton Inn and Suites	Holiday Inn Express
Pool	Outdoor	No	Indoor	Indoor	Outdoor
Free Breakfast	Continental	Continental	No	Hot	Hot
Restaurant	No	No	Yes (B&D)	No	No
Fitness center	No	No	Yes	Yes	None
Meeting space	Limited	None	5,888 SF	641 SF	None
Business center/station	Yes	No	Yes	Yes	Yes
Sundries shop	Vending	Vending	Yes	Yes	Vending
Guest laundry	Yes	No	Yes	Yes	No
Micro-fridges in guest units	Yes	Yes	Yes	Yes	Yes
Smoking rooms	Yes	Yes	None	None	None
Pets	Pets	Pets	No	No	Pets
Parking	Free	Free	Free	Free	Free
Shuttle	No	No	No	No	No
WiFi	Yes	Yes	Yes	Yes	Yes

The subject property will be most similar to the Hampton Inn & Suites and to that extent will have some advantage with a business center, fitness center, indoor pool, and complementary hot breakfast.

National Brand Affiliation

All of the competing hotels have national name brand affiliations. All of the franchised lodging facilities have very well-known national brand names with significant customer brand loyalty which has been developed over time. However, it has long been the opinion of hoteliers nationwide that Marriott and Hilton are the two leading hotel companies in the country and perhaps the world. The notability of these companies aided the largest properties, the Hilton Garden Inn

and the Hampton Inn & Suites, to achieve the highest penetration levels. As a result, we would assume that the proposed subject as a Hampton Inn, one of the strongest franchises in America, will be somewhat advantaged over those competitors which are not affiliated with Hilton or Marriot.

Conclusion for Market Penetration

The proposed 75-room hotel is recommended to be a Hampton Inn, and this should allow the smaller, mid-upscale property to achieve an occupancy higher than the other properties in Bedford and competitive with those in the Lynchburg market. Due to the superior condition, competitive amenities offered, strong brand, relatively smaller size (78% of average), and the lack of an upscale hotel in the market, it is expected to have a penetration rate above 100%.

The consultants have estimated a penetration level in Year 1, the ramp up year, of approximately 105%. We have increased this penetration level to 110% in Year 2, and then 112% in Year 3, the year of stabilization. These calculations have been presented in our previous table labeled Analysis of Accommodated Demand and Overall Occupancy. The subject's penetration levels and estimated occupancy over the ten year period are tabled below:

Estimated Annual Occupancy Levels for the Subject Property

	Year 1	Year 2	Year 3	Year 4 through Year 10
Penetration Rate	105%	110%	115%	Stabilized
Occupancy	65%	70%	72%	72%

Average Daily Rate

The subject's projected Stabilized Average Daily Rate is based on the following criteria:

- The estimated ADRs achieved by the secondary competition.
- Current industry and market trends.

The STR report indicated that the ADRs of the five competitors increased by an average of 3% annually over the past five years. The Lynchburg and surrounding markets have traditionally been a strong market. Therefore, we have projected the increase in rate to continue throughout the holding period.

The historical ADR growth rate of the specific competitors could not be determined. The estimated ADR of the secondary competitors for the 12 months ending May 31, 2015, is shown below.

Estimated ADR of Secondary Competitors

Competitor	Estimated ADR for 12 Months Ending May 31, 2016	Estimated ADR in Year 1 (following the 18 month interim period, rounded)
Days Inn	\$56.00	\$57.00
Super 8	\$62.00	\$64.00
Hilton Garden Inn	\$125.00	\$128.00
Hampton Inn & Suites	\$126.00	\$129.00
Holiday Inn Express	\$96.50	\$98.50

The average daily rates range from a low of \$56.00 to a high of \$126.00. These rates are the total synthesis of all of the factors which affect them that include location, brand affiliation, services, amenities, physical condition, etc. As previously indicated, the subject will be advantaged when compared to the Bedford properties, the Days Inn and the Super 8, in terms of brand (Hilton brand Hampton Inn), location, amenities, and condition. The subject will be at a disadvantage in terms of location compared to the remaining competitors in Lynchburg. However, the subject will be in superior (new) condition, have a strong brand, and will offer similar amenities. In view of all of these factors, we have estimated an overall average rate in Year 1 of \$95.00. We have then increased this rate by 3% annually over the holding period. These rates have been rounded to the nearest dollar. They are tabled in the following manner.

Estimated Annual ADR for the Proposed Subject

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Inflation Rate	N/A	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
ADR*	\$95	\$98	\$101	\$104	\$107	\$110	\$113	\$116	\$119	\$123

**rounded to the nearest whole dollar*

Summary

Year	1	2	3	4	5	6	7	8	9	10
# of Rooms	75	75	75	75	75	75	75	75	75	75
Occupancy	65.0%	70.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Average Daily Rate	\$95.00	\$98.00	\$101.00	\$104.00	\$107.00	\$110.00	\$113.00	\$116.00	\$119.00	\$123.00
Revenue Per Available Room	\$61.75	\$68.60	\$72.72	\$74.88	\$77.04	\$79.20	\$81.36	\$83.52	\$85.68	\$88.56

RECOMMENDED FACILITIES

In order to optimize a lodging facility's results and profitability, it is essential to understand the design which will include the physical and functional considerations which will provide a cost to value justification. The subject facility should adequately serve the anticipated market and provide the optimum level of quality and style with a physical, functional floor plan designed to maximize the guests' comfort, while reducing labor costs and providing for ease of management supervision.

Our analysis of the existing lodging facilities in the market area has revealed a number of factors relevant to the development of a lodging facility built on the subject site. The consultant has considered the physical plants of these existing lodging facilities in order to extract recommendations for the development of the subject property. These issues include, but are not limited to: the mix of suites, single and double bedded rooms, a configuration of smoking/non-smoking rooms, the estimated number of handicapped facilities, the number of meeting rooms and space, the location of the lobby, front desk and other amenities such as a swimming pool, guest laundry and similarly related facilities and amenities.

Guest Room Breakdown/Mix

In terms of having one or two guest beds per guest unit, limited-service midscale lodging facilities tend to favor having either a single king, queen or single-double over the double-double configuration by an approximate 2.5:1 ratio, according to the latest tracking by Smith Travel Research, but which was not presented in the 2012 Lodging Survey.

The consultants would estimate that this ratio would not be indicative of the market due to the high amount of leisure business the proposed subject would serve — this estimate also takes into account the commercial segment visitors that characterize the local lodging market. Therefore, for a 75-room limited-service lodging facility built on the subject site, the consultant's estimate that the most advantageous arrangement would be to have 25 total single-bedded guest units and 50 total double bedded guest units. This arrangement would tend to reflect the more leisure nature of this market on the weekend and the business market during the week.

Non-Smoking Rooms

An increasing number of new properties are smoke-free, with the 2012 Smith Travel Research Lodging Survey reporting 63% of all hotels moving to smoke-free status, which is up from 38% of all properties in 2008. We would recommend a 100% smoke free facility.

ADA Rooms

The consultants assumes the number of ADA required by code rooms will be sufficient for the property.

Hampton Inn Units

In view of the market segmentation configuration where the leisure market represents effectively 47% of the total accommodated demand, we have allocated the kings and queen-queen bedded rooms in the following room mix breakdown.

Kings	25
Queen/Queens	50
Total	75

For the purposes of this study we are assuming that the furnishings, equipment and amenities will meet the standards of a Hampton Inn franchise.

In-Room Features and Amenities

Microwaves and Refrigerators

According to 2012 Smith Travel Research Lodging Survey, 76% of midscale properties and 94% of economy properties had microwaves in the guest rooms. For refrigerators, 77% of midscale properties and 96% of economy properties had refrigerators in the guest rooms. All of the competitive properties have mini-refrigerators and microwaves in every room. Because of the presence of these amenities at the competitive properties and the STR Lodging Survey data, we recommend that microwaves and refrigerators be installed in all guestrooms.

Flat Screen Television

The Hampton Inn brand requires a flat screen TVs. These have become de facto standards in new build lodging construction. In the 2012 Smith Travel Research Lodging Survey, 92% of the midscale properties and 50% of the economy properties offered flat-screen televisions. This is considered to be a necessary item for the proposed subject.

Wireless Internet

This has become standard among lodging facilities in the past ten years. All of the proposed subject's direct competitors feature wireless Internet. In the 2012 Smith Travel Research Lodging Survey, 66% of the midscale properties and 96% of the economy properties offered in-room wireless. In-room wireless Internet is recommended for the proposed subject as all of its competitors offer this amenity.

Bedding

The Hampton Inn brand requires high quality bedding from their own collection. For a new lodging facility competing in a primary commercial market, high-quality bedding such as this

would be considered to be a necessary feature in order for the proposed subject to be competitive with the existing properties.

Guest Unit Furniture, Fixtures and Equipment

Generally, through-wall PTACs are preferable due to the element of individual guest unit control; however, centralized control systems have become an emerging feature, in that these individual unit controls can be overridden and turned off after a guest departure. In this case, individual guest unit controlled units are preferred.

By Hampton Inn's standards, guest unit furnishings would be considered to include a Hampton bed, workspace/desk; storage; and flat screen TV. Additionally, a cushioned chair/footstool, nightstand, lighting, dresser and closet will be expected by the guests. We also recommend a microwave and refrigerator in every unit.

Coffeemakers, hair-dryers, irons and ironing boards, alarm clocks, shampoo, soap, conditioner, large towels, ice buckets and stationery are considered to be guest unit standard amenities.

Property Public Space Features and Amenities

Complimentary Breakfast

All of the proposed subject's competitors offer complimentary breakfast except the Hilton Garden Inn, which has a restaurant on-site. In the 2012 Smith Travel Research Lodging Survey, 97% of midscale lodging facilities and 92% of economy lodging facilities offered complementary continental breakfast. A complimentary hot breakfast was offered by somewhat fewer participants, at a 77% and 33% participation rate among midscale and economy properties, respectively. However, to be competitive, the proposed subject is recommended to offer a complimentary hot breakfast.

Business Center/Station/Kiosk

Most of the proposed subject's competitors offer this feature. In the 2012 Smith Travel Research Lodging Survey, 77% of the midscale properties and 66% of the economy properties offered a business center, as well as 93% of airport properties. The consultants recommend a business center to gain parity with the current competition in this regard and attract business travelers.

Guest Laundry

In the 2012 Smith Travel Research Lodging Survey, no specific data was presented. Three out of the five competitive properties offer guest laundry facility. This service is considered optional in the market.

Fitness Room or Center

The Hilton Garden Inn and the Hampton Inn & Suites each have fitness centers. In the 2012 Smith Travel Research Lodging Survey, 83% of the midscale properties and 46% of the economy properties offered a fitness facility. Hampton Inn will require a fitness center, and the consultants recommend this feature to remain competitive in the market.

Swimming Pool

All of the proposed subject's competitors offer swimming pools except for the Super 8. In the 2012 Smith Travel Research Lodging Survey, 40% of the midscale properties and 23% of the economy properties offered an indoor pool, as well as 40% of airport properties. An indoor pool is recommended in order to remain competitive with the current properties located in Lynchburg. Additionally, leisure travelers to the D-Day Memorial will likely expect a pool.

Gift/Sundry Shop

In the 2012 Smith Travel Research Lodging Survey, 31% of the midscale properties and 35% of the economy properties offered a gift/sundries shop. It appears this feature would be a beneficial feature for the proposed subject.

Complementary Parking

All of the proposed subject's direct competitors offer free parking. Free parking is considered a requirement.

Meeting Space

In the 2012 Smith Travel Research Lodging Survey, midscale properties offered 1,000 square feet of meeting space on average, and economy lodging properties offered less than 1,000 square feet. Once again approximately 49% of the overall accommodated demand is estimated to be a commercial component. Of the proposed subject's primary competitors, the Days Inn, Hampton Inn & Suites, and the Hilton Garden Inn offer meeting space. The Super 8 and the Holiday Inn Express contain no meeting space. The consultants recommend the facility contain at least a small meeting space/board room. This should be sufficient as many guests will be leisure business with less expectation of this amenity.

RECOMMENDED RATE STRUCTURE

A number of factors typically affect rates. They include, but are not limited to, franchise/brand affiliation, location, amenities, services, physical condition and size.

Specific to the proposed subject, then:

The proposed subject is affiliated with what is a distinct mid-upperscale brand, and is projected to have a competitive average daily rate compared to the competitive set.

As has been analyzed previously in this section, the proposed subject's amenity base is intended to be similar, on net, to the net amenity bases of the other more upscale competitive properties. The proposed subject's services are closely tied to its amenities, and include its meeting space, fitness center, business center, and pool.

The proposed subject will be strictly new, and thus superior on that basis to the other directly competitive properties.

In view of all of these factors we have estimated the subjects rack rates based on the current existing competitor's range of rates which are tabled below under room rates.

Room Rates

The rack rates for transient guests charged by the competitive hotels and their estimated ADR for the 12 months ending May 31, 2016, is shown in the following table.

Competitor	Range of Standard Rates	Estimated Average
Days Inn	\$54.36 to \$59.46	\$56.00
Super 8	\$59.49 to \$84.99	\$62.00
Hilton Garden Inn	\$150.00 to \$250.00	\$125.00
Hampton Inn & Suites	\$144.00 to \$ 199.00	\$126.00
Holiday Inn Express	\$114.00 to 158.76	\$96.50

Analysis of the competitors' rates indicate lower rates for the properties located in Bedford, the Days Inn and the Super 8, when compared to the properties in Lynchburg. However, it will be advantaged over these properties in terms of amenities, condition, location, and brand. When compared to the three properties in Lynchburg, the subject will be advantaged in terms of condition, and it will be flagged with one of the strongest franchised brands. Amenities will be similar to the Hampton Inn & Suites and the Hilton Garden Inn. However, the overall rate will have to be discounted due to its inferior location in Bedford. The consultants have used the low and high range as approximate indicators. We have estimated an approximate range for each of the subject's room types in the room rates section below.

Room Rates

The room rates of the proposed property have not yet been established. Based on the market, the appraisers have assumed the following rate structure in Year 1:

	King	Queen/Queen Standard
Rack Rate Transient (Nightly)	\$95 to \$105	\$100 to \$115
Corporate Transient Rate	\$90 to \$95	\$95 to \$105

Based on the rate structure, and other discounting, the estimated ADR would be \$95.00 in Year 1 beginning December 1, 2017.